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November 7, 2023

Canadian trade (Sep): Oil price surge underpins wider surplus

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Merchandise trade, in million (\$)	23:Q1 ¹	23Q2 ¹	23:Q3 ¹	Jul	Aug	Sep
Merch. trade balance—Annual rate	1,817	-28,464	9,908	-6,120	11,388	24,457
• Monthly rate	-	-	-	-510	949	2,038

Merchandise trade (period/period % chg)	23:Q1 ²	23:Q2 ¹	23:Q3 ¹	Jul	Aug	Sep
Exports	-3.3	-13.8	18.3	2.5	5.8	2.7
Imports	0.0	1.1	-3.3	-4.5	3.4	1.0
Export volumes (chain Fisher)	10.8	-1.8	2.4	0.9	1.6	0.2
Import volumes (chain Fisher)	-0.5	5.3	-1.6	-3.8	1.3	1.1

Source: Statistics Canada

- Canada's merchandise trade balance moved further into surplus territory in September, with a surge in energy exports on higher oil prices driving the rise in exports. The \$2.04bn surplus was higher than the \$1.0bn surplus anticipated by the consensus, and is the widest surplus recorded since June 2022. While exports jumped 2.7% in nominal terms, in chain-Fisher volume terms, exports were up by a modest 0.2%, making the upside surprise less impactful for GDP growth during the month. However, for Q3 in total, export volumes rose, while import volumes dropped off, which suggests net trade added to growth in the quarter. While a continued normalization following port disruptions and wildfires could boost exports temporarily ahead, we expect weaker foreign demand to weigh on outbound shipments thereafter, while imports will be limited by weak domestic demand.
- Although 7 out of 11 export product sections saw increases in September, an 11% increase in energy products accounted for more than a quarter of Canada's exports in September, the highest share in just under a year. The rise in oil prices in September was driven by production cuts in OPEC+ countries, and the move has since reversed, suggesting that the trade surplus won't be sustained.
- On the import side, a surge in inbound car shipments led the way, mainly supplied by Mexico, while there wasn't any noted impact from the auto strikes in the US, as inventories compensated for the lack of production stateside, noted Statistics Canada. Imports of industrial machinery and equipment dropped off, and while the data are choppy, that could possibly indicate less appetite for business investment with the economic outlook deteriorating.
- The \$2.04bn surplus followed a slightly revised \$0.95bn surplus in August (previously \$0.72bn), as exports were stronger than previously reported. Adding services back into the mix showed that Canada's overall international trade balance swung from a \$633mn deficit in August to a \$462mn surplus in September, due mostly to improvement in the goods trade balance.

¹ Annualized.

² Annualized.

- The large trade surplus with the US on higher energy shipments masked a trade deficit with other trading partners, in which lower imports from those countries amidst higher exports caused the deficit to narrow to \$9.6bn.

Implications & actions

Re: Economic forecast — We expect distortions in the export data following the rebound from port strikes and wildfires to mask weakness in foreign demand temporarily ahead. But in late 2023 and into 2024, the global deceleration in growth will weigh heavily on exports, while import growth will be limited by weak domestic demand.

Re: Markets — There was little market reaction to today's larger-than-expected surplus, as it was mostly a story of higher prices.

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