

Economics

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## Canadian trade (July); Starting to come back down to Earth

by **Andrew Grantham** [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Merchandise trade, in million (\$)	21:Q4 <sup>1</sup>	22:Q1 <sup>1</sup>	22:Q2 <sup>1</sup>	May	Jun	Jul
Merch. trade balance—Annual rate	9,778	33,830	44,624	52,728	58,577	48,619
• Monthly rate	-	-	-	4,394	4,881	4,052

  

Merchandise trade (period/period % chg)	21:Q4 <sup>1</sup>	22:Q1 <sup>1</sup>	22:Q2 <sup>1</sup>	May	Jun	Jul
Exports	31.0	26.7	58.9	4.1	2.6	-2.8
Imports	29.0	10.9	53.6	0.3	2.0	-1.8
Export volumes (chain Fisher)	11.8	-8.7	10.8	0.9	2.4	1.7
Import volumes (chain Fisher)	15.4	-1.4	31.8	-1.6	0.5	-1.6

Source: Statistics Canada

- With oil prices starting to come back down to Earth in July, so too did Canada's surplus in goods trade. The \$4.1bn surplus was down from a slightly revised \$4.9bn in the prior month and was a little wider than the consensus expectation (\$3.8bn). The further decline in oil prices seen since July should see the trade surplus continue to narrow ahead.
- Exports fell by 2.8% on the month, although that move was driven by price declines. In real terms, exports were actually up by 1.7%. There was a large decline in exports of consumer goods, and in particular pharmaceutical products, although that followed a surge in the prior month driven by large exports of Covid-19 related medications. Exports of energy products fell by 4.2%, albeit due primarily to lower prices. Exports of unwrought aluminium also fell following two strong months, with Statistics Canada noting that the decline coincided with an increase in output from China which boosted global supply. Partially offsetting these declines, exports of agricultural products and in particular wheat were up on the month due to strong global demand for Canadian product and improved growing conditions relative to a year ago.
- Imports also fell during the month (-1.8%), although in this case the reduction was mainly due to volumes rather than prices. In chain Fisher inflation-adjusted terms, imports fell by 1.6%, although there was an improvement in autos which is good news for a sector that has struggled the most with supply chain issues. Imports of consumer goods were down, although that was also in part due to a decline in pharmaceutical products and as such isn't really a signal of waning domestic demand.
- The deficit in services continued to widen, with imports (+3.7%) rising sharply but exports holding broadly stable. Imports of travel services rose by 20.5% as Canadian travel abroad continued to recover. However, this area of imports remained 32% below its pre-pandemic levels, showing that there is room for the services trade deficit to widen further in the months ahead. The overall trade surplus narrowed from \$3.7bn in June to \$2.3bn in July.

<sup>1</sup> Annualized.

## Implications & actions

**Re: Economic forecast** — Looking ahead, there is still room for the deficit in services to widen, particularly in the winter months due to the rebound in travel, while the continued downtrend in oil prices through August and into September should trim the surplus on the goods side further. As a result, the overall trade balance, while remaining in surplus territory for now, is expected to narrow further.

**Re: Markets** — There was little market reaction to the broadly in-line with consensus data release, particularly with investors awaiting the Bank of Canada interest rate decision later in the morning.

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