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Canadian trade (Aug): A surprise surplus

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Merchandise trade, in million ($)	22:Q4[1]	23Q1[1]	23:Q2[1]	Jun	Jul	Aug
Merch. trade balance—Annual rate	8,312	2,252	-27,234	-57,996	-5,246	8,611
• Monthly rate	-	-	-	-4,833	-437	718

Merchandise trade (period/period % chg)	22:Q4[2]	23:Q1[1]	23:Q2[1]	Jun	Jul	Aug
Exports	-6.4	-3.2	-13.9	-3.1	1.5	5.7
Imports	-5.8	-0.1	0.6	0.0	-5.4	3.8
Export volumes (chain Fisher)	-0.1	11.0	-1.5	-1.6	0.2	2.6
Import volumes (chain Fisher)	-12.8	-0.6	4.9	1.4	-5.0	2.1

Source: Statistics Canada

- Two-way trade volumes rose sharply in August following the BC port strike in the prior month, and with exports increasing by more than imports the trade balance unexpectedly moved into surplus territory. However, with the latest surge in exports driven largely by a couple of often volatile sectors, and with global growth continuing to decelerate, exports will likely struggle towards the end of the year and into 2024.
- The $0.7bn surplus followed a revised $0.4bn deficit in the prior month (previously -$1.0bn), and came in contrast to expectations for a wider deficit. The revision to July's trade deficit mainly reflected stronger exports than were originally reported.
- For August, exports increased by 5.7% in nominal terms and by 2.6% in chain-fisher volume terms. However, export growth was driven largely by a surge in often volatile exports of gold, as well as energy products. Indeed, Statistics Canada noted that excluding gold and crude oil exports were essentially unchanged in August. The resumption of port activities in BC allowed higher exports of coal, potash and lumber, which was partly offset by a decline in aircraft exports following a surge in the prior month. Nominal exports rose in 7 of the 11 broad sectors tracked by Statistics Canada.
- While the 3.8% increase in imports (2.1% in chain-fisher volume terms) was weaker than the gain in exports, import growth was actually more broad-based across sectors with 9 of 11 seeing an increase relative to the prior month. Imports of machinery & equipment rebounded following a sharp decline in the prior month, while imports of chemicals increased following four consecutive monthly declines.
- Trade with countries other than the US rebounded after being depressed by the BC port strike in the prior month, with exports up 7.7% and imports rising by 9.8%. The trade deficit with countries other than the US widened as a result, although this was more than offset by a larger surplus with the US. Indeed, the $10.4bn surplus with the US was the largest since June 2022.

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1 Annualized.

2 Annualized.

- The trade deficit in services widened slightly, but even with that move included. the overall trade deficit still narrowed from $1.7bn in July to $0.7bn in August thanks to the improvement on the merchandise trade front.

Implications & actions

Re: Economic forecast — We knew that a rebound in two-way trade following July's port strike would be a positive for August GDP, thanks to the already released advance data for manufacturing and wholesale trade. However, the stronger gain in exports relative to imports, and modest trade surplus, was somewhat of a surprise. That said, with the gain in exports driven largely by a couple of often volatile sectors, we could see a slight pullback again in September and into Q4, particularly as global demand continues to slow.

Re: Markets — Even though the surplus in goods trade shown for August was in stark contrast to the consensus forecast, the Canadian dollar was little changed following the release and remained slightly weaker versus the US$ on the day.

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