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October 7, 2025

Canadian trade (Aug): Not a straight line

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Merchandise trade, in million ($)	24:Q4	25:Q1	25:Q2	Jun	Jul	Aug
Merch. trade balance—Annual rate	-1,319	-1,347	-74,924	-67,345	-45,893	-75,889
• Monthly rate	-	-	-	-5,612	-3,824	-6,324

Merchandise trade (period/period % chg)	24:Q4	25:Q1	25:Q2	Jun	Jul	Aug
Exports	18.2	17.1	-42.2	0.6	1.5	-3.0
Imports	11.2	17.1	-15.1	0.6	-1.3	0.9
Export volumes (chain Fisher)	10.5	6.0	-30.8	-0.6	0.7	-3.2
Import volumes (chain Fisher)	6.2	5.6	-6.6	1.3	-2.4	0.2

Source: Statistics Canada

- The recovery in Canadian trade from Q2's weakness was never going to be a straight line, and August saw a curve in the wrong direction with the trade deficit widening by more than expected. Although the move was driven partly by monthly volatility in gold trade, weakness in other export areas also highlights the continued struggles of companies in the face of US tariffs. While net trade may still be a positive for GDP in the third quarter, the bounce back appears weaker than we had anticipated before today's release.
- The deficit in goods trade ballooned to $6.3bn in August, from a revised $3.8bn in the prior month and not too far from the widest point recorded in April. Exports fell by 3.0% in nominal terms, while imports increased by 0.9%. Volatility in gold had an impact on both exports and imports. Excluding that one category, exports would have fallen by a less severe 2.2%, while imports would have fallen by 1%, rather than increasing.
- However, weakness in other areas of exports as well highlights the struggles that companies are facing dealing with US tariffs and difficulties diversifying to customers in other countries. Exports of industrial machinery and equipment fell by nearly 10%, while exports of forestry products dropped by a little more than that as the increase in US anti-dumping tariffs resulting in exports of lumber and other sawmill products falling to their lowest level since May 2020. In volume terms, the 3.2% drop in overall exports was broadly in line with the nominal decline.
- By country, exports to the US fell in August following three monthly increases, and Canada's trade surplus narrowed from $7.4bn to $6.4bn. Exports to countries other than the US fell for the third consecutive month (by 2.0%), while imports rose.
- The trade surplus for services narrowed slightly to $0.3bn, from $0.4bn in the prior month. That left Canada's overall trade deficit at $6.0bn in August, compared to $3.5bn in the prior month.

Implications & actions

Re: Economic forecast — Overall, today's data mark a backward step in the recovery of Canadian exports. While net trade is still expected to be a positive contributor to Q3 GDP, it's likely to be smaller than we previously expected, and there's a risk that August GDP is now a slight negative (rather than the flat reading suggested by the advance estimate).

Re: Markets — Canadian bond yields fell slightly on today's release, although the Canadian dollar was little changed relative to the greenback.