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Canadian trade (August): Exports slip on oil

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Merchandise trade, in million ($)	23:Q4[1]	24Q1[1]	24:Q2[1]	June	July	**August**
Merch. trade balance—Annual rate	8,617	232	-11,630	-4,613	-3,449	-13,160
• Monthly rate	-	-	-	-384	-287	-1,097

Merchandise trade (period/period % chg)	23:Q4[1]	24:Q1[1]	24:Q2[1]	June	July	**August**
Exports	5.2	-4.1	1.5	4.6	-1.2	-1.0
Imports	0.9	0.2	7.9	2.4	-1.4	0.3
Export volumes (chain Fisher)	3.4	2.0	-5.3	3.8	-1.9	0.1
Import volumes (chain Fisher)	-2.3	0.9	1.1	1.6	-1.5	0.4

Source: Statistics Canada

- Canada's goods trade deficit widened to $1.1bn in August, with exports dropping sharply and imports up only marginally. The 1.0% drop in exports was largely a lower energy price story, but even accounting for that showed near flat volumes as railway disruptions weighed on activity, while imports increased by 0.4% in volume terms. Even assuming a rebound in September as railway disruptions eased, however, would likely leave net trade as only a modest positive contributor to growth in the third quarter, and that would partly reflect a drop in imports.
- Looking beyond the volatility in oil prices for exports showed an impressive 5% gain in outbound auto shipments, but that still leaves shipments 20% below the highs seen in late 2023, as production in Canada has lagged this year due to auto plant retooling. Statistics Canada noted that the 6% drop in forestry product exports, and particularly pulp and paper products, could have reflected railway work stoppages. A rebound in that category in September is therefore likely, but lower oil prices will provide an offset to exports in nominal terms.
- On the import side, a 2.4% increase in nominal auto shipments was the biggest contributor to the rise. That was aided by higher production of passenger cars and light trucks in the US, as previous production delays faded. Inbound machinery and equipment shipments increased by 3.9% in volume terms, but that still leaves them 5% below year-ago levels, showing that businesses remain cautious. Weak domestic demand was also on display in the 3.5% m/m drop in real consumer goods imports.
- Trade in services showed an increase in exports and a decrease in imports, and when combined with the goods trade data, showed that Canada's trade deficit with the world widened to $2.4bn, from $1.8bn in the prior month. This also included revisions to the July data that now show a $0.3bn deficit in that month, versus the $0.7bn surplus that was initially reported, with the main driver being a negative revision to exports.

[1] Annualized.

Implications & actions

Re: Economic forecast — Although September will see a rebound in trade following railway disruptions, net trade is likely to be only a modest positive for GDP over the third quarter, and the expected drop in imports isn't a positive signal for domestic demand. Looking ahead, there could be additional volatility introduced to the trade data by hurricanes impacting supply chains in the US. The Bank of Canada will remain focused on the sluggish trend in domestic demand as it continues to cut rates towards 2.25% in Q2 2024.

Re: Markets — There was no material market reaction to the data.