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Canadian trade (Sep): Seeing is believing

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Merchandise trade, in million ($)	25:Q1	25:Q2	25:Q3	Jul	Aug	Sep
Merch. trade balance—Annual rate	2,513	-74,394	-40,368	-45,816	-77,129	1,840
• Monthly rate	-	-	-	-3,818	-6,427	153

Merchandise trade (period/period % chg)	25:Q1	25:Q2	25:Q3	Jul	Aug	Sep
Exports	16.2	-41.9	10.1	1.4	-3.2	6.3
Imports	14.1	-13.4	-7.8	-1.3	1.0	-4.1
Export volumes (chain Fisher)	6.2	-30.9	3.3	1.0	-3.3	4.9
Import volumes (chain Fisher)	6.3	-4.1	-10.1	-2.3	0.4	-3.9

Source: Statistics Canada

- When it was initially estimated that Q3 GDP rebounded strongly due to trade flows, it was easy to question whether or not that was really true given incomplete data stemming from the US government shutdown. However, seeing is believing, and today's unexpected (albeit narrow) trade surplus for September appears to confirm those quarterly results. That said, the improvement was as much a reflection of weaker imports as it was higher exports. Moreover, on the export side, volumes remained well down on a year-over-year basis even after September's surge. With US tariffs still in place and uncertainty over CUSMA renegotiations lingering, the recovery in exports could well slow again in the near-term before seeing a more sustainable recovery later in 2026.
- The $143mn surplus in goods trade during September was much better than the $6.4bn deficit seen in the prior month and the $4.5bn shortfall expected by the consensus. Exports surged by 6.3%, while imports dropped by 4.1%. While exports were flattered somewhat by a sharp gain in the volatile gold component, even excluding that area exports were still up by 4.5%. In volume terms total exports were up by almost 5%.
- Energy products saw an almost 6% increase in exports, linked to higher crude oil to Germany. Sectors impacted most by US tariffs (autos, steel, aluminum, lumber) rebounded on aggregate albeit from very low levels.
- The import side of the ledger was also flattered somewhat by swings in gold trade, with imports in this category falling sharply on the month. Excluding that volatile area, total imports were down by a more modest 1.5%.
- For the third quarter as a whole, the goods trade deficit narrowed from $18.6bn to $10.1bn, driven by both a rise in exports and drop in imports. The result is actually slightly better than what was estimated within the current account release (-11bn) and presumably by extension the quarterly GDP figures. As a result, the surprisingly strong trade-driven increase in Q3 GDP appears likely to stand.

Implications & actions

Re: Economic forecast — Even though today's data were better than consensus expectations, there's plenty more hurdles still for Canadian trade to pass, given continued US tariffs and CUSMA renegotiations looming. Moreover, Q3's modest rebound in exports was partly a result of second quarter trade flows falling lower than the underlying trend due to tariff front running in the first quarter. As a result, it wouldn't be a surprise if export performance weakened again during the fourth quarter, before seeing a more sustainable recovery later next year.

Re: Markets — The Canadian dollar strengthened slightly following today's data, while bond yields were little changed.

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