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Canadian trade (May): Two-way trade under pressure

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Merchandise trade, in million ($)	23:Q3[1]	23Q4[1]	24:Q1[1]	Mar	Apr	**May**
Merch. trade balance—Annual rate	536	8,617	-2,473	-21,206	-15,877	-23,122
• Monthly rate	-	-	-	-1,767	-1,323	-1,927

Merchandise trade (period/period % chg)	23:Q3[1]	23:Q4[1]	24:Q1[1]	Mar	Apr	**May**
Exports	9.2	5.2	-4.5	-5.1	2.1	-2.6
Imports	-3.4	0.9	1.1	-1.1	1.3	-1.6
Export volumes (chain Fisher)	-3.5	3.4	0.6	-4.8	0.9	-2.2
Import volumes (chain Fisher)	-1.8	-2.3	1.4	-0.6	-0.3	-1.2

Source: Statistics Canada

- Another month of trade data, and another month of ho-hum results for both imports and exports as shipments reflect sluggish global growth and a mediocre Canadian domestic demand picture. Canada's international trade deficit widened to $1.9bn in May, from $1.3bn, leaving it below the consensus expectation for a $1.3bn deficit. That reflected a 2.6% drop in exports while imports fell by 1.6%. 8 of 11 export categories dropped off, while on the import side, 6 of 11 product sections decreased. Although gold shipments continued to be a source of volatility in today's data, the broad trend has been weak, owing to subdued domestic and global activity, with both real exports and real imports largely flat since early 2023.
- The volatility in gold shipments coincides with heightened geopolitical tensions, and the drop in shipments in May represented a normalization in the level of exports after a surge at the start of the year, with May's drop a result of lower volumes. The drop in energy exports owed to lower oil prices, as volumes were flat. While oil prices averaged flat in June, we'll be watching for signs of volume increases tied to the TMX pipeline. A sharp drop in the choppy aircraft category also contributed to the pullback in exports as shipments of business jets normalized following a surge in April. Although auto shipments increased in the month, volumes in that category are 7% below year-ago levels, so there remains some upside as plant retooling is completed.
- On the import side, cars weighed on shipments, reflecting delays in production and shipments from the US, with volumes in that category now 7% below their mid-2023 peaks. Car dealership inventory-to-sales ratios are elevated, so the slowdown in shipments could also be the result of waning domestic demand. In fact, bloated inventories in the overall economy relative to the pace of sales is a sign that weak fundamentals are holding back imports, and that's evidenced in the 1% drop in real consumer goods imports over the past year.
- Adding services back into the mix showed that Canada's total trade deficit widened from $2.5bn in April, to $2.9bn in May, as service exports increased and imports eased off.

[1] Annualized.

Implications & actions

Re: Economic forecast — There was a downward revision to exports in the April data, and overall export volumes are likely to show a moderate decline over the quarter as a whole, while imports are tracking close to flat, suggesting that net trade will act as a drag on Q2 GDP. In H2, we are likely to see some upside to exports from the operation of the TMX expansion. But a sustained lift to exports likely awaits a pickup in global growth in 2025 in response to an easing in interest rates ahead. Imports will likely still be held back until bloated inventories are worked off.

Re: Markets — Markets didn't pay much attention to today's data, as the downside surprise was driven mostly be one-off factors.

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