

## Economics

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June 5, 2025

## Canadian trade tumbles on tariffs in April

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| Merchandise trade, in million (\$) | 24:Q3   | 24:Q4  | 25:Q1  | Feb     | Mar     | Apr     |
|------------------------------------|---------|--------|--------|---------|---------|---------|
| Merch. trade balance—Annual rate   | -13,145 | -1,319 | -4,555 | -22,766 | -27,062 | -85,723 |
| • Monthly rate                     | -       | -      | -      | -1,897  | -2,255  | -7,144  |

| Merchandise trade<br>(period/period % chg) | 24:Q3 | 24Q4 | 25:Q1 | Feb  | Mar  | Apr   |
|--------------------------------------------|-------|------|-------|------|------|-------|
| Exports                                    | -0.6  | 18.2 | 19.3  | -5.6 | -2.2 | -10.8 |
| Imports                                    | 0.4   | 11.2 | 21.1  | 1.1  | -1.7 | -3.5  |
| Export volumes (chain Fisher)              | 0.9   | 10.5 | 10.0  | -5.3 | -0.1 | -8.3  |
| Import volumes (chain Fisher)              | -1.9  | 6.2  | 8.4   | 0.6  | -1.4 | -1.9  |

Source: Statistics Canada

- Canada's trade deficit ballooned to the largest level on record in April, at \$7.1bn, as exports plummeted amidst higher US tariffs. The 11% m/m drop in outbound shipments (9% in volume terms) reflected a 16% drop in US-bound goods, against a 3% increase to other countries. Although total trade with non-US countries reached a record high, that was more than offset by lower US activity, with total imports down by 3.5% (2.9% in volume terms). This adds downside to the advance GDP reading received for April, which is likely to show no growth in that month for the final reading, bolstering our expectation for the BoC to cut rates in July.
- The drop in exports was led by a 17% decline in autos and parts, due almost entirely to passenger cars and light trucks, which were hit with US tariffs early in the month, causing production to halt in Canada. Consumer products, namely food sent to the US, were also hit hard (-16%), with bread, chocolate, and frozen foods all showing large drops, along with pharmaceuticals and meat products destined for the US. The 8% drop in energy products was due partly to lower oil prices that fell on global growth fears, as well as lower volumes tied to a temporary pipeline shutdown that was caused by a rupture. The decline in exports was broad-based an extended to industrial machinery/equipment, mineral products, and forestry/building and packaging materials.
- On the import side, similar categories saw drops as two-way trade with the US evaporated, causing an 18% drop in autos and parts. The negative impact of trade uncertainty on business investment was on display in the 10% drop in imports of industrial machinery and electrical equipment, while the consumer goods imports fell by 4%. Imports from countries outside of the US reached an all-time high, rising by 8%, but that was more than offset by the 11% drop in imports from the US.
- The Canadian dollar appreciated on broad USD weakness in April, and since most of the trade transactions are conducted in USD and are subsequently converted to CAD, that slightly amplified the weakness in the trade figures. In USD terms, exports were down by 8% and imports fell by 0.9%.
- Service exports fell by 0.5%, while imports decreased by 1.1%. On the import side, lower spending by Canadian travellers in the US was a driving factor (-4.1%), while the drop in exports included lower spending in Canada by both

US and other travellers (-3.7%). Along with the jump in the goods trade deficit, that caused Canada's total trade deficit with the world to widen to \$7.5bn in April, from \$2.7bn in the prior month.

## Implications & actions

**Re: Economic forecast** — Q2 as a whole is likely to show no GDP growth, with the drop in trade and production curtailments, along with the weakening in the labour market, enough to see the BoC cut rates by 25bps in both July and September in our view.

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

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