Economics

# ECONOMIC FLASH!

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## Canadian trade (Oct): Striking a larger surplus

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| Merchandise trade, in million ($) | 23:Q1[1] | 23Q2[1] | 23:Q3[1] | Aug | Sep | **Oct** |
|---|---|---|---|---|---|---|
| Merch. trade balance—Annual rate | 2,663 | -25,262 | 4,751 | 9,096 | 13,451 | 35,609 |
| • Monthly rate | - | - | - | 758 | 1,121 | 2,967 |

| Merchandise trade (period/period % chg) | 23:Q1[2] | 23:Q2[1] | 23:Q3[1] | Aug | Sep | **Oct** |
|---|---|---|---|---|---|---|
| Exports | -1.4 | -12.7 | 12.2 | 6.0 | 1.4 | 0.1 |
| Imports | -1.8 | 1.1 | -4.2 | 3.6 | 0.8 | -2.8 |
| Export volumes (chain Fisher) | - | - | - | - | - | **-** |
| Import volumes (chain Fisher) | - | - | - | - | - | **-** |

Source: Statistics Canada

- Strike activity in the US auto industry, combined with a further drop in imports of gold, resulted in a sharp decline in inbound trade in October, allowing Canada's trade surplus to swell to its largest since June 2022. However, a rebound in imports as the impact of strike activity in the US fades ahead should bring the trade surplus back down. And, even if net trade is a positive for growth in Q4, the drop in imports will likely weigh on inventory levels and limit the implications of today's data for overall GDP.
- Canada's goods trade surplus was larger than expected in October, rising to $3.0bn from a downwardly revised $1.1bn (previously $2.0bn). However, the move wider in October was mainly driven by a slump in imports (down 2.8% vs September), with exports edging up by a mere 0.1%. The downward revision to September's trade surplus was largely due to lower exports than had originally been reported.
- The drop in imports in October was due to a further decline in gold, where imports continued to ease after reaching a record high in June. There was also a near 6% decline in imports of autos & parts, related to strike activity by US auto workers which had resulted in unstable supply from south of the border.
- On the export side, trade was broadly flat in both nominal and real terms on aggregate. The largest positive was an increase in exports of aircraft and other transportation equipment, which can be volatile on a month-to-month basis. The biggest decline was in energy exports, which in part reflected lower prices.
- On the services side, the deficit narrowed slightly to $1.3bn in October, from $1.4bn in the prior month, owing to a modest increase in exports and decline in imports. Including services trade as well, Canada's trade balance with the world moved from a small $0.3bn deficit to a $1.7bn surplus.

[1] Annualized.

[2] Annualized.

## Implications & actions

**Re: Economic forecast** — While net trade should be a positive for Q4 GDP, that contribution will be at least partly due to weaker imports which could weigh on inventory accumulation during the quarter. As such, today's data don't have significant implications for fourth quarter growth, which we still see in the 1% annualized range. Looking ahead to 2024, slower global growth should result in a weaker track for exports than we have seen on aggregate this year.

**Re: Markets** — There was little market reaction to today's data, with investors awaiting the Bank of Canada interest rate decision and statement later in the session.