

Economics

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July 3, 2025

Canadian trade (May): Underlying weakness continues

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Merchandise trade, in million (\$)	24:Q3	24:Q4	25:Q1	Mar	Apr	May
Merch. trade balance—Annual rate	-13,145	-1,319	-5,535	-29,137	-91,243	-70,313
• Monthly rate	-	-	-	-2,428	-7,604	-5,859

Merchandise trade (period/period % chg)	24:Q3	24Q4	25:Q1	Mar	Apr	May
Exports	-0.6	18.2	17.3	-1.9	-11.0	1.1
Imports	0.4	11.2	19.6	-1.4	-3.2	-1.6
Export volumes (chain Fisher)	0.9	10.5	6.7	0.2	-8.2	1.6
Import volumes (chain Fisher)	-1.9	6.2	7.7	-1.2	-1.3	-1.3

Source: Statistics Canada

- Canada's international trade deficit narrowed from the prior month's record level but remained elevated at \$5.9bn in May (vs. \$6.0bn consensus). That reflected a 1.1% m/m increase in exports, which was due entirely to unwrought gold shipments, and a 1.6% drop in imports. That follows a record high deficit in April that was revised to look even wider in this release (now \$7.6bn vs. \$7.1bn prior), as exports were weaker than first reported. Although in volume terms in May exports were up by 1.6% and imports fell by 1.3%, the sizable decline in exports in April means that net trade will be a drag on growth over the second quarter as a whole and activity will remain under pressure until trade negotiations progress.
- On the export side, a 30% increase in unwrought gold due largely to higher physical shipments to the UK led the way. Excluding metal and non-metallic mineral products showed a 1.2% decline in exports, as higher shipments of consumer goods, autos, and industrial/electrical equipment were offset by drops in energy and intermediate food products. The surge in unwrought gold masked declines in steel/aluminum categories that were down further due to tariffs, although the increased 50% tariff rate for those categories didn't come into effect until early June. Total exports are sitting 3.2% below year-ago levels, while imports are 3.2% above year-ago levels.
- On the import side, a large drop in unwrought gold compounded drops in autos and metal ores/non-metallic minerals. This followed record high imports of vehicles in March prior to the escalation in the trade war, and is consistent with further reports of production curtailments and layoffs in the auto sector.
- Trade with the US continued to evaporate due to tariffs, with imports down for a third consecutive month (-1.2% m/m), and exports down for a fourth month in a row (-0.9%). That leaves the share of exports being sent to the US at only 68%, down from 76% in 2024, as exports sent to other countries reached a record high level.
- Service exports fell by 0.2% on drops in financial services and travel services, while service imports increased by 1.8%, led by financial services. Imports of travel services fell, as spending by Canadian residents in the US declined for a third month in a row. That left the total trade deficit with the world at \$6.6bn, a narrowing from \$8.0bn in April.

Implications & actions

Re: Economic forecast — The impact of sectoral tariffs will keep exports under pressure until trade negotiations progress, while imports will be limited by waning domestic demand going forward. Net trade will contribute to the decline expected for Q2 GDP and continues to suggest that the BoC will need to cut rates further ahead.

Re: Markets — There was no material market reaction to the data, as it was in line with expectations and the US payrolls release garnered more attention.

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