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Economics

# ECONOMIC FLASH!

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## Canadian trade (July): Starting to wane

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| Merchandise trade, in million ($) | 25:Q4 | 26:Q1 | 26:Q2 | May | Jun | Jul |
|---|---|---|---|---|---|---|
| Merch. trade balance—Annual rate | -17,637 | -28,216 | 44,875 | 44,027 | 50,417 | 9,230 |
| • Monthly rate | - | - | - | 3,669 | 4,201 | 769 |

| Merchandise trade (period/period % chg) | 25:Q4 | 26:Q1 | 26:Q2 | May | Jun | Jul |
|---|---|---|---|---|---|---|
| Exports | 17.7 | 20.1 | 64.8 | 0.9 | 0.8 | -2.3 |
| Imports | 5.8 | 25.8 | 18.0 | 0.5 | 0.1 | 2.2 |
| Export volumes (chain Fisher) | 9.6 | 1.8 | 21.0 | -1.0 | 2.1 | -2.2 |
| Import volumes (chain Fisher) | 0.4 | 16.4 | 3.6 | -1.0 | -1.9 | 2.7 |

Source: Statistics Canada

- Today's trade data suggests that Canadian exports were already waning in July, even before new US tariffs hit, and will probably be a slight negative to GDP in the third quarter even after accounting for some tariff front-running activity during August. A rise in imports is also technically a negative for GDP, but likely represents restocking activity that will show up as a positive for inventories. Overall though, today's data appear to confirm the message from July's advance GDP estimate - that economic growth is slowing again in Q3 following the second quarter surge.
- The goods trade surplus narrowed more than expected to $0.8bn (consensus $3.2bn), from an upwardly revised $4.2bn in June. Exports fell for the first time in six months, driven by metals and energy products, with the latter reflecting lower volumes as well as prices. Overall exports were also down 2.2% in chain-fisher volume terms. Partly offsetting declines seen elsewhere, aircraft & other transportation exports increased, as did agricultural products driven by canola exports to Asia. Overall exports to countries other than the US hit another record high, and accounted for just over a third of all exports in July.
- In contrast to the trend in exports, imports rose by roughly 2% in both value and volume terms, largely due to higher auto imports. Statistics Canada linked this to fewer seasonal retooling stoppages this year, particularly in the US. The rise in imports was tempered by declines in the energy, electronics and aircraft & other transport categories.
- Released alongside the merchandise trade data, Canada's balance of trade in services turned from a slight deficit to a narrow surplus in July, owing to both increasing exports and a decline in imports. Canada's overall trade surplus slimmed from $4.0bn in June to $1.1bn in July.

## Implications & actions

**Re: Economic forecast** — Looking ahead, efforts to front-run US tariffs that hit late in August may bring a temporary spike in exports of some items next month, before easing again in September. For Q3 as a whole, exports may be a slight negative for GDP following the large positive contribution in Q2, and could continue to struggle in the fourth quarter unless a trade deal with the US is reached.

**Re: Markets** — Bond yields were already down slightly before the release, as they retreated part of yesterday's post Bank of Canada move, and held onto that move following the release of today's data.



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