Contrary to expectations, Canada’s trade deficit narrowed in October, with two-way trade on the rise again. The data, however, came with revisions to the prior month that left exports looking weaker and the deficit in September wider. That, combined with some shaky details in the latest numbers, should offset some of the sentiment in markets from the positive surprise for the latest month.

The trade deficit of $1.1bn was narrower than the consensus expectation of $1.4bn, and the prior month’s revised $1.2bn shortfall. Exports rose 0.8% in nominal terms, and volumes were up 0.7%, with gains in roughly half of the categories. Particular strength was seen in consumer goods, but there was a catch. The increase was due to the export of artwork to New York where the pieces were to be auctioned off. Whatever doesn’t sell could be returned and included in imports down the road. The art shipments also likely don’t represent a sustainable source of export growth.

Exports of gold also contributed to the headline gain. While gold shipments don’t necessarily indicate more production as they are often coming from inventories, exports of that product are up more than 20% in the first ten months of 2019 versus the same period last year. Weakness was, however, seen in exports of farm and fishing products, where soybean shipments to China continued to fall, likely reflecting the tensions between the two countries.
• Imports rose, helped by higher energy prices and volumes. The increase in imports overall was, however, narrowly based outside of that, with 7 of 11 categories actually declining. Motor vehicles and parts imports fell as the labour disruptions at a number of auto assembly plants affected production. Still, despite the temporary nature of the labour dispute, the rest of the import data don’t paint an overly strong picture of Canadian demand.

Implications & Actions

Re: Economic Forecast — The trade numbers began the quarter on better-than-expected footing, but the revisions suggest the past was slightly worse than at first look. Some of the details in the data for October also suggest that the gains in exports and the narrower deficit might not be sustained.

Re: Markets — Yields rose and the Canadian dollar strengthened following Bank of Canada Deputy Governor Lane’s speech this morning, where he reiterated that central bankers are comfortable leaving rates steady. Yields continued to rise and the Canadian dollar held its ground following the release of the trade data.