The Canadian economy continued to show signs of healing in May. For only the second time since 2016, the Canadian trade balance was back in the black to the tune of $0.8bn. Some of that strength could prove transitory, as it came from sectors that tend to be quite lumpy, while dimming global growth prospects still leave the longer-term prospects for Canadian exports uncertain. Nevertheless, it does leave monthly GDP indicators for May starting off on better footing than had been expected.

After bottoming out in December with a trade deficit just shy of $5bn, the balance has consistently made up ground, now reaching its highest surplus since 2016. Exports were up 4.6%, with chain-Fisher volumes rising 4.4%, the largest increase for real outbound shipments since 2011. Furthermore, the gains were relatively broad-based with nine of 11 sectors rising on the month.

Particular strength was observed in autos, metal ores and aircraft & other transportation. The auto sector was picking up following some atypical shutdowns in April, but the strength took shipments up to their highest level seen since before the financial crisis, suggesting that the increase was due to more than just factories coming back online.

Exports of business jets and commercial aircraft to the US, combined with shipments of boats and other transportation equipment to Saudi Arabia, left the aircraft & other transportation category...
up 33.0% in May. These tend to be very volatile sectors and the level of the series is now running roughly $800mn higher than the prior three months, suggesting the strength may not prove sustainable. Also remember, for such large items, production would have occurred over a long time period, so won’t translate directly into May’s monthly GDP numbers.

- Imports rose a more modest 1.0%, with only six of 11 sectors rising. Chain-fisher import volumes were a bit stronger at 1.3%. Aircraft purchases were notable in contributing to the strength, but that looks more of rebound to normal levels, rather than any sort of outlier. Trade also rose in the auto sector mirroring the gains in exports and likely reflecting some of the auto-related two-way trade that occurs in the Great Lakes region. Despite the increase in real imports, part of the reason for the overall trade surplus has been that inbound shipments, after dipping in the second half of 2018, are still below recent peaks.

Implications & Actions

Re: Economic Forecast — A trade balance in surplus leaves even less reason for the Bank of Canada to make a sharp pivot at it’s upcoming meeting. It’s difficult to say with all the moving parts whether the surplus will prove sustainable, but for now it supports our call that GDP growth will blow past the Bank of Canada’s April prediction.

Re: Markets – The surprise surplus has been positive for the Canadian dollar and caused a slight selloff in short-end fixed income.