Economic Flash!

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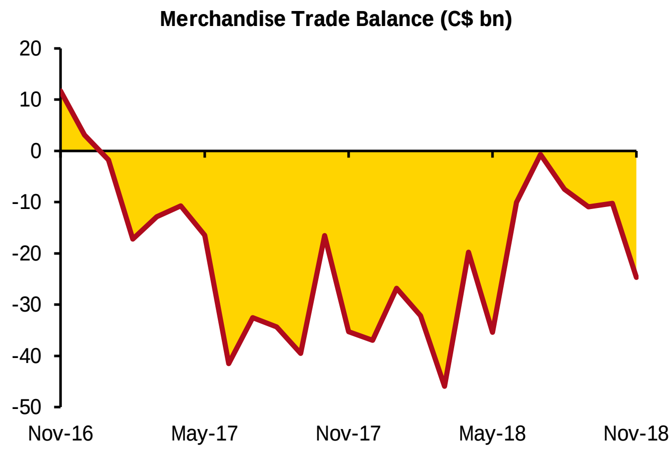
Canadian Trade Slips on More Than Just Oil



- The Canadian trade deficit continued its move wider in November, and unlike last month, the details didn't provide an offset to the downbeat headline. Exports fell even outside of the decline in oil prices, a disappointing first sign for November's monthly GDP tracking. While the Canadian dollar had been gaining ground in recent days on the back of rebounding crude prices, the latest trade data should put a bit of a lid on near-term loonie strength.

- The trade deficit widened to $2.1B from a revised $0.9B in October (prev. $1.2B). The move returns Canada's trade shortfall closer to where the deficit averaged early in the year, from what had been a fleeting reading near-balance around mid-2018. Much of the weakness owed to oil prices. Crude exports were down 18% on the month, with 14% due to falling prices. November was the worst month for Canadian heavy crude prices in 2018, averaging its lowest level in almost two years. However, while WCS rebounded in December, other Canadian oil exports will continue to feel some pain as global benchmark prices bottomed-out only recently.

- The weakness in exports wasn't, however, isolated to the oil industry. Outbound shipments were down in 8 of 11 sectors, with nominal non-energy exports falling 1.4% and total export volumes off

1.5%. That means real exports more than reversed the healthy gain observed in October, and have now fallen in three of the past four months.

- Imports didn't do anything to brighten the mood either. Nominal and real inbound shipments were down 0.5% and 0.1%, respectively. The motor vehicle and consumer goods categories were both down for a second consecutive month, in line with the deceleration we've already seen in household spending. The real import reading actually could have looked uglier, had it not been for a sharp rise in the always-volatile aircraft sector, something that's unlikely to be repeated in December, and could actually swing in the opposite direction. Overall, after peaking earlier in the year, imports appear to have flat-lined over the second half of 2018, a signpost of softening demand in some Canadian goods sectors.

Implications & Actions

Re: Economic Forecast — The decline in real exports isn't a great first indicator for monthly GDP, suggesting that Q4 growth may have come in closer to 1 ½% than 2%. That said, we're still very early in the data calendar for Q4.

Re: Markets — The disappointing details in today's trade numbers should put some pressure on the Canadian dollar.

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