Economic Flash!

July 6, 2018

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Canadian Trade Swings Back, Further Into Deficit

	17:Q3*	17:Q4*	18:Q1*	Mar	Apr	**May**
$Million						
Merch.Trade Balance—Annual Rate	-34,914	-29,974	-34,515	-46,999	-22,370	**-33,254**
—Monthly Rate				-3,917	-1,864	**-2,771**
Per/Per % chg						
Exports	-26.5	20.8	5.3	4.1	1.2	**-0.1**
Imports	-17.1	15.5	8.3	6.2	-2.8	**1.7**
Export volumes (chain Fisher)	-13.4	3.0	1.1	3.5	0.6	**-0.6**
Import volumes (chain Fisher)	-0.4	8.8	5.6	4.7	-2.3	**1.0**

** annualized*

- The pendulum swung back the other way as the Canadian trade balance deteriorated again. While many of the drivers appear temporary, any reversion could still be overshadowed in upcoming reports by the imposition of US tariffs and Canada's subsequent retaliation.

- The trade deficit widened back to $2.8bn on the back of higher imports (+1.7%) and a largely flat month (-0.1%) for exports. Imports were, however, buoyed by the purchase of aircraft, transactions that are usually lumpy and unlikely to be repeated in the following month. The import reading was also pushed higher as Canada was forced to purchase more foreign gasoline, as a number of domestic refineries were temporarily shut down during the month.

- Notably for business investment in Canada, imports of industrial machinery, equipment and parts remained elevated for the third month in a row. So far, it appears that capacity constraints in the Canadian economy have outweighed the effects of uncertainty on capital spending. Indeed, that's what the most recent Bank of Canada Business Outlook Survey (BOS) told us. But, there's reason to believe that as tensions have ratcheted higher, the worst of which may have not been captured in the BOS, companies could be more cautious about deploying capital in Canada.

- Lackluster exports were held back by reduced iron ore shipments, which appear to be related to work stoppages at some mines. Adding to the drag on exports, auto and parts shipments declined, which was at least partially the result of supply-chain disruptions in the US. While these look temporary and were largely offset by other categories picking up the slack in the month, exports were probably also boosted by additional demand for Canadian metals. Indeed, metal and metal product exports are running atop their recent range for the second month in a row, possibly the result of US purchasers avoiding steel and aluminum tariffs on other countries' supplies in April and/or getting ahead of expected US tariffs on Canadian made products. That, of course, could be reversed in the upcoming month.

- In chain Fisher volume terms, imports rose 1.0%, while exports were down 0.6%. The rise in imports, even if some of that won't be repeated, generally reflects healthy domestic demand in the economy. However, the soft trend in export volumes, which are now down 1.5% over the past year, don't inspire much confidence surrounding the long hoped for rotation in demand away from consumption/housing and towards exports/investment.

Implications & Actions

Re: Economic Forecast — The wider than expected deficit doesn't do much to alter our overall view of the economy. Many of the factors appear to be temporary and strong import gains reflect domestic strength. But, a soft month for manufactured exports and the fact that factory inventories are already running high, could have weighed on production in that sector during the month.

Re: Markets –The wider trade deficit didn't alter Bank of Canada expectations, and as the US dollar sold off after a soft wage reading south of the border, the loonie gained ground.