



Economic Flash!

October 5, 2018

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Canadian Trade (Aug): Pleasantly Surprising Surplus, Not so Pleasant Detail

	17:Q4*	18:Q1*	18:Q2*	Jun	Jul	Aug
<i>\$Million</i>						
Merch. Trade Balance—Annual Rate	-29,974	-33,904	-20,062	-9,301	-2,272	6,313
—Monthly Rate				-775	-189	526
<i>Per/Per % chg</i>						
Exports	20.8	6.2	26.7	4.2	0.7	-1.1
Imports	15.5	8.7	14.3	0.3	-0.5	-2.5
Export volumes (chain Fisher)	3.0	2.0	16.7	2.2	-0.4	-1.1
Import volumes (chain Fisher)	8.8	5.5	8.0	-0.8	-1.6	-2.2

* annualized

- The Canadian economy produced a surprise, and by recent standards rare, trade surplus in August. In fact it was the first surplus since late 2016. However, it wasn't all good news, as the detail showed declines in both export and import volumes, with the trade balance only improving because the reduction in imports was larger. So while today's report suggests that net trade will likely be a bigger positive for Q3 GDP, it also suggests that domestic demand may be weaker and as such still leaves us tracking slightly above 2% growth.
- August's trade surplus of \$0.5bn followed a marginally revised \$0.2bn deficit. Exports fell 1.1% on the month in nominal terms, with a matching decline in volumes. However, the reduction in imports was larger, with those falling 2.5% in nominal terms and 2.2% in volumes.
- After reaching a record high in May, imports of aircraft and other transport equipment have almost halved and saw another big drop in August. Given that this is often a volatile area, that's no great cause for concern. However, the 3.7% decline in consumer goods imports could be more worrisome and reflect softer domestic demand than companies had anticipated earlier in the year.
- On the other side of the equation, motor vehicle exports fell 6.2% to \$7.4bn, reversing most of the jump seen in the prior month. Exports of metallic and non-metallic products also saw a big fall, thanks to lower exports of unwrought gold to the UK.

- After falling sharply following the imposition of tariffs, exports of steel products to the US continued their gradual recovery. However, exports of aluminum products to the US continued to fall, and imports of US steel into Canada, which had tariffs applied a month later, saw another modest drop.

Implications & Actions

Re: Economic Forecast – The Canadian trade balance may have moved back into positive territory during August, but the fact that it was driven largely by a fall in imports isn't such a good sign for GDP. Yes, net trade will be a bigger positive for Q3 GDP, but we could see some offsetting disappointments in terms of domestic demand or inventories. As such, we're still sticking to our forecast for a 2.2% growth rate during the quarter, and for a fairly tame rise in monthly GDP during August.

Re: Markets - Despite the surprise trade surplus, the Canadian dollar didn't see much reaction from the news possibly because of the not so impressive details.

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