

Canadian Trade Figures Not As Bad As They Appear

Canada, International Merchandise Trade balance (CAD billions), August:

Actual 0.53

Scotia -0.30

Consensus -0.50

Prior -0.19 (Revised from: -0.11)

- Canada's trade balance swung to a surplus for somewhat unhealthy reasons as a bigger drop in imports overtook a decline in exports. I don't think the numbers are quite as bad as they look.
- Export volumes fell by 0.7% m/m and import volumes fell by 1.5% m/m in August.
- The 1.1% m/m decline in the value of exports had seven of thirteen industries behind it. That said, **two sectors contributed to pretty much all of the decline in exports and for idiosyncratic reasons.** A 6.2% m/m plunge in exports of autos and parts contributed about 87% of the decline in total exports after the prior month's rise contributed about 91% of the gain in July's exports. Within the autos plunge, an 8.9% decline in exports of cars and light trucks was responsible. StatsCan rightly flagged **'atypical shutdowns in the automotive industry'** that will be transitory in nature. Also note that a decline in lumpy aircraft export data also weighed on the headline. **Take autos and planes out of the picture, and the value of exports increased by 0.3% m/m which is a far sight better than the 1.1% headline drop.**
- The same general point holds true in volume terms. **Excluding autos and planes, export volumes were up 0.2% m/m.**
- **For the quarter as a whole, however, net trade is perversely contributing to GDP growth.** Export volumes are tracking an annualized and seasonally adjusted decline of 1.2% q/q and imports are tracking a bigger decline of 8.2%.
- In volume terms, the decline in imports was broadly based. 9 of 13 categories were lower. That said, four sectors contributed the most to the decline including autos/parts, planes, consumer goods and chemicals/plastics/rubber.
- For the most part, Q3 is coming off the boil compared to H1 in terms of changes to imports. Import volumes were up 8% q/q in seasonally adjusted terms in Q2 and 5.5% in Q1 and are tracking an 11.8% decline in Q3. Smooth through the figures as the earlier import impulse was likely to decelerate.

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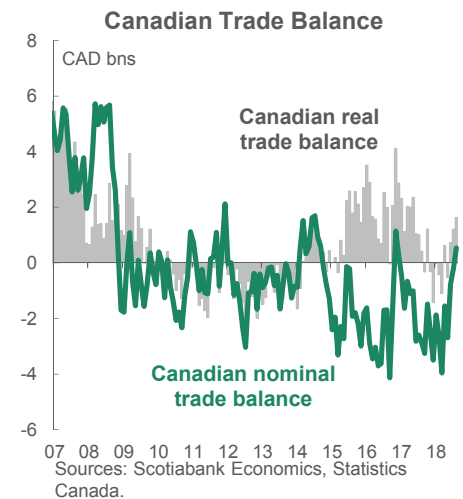
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