

Trade, a drag on the economy in Q3

September trade balance:

Latest: -\$3.18 bn (actual), -\$3.0 bn (expected)

Previous: -\$3.18 bn (revised from -\$3.41 bn)

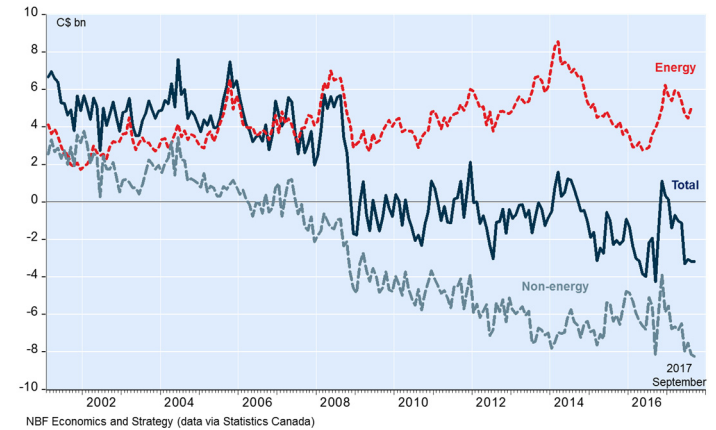
FACTS: Canada's merchandise trade deficit was essentially unchanged at C\$3.18 bn in September as both exports and imports fell at the same pace (-0.3%). A minority of export categories were down including a 10.6% slump for motor vehicles/parts and a 5.1% drop for natural gas. Those more than offset gains in energy and aerospace. Imports of energy rose 18.5% but were more than compensated by energy exports thus allowing the energy trade surplus to increase to C\$5.1 bn, a 4-month high (top chart). The non-energy trade deficit deteriorated to C\$8.2 bn. The goods trade surplus with the U.S. narrowed to C\$2.2 bn. In real terms, Canada's imports were up 0.8%, while exports slumped 0.2%, a fourth consecutive drop.

OPINION: Canada's September trade deficit was worse than expected by consensus. After hitting an all-time high in May, export volumes have now fallen for four consecutive months. With September's decline, real exports fell more than 14% annualized in the third quarter, while imports experienced a smaller decline of 0.7% (middle chart). So, after contributing to Canada's GDP growth in Q2, merchandise trade is set to subtract from it in the third quarter. The data is consistent with a moderation of Canada's real GDP growth, albeit not unexpected after a very strong first half of 2017. That being said, the trade deficit appears to be steadying (bottom chart). Our trade balance with countries other than the U.S. has improved for two consecutive months and have offset the narrowing surplus we currently enjoy with our southern neighbour. Combined with better terms of trade for Canadian exporters and a 4 month-high energy surplus, we expect the fourth quarter to be slightly better.

Kyle Dahms

Canada: Trade deficit unchanged in September

Merchandise trade balance

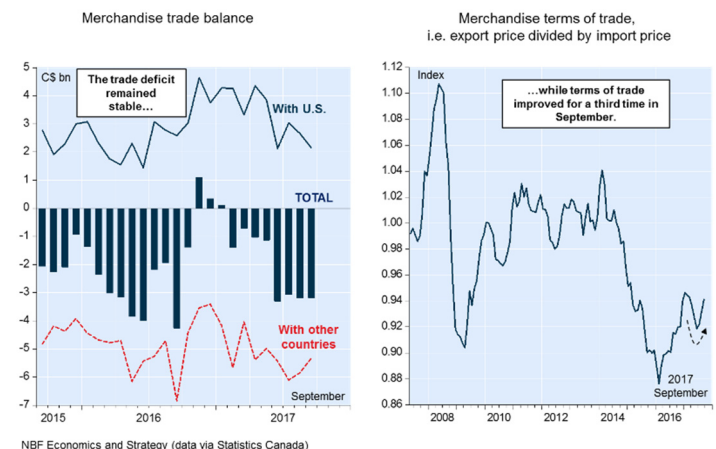


Canada: Merchandise trade will pull down third quarter growth

Real exports and imports of goods



Canada: A stabilizing trade deficit partly due to better terms of trade



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