

## Volume exports at a record high in May

**April trade balance:**

**Latest: -\$1.09 bn (actual), -\$0.50 bn (expected)**

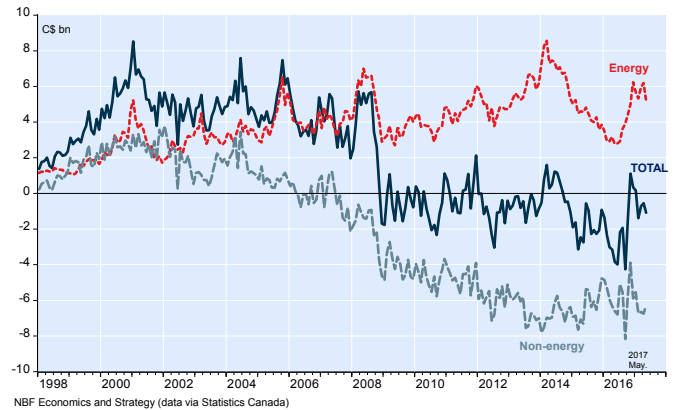
**Previous: -\$0.55 bn (revised from -\$0.37 bn)**

**FACTS:** Canada's merchandise trade deficit increased from C\$0.55 bn to C\$1.09 bn. Consensus expected the deficit to shrink marginally to C\$0.50 bn. The deterioration was due to imports (+2.4%) rising faster than exports (+1.3%). Most export categories saw increases in May, with gains in metal products (+11.1%), industrial machinery (+9.0%), agricultural products (+7.6%) and aircraft (+5.5%) among others more than offsetting declines in energy products (-9.0%) and metal ores and non-metallic minerals (-7.5%). On the other hand, imports were up in several categories, with aircrafts (+45.9%) and energy (+6.5%) posting the strongest advances. The rise in imports of energy products pulled the energy trade surplus down to C\$5.2 bn from C\$6.2 bn in the prior month. Alternatively, the non-energy trade deficit diminished to C\$6.3 bn, the best figure in 4 months. In real terms, Canada's exports rose 2.0% in May, while imports increased 1.7%.

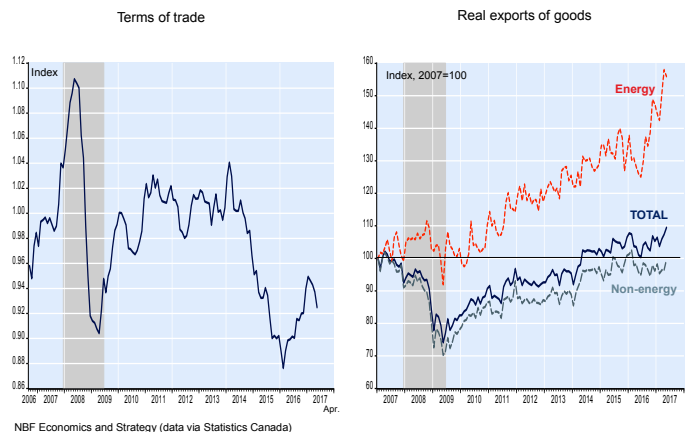
**OPINION:** Canada's goods trade deficit in May was larger than expected but the details of the report were rather encouraging for economic growth. It turns out that the terms of trade deteriorated for a fourth consecutive month in May due to soft energy prices and a weakening Canadian dollar. In volume term, the picture was more favourable as exports reached a new record high in May (middle chart). We were also encouraged to see non-energy exports rising for a third consecutive month but we remain puzzled by the fact that no significant progress has been made on that front since 2014 despite a more competitive currency. The increase in real exports being stronger than imports again in May suggests that trade should be a contributor to GDP growth in Q2 after subtracting from it in the prior quarter (bottom chart). However, business investment could be weak in the quarter as imports of industrial machinery & equipment are essentially flat after two-month of data following a strong performance in Q1.

Matthieu Arseneau

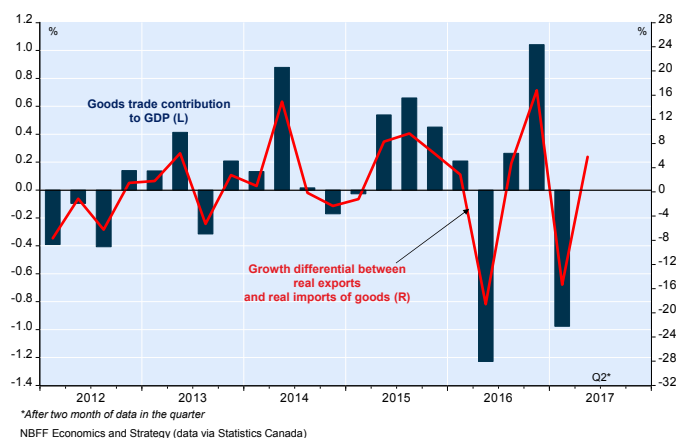
**Canada: Trade deficit widened in May**  
Merchandise trade balance



**Canada: Volume exports at a record high in May**



**Canada: Trade should provide a lift to economy in Q2**  
Real exports and imports of goods versus Goods trade contribution to GDP



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