Canada: Exports set for strong rebound in Q2
By Jocelyn Paquet

The Canadian trade numbers came in much better than expected in April, with the trade deficit narrowing to its lowest in six months. Contrary to what had been observed in March, the improvement was not due to a rise in energy exports – the latter were roughly flat as a 12% rise in the crude oil subsector was more than offset by a 46% plunge for natural gas (see chart on the left). Excluding energy products, exports were up 1.9%, thanks in part to a steep gain in the metal and non-metallic mineral product which benefited from a surge in gold exports. This gain was only partially offset by a 14.7% drop in canola exports after China banned Canadian imports of the stuff (recall that about half of Canada’s canola exports in 2018 went to the Middle Kingdom). Looking at quarterly data, trade looks set for a rebound in Q2 after having subtracted no less than 3.9 percentage point from GDP in Q1. Real exports are on pace to expand an annualized 7.8% in the quarter on the back of their biggest back-to-back monthly rises in three years in March and April, while imports look set to drop 4.9% (see chart on the right). This is consistent with our call for a GDP print north of 2.0% in the second quarter of the year. That said, the longer-term outlook looks slightly less promising with the U.S. now threatening to impose 5% tariffs on all imports from Mexico. This might further delay the ratification of a new North American free trade agreement, a development that would put renewed pressure on Canadian exporters.

HIGHLIGHTS:
• Canada’s merchandise trade deficit narrowed from a revised C$2.3 billion (initially estimated at C$3.2 billion) to a six-month low of C$1.0 billion.
• Nominal exports rose 1.3% while nominal imports retracted 1.4%.
• On the exports side, 6 of the 11 categories saw increases notably metal and non-metallic products (+15.0%), farm/fishing products (+5.1%) and machinery/equipment (+2.1%). Exports in the energy sector, meanwhile, edged down 0.5% after rising no less than 64% between December and March.
• Turning to imports, there were retreats in the consumer goods (-3.0%) and aircraft (-23.6%) segments which more than offset a 10.7% increase for energy products.
• The energy trade surplus fell from C$7.3 billion to C$6.9 billion. In contrast, the non-energy trade deficit improved from C$9.6 billion to a 5-month low of C$7.8 billion.
• The trade surplus with the U.S. narrowed for the first time in four months, coming in at C$4.2 billion.
• In real terms, exports advanced 2.0%, while imports shrank 1.9%.
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