

Canada: Trade deficit narrows as country rushes to find alternative export markets

By Jocelyn Paquet

Highlights:

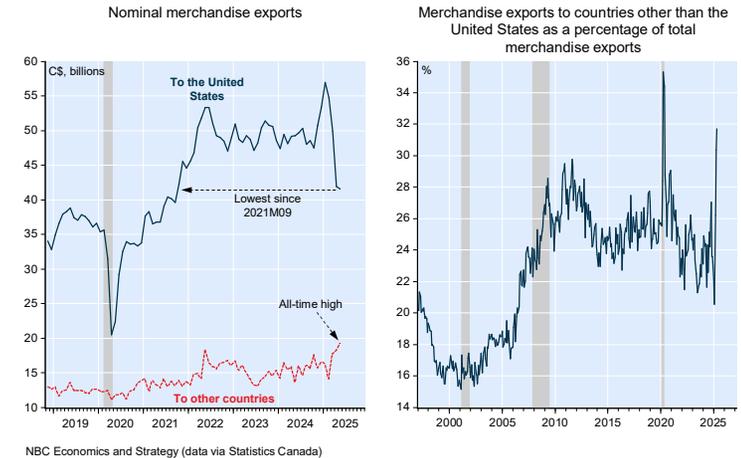
- The merchandise trade deficit narrowed from an all-time high of C\$7.60 billion in April (initially estimated at C\$7.14 billion) to C\$5.86 billion in May. Economists expected a C\$5.98 billion shortfall.
- Nominal exports rose 1.1% while nominal imports fell 1.6%.
- On the exports side, 7 of the 11 industries covered saw increases, led by metal/non-metallic mineral products (+15.1%), aircraft/transportation equipment (+5.6%) and consumer goods (+2.6%). On the flip side, exports of energy products fell by 5.6%.
- Turning to imports, where large declines in the metal/non-metallic mineral products (-16.8%) and motor vehicle/parts (-5.3%) categories were only partially offset by a 4.3% gain for consumer goods.
- Canada's energy surplus with the world narrowed from C\$9.3 billion to a 46-month low of C\$8.7 billion, while the non-energy deficit shrank from C\$16.9 billion to C\$14.6 billion.
- The trade surplus with the United States moved from a 52-month low of C\$3.1 billion to C\$3.2 billion.
- The services trade deficit, for its part, expanded from C\$0.4 billion to C\$0.8 billion, which means that the total trade deficit (goods + services) moved from C\$8.0 billion to C\$6.6 billion.
- In real terms, merchandise exports expanded 0.7%, while imports retraced 0.6%.

After reaching an all-time high in April following the imposition of tariffs by the U.S. administration, Canada's merchandise trade deficit narrowed slightly in May. However, this was not due to a rebound in exports to the United States. In fact, shipments to our southern neighbours declined for the fourth consecutive month in May and are now 27.1% below the historic high reached back in January (C\$41.5 billion versus C\$56.9 billion). Meanwhile, exports to the rest of the world rose by 5.7% m/m in May, a development that Statistics Canada largely attributed to a surge in shipments of physical gold to Great Britain. (In fact, total gold exports reached a record high of C\$5.9 billion in May.) Whatever its cause, this increase allowed exports to non-U.S. countries to reach a new all-time high of C\$19.3 billion in May. This figure represented 31.7% of our total exports, the highest percentage ever recorded outside of the early months of the pandemic and proof of Canada's efforts to diversify its export markets in recent months (see top chart).

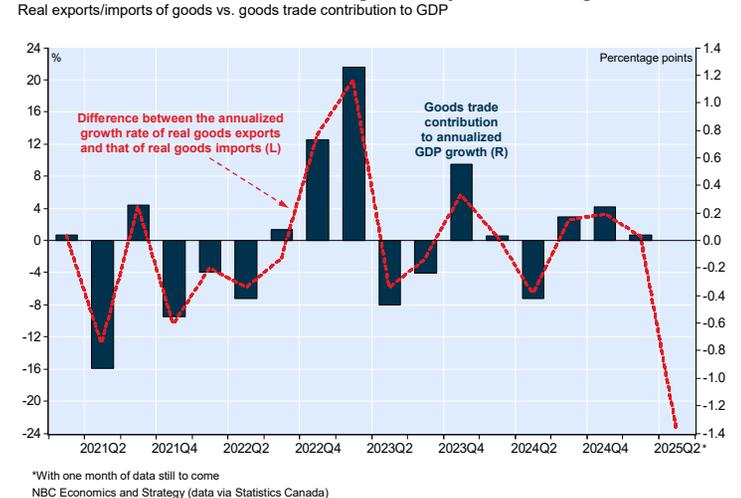
Another noteworthy point in the report was the narrowing of the energy surplus. The latter fell to its lowest level in nearly four years in May, partly due to lower prices, but also to a decline in export volumes. The latter have indeed fallen by 9.2% since December, marking the largest 5-month drop since the pandemic.

With one month of data still to come, trade in goods looks likely to weigh heavily on GDP growth in the second quarter, with real exports (-33.9% annualized) tracking a much more substantial decrease than real imports (-10.6%, see bottom chart).

Canada: The rush to find alternative exports markets



Canada: Merchandise trade to weigh heavily on Q2 GDP growth





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