Canadian Trade Distorted By Gold and Planes

Canada, International Merchandise Trade balance (CAD billions), December:
Actual: -4.59
Scotia: -1.5
Consensus: -2.06
Prior: -1.98 (revised from -2.06)

- There are lumpy and unusual influences that exaggerated the magnitude of the weakness on both sides of the trade ledger. I would counsel caution toward the releases and put the blame for this on gold and planes! I can't honestly recall the last time the figures were as distorted by these two contributions but the distortions are major. The principal takeaway should be that even though energy production will take a hit in January when Alberta's mandated cuts bite, improved numbers could well be in store as a) the Alberta cuts have already been scaled back, and b) once gold and plane distortions shake out in such fashion as to no longer drag on both sides of the ledger as they did here. I can't think the BoC would be particularly fussed by the underlying drivers of the softness here relative to what they already anticipated. Everything that follows looks at trade on a volume of activity basis removing price effects since that's the way the figures contribute to GDP growth—or not.
- First, export volumes fell by 2.7% m/m in December and fell by an identical amount the prior month. Import volumes were up 1.1% in December which reversed a 1.3% decline the prior month.
- During December, six of eleven export volume categories fell and seven of eleven import volume categories fell. Within exports, the volume decline was led by metal products (-11%), energy (-4.4%) and consumer products (-2.1%). The drop in metal products exports was mostly due to lower gold exports to the UK and HK through "reduced transfers of gold within the banking sector" according to StatsCan.
- Within imports during December, the volume decline was led by a 26.4% decline in transportation equipment, a 4.3% drop in chemicals and plastics and a 2.3% decline in farming/fishing imports. The plunge in imports of transportation equipment was driven by a 24.9% drop in imports of aircraft and other transportation equipment and parts while imports of autos were up 8.7% to drive a 4.0% rise in imports of autos and parts combined. Within the tallies was a 75.9% plunge in imports of aircraft after three prior gains and one should likely remove that from the figures.
- In weighted contribution terms, the drop in total export volumes was principally driven by equal drags of 1.2 points from energy and metals production. Remove the drop in the metals category that was due to the gold distortion and export volumes rounded up to a gain of 0.1% m/m.
- In weighted contribution terms, the drop in import volumes was mainly from transportation equipment that shaved 0.9 points off total import volumes. Remove the drop in the transportation sector that was mainly driven by planes and import volumes were actually up by 1.3% m/m.

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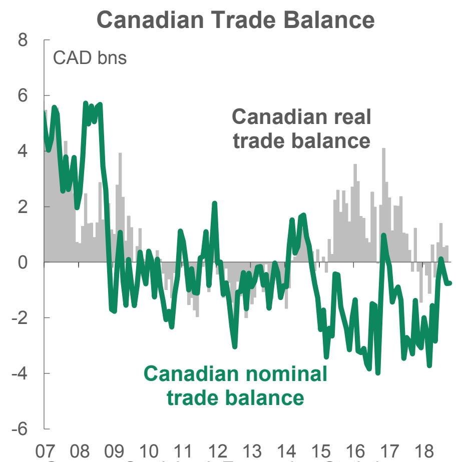

Sources: Scotiabank Economics, Statistics Canada.

- On a quarterly basis, export volumes fell by 10.5% q/q in 2018Q4 on a seasonally adjusted and annualized rate basis (SAAR). They were flat in Q3 (-0.2%), up 20.7% in Q2 and down 4.2% in Q1. The erratic pattern to the trade data continues but the second half of last year was weak.
- On a quarterly basis, import volumes were down 1.4% in Q4 after an 8.6% drop in Q3 following gains of 6.2% in Q2 and 6.6% in Q1.
- What drove weakness in export volumes during Q4? During the quarter, six of eleven sectors fell. The largest percentage declines in SAAR terms were forestry (-12.4%), metal ores (-8.5%), machinery and equipment (-2.7%), energy (-1.1%) and electronics (-0.9%).
- What drove weakness in import volumes during Q4? Again, six of eleven categories fell so breadth was significant. The leading sources of decline in percentage SAAR terms included chemicals & plastics (-17.4%), metal ores (-9.4%), motor vehicles and parts (-5%), forestry (-4.4%) and electronics (-3.6%).