Distorted Canadian Trade Offers A Mixed Overall Take On The Economy

- Canada's trade deficit narrowed more than expected on a rise in export volumes and a drop in import volumes;
- Take gold out of exports and the picture is different for April and YTD;
- Imports suggest either weaker consumption and/or inventory adjustments.
- Imports of capital goods were up, but flat YTD.

Canada, International Merchandise Trade balance (CAD billions), April:
Actual: -1.0
Scotia: -3.2
Consensus: -2.8
Prior: -2.3 (revised from -3.2)

- On the surface, this looks like a good report as the trade deficit narrowed by more than expected because export volumes rose while import volumes fell. The details dent the quality overall but still leave intact a Q2 rebound in net trade (exports minus imports) that should contribute favourably to overall GDP growth but in such fashion as to raise questions about export breadth and on the import side the signals being sent regarding the mixture between inventory adjustments versus strength in the domestic economy. In any event, markets largely faded the backward assessment of trade in the face of forward looking risks to global trade policy. CAD initially shook off the report but then appreciated. The two year Canada yield underperformed the US two year Treasury yield post-data.
- The details nevertheless point to weak exports in April after crossing out an idiosyncratic driver. Import softness suggests a softer pull effect from the domestic consumer sector and/or inventory adjustments alongside a muted picture for year-to-date imports of machinery and equipment as a soft cap-ex signal given the dominance of imported capital goods.
- Export volumes were up by 2.0% m/m. Great. The problem is that gold exports were responsible for much of the strength. Exports of metal and non-metallic minerals are soaring by 15% y/y due to increased purchases of gold in the banking sector that drove higher exports to Hong Kong and the UK. Take out these categories, and export volumes fell in month-ago terms after a strong gain in March that itself reversed a strong drop in February. For the year as a whole, there has been no growth in export volumes excluding the metal ore and metal products categories. That's not to knock the domestic gold sector, but I'd like to see something else here!
- In absolute and unweighted terms, six of eleven export categories were up in volume terms with five down. Weighted contributions by sector are given in Table 1 and explained as follows. Farming/fishing volumes were up 5.7% m/m and added 0.4% in weighted terms to overall export volume growth. Farming/fishing exports have been strong for two months after a very weak start to the year. Metal ores were up 5.6% (0.2% contribution) after an 8.7% prior drop. Metal products were up 15.1% (1.7% contribution) through the gold effect after a prior 2.9% drop. Machinery and equipment exports were up 1.6%

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Exports By Weighted Contribution, April

Strongest Performance	% Points	m/m%
Metal Products	+1.5	+15.1
Agriculture	+0.4	+5.7
Metal Ores	+0.2	+5.6
Weakest Performance	**% Points**	**m/m%**
Vehicles	-0.7	-5.1
Energy	-0.1	-0.5
Forestry	-0.1	-1.9

Imports By Weighted Contribution, April

Strongest Performance	% Points	m/m %
Energy	+1.1	+16.1
Special Transactions	+0.4	+23.9
Industrial Equipment	+0.1	+0.9
Weakest Performance	**% Points**	**m/m %**
Transportation Ex Autos	-0.9	-23.8
Vehicles	-0.8	-3.6
Consumer Goods	-0.8	-4.1

(0.1% contribution), transportation was up 2.4% for the first gain in four months (0.1% contribution) and "other" was up 1.0% (0.0% contribution).

- **Import volumes were up in five of eleven categories and down in six. Four main sectors played dominant roles in driving import volumes lower and they suggest softness in domestic consumption.** In weighted terms (see second table), a 24% m/m non-annualized drop in transportation equipment ex-auto imports knocked 0.7% off import volume growth in April. While imports of aircraft plunged by 83% after a 50.7% drop the prior month following record imports in February, this was overwhelmed by the much more dominant influence of the auto sector. A 3.6% m/m drop in imports of autos and parts knocked 0.8% off of total import volumes and this reversed a 5.1% rise the prior month following a 1.5% decline in February. A 4.1% drop in imports of consumer products knocked 0.8% off total import volumes. A 4.2% slide in imports of electronics knocked 0.5 points off import volumes. Gains in import volumes were primarily driven by energy imports (+16%) with a weighted contribution of 1.3 points to total import volumes.
- As an indicator of business investment in equipment given the large reliance upon imported capital goods, machinery and equipment import volumes were up by 0.9% m/m after a gain of 1% the prior month but the cumulative effects only reverse a 2.8% slide in February. Machinery and equipment import volumes have been flat overall this year so far.