

## 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%

### CONTACTS

Derek Holt, VP & Head of Capital Markets Economics  
 416.863.7707  
 Scotiabank Economics  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

### 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.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

**This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.**

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.