

Trade Grinds Canada's Economy To A Halt

- Exports fell again...
- ...partly due to the rail strike...
- ...but underlying momentum remains very weak
- StatsCan's art show problems distorted the numbers again
- The Canadian economy has fully stalled out on widespread weakness...
- ...adding to pressure for the BoC to cut

Merchandise trade balance, November, SA C\$ billions:

Actual: -1.09

Scotia: -1.0

Consensus: -1.2

Prior: -1.61 (revised from -1.08)

Don't worry, it's just one report, and it's distorted. I'm sure that will be the line coming from some quarters, but that assessment falsely masks a very weak trend in Canadian exports that should raise greater concern.

What this report does is to take our 'nowcast' for Q4 GDP growth down to nothing with possible downside risk and hence well below the BoC's 1.3% forecast in the October MPR. Slack is widening at the same time that transitory idiosyncratic factors popped inflation toward target last year but are likely to reverse going forward. Overall, the incremental impact of the trade figures including revisions upon growth and slack reinforces our BoC cut forecast.

Export volumes were down by 2.7% m/m and import volumes were down by 1.3%. Trends are shown in charts 1 and 2. The rail strike from November 19th until the deal on the 26th and the resumption of full operations on the 27th may have caused a considerable part of the widespread weakness in November. It's next to impossible to weed out how much of the weakness was due to baseline softness versus the disruption the rail strike posed to movements of various goods.

Against the temptation to dismiss trade as just a rail report, however, are the following points:

- Export volumes have now fallen for four straight months and five in the past six. There is underlying weakness in the baseline trade momentum into November that obviously cannot just be pinned that on the CN strike.
- Import volumes have also fallen in two of the past three months.
- Even before the rail strike in November, Q4 was tracking a now revised 8.3% q/q SAAR decline in export volumes based on Q3 and what happened in October. It's next to impossible to weed out the rail strike effect on the November numbers, but underlying momentum can't be glossed over here. Trade is very weak.
- On a seasonally adjusted and annualized basis, export volumes are tracking down -15% q/q in Q4 and import volumes are tracking a 1.8% decline.
- For the whole year to date, export volumes are up by only 1.3% over the same period in 2018.
- If rail was the full culprit here, then how come exports of agricultural and fishing products were up 9.6% m/m? They ship by rail. So do consumer goods that were up 2.2% m/m and maybe even some of the 1.5% m/m rise in "aircraft and other transportation equipment and parts."

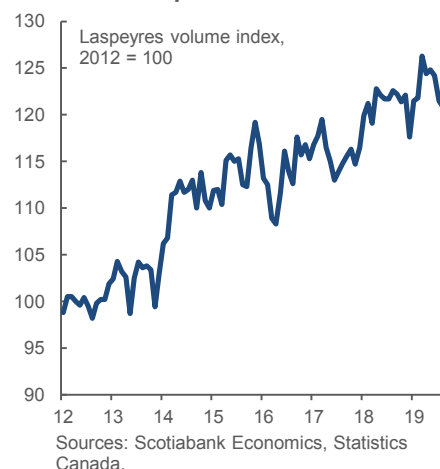
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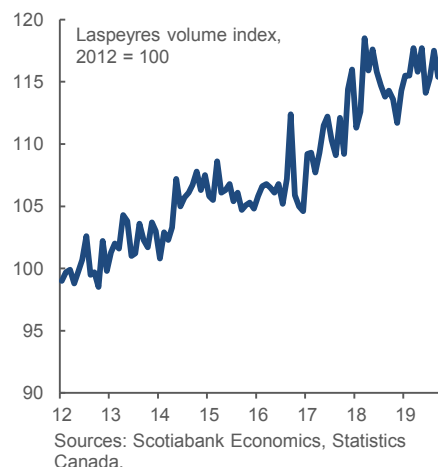
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Export Volumes



Import Volumes



- Energy exports fell by 7.4% m/m in dollar terms and 10.6% m/m in volume terms and not just because of the rail strike. Canada ships about 370,000 barrels of oil per day by rail and produces about 4.35 million bpd. Disrupting 8.6% of oil transportation by volume because of the rail strike for the portion of the month during which the strike occurred didn't help. Add to that the fact that the prior month's pipeline rupture likely further impaired oil exports but this effect should also be transitory.
- Services exports should be unaffected by rail and yet they were little changed (+0.1% m/m).
- Further, it's unclear to what extent CP and truck transportation filled the CN rail void.

Overall, I'm skeptical toward a tendency to dismiss the export weakness as largely if not entirely a function of the rail strike and pipeline issues.

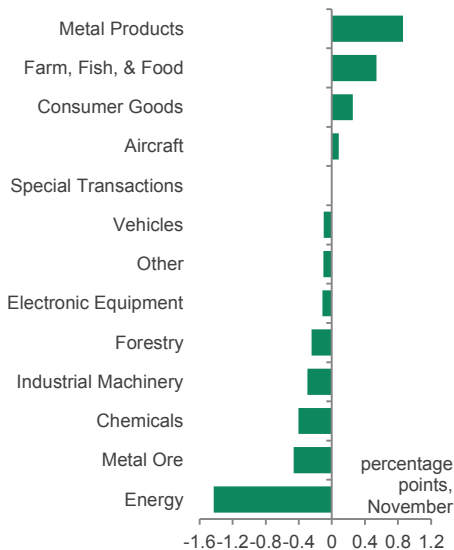
There were also negative revisions with the New York art show once again fouling everything up. Here's StatsCan's explanation of the change in methodological treatment and I'll come back to what it means to the numbers.

"In the previous release, significant exports of fine art pieces being shipped on consignment were included in the international merchandise trade statistics for October. With additional imports and exports of this type occurring in November, Statistics Canada has determined that going forward only the portion of these shipments that are ultimately sold will be included in balance of payments basis statistics. In the current release, export statistics for October have been revised accordingly, and November imports and exports reflect only the pieces that were sold."

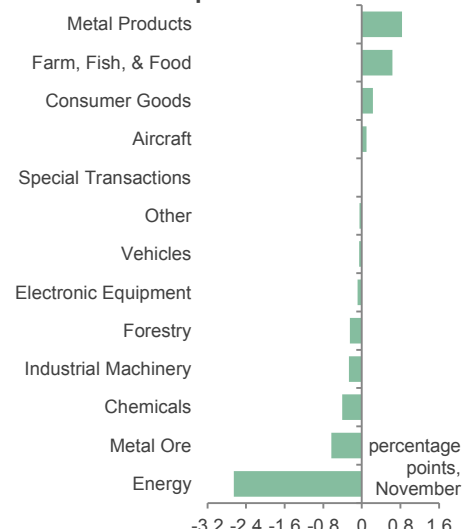
The **change in methodological treatment of artwork exports** took previously reported exports of consumer goods in October from +5.5% m/m down to a decline of -1.8% for that month. **That's a 7.3 percentage point swing in a category that carries about a 12% weight for a -0.9% weighted impact on October's exports compared to the initial estimate.** The revision is because StatsCan says they changed to only register art exports when they are sold rather than when they ship off to an exhibition. Apparently those haughty NYC artsy types didn't buy much of the artwork that was first estimated to have gone across the border!

There was another distortion in the figures worth noting and it speaks to the surge in exports of gold bars to the UK and HK that popped exports of unfinished metal products 29.5% higher on the month and for the second gain in a row.

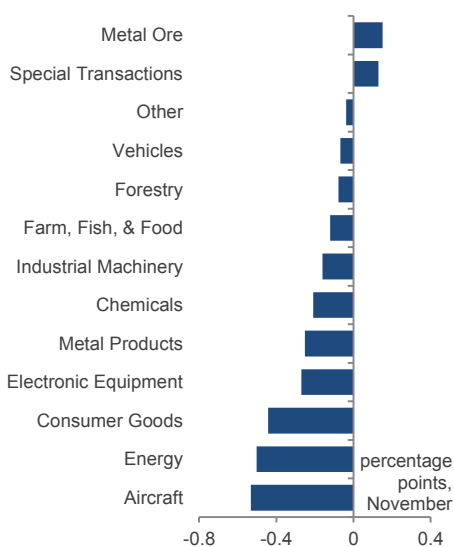
Please see the four accompanying charts that show weighted contributions to growth in the dollar value and volume of exports and imports during November over October. They give an idea of the main contributors to the overall changes.

Weighted Contributions to Exports


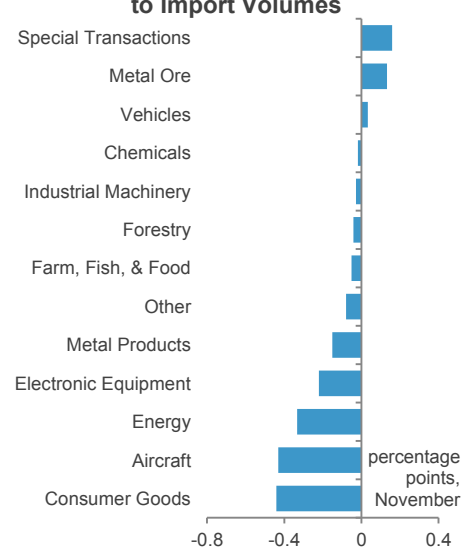
Sources: Scotiabank Economics, Statistics Canada.

Weighted Contributions to Export Volumes


Sources: Scotiabank Economics, Statistics Canada.

Weighted Contributions to Imports


Sources: Scotiabank Economics, Statistics Canada.

Weighted Contributions to Import Volumes


Sources: Scotiabank Economics, Statistics Canada.

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