

Cdn. Merchandise Trade Balance — June

Exports Surge on Broad Gains

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Canada's merchandise trade deficit narrowed sharply to \$626 mln in June, from a slightly revised \$2.72 bln in the prior month. **Exports jumped** 4.1% (the best since November 2016), with most sectors recording gains in the month. Raw metals/minerals (+22.9%), aerospace (+18.9%), energy (+7.1%) and industrial machinery (+6.1%) saw the largest increases. **Imports dipped** 0.2%, with huge declines in energy (-15.1%) and aerospace (-17.1%) weighing heavily. However, most other sectors saw higher imports.

Trade volumes were equally impressive, with exports climbing 2.2%, while imports dropped 1.2%. **Non-energy export volumes also rose 2.2%**, so the strength was beyond energy. **For all of Q2**, real exports surged 16% a.r., the best quarter since 2014Q2. Real imports were up a lesser 6.6% a.r., suggesting that **net exports will add strongly to GDP growth** (1.5 to 2 percentage points).

Note that the aluminum and steel tariffs came into effect in June. Metal product exports fell 1.1% m/m, hardly a huge move. Steel exports fell 14.3% y/y, while aluminum rose 10.2% y/y. Consistent with supply dynamics, the impact looks to be larger on steel than aluminum, but in the broader scheme of things, the impact thus far appears to be minimal.

Key Takeaway: There's no debating this is a solid report with the trade deficit narrowing sharply and net exports expected to add bigly to Q2 GDP. On the back of May's solid 0.5% GDP print and today trade report, we're going to push our forecast for Q2 GDP growth up to 3.3%. The nearly month-long burst of strength in the Canadian data brings some additional intrigue to the outlook for Bank of Canada policy, but there's still a long way until the next meeting in September. Given the BoC's gradual narrative, a September hike remains doubtful. We continue to call for the next BoC rate hike to come in October.



Merchandise Trade Balance					
Canada (C\$ billions)				(year-to-date)	
	Jun	May	Apr	2018	2017
Total Trade Balance	-0.6	-2.7	-1.6	-13.5	-7.7
United States	4.1	3.3	3.9	19.0	22.2
China	-1.5	-1.7	-1.3	-9.8	-8.3
European Union	-1.4	-2.1	-1.5	-8.6	-5.8
Automotive	-2.0	-2.3	-2.1	-13.3	-6.8
Energy	7.0	5.8	6.2	36.5	32.4
(% change)	Jun	May	Apr	(y/y)	(ytd/ytd)
Exports	4.1	-0.3	1.9	9.2	2.7
United States	2.5	-0.5	3.6	7.7	2.0
Automotive	3.7	-3.7	1.2	-9.8	-9.5
Energy	7.1	-1.8	3.4	34.6	13.0
Volumes	2.2	-1.6	1.7	3.0	0.4
Imports	-0.2	2.0	-3.0	4.2	4.7
United States	0.3	1.3	-2.1	3.0	4.0
Automotive	0.0	-1.3	-6.2	1.2	3.2
Volumes	-1.2	1.3	-2.5	3.5	5.3

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