

Cdn. Merchandise Trade Balance — August

Trade Lifts Q3 Growth

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Canada's merchandise trade balance swung to a \$526 mln surplus in August from a \$189 mln deficit in the prior month (minimal revision). That was meaningfully better than expected, with consensus looking for a like-sized deficit in the month. The improvement, however, comes as imports slumped 2.5%, while exports fell a more modest 1.1%. Still, that's the first positive trade balance since December 2016.

The decline in imports was relatively broad, though a big spill in aircraft imports accounted for roughly a third of the total decline. Meantime, auto exports fell as expected, but the decline was tempered by a modest gain in energy shipments. On a year-over-year basis, exports (+15.5%) are running at about twice the pace of imports (+7.3%).

In real terms, the trade balance improved for a third straight month, leaving Q3 on track for a meaningful improvement. The 'but' here is that the improvement is now being driven entirely by lower import volumes, which fell another 2.1% in August. Export volumes were down a more modest 1.1%, with non-energy exports fading for a second straight month. All told, it looks like **net exports will add more meaningfully to Q3 growth**—easily more than a full percentage point. That will leave overall growth tracking at 2.0% versus our current 1.8% call.

The Bottom Line: This was solid trade report on the surface, but softer in the details. That is, the balance improved, but not for the reasons you'd typically want to see.



Merchandise Trade Balance					
Canada (C\$ billions)				(year-to-date)	
	Aug	Jul	Jun	2018	2017
Total Trade Balance	0.5	-0.2	-0.8	-13.2	-13.2
United States	5.3	5.3	4.0	29.7	28.3
China	-1.4	-1.5	-1.5	-12.5	-11.3
European Union	-0.9	-1.2	-1.4	-10.7	-7.8
Automotive	-1.6	-1.5	-1.9	-16.2	-10.3
Energy	7.0	7.0	6.8	50.4	42.2
(% change)	Aug	Jul	Jun	(y/y)	(ytd/ytd)
Exports	-1.1	0.7	4.2	15.5	5.8
United States	-1.2	3.0	2.5	15.3	5.2
Automotive	-6.2	4.0	3.8	-0.5	-6.7
Energy	0.7	4.3	6.6	43.2	19.9
Volumes	-1.1	-0.4	2.2	5.1	1.5
Imports	-2.5	-0.5	0.3	7.3	5.6
United States	-1.3	-0.7	0.7	7.8	5.2
Automotive	-3.8	-1.2	-0.1	-3.1	2.1
Volumes	-2.2	-1.6	-0.8	2.1	4.8

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