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TD Economics

Data Release: Canadian trade balance holds steady in May

- Canada's trade deficit held fairly steady at $3.3 billion in May, as exports (-0.7%) and imports (-0.8%) fell by a similar amount. In real terms, exports were down by 2.3%, while imports fell by a more modest 0.9%.

- The drop in exports was broad based, led by metal and non-metallic mineral products (-5.4%), industrial machinery, equipment and parts (-4.9%) and farm, fishing and intermediate food products (-4.2%). This was offset by an increase in energy products (+7.1%) which was due entirely to higher prices, as volumes of energy exports were down 2.3%. Export volumes of crude oil and bitumen managed to eke out a gain (+0.6%) despite the wildfires in Alberta, as inventories in the province were drawn down and refinery activity declined, making more crude available for export.

- Imports were driven lower by declines in aircraft and other transportation equipment and parts (-23.5%), and metal ores and non-metallic minerals (-24.2%). Providing some offset was an increase in energy products (+18.2%) which was the result of both volume and price increases. Imports of refined energy products were up 63.8% in May.

- Canada's trade surplus with the U.S. jumped to $2.8 billion ($1.3 billion previously), as exports rose 3.6% and imports fell 1.1%. Canada's trade deficit with the rest of the world widened to a record $6 billion in May ($4.6 billion previously).

Key Implications

- With the Alberta wildfires taking significant capacity offline in May, crude exports held up relatively well. However, the outages extended into June and are likely to weigh on exports during that month.

- For the second quarter as a whole, exports are likely to be much weaker than in the first. As such, after accounting for nearly three quarters of overall economic growth in the first quarter, net trade will likely act as a drag on growth in the second quarter, which is now tracking close to -1.0% annualized.

- Looking ahead, however, the outlook is brighter. Exports are poised to pick up in the second half of this year, as disruptions from the wildfires abate and underlying fundamentals – namely solid U.S. demand and a loonie hovering in the mid-to-high 70 US cent range – remain supportive. As such, exports are expected to become a key source of strength in the Canadian economy once again.

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