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TD Economics

Data Release: Canada's trade deficit narrows in August

- Canada's trade deficit narrowed to $1.9 billion in August (previously $2.2 billion), as exports rose 0.6% while imports were unchanged. The flat performance of imports was largely a price story, as volumes were up 0.8%. Export volumes were up 0.4% in August.
- Higher exports were driven by gains in consumer goods (+7%), metal and non-metallic mineral products (+6%) and energy products (4%). Energy exports have now risen for six straight months. Motor vehicles and parts (-6%) and aerospace and other transportation equipment (-16%) provided some offset.
- Energy imports were down 17% in August – due largely to lower volumes – ending a five month streak of gains. On the flipside, imports of metal and non-metallic mineral products (+9%), consumer goods (+1%) and motor vehicles and parts (+1%) were up during the month.
- Canada's trade surplus with the United States narrowed to $2.5 billion in August (previously ($3.0 billion) as exports (-1.6%) fell more than imports (-0.1%). Meanwhile, its trade deficit with the rest of the world narrowed to $4.4 billion (previously $5.2 billion), as exports were up by nearly 8% - the largest monthly increase in over two years – while imports rose by a slight 0.3%.

Key Implications

- After essentially stalling in the first half of this year, exports appear to be moving in the right direction - albeit slowly, as they have yet to recoup the ground lost since January. Still, the performance in July and August is better than that recorded in the second quarter. This, combined with softer import growth over the two month period, suggests that net trade will contribute positively to overall economic growth in the third quarter, which is tracking around 3%.
- Many forecasters - including the Bank of Canada - are watching the trade numbers closely, waiting for signs of a revival in the rotation toward export-led growth. We expect further progress to be made on this front in the coming months, as the recent uptick in U.S. economic activity should lead to increased demand for Canadian-made goods. This will allow the Bank of Canada to leave interest rates as is for the foreseeable future.

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