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TD Economics

Data Release: July trade data take a step in the right direction

- Canada's trade deficit narrowed in July to \$2.5 billion (from a record \$4.0 billion in June). Exports rebounded 3.4%, while imports edged down 0.1%. Moves were more pronounced in volume terms, as exports rose 3.7% and imports fell 1.2%.
- Export growth was led by non-energy products, which jumped 4.1% in July. Exports of motor vehicle and parts were quite strong (+6.2%; volumes +5.3%) after five consecutive months of decline, due to shorter seasonal shutdowns at some plants. Metal and non-metallic mineral products were also up strongly (+9.7%) as were aircraft and other transportation equipment (9.6%) and industrial machinery and equipment (+6.0%; volumes +5.4%).
- Lower oil prices in July hit energy exports, which dropped 9.6%. Export volumes still rose 3.2% on the month, on stronger natural gas and refined product exports. However, crude oil and bitumen export volumes were down for the fourth consecutive month.
- Imports fell despite increases in 6 out of 11 sectors. Imports of consumer goods fell 2.0% (-2.2% volumes) as did motor vehicles and parts (-1.7%, volumes -3.2%) and electronic and electrical equipment and parts (-2.6%; volumes -2.0%).

Key Implications

- The jump up in July export volumes is encouraging, but it does not undo the damage from what has been a five month string of disappointments for exports. Export volumes remain 3% below year ago levels. July's trade data contributes to the developing snapshot of Canada's economy in the third quarter, where we expect exports to make a decent positive contribution to growth.
- The outlook – both our own and the Bank of Canada's – has long hinged on non-energy export growth to help offset a more modest domestic demand backdrop in Canada. So far in 2016, this narrative has been on hold. The July trade data marks a baby step in the right direction. We expect further strides to be taken in the months ahead alongside continued growth south of the border, which should translate into increased demand for Canadian goods.

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