

# Canadian Exports: Trading Down

Canada's merchandise trade deficit widened in June to \$1.13 billion from a revised \$695 million gap in May (initially \$503 mln). The big story here was a deeper-than-expected drop in both exports and imports. The decline in exports was driven by a slide in industrial materials (which can often reflect commodity prices), energy and autos, with both prices and volumes falling. For all of Q2, the trade deficit came in at a \$6.4 billion annual rate, compared with a surplus of \$4.7 bln in Q1. That swing will translate into an even deeper drag from net exports in the broader GDP results—we had already assumed a big drag, but it now looks like trade could carve more than 4 percentage points from Q2 growth. **As a result, we have trimmed our GDP estimate for Q2 to 2.3% from 2.7%** (the BoC's latest estimate is 3.0% in July's Monetary Policy Report, which was a downward revision from April's 3.8% call). In turn, this will shave the growth rate for all of 2010 to 3.2% (from 3.3% previously).

Notably, exports to the European Union fell more than 20% in the month. While sales to Europe are extremely volatile (20% monthly moves are actually quite common), they were up a modest 2.3% from a year ago in the first half of 2010, versus a gain of nearly 10% to the rest of the world.

	(year-to-date)				
(C\$ billions)	Jun	May	Apr	2010	2009
<b>Total Trade Balance</b>	-1.1	-0.7	0.2	-0.4	-1.6
<b>United States</b>	3.0	3.4	3.6	22.3	17.2
<b>Japan</b>	-0.1	-0.1	-0.1	-0.4	-0.1
<b>European Union</b>	-0.7	-0.4	-0.4	-3.0	-3.3
<b>Automotive</b>	-0.7	-0.5	-1.2	-6.7	-4.9
<b>Energy</b>	4.4	4.1	4.4	27.8	21.5
(% change)	Jun	May	Apr	(y/y)	(ytd/ytd)
<b>Exports</b>	-2.5	4.1	-0.6	14.1	9.1
<b>United States</b>	-1.0	4.4	1.1	18.0	11.6
<b>Automotive</b>	-4.6	21.9	0.5	77.7	49.2
<b>Energy</b>	-5.5	2.0	-2.7	12.1	27.2
<b>Volumes</b>	-2.1	2.1	-1.2	9.4	7.4
<b>Imports</b>	-1.2	6.9	-2.5	17.6	8.4
<b>United States</b>	0.8	5.8	1.7	20.2	9.0
<b>Automotive</b>	-0.8	5.5	1.1	49.2	46.3
<b>Volumes</b>	-0.6	4.7	-1.0	20.1	15.9

**The Bottom Line:** The drop in exports and imports in June adds to a recent list of softer-than-expected data in Canada, but is hardly a crushing blow to the outlook as a stand-alone result. Note that the drop follows very large gains in the prior month and still leaves trade flows with double-digit growth from a year ago. Even so, combined with a chillier U.S. economic backdrop, the trade results are enough to prompt a small downward revision in our GDP growth estimates. Douglas Porter, 416-359-4887