

Canada's trade deficit shrinks as non-energy exports post gain

By David Ljunggren

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Canada's trade deficit in August shrank to its lowest level in eight months on stronger non-energy exports, offering further evidence the economy rebounded strongly in the third quarter.

Statistics Canada on Wednesday said the deficit, the 24th in a row, was \$1.94-billion, down from a revised \$2.19-billion shortfall in July and less than the \$2.60-billion forecast by analysts in a Reuters poll.

Exports rose by 0.6 per cent on the back of a healthy performance by the consumer goods and metallic products sections. Overall volumes rose by 0.4 per cent while prices edged up 0.2 per cent.

"I guess we can breathe a sigh of relief because export volumes did rise for a second straight month," said Sal Guatieri, senior economist at BMO Capital Markets.

Analysts have long predicted exports would rise as the Canadian dollar remains weak and the U.S. recovery continues.

The data should please the Bank of Canada, which says non-energy exports are crucial to helping revive an economy hobbled by low oil prices.

"It's a very good performance. It looks like we're getting the turnaround we were forecasting," said Peter Hall, chief economist at Export Development Canada.

The central bank, which had predicted a third-quarter recovery following a devastating May wildfire in Alberta, is due to make its next interest rate announcement on Oct. 19 and Guatieri said the August trade figures reduced the chance of a cut.

"I think the Bank of Canada will just sit back anticipating further increases in exports going forward," he said.

The Canadian dollar strengthened on the data, rising to \$1.3188 to the U.S. dollar, or 75.83 U.S. cents, up from \$1.3208, or 75.71 U.S. cents before the release.

Overall imports were unchanged as energy product imports fell for the first time in six months.

In a sign of the continuing damage caused by low oil prices, the cumulative trade deficit for the year to August hit a record C\$21.87-billion.

Exports to the United States, which took 74.7 per cent of all Canadian exports in August, fell by 1.6 per cent while imports slipped by 0.1 per cent. As a result, Canada's trade surplus with the United States dropped to \$2.50-billion from \$3.00-billion in July.

One reason for the lower exports was a drop in shipments of autos to the United States, which coincided with some atypical shutdowns at Canadian manufacturing plants.