

Canada's trade deficit narrows to \$955-million as exports break two-month slump

By David Ljunggren

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Canada's trade deficit shrank by almost a third in August to \$955-million as exports broke a two-month slump, rising by 1.8 per cent on increased shipments of energy and aircraft, Statistics Canada said on Friday.

Market operators in a Reuters poll had predicted a shortfall of \$1-billion. Statscan revised July's deficit up to \$1.38-billion from an initial \$1.12-billion.

Over all, eight of 11 export categories posted gains.

The data "should change little for the Bank of Canada," which is due to announce its latest interest rate decision on Oct 30, said Benjamin Reitzes, a Canadian rates and macro strategist at BMO Capital Markets.

The central bank – which says trade tensions between the United States and China are a major risk to Canada's growth outlook – has remained on the sidelines since last October.

Market expectations of a cut on Oct. 30, as reflected in the overnight index swaps markets, are just 20 per cent.

Higher prices helped boost exports of energy products, which increased by 3.9 per cent after two months of strong declines. Crude oil export volumes, though, fell after months of high levels.

Exports of aircraft – a notably volatile sector – expanded by 38.7 per cent in August, mainly

on higher sales of business jets to the United States.

Ross Prusakowski, principal economist at Export Development Canada, said the data were "a nice respite after a couple of months of declines ... at least Canadian exports are holding their own in an uncertain trade environment."

But RBC Economics Research economist Rannella Billy-Ochieng, citing the drop in oil volumes and the unpredictable nature of aircraft exports, said the report was disappointing.

"We are mindful that global growth deceleration, alongside unresolved U.S.-China trade tensions, have left risks to the Canadian external sector – and the export-intensive manufacturing sector – tilted on the downside," she said in a note to clients.

The Canadian dollar was trading slightly higher on Friday morning at \$1.3306 to the U.S. greenback, or 75.15 US cents, up from the near one-month low it observed on Thursday.

Imports grew by 1 per cent as imports of metal and non-metallic products jumped by 9.4 per cent, reflecting an increase in gold asset acquisitions by Canadian firms.

Canada sent 75.5 per cent of all its goods exports to the United States in August. Exports to the United States rose by 3.1 per cent while imports edged up by 1.8 per cent.