

Canadian exports surged ahead of new U.S. tariffs in August

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The Bottom Line:

Canada's trade balance rose sharply to a \$4.2 billion surplus in August, boosted by higher energy prices and a surge in exports ahead of new U.S. tariffs imposed late in the month. The monthly trade data is notoriously volatile, but looking ahead to September, energy prices continued to move higher with crude oil prices up another 16%. And global shortages of refined products are also driving Canadian energy exports higher—refined product exports (like diesel) were up 13% excluding price impacts in August. But some U.S. buyers clearly rushed to import ahead of new tariffs imposed on August 22nd on another ~5% of U.S. imports from Canada—and that boost will reverse in September. By our count, Canadian exports to the U.S. of products targeted with the new 50% tariffs were up 40% year-over-year in August. From separately-reported U.S. data, the U.S. average effective tariff rate from Canada edged up just slightly to 3.2% from 2.8% in July, suggesting the bulk of those imports were ahead of the new tariffs imposed late in the month. Still, exports to the U.S. excluding tariffed products, and energy products rose ~16% by our count year-over-year. Shipments to non-U.S. destinations rose 40% year-over-year compared to a 24% increase in sales to the United States.

And domestic demand continues to show signs of life—import volumes (excluding price impacts) fell by 1.7% but imports of machinery and equipment (a key indicator of business investment) and consumer goods (an indicator of consumer demand) both rose. We continue to expect the new tariffs imposed by the U.S. administration will have a significant impact on directly targeted sectors but with more than 80% of Canadian exports to the U.S. still maintaining duty free access under CUSMA we expect limited spillover to the broader economy.

We remain cautiously optimistic that the economy will continue to gradually improve on a per-person and per-worker basis.

The details:

Canada's merchandise trade surplus widened to \$4.2 billion in August—the largest surplus since May 2022.

Energy exports rose 4.7%—part tied to an increase in prices but also higher export volumes, including of refined petroleum products like diesel due to global shortages.

Non-energy exports also increased—led by a surge in exports of products targeted by new U.S. tariffs beginning August 22.

By our count, export to the U.S. of products targeted with new U.S. tariffs were up 40% year-over-year compared to a 16% increase in ex-energy exports of other products shipped to the U.S. Exports of alcoholic beverages (featured prominently on the U.S. tariff list) jumped 27.6% in August from July.

Metal and non-metallic mineral products and aircraft exports posted the largest offsetting declines in

export volumes.

Overall imports fell 1.7%, but largely reflecting sharp declines in (the exceptionally volatile) metal ore and non-metallic mineral product shipments that followed large gains in July.

Indicators of domestic demand remained relatively resilient. Imports volumes (excluding price changes) of industrial and electronic equipment jumped 7.5% and 2.8%, respectively, from July. And imports of consumer goods rose 1.8%

From separately reported U.S. trade data this morning, the average effective U.S. tariff rate on imports from Canada was 3.2%, little changed from 2.8% in July. That measure will likely increase in September with new tariffs on another 5% of U.S. imports from Canada in effect, although the reality is the 50% tariff rate imposed in September (expanded to outright bans for some products at the end of that month) mean that a large share of those products will simply not be traded in September.

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