

# Canadian trade surplus narrows in July on lower gold and energy shipments, higher motor vehicle imports

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## The Bottom Line:

The Bottom Line: Canada's merchandise trade surplus narrowed significantly to \$769 million in July from \$4.2 billion in June (revised upward from \$3.9B), as exports fell 2.3% while imports rose 2.2%.

The drop in exports was the first in six months and was led by lower exports of metal and non-metallic minerals (mostly unwrought gold) compounded by lower energy exports (-4.4%), with crude oil shipments (-5.6%) falling on lower prices and volumes.

Imports posted their largest increase since February 2026, largely reflecting record-high motor vehicle and parts imports (+11.4%), boosted partly by fewer maintenance-related work stoppages in July than typical.

The monthly trade data is highly volatile and revision prone, but the pullback in the trade surplus in July reinforces that at least part of a large add to GDP growth in Q2 from net trade will be reversed in Q3.

And section 338 tariffs implemented in August will further erode U.S. demand for Canadian goods. Still, those measures, while significantly damaging for targeted sectors and industries, impact a small share of the total economy (0.4% of GDP and jobs), and roughly 5% of Canadian exports to the U.S. And more than 80% of Canadian exports to the U.S. duty free are expected to remain duty free. Similarly, Canadian retaliatory tariffs are also expected to impact a small 3% of total imports, with scope to substitute to alternative products to avoid paying higher costs.

Data to-date is broadly consistent with our expectation that the Canadian economy will not repeat the strong pace of growth in Q2, but we expect further gradual improvement despite a still highly uncertain international trade backdrop. Still, the balance of risks to near-term growth rates are tilted to the downside with the potential of further escalation in Canada-U.S. trade relations.

## The details:

The Canadian merchandise trade narrowed in July, though it marked the fifth consecutive surplus, falling to \$769 million from an upwardly revised \$4.2 billion (previously \$3.9 billion) level in June.

The significant narrowing in the July trade surplus was led by lower exports (-2.3%), mainly of precious metals (gold), and energy. Higher motor vehicle and parts imports largely drove the increase in imports (+2.2%).

Excluding price impacts, export volumes fell 2.2% while import volumes rose 2.7% in July. The rise in import volumes marked the first increase since February 2026.

Canada's trade surplus with the United States totaled \$5.9 billion in July, compared with \$10.3 billion in

June. Exports to the U.S. fell sharply by 6.6% while imports rose 1.8%.

Trade with countries outside the United States reached a record high \$25.6B, with exports rising for a third consecutive month, up 7.4% from June (up nearly 50% year-over-year) and imports rising 2.8%.

Separately reported U.S. data showed the average effective tariff rate on Canadian goods was little changed from June at approximately 2.8% in July. The share of exports crossing the border duty free remained at close to 86%, largely due to exemptions for duty free trade under CUSMA.

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