RESEARCH CAPITAL CORPORATION

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# International Trade and Canada's Response

The country is now seeing the first indications of the impacts of the Trump Trade War and the beginnings of a response to the softer Canadian Economy by businesses, the Bank of Canada, and Governments in Canada. Of note, Prime Minister Carney is negotiating changes in trade policy directly with President Trump, and G7 Summit will be held on June 15-17. The situation will likely evolve rapidly over the summer as negotiations continue and investors must be prepared for the possible outcomes, both positive and negative.

Statistics Canada just released the April Balance of Trade figures showing a decline in exports of 10.8%, resulting in a widening in the country's merchandise trade deficit to $7.1 billion, up from $2.3 billion in March. Specifically, exports to the United States fell by 15.7% and a 10.8% drop in imports. Particularly hard hit was the export of motor vehicles and parts which were down 17.4% as Canadian manufacturers reduced production. In addition, the exports of Consumer Goods, specifically bread, chocolate, frozen foods pharmaceuticals and meat products, declined by 15.7%. While the export of energy products, such as Crude Oil, declined by 7.9%, it was primarily due to lower crude oil prices. In contrast, exports to countries other than the US, such as China, the UK, Algeria and Brazil, rose by 2.9% and imports increased by 8.3%.

The Bank of Canada indicated that while it is prepared to lower Interest Rates if needed in response to the changing economic conditions, at present there continues to be concerns of a return of higher inflation. While holding its Policy Interest Rate at 2.75%, the BofC indicated that the Canadian economy was softer, but not sharply weaker. The BofC's hesitation to cut interest rates further (in May 2024 the rate was 5%) is due to recent firmness in Inflation data. It emphasized that the US-initiated trade conflict is the biggest headwind to the Canadian Economy, specifically, that the administration's continuous increase and decrease in tariffs has created uncertainty in business investment, employment, and household spending. The BofC emphasized the uncertainty of how much and how quickly cost increases will be passed on to consumer prices and, thus, the uncertainty in inflation expectations. Finally, the labour market weakened, specifically in trade-intensive sectors, and businesses have indicated that they plan to scale back hiring. The BofC indicated that it will focus on shorter-term risks, rather than being forward-looking.

The Federal Government has introduced its initial response with the introduction of the One Canadian Economy Act. Specific policies include the reduction in the time to approve major infrastructure projects from 5 years to 2 years and boosting trade within Canada by recognizing provincial standards for goods, services and labour mobility at the Federal level. Major projects are to include highways, railways, ports, airports, pipelines, critical minerals, mines, nuclear facilities, and electrical transmission projects. In addition, several provinces have entered into free trade agreements. While these are positive developments, they will take time before there impacts will be seen in the economy.

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