



CIBC
World Markets

Economic Flash!

July 11, 2008

Krishen Rangasamy (416) 956-3219

Canadian Trade: Energy Surplus Hits Record

	07:Q4*	08:Q1*	Mar	Apr	May
<i>\$Million</i>					
Trade Balance—Annual Rate	36,621	52,857	70,984	57,104	66,434
—Monthly Rate			5,915	4,759	5,536
<i>Per/Per % chg</i>					
Exports	-11.2	22.7	1.0	0.3	5.4
Imports	-11.3	7.2	-2.4	3.7	4.0

* annualized

- Canada's energy trade surplus hit a record in May taking the merchandise trade surplus higher and above consensus at \$5.5 bn, up from a downwardly revised \$4.8 bn.
- Nominal exports posted an impressive gain of 5.4% while nominal imports rose 4%. Imports were driven by higher demand for industrial goods & equipment and machinery, which bodes well for productivity enhancements and Canada's future growth prospects. After dipping in April, Canada's energy trade surplus moved higher in May with the help of falling energy imports and rising energy exports which crossed \$11 bn for the first time. Excluding electricity, the energy trade surplus rose by a full \$1 bn from the prior month to a staggering \$6.8 bn.
- As in prior months, the non-energy goods trade balance was in the red, in large part because of the autos trade deficit which worsened to almost \$1 bn on a 3.5% drop in exports. Canada's auto producers are feeling the brunt of high gasoline prices and a weak US economy as Americans are staying away from the dealer lots, particularly for those gas-guzzling trucks supplied by Canada. The autos trade deficit over the first five months of the year now amounts to over \$4 bn compared to a deficit of only \$0.1 bn for the same period last year.
- The nominal trade balance with the US fell for the second consecutive month amidst the recession stateside. Canadian export growth to the US at 2.4% was swamped by the 3.3% rise in imports of American goods in May. The goods trade surplus with the US now adds up to \$39.6 bn for the first five months of the year, down roughly \$650 mn from the same period last year.
- More relevant for Q2 GDP growth is the real trade balance, which continued to worsen. That does not necessarily imply a negative for Q2 GDP if the imports are for inventory restocking. After a large build-up

in inventories in Q4 resulted in a steep drop in Q1 imports, we saw imports picking up in April and May, with the latter seeing a sizable 3.8% increase in volumes. Real exports bounced back from April's disappointment, gaining 3.1% in May which is a positive for Q2 GDP growth.

Implications & Actions

Re: Economic Forecast — Commodities have so far allowed Canada to weather a weak US economy and have pushed the nominal merchandise trade surplus to a very healthy \$23.5 bn for the first five months of 2008. Overall this report is strong but not surprising given the strength in global commodity prices. But challenges remain for the non-resource export sectors which will feed the East-West growth divide further. The weakness in autos will continue to weigh on Ontario in particular.

Re: Markets — The Canadian dollar, which sank after the jobs report was released, recovered some ground on the better-than-expected trade numbers, while bonds discarded the trade numbers and continued their rally, focusing instead on the bearish jobs report.

Conflicts of Interest: CIBC World Markets' analysts and economists are compensated from revenues generated by various CIBC World Markets businesses, including CIBC World Markets' Investment Banking Department. CIBC World Markets may have a long or short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should not rely solely on this report in evaluating whether or not to buy or sell the securities of the subject company.

Legal Matters: This report is issued and approved for distribution by (i) in Canada by CIBC World Markets Inc., a member of the IDA and CIPF, (ii) in the UK, CIBC World Markets plc, which is regulated by the FSA, and (iii) in Australia, CIBC World Markets Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC World Markets"). This report is distributed in the United States by CIBC World Markets Inc. and has not been reviewed or approved by CIBC World Markets Corp., a member of the New York Stock Exchange ("NYSE"), NASD and SIPC. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Exchange Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through CIBC World Markets Corp. This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of clients of CIBC World Markets Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC World Markets Inc. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC World Markets Inc. suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgements as of the date of this report and are subject to change without notice.

Although each company issuing this report is a wholly owned subsidiary of Canadian Imperial Bank of Commerce ("CIBC"), each is solely responsible for its contractual obligations and commitments, and any securities products offered or recommended to or purchased or sold in any client accounts (i) will not be insured by the Federal Deposit Insurance Corporation ("FDIC"), the Canada Deposit Insurance Corporation or other similar deposit insurance, (ii) will not be deposits or other obligations of CIBC, (iii) will not be endorsed or guaranteed by CIBC, and (iv) will be subject to investment risks, including possible loss of the principal invested. The CIBC trademark is used under license.

(c) 2008 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.