3 Top Stocks to Buy as Canada's Trade Deficit Shrinks

Description

It's often instructive to pay attention to Canada's heaviest-lifting exports. A couple of trade sectors have been performing strongly of late. So strongly, in fact, that their activity has helped to shrink Canada's trade deficit. The effect is notable and could mean that Canadian investors should revisit these two sectors for long-term rewards. Those sectors are autos and oil.

According to Statistics Canada, exports rose 6.7%, narrowing the trade gap in May, while imports fell 3.9%. The auto sector helped to shrink the deficit, while strengthening oil prices also played their part. In fact, crude exports were up an incredible 26% during May. Energy exports as a whole were up by a solid 14.5%, partially recovering from their nearly 50% decline in the previous month.

Select auto stocks are a buy this month

Recovery is still a long way off, but the signs are looking good so far for the auto industry. Names such as **Magna International** (TSX:MG)(NYSE:MGA) and **AutoCanada** (TSX:ACQ) are key stocks to watch in this space as Canadian auto exports lead the recovery. However, it should be noted that auto export levels are nevertheless down by around 80% since this time last year.

Investors interested in these names have a 3.6% dividend yield from Magna and a 120% three-month share price leap from AutoCanada to mull over. Magna has seen its share price recovery by 45% in the last three months — around a third of AutoCanada's performance, but still extremely strong. Plus there's that passive income to think about. In summary, Magna is clearly the more broadly appealing name at a glance.

A retooling oil stock

If you're going to buy a Canadian oil stock — and be warned that this is a rapidly weakening thesis — make sure it's a big one. There's safety in numbers, and the bigger the market cap the better in this embattled sector. Go for one that not only pays a dividend but is also gearing up for a green energy revolution.

Enbridge (TSX:ENB)(NYSE:ENB) isn't alone in facing headwinds from weak oil prices and a green energy industry going mainstream. However, it is heavily exposed to oil and vulnerable to pipeline disruptions. Pipelines account for a little over half of Enbridge earnings. However, it's notable that gas transmission accounts for around 40%, while renewables also make up around 5% of Enbridge's earnings.

And that could expand, especially internationally. As CEO Al Monaco recently told the *Financial Post*: "Supply chains are now extremely well developed in (Europe) in terms of engineering, equipment and the sheer know-how of how to deal with offshore wind projects. We also know that from a public policy perspective, Europe is quite advanced and we see very good commercial models there."

While retooling for a green revolution would cost a fortune, that ratio of exposures could swing around in years to come. This means that Enbridge, while looking weak in the current market, could be among the best positioned to survive a sea change in energy production. In the meantime, a strengthening crude market should keep Enbridge in the green for some time to come.

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