

Trade drag on economy in Q1

March trade balance:

Latest: -\$0.14 B (actual), -\$1.00 B (expected)

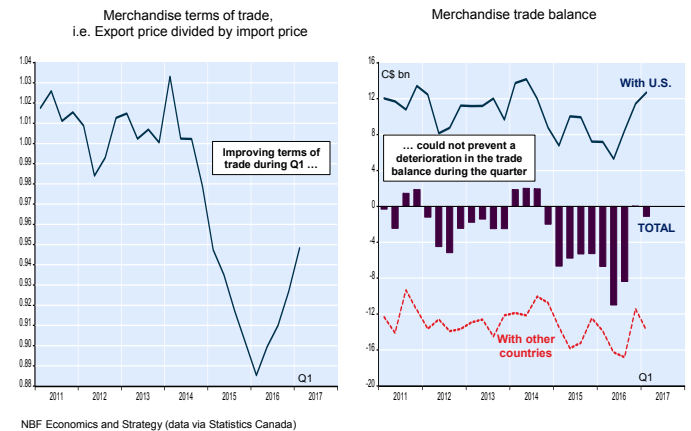
Previous: -\$1.08 B (revised from -\$0.97 B)

FACTS: Canada's merchandise trade deficit narrowed from C\$1.1 billion to just C\$0.1 billion in March. The improvement was due to exports (+3.8%) rising faster than imports (+1.7%). Most export categories saw increases during the month, including a 7% jump for energy which dwarfed declines for autos and parts and metal ores and non-metallic minerals. Imports of energy fell sharply (as the impact of lower prices more than offset higher volumes), offsetting higher imports of industrial machinery among others. The energy trade surplus jumped to C\$6.4 billion the highest since 2014. The non-energy trade deficit narrowed slightly to C\$6.5 billion. In real terms, Canada's exports rose 2.3%, while imports were up 0.2% in March. Looking at Q1 as a whole, the merchandise trade balance deteriorated to a C\$1.1 billion deficit as a larger trade surplus with the U.S. was dwarfed by a larger deficit with the rest of the world (top chart).

OPINION: Canada's March trade report was much better than expected. Particularly encouraging is the jump in exports and higher imports of machinery during the month. For Q1 as a whole, despite an improvement in the terms of trade, the merchandise trade balance deteriorated to a C\$1.1 billion deficit. As it turns out, more favourable prices were no match for weak export volumes (just +0.8% annualized during the quarter) and surging import volumes (+14% annualized), both of which suggest trade was a drag on Q1 GDP (middle chart). But not all is bleak. The import surge points to an improvement in business investment spending (bottom chart) and inventory rebuilding, both contributors to GDP. All in all, the trade report does not change our view Q1 GDP growth could be at least 3.5% annualized.

Krishen Rangasamy

Canada: Larger deficit in Q1 due to trade with countries other than U.S.



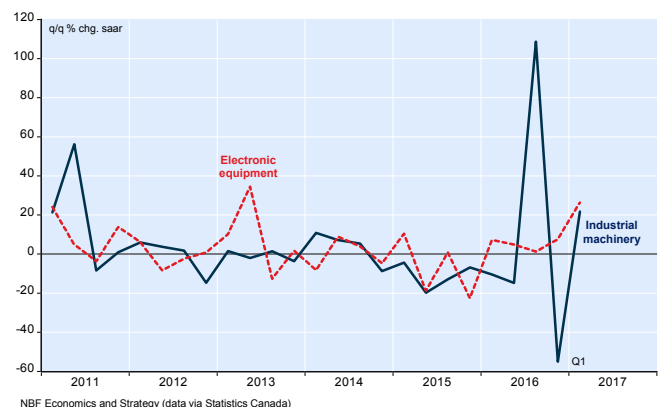
Canada: Trade, a drag on the economy last quarter ...

Real exports and imports of goods versus Goods trade contribution to GDP



... although higher business investment likely provided an offset in Q1

Real imports of industrial machinery and electronic equipment



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