

Deterioration of two-way trade

January trade balance:

Latest: -\$1.9 bn (actual), -\$2.5 bn (expected)

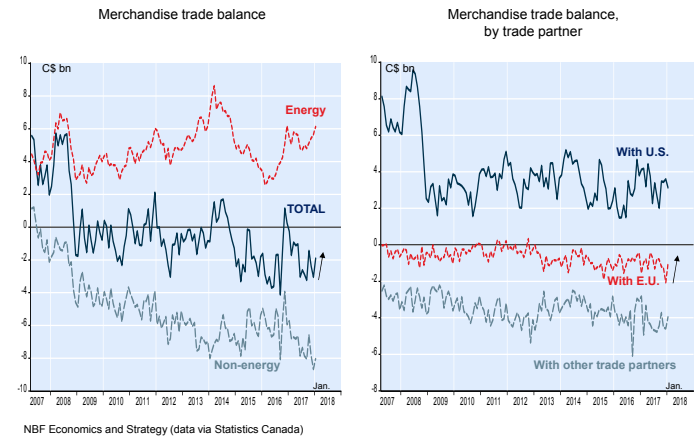
Previous: -\$3.1 bn (revised from -\$3.2 bn)

FACTS: Canada's merchandise trade deficit narrowed to C\$1.9 bn in January (top chart). The smaller deficit in January was due to slumping nominal imports (-4.3%) which fell faster than nominal exports (-2.1%). The energy trade surplus rose to C\$6.1 bn, the highest in a year due to a combination of higher nominal exports (higher prices more than offset declining volumes) and sinking import volumes. That was complemented by an improvement in the non-energy goods trade deficit to C\$8 bn. The goods trade surplus with the U.S. fell slightly to C\$3.1 bn, while the deficit with the European Union improved to C\$1.1 bn, the best in four months. In real terms, both exports and imports were down 4% in January, the worst monthly decline in four years for exporters.

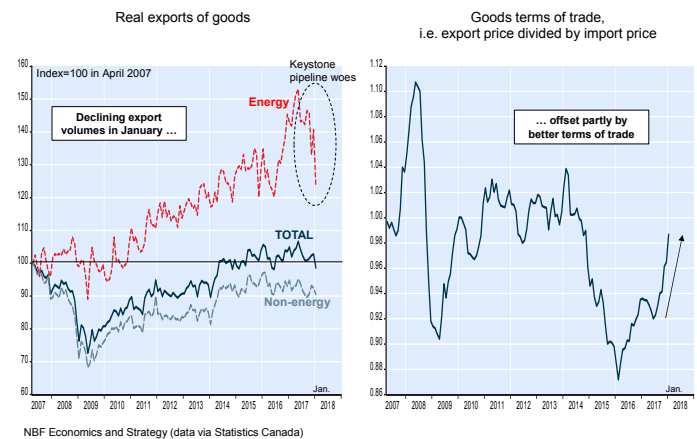
OPINION: While the Canadian goods trade deficit was smaller than expected by consensus, that's not to say January's trade report was good. The deterioration of two-way trade, i.e. sinking real exports and imports, is not a positive development because it points to softening demand both at home and abroad. Most broad industry categories saw declining exports, causing overall merchandise export volumes to fall at the fastest pace in four years (-4% month-on-month) and to the lowest level since 2016 (middle chart). That said, there were temporary factors at play in January including atypical plant shutdowns in the auto sector and ongoing woes for the Keystone pipeline which restrained exports of autos/parts and energy respectively. The goods trade deficit with the EU improved significantly in January, although more data is needed to confirm the positive impact of the Comprehensive Economic and Trade Agreement which was implemented towards the end of last year. Regardless, the poor start to the year for exporters suggest trade may be a drag on the economy for a fifth consecutive quarter in Q1. And this time there may be no offset from business investment spending (as was the case in Q4 last year) given the observed decline in imports of machinery and equipment in January (bottom chart).

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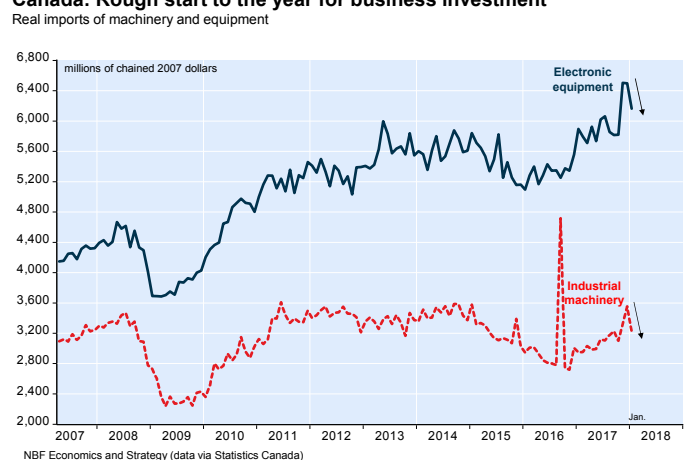
Canada: Goods trade deficit narrowed in January



Canada: Sinking export volumes offset by better terms of trade



Canada: Rough start to the year for business investment



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