

ECONOMIC NEWS

Canada: Trade Balance Came over from the Dark Side in March

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ International merchandise trade surplus widened in March, coming in at \$972 million from a downwardly revised deficit of \$487 million in February. This was higher than the \$200 million consensus of forecasters.
- ▶ The primary driver of the widening in the goods trade surplus was a 2.9% decline in total imports to \$62.6 billion. Imports of consumer goods (-11.0%) fell the most of any category in March, largely as a result of lower imports of pharmaceutical products (-31.8%). That said, clothing, footwear and accessories (-11.9%) and miscellaneous goods and supplies (-5.7%) also posted notable declines in the month. The drop in import volumes was even more pronounced, declining 4.3% in March, for the second consecutive contraction and sixth in seven months.
- ▶ Meanwhile, exports fell a more modest 0.7% to \$63.5 billion in March, largely on the back of a decline in exports of energy products (-5.9%). Other commodity centric categories, such as farm, fishing and intermediate food products (-5.3%) and the forestry products and building and packaging materials (-6.4%), also posted notable contractions. At the same time, exports of aircraft and other transportation equipment and parts advanced 30.8% in the month, due to an increase in business jets to the US. In contrast to the decline in the nominal value of exports, volumes rose 0.7% in March, partially offsetting the 1.4% drop in February.
- ▶ On a quarterly basis, goods export volumes advanced 14.9% annualized in Q1 2023, while import volumes fell 1.6%—the third consecutive quarterly contraction. As a result, international trade in goods will make a solid contribution to growth in the first quarter of the year, but the weakness in imports is ominous.
- ▶ Looking to services, Canada's trade deficit narrowed slightly in March—from \$2.98 billion to \$2.96 billion—as export growth outpaced the advance in imports. For the Q1 as a whole,

GRAPH

Canada's Trade Surplus Surprises on the Upside in March



Sources : Statistics Canada and Desjardins Economic Studies

nominal services imports posted a gain of 2.9%, in contrast to 0.4% move lower in exports.

IMPLICATIONS

While the headline trade balance came in stronger than expected, it moved higher for all the wrong reasons—imports falling faster than exports. However, it's trade volumes that really tell the tale in March, with volumes of imports dropping precipitously while export volumes advanced. The same is true for Q1 as a whole, providing a tailwind to our real GDP growth tracking, which is close to 3.0% annualized. This remains above the 2.3% forecast for Q1 published in the Bank of Canada's April 2023 Monetary Policy Report. But we don't think this means much for the path of interest rates, as the boon in Q1 net exports was largely expected in April. If anything, the ongoing weakness in import volumes, particularly in consumer goods and motor vehicles, suggests elevated interest rates may be weighing on household purchases heading into the middle of the year. This should provide more support for the Bank to maintain its pause on interest rates.