

Canada: Merchandise trade balance swings wildly amid policy uncertainty

By Jocelyn Paquet

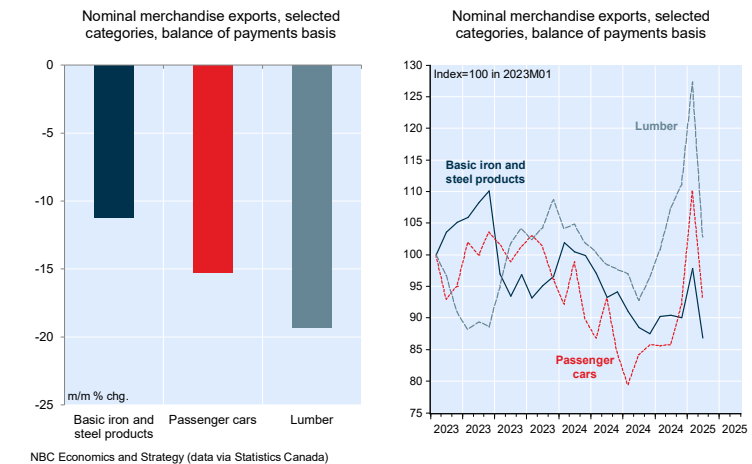
Highlights:

- Canada's merchandise trade balance unexpectedly swung back into deficit territory in February, moving from +C\$3.13 billion to -C\$1.52 billion. Economists expected a C\$3.50 billion surplus.
- Nominal exports contracted 5.5%, while nominal imports rose 0.8%.
- On the exports side, 10 of the 11 industries covered recorded declines, led by forestry products/building materials (-10.8%) metal ores/non-metallic minerals (-9.6%), motor vehicles/parts (-8.8%), metal/non-metallic mineral products (-6.6%) and energy products (-6.3%). Shipments of aircraft/transportation equipment, on the other hand, were up 9.7%.
- Turning to imports, where gains in the motor vehicles/parts (+5.8%), energy products (+5.2%) and metal/non-metallic mineral products (+3.5%) segments were only partially offset by a steep drop in the aircraft/transportation equipment category (-11.4%).
- Canada's energy surplus with the world narrowed from C\$13.5 billion to C\$12.2 billion, while the non-energy deficit rose from C\$10.3 billion to a 20-month high of C\$13.7 billion.
- The trade surplus with the United States shrank from an all-time high of C\$13.7 billion to C\$10.6 billion.
- The service trade deficit, for its part, widened from C\$0.6 billion to C\$0.7 billion, which means the total trade balance (goods + services) moved from +C\$2.6 billion to -C\$2.2 billion.
- In real terms, merchandise exports sank 5.0% in February, while imports were flat.

To say that February's international trade data were surprising would be an understatement, as the merchandise balance unexpectedly slipped back into negative territory. The outsized move reflected a sharp drop in exports, the latter in part due to lower commodity prices, which weighed on several energy subcategories such as coal (-26.9%), refined petroleum products (-15.3%), natural gas (-8.9%), and crude oil (-4.2%). But the decline in international shipments was more than just an energy story, with no fewer than 10 of the 11 export segments posting declines for the month, the most in 2 years. The impact of the trade war was also starting to show up in the data, with some of the products subject to tariffs posting significant declines for the month (see top chart). This was particularly the case for lumber (-19.3%), which dragged down shipments of forestry products, and for basic and intermediate iron and steel products (-11.2% to a 45-month low of C\$822 million), which was responsible for the poor performance of the metal/non-metallic mineral products segment. Exports of passenger cars were another casualty, falling 15.3% m/m. And with U.S. businesses likely to have brought forward much demand to get ahead of tariffs, further declines in shipments in these categories are to be expected going forward.

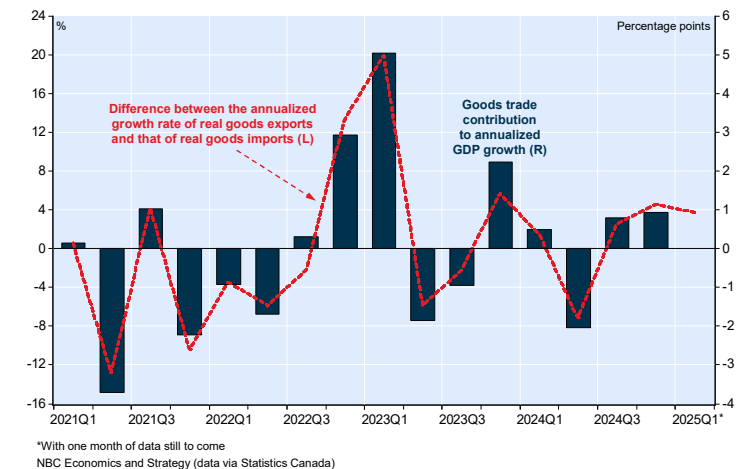
With one month of data still to come, trade in goods looks likely to contribute positively to GDP growth in the first quarter of the year, with real exports (+16.7% annualized) tracking a stronger increase than real imports (+13.0%, see bottom chart).

Canada: The effects of the trade war are starting to be felt



Canada: Merchandise trade to contribute positively to Q1 GDP growth

Real exports/imports of goods vs. goods trade contribution to GDP





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