

ECONOMIC NEWS

Canada: Trade Fades in February After January's Jump

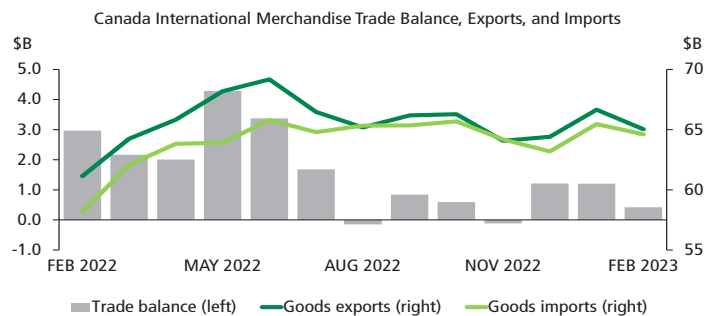
By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Canada's international merchandise trade surplus narrowed in February, coming in at \$422M from a downwardly revised \$1.2B in January. February's print was well below the \$1.7B consensus of forecasters.
- ▶ Exports fell 2.4% to \$65.0B in February, largely reversing the 3.5% advance that started the year. All product categories experienced declines except farm, fishing and intermediate food product exports (+2.1%). Exports of metal and non-metallic mineral products led the charge lower (-5.4%). Lower exports of motor vehicles and parts (-4.4%) also made an important contribution to February's decline. Capping it off was a 14.9% decline in exports of aircraft and other transportation equipment and parts. Importantly, export volumes were down 0.6% in the month, after surging ahead by 4.0% to start the year.
- ▶ Following a 3.6% jump in January, imports fell 1.6% in February to \$64.6B, with 8 of 11 product categories posting declines. February's move lower was driven by an 8.7% drop in imports of industrial machinery, equipment and parts. Imports of motor vehicles and parts also fell off in the month (-5.3%), after moving markedly higher in January. Offsetting this was a meaningful rise in imports of consumer goods (+6.9%). Relative to exports, import volumes were down a more substantive 1.1% in February after mirroring the 4.0% advance in January.
- ▶ Canada's trade surplus with the United States increased in February, moving to \$9.3B from \$8.6B in January. As such, the narrowing in the headline trade surplus was driven by the larger trade deficit with the rest of the world, which deteriorated to -\$8.9B in February from -\$7.4B the prior month.

GRAPH

Canada's Trade Surplus Manages To Hang In There in February



Sources : Statistics Canada and Desjardins Economic Studies

IMPLICATIONS

Today's trade release was weak across the board, but it was widely expected given January's strength and the one-off nature of many of the gains that started the year. This should help to pour some cold water on any of the overly bullish forecasts for Q1 2023 but continues to reinforce our view that growth is tracking in the 2.5% to 3% annualized range in the first quarter of 2023. Notably, this remains well above the Bank of Canada's latest forecast for 0.5% real GDP growth in Q1, so expect some meaningful upward revisions to the economic outlook when the April 2023 Monetary Policy Report is published one week from today. That said, ongoing financial market volatility and inflation which appears to be cooperating, at least for now, should help to keep the Bank of the sidelines for the foreseeable future.