HIGHLIGHTS

• In Canada, the merchandise trade balance went from -C$1.25B in February to +C$0.02B in March, fueled by a 5.1% increase in exports. Imports advanced 1.7%.
• In the United States, the goods and services trade balance improved in March, from -US$43.6B to -US$38.8B, as a result of a sharper drop in imports (-2.8%) than exports (-0.9%).

COMMENTS

In Canada, the sharp increase in exports in March came as a surprise. The gains were especially strong in exports to the United States (+4.0%), the European Union, excluding the United Kingdom (+16.2%) and Japan (+25.1%). While we would like to believe that this performance signals a pickup in global demand, the fact is that almost global economy is struggling and it would be surprising to see exports maintain this momentum going forward.

In the United States, the trade balance improved more than expected; however, the reasons are worrisome since a decrease in imports may reflect softer domestic demand. Most of the export and import categories were down both in current dollars and real terms. That said, the improvement in net exports is better than what was estimated by the Bureau of Economic Analysis in the first quarter national accounts. Consequently, the negative contribution of net exports could swing into positive territory, prompting an upward revision to real GDP growth.

Implications: In Canada, the merchandise trade balance expressed in real terms improved by C$1.9B (in 2007 dollars) in the first quarter. Even taking into account the structural deficit of trade in services, there is every reason to believe that the total trade balance improved in Q1 2013, a situation that will greatly help real GDP. Still, economic growth for the period will likely be hampered by weak domestic demand.

In the United States, the drop in exports and especially in imports are worrisome, but the net effect will likely be an upward revision to real GDP for Q1.