Heading toward a slight improvement in the trade balance?

HIGHLIGHTS

• The merchandise trade balance deteriorated slightly in March, going from +$647M to +$79M.
• The value of exports fell 1.4%. Significant decreases were observed in commodities (energy and mines), chemicals, forest products and construction materials, as well as in electrical and electronic equipment and parts.
• The value of imports grew 0.4%. Roughly half of the major sectors were down while the rest grew during the month.
• In real terms, exports were only down 0.1%, while imports retreated a slight 0.2%.
• The merchandise trade balance in real terms therefore remained essentially unchanged at -$606M in 2007 dollars compared with the previous month's -$629M in 2007 dollars.

COMMENTS

As forecast, the fall in commodities prices negatively affected the value of Canadian exports in March. However, exports posted an increase of around 1% during the month when commodities are excluded.

The volume of merchandise exports fell 6.5% as a whole in the first quarter. Clearly, the assumption that exports would make a larger contribution to Canadian economic growth is yet to be proven. Note that anemic first-quarter growth in real U.S. GDP did not help. That said, imports also recorded a 6.5% slide in the first quarter. As such, the balance of trade in goods was flat from -$2.3B in 2007 dollars in the fourth quarter of 2013 to -$2.2B in 2007 dollars in the first quarter of 2014.

Implications: If we also factor in the upward trend observed in the balance of trade in services, first quarter performance could actually include a slight improvement in the total balance of trade. This is a surprising outlook as, up until now, all signs indicated that the first quarter would post another deterioration. Nevertheless, we are maintaining our forecast of around 2% economic growth due to the numerous difficulties observed across the country during the winter.

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