

CANADA

Despite March's erosion, the trade balance improved in the first quarter

HIGHLIGHTS

- The international merchandise trade balance went from -\$2.5B in February to -\$3.4B in March, on a 4.8% drop in exports. Not only did energy exports slide 4.3%, but exports of non-energy products retreated 4.8%.
- Imports fell 2.4%, with most of the major sectors declining.
- In real terms, exports retreated 3.1%, while imports ticked down 0.5%. The balance dropped to \$2.0B in 2007 dollars, from \$3.1B in 2007 dollars the month before.

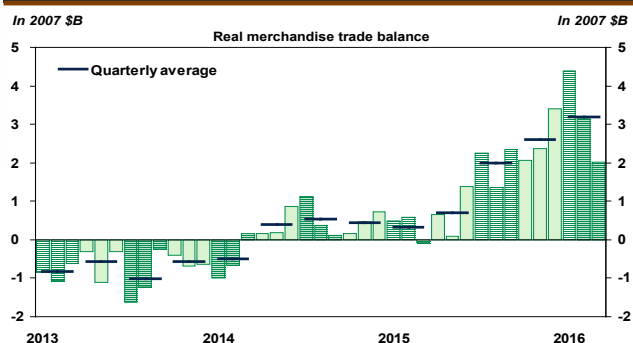
COMMENTS

As often happens with this economic indicator, the data on international merchandise trade has been substantially revised. That being said, the trade balance deteriorated by \$946M in March, an outcome very different from the consensus forecast, which was for a slight improvement that month. The difference is due to the drop in the value of energy product exports; the interim data had suggested an increase. Also, the decline in exports of non-energy products is disappointing, given the fairly positive conditions.

Even with March's difficulties, in real terms, total exports are up 2.1% for the first quarter as a whole. Since total imports only went up 0.7%, the trade balance improved in Q1.

Implications: According to our estimates, the improvement to the trade balance could lead to a contribution of about +0.5% to real GDP in Q1 2016. This is slightly less than our initial projection, so we are lowering our growth outlook for the first quarter, particularly as March's big drop in the volume of exports means that several sectors once again ran into trouble that month. Among other things, manufacturing and wholesaler sales probably suffered. This means there is a risk that March could end with another decline in real GDP by industry. Under these circumstances, the first quarter as a whole could end with quarterly annualized real GDP growth of around 3%.

The balance of trade in goods improved in Q1 2016



Sources: Statistics Canada and Desjardins, Economic Studies

The disappointing results for March—and even February's results were disappointing in some regards—will generate a very negative base effect for the second quarter. We can therefore expect real GDP growth to drop back below the 1% mark during the period.

Clearly, the Canadian economy continues to grapple with many difficulties, which is creating a lot of volatility. Caution is in order, and we will have to put more emphasis on trends. This of course argues for a longer status quo on monetary policy, into 2017.

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