

ECONOMIC NEWS

Canada: Energy Drives February's Trade Surplus

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Canada's international merchandise trade surplus cooled somewhat in February, hitting \$2.7 billion. This followed an upwardly revised surplus of \$3.1 billion in January.
- ▶ Exports are largely to thank for this solid showing, with a 2.8% advance over January taking total exports to \$58.7 billion in the month. Energy, and more specifically energy prices, was a notable driver of the monthly move.
- ▶ Meanwhile, imports shifted higher in February, up 3.9% to \$56.1 billion, as the Canadian economy roared from Omicron's January grip. However, this didn't quite make up for the sharp drop of 7.5% in January.
- ▶ The terms of trade—the ratio of export to import prices—also rose further in February, suggesting that gross national income in Canada took a step up in the month.

COMMENTS

Canadian trade had a solid showing in February, with both exports and imports advancing and the trade surplus remained well into the black.

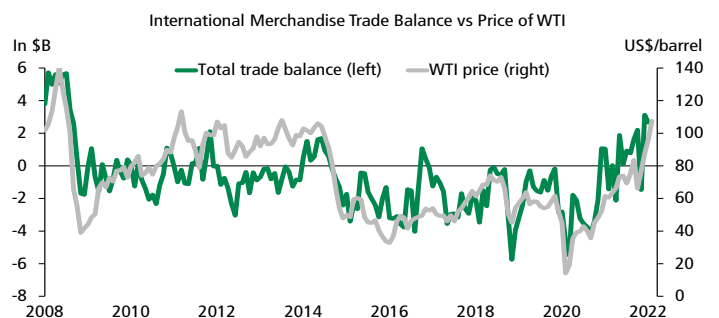
Commodities continue to dominate the export story, with the war in Ukraine having accelerated price gains that were already well-entrenched. This was further supported by US consumers and producers, who showed little sign of slowing down in February, benefitting from the rally in the US dollar on the back of geopolitical tensions.

Meanwhile, the anticipated sharp rebound in the Canadian economy in February from the post-Omicron reopening and healthy auto sales kept imports elevated north of the border.

The wildcard for the month was the effect of the blockades at the Ambassador Bridge and other border crossings, but the impact on overall trade looks to have been a wash.

GRAPH

Energy continues to drive Canada's trade surpluses



WTI: West Texas Intermediate

Sources: Statistics Canada, Datastream and Desjardins, Economic Studies

IMPLICATIONS

It's releases like February merchandise trade that illustrate the Canadian economy has a long way to go before we are no longer "hewers of wood and drawers of water". Energy exports were 26% of the total—the most since 2014. The overall trade balance is almost entirely the result of Canada's substantial trade surplus in energy and other resources, and commodity prices look poised to boost the trade balance further in March. While this should be a modest positive for real GDP growth in Q1, where it will be most acutely felt is in gross national income through the terms of trade. This should provide a boost to household incomes, earnings, and government coffers in the first quarter of 2022.