ECONOMIC NEWS

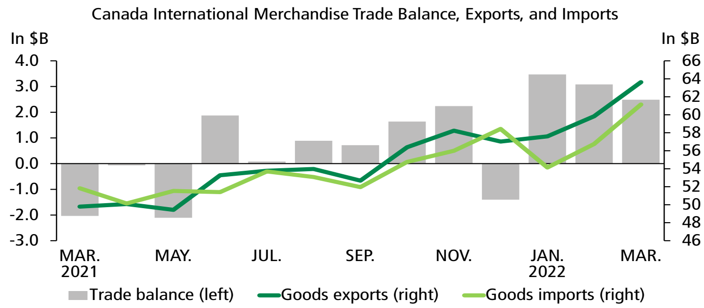
Canada: Trade Surplus Narrowed Again in March

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- Canada's international merchandise trade surplus narrowed again in March, falling to $2.5 billion from an upwardly revised $3.1 billion in February.
- Imports moved substantially higher in the month, up 7.7% to a record high of $61.1 billion, as 9 of 11 product categories saw gains. In real terms, imports rose 6.4% in the month as supply chain disruptions eased somewhat and concerns over energy availability were elevated.
- Exports increased by 6.3% to $63.6 billion in March, surpassing the previous record set in February. Volumes played a modest role in the advance, rising by 0.8% versus a 5.5% increase in prices.
- On a quarterly basis, both goods export and import volumes contracted. But given that real exports fell more than imports, net exports of goods look to have been a drag on real GDP growth in Q1 2022.

GRAPH
Canada's trade surplus narrowed in March on solid import growth



Sources: Statistics Canada and Desjardins, Economic Studies

COMMENTS

Canada's trade surplus surprised by taking a step back in March, as the gain in imports outpaced exports. That said, both exports and imports have now hit record levels. At the same time, the trade surplus with the US widened to a record $12.6 billion in March from $10.9 billion in February.

Energy imports led the charge, which can largely be chalked up to concerns around the availability of energy products due to the war in Ukraine. A modest easing of supply chains, a healthy consumer and an increase in manufacturing activity also played a role.

At the same time, exports posted a weaker advance in March, despite notable gains in foreign purchases of energy and other commodities as well as motor vehicles.

IMPLICATIONS

With real exports falling faster than imports in Q1 2022, net exports are expected to make a negative contribution to real GDP growth in the quarter. But every import goes somewhere in the economy, and in Q1 it looks like manufacturing was a key destination, as volumes of metals, minerals, chemicals and machinery moved higher. This is a good sign for Canadian business investment in the first quarter of the year. Despite the drag from trade, our tracking for Q1 real GDP growth remains at around 5.5% (q/q, saar) over Q4 2021, in line with the flash estimate published by Statistics Canada last week. This is well in excess of the 3% pace of growth forecast by the Bank of the Canada (BoC) in its April 2022 *Monetary Policy Report*. As such, the weakness of Q1 trade does not alter our view that the BoC will need to act forcefully at its June meeting.

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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