

Economics

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Canadian trade (Jan): A surprise surplus

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Merchandise trade, in million (\$)	22:Q2 ¹	22:Q3 ¹	22:Q4 ¹	Nov	Dec	Jan
Merch. trade balance—Annual rate	39,359	10,095	6,746	-758	14,227	23,074
• Monthly rate	-	-	-	-63	1,186	1,923

Merchandise trade (period/period % chg)	22:Q2 ²	22:Q3 ¹	22:Q4 ¹	Nov	Dec	Jan
Exports	51.3	-9.9	-6.5	-3.3	0.3	4.2
Imports	49.0	4.4	-4.9	-2.3	-1.6	3.1
Export volumes (chain Fisher)	14.3	6.1	-1.4	-1.8	0.1	5.3
Import volumes (chain Fisher)	27.1	-2.7	-11.3	-1.6	-2.2	3.6

Source: Statistics Canada

- Canada's goods trade balance posted a surprise \$1.9bn surplus in January, in contrast to consensus expectations for a modest deficit, due mainly to an upward revision to exports in the prior month but also a strong trade flow during January as well. The sharp 5.3% gain in export volumes is just another indication that the economy is performing better than anticipated at the start of 2023, although with US growth and demand expected to weaken later in the year, growth in exports will become harder to maintain.
- January's surplus was a surprise relative to consensus expectations largely because of a big revision to the prior month's starting point. December's figures were revised to show a surplus of \$1.2bn (previously a \$0.2bn deficit). The revision was almost entirely attributable to higher exports, as estimates for trade in natural gas were replaced with actual data.
- The widening surplus in January relative to the prior month reflected stronger growth of exports (+4.2%) than imports (+3.1%). By sector, exports of wheat, autos and unwrought gold led the way. Statistics Canada noted that last year's improved crop, combined with strong global demand, underpinned the strength in farm exports. Meanwhile, the surge in autos was attributed to less downtime at factories as parts shortages were lower when compared to prior January's. Partly offsetting gains in most other areas, exports of energy products were lower due to a reversal in natural gas trade after severe winter weather caused a spike in demand and prices in the US during December. In volume terms, overall exports rose by 5.3%, which was even stronger than the advance in nominal terms.
- On the import side, a big increase in autos more than offset the prior month's decline and provided further evidence that supply chain issues are easing in that sector. There was a large increase in imports of industry-specific machinery, which Statistics Canada attributed to volatility caused by the new LNG facility being constructed in BC. Imports of consumer goods rebounded in January, although excluding pharmaceutical products the value of imports was still the second-lowest since last July.

¹ Annualized.

² Annualized.

- Despite the improvement on the goods side, a wider deficit for services meant that Canada's overall trade deficit widened to \$378mn, from \$119mn in December. The trade in deficit in services rose from \$1.3 billion in December 2022 to \$2.3 billion in January 2023, as imports of services increased 5.2% while exports fell 1.3%. Imports of travel services surged 15.0%, mainly due to a rebound in the number of Canadian's returning from US destinations after major winter storms disrupted travel in the prior month.

Implications & actions

Re: Economic forecast — Canadian trade continues to benefit from solid global demand for agricultural products and other resources, as well as an easing in supply chain disruptions in areas such as autos. The surge in export volumes during January was likely also helped by a rebound following weather-related disruptions in December, which will support January GDP but likely means that a cool down will be seen in the months following. Overall, however, this is another data release that shows the Canadian economy starting off the year on a stronger footing than had previously been expected.

Re: Markets — With investors awaiting the Bank of Canada decision later in the session there was little market reaction to today's data, despite the much stronger than anticipated goods trade surplus and underlying detail.

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