

Economics

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Canadian trade (Feb): A golden performance

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Merchandise trade, in million (\$)	23:Q2 ¹	23Q3 ¹	23:Q4 ¹	Dec	Jan	Feb
Merch. trade balance—Annual rate	-26,330	1,376	11,081	-7,430	7,300	16,699
• Monthly rate	-	-	-	-619	608	1,392

Merchandise trade (period/period % chg)	23:Q2 ¹	23:Q3 ¹	23:Q4 ¹	Dec	Jan	Feb
Exports	-14.7	11.3	5.9	-2.2	-1.2	5.8
Imports	0.8	-3.8	0.7	0.0	-3.1	4.6
Export volumes (chain Fisher)	0.0	-2.0	4.2	0.5	-2.0	6.8
Import volumes (chain Fisher)	4.2	-2.1	-2.5	0.5	-3.1	3.9

Source: Statistics Canada

- Canada's international trade surplus widened to \$1.4bn in February, from \$0.6bn in the prior month, leaving it well above the consensus expectation of \$0.7bn. That was driven by a 5.8% jump in exports, the largest increase seen since August 2023, against a 4.6% rise in imports, which rebounded from the prior month's decline. The increase in exports was driven largely by shipments of unwrought gold, with exports up by 2.8% when excluding that category, although increases were still recorded in 9 of 11 export product sections. In volume terms, exports are up by 5.0% in three-month average annualized terms, while imports are down modestly. This seems to suggest that the upside surprises in GDP growth so far this year are partly being driven by net trade and a resolution of supply-side issues, which shouldn't pose a threat to inflation.
- On the export side, the record high shipments of gold reflected higher shipments to Switzerland and the UK, and included shipments of refined gold, as well as transfers of gold assets in the banking sector. The latter group shows up in the trade data as a transfer of funds, but won't represent a boost in exports in the GDP data. However, there are room for gains in other export categories ahead, particularly autos, where shipments are still more than 5% below the highs seen towards the end of last year, with exports being limited by retooling at factories in February.
- On the import side, nominal shipments reached their highest level since June 2023, with increases seen in all but one category. In volume terms, the increase largely just retraced the prior month's drop. Real inbound shipments of consumer goods (-6% y/y) and industrial equipment (-0.3% y/y) still point to a sluggish domestic economy. Indeed, real inventory levels relative to sales are well above levels that prevailed pre-pandemic, which will continue to dampen imports. In volume terms, total imports are up by 1.4% y/y in comparison to the 6.9% y/y for exports.
- On the services side, Canada's deficit narrowed to \$1.0bn from \$1.2bn in the prior month, as exports increased by 1.9%, driven by higher spending of foreigners in Canada, while imports rose by 0.8%. When combined with the goods trade surplus, Canada's total trade balance moved from a \$0.6bn deficit in January to a \$0.4bn surplus in February.

¹ Annualized.

Implications & actions

Re: Economic forecast — The jump in exports was implied by the earlier released advance GDP data, and seems to suggest that net trade is again driving the bulk of the growth in the quarter, while indicators of underlying domestic demand remain relatively sluggish, despite activity being helped by an abnormally warm winter. The BoC will remain more concerned with domestic demand, which could remain subdued ahead as consumers remain cautious with spending as mortgage renewals come up.

Re: Markets — The Canadian dollar strengthened marginally on the upside surprise.

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