Economics

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Canadian trade (Jan): Not good, but not as bad as advertised

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Merchandise trade, in million ($)	25:Q2	25:Q3	25:Q4	Nov	Dec	Jan
Merch. trade balance—Annual rate	-72,442	-37,758	-18,437	-30,614	-15,606	-43,786
• Monthly rate	-	-	-	-2,551	-1,301	-3,649

Merchandise trade (period/period % chg)	25:Q2	25:Q3	25:Q4	Nov	Dec	Jan
Exports	-41.3	9.5	16.1	-2.2	2.5	-4.7
Imports	-13.6	-8.5	4.8	0.5	0.5	-1.1
Export volumes (chain Fisher)	-29.7	4.0	7.4	-3.3	2.8	-6.1
Import volumes (chain Fisher)	-4.5	-11.1	0.8	0.5	1.5	-2.4

Source: Statistics Canada

- The Canadian international trade deficit widened dramatically in January, but the details of the report were a little less negative than the headline suggested. The $3.65bn deficit compared to the consensus expectation for a $1.1bn shortfall, and the prior month's deficit of $1.3bn. Exports were down by 4.7% in nominal terms, with 6 of 11 product sections falling, which translated into a 5.8% decrease in volume terms. However, that was partly the result of retooling at auto plants that thwarted shipments, as well as distortions tied to the volatile gold category. Imports were down by 1.1% in nominal terms, and 2.2% in volume terms, reflecting drops in 7 of 11 product sections, with retooling at auto plants also weighing. Overall, the data adds to evidence of a weak start to 2026 for the Canadian economy, although the temporary impact of auto plants retooling suggests upside in the following months for real exports.
- Following autos, electronic equipment was the second largest contributor to the decline in imports, driven by lower shipments of smartphones from China and the US amidst semiconductor chip supply issues. Real imports of industrial machinery rose sharply, by 5% on the month, with machinery and equipment from China for the construction of LNG infrastructure in BC driving the advance. However, that broad category is still down by 3% y/y, reflecting a weak appetite for business investment amidst trade uncertainty. Real imports of consumer goods dropped off by 2.5% on the month and are sitting 9% below year-ago levels, reflecting tame consumer demand.
- Exports of categories hit by US tariffs remained soft, with volumes of forestry products down by 21% y/y, and metal/non-metallic mineral products down 24% y/y. Canada's trade surplus with the US was slightly narrower at $5.4bn. The trade deficit with non-US countries widened to $9.0bn from $7.0bn, with a drop in gold shipments to the UK limiting shipments, following record high exports to non-US countries in December.
- On the services side, Canada moved to a deficit of $0.1bn, from a surplus of $0.4bn in the prior month. Combined with the wider goods trade deficit, the total shortfall with the world moved to $3.8bn, from $0.9bn in December.

Implications & actions

Re: Economic forecast — While the data adds to evidence that the Canadian economy started 2026 on shaky ground, real exports are likely to make up some lost ground ahead as auto plant retooling ends. Beyond that, however, the renegotiation of CUSMA remains important in order to maintain the US tariff exemption, as sectors hit by US tariffs are still seeing depressed export volumes, with little evidence of diversification being seen.

Re: Markets — Markets didn't pay attention to the trade data, as war developments continue to take center stage.