

Economics

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Canadian trade (Jan); An inauspicious return to surplus

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Merchandise trade, in million (\$)	23:Q2 ¹	23Q3 ¹	23:Q4 ¹	Nov	Dec	Jan
Merch. trade balance—Annual rate	-26,104	1,720	10,268	10,630	-10,354	5,953
• Monthly rate	-	-	-	886	-863	496

Merchandise trade (period/period % chg)	23:Q2 ¹	23:Q3 ¹	23:Q4 ¹	Nov	Dec	Jan
Exports	-14.9	11.1	4.6	-1.2	-2.6	-1.7
Imports	0.5	-4.0	0.0	1.4	0.1	-3.8
Export volumes (chain Fisher)	-0.5	-2.7	2.3	-0.6	-0.2	-2.2
Import volumes (chain Fisher)	4.0	-2.3	-2.9	1.7	0.6	-3.8

Source: Statistics Canada

- Canada's goods trade balance swung back into surplus territory in January, albeit not necessarily for the right reasons with imports and exports both falling on the month. The \$0.5bn surplus followed a wider than initially reported \$0.9bn shortfall in December, but the "improvement" in the trade balance came because imports (-3.8%) fell more than exports (-1.7%). This could be a sign of weakening demand both domestically and abroad, and an indication that January's strong advance GDP figure was driven largely by a rebound in public sector work following the ending of strike activity in Quebec.
- The 3.8% decline in imports took them to their lowest level since February 2022. Consumer goods led the decline, although the reduction there was largely a reversal of an outsized gain in the prior month which was led by pharmaceutical goods. However, even excluding the swing in pharmaceutical products, consumer goods imports were still down 3.8% in January which could be a reflection of weak demand and inventory levels which have now already recovered from earlier supply disruptions. Imports of motor vehicles also declined further from the all-time high that was reached in September 2023.
- On the export side, the 1.7% reduction in nominal sales was also broadly matched in volume terms. Declines were reasonably broad-based across sectors, with 8 out of 11 export areas down compared to December. However, the two largest contributors to the overall decline, metal & non-metallic mineral products and aircraft & other transportation, can be particularly volatile on a month-to-month basis. The 14% drop in aircraft exports in January followed an outsized 28% increase in December.
- On the services side, a decline in exports of travel services drove a widening of the services deficit from \$0.7bn in December to \$1.3bn in January. However, even with that move the overall trade deficit narrowed to \$0.8bn, from \$1.6bn in the prior month.

¹ Annualized.

Implications & actions

Re: Economic forecast — The advance estimate for January GDP suggested that the economy started 2024 with a bang, but today's trade data is less positive. While overall activity will have received a lift from a rebound in public administration and the beneficial effects of mild winter weather, the decline in imports suggests that underlying domestic demand remains fairly soft which will likely bring weaker GDP figures once again over the spring.

Re: Markets — The Canadian dollar was already strengthening on the day, and held onto that move following the swing back to surplus on the merchandise trade balance.

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