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Economic Flash!

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Rising Trade Tides Leave Canadian Deficit At Record

	17:Q3*	17:Q4*	18:Q1*	Jan	Feb	**Mar**
$Million						
Merch.Trade Balance—Annual Rate	-34,804	-29,572	-36,243	-23,866	-35,189	**-49,675**
—Monthly Rate				-1,989	-2,932	**-4,140**
Per/Per % chg						
Exports	-26.4	21.1	4.0	-1.9	0.3	**3.7**
Imports	-17.1	15.5	8.6	-4.7	2.2	**6.0**
Export volumes (chain Fisher)	-13.4	3.3	-0.3	-1.2	0.3	**3.0**
Import volumes (chain Fisher)	-0.4	8.9	5.1	-4.3	1.7	**4.6**

** annualized*

- Today's trade release was expected to be a ho-hum affair, but a surge in two-way trade completely changed that story. Canada's deficit now stands at a record level on the back of what appears to be strengthening domestic demand. While the import boom is by itself a headwind to GDP, the associated implications for domestic demand suggest that the economy maintained healthy momentum in March.

- The deficit widened to a record $4.1bn in March from a revised $2.9bn (prev. $2.7bn) in the prior month. Imports also easily hit a record after growing a whopping 6.0% in March. Increases were broad-based with 9 of 11 categories rising. Motor vehicle and consumer goods were, however, particularly notable. After a steep drop a couple of months ago, inbound shipments of clothing and footwear were up 21% in March.

- Exports also rose an impressive 3.7%, but the underlying details were a little less rosy. A large chunk of the increase was due to the always volatile aircraft and other transportation category. A tripling in exports of boats other personal transportation equipment was due largely to shipments sent to Saudi Arabia. Exports of farm, fishing and intermediate food products were also a major driver of the overall gains, but that was simply due to a rebound from rail-transportation bottlenecks which occurred in February.

- Two-way trade in volume terms was similarly strong to what was seen in the nominal numbers. Imports rose 4.6%, while exports were up 3.0%. That leaves net trade providing a little more of a headwind to Q1 growth than we were previously expecting, but the associated pickup in domestic demand should easily provide an offset. While the export numbers could be the beginning of a trend higher, volumes are up a meagre 0.4% over the past year, showing how much of a laggard outbound shipments had previously been relative to what's been going on in the rest of the economy.

Implications & Actions

Re: Economic Forecast — Although the trade deficit unexpectedly widened to a record level, the associated implications of rising imports for domestic demand are actually positive for GDP. Nevertheless, exports certainly have room to provide more support in the coming year relative to what we've seen over the prior twelve months. Rising US demand and a weak Canadian dollar will provide some support on that front.

Re: Markets –The Canadian dollar was trading weaker after the deficit showed up at a record level, but only slightly, likely because of the encouraging developments in two-way trade.