

## Canadian Trade Deficit Is Distorted, But Trade Is Still Weak

### Canada, International Merchandise Trade Balance, C\$ Billions, February:

Actual: -2.69

Scotia: -2.5

Consensus: -2.1

Prior: -1.94 (revised from -1.91)

- For the most part, one should look through the greater than consensus deterioration that was more in line with my guesstimate. That's not entirely true, but there were notable transitory distortions on both the import and export sides of the trade ledger. The first quarter is still weak from the standpoint of trade's contributions to GDP growth, but we'll need more data to move beyond unusual distortions to the figures so far this year in order to more clearly assess what is going on with trade. I would think the BoC would be cautious toward the weakness, but look through at least some of it while it would nonetheless remain cognizant of the updated accompanying chart that shows no durable progress on export volumes for some time now.
- The deficit widened because import volumes rose 1.9% m/m but there are two transitory distortions behind the prior month's drop in import volumes and this month's better figures. One concerned changes in emissions standards that heavily disrupted capital goods imports the prior month. The other concerned seasonally unusual temporary plant shutdowns in the auto sector that disrupted vehicles and parts imports that then rebounded in February. Seven of eleven import categories nevertheless moved higher in February. The only down categories were metal ores and non-metallic minerals (-11.9%), metal and non-metallic mineral products (-3%) and chemicals/plastics/rubber (-3%).
- Instead, pay somewhat more attention to a glimmer of hope in the 0.6% m/m rise in export volumes. Some of that was nevertheless driven by a transitory rebound in exports of autos and parts following the aforementioned shutdowns in January. One might also wish to weed out a 19.6% rise in exports of aircraft and other transportation equipment that was swung by lumpy aircraft exports to Latvia and HK. Some of the export rise was nevertheless more durable. Eight of eleven export categories were up in dollar terms with only energy (-1.2% m/m), farming/fishing (-17.2% m/m) and metals and non-metallic minerals (-7.2%) moving lower.
- Nevertheless, export volumes are tracking about 6% lower in q/q seasonally adjusted and annualized terms in Q1. Import volumes are tracking only about 1% lower. Net trade is therefore a significant drag on Q1 GDP growth.

### CONTACTS

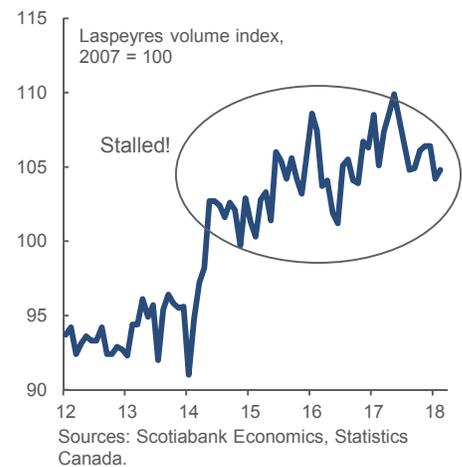
Derek Holt, VP & Head of Capital Markets Economics

416.863.7707

Scotiabank Economics

derek.holt@scotiabank.com

### Canadian Export Volumes



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