June 2, 2017

TD Economics

Data Release: Export gains lead to a shrinking Canadian trade deficit in April

- Canada's goods trade balance shrank to a deficit of $370 million in April, from a revised $936 million deficit in March (was: $135 million). The improved balance resulted from exports (+1.8%) outpacing imports (+0.6%). In volume terms, it was an even stronger result, as export volumes rose 1.1%, while imports fell 0.3%, leading to a real trade surplus of $843 million (in 2007 dollars).
- Leading exports higher were the motor vehicles and parts (+4.4%), energy products (+2.5%), and forestry/building/packaging products (+4.7%). On the flip side, declines in energy product imports were offset by electronic and electrical equipment (+4.6%), and basic and industrial chemical/plastic/rubber products (+4.9%).
- Canadian automotive products go by and large to the United States, and so April's improvement in this category helped drive the Canadian trade surplus with the U.S. to $5.0 billion, the largest surplus since May 2014. Elsewhere, lower shipments of gold contributed to declining non-U.S. exports (-7.8%), with only a modest offset from non-U.S. imports (-0.2%).

Key Implications

- Historic revisions may have led to a wider than expected nominal deficit, but today's trade data was encouraging nevertheless. Still healthy U.S. demand for Canadian automotive products helped drive a more than half billion dollar improvement in the trade balance, and a second month of respectable export volume growth was icing on the cake. There was tentative cause for optimism on the import side as well: imports must go somewhere, and decent figures for electronic and electrical equipment, as well as industrial machinery, point to continued business investment in the second quarter.
- Indeed, while the healthy gains of the first quarter are not likely to be repeated, solid trade volumes add to the economic momentum going into the second quarter. Preliminary tracking indicates that growth may be as high as 2.5% to 3.0% q/q annualized, which would mark a fourth straight quarter of robust growth.
- Of course, trade data is among the most volatile, and two months do not make a trend. As such, we remain of the view despite improving growth prospects, the Bank of Canada will maintain a cautious approach, waiting until April of 2018 to begin a monetary tightening cycle, although the balance of risks are beginning to shift towards an earlier start, rather than a later one.

Brian DePratto, Senior Economist
416-944-5069

@TD_Economics