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TD Economics

Data Release: Canadian trade balance in a surplus position for third straight month

- Canada's trade balance started the year in a surplus position, extending the string of surpluses to three months. Exports were up 0.5%, while imports slipped 0.3%. As such, the surplus widened from $447 million in December to $807 million in January. In real terms, exports were up by 1% and imports rose by 2.5%.
- The strength in exports was driven in large part by a bounce back in motor vehicle and parts exports (+7.7%), as well as a 13% increase in farm fishing and intermediate food products. In contrast, exports of the volatile aerospace products (-9%), consumer goods (-4%) and metal and non-metallic mineral products (-5%) provided some offset.
- Weakness in imports was widespread, led by metal ores and non-metallic minerals (-10%) and metal and non-metallic mineral products (-5.5%). Imports of energy products (+12%) and motor vehicles and parts (+3.6%) provided some offset.
- Canada's trade surplus with the U.S. widened to $4.5 billion in January (previously $3.8 billion), as exports rose 2.3% and imports were up by a more modest 0.3%. Canada's trade deficit with the rest of the world widened to $3.7 billion (previously ($3.4 billion) as exports (-4.4%) fell more than imports (-1.3%).

Key Implications

- With growth in import volumes expected to outpace exports, net trade is likely to be a drag on growth in the first quarter of this year. However, exports are expected to gain some traction in the coming months, which will allow trade to be supportive of growth over the remainder of the year.
- Indeed, strong U.S. demand – stemming in part from an expected uptick businesses investment – combined with the Canadian dollar hovering in the mid-70 US cent range throughout the year, should bode well for Canadian-made goods. Of course, the potential for protectionist measures to be implemented south of the border presents some downside risk to this outlook.
- All told, the rotation in the Canadian economy towards export-driven growth should gain some traction by the second half of this year. However, with the cloud of uncertainty stemming from the potential policies of the new administration stateside unlikely to abate any time soon, we expect the Bank of Canada to remain on the sidelines for the foreseeable future.

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