Data Release: Goods trade deficit widened in March

- Canada's merchandise trade deficit widened to $3.0 billion in March from $2.2 billion in February (revised from a deficit of $1.0 billion last month due to updated estimates of energy exports). March's print was the result of a 0.4% m/m increase in nominal exports being more than offset by a 2.2% advance in imports.
- Looking more closely at exports, the 0.4% advance was largely the result of a 1.5% decline in prices. Contributing to this was an increase in exports of motor vehicles and parts (+11.4%). This was complemented by a decline in exports of energy products (-8.9%), led lower by a retreat in exports of refined energy products (-29.7%). Exports of natural gas (-16.2%) and crude oil and crude bitumen (-2.7%) also declined. For energy as a whole, prices fell 7.0% and volumes were down 2.1%. Excluding energy products, exports increased 2.4% in March.
- In contrast, imports came bounding out of the gates, increasing by 2.2% on a 1.5% increase in volumes and a 0.6% gain in prices. This advance was thanks to a gain in 7 of 11 import categories. Most notably, imports of consumer goods (+7.9%) and motor vehicles and parts (+3.7%) edged higher while imports of aircraft and other transportation equipment and parts (-8.4%) declined.
- Looking to our neighbour to the south, imports from the U.S. dropped by 1.7% while exports fell by a more modest 0.9%. Consequently Canada's trade surplus with the United States widened to $2.2 billion in March from $1.9 billion in February. Meanwhile, Canada's trade deficit with countries other than the United States widened to $5.2 billion in March from $4.2 billion in February.
- For the first quarter of 2015, exports declined 3.0%, although volumes were up 0.6%. Meanwhile, imports increased 0.6% in Q1, kept buoyant by prices offsetting a 0.2% decline in volumes.

Key Implications

- Today's trade release provides a great deal of clarity on the role net exports are going to play in the first quarter of 2015. Indeed, the decline in export prices due to the lower energy prices and weaker loonie comes as little surprise, as does the advance in export volumes. Ditto for the increase in import prices and pull back in import volumes.
- As a result, net exports are expected to contribute positively and significantly to real GDP growth in the first quarter of 2015, in the order of around 1 percentage point. However, today's trade data does little to change our view for real GDP in Q1, which is for growth of around 0.0% with some modest upside potential.
- This leaves our view for Q1 real GDP growth in line with the Bank of Canada. As such, we expect the Bank will remain comfortable with its outlook for the Canada economy, and will keep interest rates on hold until the end of 2016.