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TD Economics

Data Release: Canada's trade balance slips into deficit in February

- Canada's trade balance moved back into deficit (-$972 million) in February, ending three months in surplus territory. Exports fell 2.4%, while imports rose 0.6%.
- The weakness in exports was broad-based, with eight of eleven segments declining. The rise in imports was less broad, mainly focused in motor vehicles and parts, agriculture and special transactions trade.
- The decline was mostly a volume story. In inflation-adjusted terms, real exports fell 2.5%, while imports rose 0.3%.
- The widening in Canada's trade deficit was entirely with countries outside of the United States where it rose to $5.4 billion (from $4.0 billion in January). Meanwhile, the surplus with the U.S. widened slightly to $4.5 billion (from $4.4 billion previously).

Key Implications

- The pullback in exports is disappointing and overall net-exports will subtract as much as 2 percentage points from economic growth in the first quarter of this year. Nonetheless, with a string of strong releases and positive signals for domestic demand, we are still comfortable with our expectation for real GDP growth of 3.4% in the first quarter.
- February's weakness notwithstanding, the outlook for export growth in Canada remains solid. One of the brightest spots in the U.S. outlook over recent months has been manufacturing activity, which exhibits a sturdy and leading relationship with Canadian exports.
- Potential changes to NAFTA continue to make headlines and will be a point of concern for Canadian policymakers. Still, given the depth of the two-way trading relationship between the two countries and encouraging comments from the U.S Commerce Secretary, we do not expect to see major changes to the agreement between the two countries.

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