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TD Economics

Data Release: Momentum in Canada's export sector continues

- Canada's trade deficit widened to $655 million in January (from $631 in December) as the 1.1% rise in imports outpaced the 1.0% gain in exports. In real terms, the picture was better, with export volumes up 3.6% and import volumes up 1.6%.
- The rise in exports was driven by gains in consumer goods (+13.7%) and motor vehicles and parts (+7.2%), both of which recorded an increase in export volumes. Providing some offset was a drop in aircraft and other transportation equipment (-35%), which reversed a gain of a similar magnitude recorded in December. Energy exports (-7.7%) were also down in January due to lower prices, as volumes were up 7.8%.
- The rise in imports was widespread, led by motor vehicles and parts (+3.3%) and consumer goods (+1.8%).
- Exports to the U.S. jumped 2.6% in January, while imports rose by 1.1%. As a result, the trade surplus with the U.S. widened to $3.7 billion in January (from $3.1 billion). Meanwhile, exports to the rest of the world were down 3.7%, while imports rose 1.1%.

Key Implications

- The momentum in Canada's export sector continued in January, with several sectors recording increases during the month. Moreover, the gain in export volumes has accelerated, showing that the transition toward export-led growth is underway.
- What's more, U.S. economic data continues to underscore the strength of American consumers. This certainly bodes well for Canadian exports going forward, given that 75% of Canadian-made goods head south of the border. And, with the loonie likely to hover in the 70-75 US cent range, exports are poised to gain further traction in the coming months.
- Meanwhile, imports are expected to remain on the softer side due to the low loonie and soft domestic demand, suggesting that net exports should contribute favourably to growth, and help keep the Bank of Canada on hold throughout the year.

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