

Daily Economic Update

May 4, 2017

Canadian March trade deficit unexpectedly shrinks to \$0.1B

Our Take:

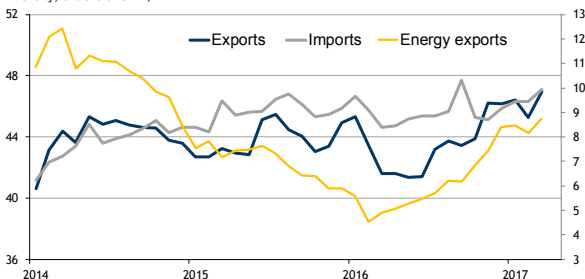
Though today's report indicated that the trade balance remained in a deficit position for a second consecutive month, the average shortfall over this period of \$0.6B is down sharply from the \$2.7B average deficit that prevailed over the same period a year ago. As well, these deficits over the last two months were preceded by three months of surpluses, which were the first since September 2014. The improvement in the trade balance is in large part the result of the nominal value of energy exports recovering helped by rising oil prices. Our expectation is that further gains in oil prices going forward and rising U.S. demand will contribute to further gains in energy exports though with the pace slowing. Outside of the energy component, the improvement has been more limited though the March data did indicate a burst of strength. Our forecast assumes that the strengthening U.S. economy and low value of the Canadian dollar will provide sustained support to this component going forward. The will allow overall exports to contribute to above-potential GDP growth through the forecast. However, the main risk to this outlook is potential trade restrictions emerging from the Trump Administration that will limit the extent to which Canadian exporters will be able to benefit from a strengthening U.S. economy. This risk has intensified in recent weeks with increased comments by the U.S. Administration focused on grievances with specific Canadian export categories.

Highlights:

- The March merchandise trade balance improved with the deficit shrinking to \$0.1B from \$1.1B in February.
- The improvement reflected a very strong, and broad-based, 3.8% jump in nominal exports to a record high \$47.0B, with volumes up 2.5%. Some offset to the improvement in the balance occurred from nominal imports rising 1.7% with all the increase due to higher prices as import volumes dropped 0.2%.
- Regionally, the solid rise in exports was led by increased deliveries to China, India and South Korea. Exports to the U.S. rose a negligible 0.1% contributing to a drop in our trade surplus with that country to \$4.0B from \$4.5B in February.
- Despite this recent strength in exports, an earlier sharp jump in imports is contributing to the real net trade balance tracking a 3.5 percentage point drag from Q1 annualized GDP growth. Strength elsewhere is expected to send annualized Q1 GDP growth up 3.8%.

Merchandise trade: Canada

Monthly, billions of CAD \$



Source: Statistics Canada, RBC Economics Research

Canada Merchandise Trade Summary

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Level (nominal, \$C billions)					
Trade Balance	1.1	0.3	0.1	-1.1	-0.1
Exports	46.2	46.2	46.4	45.3	47.0
y/y % change	6.6	2.8	2.4	4.2	12.9
Imports	45.1	45.9	46.3	46.3	47.1
y/y % change	-0.7	0.0	-0.8	1.3	5.6

Source: Statistics Canada, RBC Economics Research

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