Canadian Trade Fits The Rebound Narrative

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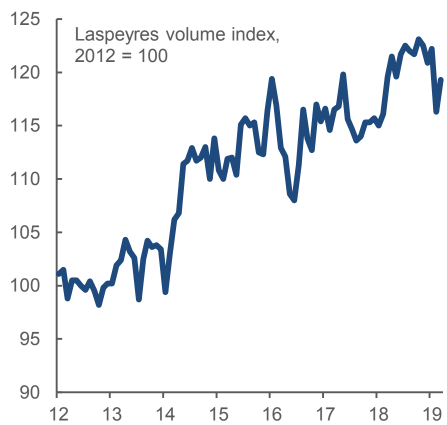
Canada, International Merchandise Trade balance (CAD billions), March:
Actual: -3.2
Scotia: -2.7
Consensus: -2.4
Prior: -3.4 (revised from -2.9)

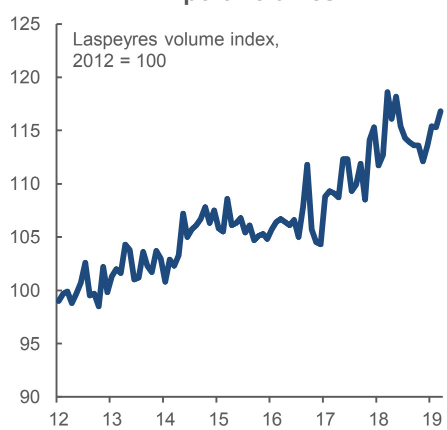
- Canada's trade deficit narrowed but from upwardly revised levels. Both sides of the trade ledger improved during March but always with the caveat that the first pass involves inferring activity with incomplete data in sectors like energy. This is not only positive for March GDP but also by way of the hand-off to Q2 that supports the narrative in favour of a rebound from little Q4/Q1 growth. **The details point to broad strength in exports while the import side of the ledger suggests the consumer is rebounding and business investment ended Q1 on a positive note which may imply strength in other GDP components like consumer spending and investment**. Nevertheless, the figures don't really matter to markets in the face of a potential US-China tariff wall tonight, but let's take a further look just for giggles.
- Export volumes were up 2.6% m/m, so most of the 3.2% rise in value terms was through higher volumes. It's the first glimmer of optimism we've had in a while (see chart).
- Imports were up 2.5%, and about half of that was through higher import volumes that exerted a better pull effect from the domestic economy. Cars and parts were particularly stronger along with clothing and footwear. Check, consumer alive. Indeed, the rebound in import volumes has some legs to it (see chart).
- After a 9.3% q/q annualized drop in export volumes during Q1, Q2 has no material growth baked in (+0.1% SAAR). That's despite the jump in export volumes in March as the first quarter started strong and ended strong but was mushy in the middle in such fashion as to distort the quarterly math. **At least the bleeding has stopped, however, and the Q2 incoming data can be tracked for evidence of momentum.**
- **After a 10.2% q/q annualized rise in Q1, import volumes are tracking a smaller 3.5% gain in Q2.** A slower pace of increase implies less of an import leakage effect on broad GDP growth. Therefore, combining a possible stabilization of the export drag on Q1 with less of an import leakage effect should be a one-two trade punch that buoys trade contributions to GDP growth in Q2. The narrative lies intact but with fingers crossed that hotheads don't ruin the trade picture!
- **The rise in export volumes was broadly based.** Eleven of thirteen were up. Only metal ores (-10% m/m) and metal products (-3.1% m/m) were down and some of that reflects the earlier distortion from gold shipments through London. Motor vehicles/parts volumes were up 4.6% m/m, chemicals and plastics were up 8.8%, farming/fishing jumped 1.8%, energy volumes were up 7.2%, forestry was up 2.9%, machinery and equipment advanced by 0.6%, electronics were up 2.1% and consumer goods jumped 1.2%.

Export Volumes



Sources: Scotiabank Economics, Statistics Canada.

Import Volumes



Sources: Scotiabank Economics, Statistics Canada.

- **The rise in import volumes was backed by gains in 8 of 13 categories** for somewhat less breadth than the export rise. Import volumes were up for autos/parts (+4.8% m/m), consumer goods (+6.2%), electronics (3.3%), machinery and equipment (+0.7%), farming/fishing (+6.3%), metal products (+0.5%). Import volumes fell in categories including energy (-7.6%), metal ores (-2.2%), chemicals (-0.4%) and forestry (-1.1%). Overall transportation sector imports fell 21.1% m/m due to a 50.7% decline in plane deliveries from the US (Boeing…) following two prior gains.