



Economic Flash!

April 5, 2016

Nick Exarhos 416 956-6527

Canadian February Trade: A Bump in the Road

	15:Q2*	15:Q3*	15:Q4*	Dec	Jan	Feb
<i>\$Million</i>						
Merch. Trade Balance—Annual Rate	-24,552	-20,002	-19,888	-9,450	-7,540	-22,892
—Monthly Rate				-788	-628	-1,908
<i>Per/Per % chg</i>						
Exports	4.5	15.2	-6.4	3.9	2.0	-5.4
Imports	1.7	10.9	-6.3	1.3	1.6	-2.6
Export volumes (chain Fisher)	0.6	2.7	-0.2	3.5	2.3	-2.0
Import volumes (chain Fisher)	-0.5	-0.5	-2.1	0.6	0.4	0.1

* annualized

- After a string of stronger-than-expected Canadian data releases, Canadian trade for February spoiled the party. The trade deficit came in at \$1.9 bn, a billion wider than the street was looking for. And the deterioration points to a significant GDP impact for the month as well. Exports fell by 5.4% on the month, with chain Fisher volumes tracking a 2.0% decline. Falling energy prices played a role with oil exports declining by over 15%, but areas of strength in prior reports also showed weakness. Autos and consumer goods—categories whose strength have generally helped power the recent improvement in Canada's trade balance—were the main contributors to the overall export drop.
- Auto exports dipped by over 4% in February, and even if we think that US autos sales will regain some of their strength after some of the recent anemic figures, it will be hard for Canada to ramp up exports and production without added investment in the sector. At 46% year-on-year, the current annual gain in autos is likely to decelerate in the months ahead, meaning that other categories will have to drive further improvement in the export tally.
- Consumer goods is one area that the cheaper loonie can help Canada win market share longer-term. But in February the category gave up some of its recent gains. Indeed, the 14% drop accounted for roughly \$1 bn in the overall deterioration. Still, the annual gain here stands at 16%, and there's reason to believe there could be more strength ahead.
- The average WTI price hit a low in February, and that showed up in the Canadian trade figures. Energy exports declined by over 14% on the month, accounting for roughly \$800 mn.

Unfortunately not all of the decline can be attributed to prices. Export volumes in the category were down by 5%, pointing to a further hit to the real GDP tally for February.

- On the other side of the ledger, imports were down by 2.6%, with chain Fisher volumes essentially flat. Q4 saw a meaningful drop in inbound shipments, auguring for a need to rebuild inventories in Q1. Still, persistent weakness in imports suggests that the economy continues to struggle, generating much in the way of domestic demand.

Implications & Actions

Re: Economic Forecast — After the strong January GDP print, we assumed some giveback in the coming months, and today's data falls in line with that story. The 4.5% drop in manufactured exports—even after stripping out energy related categories—suggests that factory sector might be headed for a significant dip ahead. However, putting things into context, growth should still come in close to 3% in Q1, well above where expectations were set just a few months ago.

Re: Markets — The loonie had been weakening before today's report, something it continued to do after the release, as well. Short-end yields also moved slightly lower.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2016 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.