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February International Trade

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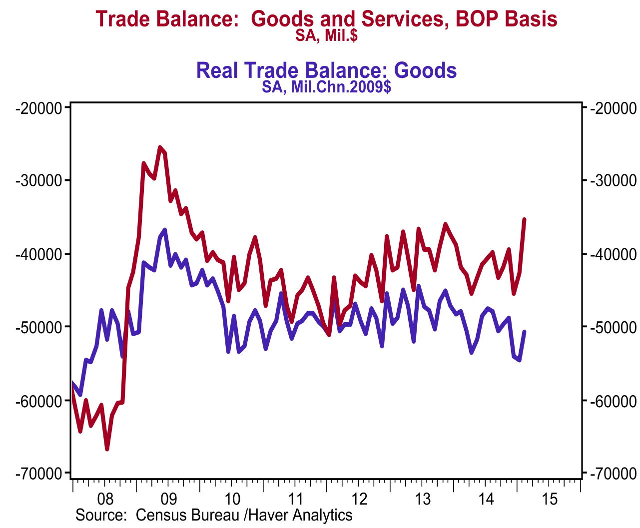
- The trade deficit in goods and services came in at $35.4 billion in February, much smaller than the consensus expected $41.2 billion.
- Exports declined $3.0 billion in February, led by autos and civilian aircraft. Imports declined by $10.2 billion, led by crude oil, autos, and cell phones & other household goods.
- In the last year, exports are down 1.0% while imports are down 3.6%.
- The monthly trade deficit is $6.5 billion smaller than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $2.8 billion larger than a year ago. This "real" change is the trade indicator most important for measuring real GDP.



Implications: Hold off on the trade data for a moment. Other data is more important. Unemployment claims plummeted 20,000 to 268,000 last week. Continuing claims dropped 88,000 to 2.33 million, the lowest so far in the recovery. In addition, automakers reported that they sold cars and light trucks at a 17.1 million annual rate in March, up 5.6% from February and up 4% from a year ago. These reports suggest that any recent softness in the economy is temporary, due to unusually harsh February weather, port strikes and falling oil prices. And, in spite of these headwinds, our models forecast that nonfarm payrolls rose 228,000 in March, another solid month. All these headwinds caused analysts to miss a huge drop in the February trade deficit, which came in at the lowest monthly reading since October 2009. Imports declined $10.2 billion, while exports fell by $3.0 billion. In addition to the weather, which slowed activity, oil prices continued to fall in February with the average price per barrel of crude petroleum imports down 16%. Labor disputes at west coast ports also helped reduce non-petroleum trade. For example, the total number of inbound and outbound containers was down 10.2% from a year ago at the Port of Los Angeles and down 20.1% at the Port of Long Beach. No wonder passengers on flights over LAX could see ships lined up for miles. The good news is that the strike was resolved in late February. The net result of the drop in oil prices and west coast strikes was that imports fell more than exports in January, so the trade deficit was much smaller for the month. Plugging the trade data into our GDP models suggests net exports will be a slight drag on real GDP growth in Q1 and that overall real GDP grew at a 1% annual rate. Looking past month-to-month volatility, the US trade deficit has been relatively stable over the past few years, with a smaller trade deficit in oil and a slightly larger one in other goods, powered by growing purchasing power among US consumers and businesses. Expect more of this in the year ahead as oil prices stabilize and the backlog from the port strikes gets cleared. The Plow Horse Economy continues to move forward.

International Trade *All Data Seasonally Adjusted, $billions*	Feb-15 Bil $	Jan-15 Bil $	Dec-14 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-35.4**	-42.7	-45.6	-41.2	-41.4	-41.9
Exports	**186.2**	189.2	195.0	190.2	193.5	188.0
Imports	**221.7**	231.9	240.6	231.4	234.9	229.9
Petroleum Imports	**16.3**	19.4	24.9	20.2	22.7	30.7
Real Goods Trade Balance	**-50.8**	-54.6	-54.0	-53.1	-51.4	-48.0

Source: Bureau of the Census