February International Trade

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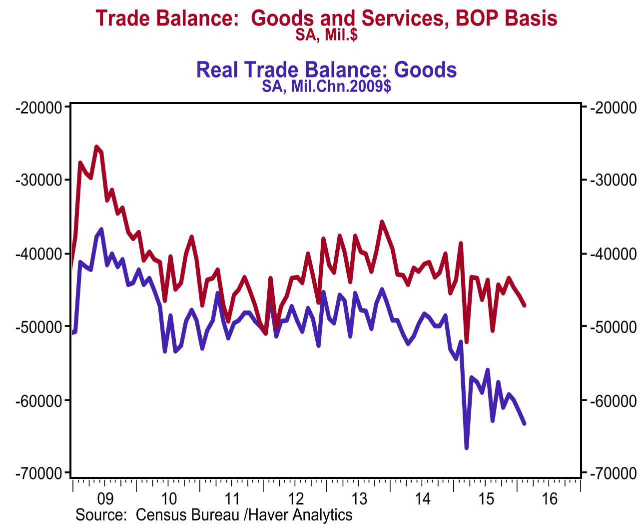
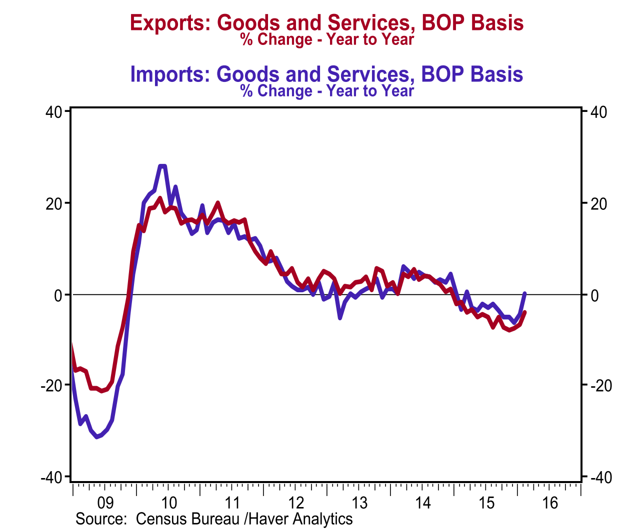
- The trade deficit in goods and services came in at $47.1 billion in February, larger than the consensus expected $46.2 billion.
- Exports increased by $1.8 billion in February, led by gem diamonds, other goods, and passenger cars. Imports rose by $3.0 billion, led by pharmaceutical preparations, toys, games, & sporting goods, and non-monetary gold.
- In the last year, exports are down 4.2% while imports are up 0.3%.
- The monthly trade deficit is $8.5 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $11.0 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit widened in February to a six month high as imports grew faster than exports. The good news is that exports increased in February, after four straight months of declines. Despite the gain in exports in February, slower growth abroad, along with a stronger dollar have slowed exports over the past year. For example, in the past year, goods exports to Canada and China are down 4.8% and 7.5% respectively, while exports to South & Central America are down 17.7%. This may continue to be a factor for the coming year. However it's not going to last forever given some of the recent weakness in the dollar. Meanwhile, although imports increased by $3 billion in February, they are only up 0.3% from a year ago. Imports of petroleum (down 39.8% from a year ago) have been a large contributor to the slow growth. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In February, these imports were only 1.6 times exports. This is why oil prices have not spiked even though the Middle East is in turmoil. The US is becoming more and more important in the energy space *as a producer*, bringing a stabilizing effect to the world. You can thank fracking and horizontal drilling for that. In fact, after years of running a trade deficit, the US is running a trade surplus in goods with OPEC over the past 12 months! The fact that the US is buying less crude from OPEC means OPEC has fewer dollars to purchase US goods. This is the key factor behind the drop in world trade, not global depression. Plugging today's figures into our GDP models suggests trade will be a slight drag on the first quarter of 2016 while the overall economy grows at a about a 0.5% annual rate. Although tepid, we think the government is still having problems seasonally-adjusting its data and so we then expect much faster growth later in the year. In other recent news, auto sales took a breather in March, with cars and light trucks selling at a 16.5 million annual rate, down 5.6% from February and down 3.5% from a year ago. Look for a rebound in auto sales this spring.

International Trade *All Data Seasonally Adjusted, $billions*	Feb-16 Bil $	Jan-16 Bil $	Dec-15 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-47.1**	-45.9	-44.7	-45.9	-45.2	-38.6
Exports	**178.1**	176.3	180.3	178.2	180.7	185.9
Imports	**225.1**	222.2	225.0	224.1	225.8	224.4
Petroleum Imports	**9.9**	11.2	12.9	11.3	12.1	16.4
Real Goods Trade Balance	**-63.3**	-61.8	-60.1	-61.7	-60.5	-52.3

Source: Bureau of the Census