

MAR INTERNATIONAL TRADE

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA
Economic Research Analyst – Trevor Scott

- The trade deficit in goods and services increased to \$63.9 billion in March from a downwardly revised \$57.9 billion in February. The consensus had expected a smaller increase to \$60.0 billion.
- Exports increased \$2.2 billion in March and are up 9.2% versus a year ago.
- Imports increased \$8.2 billion in March and are up 6.9% versus a year ago. The increase in March was the largest on record, in dollar terms. Petroleum accounted for about half the increase in imports, mostly due to higher volume.
- By region, the change in the trade deficit was fairly widespread, with Europe, OPEC, Mexico, Africa, and Canada all widening their trade gaps with the US by at least \$1 billion. The trade deficit with China shrunk by \$1.2 billion.



Implications: Last month we wrote that the trade deficit had turned a corner in the summer of 2006. Despite the large increase in March we still believe the trade deficit will tend to shrink in the months ahead (as a share of GDP), due to economic strength abroad and a lagged response to past dollar depreciation. Even as an outlier month, the trade gap was only \$1.6 billion more than March last year. That said, today's report suggests trade was a larger drag on real GDP growth in the first quarter than the originally reported -0.5 percentage points. Some analysts are claiming the drag of trade on real GDP growth in Q1 should now be a full percentage point. We think it should be more like -0.8 given that some of the increase in the trade gap was due to price effects. Real GDP growth in Q1 was probably still north of 1%, given stronger construction than originally estimated. Either way, the labor market is signaling that the second quarter will be much better than the first. Initial claims for jobless benefits fell to 297,000 last week and the four-week moving average fell to 317,000, the lowest level since March. In other news today, April import prices rose 1.3% (0.2% ex-petroleum) after an increase of 1.5% in March (0.3% ex-petroleum).

International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Mar-07 Bil \$	Feb-07 Bil \$	Jan-07 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-63.9	-57.9	-58.9	-60.2	-59.9	-62.3
Exports	126.2	124.0	126.8	125.7	125.1	115.6
Imports	190.1	181.9	185.7	185.9	185.0	177.8
Petroleum Imports	24.6	20.9	24.5	23.3	22.7	22.5

Source: Bureau of the Census