First Trust DATAWATCH

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February International Trade

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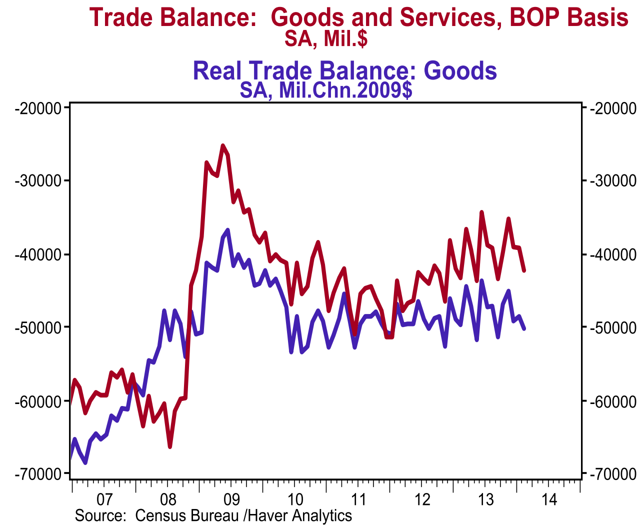
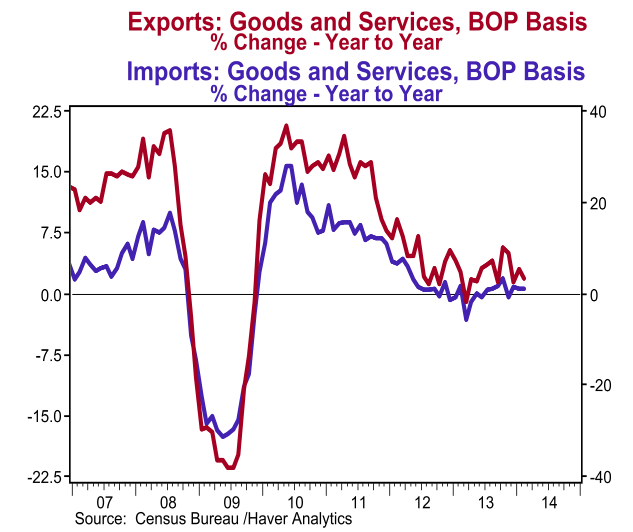
- The trade deficit in goods and services came in at $42.3 billion in February, larger than the consensus expected $38.5 billion.
- Exports declined $2.0 billion in February, led by nonmonetary gold, civilian aircraft, and petroleum products. Imports increased $1.0 billion, led by autos and pharmaceuticals.
- In the last year, exports are up 1.9% while imports are up 1.1%.
- The monthly trade deficit is $1.0 billion smaller than a year ago. Adjusted for inflation, the trade deficit in goods is $0.4 billion larger than a year ago. This is the trade indicator most important for measuring real GDP.





Implications: The US trade deficit came in larger than the consensus expected in February, with exports falling and imports rising. As a result, it looks like real GDP grew at only about a 0.5% annual rate in Q1. However, we think this weakness is temporary and economic growth will bounce back to a 3%+ growth rate in Q2. Despite the expansion of the trade deficit in February, we expect higher energy production in the US to continue to transform our trade relationship with the rest of the world. Eight years ago, back in February 2006, the US imported 12 times as much petroleum product as it exported. Since then, petroleum product exports are more than four times higher while imports are up only 26%. So now, petroleum product imports are only 2.8 times exports. If this trend continues, and we strongly believe it will, the US will be a net petroleum product exporter by late 2016, sooner if we fix our pipeline and refinery issues. Outside of energy, the trade deficit has generally grown over the past four years of recovery. Normally, when the US economy grows consistently, our trade deficit tends to expand. However, because fracking has unleashed a massive supply of natural gas, the US has an energy cost advantage versus many of the advanced nations around the world. So, even though natural gas prices have increased of late and even if we start exporting more natural gas, we should maintain a competitive advantage versus many of our major trading partners. This, plus the direct effect of more energy exports and fewer imports should help prevent any consistent expansion in the trade deficit relative to the size of the economy. In other news this morning, new claims for unemployment insurance increased 16,000 last week to 326,000. Continuing claims increased 22,000 to 2.84 million. Also on the employment front, yesterday the ADP index showed an increase of 191,000 in private payrolls in March. Plugging these data into our payroll models, our final forecast for tomorrow's official Labor Department report is a gain of 209,000 in nonfarm payrolls, 210,000 in private payrolls. The consensus expects gains of 200,000 even.

International Trade *All Data Seasonally Adjusted, $billions*	Feb-14 Bil $	Jan-14 Bil $	Dec-13 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-42.3**	-39.3	-39.0	-40.2	-39.8	-43.3
Exports	**190.4**	192.5	191.3	191.4	191.9	186.9
Imports	**232.7**	231.7	230.3	231.6	231.7	230.1
Petroleum Imports	**31.0**	31.7	29.1	30.6	30.7	32.2
Real Goods Trade Balance	**-50.1**	-48.5	-49.2	-49.3	-48.5	-49.7

Source: Bureau of the Census