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March International Trade

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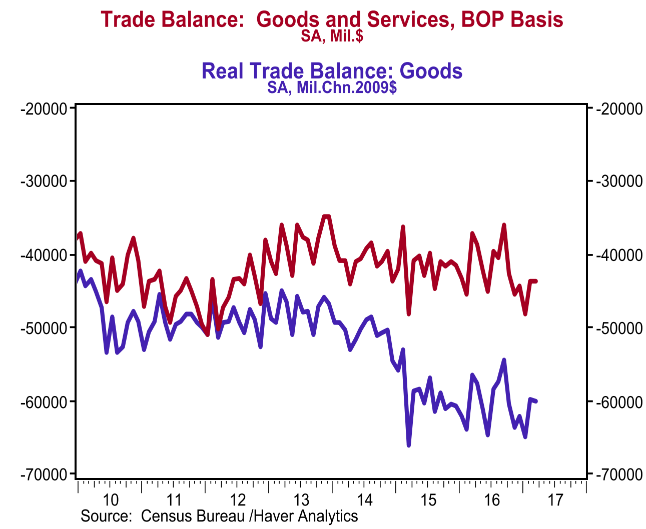
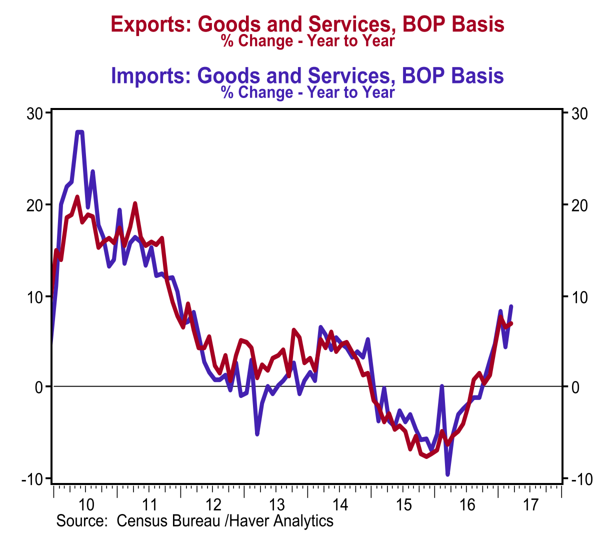
- The trade deficit in goods and services came in at $43.7 billion in March, smaller than the consensus expected $44.5 billion.
- Exports declined $1.7 billion, led by passenger cars, pharmaceuticals and fuel oil. Imports declined $1.7 billion, led by crude oil and petroleum products.
- In the last year, exports are up 7.0% while imports are up 8.8%.
- From a year ago, the monthly trade deficit is $6.4 billion larger and after adjusting for inflation, the "real" trade deficit in goods is $3.6 billion larger. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit was essentially unchanged in March versus February, coming in at $43.7 billion, a slightly smaller trade deficit than the consensus expected. As a result, if the trade deficit stays unchanged for the next few months, trade will add a little to second quarter real GDP, which is consistent with our forecast that real GDP is growing at a 3.5% annual rate in the current quarter, a sharp rebound from the tepid 0.7% annualized growth rate in Q1. But what really matters, and what President Trump and other policymakers should be focused on, is the total *volume of trade* – imports plus exports. There the news was mixed today. Both imports and exports fell by $1.7 billion in March. However, they are also both up from a year ago: exports by 7%, imports by 8.8%. Either way, we think policymakers are way too focused in reducing the trade deficit. The US is a magnet for capital from the rest of the world. As a result, Americans are able to purchase more than we produce. Some say this is unsustainable and that past and present trade deficits must be offset by future trade surpluses. But we disagree. Foreign investors are willing to be paid a very low return on their US investments, so low that Americans still earn more on their investments abroad than foreign investors earn on their US assets. As long as that continues, and we see no reason why it shouldn't, the US can continue to run trade deficits. Moreover, many of the policies President Trump is pursuing, including cutting tax rates and allowing for construction of more energy infrastructure, will make the US an even stronger magnet for foreign capital. Nonetheless, the US should become much more competitive. Just look at the energy markets. A decade ago, our petroleum product imports were about nine times our exports. Now these imports are 1.9 times exports. In late November, OPEC decided to cut oil production by more than 1 million BPD (barrels per day). Since then, prices have increased and, as a result, oil production in the United States has increased by almost 600,000 BPD, taking market share from unstable, less free-market countries. The ability of US producers to respond to market prices outside of government control is also why oil prices have not spiked back to old highs, and are declining slightly again. In other news today, nonfarm productivity (output per hour) declined at a 0.6% annual rate in the first quarter, coming in below the consensus expected decline of 0.1%. However, nonfarm productivity is still up 1.1% versus last year and we think government statistics underestimate actual productivity growth as figures from the government miss the full value of technological advances. Also today, new claims for unemployment insurance declined 19,000 last week to 238,000. The four-week moving average is 243,000. Continuing claims fell 23,000 to 1.96 million. Plugging these figures into our models suggests tomorrow's job report will show that nonfarm payrolls increased 205,000 in April, versus a consensus forecast of 190,000.

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International Trade *All Data Seasonally Adjusted, $billions*	Mar-17 Bil $	Feb-17 Bil $	Jan-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-43.7**	-43.8	-48.2	-45.2	-44.7	-37.3
Exports	**191.0**	192.7	192.5	192.1	189.9	178.5
Imports	**234.7**	236.4	240.7	237.3	234.6	215.8
Petroleum Imports	**16.7**	17.5	16.9	17.1	15.5	9.8
Real Goods Trade Balance	**-60.0**	-59.9	-65.0	-61.7	-61.9	-56.4

Source: Bureau of the Census