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March International Trade

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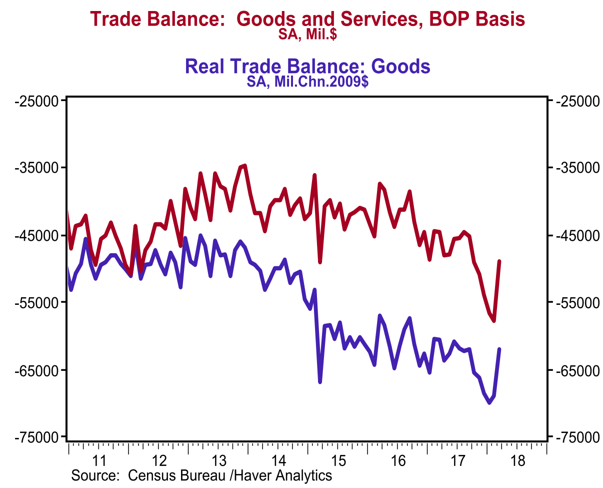
- The trade deficit in goods and services came in at $49.0 billion in March, smaller than the consensus expected $50.0 billion.
- Exports rose $4.2 billion, led by civilian aircraft, other goods, and soybeans. Imports fell $4.6 billion, led by toys, televisions, computers and telecommunications equipment.
- In the last year, exports are up 8.8% while imports are up 8.9%.
- Compared to a year ago, the monthly trade deficit is $4.2 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $1.4 billion larger. The "real" change is the trade indicator most important for measuring real GDP.



Implications: When President Trump sees today's report on the trade deficit in March, he may chalk it up as a win for his confrontational policy approach with our partners abroad. The trade deficit posted its largest monthly decline since 2009, when the US was in the depths of the financial crisis. But what really matters, and what they should be focusing on, is the total volume of trade – imports plus exports – which signals how much value consumers find in the global economy. Total trade stagnated in March as exports grew by $4.2 billion and imports fell by $4.6 billion, but remains near its all-time high. However, both exports and imports are up nearly 9% in the past year, so a healthy trend is still intact. The strength in exports in March was driven by the volatile civilian aircraft category. Meanwhile, imports fell mostly due to the consumer, electronic, and telecommunications goods that are typically produced in China. Overall, the monthly trade deficit in goods with China fell $3.4 billion after a $6.7 billion decline in February. This is the result of a slowdown in Chinese export activity we see annually due to the Chinese New Year, the date of which came later than usual this year dragging some holiday related disruptions into March. The protectionist talk coming from Washington, along with new tariffs on steel and aluminum, is worrisome. But we continue to believe this is just a negotiation tactic, and the chances of a trade war are slim. Most likely, what will ultimately come from all the chaos will be better trade agreements for the United States. Moreover, many of the policies President Trump has passed, including cutting tax rates and allowing for construction of more energy infrastructure, will make the US an even stronger magnet for capital from abroad. We will continue to watch trade policy as it develops, but don't see any reason yet to sound alarm bells. In other news this morning, nonfarm productivity grew at a 0.7% annual rate in the first quarter, based on preliminary readings, and is up 1.3% in the past year. We expect productivity to continue to accelerate in 2018. Companies have increased business investment, which should generate further productivity gains, while the tight labor market should encourage firms to find more efficient ways to produce. On the manufacturing front, automakers reported Tuesday that they sold cars and light trucks at a 17.2 million annual rate in April, down 1.8% from February, but still up 0.7% from a year ago.

International Trade *All Data Seasonally Adjusted, $billions*	Mar-18 Bil $	Feb-18 Bil $	Jan-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-49.0**	-57.7	-56.7	-54.5	-52.9	-44.7
Exports	**208.5**	204.4	200.9	204.6	202.2	191.7
Imports	**257.5**	262.1	257.6	259.1	255.1	236.4
Petroleum Imports	**18.8**	19.3	19.1	19.0	17.5	17.4
Real Goods Trade Balance	**-62.1**	-69.0	-69.9	-67.0	-66.9	-60.7

Source: Bureau of the Census