February International Trade

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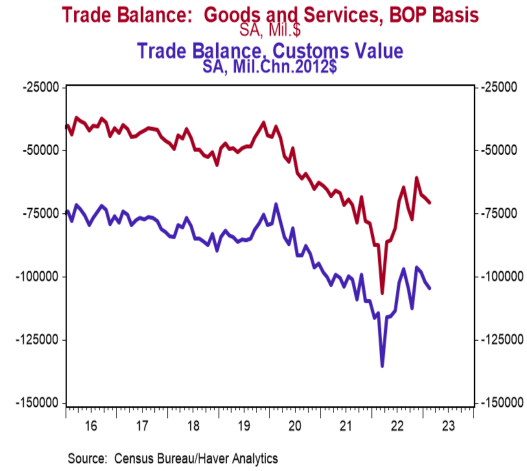
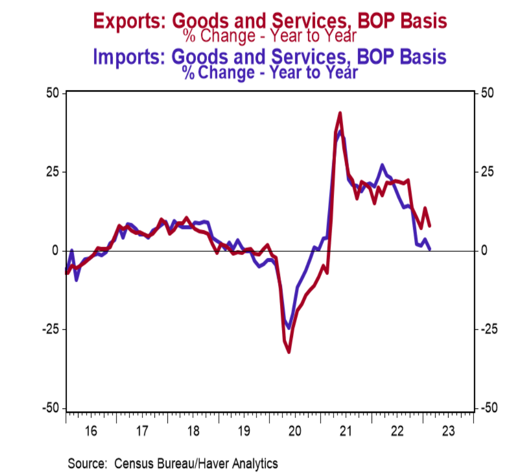
- The trade deficit in goods and services came in at $70.5 billion in February, larger than the consensus expected $68.8 billion.
- Exports declined by $6.9 billion, led by pharmaceuticals, autos, and natural gas. Imports declined by $5.0 billion, led by autos and cellphones & other household goods.
- In the last year, exports are up 8.1% while imports are up 0.7%.
- Compared to a year ago, the monthly trade deficit is $16.8 billion smaller; after adjusting for inflation, the "real" trade deficit in goods is $9.6 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit in goods and services rose to $70.5 billion in February as exports and imports both dropped but exports declined faster. We like to focus on the total volume of trade, imports *plus* exports, as it represents the extent of business and consumer interactions across the US border. This measure is still up 3.8% versus a year ago but fell by $11.8 billion in February and is now 4.5% lower than last year's peak in June. The drop in both exports and imports indicates a weakening demand for goods both domestically and internationally, as there is a continuing trend toward spending on services. It's important to remember, too, that Russia's invasion of Ukraine and the easing of COVID restrictions in China may affect trade patterns for some time. The good news is that supply-chain problems have improved dramatically. For example, Captain Kip, the Executive Director of Marine Exchange of Southern California, declared the container ship backup ended on November 22. Things are back to normal at the Ports of LA and Long Beach. Daily freight rates are also falling rapidly and back to pre-COVID levels as demand for shipping has also weakened. The New York Fed's Global Supply Pressure Index also confirmed this in February, with the index reaching negative territory for the first time since August 2019. Weaker demand coupled with an easing of parts shortages and less shipping congestion have pulled the indicator lower in seven of the last ten months. Also notable in today's report, the dollar value of US petroleum exports exceeded imports again. In the past year, US petroleum exports exceeded imports in eleven of twelve months. For the full calendar year of 2022, the US became a net exporter again of petroleum products. What this means is much of the release from the Strategic Petroleum Reserve just flowed overseas. Recent news from OPEC about production cuts sent oil prices upward, but what it really signals is that the market doesn't think the US will reduce regulatory hurdles to production, either. In labor market news this morning, the ADP employment report showed a gain of 145,000 private-sector jobs in February, lagging the consensus estimate of 210,000. This report is consistent with our forecast that nonfarm payrolls rose 230,000 in March, a little less than the consensus expected 240,000.

International Trade *All Data Seasonally Adjusted, $billions*	Feb-23 Bil $	Jan-23 Bil $	Dec-22 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-70.5**	-68.7	-67.2	-68.8	-69.5	-87.3
Exports	**251.2**	258.0	249.0	252.7	254.3	232.3
Imports	**321.7**	326.7	316.2	321.5	323.8	319.6
Petroleum Imports	**21.7**	21.7	21.6	21.7	22.3	23.2
Real Goods Trade Balance	**-104.6**	-101.8	-98.2	-101.5	-102.9	-114.2

Source: Bureau of the Census