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March International Trade

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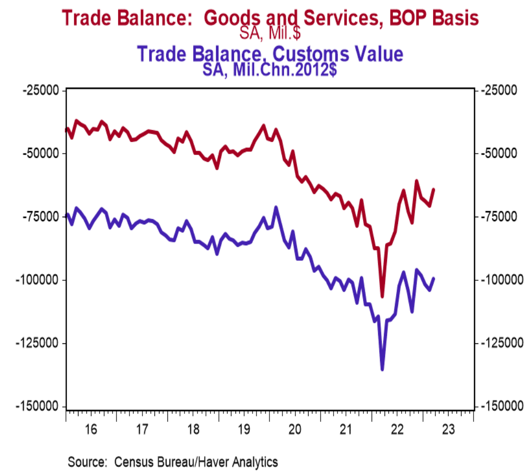
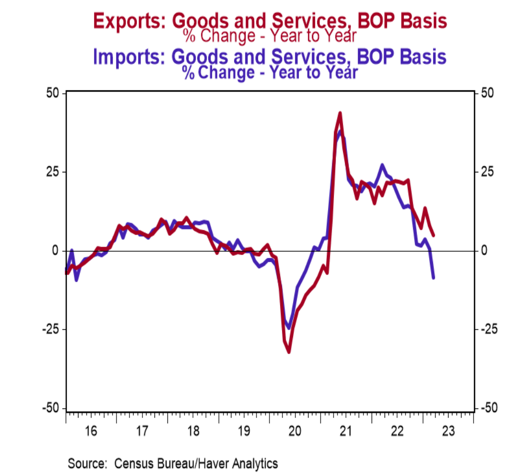
- The trade deficit in goods and services came in at $64.2 billion in March, larger than the consensus expected $63.1 billion.
- Exports rose by $5.3 billion, led by crude oil, pharmaceuticals, and fuel oil. Imports declined by $1.1 billion, led by cellphones & other household goods and other petroleum products.
- In the last year, exports are up 5.0% while imports are down 8.6%.
- Compared to a year ago, the monthly trade deficit is $42.2 billion smaller; after adjusting for inflation, the "real" trade deficit in goods is $35.8 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 declined to $64.2 billion in March as exports grew while imports declined. 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 rose by $4.2 billion in March, but is down 3.0% versus a year ago and is now 3.9% lower than last year's peak in June. The drop in imports indicates weakening demand for goods domestically, 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. Daily freight rates are also falling rapidly and back to pre-COVID levels or lower, as demand for shipping has also weakened. The New York Fed's Global Supply Chain Pressure Index confirmed this in March, with the index staying in negative territory, -1.15 standard deviations below the index's historical average. Weaker demand coupled with an easing of parts shortages and less shipping congestion have pulled the indicator lower. 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. In other news today, nonfarm productivity declined at a 2.7% annual rate in the first quarter. Output rose at a 0.2% rate while hours worked rose at a 3.0% rate, so *output per hour* fell. Productivity is down 0.9% from a year ago, not a good sign for future economic growth. Meanwhile, unit labor costs rose at a 6.3% annual rate in Q1 and are up 5.8% from a year ago, showing how workers are trying to keep up with higher prices. Also reported today, initial unemployment claims rose 13,000 last week to 242,000. Continuing claims fell 38,000 to 1.805 million. Plugging this into our models finalizes our forecast for the official nonfarm payroll report for April (to be announced Friday morning) at 190,000.

International Trade *All Data Seasonally Adjusted, $billions*	Mar-23 Bil $	Feb-23 Bil $	Jan-23 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-64.2**	-70.6	-68.7	-67.8	-68.1	-106.4
Exports	**256.2**	250.8	258.0	255.0	253.8	243.9
Imports	**320.4**	321.5	326.7	322.8	321.9	350.4
Petroleum Imports	**19.8**	21.7	21.7	21.1	21.7	24.7
Real Goods Trade Balance	**-99.4**	-104.0	-101.5	-101.6	-101.8	-135.2

Source: Bureau of the Census