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Economics Group

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Exports Remain Surprisingly Strong in March Trade Report

The trade deficit widened in March due to some payback for the outsized decline during the preceding month. That said, we were pleasantly surprised by the strength in exports in March.

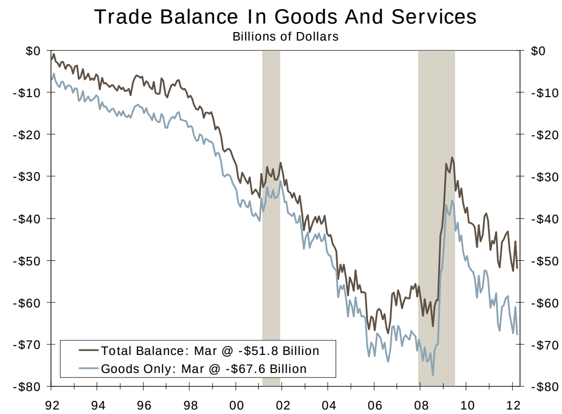
Big Increase in Red Ink Reflects Some Payback

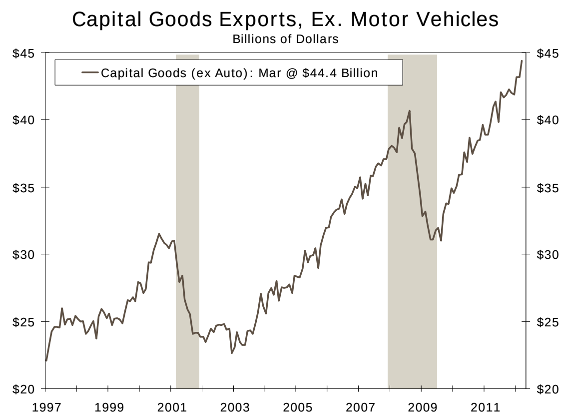
The trade deficit widened to $51.8 billion in March from a downwardly revised figure of $45.4 billion in February (top chart). Although this $6.4 billion increase in the trade deficit may seem quite large, it actually represents some payback for the $7.1 billion drop in the deficit that occurred in February. In our view, the best way to interpret the recent trade data is to smooth through some of the monthly volatility. In that regard, the average monthly deficit increased to $50.0 billion per month in the first quarter from $47.0 billion in the fourth quarter. With the United States outperforming many of its major trading partners in terms of economic growth—both the Eurozone and the United Kingdom have slipped back into recession—some modest widening of the deficit is to be expected.

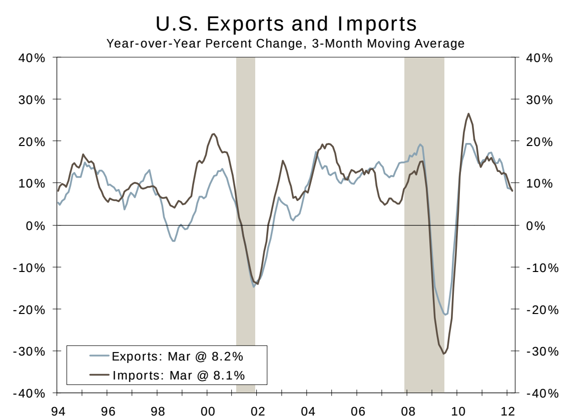
That said, we were pleasantly surprised by the $5.3 billion rise in exports in March, which does not reflect statistical payback. Indeed, the level of exports has increased for four consecutive months. Moreover, export growth has been broad based, with the categories of industrial supplies and materials, which were up $2.4 billion in March, and capital goods ($1.2 billion during the month), pacing the overall increase (middle chart). Exports to our North American trading partners, Canada and Mexico, were up 11 percent in the first quarter on a year-ago basis, and American exports to Europe were up about 9 percent despite the recession in Europe. Total exports are up about 8 percent on a year-ago basis (bottom chart). Although not as strong as the double-digit growth rates that were achieved in 2010 and 2011, exports continue to be a bright spot for the U.S. economy.

On the other side of the ledger, total imports of goods and services jumped by $11.3 billion during March. Some of this increase reflects higher petroleum imports, which were up $1.7 billion in March. The lion's share of the increase in total imports, however, came from the non-oil category, where imports shot up by $9.4 billion. That said, this category made an outsized decline of $4.7 billion during the previous month, so some of March's rise reflects statistical payback from the preceding month. Industrial supplies and capital goods paced the overall increase in imports in the first quarter, whereas imports of consumer goods were more or less flat during the first three months of the year.

When the Bureau of Economic Analysis (BEA) announced its first estimate of Q1-GDP growth a few weeks ago, it needed to make an assumption about the March trade deficit because it had only incomplete data at that time. However, the actual number that was released this morning was in line with the BEA's assumption. Therefore, when the BEA releases its second estimate of GDP growth on May 31, there shouldn't be a material revision to the overall GDP growth rate due to international trade.







Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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