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March International Trade

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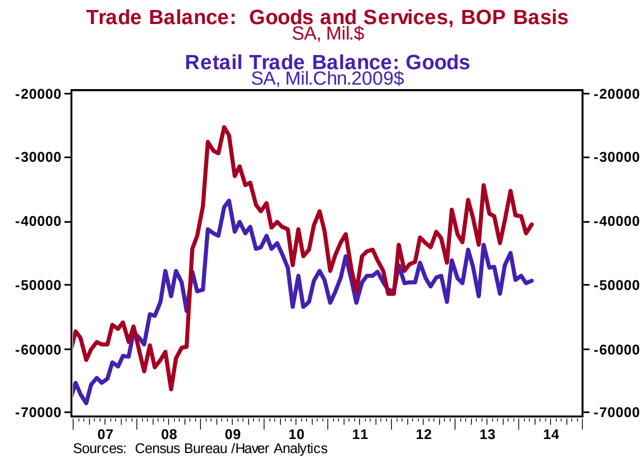
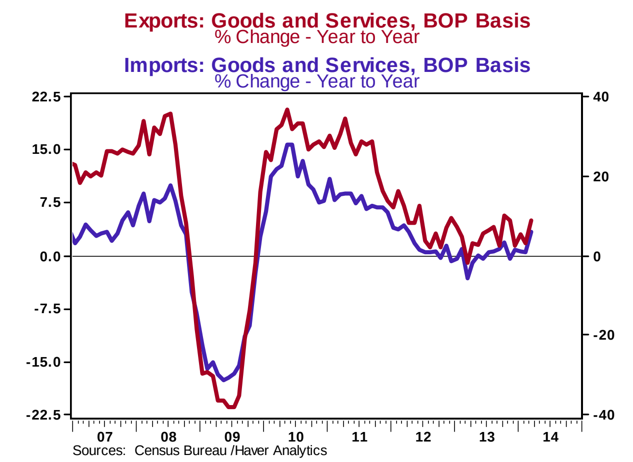
- The trade deficit in goods and services came in at $40.4 billion in March, slightly larger than the consensus expected $40.0 billion.
- Exports increased $3.9 billion in March, led by civilian aircraft, and fuel oil. Imports increased $2.5 billion, led by cellphones & other household goods and petroleum products.
- In the last year, exports are up 5.0% while imports are up 5.9%.
- The monthly trade deficit is $3.8 billion larger than a year ago. Adjusted for inflation, the trade deficit in goods is $5.0 billion larger than a year ago. This is the trade indicator most important for measuring real GDP.





Implications: The US trade deficit came in at -$40.4 billion in March, as exports gained the most in nine months. Plugging these figures into our GDP calculations, it now looks like trade subtracted 0.9 percentage points from real GDP growth in Q1, pulling growth down to around -0.3% at an annual rate from the original reading of +0.1%. However, we think this weakness was weather related and economic growth will bounce back to a 3%+ growth rate in Q2. The best news from today's report was that the total volume of trade – imports plus exports – hit a new all-time record high. This supports the continued improvement we have been seeing in the US and around the world. We also expect higher energy production in the US to continue to transform our trade relationship with the rest of the world. Eight years ago, back in March 2006, the US imported 10 times as much petroleum product as it exported. Since then, petroleum product exports are up 373% while imports are up only 30%. So now, petroleum product imports are only 2.6 times exports. If this trend continues, and we strongly believe it will, the US will be a net petroleum product exporter by late 2016, sooner if we fix our pipeline and refinery issues. Some attribute the decline in petroleum imports to the rise of renewable energy, but this could not be further from the truth. Renewables (solar, wind, biomass) accounted for 4.5% of US energy consumption in 1950. In 2013 it only accounted for 5.5% and the EIA is forecasting it to only account for 8% of total US energy consumption by 2040. Outside of energy, the trade deficit has generally grown over the past four years of recovery. Normally, when the US economy grows consistently, our trade deficit tends to expand. However, because fracking has unleashed a massive supply of natural gas, the US has an energy cost advantage versus many of the advanced nations around the world. So, even though natural gas prices have increased of late and even if we start exporting more natural gas, we should maintain a competitive advantage versus many of our major trading partners. This, plus the direct effect of more energy exports and fewer imports should help prevent any consistent expansion in the trade deficit relative to the size of the economy.

International Trade *All Data Seasonally Adjusted, $billions*	Mar-14 Bil $	Feb-14 Bil $	Jan-14 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-40.4**	-41.9	-39.3	-40.5	-39.2	-36.6
Exports	**193.9**	190.0	192.5	192.1	192.6	184.8
Imports	**234.3**	231.8	231.7	232.6	231.8	221.3
Petroleum Imports	**30.0**	31.1	31.7	30.9	30.4	30.1
Real Goods Trade Balance	**-49.4**	-49.8	-48.5	-49.2	-48.1	-44.5

Source: Bureau of the Census