March International Trade

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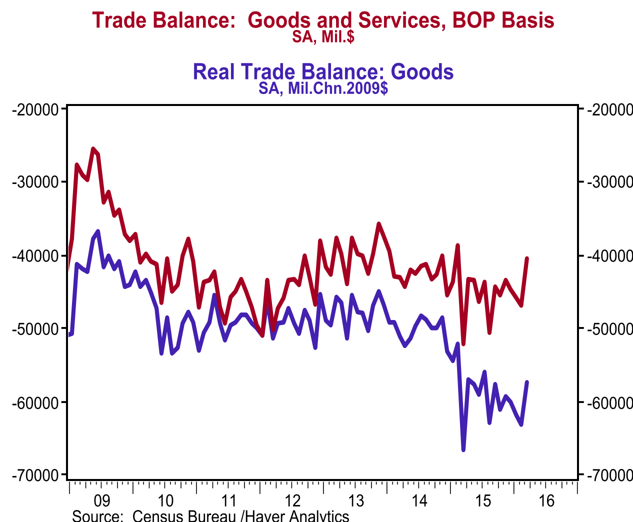
- The trade deficit in goods and services came in at $40.4 billion in March, smaller than the consensus expected $41.2 billion.
- Exports declined $1.5 billion in March, led by pharmaceutical preparations, gem diamonds, and petroleum products. Imports fell $8.1 billion, led by toys, games, & sporting goods, and computer accessories.
- In the last year, exports are down 5.4% while imports are down 9.1%.
- The monthly trade deficit is $11.7 billion smaller than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $9.1 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Implications: The trade deficit narrowed in March to the lowest level in over a year as imports fell faster than exports. Despite the smaller trade deficit, this was not a great report. Imports declined by $8.1 billion in March, the largest drop in over a year. As the GDP report showed last week for Q1, companies were still trying to get inventories in line with weaker demand which probably held back imports. Exports also declined but by a smaller $1.5 billion. Slow economic growth abroad has held down exports over the past year and may continue to be a factor for the coming year. Another ongoing factor effecting U.S. trade with the rest of the world is the decline in U.S. oil imports. U.S. imports of petroleum and petroleum products in March were the lowest since 2002. Back in 2005, U.S. spending on oil imports was 11 times exports; that ratio is now down to 1.5, and headed lower. In other news today, nonfarm productivity in Q1 declined 1.0% at an annual rate, as hours grew faster than output. The consensus expected a decline of 1.3%. Real (inflation-adjusted) compensation per hour in the nonfarm sector was up at a 3.4% annual rate in Q1 and is up 1.7% versus a year ago. Unit labor costs rose at a 4.1% annual rate in Q1 and are up 2.3% in the past year. It looks like wage pressures are starting to build with the strengthening labor market. On the manufacturing side, where it is much easier to measure output per hour, productivity rose 1.9% at an annual rate. The faster pace in manufacturing productivity growth was due to an increase in output in that sector, along with a decline in hours. Real compensation rose 0.9% while unit labor costs fell 1.2%. We anticipate faster productivity growth over the next few years as new technology increases output in all areas of the economy. The declining unemployment rate, decline in labor force participation, and faster growth in wages should generate more pressure for efficiency gains, while the technological revolution continues to provide the inventions that make those gains possible.

International Trade *All Data Seasonally Adjusted, $billions*	Mar-16 Bil $	Feb-16 Bil $	Jan-16 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-40.4**	-47.0	-45.9	-44.4	-44.5	-52.2
Exports	**176.6**	178.2	176.3	177.0	179.2	186.7
Imports	**217.1**	225.1	222.2	221.5	223.7	238.9
Petroleum Imports	**9.4**	9.9	11.2	10.2	11.4	15.2
Real Goods Trade Balance	**-57.4**	-63.2	-61.9	-60.8	-60.5	-66.5

Source: Bureau of the Census

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