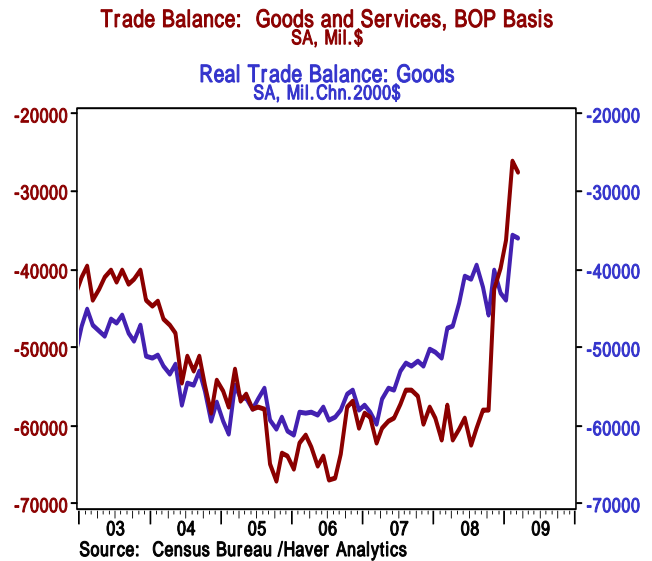


# MARCH INTERNATIONAL TRADE

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- The trade deficit in goods and services increased slightly to \$27.6 billion in March. The consensus expected a larger increase to \$29.0 billion.
- Both imports and exports declined in March, with exports down \$3.0 billion and imports down \$1.6 billion. The drop in exports was led by civilian aircraft, autos/parts, and pharmaceuticals. The decline in imports was led by natural gas and capital goods (such as industrial engines and machines).
- Although exports are down 17.4% versus last year, imports are down 27.0%. As a result, the monthly trade deficit is \$29.8 billion smaller than last year.
- Adjusted for inflation, the trade deficit in goods was \$35.9 billion in March, \$11.7 billion smaller than last year. This is the trade indicator that is most important for calculating real GDP and declining deficits mean trade is *adding* to real GDP.

**Implications:** The trade deficit grew slightly in March but the inflation-adjusted trade deficit barely budged and the underlying trend of smaller deficits remains intact. The dollar is stronger than it was last year and yet the trade deficit is also smaller. Isn't a stronger dollar supposed to make our trade deficits bigger, not smaller? Eventually, yes. But it takes a few years for changes in the exchange value of the dollar to affect trade flows. The dollar declined versus other major currencies from 2002 into 2008. As a result, the trade deficit peaked in 2006 and has since been in a trend decline that will probably not reverse until 2011. That's when the stronger dollar of the past year will start having an impact. Today's trade figures also add to the case that last month's initial government report on real GDP low-balled the economy. Based on new data over the past two weeks on international trade, business construction, and inventories, real GDP probably shrank at a 5.4% annual rate in Q1, not the -6.1% rate originally estimated.



International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Mar-09 Bil \$	Feb-09 Bil \$	Jan-09 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
<b>Trade Balance</b>	<b>-27.6</b>	-26.1	-36.2	-30.0	-38.4	-57.4
<b>Exports</b>	<b>123.6</b>	126.6	124.7	125.0	133.0	149.7
<b>Imports</b>	<b>151.2</b>	152.8	160.9	155.0	171.4	207.1
<b>Petroleum Imports</b>	<b>17.2</b>	16.7	18.3	17.4	22.7	35.3
<b>Real Goods Trade Balance</b>	<b>-35.9</b>	-35.7	-44.0	-38.5	-40.7	-47.6

Source: Bureau of the Census