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FEBRUARY INTERNATIONAL TRADE

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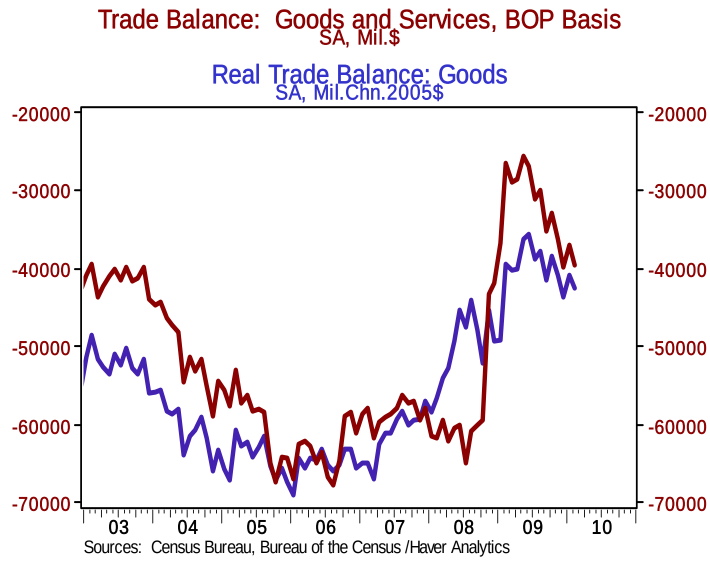
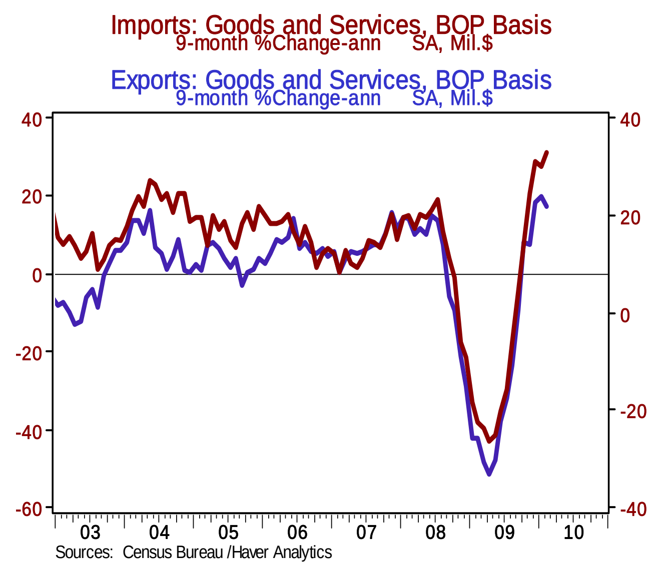
- The trade deficit in goods and services expanded by $2.8 billion to $39.7 billion in February. The consensus had expected a smaller trade deficit of $38.5 billion.
- Exports increased $0.3 billion in February. The biggest movers were an increase in industrial engines and a decline in soybeans.
- Imports increased $3.0 billion in March, led by crude oil. Pharmaceuticals and computers also had large increases, while autos/parts declined. The increase in crude oil imports was all due to volume; the average price of crude was lower in February than in January.
- In the last ten months, exports are up 17.7% while imports are up 21.8%.
- The monthly trade deficit is $13.2 billion larger than last year. Adjusted for inflation, the trade deficit in goods is $3.1 billion larger than last year. This is the trade measure that is most important for calculating real GDP.





Implications: The total volume of US-international trade – imports plus exports – increased 1% in February and is up 20% since the bottom last April. We expect this trend to continue as a major feature of the V-shaped recovery. But the future direction of the trade deficit is getting harder to predict. The (inflation-adjusted) trade deficit got smaller in 2007, 2008, and 2009. Given the decline of the US dollar during the past several years (although not in recent months) as well as the typical multi-year time lag between shifts in the dollar and the impact on the trade balance, the trade deficit should still be shrinking. But the rest of the US economy has been accelerating so quickly of late that imports have sped up faster than exports, resulting in an expansion of the trade gap. To be clear, this is not something to worry about; faster growth in other sectors of the economy is a good thing. In other news this morning, import prices increased 0.7% in March and are up 11.4% versus a year ago. Most of the gain since last year is oil-related, but not all. Excluding oil, import prices are up 2.8% versus a year ago. Export prices are up 4.6% versus last year and up 4.3% excluding agriculture.

International Trade *All Data Seasonally Adjusted, $billions*	Feb-10 Bil $	Jan-10 Bil $	Dec-09 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-39.7**	-37.0	-39.9	-38.9	-36.8	-26.5
Exports	**143.2**	142.9	143.2	143.1	139.7	125.2
Imports	**182.9**	179.8	183.1	181.9	176.5	151.7
Petroleum Imports	**27.6**	27.2	28.2	27.7	26.0	16.3
Real Goods Trade Balance	**-42.5**	-40.9	-43.8	-42.4	-41.3	-39.4

Source: Bureau of the Census