

# Beware Trade-Recession Scare Story

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Friday's robust report on job growth ought to put the nail in the coffin on recent fears about a recession. Payrolls rose 242,000 and civilian employment, an alternative measure of jobs that includes small business start-ups, increased 530,000. In the past year, these two measures are both up approximately 2.7 million. Obviously, we're not in a recession.

But, until last week we were hearing all sorts of scare stories claiming the US was either already in a recession or right on the cusp of one.

When you hear these stories, it's important to remember that if you look at enough economic data you're almost always going to find something heading in the wrong direction. And if you get a few weeks, or even a couple of months, of tepid economic reports, some analysts are going to weave these data into a recession story. This is particularly true in a Plow Horse economy with relatively modest growth.

One recent scare story is about global trade, which appears to have peaked in late 2014, not just in the US, but worldwide as well. There are two ways to look at trade - dollar value and volume (which approximates "real" or inflation-adjusted trade). Using volumes, US exports are down 1% from the peak, European Union (EU) exports to non-EU countries are down 2%, Japan exports are down 3%, while China and Hong Kong are down 5%. Harking back to the Great Depression, some analysts call this a sign of "recession" or "cataclysmic contraction."

But trade tariffs are down, not up, and the data don't support the theory. These trade figures are volatile from quarter to quarter and, there are many measures of trade. According to the WTO's quarterly figures, in the third quarter of 2015 (the latest data available) trade was still up 1.2% from the prior year.

Back in late 2012, world export volumes also fell, by 1% from the US and EU, 8% from Japan, and 4% from China and Hong Kong. But there was no recession in the US.

When focusing on the US, the same analysts mysteriously shift their attention away from export *volumes*, which are adjusted for inflation, and toward nominal export *values*, which are not adjusted for inflation. In turn, they say we've never had such a large decline in nominal export values without a recession, at least not in the past twenty years.

This analysis is chock full of problems. First, in the last twenty years the US has suffered through a grand total of two recessions. Two: as in one more than one. Basing conclusions with a sample size of two is ludicrous.

Second, everyone knows prices for internationally traded goods have dropped substantially since 2014, led by oil but other prices have declined as well. Which is why it's so odd that after using volume data on global trade the pessimistic analysts switch to value data on US trade, even though "real" (inflation-adjusted) trade numbers are readily available.

Real US trade (exports plus imports) were down in Q4, but have also fallen during many other quarters in history without preceding a recession. And real goods trade was still up slightly in 2015.

US real oil exports rose 5% in 2015, thanks to more production. But, with domestic production up and global oil prices down, the US is sending fewer dollars abroad. The same goes for other advanced economies around the world, with hard currencies like the Euro, Pound, and Yen. In turn, the major oil exporters earn less income, which means that while they still pay for wasteful government programs they can't afford to buy the goods they'd like to get from the rest of the world. That's why US real "non-petroleum exports" fell 1.1% in 2015.

So, yes, weakness abroad is a headwind for the growth of US exports, but nothing suggests weakness in the purchasing power of the US economy. The US is not in recession, too. The job market continues to heal, consumers' financial position is relatively strong, and the housing recovery still has much further to go. But this won't stop the Pouting Pundits of Pessimism from screaming that the Plow Horse is falling over.

| Date/Time (CST) | U.S. Economic Data     | Consensus  | First Trust       | Actual | Previous   |
|-----------------|------------------------|------------|-------------------|--------|------------|
| 3-7 / 2:00 pm   | Consumer Credit– Jan   | \$17.0 Bil | <b>\$19.3 Bil</b> |        | \$21.3 Bil |
| 3-10 / 7:30 am  | Initial Claims – Mar 5 | 275K       | <b>272K</b>       |        | 278K       |
| 3-11 / 7:30 am  | Import Prices – Feb    | -0.7%      | <b>-1.2%</b>      |        | -1.1%      |
| 7:30 am         | Export Prices – Feb    | -0.5%      | <b>-0.6%</b>      |        | -0.8%      |