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Economics Group

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Trade Deficit Narrows as Consumer Imports Nosedive

Imports of consumer goods tumbled by more than $5 billion in March, which is somewhat at odds with other measures of consumer spending. Trade likely will continue to exert headwinds on overall GDP growth.

Why Did Consumer Imports Nosedive?

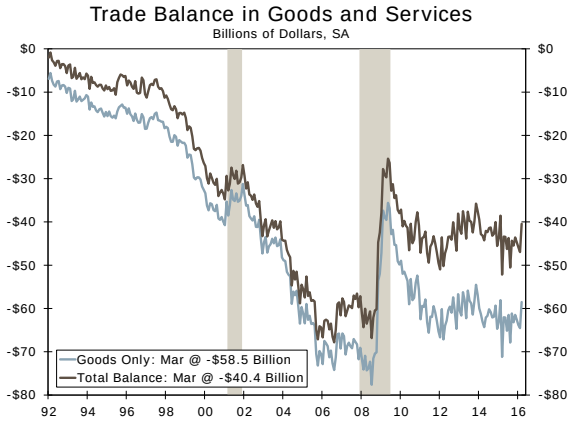
The deficit in U.S. international trade in goods and services fell from $47.0 billion in February to $40.4 billion in March (top chart). The sharp narrowing in the overall trade deficit came as little surprise because preliminary data on trade in goods (services not included) that were released last week signaled that a sharp reduction in the overall deficit was in the offing. That said, the overall deficit narrowed a bit more than most analysts had expected. Although the value of goods and services exports fell by $1.5 billion in March, the value of imported goods and services swooned by $8.1 billion during the month.

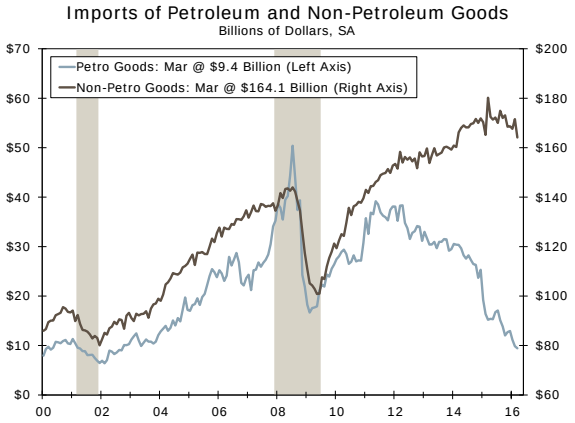
Let us start on the import side of the ledger. The value of petroleum imports edged down by more than $400 million in March, but most of the weakness in the overall import figure came from non-petroleum imports (middle chart). Moreover, there was broad-based weakness in imports, especially in imports of consumer goods, which nosedived by $5.1 billion in March. Frankly, we really do not know what to make of the sharp decline in consumer goods imports that occurred in March because it is at odds with other measures of the consumer sector, which show that consumer spending continues to grow, if only at a modest pace. In our view, the sharp decline in imports that apparently occurred in March likely will be reversed in coming months.

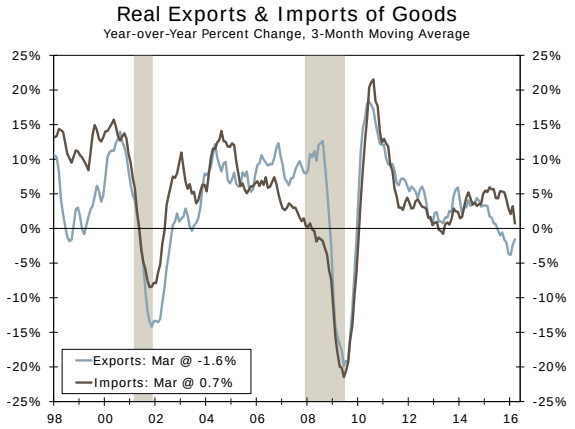
Other areas of weakness in imports make more sense to us. For example, real expenditures on equipment investment fell at an annualized rate of 8.6 percent in Q1, which is consistent with the $1.6 billion decline in imported capital goods that occurred in March. Car purchases weakened in the first quarter, and auto imports dropped by more than $700 million in March.

As noted above, the value of exports of goods and services fell by $1.5 billion in March, marking the eighth month in the past twelve in which exports have declined. The general weakness in exports over the past year or so reflects sluggish growth in some of America's major trading partners as well as the lagged effects of past dollar appreciation (bottom chart). We do not expect these headwinds on real export growth to reverse significantly anytime soon.

When the Bureau of Economic Analysis (BEA) released its initial estimate of first quarter GDP growth last week, it already had the preliminary March data on trade in goods that was previously noted. Therefore, today's data on the overall trade deficit in March will not have a material effect on revised GDP data in the first quarter that are slated for release at the end of the month.







Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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