TD Economics

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Data Release: Trade deficit widens to largest in 5 months

- The U.S. international trade deficit widened to $42.3 billion in February from a revised $39.3 billion last month. This was contrary to market expectations for a slight narrowing to $38.5 billion.
- In nominal terms, exports fell 1.1% M/M. The decline was concentrated in food and beverage (-0.2%), capital goods (-2.0%) and in particular, industrial supplies (-6.1%). On the other hand, exports rose for automotive (0.8%) and consumer goods (7.7%). Services exports were flat.
- In contrast to the fall in exports, nominal imports grew 0.4% M/M. The rise was largely a result of higher services imports, as goods imports rose only 0.1%. Imports fell for food and beverage (-0.5%), industrial supplies (-0.5%) and capital goods (-2.4%). Imports rose for automotive goods (4.0%) and consumer goods (0.3%).
- Omitting price changes, goods exports fell 1.6% in real terms, while real goods imports fell 0.2%.

Key Implications

- This is certainly not the best of reports. Real goods exports fell much more than imports, suggesting that trade will weigh on economic growth in Q1. Moreover, we already knew that business investment would likely be weak in the first quarter, and the relatively sharp fall in capital goods imports reaffirms this. Overall, our view of an extremely tepid first quarter for economic growth is reinforced. Real GDP growth may come in at the bottom of the 1.0-1.5% range.
- Generally speaking, the deterioration in the balance of trade does need to be placed in context. Trade has softened relative to some of the improvement seen in late 2013, however the trade deficit remains smaller than it was in February last year. Going forward, reduced energy imports will help offset higher imports on the consumer-side as the economy improves from the weather-induced slump in Q1. Moreover, exports have likely been affected by temporary weather-related production shutdowns. Therefore, we expect exports to rebound, something that will be further aided by the improvement in European domestic demand.

Andrew Labelle
Economist