Comerica Economic Alert

Comerica Bank

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February U.S. International Trade

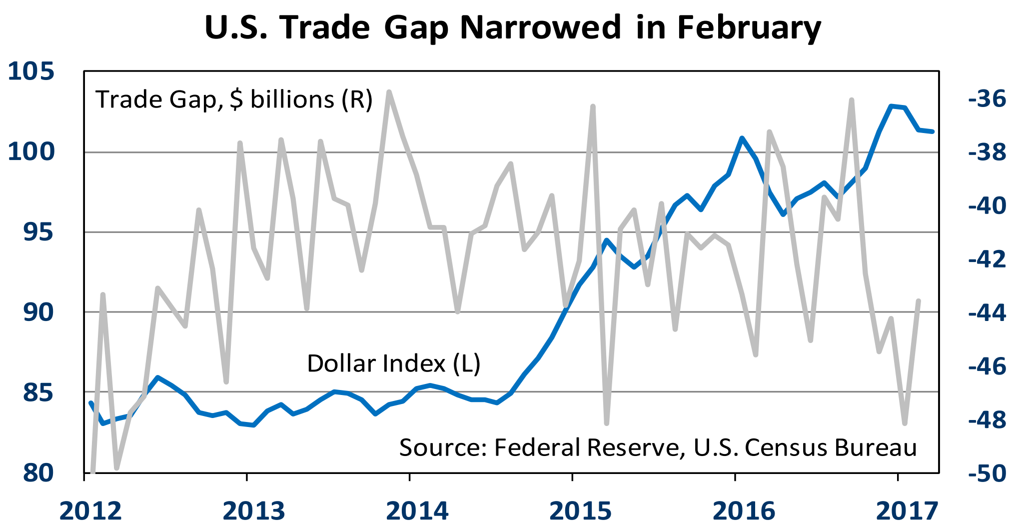
Fears of Big Drag from Trade on Q1 GDP Diminished with New Data

- The Trade Gap narrowed by $4.6 billion in February, to -$43.6 billion.
- Exports increased marginally by $0.4 billion, with slightly stronger exports of goods.
- Imports fell by $4.3 billion, reversing the surge in goods imports in January.

Trade has been in the news, not only because of Trump Administration initiatives, but also because of all the moving parts and their impact on U.S. GDP and debt. A widening trade gap is a drag on GDP and it requires more borrowing. Conversely, a narrowing trade gap lifts GDP and requires less borrowing. A key moving part in the trade story is the value of the dollar. A strong dollar makes our exports expensive for other countries and it makes their imports to the U.S. cheaper, and so a strong dollar tends to widen the U.S. trade gap. To see the swings in the value of the dollar most broadly, we can look at an index like the Federal Reserve's weighted average exchange value of the dollar adjusted for inflation. It shows the inflation adjusted value of the dollar weighted against the inflation adjusted currencies of our major trading partners. Since bottoming out in July 2011, the trade weighted value of the dollar has increased by nearly 25 percent, making imports cheaper and our exports more expensive. Relative economic performance between countries, inflation rates, interest rates and the supply and demand of internationally traded financial instruments (government debt is a big component) all influence the value of the dollar and, in turn, influence the trade gap. Global supply and demand for specific goods also influence the trade gap. The U.S. is increasing exports of crude oil and other energy products as the "shale gale" unleashes significant supplies. This will help to narrow the trade gap and support U.S. GDP.

In the February trade data we see a major $4.6 billion narrowing of the trade gap after it widened significantly in January. The narrowing came primarily from a reduction in imports, driven by consumer goods (cell phones and other goods) and by automotive vehicles and parts. The trade balance of goods tends to be more volatile than the trade balance of services, and goods are tracked more closely than services. So we can see that the average inflation adjusted trade balance in goods for January and February is about even with the average for the fourth quarter of 2016. In plain English, the bounce back in the trade data for February cancels out the fear of a big drag from trade in 2017Q1 GDP. We could still have a surprise for March that would shift the first quarter average, but that appears to have a low probability.

Market Reaction: U.S. equity markets are mixed. The yield on 10-Year Treasury bonds is up to 2.35 percent. NYMEX crude oil is up to $51.13/barrel. Natural gas futures are up to $3.26/mmbtu.



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