U.S. Economic Flash

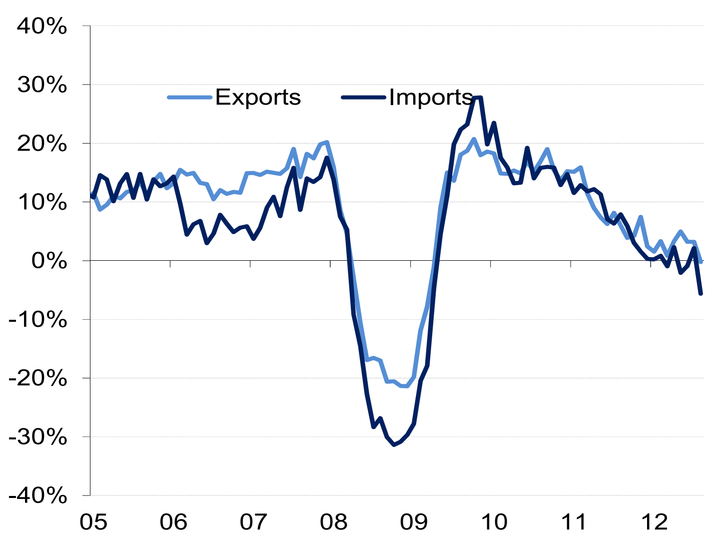
U.S. Trade Deficit Improves On Softer Imports

- **The international trade balance narrowed to -$38.8B, down from -$43.6B in February**
- **Exports fell 0.9% while imports dropped 2.8%, both hitting the lowest levels since 4Q12**
- **Lower oil prices also helped to improve the petroleum trade deficit**

The U.S. international trade deficit improved to -$38.8B in March following a modest decline to -$43.6B in February, reaching the lowest level since December. Unlike prior months when the trade gap shifted primarily due to the petroleum deficit, March's shift was primarily impacted by a decline in goods imports. Total imports fell 2.8%, the largest decline in four years, as domestic demand for foreign goods fell dramatically. Shared between weaker demand for Chinese goods and cheaper oil, the goods portion of imports fell 3.3% for a similarly sharp four-year record drop. According to the breakdown of imports, the largest share of the decline was in consumer and capital goods, which declined 7.3% and 3.3%, respectively. Exports fell by 0.9%, with goods exports down 1.4% and offset only partially by a modest 0.2% increase in services. Within the goods portion it was the foods, feeds and beverages portion that say a dramatic decline in foreign demand, dropping 7.4% for its largest decline in five months. On a YoY basis, exports were down 0.2% to mark the first decline since November 2009. The petroleum deficit did improve over February's figure, declining by $0.4B to $21.1B in March. This is primarily on the tail of falling oil prices which continue to provide domestic firms and consumers with cheaper gas in comparison to earlier in the year.

Overall, March's improvement in the trade balance may be a positive signal for the upcoming revisions to GDP growth for 1Q13. However, the underlying details are less encouraging. The drop in exports is surely not a good sign but the decline was a bit more moderate compared to previously weak months, when exports fell in October and January. While reduced imports will likely have a positive impact on the GDP figure, the data suggest that both businesses and consumers may have lost some steam moving into the second quarter. Last year, imports declined for five consecutive months between April and August as domestic growth slowed and fiscal worries were high.

Chart 1
U.S. Exports and Imports
YoY % Change



Source: U.S. Census Bureau & BBVA Research

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