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U.S. Economic Flash

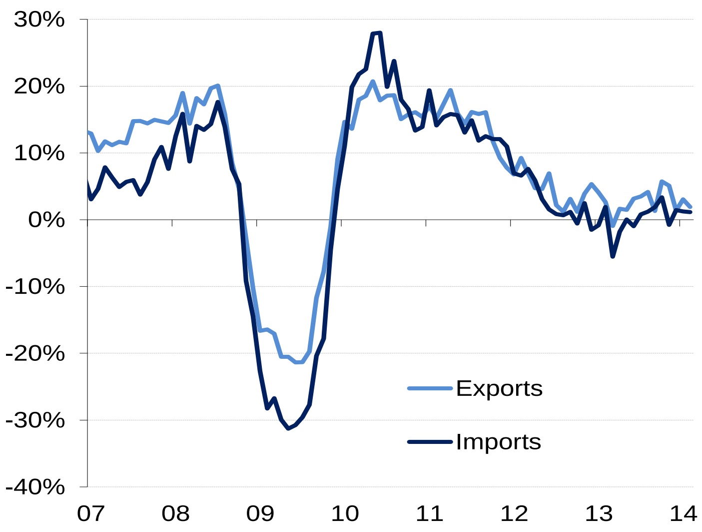
U.S. Trade Gap Widens in February as Exports Dip

- **The international trade gap widened to -$42.3bn in February from -$38.6bn in January**
- **Decline in demand abroad poses a threat to robust economic growth**
- **Drop in exports puts downward bias on 1Q14 GDP forecast**

The U.S. international trade gap widened much more than expected for the third consecutive month, reaching -$42.3bn in February and marking the biggest deficit since September. Exports were a concern in this report, dropping 1.1% for the month and more than offsetting a modest 0.4% rise in imports. The import growth figure was not out of the norm, but the decline in exports is more concerning because the risk of slowing demand overseas could threaten economic growth in the U.S. The dip in exports was led by a 1.5% dropoff in the goods component, while services exports remained unchanged from the previous month. Looking at specific components of the data, auto imports were up 5.9% MoM, an encouraging sign on the heels of a strong vehicle sales report this week, and is an indication that dealerships believe demand will remain strong in the future. Furthermore, the petroleum related trade balance widened slightly to -19.9bn from -19.3bn, though the U.S. continues to shift from dependence on energy overseas to domestic sources.

Overall, trade data for February suggest a downward bias for the 1Q14 GDP figure. Exports have declined in two of the last three months, and the biggest threat remains a slowdown abroad, particularly in China. While the economy is looking brighter in Europe, the developing situation in Russia and Ukraine is an additional risk to overseas demand. Looking forward, we believe the trade deficit will steadily shrink behind a positive effect of the domestic energy boom, as cheaper domestic energy will diminish the need for foreign reliance on oil and gas.

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



Source: U.S. Census Bureau & BBVA Research

Michael Soni
Michael.soni@bbvacompass.com
+1 713 831 7348

| 2200 Post Oak Blvd, 21st Floor, Houston, Texas 77056 | www.bbvaresearch.com