Data Release: Trade deficit improves in January, largely reversing December's unusually sharp deterioration

- The U.S. international trade deficit narrowed to -$41.8 billion in January, from a revised -$45.6 billion in December ($46.6 billion initial estimate). The fall in the deficit was just shy of the consensus view, which called for a narrowing to -$41.1 billion.
- Both exports (-2.9% M/M) and imports (-3.9%) declined on the month, with a greater decline in imports leading to an improved trade balance. Across goods categories, exports of food & beverages (-9.1%), automotive products (-7.0%), industrial supplies (-5.5%), capital goods (-1.2%) and especially of other merchandise (-19.8%) declined on the month. Consumer goods (+0.2%) was the only export category to rise in January. Services exports also declined but by a mild -0.1% M/M.
- Across goods imports, industrial supplies – a category that includes oil – saw a steep fall of -11.3% M/M. Also declining were non-food consumer goods (-4.4%), other merchandise (-4.4%) and autos (-2.0%). In contrast, imports of food & beverages (+1.4%) and capital goods (+0.2%) rose.
- The primary reason for the improvement in the trade balance was a substantial decline in the trade deficit for petroleum products, which fell by $3.9bn. This more than reverses the sharp rise in the petroleum deficit (+3.0bn) last month. Prices for both petroleum exports and imports fell on the month, with real petroleum exports seeing a moderate rise and real petroleum imports falling.
- After controlling for price changes, real goods exports fell by 2.0% M/M, while real goods imports declined by a milder 1.6%.

Key Implications

- Overall, the trade report came in largely as expected on the headline, with cheaper oil and rising production leading to an improvement in the balance. The sharp widening in the trade deficit in the previous release – to a 2014 high of -45.6bn in December – will be remembered as an anomaly.
- While the weakness in real imports would normally point towards relatively subdued domestic demand, a significant chunk can be explained by greater domestic energy production substituting for imports. Nonetheless, the external backdrop of tepid global demand amidst a rising dollar is clearly weighing on overall exports.
- In terms of GDP implications, the fourth quarter will remain largely unchanged owing to limited revisions. For the first quarter of 2015, net trade begins on the back foot, which was not unexpected, but which places greater onus on domestic demand remaining robust – something we expect given continued improvement on the home front, as telegraphed in today’s payrolls report.

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