Data Release: Another huge swing in the trade deficit, now at its largest since October 2008

- The U.S. international trade deficit widened substantially to -$51.4 billion in March, from an abnormally low $35.9 billion in February ($35.4 billion initial estimate). This is a second consecutive massive monthly swing – the average trade deficit in 2014 was -42.1bn – and can assuredly be pinned on port disruptions on the West Coast. The widening in the deficit was far greater than the -41.7bn expected by the market.

- Both exports (0.9% M/M) and imports (7.7%) rose on the month, with far greater movement in the latter. Most goods export categories saw an increase, including autos and parts (+6.9%), capital goods ex-autos (+3.3%), and food and beverages (+3.1%). In contrast, exports of consumer goods ex-autos fell 9.5%. Most of this movement was an unwind from opposite moves last month.

- Across goods imports, there were broad-based increases, including in non-food consumer goods (+20%) – the largest monthly move in at least ten years – autos & parts (+10.2%), and capital goods (+8.3%). The only major category to see a decline was industrial supplies (-0.4% M/M), a category which includes oil.

- Overall, the petroleum trade balance improved by $530mn, as petroleum import prices continued to fall. However, the ex-petroleum balance declined sharply by 16bn.

- After controlling for price changes, real goods exports rose 1.1% M/M, while real goods imports surged by 10.3%.

Key Implications

- Last month's sharp decline in the deficit to an October 2009 low was hugely impacted by the port disruptions on the West Coast. As a result, the widening this month was almost a foregone conclusion, albeit certainly not to this level.

- The real trade data in particular was far worse than expected. While we would usually look to the rise in imports as a sign of robust domestic activity, other March indicators have failed to corroborate this point on initial reading. Relative to the assumptions in the BEA's advance estimate of first quarter real GDP, the data implies a roughly 0.5pp reduction to real GDP growth, which now suggests economic activity declined outright at the start of 2015.

- In terms of handoff for the second quarter, this starts the economy on very poor footing arithmetically-speaking. Even with a large upward turn in monthly indicators, second quarter real GDP growth could come in at a relatively subdued sub-2%, which would mean a weaker first half of the year than in 2014. Note that this doesn't change our view for accelerating economic activity going forward. Nonetheless, while the Fed may still be inclined to hike in September with subdued readings on real GDP, this places particular onus on job growth rebounding and holding at a robust level over the next few months.

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