May 4, 2016

TD Economics

Data Release: Trade deficit narrows slightly more than expected in March

- The U.S. international trade deficit decreased markedly in March to $40.4 billion from a slightly downwardly revised $47.0 billion in February (prev. $47.1 billion). Consensus expected a $41.2 billion dollar trade gap for the month. In nominal terms, exports declined (-1.6% m/m), but imports fell substantially more (-3.6% m/m) leading to the narrowing of the trade deficit.

- In volume terms, exports declined 1.4% in the month and are down by the same percentage amount from a year ago, driven by declines in non-petroleum exports. The monthly decline in exports reversed much of the advance in February, with weakness concentrated in consumer goods, autos, and industrial supplies. Import volumes declined 4.1% month-over-month in March, and were down 5.8% on a year-over-year basis. The month-over-month fall in import volumes was generally broad-based with the exception of other goods. The decline in import volumes was most acute in non-automotive consumer goods which declined 9.7% m/m.

Key Implications

- In isolation, the March trade data has limited implications on our U.S. economic outlook for the first half of the year, but the sharp contraction in import volumes suggests that U.S. firms, facing already elevated inventory levels, remained cautious in the face of slowing personal consumption during the first quarter of the year.

- The reversal of dollar strength in recent weeks should provide a brief respite to U.S. exporters. However, past dollar appreciation and tepid growth in foreign demand will continue to exert downward pressure on U.S. exports this year, weighing on firms in the beleaguered manufacturing sector.

- As such, despite the temporary decline in imports, today's data is consistent with our view that net exports will remain a drag on economic growth over the near term. Further dollar weakness is unlikely through the remainder of 2017 (see our latest Dollars & Sense publication for an update of our interest and exchange rate forecasts), and reduced competitiveness related to past dollar appreciation will continue to weigh on U.S. exporters. That said, despite a weak growth outlook for 16H1, we anticipate that strengthening domestic demand and tightening labor market conditions will provide enough support to the inflation outlook for the Federal Reserve to resume its gradual tightening of monetary policy later this year.

Fotios Raptis, Senior Economist
416-982-2556

@TD_Economics

DISCLAIMER
This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.