Ed's Eye on the Economy

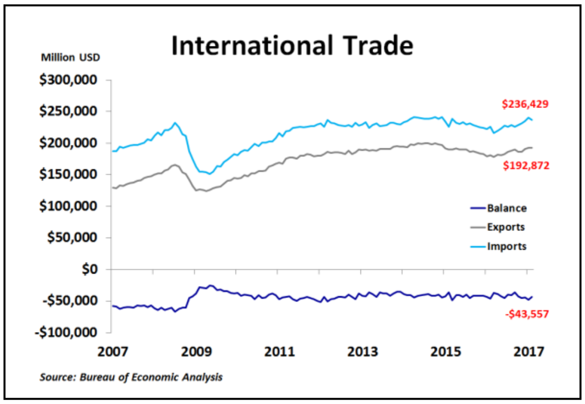
April 4, 2017

February International Trade Report

Trade deficit narrows as imports plunge

The U.S. trade deficit narrowed in February to $43.6 billion from $48.2 billion as exports rose by $360 million, while imports plunged by $4.3 billion. Compared to a year ago, exports were up 6.7% and imports were up 4.5%, both down from January's rates which were the strongest growth rates in five years.

The small rise in exports was led by a $665 million increase in consumer goods, nearly all of which came from pharmaceuticals. Industrial supplies and materials exports rose by $411 million, as increases in exports of fuel oil and crude oil offset declines in gold. Exports of vehicles and parts rose just $196 million. On the downside, capital goods exports fell by $623 million on declines in aircraft and engines. Foods, feeds and beverage exports dropped by $676 million due almost entirely to soybeans.

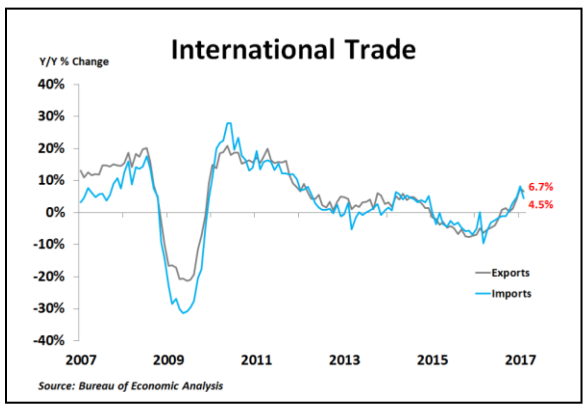


The plunge in imports was driven by a $3.1 billion decline in consumer goods, more than half of which came from cell phones and other household goods. Imports of vehicles and parts also fell a notable $2.6 billion. There was not much change in capital goods and foods, feeds and beverages, rising by $124 million and $263 million, respectively. Industrial supplies saw a large $1.4 billion increase driven almost exclusively from imports of crude oil.

The biggest contributions to the *change* in the deficit in February came from consumer goods and vehicles and parts. Consumer goods accounted for almost half of the trade deficit in goods in February, while automotive vehicles and parts accounted for about a quarter of the deficit.

Regionally, the big story in today's report is a massive $8.6 billion decline in imports from China. Combined with a $274 million decrease in exports to China, trade with China accounted for nearly half of the non-seasonally adjusted $17.9 billion decrease in the goods deficit in February. Trade with Canada, South Korea and the United Kingdom also contributed to the narrowing of the deficit. Trade with China accounted for nearly half of the *level* of the deficit in February.

Although the trade deficit narrowed in February, it was due to a big decline in imports,



suggesting weakening demand from U.S. consumers. The gradual depreciation of the dollar since the beginning of the year also likely helped somewhat in bringing down the deficit in February, as predicted in the last report. While the lower deficit will support GDP, the decline in imports suggests consumer spending may be slipping.

Ed Kashmarek, The Everyday Economist
www.edkashmarek.com