



# Economic Flash!

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## U.S. Trade Deficit: An Improvement in Name Only

	March	Feb	Jan-Mar08	Mar07	Jan-Mar07
<b>Balance</b>	-58.21	-61.71	-178.88	-63.04	-178.62
<b>Exports</b>	148.51	151.10	448.00	128.56	381.00
<b>Imports</b>	206.72	212.82	626.88	191.59	559.62
<b>TRADE BALANCE</b>					
<b>Goods</b>	-68.60	-72.09	-210.14	-71.02	-201.71
<b>Services</b>	10.39	10.38	31.26	7.99	23.09
<b>EXPORTS</b>					
<b>Goods</b>	104.73	107.28	316.75	90.78	269.29
<b>Services</b>	43.78	43.83	131.25	37.78	111.71
<b>IMPORTS</b>					
<b>Goods</b>	173.34	179.37	526.89	161.80	471.00
<b>Services</b>	33.38	33.45	99.99	29.79	88.61

- One would like to believe that a \$3.5 bn improvement in the US trade deficit would be a sign of nascent US economic strength. However, this is not the case when it is driven by a sharp 2.9% m/m decline in nominal imports. March's trade balance came in a -\$58.2 bn, after an upwardly revised decline of \$61.7 bn in February, but this improvement revealed more about US domestic weakness than global economic strength.
- As mentioned above, nominal imports fell by close to 3% m/m, but in real terms this decline was an even more dramatic drop of 5.4% m/m. The weakness was broad based, spanning both capital and consumer goods. Even a huge jump in energy prices could not help the bottom line, with demand for crude oil falling by 8.9% m/m.
- Along with a general decline in imports, exports also fell in March. Despite a still-weak greenback and strong upward trend in global demand for American products, goods and services exports dropped 1.7% m/m in nominal terms and 4.4% m/m on a price adjusted basis. Again, here too the weakness was spread across almost all categories.
- Looking at how these results break down with respect to the United States' trading partners, the results are not surprising. The US trade deficit with OPEC nations is nearly double what it was a year ago, but has improved versus both the entire Pacific Rim and Europe.

## Implications & Actions

**Re: Economic Forecast** —This report will certainly boost the upcoming revision to first-quarter real GDP growth (barring any offsetting changes), but is still not enough to prevent a more dramatic economic slowdown over the next two quarters. We believe that the general improvement in the US trade position will continue, and that net real exports will remain one of very few positives for the American economy for the rest of the year. However, a good trade picture will not be able to make up for an increasingly weak US consumer.

**Re: Markets** —Despite the better-than-expected trade headline, the details of this report reveal more about what is wrong with the US economy than what is right. This mixed message dulled the market impact of this release, and we saw no major reaction from either Treasuries or the US\$.

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