

Daily Economic Update

May 4, 2017

US trade balance was little changed in March but deficit increased in Q1

Our Take:

The US trade balance was little changed in March although the trend in recent months has been modest widening in the deficit. In fact, today's data confirms the US goods deficit in Q1 was the widest since 2008, a fact that is sure to draw the attention (and ire) of the Trump Administration. That is not to say that trade was a significant drag on growth in the quarter; today's report is consistent with the BEA's advance estimate that net trade (including services) had little impact on headline GDP growth in Q1. However, we think the focus will be on the level of the deficit rather than the rate of change. Trump's protectionist rhetoric has stepped up recently; just last week we saw threats to unilaterally withdraw from NAFTA and an executive order to review existing trade agreements. The risk of protectionism is real, though we haven't incorporated any trade policy changes in our outlook as we await more specific proposals should they emerge. Our trade forecast remains largely driven by fundamentals—a still-strong US dollar (despite some retracement year-to-date) and relative strength in domestic spending are expected to result in a modest drag on GDP growth from net trade going forward, though we don't see that inhibiting above-trend growth in the overall economy.

Highlights:

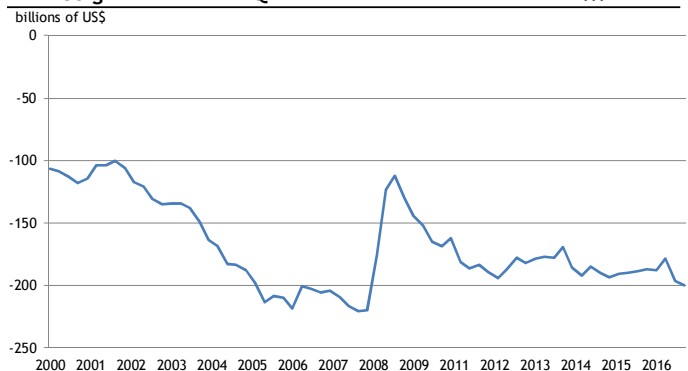
- The US trade deficit in goods and services narrowed slightly to \$43.7 billion in March from \$43.8 billion in February as declines in both exports and imports roughly offset one another.
- Expectations were for a slightly larger deficit given deterioration in the goods balance in the advance report; however, a larger services surplus (not included in the advance reading) provided offset.
- Goods imports recorded a broadly-based decline while lower exports were concentrated in autos and consumer goods.

US international trade in goods and services

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Trade balance (bil. US\$)	-45.5	-44.3	-48.2	-43.8	-43.7
Exports (% change)	-0.2	2.7	0.8	0.1	-0.9
Imports (% change)	1.1	1.6	2.3	-1.8	-0.7

Source: Census Bureau

The US goods deficit in Q1/17 was the widest since 2008...



Source: Census Bureau, RBC Economics Research

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