# A Wider US Trade Deficit Masks Positives

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**United States, International Goods And Services Trade Balance, US$ Billions, February:**

Actual: -57.6

Scotia: -55.5

Consensus: -56.8

Prior: -56.7 (revised from -56.6)

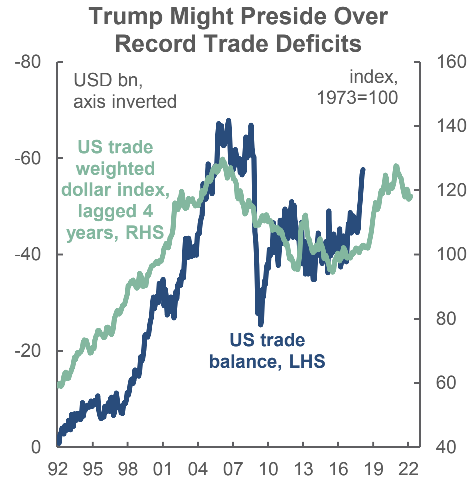
- The US nominal trade deficit widened further to the highest since October 2008. The widening, however, was due to price effects as the inflation-adjusted goods trade balance in volume terms narrowed a little on the month. The big price effect over time has been the lagging influence of the USD as the trade deficit in value terms is correlated with broad dollar movements lagged out 3-4 years in time (see updated chart). With USD softening since early last year, wider trade deficits are probably transitory but we may well not be at peak trade deficit risk for some time. Regardless, there is tweet risk on the back of these numbers that risks reacting to the headline figure while also ignoring underlying encouraging details. Navarro's pending cnbc interview (10:30amET) may well play up the headline trade deterioration regardless of whether it makes sense to do so.

- Export volumes were up 2% m/m and import volumes were up by less (+0.8%). That's incrementally more positive than pre-February tracking given the drop in export volumes during January. Gains on both sides of the trade volume ledger are positive signals on the domestic and international fronts.

- For Q1 as a whole, export volume growth is tracking at about a 1½% annualized pace while import volume growth is tracking at about a 6 ½% annualized pace. The real goods trade deficit is up by 16.4% q/q SAAR in Q1 all of which assumes a flat March in order to focus upon the effects of what we know in terms of the Q4 hand-off and Q1 tracking.

- Judging this real goods deficit widening to be a negative is more a politically normative argument than a substantive one. Why are import volumes strong? Probably because the domestic economy is strong enough to pull them in! Food, feeds and beverage import volumes were up 3.5% m/m in February and capital goods imports were up 2.9%. I fail to see how this reflects a trade 'problem'. Capital goods imports are supposed to be a positive sign for business investment in America. Import growth can reflect domestic strengths and this month's rise is a good example of why a lot of the political discourse on trade balances is simplistic.

- The gain in export volumes was significantly driven by a large 6.5% rise in auto export volumes and they are up by 8.4% y/y. Oh the poor US auto sector, so unable to compete and in dire need of protection from Mexicans, Canadians, Koreans, Chinese, Klingons etc. What hogwash. U.S. auto export volumes are at an all-time record high. Allow me to repeat: a record high. Years of heavy subsidies and preferential arrangements that attracted plants to southern US states and siphoned off investment from northern US states are netting out to a strong picture for domestic auto production and exports in a beautiful scenario that leverages off of integrated North American supply chains. The root cause of America's auto sector challenges is significantly regional in nature. If anything, US trade policy uncertainty risks jeopardizing this surge by making the US industry less internationally competitive. Also note that there was a 3.9% rise in exports of industrial supplies and materials and a 1.6% rise in exports of capital goods (ie: the US is also exporting this category).




Sources: Scotiabank Economics, Bloomberg.