

John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 444
April Trade Balance

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Trade Data Suggest Negative Contribution to Second-Quarter GDP

PLEASE NOTE: This Commentary initially was written on Friday, June 8th, and appended to the Special Commentary scheduled for release on the same date. With production problems on the Special Report, the trade detail has been separated out from that missive so as to get the information posted. With a broad, general review of the economy pending in the Special Commentary, this brief comment goes straight to the trade reporting detail.

The Special Commentary has evolved into a massive document as a supplement to [Hyperinflation 2012](#), updating the hyperinflation outlook as well the general outlook for the underlying economic, systemic, financial and political circumstances. Barring further production issues, the Special Report will be published today or tomorrow, January 11th or 12th. I apologize for the delay and any inconvenience it may have caused.

The next regular Commentary is scheduled for Wednesday, June 13th. It will cover May retail sales and PPI. That will be followed by a June 14th Commentary covering the May CPI and related real earnings and retail sales, and a June 15th Commentary covering May industrial production.

Best wishes to all — John Williams

REPORTING DETAIL

U.S. TRADE BALANCE (April 2012, Annual Benchmark Revision)

April Trade Deficit Suggested Possible Negative Contribution to Second-Quarter GDP Growth. In the context of annual benchmark revisions, the April trade deficit—though narrowed from the March level—was worse than expected by the markets. Before inflation-adjustment, the April number was slightly narrower than the first-quarter average, but after inflation adjustment, the April deficit was wider than the first-quarter average. Accordingly, the latest number trended towards a negative contribution to the inflation-adjusted “advance” estimate of second-quarter 2012 GDP, due for release on July 27th along with the annual GDP revisions.

The benchmark revisions were relatively minor in aggregate, with the 2009 deficit narrowed by 0.6%, the 2010 deficit narrowed by 1.1% and the 2011 deficit effectively unchanged from prior reporting. The 2010 revision was due almost entirely to “new data” that increased the reported surplus in the services sector, while the dominant deficit in the goods or merchandise sector was unchanged. Unlike the relatively hard numbers in the goods reporting, the services sector is so heavily guessed at that it is nearly worthless as an indicator. The government began guessing at and reporting the services sector some years back, for the monthly trade report, so as to provide some offset to the embarrassingly rapid deterioration in the monthly merchandise deficit.

Nominal (Not-Adjusted-for-Inflation) Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported Friday (June 8th) that the nominal, seasonally-adjusted monthly trade deficit in goods and services for April 2012, on a balance of payments basis, narrowed to \$50.1 billion from a benchmark-revised \$52.6 billion (previously \$51.8 billion) in March. The April 2012 deficit also was wider than the revised \$43.6 billion (previously \$43.2 billion) trade shortfall in April 2011.

Against the revised March detail, the seasonally-adjusted April 2012 trade balance reflected lower levels of both exports and imports, with imports falling at a faster pace than exports. Seasonally-adjusted petroleum-based imports actually contributed to the import downturn, despite unadjusted gains in oil prices and physical oil import volume.

Crude Oil and Energy-Related Petroleum Products. For the month of April 2012, the not-seasonally-adjusted average price of imported oil rose to \$109.94 per barrel, from \$107.95 in March 2012, and it was up from \$103.19 in April 2011.

In terms of not-seasonally-adjusted physical oil imports, April 2012 volume averaged 9.000 million barrels per day, up from 8.738 million in March 2012, and up from 8.408 million in April 2011.

Caution on Data Quality. The standard caution here for the monthly detail is that heavy distortions likely continue in the seasonal adjustments, much as has been seen in other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. As has been discussed frequently (see [Hyperinflation 2012](#) for example), the extraordinary length and depth of the current

business downturn have disrupted regular seasonality patterns. Accordingly, the markets should not rely heavily on the accuracy of the monthly headline data.

Real (Inflation-Adjusted) Trade Deficit. Adjusted for seasonal factors and net of oil price swings and other inflation (2005 chain-weighted dollars as used in reporting real GDP), the April 2012 merchandise trade deficit came in at \$48.5 billion, versus a benchmark-revised \$49.5 billion (previously \$48.9 billion) in March. Though narrowed slightly versus March, the April deficit was bigger than the \$47.7 billion average deficit for first-quarter 2012. With April being the first of two months on which the “advance” estimate of second-quarter GDP partially will be based, the early trend here is for a net deterioration in the GDP’s net export account and a negative contribution to the headline GDP estimate.

The benchmark revisions on the real data went back to the beginning of 2009 but, again, were not particularly large, with minor widening of the real annual deficit in 2010 by 0.6%. That suggested a minimal downside effect on the pending revision to 2010 GDP.

Based on the latest reporting and revisions, the annualized pace of April 2012’s estimate (a proxy for second-quarter 2012) was \$582.1 billion, somewhat wider than the revised annualized estimate of the first-quarter 2012 real trade deficit of \$572.1 billion (previously \$568.8 billion), which, in turn, was little changed from the revised estimate of a \$573.4 billion (previously \$564.4 billion) in fourth-quarter 2011. Again, the real trade deficit detail is used as a partial base for estimating the GDP’s net export account.

Week Ahead. *Recognition of an intensifying double-dip recession as well as a pending, escalating inflation problem remains sporadic. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.*

Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

Retail Sales (May 2012). Due for release on Wednesday, June 13th, by the Census Bureau, headline May retail sales are due for a small contraction, per market expectations, and that would be reasonable. The May detail follows an initial headline gain of 0.1% in April. With the headline May CPI-U likely to show a decline, a small nominal (not-adjusted-for-inflation) decline in retail sales could swing to unchanged or to a small gain after adjustment for inflation. Nonetheless, the pattern of weakening/flattening monthly real retail sales activity should remain in place.

Producer Price Index—PPI (May 2012). Due for release on Wednesday, June 13th, by the Bureau of Labor Statistics, the May PPI should show a headline monthly decline. That would follow a 0.2% monthly drop in April. A May decline would reflect still-lower monthly average oil prices and seasonal factors that traditionally push unadjusted energy-related finished goods inflation lower on a seasonally-adjusted basis. This series, however, is irregularly volatile, and a headline number less-negative than the expected sharp monthly decline is a fair bet.

Consumer Price Index—CPI (May 2012). Due for release on Thursday, June 14th, by the Bureau of Labor Statistics, the headline CPI-U is likely to contract. Market expectations appear to be settling in on a 0.2% headline decline, following an unchanged headline reading in April. Where May 2012 gasoline prices fell by 4.2% month-to-month, per the Department of Energy, seasonal factors should exacerbate that decline. Seasonals knocked down an unadjusted 3.6% monthly gasoline-price gain in May 2011 to a seasonally-adjusted 2.0% monthly decline.

As has been the case in recent months, though, the potential for an upside surprise to the negative expectations comes from the broad economy, where the effects of higher oil prices still are working their way into retail pricing.

Year-to-year CPI-U inflation would increase or decrease in May 2012 reporting, dependent on the seasonally-adjusted monthly change, versus the 0.27% gain in the adjusted monthly level reported for May 2011. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for May 2012, the difference in May's headline monthly change (or forecast of same) versus the year-ago monthly change should be added to or subtracted directly from the April 2012 annual inflation rate of 2.30%. A May headline contraction of 0.2%, for example, would reduce the CPI-U annual inflation by about 0.5% to roughly 1.8%.

Industrial Production (May 2012). Due for release on Friday, June 15th, by the Federal Reserve, the headline industrial production number should contract for May, following the 1.1% monthly gain initially reported for April. Where the working-off of excess inventories should result in softer production numbers, expectations for headline growth seem to be settling in around unchanged.

Despite the recent benchmark revision to industrial production, the April reporting showed post-benchmark revisions that were unusually large and irregular. As always is the case, the accuracy of headline numbers is subject to whatever surveying or reporting problems the Federal Reserve may be having with its series.
