

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

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March Trade Deficit

May 6, 2014

**Negative Quarterly Trade Estimate Locked-In,
No Implied Revision to Flat GDP Reporting**

PLEASE NOTE: The next regular Commentary is scheduled for Tuesday, May 13th, covering April retail sales, followed by Commentaries on May 15th, covering the April PPI, CPI and industrial production, and on May 16th, covering April housing starts.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE COMMENTARY

March Trade Report Reduced the Potential for a Major GDP Revision. With the first-quarter trade numbers now fully in place, the reading of 0.1% annualized first-quarter GDP growth—effectively unchanged—increasingly is likely to hold. Large variations between the first and second estimates of quarterly-trade impact on GDP often result in large revisions to initial GDP reporting, where the initial estimate lacks full detail. Other revisions (such as in inventories) also can force GDP revisions, but the trade numbers are reasonably hard and meaningful, while the other areas remain guesstimates, with soft data that are not meaningful.

Today's (May 6th) relatively brief *Commentary* concentrates on the March trade release and its implications. The unfolding of a new economic downturn is discussed in the *Hyperinflation Watch*, while next week's heavy economic reporting is previewed in the *Week Ahead* section.

First-Quarter Trade Deterioration Locked-In by March 2014 Reporting. As discussed in [Commentary No. 623](#), and as suggested in the trade-deficit analysis of [Commentary No. 615](#), the widening of the U.S. trade deficit in first-quarter 2014, swung from what had been a narrowing deficit and positive contribution of 0.99% to the fourth-quarter GDP's 2.63% headline growth, to a negative contribution of 0.83% to the first-quarter GDP's 0.11% headline growth. Where the initial first-quarter trade estimate was based on the reporting of just January and February of 2014, the just-reported headline March 2014 trade data have left the quarterly estimate largely intact, with no meaningful implications for the first revision, second estimate of first-quarter 2014 GDP scheduled for May 29th.

With the trade data subject to a June 4th benchmark revision back to 1999, the next significant impact of revised trade data on GDP (very likely to the downside), will be seen along with the annual revisions to the GDP, and the initial estimate of second-quarter 2014 GDP, due for July 30th.

In the nominal terms of the simple monthly reporting, the headline March 2014 deficit in goods and services narrowed by \$0.3 billion, reflecting a slightly greater \$2.7 billion increase in exports versus a \$2.4 billion increase in imports.

Nominal (Not-Adjusted-for-Inflation) March 2014 Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for March 2014, on a balance-of-payments basis, narrowed to \$40.378 billion, from a revised \$41.874 billion in February 2014, but widened sharply from \$36.562 billion in March 2013.

Real (Inflation-Adjusted) March 2014 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the March 2014 merchandise trade deficit (no services) narrowed to \$49.444 billion, from a revised \$49.751 billion in February 2014, but widened sharply versus \$44.465 billion in March 2013.

With March 2014 reporting in place, the first-quarter 2014 estimate of the real merchandise trade deficit annualized out to \$590.9 billion (previously estimated at \$591.5 billion, with just two months in place). Although the first-quarter estimate revised minimally lower, so too did the estimate of the fourth-quarter real merchandise trade shortfall. The annualized fourth-quarter deficit now stands at a revised \$564.0 (previously \$564.7) billion, where the net widening of the deficit from the fourth-quarter 2013 to first-quarter 2014 actually increased a bit. The revisions were not meaningful and likely will have negligible, if any, impact on the first-revision to first-quarter 2014 GDP (May 29th)

[For further detail on March trade deficit, see the Reporting Detail section]

HYPERINFLATION WATCH

Hyperinflation Summary Outlook. The hyperinflation and economic outlooks were updated with the publication of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), on April 2nd, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8th. A basic summary of the broad outlook is found in the *Opening Comments* and *Overview and Executive Summary* in the *First Installment Revised*. The broad outlook has not changed, only evolved with various details as they continue to fall in place. A formal and more-condensed summary will take over this section, soon. What follows here is new detail on the evolving economic outlook, which will be incorporated into that summary.

Economy Turns Down Anew. Consistent with the above *Special Commentaries*, a renewed U.S. business slowdown/downturn was evident in the initial headline estimate of first-quarter 2014 GDP, with an annualized headline growth of 0.11% ([Commentary No. 623](#)). As the patterns of headline growth in economic reporting continue to slow and to turn down, financial-market expectations increasingly should shift towards renewed or deepening recession. That circumstance, in turn, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

The fundamental issues threatening the dollar, again, include, but are not limited to: the U.S. government not addressing its long-term solvency issues; monetary malfeasance by the Federal Reserve seeking to provide liquidity to a troubled banking system, and to the U.S. Treasury, with a current pace of 70% monetization of effective net issuance of public federal debt; a mounting domestic and global crisis of confidence in a dysfunctional U.S. government; mounting global political pressures contrary to U.S. interests; and a severely damaged U.S. economy, which never recovered post-2008 and is turning down anew (including a widening trade deficit).

The reporting of the March 2014 trade data, confirmed the steep deterioration in the first-quarter trade deficit, sharply reducing the chances for a major change to initial, headline first-quarter GDP growth in the pending two regular revisions. Watch out, though, for the annual benchmarking on July 30th.

Generally reflecting weaker data in revisions to underlying data, downside revisions to recent GDP reporting are likely in the annual benchmark revisions. Specifically, underlying current economic activity actually is deteriorating and weak enough that the benchmark GDP revision likely will show a contracting first-quarter 2014 GDP, coincident with the initial reporting of a contraction in second-quarter 2014 GDP (also July 30th). That quickly should gain formal recognition as a new recession.

Following the unstable, questionable and otherwise horrendous unemployment reporting for April 2014 (see [Commentary No. 624](#)), most of the monthly economic series in April (see *Week Ahead* section) through June should continue to show or suggest ongoing contraction in broad economic activity. If that

happens, market expectations—and related financial-market reactions—should move into the “renewed recession” camp, well before the July 30th GDP benchmarking.

REPORTING DETAIL

U.S. TRADE BALANCE (April 2014)

First-Quarter Trade Deterioration Held with March 2014 Reporting; Quarterly Trade Deterioration Knocked 0.83% off First-Quarter GDP Growth Rate. As discussed in [Commentary No. 623](#), and as suggested in the trade-deficit analysis of [Commentary No. 615](#), the widening of the U.S. trade deficit in first-quarter 2014, swung from what had been a narrowing deficit and positive contribution of 0.99% to the fourth-quarter GDP’s 2.63% headline growth, to a negative contribution of 0.83% to the first-quarter GDP’s 0.11% headline growth. Where the initial first-quarter trade estimate was based on the reporting of just January and February of 2014, the just-reported headline March 2014 trade data have left the quarterly estimate largely intact, with no meaningful implications for the first revision, second estimate of first-quarter 2014 GDP scheduled for May 29th.

With the trade data subject to a June 4th benchmark revision back to 1999, the next significant impact of revised trade data on GDP (very likely to the downside), will be seen along with the annual revisions to the GDP, and the initial estimate of second-quarter 2014 GDP, due for July 30th.

In the nominal terms of the simple monthly reporting, the headline March 2014 deficit in goods and services narrowed by \$0.3 billion, reflecting a slightly greater \$2.7 billion increase in exports versus a \$2.4 billion increase in imports.

Nominal (Not-Adjusted-for-Inflation) March 2014 Trade Deficit. The BEA and the Census Bureau reported today, May 6th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for March 2014, on a balance-of-payments basis, narrowed to \$40.378 billion, from a revised \$41.874 (previously \$42.300) billion in February 2014, but widened sharply from \$36.562 billion in March 2013.

Energy-Related Petroleum Products. For March 2014, the not-seasonally-adjusted average price of imported oil rose to \$93.91 per barrel, from \$91.53 in February 2014, but was down from \$96.95 per barrel in March 2013.

Also not-seasonally-adjusted, physical oil import volume in March 2014 averaged 7.259 million barrels per day, down from 7.590 million in February 2014, but up from 6.959 million in March 2013.

Ongoing Cautions on Data Quality. As previously discussed, potentially heavy distortions in headline data continue from 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 [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) 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) March 2014 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the March 2014 merchandise trade deficit (no services) narrowed to \$49.444 billion, from a revised \$49.751 (previously \$50.084) billion in February 2014, versus a revised \$48.530 (previously \$48.493, initially \$48.525) billion in January 2014, and widened sharply versus \$44.465 billion in March 2013.

With March 2014 in place, the first-quarter 2014 estimate of the real merchandise trade deficit annualized out to \$590.9 billion (previously estimated at \$591.5 billion, with just two months in place). Although the first-quarter estimate revised minimally lower, so too did the estimate of the fourth-quarter real merchandise trade shortfall. The annualized fourth-quarter deficit now stands at a revised \$564.0 (previously \$564.7) billion, where the net widening of the deficit from the fourth-quarter 2013 to first-quarter 2014 actually increased a bit. The revisions were not meaningful and likely will have negligible, if any, impact on the first-revision to first-quarter 2014 GDP (May 29th)

While the data here do not track perfectly with the numbers reported by the Bureau of Economic Analysis (BEA) in the GDP, they are the primary numbers used in generating the BEA's guesstimates of the net-export account.

WEEK AHEAD

Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)), including the initial estimate of first-quarter 2014 GDP.

Weakening, underlying economic fundamentals indicate deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition.

Stronger inflation reporting also remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing global political instabilities. Food inflation has started to pick up as well. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. and global political conditions (see [*Hyperinflation 2014—The End Game Begins \(Updated\)* – First Installment](#)). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last eight years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Retail Sales (April 2014). The Census Bureau’s April 2014 retail sales estimate is scheduled for release on Tuesday, May 13th. In the context of the April 30th annual benchmark revision to retail sales (see [*Commentary No. 624*](#)), and with the consumer still in an extreme liquidity bind, odds favor headline retail sales reporting coming in below market expectations, which appear to be for a relatively modest headline monthly gain. An outright month-to-month contraction in seasonally-adjusted sales is a good possibility, with headline April CPI-U (due for publication on May 15th, see below) likely to provide additional, downside pressure on the headline inflation-adjusted or “real” retail sales growth.

Producer Price Index—PPI (April 2014). The April 2014 PPI is scheduled for release on Wednesday, May 14th, by the Bureau of Labor Statistics (BLS). A small month-to-month gain is likely, but, once again, not from rising energy prices.

Depending on the oil contract followed, not-seasonally-adjusted monthly-average oil prices were up by 0.2% to 1.2% for the month of April, along with a 3.6% increase in average retail gasoline prices. PPI negative seasonal adjustments for energy in April are severe enough to wipe out any unadjusted gains in energy inflation. Although the new PPI series is less dependent on the increasingly “antiquated” concepts of oil, food and “core” (ex-food and energy) inflation, services costs should be seeing some continued inflationary pressures from the rising prices in the hard economy. That likely will help to keep the headline April PPI in minimally-positive territory.

Consumer Price Index—CPI (April 2014). The release by the Bureau of Labor Statistics (BLS) of the April 2014 CPI is scheduled for Thursday, May 15th. The headline CPI-U is a fair bet to show a small gain for the month.

Average gasoline prices rose month-to-month in April 2014 by 3.6%, on a not-seasonally-adjusted basis, per the Department of Energy. BLS seasonal adjustments will depress the gain in gasoline prices in the headline April CPI by enough to reduce the contribution of gasoline prices to the headline seasonally-adjusted, aggregate inflation rate from plus 0.2% to plus 0.1%. Upside inflation pressures also are likely from the food and “core” (ex-food and energy) categories.

Year-to-year, CPI-U inflation would increase or decrease in April 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.16% decline in the monthly inflation reported for April 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for April 2014, the difference in April’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the March 2014 annual inflation rate of 1.51%. For example, if the headline April CPI-U 2014 gained 0.2% for the month, year-to-year inflation for April would increase to about 1.9%.

Index of Industrial Production (April 2014). Also on Thursday, May 15th, the April 2014 index of industrial production will be released by the Federal Reserve Board. Net of the still ongoing irregular volatility in utility output tied to seasonable or unseasonable weather (and catch up from same), market expectations for minimal April production growth are a fair bet to be disappointed on the downside, as consumption slows and companies continue to reduce excessive inventory levels. As usual, this series is subject to large prior-period revisions.

Residential Construction—Housing Starts (April 2014). On Friday, May 16th, the Census Bureau will publish its estimate of April 2014 housing starts. In quarterly contraction for two months, despite extreme monthly volatility in reporting and despite near-perpetual wishful market expectations for strengthening activity in housing starts, month-to-month change likely will remain in a pattern of statistical-insignificance, with ongoing stagnation and renewed downturn or downside revisions seen in the aggregate series, as well as particularly in single-unit housing starts. As usual, this series is subject to large prior-period revisions.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and an ensuing five-year pattern of housing starts stagnation at historically low levels, little has changed. There remains no chance of a near-term, sustainable turnaround in the housing construction market, unless there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and still does not appear to be in the offing.