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Trade Balance

The February trade deficit shrinks by a less-than-expected $1.2 billion (Consensus: narrow $2.3 billion; Decision Economics: narrow $1.8 billion) from a prior-month figure revised to be $0.6 billion worse.

One immediate impact is to confirm expectations that international trade will be a significant drag on first quarter GDP growth--reversing some of the boost supplied in the fourth quarter. This will not be an outlook-shifting development for most observers, but Fed doves will be reinforced in their perception that economic slack is not dwindling significantly.

Notably--and pivotally in the bad GDP implication--trade in goods other than petroleum deteriorated outright, rather than improving as hoped. The deficit there worsened by $0.3 billion--fully confirming the $5.3 billion deterioration last month. The new widening resulted from a 2.0% decline in exports, only partly offset by a 1.3% decline in imports.

The export result--the first decline since June 2010--reversed a 1.7% gain seen last month, while the import decline only partly reversed a 5.3% jump. No great fears will be inspired by the export faltering, at least for now, though further declines would raise concerns that growth abroad is too weak to be any help to U.S. growth. Solid import growth, of course, gives a good news / bad news message.

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