

February 2019 U.S. International Trade, April Mortgage Apps Trade Shaping Up to be a Much Needed Positive for Q1 GDP

- The U.S. Trade Gap narrowed in February, to -\$49.4 billion, improved from January's -\$51.1 billion.
- Mortgage Apps for the week ending April 12 dropped by 3.5 percent.

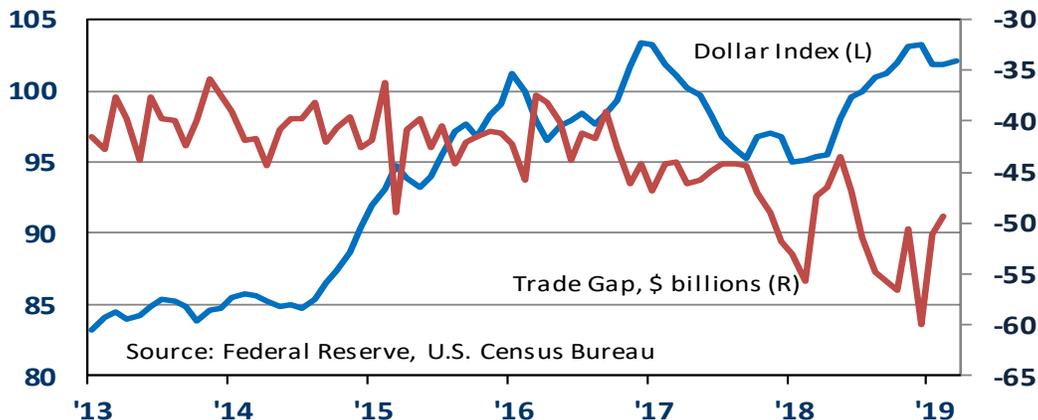
The nominal U.S. international trade gap narrowed for the second consecutive month in February after widening significantly last December. The trade data has been somewhat choppy lately as companies try to maneuver ahead of the new regime of trade tariffs. The U.S. trade gap typically widens through an expansion cycle as consumer appetite for cheaper foreign-produced goods increases. In that regard this expansion cycle is no different. But in addition to the trade tariffs, the U.S. is exporting more crude oil and petroleum products, and that is helping to keep the trade gap narrower now than it was heading into the last recession. It is uncertain how a new U.S./China trade deal will impact the overall U.S. trade gap. Some experts downplay the expected results. Other trade deals with Japan and with Europe are also under discussion. One of the biggest levers on the trade gap is the value of the dollar relative to other currencies. In this expansion cycle the dollar has stayed strong, making foreign-supplied goods and services relatively cheap. Adding to trade uncertainty, and to uncertainty in U.S. and global manufacturing supply chains, are the problems that Boeing is having with the 737 Max. Boeing is the largest U.S. exporter of manufactured goods. Orders and deliveries of the 737 Max decreased significantly in the first quarter. In addition to the drag on manufacturing and export metrics, the grounding of the 737 Max is impacting the profitability of some airlines.

The U.S. trade gap narrowed to -\$49.4 in February. Exports of goods increased by \$2.1 billion in February, while exports of services gained \$0.2 billion. Imports of goods increased by \$0.9 billion, while imports of services dropped by \$0.3 billion. The average of the real trade balance of goods in January and February is below the average for the fourth quarter of 2018, implying that trade will be a positive for first quarter GDP.

Mortgage applications dropped for the second week in mid-April after a strong run through March. The Mortgage Bankers Association's Composite Index declined by 3.5 percent for the week ending April 12. Purchase apps gained 0.9 percent, extending their winning streak to six consecutive weeks. Refis fell by 8.2 percent, their second consecutive loss. On a four-week moving average basis, refis are up 33.5 percent over year-ago levels. Purchase apps are up 8.2 percent over the last 12 months. According to the MBA, the rate for a 30-year fixed-rate mortgage notched up to 4.44 percent in mid-April, the second consecutive weekly increase after bottoming out at 4.36 percent in late March. We expect to see positive numbers for new and existing home sales in March.

Market Reaction: U.S. equity markets were positive after the open. The yield on 10-Year Treasury bonds is up to 2.59 percent. NYMEX crude oil is up to \$64.13/barrel. Natural gas futures are down to \$2.54/mmbtu.

U.S. Trade Gap Narrowed in February



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