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DAILY GLOBAL COMMENTARY

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Widening of Trade Gap Supports Q1 GDP Forecast

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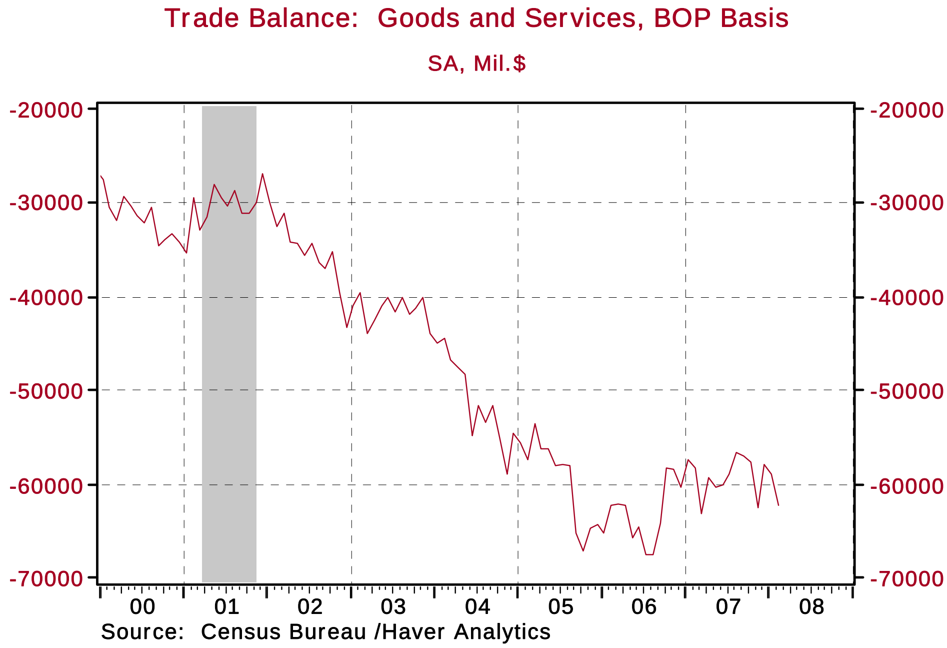
The trade deficit widened to $62.3 billion in February from a revised $59.0 billion trade gap in January (previously reported as $58.2 billion trade deficit). The January-February trade deficit reduces the risk of a headline GDP reading in the first quarter that is stronger than our forecast of a 0.2% annualized decline.

International Trade – February 2008

	Trade Balance			Exports (m-o-m % change)		Imports (m-o-m % change)	
	Goods & Services	Goods	Goods - 2000$	Goods & Services	Goods - 2000$	Goods & Services	Goods - 2000$
Sep-07	-56.9	-66.1	-51.7	0.9	0.7	0.8	0.5
Oct-07	-57.6	-67.2	-51.4	1.1	-0.2	1.1	-0.4
Nov-07	-62.4	-72.8	-53.5	0.7	-0.3	2.9	1.3
Dec-07	-57.9	-68.0	-49.0	1.5	1.4	-1.2	-2.3
Jan-08	-59.0	-69.4	-49.7	1.7	0.4	1.8	0.8
Feb-08	**-62.3**	**-72.9**	**-51.5**	**2.0**	**1.7**	**3.1**	**2.4**

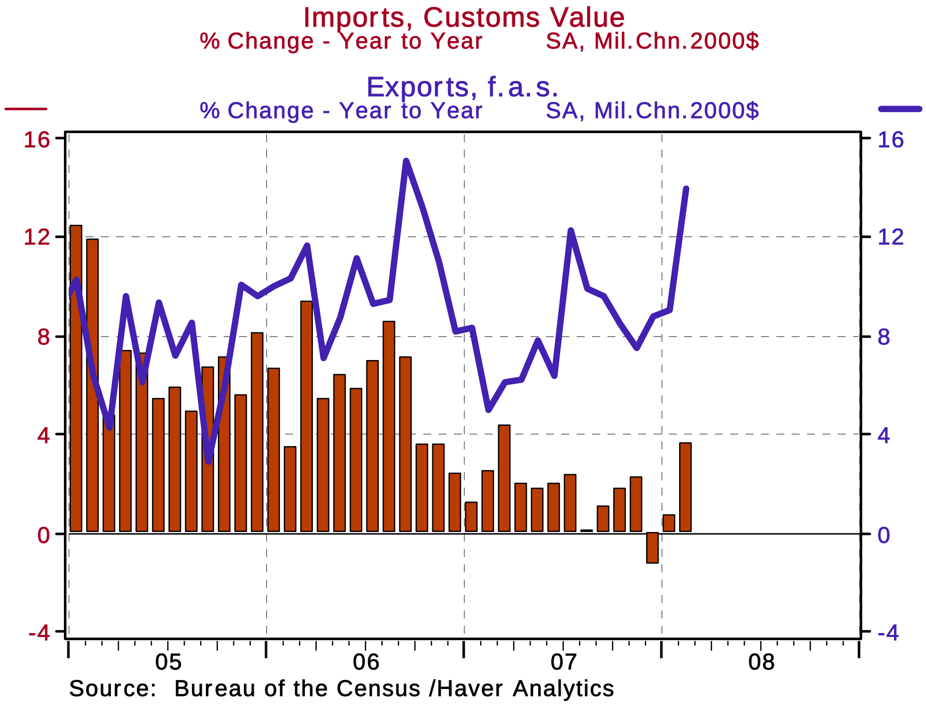
In February, exports of goods and service rose 2.0%, an impressive performance, but imports rose 3.1% and led to a widening of the trade deficit. After adjusting for inflation, exports of goods advanced 1.7% and imports of goods move up 2.4%. Within imports, imports of petroleum, after adjusting for inflation, declined 5.4% in February. Among non-petroleum imports, imports of capital goods excluding autos (+2.4%), autos (+8.5%), and consumer goods excluding autos and food (+5.4%) rose in February.

Chart 1



On a year-to-year basis, inflation adjusted exports of goods have surpassed imports of goods for over two years (see chart 2). A weak dollar should support this trend in the months ahead.

Chart 2

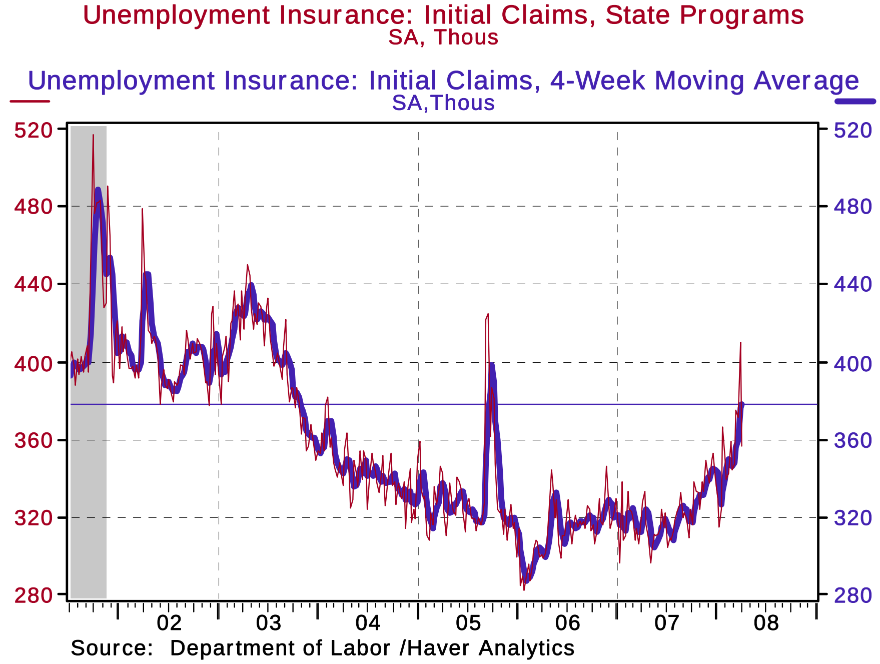


The trade deficit widened vis-à-vis Canada ($6.5 billion vs. $5.9 billion in January), Mexico ($5.5 billion vs. $5.1 billion in January), Euro area ($6.0 billion vs. $5.1 billion in January), and Japan ($6.9 billion vs. $6.6 billion in January) but narrowed vis-à-vis China ($18.3 billion vs. $20.3 billion in January).

Jobless Claims - Hiring Remains Weak

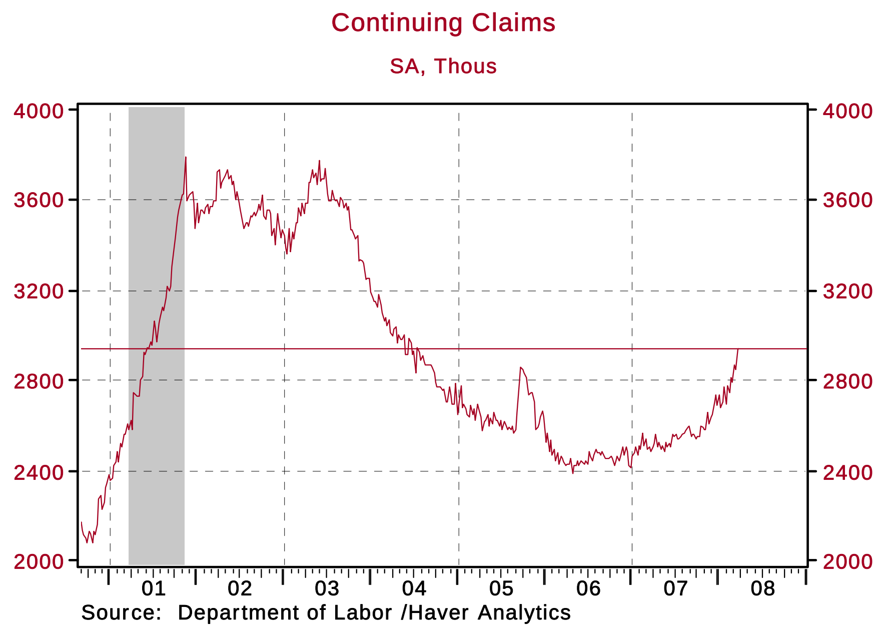
Initial jobless claims fell 57,000 to 353,000 during the week ended April 5, following a sharp gain of 39,000 in the prior week. Resumption of work after a strike in an auto industry related firm and seasonal distortions from the Easter holiday are reportedly the reasons for the wide swings in initial jobless claims data during the past two weeks. The 4-week moving average of initial jobless claims and the continuing claims data are more meaningful data series to assess the nature of the labor market. Both of these data point to continued weakness in hiring. The four-week moving average of initial jobless claims (see chart 3) at 378,250 is the highest since October 2003, excluding the Katrina-related spike.

Chart 3



Continuing claims, which lag initial claims by one week, at 2.94 million (see chart 4) maintain a significant upward trend. The insured unemployment rate held at 2.2% for the third week in the last four weeks.

Chart 4



Continuing claims have risen by 250,000 during the 13 week span between December 2007 and March 2008. Such sharp increases in continuing claims are seldom seen outside of recessions (see chart 5), excluding the Katrina-related jump in 2005.

Chart 5