Daiwa Capital Markets

U.S. Data Review

- International trade in goods: wider deficit in March driven by surging imports ahead of tariffs
- Consumer confidence: sharp deterioration in expectations
- JOLTS: job openings and layoffs rates declined in March, hires rate unchanged, quits rate ticked higher

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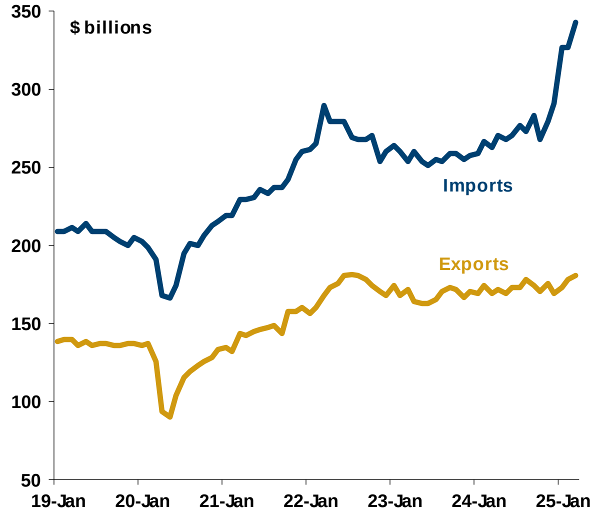
International Trade in Goods

- The U.S. trade deficit widened by $14.1 billion in March to $162.0 billion, far exceeding the expected shortfall of $145.0 billion in the Bloomberg economist survey. Both exports and imports rose in the latest month, with exports advancing 1.2 percent and imports jumping 5.0 percent. The increase in exports left shipments abroad near the top of the range of the past few years while attempts to front-run the Trump administration's tariffs contributed to the ongoing surge in goods imports (chart, right).

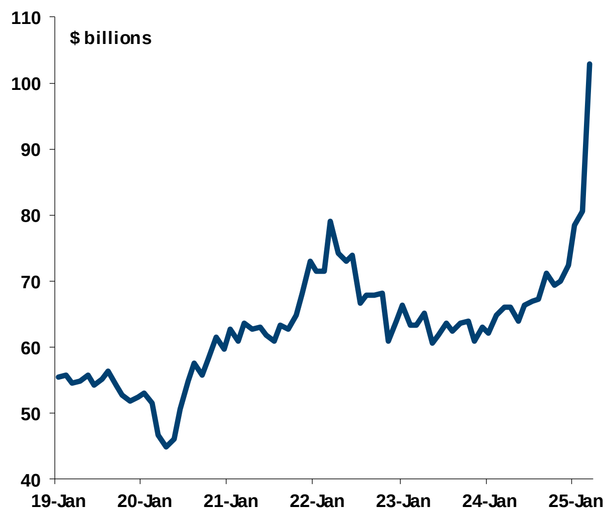
- The ongoing blowout in goods imports leaves little doubt that the robust (although yet-to-be finalized) tariff program of the Trump administration has pulled forward both firms' purchases of foreign goods (with an inventory build in Q1 on track to contribute in the area of 1.0 percentage point to GDP growth) and ultimate consumption. Illustrative of the point, consumer goods imports rose for the fifth consecutive month, with the surge of 27.5 percent the largest in the history of the series (chart, below left). Additionally, automotive imports rose 6.6 percent – a reading near the top of the range of the past few years – and capital goods imports rose 3.8 percent to a new nominal record. The performance across categories is likely to normalize at some point, but the distortion could persist until either tariffs come into force or tensions deescalate.

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

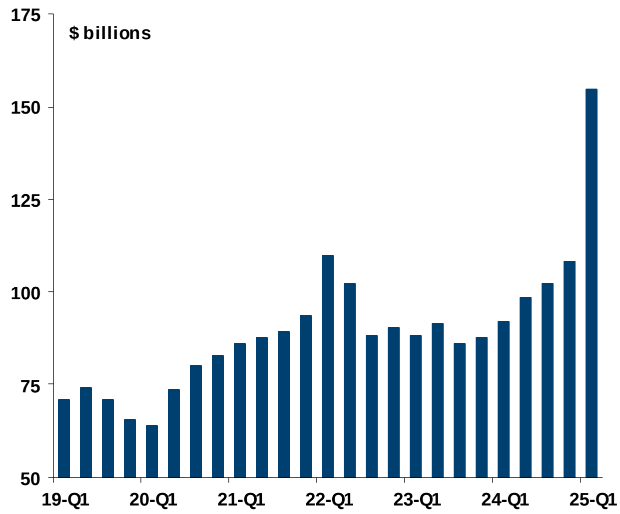
Imports of Consumer Goods*



** Excluding food and autos*

Source: U.S. Census Bureau via Haver Analytics

Nominal Trade Deficit in Goods*



** Quarterly averages of monthly data*

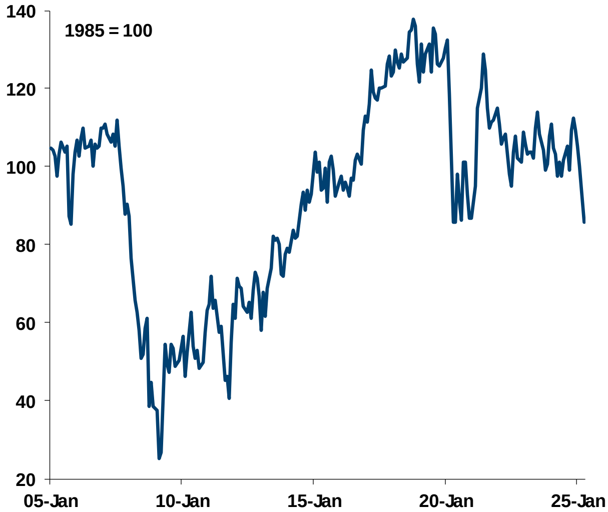
Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

- All told, the further widening in the nominal goods deficit in March augmented the already sharp deterioration in the first two months in Q1 (average nominal goods deficit of $154.8 billion in Q1 versus $108.1 billion in 2024-Q4; chart, prior page, right). Although results for March are still incomplete, with data on service trade and inflation-adjusted goods flows released next week, data in hand suggest that net exports could be a drag of more than 3.0 percentage points on GDP growth.

Consumer Confidence

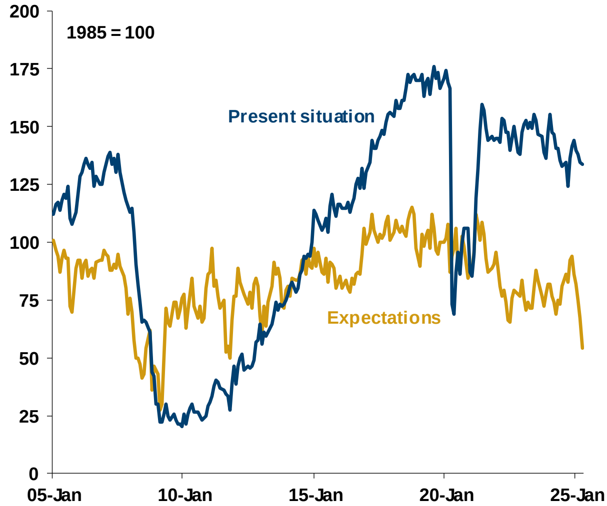
- The Conference Board's index of consumer confidence fell 7.9 index points in April to 86.0 – comparable to readings during the height of the COVID pandemic (chart, below left). Both the present situation and expectations components contributed to the fifth consecutive decline in the headline, although much of the latest drop was attributable to an ongoing swoon in expectations. On the point, the present situation component slipped 0.9 index point to 133.5, a reading in the lower end of the range of the past few years although well above COVID-associated lows, while the expectations component fell 12.5 index points to 54.4 – a new low for the current expansion (chart, below right).

Consumer Confidence



Source: The Conference Board via Haver Analytics

Consumer Confidence

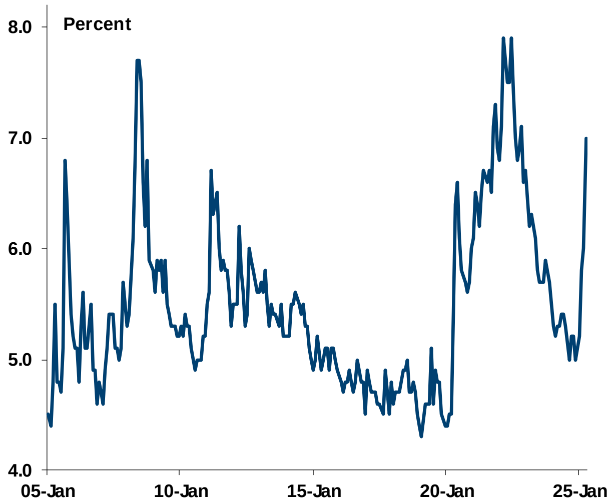


Source: The Conference Board via Haver Analytics

- Concern over tariffs is not only generating angst with respect to a potential slowdown in the economy, but also on account of price impacts on household budgets. In this regard, respondents to the survey indicated further deterioration in inflation expectations. Expectations for inflation 12 months hence rose one percentage point in April to 7.0 percent. The latest reading was below the 7.9 percent peak in 2022 but within the range of observations during the previous bout of rapid inflation (chart, next page, left).

- Views on the labor market also softened, with the share of survey respondents indicating that jobs were plentiful slipping from 33.6 percent to 31.7 percent in the latest month while those noting that jobs were hard to get increased to 16.6 percent from 16.1 percent previously. The net labor market differential (plentiful less hard-to-get) continued its downward trend (+15.1 percent versus +17.5 percent previously), although it remained solid from a longer-term perspective (chart, next page, right). Labor market conditions have cooled in response to restrictive monetary policy, but available data have yet to show further deterioration in response to firms' shift in expectations generated by trade policy.

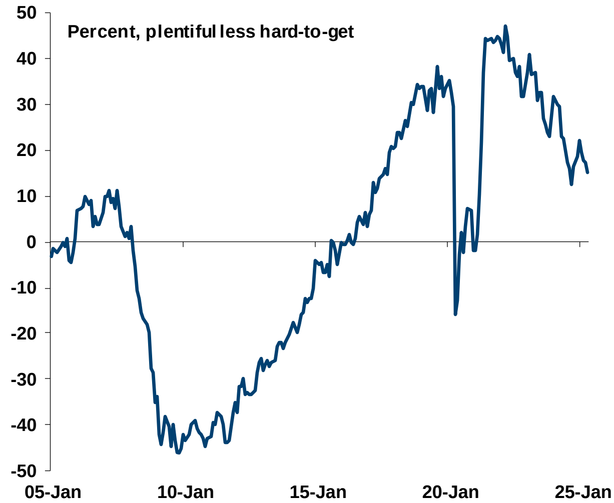
Consumer Inflation Expectations*



** 12 months hence*

Source: The Conference Board via Haver Analytics

Labor Market Differential*



** The share of survey respondents who reported that jobs were "plentiful" less those who said they were "hard-to-get."*

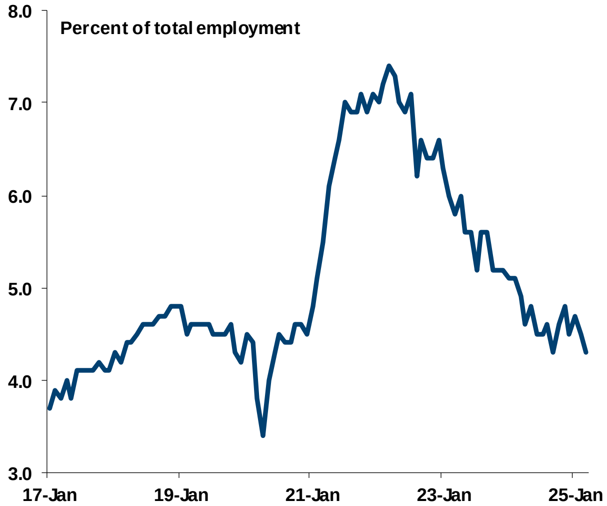
Source: The Conference Board via Haver Analytics

Job Openings & Labor Turnover

- Job openings, a proxy for labor demand, fell by 288,000 to 7.192 million in March from a downwardly revised estimate (7.480 million in February versus a preliminary estimate of 7.568 million). Openings are significantly below the record high of 12.134 million in March 2022 and within the 2018-2019 pre-pandemic range of 6.552 to 7.594 million – suggestive of a labor market in better balance versus one where outstripped supply was generating unsustainable wage pressure. As a result, the job openings rate (job openings as a share of total employment) eased 0.2 percentage point to 4.3 percent, a reading well below the record high of 7.4 percent in March 2022 but within the pre-pandemic range (4.2 to 4.8 percent in 2018-2019; chart, below left).

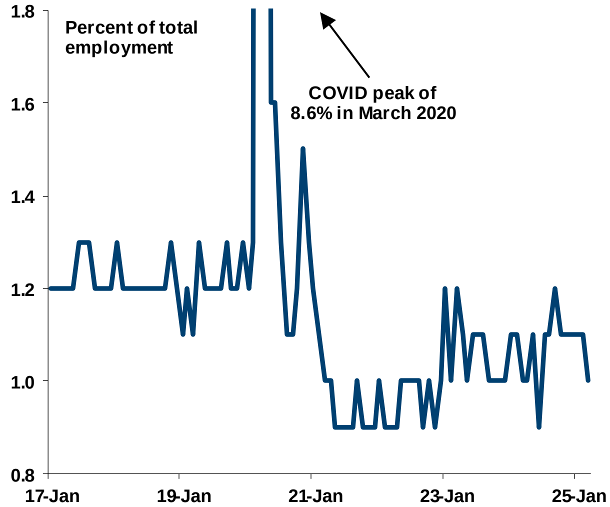
- Despite the continued decline in openings, firms have mostly maintained headcounts despite uncertainty generated by the Trump administration's pursuit of tariffs. Specifically, layoffs and discharges dropped by 222,000 to 1.558 million in March, an observation in the low end of the longer-term range. Correspondingly, the layoff and discharges rate fell 0.1 percentage point to 1.0 percent (versus the 2018-2019 range of 1.1 to 1.3 percent; chart, below right).

Job Openings Rate



Source: Bureau of Labor Statistics via Haver Analytics

Layoffs & Discharges Rate



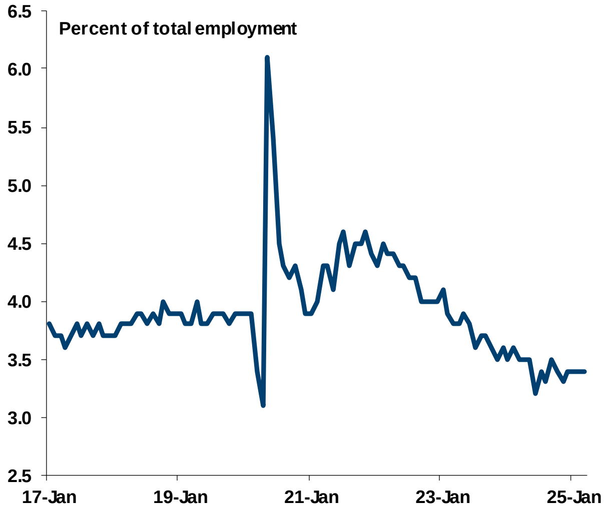
Source: Bureau of Labor Statistics via Haver Analytics

- With demand for labor easing, hiring has been relatively modest (+41,000 to 5.411 million – well below the record high of 8.133 million in May 2020). Resultantly, the hires rate stood pat at 3.4 percent for the fourth consecutive month (versus the 2018-2019 range of 3.7 to 4.0 percent; chart, below left).

- Quits, which provide insight into individual views on labor market strength, rose by 82,000 to 3.332 million in the latest month. While March's level is above the recent low of 3.032 million in November 2024, it is still markedly off the 4.499 million record in March 2022--- indicative of workers' awareness of the recent easing in underlying labor market conditions. Similarly, the quits rate increased 0.1 percentage point to 2.1 percent, a reading off the record high of 3.0 percent and the middle of the 2018-2019 range (2.0 to 2.4 percent; chart, below right). In context, workers are seemingly less confident in their ability to find better opportunities elsewhere and are sticking to current positions.

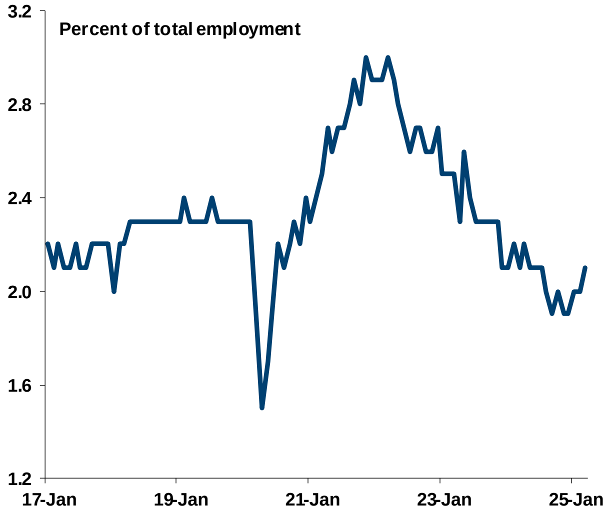
- On balance, the JOLTS report was suggestive of a labor market still on solid footing with supply and demand dynamics broadly in balance. That said, this series is lagged by several months and unable capture any immediate signs of tariff-related deterioration. Thus, we will by paying particular attention to this Friday's payroll report which contains more up-to-date developments (April data).

Hires Rate



Source: Bureau of Labor Statistics via Haver Analytics

Quits Rate



Source: Bureau of Labor Statistics via Haver Analytics