First Trust DATAWATCH

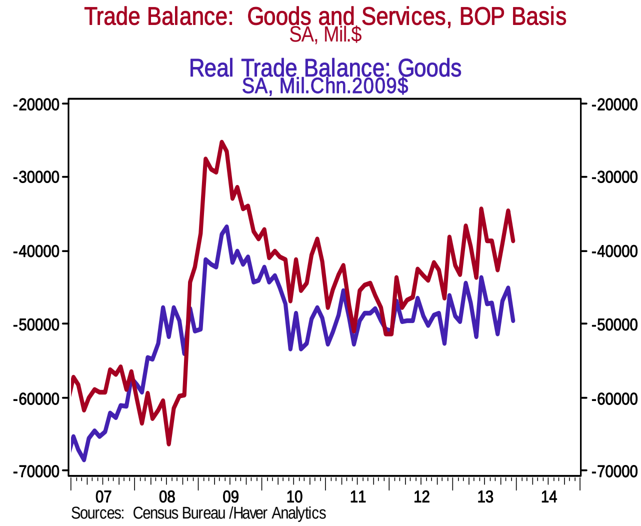
February 6, 2014 • 630.517.7756 • www.ftportfolios.com

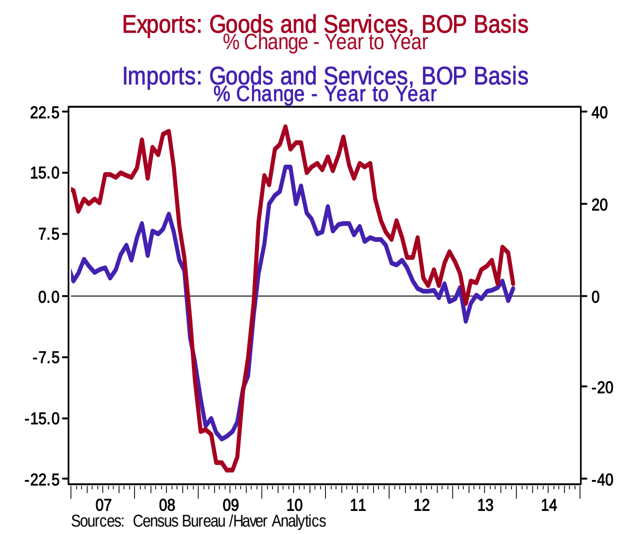
December International Trade

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The trade deficit in goods and services came in at $38.7 billion in December, larger than the consensus expected $36.0 billion.
- Exports declined $3.5 billion in December, led by autos and civilian aircraft. Imports increased $0.6 billion, led by gains in civilian aircraft, artwork, antiques and stamps.
- In the last year, exports are up 1.4%, led by a 16.4% gain in petroleum exports. Imports are up 1.3% in the past year, despite a 5.1% drop in petroleum imports.
- The monthly trade deficit is $0.4 billion larger than a year ago. Adjusted for inflation, the trade deficit in goods is $3.4 billion larger than a year ago. This is the trade indicator most important for measuring real GDP.

Implications: The US trade deficit grew to $38.7 billion in December, a larger gap than the consensus expected. Plugging these figures into our GDP calculations, it now looks like trade subtracted 0.5 percentage points from real GDP growth in Q4, pulling growth down to around 2.7% from the original reading of 3.2%. The trade deficit was $472 billion for all of 2013. With the exception of 2009, when a weak economy temporarily shrank trade around the world, it's the smallest trade deficit since 2002. Fracking and horizontal drilling continue to transform not only the US energy industry but also our trade with the rest of the world. Eight years ago, back in December 2005, the US imported 13 times as much petroleum product as it exported. Since then, petroleum product exports are more than seven times higher while imports are up only 22%. So now, petroleum product imports are only twice exports. If this trend continues, the US will be a net petroleum product exporter by late 2016, sooner if we fix our pipeline and refinery issues. Outside of energy, the trade deficit has generally grown over the past four years of recovery, but has recently leveled off. Normally, when the US economy grows consistently, our trade deficit tends to expand. However, because fracking has unleashed a massive supply of natural gas, the US has an energy cost advantage versus many of the advanced nations around the world. In the years ahead, this advantage will boost production occurring in the US. This, plus the direct effect of more energy exports and fewer imports should help suppress any expansion in the trade deficit relative to the size of the economy.





International Trade All Data Seasonally Adjusted, $billions	Dec-13 Bil $	Nov-13 Bil $	Oct-13 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-38.7**	-34.6	-39.1	-37.4	-38.7	-38.3
Exports	**191.3**	194.8	193.3	193.1	191.4	188.7
Imports	**230.0**	229.4	232.4	230.6	230.1	227.0
Petroleum Imports	**29.1**	28.5	32.1	29.9	30.6	30.6
Real Goods Trade Balance	**-49.5**	-45.0	-46.9	-47.2	-47.9	-46.1

Source: Bureau of the Census