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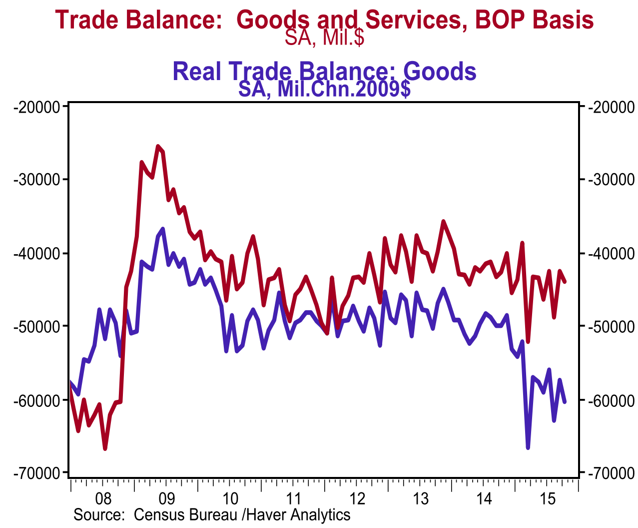
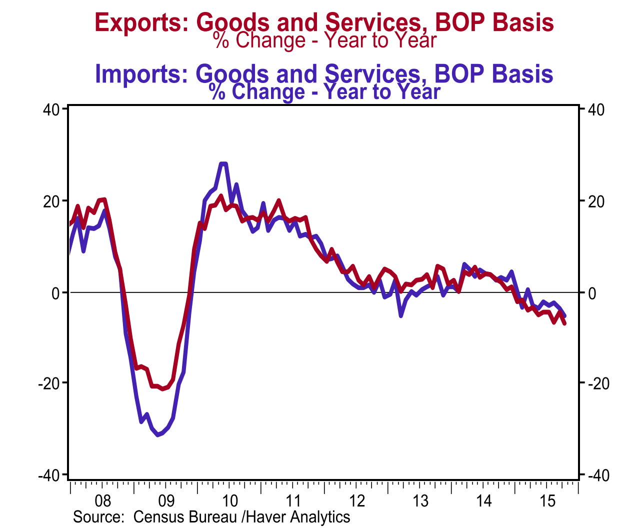
October International Trade

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

- The trade deficit in goods and services came in at $43.9 billion in October, larger than the consensus expected $40.5 billion.
- Exports declined by $2.7 billion in October, led by industrial engines, civilian aircraft, and fuel oil. Imports declined by $1.3 billion, pulled down by crude oil and computers.
- In the last year, exports are down 6.9% while imports are down 5.2%.
- The monthly trade deficit is $1.1 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $10.4 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.

Implications: A disappointing report out of the trade sector today. Exports declined by $2.7 billion while imports fell by $1.3 billion, resulting in an increase in the trade deficit. The value of total trade, exports plus imports, is down 6% from a year ago. Slower growth abroad, along with a stronger dollar have slowed exports. For instance, goods exports to Canada and Mexico are down 15.3% and 4.6%, respectively, from a year ago. Exports of goods to Africa are down 31.1% while exports to South & Central America are down 22.4%. This will not last forever, but may continue to be a factor over the coming year. Meanwhile, imports are also below year-ago levels. But the largest drop in imports, by far over the past year, and for October, was for crude oil which is now down 58% from a year ago. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In October, these imports were only 1.6 times exports. For the first time since at least 1986, the US is running a trade surplus in goods with OPEC over the past year! This has a destabilizing impact on the Middle East, which compounds the problems of a vacuum in global geo-political leadership. The US is headed toward energy independence thanks to fracking and horizontal drilling, but a side-effect may be more conflict in the Middle East. Despite lower oil prices over the past year and some recent dips in drilling activity, US domestic oil production is still expected to average 9.3 million barrels per day in 2015, a 600,000 barrel per day increase from 2014. Entrepreneurs and engineers, through the use of new technologies, have changed the way the world works and there's more to come. Plugging today's figures into our models suggests trade will be a slight drag on economic growth in Q4, consistent with a forecast of real GDP growth at around a 1.5% annual rate for the last quarter of the year.





International Trade *All Data Seasonally Adjusted, $billions*	Oct-15 Bil $	Sep-15 Bil $	Aug-15 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-43.9**	-42.5	-48.8	-45.1	-44.5	-42.8
Exports	**184.1**	186.8	184.2	185.0	186.2	197.8
Imports	**228.0**	229.2	233.0	230.1	230.8	240.5
Petroleum Imports	**12.0**	13.8	15.1	13.6	15.0	26.3
Real Goods Trade Balance	**-60.3**	-57.4	-63.0	-60.2	-58.9	-49.9

Source: Bureau of the Census