

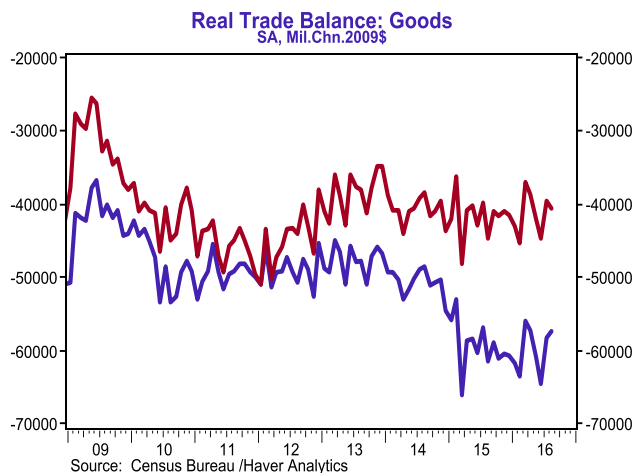
August International Trade

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- The trade deficit in goods and services came in at \$40.7 billion in August, larger than the consensus expected \$39.2 billion.
- Exports rose \$1.5 billion, led by non-monetary gold and crude oil. Imports rose \$2.6 billion in August, led by unspecified goods and civilian aircraft.
- In the last year, exports are up 0.7% while imports are down 1.2%.
- The monthly trade deficit is \$3.9 billion smaller than a year ago. Adjusted for inflation, the “real” trade deficit in goods is \$3.9 billion smaller than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

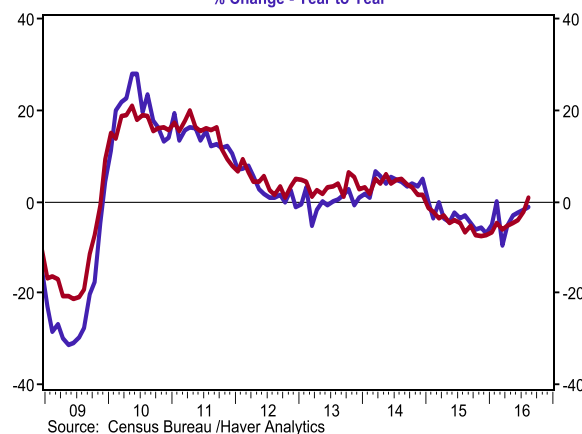
Implications: The trade deficit came in slightly larger than the consensus expected for August as imports increased faster than exports, but the good news is that they both rose. In the past three months, exports are up \$6.5 billion, the largest three-month rise since late 2011. Overall, we take the recent rise in exports as a bullish sign of a revival in US trade with the rest of the world. Services imports rose by \$1.5 billion with the majority of the increase coming from charges for the use of intellectual property, probably due to the rights fees to broadcast the Olympic games. So far, there has been no effect of Brexit on trade. Both imports and exports rose with the UK in August, remain roughly in-line with levels seen in the year before the vote, and exports to the UK are up 5.3% in the past year. We believe Brexit will continue to prove to be a positive for the UK, and will eventually give the UK the flexibility to make better trade agreements with the U.S., Mexico, and Canada, which could serve to increase global trade. Another ongoing factor affecting trade with the rest of the world is the trend decline in US oil imports. Although petroleum imports rose in August, they are still down 12.5% from a year ago, and have been a large contributor to slow trade growth. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In August, these imports were 1.7 times exports. This is also why oil prices have not spiked back to old highs even though the Middle East is in turmoil. The US has become an important global petroleum *producer*, bringing a stabilizing effect to the world. In other news this morning, the ADP report said private payrolls were up 154,000 in September. Plugging these figures into our models suggests nonfarm payrolls will be up 175,000 to 200,000 for the month. We will finalize our forecast tomorrow after we receive the initial claims number. On the autos front, automakers reported selling cars and light trucks at a 17.8 million annual rate in September, up 4.5% from August, but down 1.6% in the past year. No sign of a recession for US consumers.

Trade Balance: Goods and Services, BOP Basis
SA, Mil.\$



Exports: Goods and Services, BOP Basis
% Change - Year to Year

Imports: Goods and Services, BOP Basis
% Change - Year to Year



International Trade	Aug-16	Jul-16	Jun-16	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-40.7	-39.5	-44.7	-41.6	-40.4	-44.6
Exports	187.9	186.4	182.9	185.7	183.1	186.6
Imports	228.6	225.9	227.6	227.4	223.6	231.3
Petroleum Imports	12.9	12.6	13.3	12.9	11.7	14.8
Real Goods Trade Balance	-57.5	-58.2	-64.5	-60.1	-59.1	-61.4

Source: Bureau of the Census