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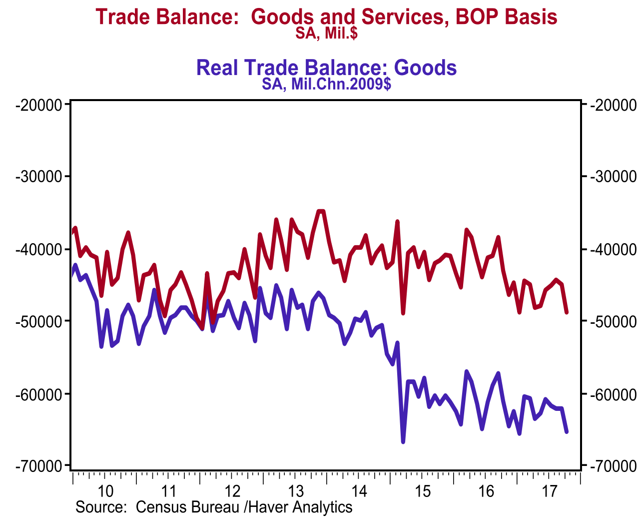
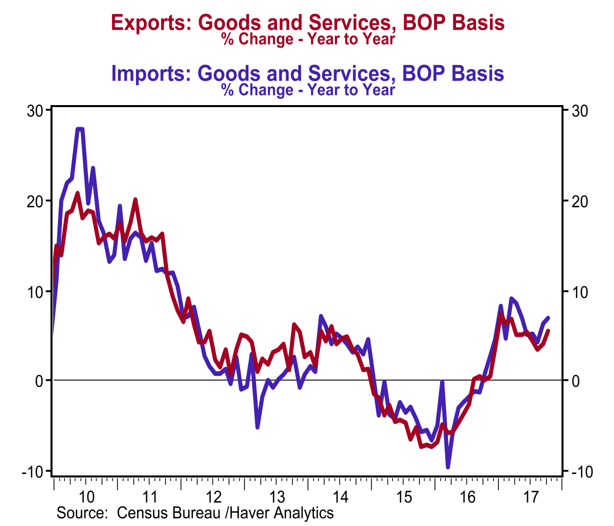
October International Trade

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

- The trade deficit in goods and services came in at $48.7 billion in October, larger than the consensus expected $47.5 billion.
- Exports were unchanged in October. Imports rose $3.8 billion, led by crude oil and other goods.
- In the last year, exports are up 5.6% while imports are up 7.0%.
- Compared to a year ago, the monthly trade deficit is $5.7 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $4.1 billion larger. The "real" change is the trade indicator most important for measuring real GDP.

Implications: The trade deficit expanded in October, coming in at $48.7 billion, a larger trade deficit than the consensus expected. Exports were unchanged, remaining at their highest level since December 2014. Imports rose $3.8 billion, hitting a new record high, with all major categories growing except for capital goods. Both exports and imports are up from a year ago: exports by 5.6%, imports by 7.0%. We see expanded trade with the rest of the world as positive for the global economy, and total trade (imports plus exports), which is what really matters, is up 6.3% in the past year, a great sign. Look for more of that in the year to come as economic growth accelerates in Europe and Japan. Better growth in Europe will increase global trade and US exports as well. In fact, exports to the EU are up 11.8% in the past year. Although rising imports are a positive sign for the underlying strength of the American economy, for GDP accounting purposes they mean growth in production is temporarily lagging behind the growth in spending. Because of this, international trade is on track to be a significant drag on real GDP growth in Q4, subtracting 0.5 to 1.0 percentage points from the real GDP growth rate for the quarter. In turn, this suggests real GDP is growing at the low end of our prior range of 3.0 – 4.0% for Q4. Trade is one of our four pillars to prosperity; freer trade leads to improved economic growth over time. And while we have our qualms with some of the talk coming out of Washington related to paring back free trade, there has been significantly more hot air than substance. We will continue to watch trade policy as it develops, but still don't see any reason yet to be sounding alarm bells.





International Trade *All Data Seasonally Adjusted, $billions*	Oct-17 Bil $	Sep-17 Bil $	Aug-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-48.7**	-44.9	-44.3	-46.0	-46.1	-43.1
Exports	**195.9**	195.9	193.7	195.2	194.0	185.6
Imports	**244.6**	240.8	238.1	241.2	240.1	228.7
Petroleum Imports	**15.4**	14.2	13.9	14.5	14.5	13.2
Real Goods Trade Balance	**-65.3**	-62.2	-62.2	-63.2	-62.5	-61.2

Source: Bureau of the Census