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April International Trade

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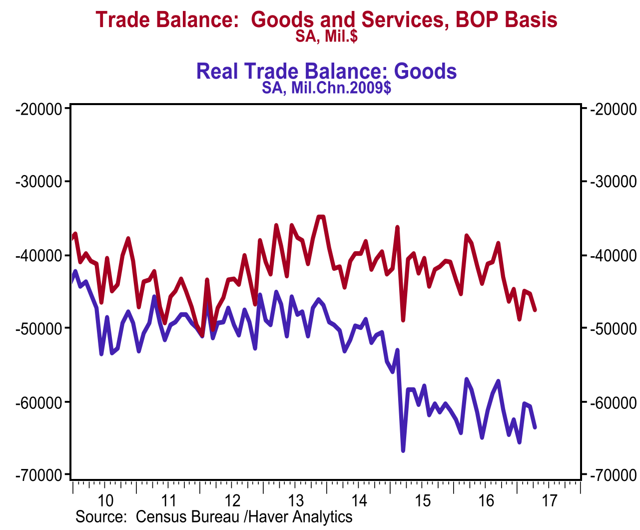
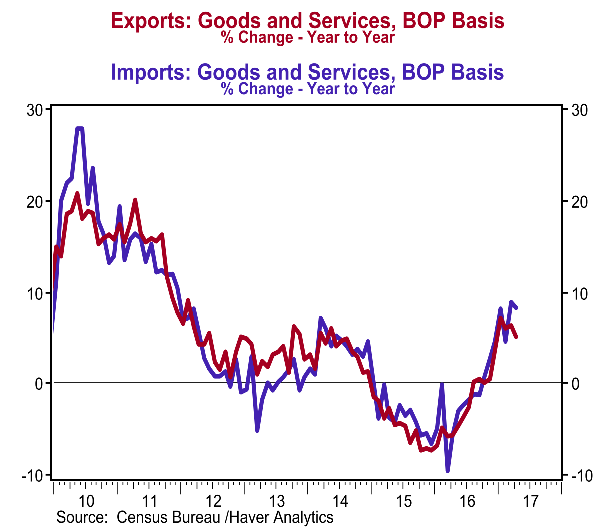
- The trade deficit in goods and services came in at $47.6 billion in April, larger than the consensus expected $46.1 billion.
- Exports declined $0.5 billion, led by telecommunications equipment, artwork, antiques, stamps, etc. and autos. Imports increased $1.9 billion, led by cellphones & other household goods.
- In the last year, exports are up 5.0% while imports are up 8.3%.
- Compared to a year ago, the monthly trade deficit is $9.2 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $5.1 billion larger. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit grew in April, coming in at $47.6 billion, a larger trade deficit than the consensus expected. While imports increased $1.9 billion in April and exports declined by $0.5 billion, both imports and exports are up from a year ago: exports by 5%, imports by 8.3%. By definition, the trade gap is equal to capital inflows. If foreigners do not buy goods and services with their dollars they must invest them back in the US. As a result, Americans are able to purchase more than we produce. Some say this is unsustainable and that past and present trade deficits must be offset by future trade surpluses. But we disagree. Foreign investors are willing to be paid a very low return on their US investments, so low that Americans still earn more on their investments abroad than foreign investors earn on their US assets. As long as that continues, and we see no reason why it shouldn't, the US can continue to run trade deficits. Moreover, many of the policies President Trump is pursuing, including cutting tax rates and allowing for construction of more energy infrastructure, will make the US an even stronger magnet for foreign capital. Meanwhile, the US should continue to get more competitive. Just look at the energy sector. A decade ago, our petroleum product imports were about nine times our exports. Now these imports are 1.5 times exports. In late November, OPEC decided to cut oil production by more than 1 million BPD (barrels per day). Since then, oil prices have increased and, as a result, oil production in the United States has increased by almost 650,000 BPD, taking market share from unstable, less free-market countries. The ability of US producers to respond to market prices outside of government control is also why oil prices have not spiked back to old highs, and have declined slightly again. In other recent news, automakers reported sales of cars and light trucks at a 16.7 million annual rate in May, down 1.3% from April and down 3.0% from a year ago. We expect the auto industry to continue to gradually return to more sustainable levels of about 15.5 million units per year. The decline does not signal wider economic problems. Instead it reflects consumers shifting purchases to other sectors.

International Trade *All Data Seasonally Adjusted, $billions*	Apr-17 Bil $	Mar-17 Bil $	Feb-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-47.6**	-45.3	-44.9	-45.9	-46.3	-38.4
Exports	**191.0**	191.5	191.7	191.4	190.0	181.9
Imports	**238.6**	236.7	236.6	237.3	236.3	220.3
Petroleum Imports	**15.4**	17.5	18.3	17.1	16.0	10.6
Real Goods Trade Balance	**-63.5**	-60.7	-60.4	-61.5	-62.9	-58.4

Source: Bureau of the Census