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November International Trade

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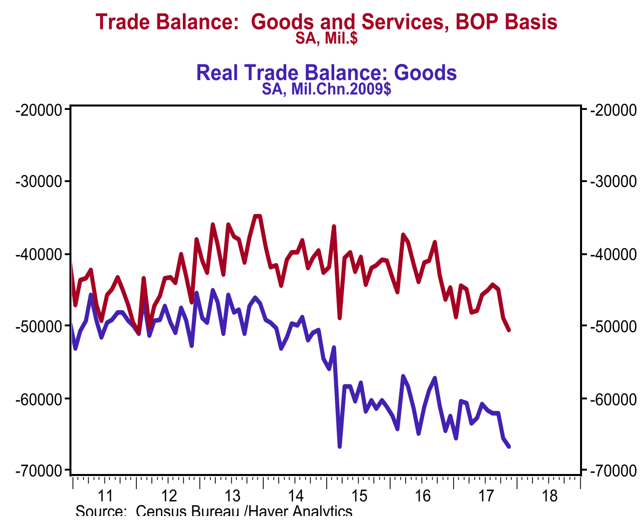
- The trade deficit in goods and services came in at $50.5 billion in November, larger than the consensus expected $49.9 billion.
- Exports rose $4.4 billion led by civilian aircraft, petroleum products, and autos. Imports rose $6.0 billion, led by crude oil, cellphones & other household goods, and semiconductors.
- In the last year, exports are up 8.3% while imports are up 8.4%.
- Compared to a year ago, the monthly trade deficit is $4.1 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $2.2 billion larger. The "real" change is the trade indicator most important for measuring real GDP.



Implications: The trade deficit expanded in November, coming in at $50.5 billion, the largest trade deficit in almost six years. This may cause worry, as larger trade deficits are considered by many as a negative. In fact, this was a great report! Exports and imports both hit new record highs, rising by $4.4 and $6.0 billion, respectively. Both exports and imports are up strongly from a year ago: exports by 8.3%, imports by 8.4%. 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 8.4% in the past year. Look for more increases in total trade in the year to come as economic growth accelerates in Europe and Japan. Exports to the EU are up 13.1% in the past year. In addition, the composition of US trade may change dramatically over the next few years, at least in terms of how the government measures the trade balance. A lower corporate tax rate means firms that had previously placed production facilities and "paper" assets (like intellectual property) abroad, so they could claim a lower foreign tax rate, will locate some of those assets back in US. As a result, the sales generated by those assets will count as domestic production, not imports, reducing our official trade deficit. In the meantime, although rising imports are a positive sign about the underlying strength of the US 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 substantial drag on GDP, subtracting about one percentage point from the real GDP growth rate in the fourth quarter. This suggests real GDP grew in the 2.5 – 3.0% annual rate range in the fourth quarter, even though domestic growth accelerated. In other recent news, automakers reported sales of cars and light trucks at a 17.9 million annual rate for December, up 1.9% from November but down 1.7% from a year ago. After hitting a calendar-year record high of 17.5 million in 2016, sales for all of 2017 were 17.3 million, in spite of the surge in sales following Hurricanes Harvey and Irma. Look for a further sales drop in 2018 to an annual rate of about 16.7 million, reflecting a shift in consumer purchasing power to other sectors as well as a smaller boost from the hurricanes.

International Trade *All Data Seasonally Adjusted, $billions*	Nov-17 Bil $	Oct-17 Bil $	Sep-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-50.5**	-48.9	-44.9	-48.1	-46.6	-46.4
Exports	**200.2**	195.8	195.9	197.3	195.4	184.8
Imports	**250.7**	244.7	240.8	245.4	242.0	231.2
Petroleum Imports	**17.0**	15.4	14.2	15.6	14.7	14.1
Real Goods Trade Balance	**-66.7**	-65.6	-62.2	-64.8	-63.2	-64.5

Source: Bureau of the Census