

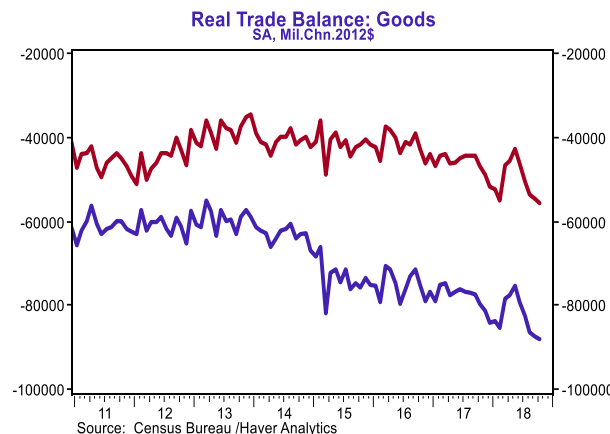
October International Trade

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

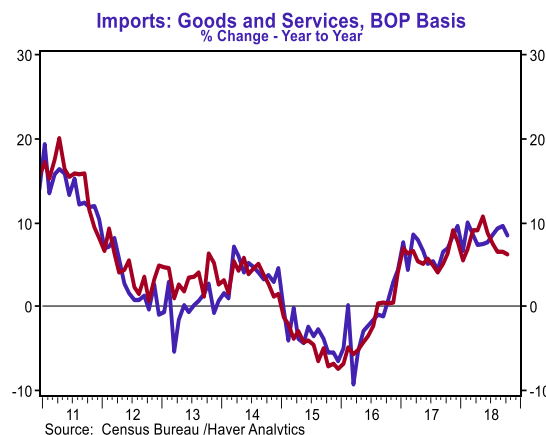
- The trade deficit in goods and services came in at \$55.5 billion in October, slightly larger than the consensus expected \$55.0 billion.
- Exports declined \$0.3 billion, led by nonmonetary gold and soybeans. Imports rose \$0.6 billion, led by pharmaceuticals, other goods, and passenger cars.
- In the last year, exports are up 6.3% while imports are up 8.5%.
- Compared to a year ago, the monthly trade deficit is \$8.5 billion larger; after adjusting for inflation, the “real” trade deficit in goods is \$8.2 billion larger than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

Implications: Trade data have received extra attention of late from pundits looking to play up trade war impacts, but too often they end up missing the forest for the trees. Yes, the trade deficit widened in October to \$55.5 billion as imports rose, while exports declined slightly. But what matters more than the headline trade deficit number - and which you will not hear about as much - is the total volume of trade – imports plus exports – which signals how much businesses and consumers interact across borders. Looking at that data, US trade hit a new record all-time high in October – the opposite of what we would expect in a trade war. In terms of the trade deficit in October, exports fell by \$0.3 billion, while imports rose by \$0.6 billion. Overall, in the past year exports are up 6.3%, while imports are up 8.5%, signaling very healthy gains in the overall volume of international trade and easily outstripping the pace of nominal GDP growth. While many are worried about protectionism from Washington, especially regarding China, we continue to think this is a trade skirmish, and the odds of an all-out trade war that noticeably hurts the US economy are slim. We believe better trade agreements for the United States and world are on the way. We have already seen it happen with several countries, and now China looks to be extending a bit of an olive branch, too. Average tariffs in China will be cut from 9.8% last year to 7.5% this year and on Tuesday, China released a 58-page document showing an array of punishments for IP theft moving forward. We see this as real progress, and just the start. The US’s negotiating position simply continues to strengthen, in no small part due to the rise of the US as an energy powerhouse. As recently as 2005, the US was importing more than ten times the petroleum products that we were exporting. As of October, imports are down to 1.2 times exports and this trend should continue. Not only does this reduce US reliance on foreign trade partners and lower their bargaining power, it has served to shift power dynamics on a global scale (witness the political turmoil in Saudi Arabia). So at the end of the day, we will continue to watch trade policy as it develops, but don’t see any reason to sound alarm bells. In other news this morning, initial jobless claims declined 4,000 last week to 231,000. Meanwhile, continuing claims fell 74,000 to 1.63 million. Also this morning, the ADP index reported private payrolls rose 179,000 in November. Plugging all of these labor market data into our model suggests Friday’s employment report will show nonfarm payrolls rose a healthy 193,000 in November.

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



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



International Trade	Oct-18	Sep-18	Aug-18	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-55.5	-54.6	-53.7	-54.6	-50.5	-47.0
Exports	211.0	211.4	208.2	210.2	211.0	198.6
Imports	266.5	265.9	261.9	264.8	261.5	245.6
Petroleum Imports	19.6	20.1	20.4	20.0	19.8	15.4
Real Goods Trade Balance	-87.9	-87.2	-86.3	-87.1	-83.1	-79.7

Source: Bureau of the Census