

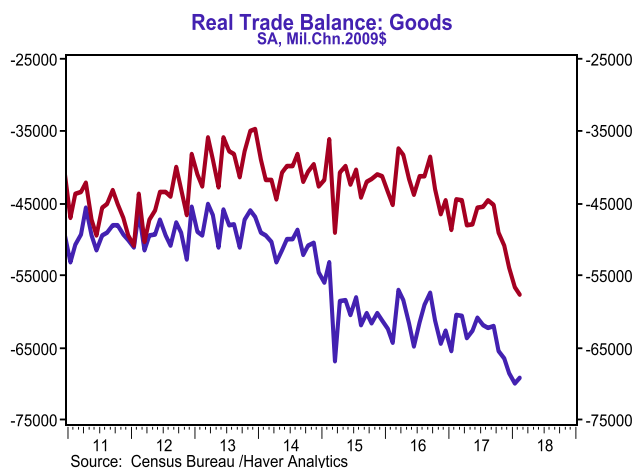
# February International Trade

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- The trade deficit in goods and services came in at \$57.6 billion in February, larger than the consensus expected \$56.8 billion.
- Exports rose \$3.5 billion, led by autos and nonmonetary gold. Imports increased \$4.4 billion, led by pharmaceuticals and crude oil.
- In the last year, exports are up 6.6% while imports are up 10.9%.
- Compared to a year ago, the monthly trade deficit is \$13.2 billion larger; after adjusting for inflation, the “real” trade deficit in goods is \$8.7 billion larger. The “real” change is the trade indicator most important for measuring real GDP.

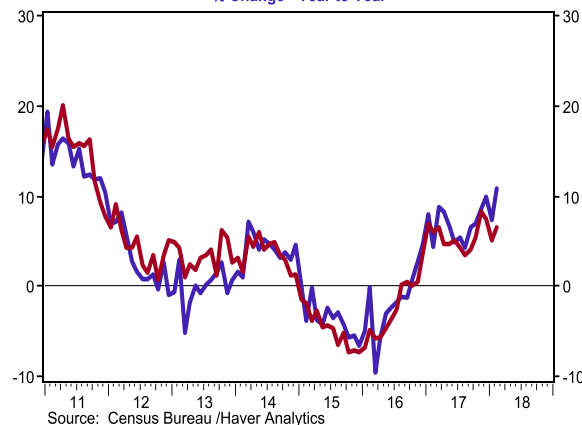
**Implications:** When President Trump sees an increase in February’s trade deficit he’ll think it confirms the world is “killing” us on trade. But what really matters, and what President Trump and other policymakers should be focused on, is the total volume of trade – imports plus exports – that signals how much value consumers find in the global economy. Looking at it from this perspective, total trade boomed in February, growing by \$7.9 billion. Although the trade deficit rose to near a nine and a half year high, the total volume of trade rose to a new record all-time high in February. Exports grew by \$3.5 billion while imports increased by a larger \$4.4 billion. Some argue today’s trade deficits must be offset by future trade surpluses. We beg to differ. The US finances trade deficits with foreign capital inflows. The trade deficit must equal foreign investment and foreign investors have been 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 has passed, including cutting tax rates and allowing for construction of more energy infrastructure, will make the US an even stronger magnet for capital from abroad. The protectionist talk coming from Washington, along with new tariffs on steel and aluminum, is worrisome. But we continue to believe this is just a negotiation tactic and the chances of a trade war are very small. We think what will ultimately come from all the chaos will be better trade agreements for the United States. We will continue to watch trade policy as it develops, but don’t see any reason yet to sound alarm bells, and look at the recent drop in the stock market as another buying opportunity. In other news today, initial jobless claims rose 24,000 last week to 242,000. Continuing claims declined 64,000 to 1.808 million, the lowest since 1973. Initial claims have now tied the longest streak of readings under 300,000 and next week will become the longest ever. Plugging this into our models suggests payrolls will be up 155,000 in March, a solid number considering snowstorms on the East Coast and the trend in recent years for March results to come in relatively weak.

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	Feb-18	Jan-18	Dec-17	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	<b>Bil \$</b>	<b>Bil \$</b>	<b>Bil \$</b>	<b>Moving Avg.</b>	<b>Moving Avg.</b>	<b>Level</b>
<b>Trade Balance</b>	<b>-57.6</b>	-56.7	-53.9	-56.1	-52.2	-44.4
<b>Exports</b>	<b>204.4</b>	200.9	203.6	203.0	200.1	191.8
<b>Imports</b>	<b>262.0</b>	257.6	257.5	259.1	252.4	236.2
<b>Petroleum Imports</b>	<b>19.3</b>	19.1	15.8	18.1	16.7	18.2
<b>Real Goods Trade Balance</b>	<b>-69.1</b>	-70.0	-68.5	-69.2	-66.9	-60.4

Source: Bureau of the Census