

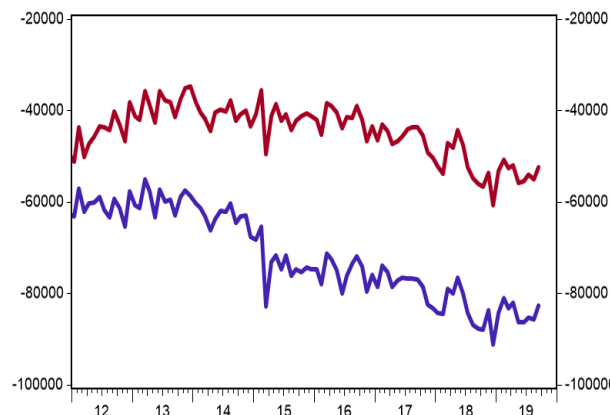
September International Trade

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- The trade deficit in goods and services came in at \$52.5 billion in September, almost exactly matching the consensus expected \$52.4 billion.
- Imports declined \$4.4 billion, led by cell phones, semiconductors, and toys, games & sporting goods. Exports fell \$1.8 billion, led by soybeans and fuel oil.
- In the last year, exports are down 1.8% while imports are down 2.8%.
- Compared to a year ago, the monthly trade deficit is \$3.6 billion smaller; after adjusting for inflation, the “real” trade deficit in goods is \$5.1 billion smaller than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

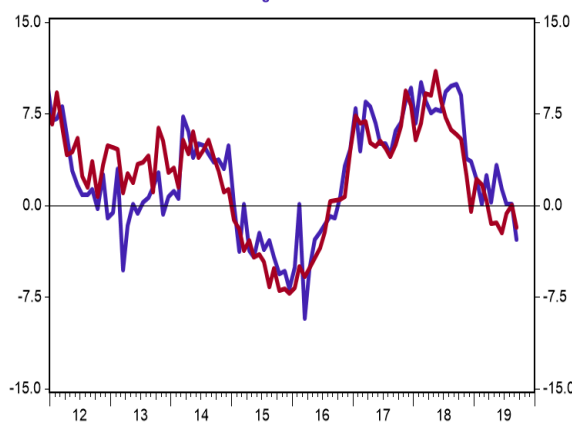
Implications: The trade deficit in goods and services came in at \$52.5 billion in September. To many, a smaller trade deficit in September may seem like a great thing. But imports and exports both fell in September, with imports falling faster, which is why the trade deficit declined. As a result, the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border, declined by 1.3% in September and is down 2.3% versus a year ago. But the biggest news in today’s report is that for the first time on record, the dollar value of US petroleum exports exceeded the dollar value of US petroleum imports. Yes, you read that right: The US was a net petroleum exporter in September. Horizontal drilling and fracking have transformed the global energy market and the US is no longer hostage to foreign oil. Meanwhile, the trade skirmishes that have been going on now for more than a year are having an impact on trade as expected. When you tax something you get less of it. There is still a lot of angst out there from the pouting pundits that the China trade battle is still a long way from done. However, we think the worst-case-scenarios much discussed by the financial press will prove excessively pessimistic, as they so often do. We still don’t believe an all-out trade war (like the Smoot-Hawley tariff act) will materialize, but rather that these short-term skirmishes are leading to longer-term gains for all countries involved. It seems like major progress is being made on a “Phase One” trade deal with China to be signed hopefully later this month in the US. It looks like there is a strong possibility the US will start to roll back the 15% tariffs that went into effect on September 1st on \$125 billion of Chinese goods, and maybe even more, if China is willing to purchase more agriculture and address intellectual property protections. Either way, we have already seen outlined trade deals with Mexico, Canada, and Japan. Total trade from these three is far larger than with China, yet that’s what the media obsess over. So far this year, US imports from China are down 13.4% from the same period in 2018, while up 34.8% from Vietnam, 21.2% from Taiwan, 7.2% from South Korea, 7.1% from India, and 5.0% from Mexico. In other recent news, Americans bought cars and light trucks at a 16.5 million annual rate in October, down 3.4% from September and down 5.3% from a year ago. Look for a rebound in November, but the trend over the next few years should be gradually downward as consumers shift their spending toward other sectors.

Trade Balance: Goods and Services, BOP Basis
 SA, Mil. \$
 Real Trade Balance: Goods
 SA, Mil. Chn. 2012\$



Source: Census Bureau/Haver Analytics

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



Source: Census Bureau/Haver Analytics

International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Sep-19 Bil \$	Aug-19 Bil \$	Jul-19 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-52.5	-55.0	-54.0	-53.8	-54.1	-56.1
Exports	206.0	207.8	207.4	207.1	207.3	209.7
Imports	258.4	262.9	261.4	260.9	261.4	265.8
Petroleum Imports	14.7	15.4	16.7	15.6	16.8	20.0
Real Goods Trade Balance	-82.6	-85.8	-85.3	-84.6	-84.7	-87.7

Source: Bureau of the Census