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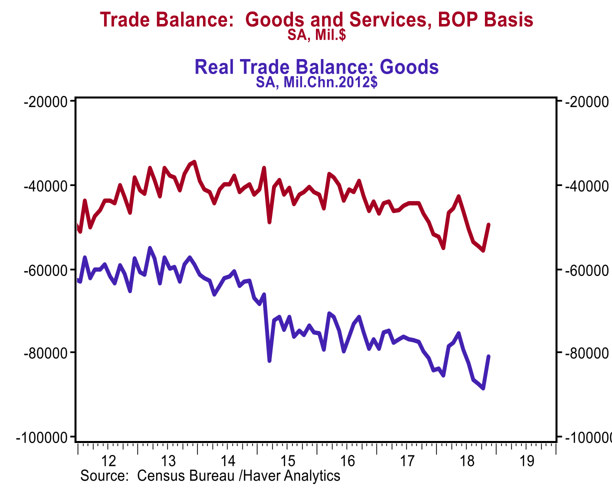
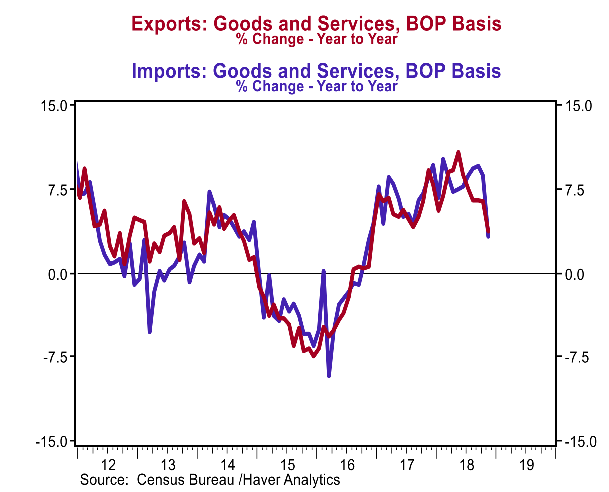
February 6, 2019 • 630.517.7756 • www.ftportfolios.com

November International Trade

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

- The trade deficit in goods and services came in at $49.3 billion in November, much smaller than the consensus expected $54.0 billion.
- Exports declined $1.3 billion, led by drops in petroleum products, gem diamonds, nonmonetary gold and pharmaceuticals. Imports fell $7.7 billion, led by declines in cellphones & other household goods, petroleum products, fuel oil and crude oil.
- In the last year, exports are up 3.7% while imports are up 3.2%.
- Compared to a year ago, the monthly trade deficit is $0.4 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $0.5 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: When President Trump sees today's report on the trade deficit in November, he may chalk it up as a win for his confrontational policy approach with our partners abroad as the trade deficit shrunk in November to $49.3 billion. But, today's report should not be celebrated, and is a perfect example of why deficits or surpluses can be misleading. 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 came substantially off its record all-time highs in October as exports declined by $1.3 billion while imports declined by $7.7 billion. So, the reason the trade deficit shrunk so drastically in November was because imports fell much faster than exports, nothing to get excited about. Overall, in the past year exports are up 3.7%, while imports are up 3.2%, signaling still healthy gains in the overall volume of international trade. 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 were cut from 9.8% in 2017 to 7.5% in 2018. 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 November, imports are down to 1.04 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.

International Trade *All Data Seasonally Adjusted, $billions*	Nov-18 Bil $	Oct-18 Bil $	Sep-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-49.3**	-55.7	-54.6	-53.2	-51.6	-49.0
Exports	**209.9**	211.2	211.4	210.8	210.4	202.3
Imports	**259.2**	266.9	265.9	264.0	262.0	251.2
Petroleum Imports	**16.7**	19.6	20.1	18.8	19.5	17.0
Real Goods Trade Balance	**-80.8**	-88.3	-87.2	-85.5	-84.1	-81.3

Source: Bureau of the Census