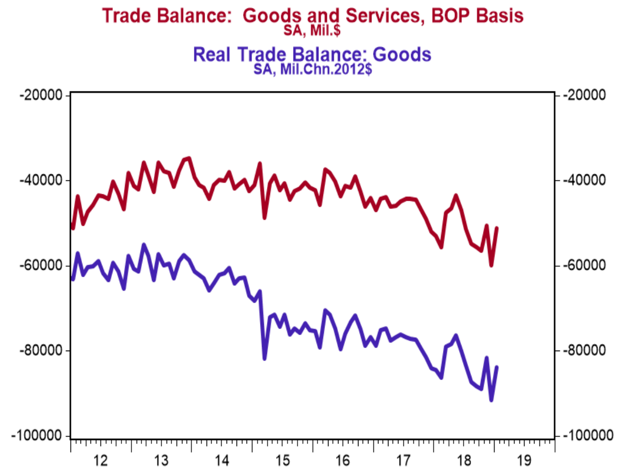
First Trust DATAWATCH

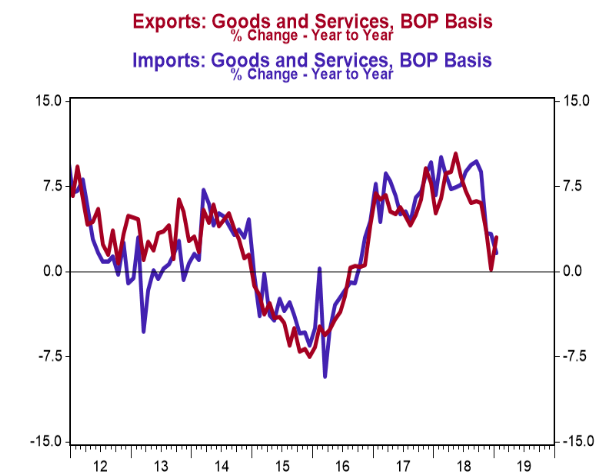
March 27, 2019 • 630.517.7756 • www.ftportfolios.com

January 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 $51.1 billion in January, much smaller than the consensus expected $57.0 billion.
- Imports fell $6.8 billion, led by drops in crude oil, computer accessories, semiconductors, and civilian aircraft. Exports increased $1.9 billion, led by soybeans and autos.
- In the last year, exports are up 3.0% while imports are up 1.6%.
- Compared to a year ago, the monthly trade deficit is $2.0 billion smaller; after adjusting for inflation, the "real" trade deficit in goods is $0.8 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Source: Census Bureau/Haver Analytics

Implications: The trade deficit shrunk substantially and unexpectedly in January to $51.1 billion. Many may chalk up the report as a win for President Trump's confrontational policy approach. But, today's report should not be celebrated and is an example of why trade 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 the US border. Looking at that data, January trade remained below its record all-time highs for the third month as the $1.9 billion rise in exports could not offset the $6.8 billion decline in imports. So, the reason the trade deficit shrunk so drastically in January was because imports fell much more than exports rose, nothing to get excited about. However, in the past year exports are up 3.0% while imports are up 1.6%, so a rising trend is still intact. In the meantime, one positive implication of today's report is that net exports look like they will make a positive contribution to real GDP in the first quarter. At present, we are estimating real GDP growth in the 1.5 – 2.0% range for the quarter, which is much better than some analysts had recently been forecasting. 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. 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. Also, soybeans led the export increase in January from the US, in no small part due to China resuming purchases. We see this as real progress, and just the start. The US's negotiating position is strong, 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 January, petroleum imports are down to only 1.07 times exports and this trend should continue. This massive shift means the US has changed power dynamics on a global scale (witness the political turmoil in Saudi Arabia). We will continue to watch trade policy as it develops, but don't see any reason to sound alarm bells yet.

International Trade *All Data Seasonally Adjusted, $billions*	Jan-19 Bil $	Dec-18 Bil $	Nov-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-51.1**	-59.9	-50.5	-53.9	-54.8	-53.1
Exports	**207.3**	205.4	209.3	207.4	208.5	201.3
Imports	**258.5**	265.3	259.9	261.2	263.3	254.4
Petroleum Imports	**14.4**	15.3	16.8	15.5	17.8	18.6
Real Goods Trade Balance	**-83.8**	-91.7	-81.6	-85.7	-86.9	-84.6

Source: Bureau of the Census