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June International Trade

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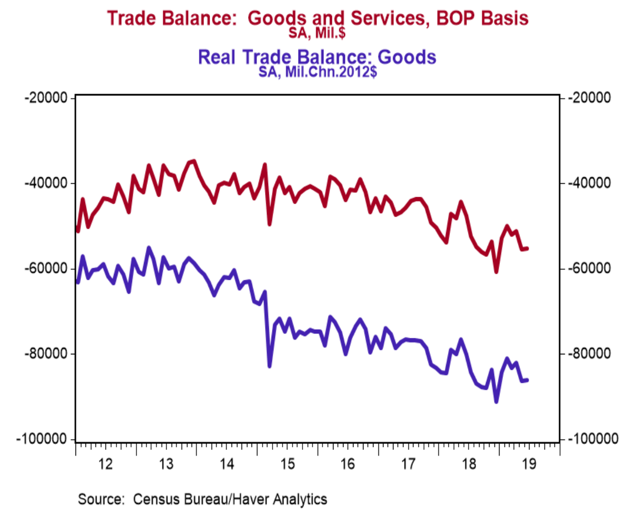
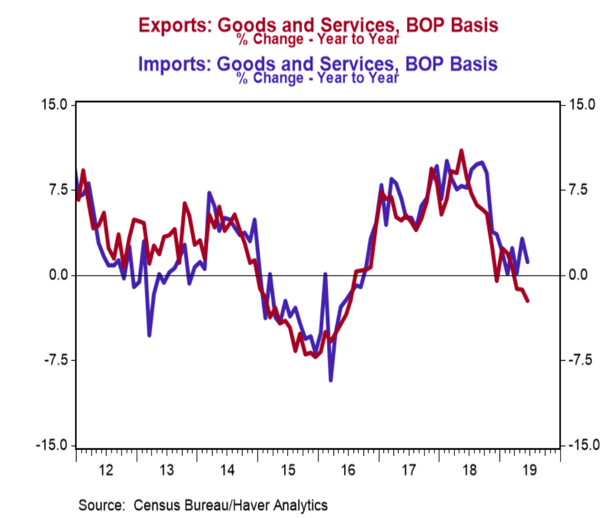
- The trade deficit in goods and services came in at $55.2 billion in June, larger than the consensus expected $54.6 billion.
- Imports fell $4.6 billion, led by crude oil, cellphones & other household goods, and petroleum products. Exports fell $4.4 billion, led by gem diamonds, pharmaceuticals, and other goods.
- In the last year, exports are down 2.2% while imports are up 1.2%.
- Compared to a year ago, the monthly trade deficit is $7.8 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $6.1 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The Trump Administration may like the reduction in the trade deficit in June, but the details of today's report showed relative weakness in international trade. Exports fell by 2.1% in June, while imports declined 1.7%. As a result, the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border, which is what really matters, fell by 1.9% in June and is now down 0.3% from a year ago. In the past year, exports are down 2.2% while imports have risen 1.2%. There is a lot of angst out there from the pouting pundits that the China trade battle is nowhere near done. 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 will materialize, but rather that these short-term skirmishes will lead to longer-term gains for all countries involved. No, President Trump's announcement of 10% tariffs on an additional $300 billion in Chinese imports (starting September 1st, 2019) yesterday is not a good thing in and of itself. But China is hurting, and this ratchets up the pressure to get a deal done. So far this year, US imports from China are down 12.4% from the same period in 2018, while up 33.4% from Vietnam, 20.2% from Taiwan, 10.7% from South Korea, 10.0% from India, and 6.3% from Mexico. Companies are shifting production out of China. And the longer this drags on, the worse the outcome will be for China. The list of companies leaving China continues to grow and, at some point, the damage will become too much. It's in everyone's best interest to get a deal done. In other recent news, automakers reported selling cars and light trucks at a 16.9 million annual rate in July, down 2.0% versus June and down 0.7% from a year ago. However, the gradual slowdown in auto sales is a reflection of sales during recent years which exceeded those suggested by population growth and average fleet age, not a sign of overall economic weakness. Consumers are shifting their purchasing power to other sectors.

International Trade *All Data Seasonally Adjusted, $billions*	Jun-19 Bil $	May-19 Bil $	Apr-19 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-55.2**	-55.3	-51.2	-53.9	-52.7	-47.4
Exports	**206.3**	210.7	206.4	207.8	208.6	211.0
Imports	**261.5**	266.0	257.6	261.7	261.4	258.4
Petroleum Imports	**16.6**	19.3	17.7	17.9	16.8	19.5
Real Goods Trade Balance	**-86.1**	-86.4	-82.0	-84.8	-83.8	-80.0

Source: Bureau of the Census