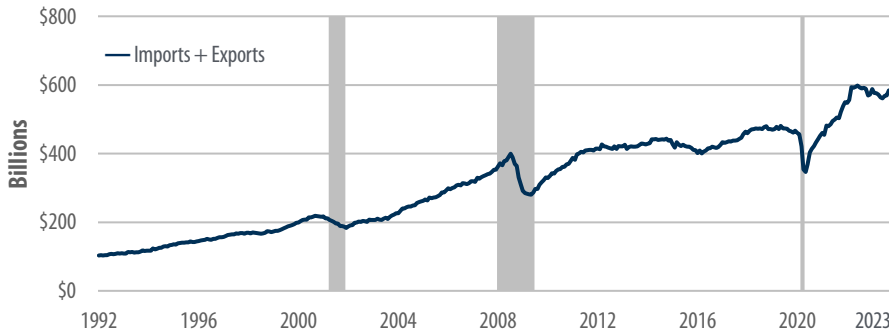


In this week's "Three on Thursday," we explore the dynamics of trade between the United States and the rest of the world. The U.S. operates with a significant trade deficit, meaning it imports more than it exports. Some view this negatively and associate being a net importer with economic weakness. This perception may be influenced by the way GDP is calculated. GDP accounting treats exports as positive, considering them domestic production, and imports as negative since the production occurred outside the country. However, the trade balance alone doesn't determine a country's economic strength or influence. To gain a more comprehensive understanding of where things sit today, we present three informative charts below.

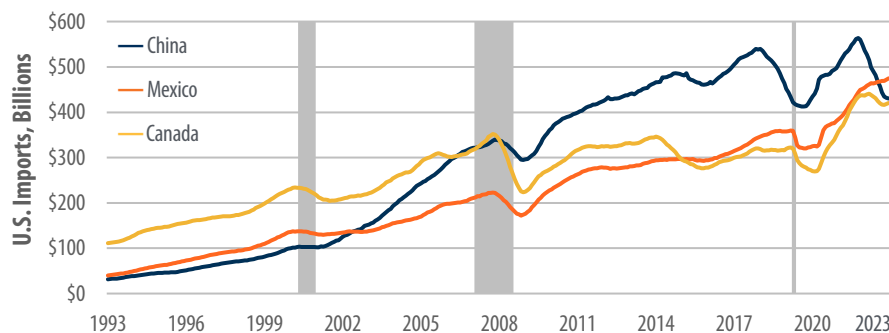
U.S. Total Volume of Trade



Source: U.S. Census Bureau, National Bureau of Economic Research, First Trust Advisors. Monthly data from 1/1992 - 11/2023.

Rather than fixating solely on the magnitude of the U.S. deficit, we prefer focusing on the overall trade volume—combining both imports and exports. This approach provides a more comprehensive view of business and consumer interactions beyond the U.S. borders. An increase in both exports and imports signifies a flourishing and robust economy. Unfortunately, the current data reveal a marginal growth of only 0.2% in total trade compared to a year ago. Exports have seen a modest uptick of 0.4%, while imports have increased by 0.1%. These figures align with our forecast of a recession coming in the U.S.

Largest Exporters to the United States



Source: U.S. Census Bureau, National Bureau of Economic Research, First Trust Advisors. Rolling twelve-month total from 12/1993 - 11/2023.

A shift is occurring in the U.S. trade landscape. In 2023, Mexico surpassed China as the largest exporter to the U.S. after approximately 15 years of China holding that position. The total volume of imports from China to the U.S. over the past 12 months have declined by 21.5% compared to the previous 12 months, while imports from Mexico have experienced an increase of 5.1% during the same period. Looking ahead, there's a possibility that in 2024, China could drop to third place, trailing behind Canada. This would mark the first time China was third since 2002.

Exchange of Petroleum Products in the U.S.



Source: U.S. Census Bureau, National Bureau of Economic Research, First Trust Advisors. Monthly data from 1/1989 - 11/2023.

An often overlooked area in monthly trade data is the exchange of petroleum products—imports and exports alike. Just two decades ago, imports of petroleum products dwarfed exports, reaching 12 to 15 times their size. At that time, concerns arose, with many speculating that the U.S. had reached peak oil, becoming increasingly dependent on foreign sources. However, the landscape has undergone a remarkable transformation with the advent of fracking. In a complete reversal, the U.S. has emerged as a net exporter of petroleum products for 21 consecutive months.

Recessions

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.