First Trust DATAWATCH

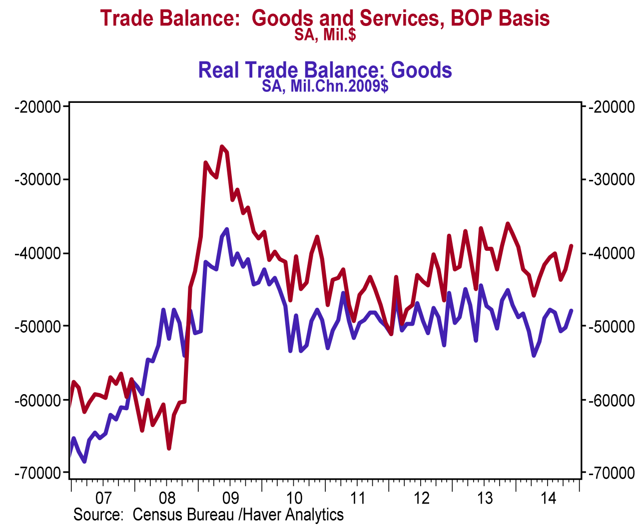
January 7, 2015 • 630.517.7756 • www.ftportfolios.com

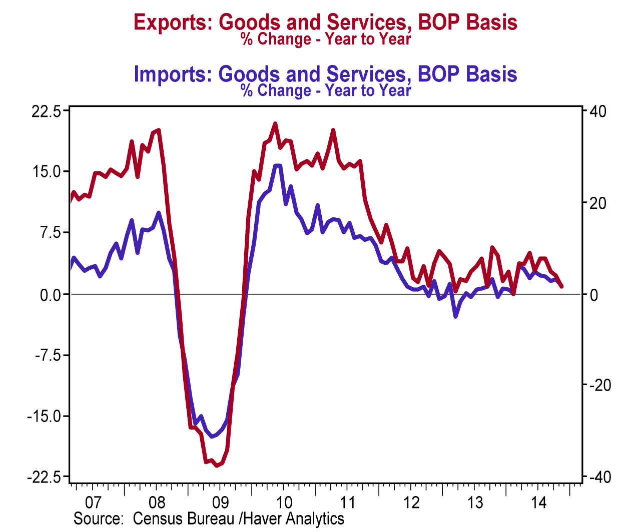
November International Trade

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

- The trade deficit in goods and services came in at $39.0 billion in November, smaller than the consensus expected $42.0 billion.
- Exports declined $1.9 billion in November, led by civilian aircraft and autos. Imports declined $5.2 billion, led by crude oil, autos and fuel oil.
- In the last year, exports are up 0.7% while imports are up 1.9%.
- The monthly trade deficit is $3.0 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $2.7 billion larger than a year ago. This "real" change is the trade indicator most important for measuring real GDP.

Implications: US trade with the rest of the world was heavily influenced by two events in November: a major drop in oil prices and an ongoing labor dispute at ports on the West Coast. As a result, both imports and exports declined in November. Imports dropped by $5.2 billion compared to a smaller $1.9 billion decline in exports, so, on net, the trade deficit shrank to $39 billion, the smallest in almost a year. In particular, the dollar value of US petroleum imports fell by $3.1 billion, to the lowest level in more than five years. Although some of this was obviously due to lower prices, the actual barrels of petroleum imported hit the lowest level in more than 20 years! United States oil production is changing the world – a massive geo-political event, not just an economic one. But, that's not the entire story on trade. A slowdown by West Coast dock workers is most likely a key reason for the $2.1 billion November decline in non-petroleum imports. It certainly affected some exports as well. Once this slowdown/strike is over, imports and non-petroleum exports will go back up. The bottom line is that the trade deficit has grown smaller lately. Nonetheless, a stronger dollar will put pressure on it to expand again as American consumers and businesses use their increased purchasing power to spend on overseas goods and services. Today's trade data add about 0.6 percentage points to our Q4 real GDP growth forecast. Looks like investors can expect a 3%-3.5% real GDP increase in Q4…the third quarter in a row with better than Plow Horse growth. In other news this morning, the ADP Employment index showed a gain of 241,000 private sector payrolls in December. Our models now project a nonfarm gain of 205,000 for Friday's official report.





International Trade All Data Seasonally Adjusted, $billions	Nov-14 Bil $	Oct-14 Bil $	Sep-14 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-39.0	-42.2	-43.6	-41.6	-41.2	-36.0
Exports	196.4	198.3	195.2	196.6	197.1	194.9
Imports	235.4	240.6	238.8	238.3	238.3	230.9
Petroleum Imports	23.1	26.2	26.4	25.2	26.4	28.8
Real Goods Trade Balance	-47.8	-50.1	-50.9	-49.6	-48.9	-45.1

Source: Bureau of the Census

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.