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October International Trade

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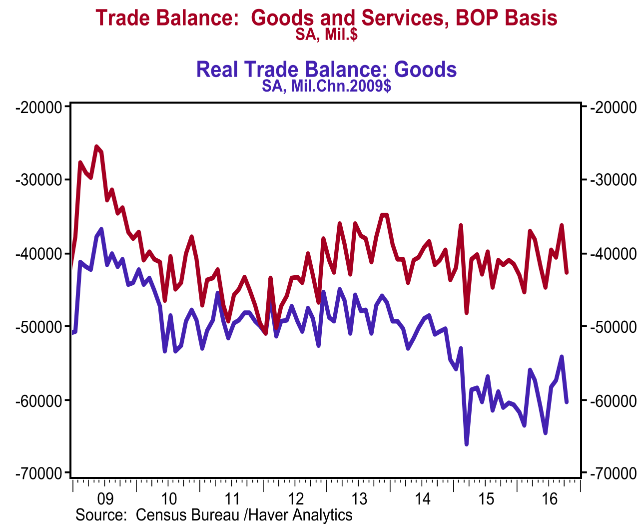
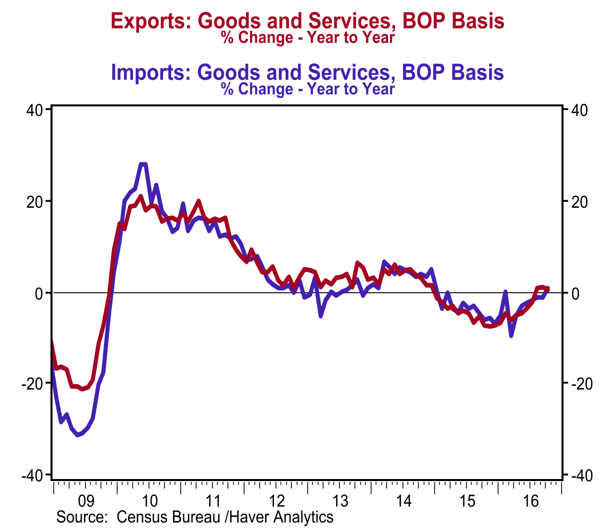
- The trade deficit in goods and services came in at $42.6 billion in October, slightly larger than the consensus expected $42.0 billion.
- Exports declined $3.4 billion, led by declines in soybeans and artwork, antiques & stamps. Imports rose $3.0 in October, led by pharmaceuticals and computer accessories.
- In the last year, exports are up 0.4% while imports are up 0.8%.
- The monthly trade deficit is $1.0 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $0.7 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.

Implications: The trade deficit was larger than the consensus expected in October, as imports grew and exports declined. While trade added significantly to GDP growth in Q3, the strong gain in exports in Q3 looks to have been temporary. Expect trade to be a drag on GDP in Q4 as a stronger dollar and tepid global growth continue to be factors. The good news is that, so far, there's been no visible effect of Brexit on trade, and we don't expect there to be any. Exports to the UK declined in October, while imports rose, but both remain in line with the levels seen before the June referendum. We didn't buy into the fear mongering surrounding the "leave" vote and believe Brexit will prove to be a long-term positive, as the UK uses its increased flexibility to make better trade agreements with the U.S., Mexico, and Canada, boosting global trade. Another ongoing factor affecting trade with the rest of the world is the trend decline in US petroleum product imports. Recently, petroleum product imports have grown as they increased 3.4% in October, and are now up 12.1% from a year ago. But we don't expect this to last. Since OPEC came to a decision to cut oil production, oil prices have increased to north of $50. Expect more oil production to come back online in the Unites States, and the petroleum import trend to revert lower. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In October, these imports were 1.8 times exports. This is also why oil prices have not spiked back to old highs even though the Middle East is in turmoil. The US has become an important global petroleum producer, bringing a stabilizing effect to the world. Overall, we expect real GDP growth to accelerate in the coming year and expect some widening in the trade deficit as US consumers buy imports with their healthy gains in income.





International Trade All Data Seasonally Adjusted, $billions	Oct-16 Bil $	Sep-16 Bil $	Aug-16 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-42.6**	-36.2	-40.6	-39.8	-40.9	-41.6
Exports	**186.4**	189.8	188.0	188.0	185.8	185.6
Imports	**229.0**	225.9	228.6	227.8	226.8	227.2
Petroleum Imports	**13.4**	12.9	12.9	13.1	12.7	11.9
Real Goods Trade Balance	**-60.3**	-54.2	-57.4	-57.3	-59.3	-61.0

Source: Bureau of the Census