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December International Trade

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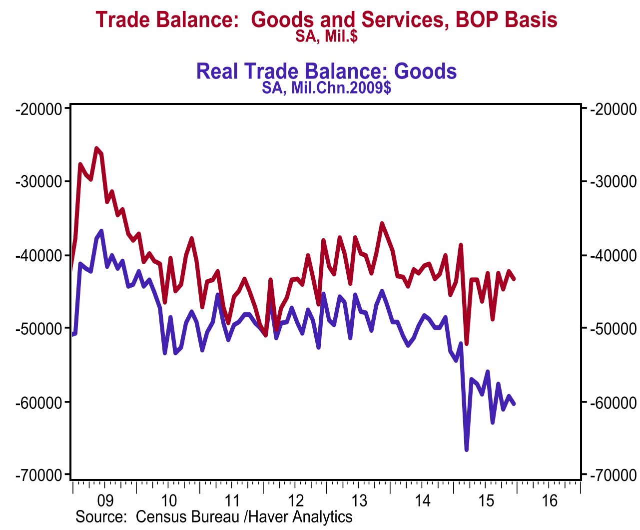
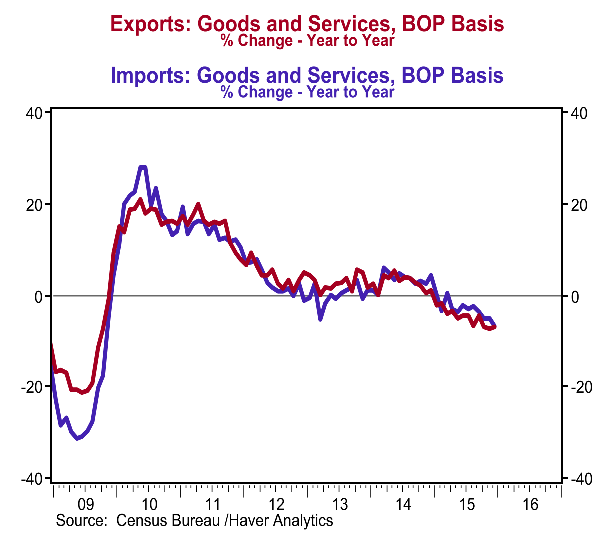
- The trade deficit in goods and services came in at $43.4 billion in December, slightly larger than the consensus expected $43.2 billion.
- Exports declined by $0.5 billion in December, pulled down by civilian aircraft, autos, and petroleum products. Imports rose by $0.6 billion, led by autos and civilian aircraft.
- In the last year, exports are down 6.9% while imports are down 6.5%.
- The monthly trade deficit is $2.1 billion smaller than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $7.2 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit widened in December as exports fell to the lowest level in four years. Slower growth abroad, along with a stronger dollar have slowed exports. For example goods exports to Canada and China are down 13.4% and 16.8% respectively from a year ago. Exports of goods to Africa are down 33.2% while exports to South & Central America are down 20.9%. This will not last forever, but may continue to be a factor for the coming year. Meanwhile, while increasing $0.6 billion in December, imports are also below year-ago levels. The largest contributor to the decline in the past year has been petroleum, which is now down 48.7% from a year ago. Yes, crude prices are down in the past year, impacting the value of crude imports, but the quantity of crude imports also fell in 2015, down 1.4% after dropping 4.0% in 2014. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In December, these imports were only 1.8 times exports. Ever wondered why, with all the turmoil out of the Middle East, oil prices have continued to decline, not spike higher, like we had usually seen in the past? It's because the US is becoming more and more important in the energy space *as a producer*, bringing a stabilizing effect to the world. You can thank fracking and horizontal drilling for that. In fact, after years of running a trade deficit, the US ran a trade surplus in goods with OPEC in 2015! Plugging today's figures into our GDP models suggests trade will be a non-factor, either up or down, in the first quarter of the 2016 while the overall economy grows at a about a 1% annual rate. Although tepid, we think the government is still having problems seasonally-adjusting its data and so we then expect much faster growth in the middle two quarters of the year.

International Trade *All Data Seasonally Adjusted, $billions*	Dec-15 Bil $	Nov-15 Bil $	Oct-15 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-43.4**	-42.2	-44.6	-43.4	-44.0	-45.5
Exports	**181.5**	182.0	183.8	182.4	184.4	195.0
Imports	**224.9**	224.2	228.4	225.8	228.4	240.5
Petroleum Imports	**13.0**	12.7	12.0	12.6	14.0	25.3
Real Goods Trade Balance	**-60.3**	-59.2	-61.1	-60.2	-59.5	-53.1

Source: Bureau of the Census