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January International Trade

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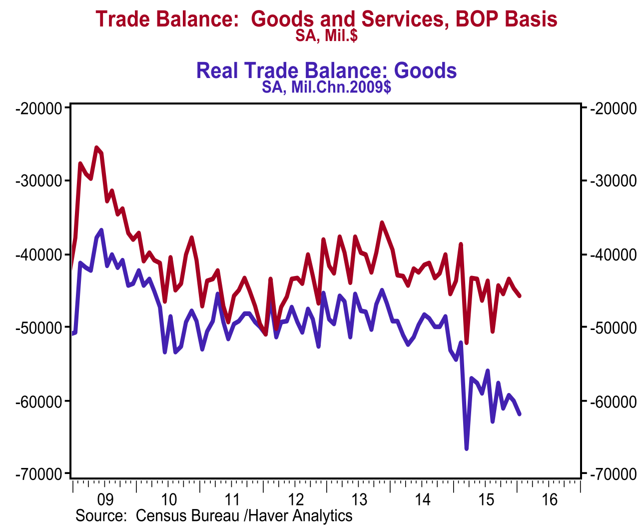
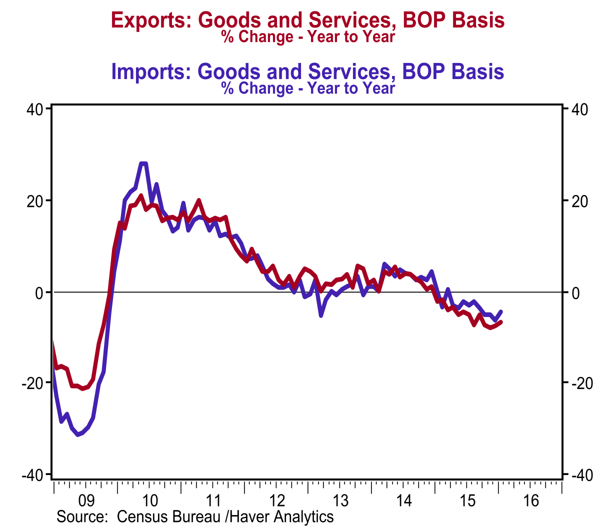
- The trade deficit in goods and services came in at $45.7 billion in January, larger than the consensus expected $44.0 billion.
- Exports declined by $3.8 billion in January, pulled down by fuel oil, artwork, antiques, stamps etc. and nonmonetary gold. Imports declined by $2.9 billion, led by crude oil, civilian aircraft, and pharmaceutical preparations.
- In the last year, exports are down 6.6% while imports are down 4.5%.
- The monthly trade deficit is $2.1 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $7.7 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 January as exports fell to the lowest level since mid-2011. Slower growth abroad, along with a stronger dollar have slowed exports. For example goods exports to Canada and China are down 11.9% and 14.0% respectively, while exports to South & Central America are down 16.9%. This will not last forever, but may continue to be a factor for the coming year. Meanwhile imports are also well below year-ago levels. The largest contributor to the decline in the past year has been petroleum, which is now down 41.8% from a year ago. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In January, these imports were only 1.7 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 is running a trade surplus in goods with OPEC over the past 12 months! The fact that the US is buying less crude from OPEC means OPEC has fewer dollars to purchase US goods. This is the key factor behind the drop in world trade, not global depression. Plugging today's figures into our GDP models suggests trade will be a slight drag on the first quarter of 2016 while the overall economy grows at a about a 1.5% 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*	Jan-16 Bil $	Dec-15 Bil $	Nov-15 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-45.7**	-44.7	-43.6	-44.6	-45.7	-43.6
Exports	**176.5**	180.3	180.9	179.2	181.5	189.0
Imports	**222.1**	225.0	224.5	223.9	227.2	232.6
Petroleum Imports	**11.2**	12.9	12.7	12.3	13.0	19.2
Real Goods Trade Balance	**-62.0**	-60.1	-59.2	-60.4	-60.5	-54.3

Source: Bureau of the Census