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# May International Trade

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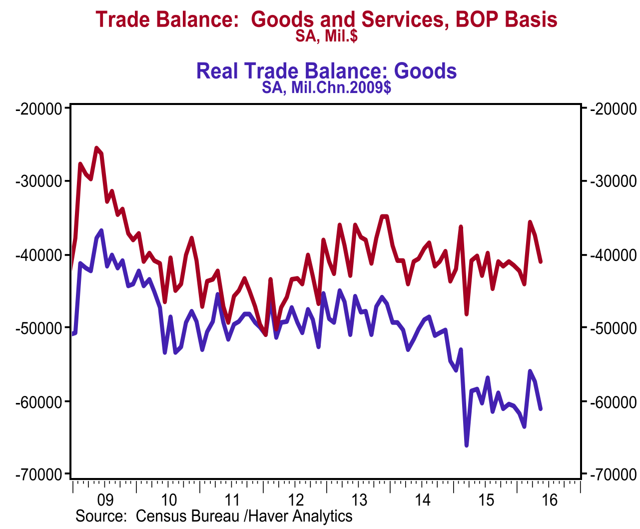
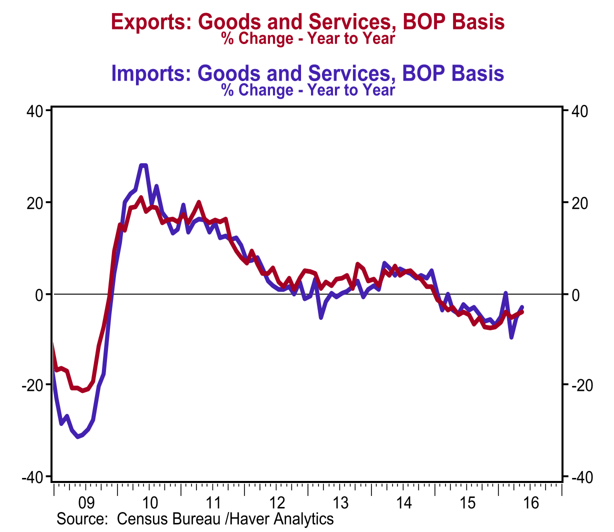
- The trade deficit in goods and services came in at $41.1 billion in May, larger than the consensus expected $40.0 billion.
- Imports rose $3.4 billion, led by nonmonetary gold, crude oil, and telecommunications equipment. Exports declined $0.3 billion in May, led by nonmonetary gold, civilian aircraft, and autos.
- In the last year, exports are down 4.2% while imports are down 3.1%.
- The monthly trade deficit is $1.0 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $2.7 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.




**Implications**: The trade deficit was larger than the consensus expected for May, as imports grew and exports stagnated for the month. Imports increased by $3.4 billion in May and are up $7.8 billion in the past two months, the largest two month increase in more than five years. Over the same period, exports are up $2.2 billion, the most in more than two years. Slow economic growth abroad has held down exports over the past year, but it looks like some of the pressures have been receding. Some analysts are worried about the effect of Brexit on trade and Brexit "uncertainty" may weigh on trade in the short term as the details are ironed out. But Brexit will eventually give the UK the flexibility to make trade agreements with the U.S., Mexico, and Canada, which could serve to increase global trade. Another ongoing factor effecting trade with the rest of the world is the decline in US oil imports. Imports of petroleum (down 28.7% from a year ago) have been a large contributor to slow trade growth. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In May, these imports were only 1.4 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. After decades of running a trade deficit with OPEC, 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 also a key factor behind the drop in world trade in the past year, not a global depression. In other recent news, automakers reported car and light truck sales at a 16.7 million annual rate in June, down 4.5% from May and 2% from a year ago. This is likely a temporary issue due to slower "fleet" sales to rental car companies. Ride-share services like Uber and Lyft may also depress sales in the short-run, but should not affect long-term average sales. Fewer people will need cars, but the cars on the road will be used more intensely, resulting in a faster scrappage/replacement rate.

| International Trade<br>*All Data Seasonally Adjusted, $billions* | May-16<br>Bil $ | Apr-16<br>Bil $ | Mar-16<br>Bil $ | 3-Mo<br>Moving Avg. | 6-Mo<br>Moving Avg. | Year-Ago<br>Level |
|---|---|---|---|---|---|---|
| *Trade Balance* | **-41.1** | -37.4 | -35.5 | -38.0 | -40.3 | -40.2 |
| *Exports* | **182.4** | 182.7 | 180.2 | 181.7 | 181.7 | 190.4 |
| *Imports* | **223.5** | 220.1 | 215.7 | 219.8 | 222.0 | 230.5 |
| *Petroleum Imports* | **11.1** | 10.3 | 9.8 | 10.4 | 10.9 | 15.6 |
| *Real Goods Trade Balance* | **-61.1** | -57.5 | -56.1 | -58.2 | -60.1 | -58.4 |

*Source: Bureau of the Census*