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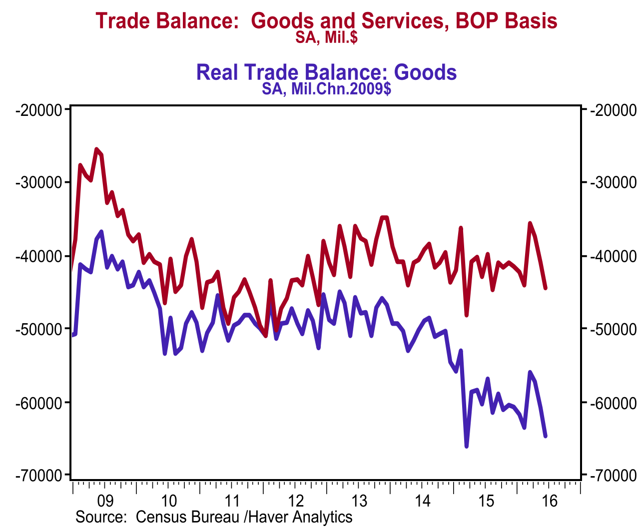
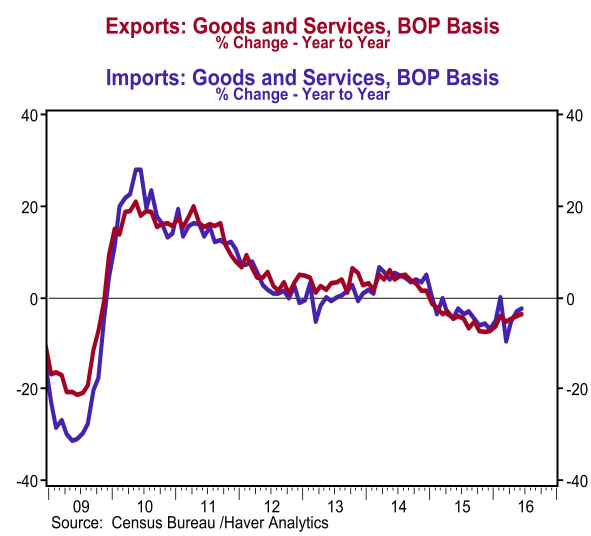
June International Trade

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

- The trade deficit in goods and services came in at $44.5 billion in June, larger than the consensus expected $43.0 billion.
- Imports rose $4.2 billion, led by crude oil, pharmaceuticals, and cell phones & other household goods. Exports increased $0.6 billion in June, led by civilian aircraft and corn.
- In the last year, exports are down 3.8% while imports are down 2.4%.
- The monthly trade deficit is $1.5 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $4.4 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 June, as imports grew faster than exports. These figures add to some other data suggesting real GDP growth may be revised down slightly for Q2 because imports are a negative in GDP calculations even though they suggest growth in US demand. Imports increased by $4.2 billion in June and are up $12 billion in the past three months, the largest three-month increase in more than five years. Over the same period, exports are up $3 billion, the most in more than two years. Overall, we take these figures as a bullish sign of a revival in US trade with the rest of the world. Although some analysts are worried about the effect of Brexit on trade, so far there's no sign of any significant impact. Both exports and imports for goods were higher with the UK in June. We believe Brexit is a positive and will eventually give the UK the flexibility to make better trade agreements with the U.S., Mexico, and Canada, which could serve to increase global trade. Another ongoing factor affecting trade with the rest of the world is the trend decline in US oil imports. Although U.S. oil imports rose in June, imports of petroleum are still down 20.6% from a year ago and 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 1.7 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.





International Trade *All Data Seasonally Adjusted, $billions*	Jun-16 Bil $	May-16 Bil $	Apr-16 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-44.5**	-41.0	-37.4	-40.9	-40.8	-43.0
Exports	**183.2**	182.5	182.7	182.8	181.7	190.3
Imports	**227.7**	223.5	220.1	223.7	222.5	233.3
Petroleum Imports	**13.3**	11.1	10.3	11.6	11.0	16.7
Real Goods Trade Balance	**-64.7**	-60.9	-57.3	-61.0	-60.7	-60.3

Source: Bureau of the Census