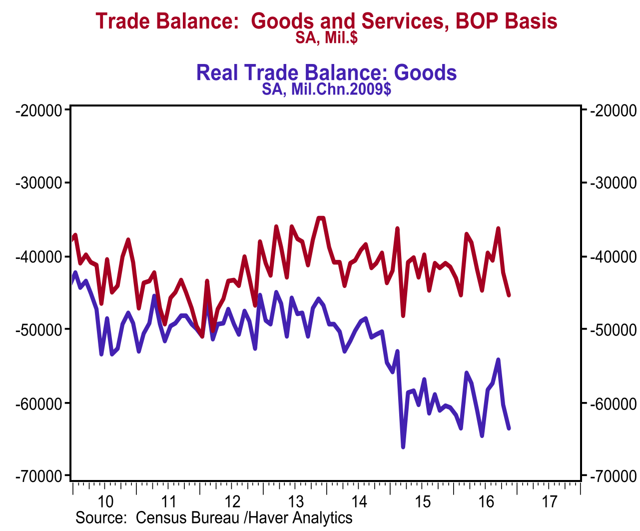
First Trust DATAWATCH

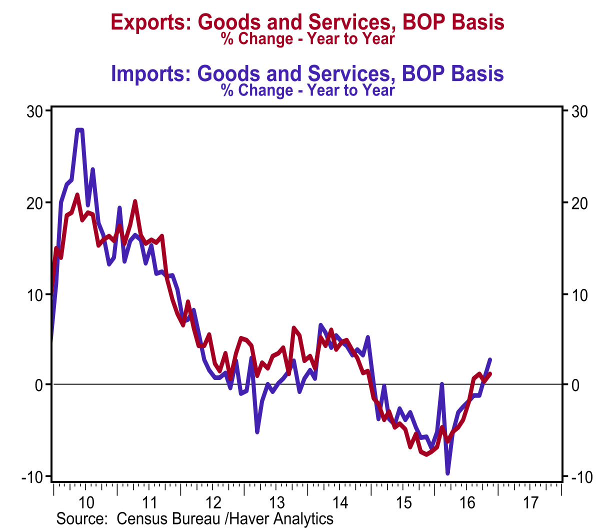
January 6, 2017 • 630.517.7756 • www.ftportfolios.com

November 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 $45.2 billion in November, slightly smaller than the consensus expected $45.4 billion.
- Exports declined $0.5 billion, led by declines in civilian aircraft and other goods. Imports rose $2.4 billion in November, led by crude oil and cellphones & other household goods.
- In the last year, exports are up 1.2% while imports are up 2.8%.
- The monthly trade deficit is $4.1 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $3.2 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit expanded to a nine-month high in November as imports grew and exports declined. While trade added significantly to GDP growth in Q3, the strong growth in exports in Q3 looks to have been temporary. Expect trade to be a substantial 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 large visible effect of Brexit on trade, and we don't expect there to be any. Although exports and imports to the UK declined in November, 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. and other countries boosting global trade. Another ongoing factor affecting trade with the rest of the world is the trend decline in US petroleum product imports. Although the dollar value of petroleum imports increased 7.6% in November, and are up 15% from a year ago, we don't expect this to last. Since OPEC decided to cut oil production, prices have increased north of $50. As a result, 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 November, 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. Overall, we expect real GDP growth to accelerate in 2017 and expect some widening in the overall trade deficit as US consumers buy imports with their healthy gains in income. This will happen despite efforts by the incoming president to reverse the trade gap, which is ultimately driven by capital flows into the US. If we make the US a better place to invest global capital – and it's likely President Trump and Congress will do that – the overall trade deficit will grow, not shrink.

International Trade *All Data Seasonally Adjusted, $billions*	Nov-16 Bil $	Oct-16 Bil $	Sep-16 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-45.2**	-42.4	-36.2	-41.3	-41.5	-41.1
Exports	**185.8**	186.3	189.8	187.3	186.5	183.6
Imports	**231.1**	228.6	225.9	228.6	228.0	224.7
Petroleum Imports	**14.3**	13.3	12.9	13.5	13.2	12.4
Real Goods Trade Balance	**-63.6**	-60.3	-54.2	-59.4	-59.7	-60.4

Source: Bureau of the Census