Trade Is Not Our Enemy

We think it was Art Laffer who said it best. Let’s say the US invented a cure for cancer and China a cure for heart attacks. If China decided to ban the cure for cancer, should the US retaliate by banning the cure for heart attacks?

Obviously not! The US is better off trading with China regardless of what China does. And although things like computers and toys are not nearly as serious as a heart attack, the same principle applies. Think about this idea the next time you hear about some other country “killing” the US on trade.

The US has run a merchandise trade deficit every year since 1975. The US has also run persistent trade deficits with many countries around the world, including Canada and Germany for the past 40 years, China for 35 years, and Mexico for the past 20 years. And yet it’s the US that remains a magnet for immigrants from around the world. If the US is getting killed economically, wouldn’t people be leaving, not trying to get here? People vote with their feet and the votes clearly suggest there is more economic opportunity in America, enough more that people enter illegally.

Some are concerned that global trade flows for the US have peaked, and it is true that overall imports and exports slowed in late 2014, 2015 and 2016. But we attribute this to the large drop in oil prices. We spent less on oil imports and oil exporters (like OPEC) earned fewer dollars to spend back here.

But, “real” (inflation adjusted) US goods exports outside the oil sector rose 5% in 2016 and are up 2.6% per year in the last decade. The real value of non-oil imports increased 4.2% in 2016 and are up 2.5% per year in the past decade. All of these figures are outstripping real economic growth in the US. Trade is an unambiguous positive for growth worldwide.

Although some analysts have spread fear about our trade in services, we see no reason for concern. US service sector exports ended 2016 at an all-time high. Service exports did decline 1.1% in 2015, but if that’s supposed to be a leading sign of economic weakness, why didn’t we have a recession in 2016? And why are broader measures of the economy still improving? We think the 2015 drop was a result of fewer dollars flowing through the trade system as oil prices fell.

Some argue that trade deficits must be offset by future trade surpluses. We beg to differ. The US finances its trade deficits with a surplus of capital coming in from the rest of the world. If foreigners were buying US assets that generated a high return on capital, you can make up a story where that could eventually be a problem. We could find ourselves in a situation where we have to both pay for our trade deficits and give foreign investors a healthy return.

But foreign investors are willing to earn a very low rate of return on their US assets – the price they pay for the safety and security of the US. That return is so low, in fact, that despite owning considerably more US assets than the amount of assets Americans own in foreign countries, foreigners earn far less on American assets than US investors earn on foreign assets.

Ultimately, free trade is critical to the prosperity of the US. Policies that seek to protect certain industries or companies are just a way of putting politicians in charge and weakening the inherent resourcefulness of the American people.

### Date/Time (CST) U.S. Economic Data Consensus First Trust Actual Previous
2-27 / 7:30 am Durable Goods – Jan +1.6% +2.2% +1.8% -0.8%  
7-30 am Durable Goods (Ex-Trans) – Jan +0.5% +0.4% -0.2% +0.9%  
2-28 / 7:30 am Q4 GDP Second Report 2.1% 2.2% 1.9%  
7:30 am Q4 GDP Chain Price Index 2.1% 2.1% 2.1%  
8:45 am Chicago PMI – Feb 53.3 52.7 50.3  
9:00 am Consumer Confidence – Feb 111.0 111.5 111.8  
3-1 / 7:30 am Personal Income – Jan +0.3% +0.3% +0.3%  
7:30 am Personal Spending – Jan +0.3% +0.3% +0.5%  
9:00 am ISM Index – Feb 56.0 56.0 56.0  
9:00 am Construction Spending – Jan +0.6% +0.5% -0.2%  
afternoon Total Car/Truck Sales – Feb 17.7 Mil 17.5 Mil 17.5 Mil  
afternoon Domestic Car/Truck Sales – Feb 13.6 Mil 13.6 Mil 13.6 Mil  
3-2 / 7:30 am Initial Claims – Feb 25 245K 241K 244K  
3-3 / 9:00 am ISM Non Mfg Index – Feb 56.5 56.7 56.5

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.