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December International Trade

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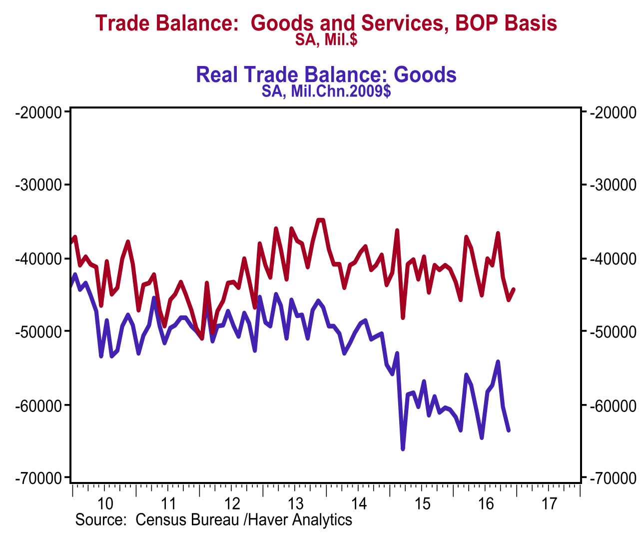
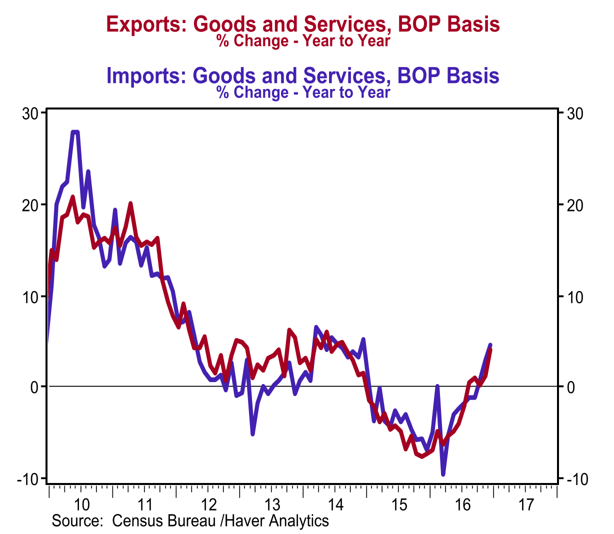
- The trade deficit in goods and services came in at $44.3 billion in December, smaller than the consensus expected $45.0 billion.
- Exports rose $5.0 billion, led by civilian aircraft and other goods. Imports rose $3.6 billion in December, led by passenger cars.
- In the last year, exports are up 4.2% while imports are up 4.6%.
- The monthly trade deficit is $2.8 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $1.5 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Implications: When President Trump views today's trade numbers he will be happy as the trade deficit narrowed in December with exports growing faster than imports. But what really matters, and what President Trump should be focused on, is the *total volume of trade* – imports plus exports – which grew by the most in more than a year and a half, underscoring continued improvement in the US economy and the world. Exports grew by $5.0 billion in December while imports rose by $3.6 billion. 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. Exports declined and imports from the UK rose in December, but 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. In December, these imports were 1.7 times exports, versus about ten times exports a decade ago. Since OPEC decided to cut oil production, prices have increased north of $50. As a result, more oil production will continue to come back online in the Unites States and the petroleum import trend will continue to move lower. 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 President Trump 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. But total volume of trade will accelerate, and with that a higher standard of living.



International Trade *All Data Seasonally Adjusted, $billions*	Dec-16 Bil $	Nov-16 Bil $	Oct-16 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-44.3**	-45.7	-42.7	-44.2	-41.7	-41.5
Exports	**190.7**	185.7	186.0	187.5	187.6	183.1
Imports	**235.0**	231.4	228.7	231.7	229.3	224.6
Petroleum Imports	**14.3**	14.3	13.3	14.0	13.4	12.5
Real Goods Trade Balance	**-62.3**	-63.9	-60.6	-62.3	-59.5	-60.8

Source: Bureau of the Census