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January International Trade

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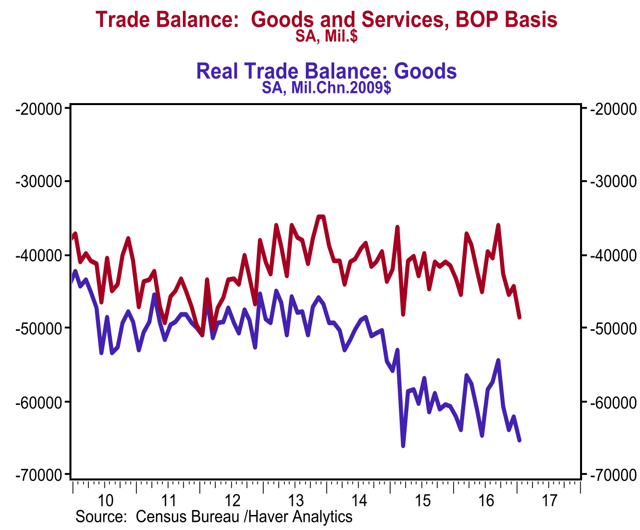
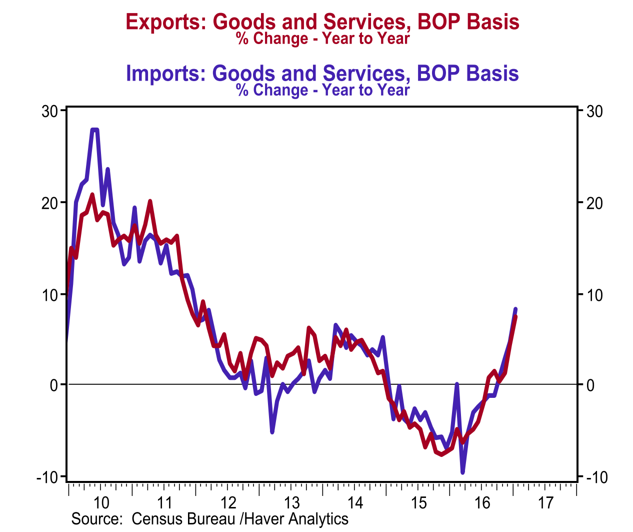
- The trade deficit in goods and services came in at $48.5 billion in January, matching consensus expectations.
- Exports rose $1.1 billion, led by passenger cars, petroleum and crude oil. Imports rose $5.3 billion in January, led by crude oil, cellphones & other household goods and passenger cars.
- In the last year, exports are up 7.4% while imports are up 8.3%.
- The monthly trade deficit is $5.1 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $3.3 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Implications: When President Trump sees an increase in January's trade deficit he might think the world is "killing" us in trade. After all imports grew faster than exports. But what really matters, and what President Trump and other policymakers should be focused on, is the fact that these are voluntary decisions made by consumers. Moreover, it is the total *volume of trade* – imports plus exports – that signals how much value consumers find in the global economy. Total trade grew by $6.4 billion in January and $8.8 billion in December, underscoring continued improvement in the US economy and the world. Exports grew by $1.1 billion in January while imports rose by $5.3 billion. Some argue today's trade deficits must be offset by future trade surpluses. We beg to differ. The US finances trade deficits with foreign capital inflows. The trade deficit must equal foreign investment and foreign investors have been willing to be paid a very low return on their US investments. So low, that Americans still earn more on their investments abroad than foreign investors earn on their US assets. As long as that continues, and we see no reason why it shouldn't, the US can continue to run trade deficits. Moreover, many of the policies President Trump is pursuing, including cutting tax rates and allowing for construction of more energy infrastructure, will make the US an even stronger magnet for capital from abroad. Nonetheless, the US should become much more competitive. Just look at the energy markets. A decade ago, our petroleum product imports were about nine times our exports. Now these imports are 1.8 times exports. In late November, OPEC decided to cut oil production by more than 1 million BPD (barrels per day). Since then, prices have increased north of $50 and, as a result, oil production in the United States has increased since then by 335,000 BPD, taking market share from unstable, less free-market countries. The ability of US producers to respond to market prices outside of government control is also why oil prices have not spiked back to old highs. The US has become an important global petroleum producer, bringing a stabilizing effect to the world.



International Trade All Data Seasonally Adjusted, $billions	Jan-17 Bil $	Dec-16 Bil $	Nov-16 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-48.5**	-44.3	-45.5	-46.1	-42.9	-43.4
Exports	**192.1**	191.0	186.0	189.7	189.0	178.8
Imports	**240.6**	235.3	231.5	235.8	231.9	222.2
Petroleum Imports	**16.9**	14.3	14.3	15.1	14.1	11.4
Real Goods Trade Balance	**-65.3**	-62.0	-63.9	-63.7	-60.6	-62.0

Source: Bureau of the Census