First Trust DATAWATCH

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February International Trade

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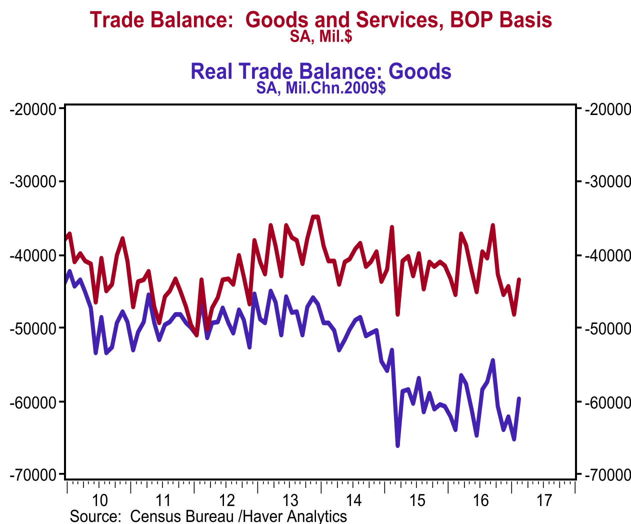
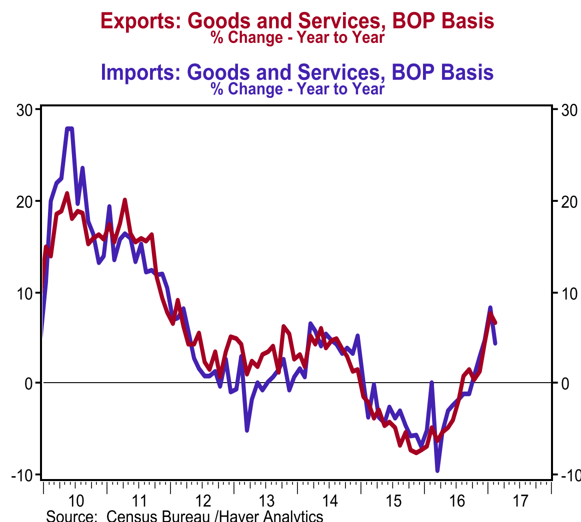
- The trade deficit in goods and services came in at $43.6 billion in February, smaller than the consensus expected $44.6 billion.
- Exports rose $0.4 billion, led by fuel oil and pharmaceuticals. Imports declined $4.3 billion, led by passenger cars and cellphones & other household goods.
- In the last year, exports are up 6.7% while imports are up 4.5%.
- The monthly trade deficit is $2.0 billion smaller than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $4.3 billion smaller 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 to a four-month low in February. But what really matters, and what President Trump and other policymakers should be focused on, is the total *volume of trade* – imports plus exports – which signals how much value consumers find in the global economy. Today's report showed the volume of trade declined in February as imports fell by $4.3 billion while exports grew only $0.4 billion. It is not unusual to see large declines in imports in February as China basically shuts down for a few weeks during the Chinese New Year. In fact, merchandise imports from China were down $8.6 billion in February, the biggest decline on record. 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 equals net 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 1.7 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 and, as a result, oil production in the United States has increased by 450,000 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. In other news yesterday, automakers reported sales of cars and light trucks at 16.6 million annual rate in March, down 5.4% from February and down 0.3% from a year ago. We expect a strong pace of sales, on average, in 2017, but not quite as strong as 2015-16. Instead, consumers will spend their growing incomes on other consumer discretionary items.

International Trade *All Data Seasonally Adjusted, $billions*	Feb-17 Bil $	Jan-17 Bil $	Dec-16 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-43.6**	-48.2	-44.3	-45.3	-43.3	-45.6
Exports	**192.9**	192.5	191.0	192.1	189.8	180.7
Imports	**236.4**	240.7	235.3	237.5	233.2	226.3
Petroleum Imports	**17.5**	16.9	14.3	16.2	14.9	10.2
Real Goods Trade Balance	**-59.7**	-65.1	-62.0	-62.3	-61.0	-64.0

Source: Bureau of the Census

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