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May International Trade

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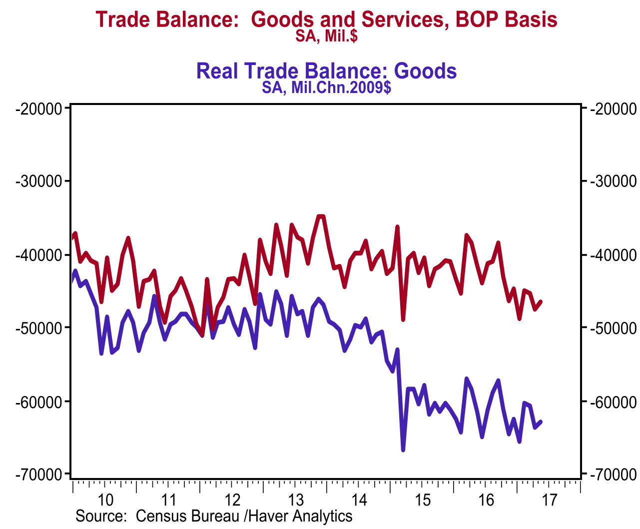
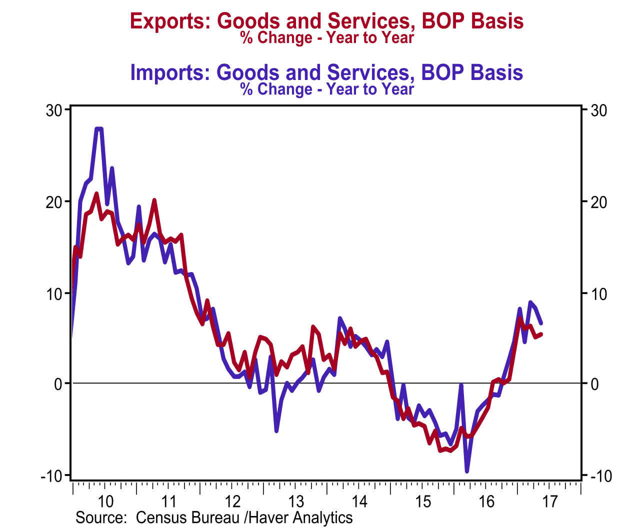
- The trade deficit in goods and services came in at $46.5 billion in May, slightly larger than the consensus expected $46.3 billion.
- Exports rose $0.9 billion, led by autos, and cellphones & other household goods. Imports declined $0.2 billion, also led by autos and cellphones & other household goods.
- In the last year, exports are up 5.4% while imports are up 6.6%.
- Compared to a year ago, the monthly trade deficit is $5.0 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $1.3 billion larger. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit declined in May, coming in at $46.5 billion, a slightly larger trade deficit than the consensus expected. While exports increased $0.9 billion in May and imports declined by $0.2 billion, both imports and exports are up from a year ago: exports by 5.4%, imports by 6.6%. We see expanded trade with the rest of the world as positive for the global economy. Autos and cell phones were key drivers of both imports and exports in May, and highlight a shift in trading partners that has occurred over the past decade. Japan, which was a leading trade partner for both imports and exports, has declined in importance since peaking in the mid-1980s. Meanwhile developing countries like China and India make up a steadily increasing share of U.S. trade. One key area where trade has been declining in recent years has been with oil-producing nations. Imports from OPEC countries represented a whopping 14% of total imports as recently as mid-2008, but innovations like fracking have brought OPEC's share of U.S. imports down to just 3.2% in May. Trade is one of our four pillars to prosperity, and we believe freer trade leads to improved economic growth. And while we have our qualms with some of the talk coming out of Washington related to paring back free trade, there has been significantly more hot air than substance. We will watch trade policy as it develops, but don't see any reason at present to be sounding alarm bells. The U.S. is increasing both imports and exports, just as you would expect from a growing nation, and we expect the volume of total trade activity to rise as better tax and regulatory policies increase economic activity and boost wages. In other recent news, automakers reported sales of cars and light trucks at a 16.5 million annual rate in June, down 0.9% from May and down 1.8% from a year ago. We expect the auto industry to continue to gradually return to more sustainable levels of about 15.5 million units per year and don't think the decline signals wider economic problems. Instead it reflects consumers shifting purchases to other sectors.

International Trade *All Data Seasonally Adjusted, $billions*	May-17 Bil $	Apr-17 Bil $	Mar-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-46.5**	-47.6	-45.3	-46.5	-46.3	-41.5
Exports	**192.0**	191.2	191.5	191.6	191.2	182.2
Imports	**238.5**	238.8	236.7	238.0	237.5	223.7
Petroleum Imports	**15.8**	15.4	17.5	16.3	16.3	11.2
Real Goods Trade Balance	**-62.8**	-63.8	-60.7	-62.4	-62.6	-61.6

Source: Bureau of the Census