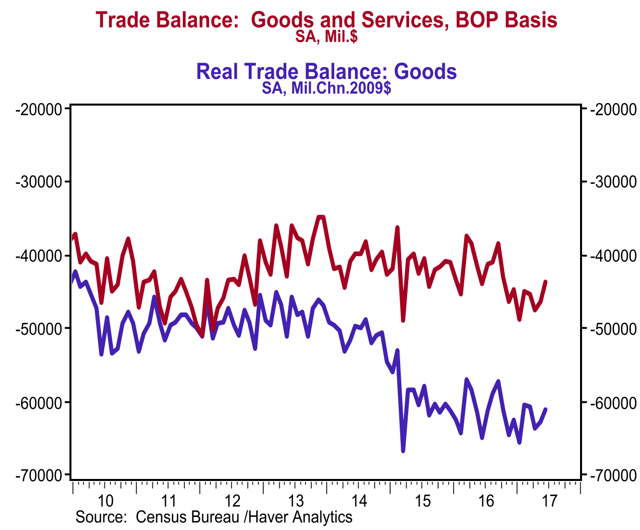
First Trust DATAWATCH

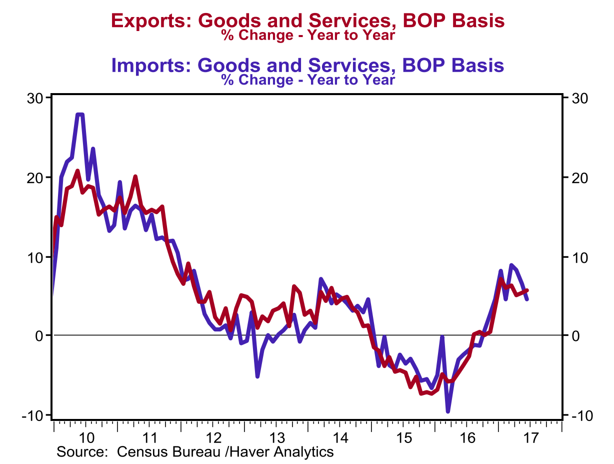
August 4, 2017 • 630.517.7756 • www.ftportfolios.com

June International Trade

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The trade deficit in goods and services came in at $43.6 billion in June, slightly smaller than the consensus expected $44.5 billion.
- Exports rose $2.4 billion, led by soybeans and petroleum products. Imports declined $0.4 billion, led by crude oil and cell phones & other household goods.
- In the last year, exports are up 5.8% while imports are up 4.6%.
- Compared to a year ago, the monthly trade deficit is $0.2 billion smaller; after adjusting for inflation, the "real" trade deficit in goods is $3.9 billion smaller. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit declined in June, coming in at $43.6 billion, a slightly smaller trade deficit than the consensus expected. While exports increased $2.4 billion in June and imports declined by $0.4 billion, both imports and exports are up from a year ago: exports by 5.8%, imports by 4.6%. We see expanded trade with the rest of the world as positive for the global economy, and total trade (imports plus exports) is up 5.1% in the past year. Look for more of that in the year to come as economic growth accelerates in Europe. In particular, it looks like France's new president Emmanuel Macron is intent on moving its economy toward a freer labor market, which should, in turn, make other European countries follow suit. Better growth in Europe will increase global trade and US exports as well. In June itself, increased petroleum exports and a decline in crude oil imports were key drivers in the trade balance, once again highlighting the impact that U.S. energy technology – led by fracking – is having on an international scale. But the largest contributor to the smaller trade deficit in June came from our North American trade partners. Exports of goods to Canada and Mexico rose $1.8 billion in June, while imports declined $0.3 billion. Despite rhetoric out of Washington about NAFTA, total trade in goods to the region is up 9.7% since last November. Trade is one of our four pillars to prosperity; 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. A key trend that we will be keeping an eye on is the shift towards developing countries like China and India making up a steadily increasing share of U.S. trade. While they receive just 9% of U.S. goods exports, that is up from just 2% in early 2000. Given demographics and shifts towards more market based economies, we expect both countries to rise in importance as trade partners in the years ahead.

International Trade *All Data Seasonally Adjusted, $billions*	Jun-17 Bil $	May-17 Bil $	Apr-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-43.6**	-46.4	-47.6	-45.9	-46.1	-43.8
Exports	**194.4**	192.0	191.2	192.5	192.0	183.8
Imports	**238.0**	238.4	238.8	238.4	238.1	227.6
Petroleum Imports	**14.2**	15.8	15.4	15.1	16.4	13.0
Real Goods Trade Balance	**-61.0**	-62.8	-63.7	-62.5	-62.4	-64.9

Source: Bureau of the Census