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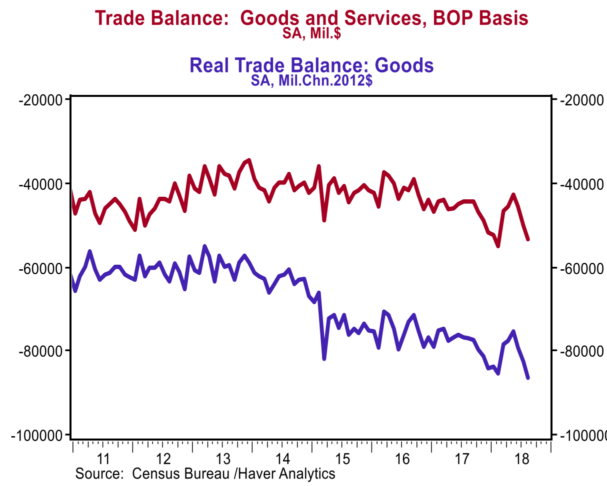
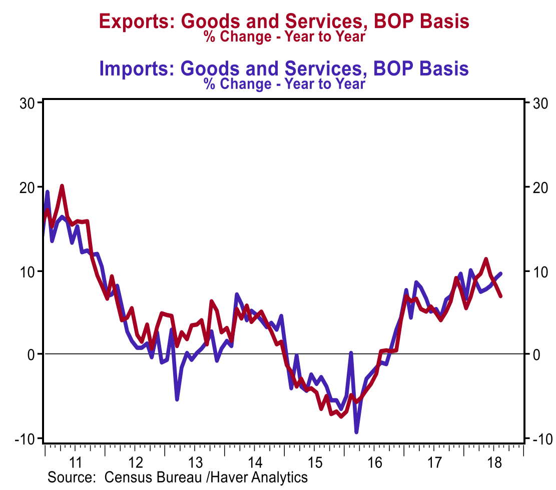
August International Trade

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

- The trade deficit in goods and services came in at $53.2 billion in August, very close to the consensus expected $53.6 billion.
- Exports fell $1.7 billion, led by declines in soybeans and crude oil. Imports rose $1.5 billion, led by autos and cell phones.
- In the last year, exports are up 7.1% while imports are up 9.6%.
- Compared to a year ago, the monthly trade deficit is $9.1 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $9.2 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: Trade data have received extra attention of late from pundits looking to play up trade war impacts, but too often they end up missing the forest for the trees. Yes, the trade deficit widened in August to $53.2 billion as exports declined and imports rose. But what matters more than the headline number - and which you will not hear about as much - is how trade continues to show strength in the global economy. We like to follow the total volume of trade – imports plus exports – which signals how much value consumers find in the global economy. And total US trade continues to stand near all-time highs. In terms of the trade deficit in August, a drop in exports for soybeans and crude oil led the way. This, in particular, will garner attention, as soybeans were targeted by Chinese tariffs. Year-to-date however, soybean exports are up nearly 40% compared to last year, so we wouldn't get too concerned. In fact, in the past year exports are up 7.1%, while imports are up 9.6%, signaling very healthy gains in the overall volume of international trade and easily outstripping the pace of nominal GDP growth. While many are worried about protectionism from Washington, we continue to think this is a trade skirmish, and the odds of an all-out trade war that noticeably hurts the US economy are slim. Most likely, what will ultimately come from all the chaos will be better trade agreements for the United States (like the updated NAFTA deal recently struck with Canada and Mexico). The US's negotiating position simply continues to strengthen, in no small part due to the rise of the US as an energy powerhouse. As recently as 2005, the US was importing more than ten times the petroleum products that we were exporting. As of August, imports are down to 1.5 times exports and steadily declining. Not only does this reduce US reliance on foreign trade partners and lower their bargaining power, it has served to shift power dynamics on a global scale (witness the political turmoil in Saudi Arabia). So at the end of the day, we will continue to watch trade policy as it develops, but don't see any reason to sound alarm bells.

International Trade *All Data Seasonally Adjusted, $billions*	Aug-18 Bil $	Jul-18 Bil $	Jun-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-53.2**	-50.0	-45.7	-49.7	-47.3	-44.2
Exports	**209.4**	211.1	213.2	211.2	211.5	195.6
Imports	**262.7**	261.1	258.9	260.9	258.8	239.8
Petroleum Imports	**20.5**	20.3	19.6	20.1	19.4	14.2
Real Goods Trade Balance	**-86.3**	-82.4	-79.3	-82.7	-79.9	-77.1

Source: Bureau of the Census