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September International Trade

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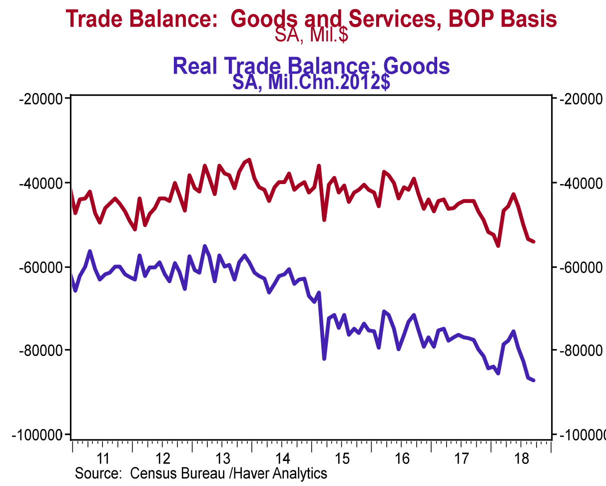
- The trade deficit in goods and services came in at $54.0 billion in September, slightly larger than the consensus expected $53.6 billion.
- Exports rose $3.1 billion, led by civilian aircraft, petroleum products, and nonmonetary gold. Imports rose $3.8 billion, led by telecommunications equipment and civilian aircraft engines.
- In the last year, exports are up 7.2% while imports are up 9.8%.
- Compared to a year ago, the monthly trade deficit is $9.6 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $9.7 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 September to $54.0 billion as imports rose more than exports. But what matters more than the headline trade deficit number - and which you will not hear about as much - is the total volume of trade – imports plus exports – which signals how much businesses and consumers interact across borders. Looking at that data, US trade hit a new record all-time high in September – the opposite of what we would expect in a trade war. In terms of the trade deficit in September, exports rose by $3.1 billion, while imports rose by $3.8 billion. Exports of soybeans, which have been given lots of attention as they have been targeted by Chinese tariffs were down again in September. Year-to-date however, soybean exports are up nearly 30% compared to last year, suggesting farmers are finding other markets. Overall, in the past year exports are up 7.2%, while imports are up 9.8%, 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 September, imports are down to 1.3 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. In other news yesterday, automakers reported that they sold cars and light trucks at a surprisingly strong 17.6 million annual rate in October, up 0.7% from September, but down 2.2% from a year ago. We expect auto sales to gradually decline versus year-ago levels as consumers, who have plenty of purchasing power, shift toward other sectors.

International Trade *All Data Seasonally Adjusted, $billions*	Sep-18 Bil $	Aug-18 Bil $	Jul-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-54.0**	-53.3	-50.0	-52.5	-48.5	-44.4
Exports	**212.6**	209.4	211.1	211.0	211.9	198.4
Imports	**266.6**	262.8	261.1	263.5	260.4	242.8
Petroleum Imports	**20.2**	20.4	20.3	20.3	19.7	14.5
Real Goods Trade Balance	**-87.0**	-86.3	-82.5	-85.3	-81.4	-77.4

Source: Bureau of the Census