First Trust DATAWATCH

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December International Trade

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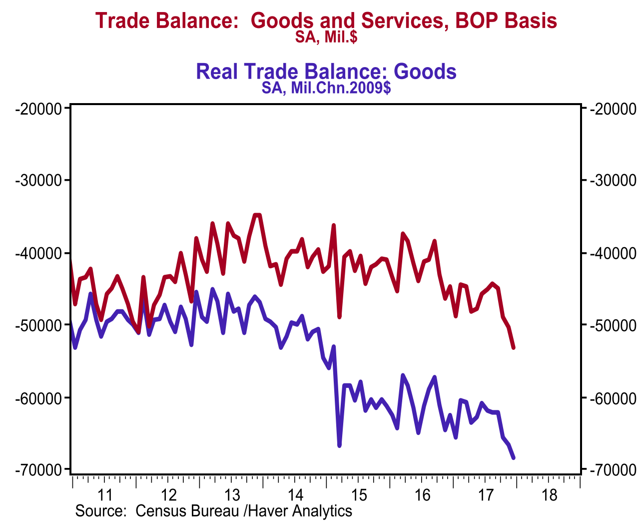
- The trade deficit in goods and services came in at $53.1 billion in December, larger than the consensus expected $52.1 billion.
- Exports rose $3.5 billion, led by civilian aircraft and industrial machines. Imports rose $6.2 billion, led by pharmaceuticals, cellphones & other household goods, and autos.
- In the last year, exports are up 7.3% while imports are up 9.5%.
- Compared to a year ago, the monthly trade deficit is $8.5 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $5.9 billion larger. The "real" change is the trade indicator most important for measuring real GDP.



Implications: The trade deficit expanded in December, coming in at $53.1 billion, the largest trade deficit since late 2008. This may cause worry, as larger trade deficits are considered by many as a negative, but we see this report as a positive for the global economy. Exports and imports both hit new record highs, rising by $3.5 and $6.2 billion, respectively. Both exports and imports are up strongly from a year ago: exports by 7.3%, imports by 9.5%. Expanded trade with the rest of the world is good news and total trade (imports plus exports), which is what really matters, is at a record high, up 8.6% in the past year. Look for more increases in total trade in 2018 as economic growth accelerates in Europe and Japan. Exports of goods to the EU and Japan are up 7.8% and 13.8%, respectively, in the past year. In addition, the composition of US trade may change dramatically over the next few years, reducing the US trade deficit. A lower corporate tax rate means firms that had previously placed production facilities and "paper" assets (like intellectual property) abroad, so they could claim a lower foreign tax rate, will locate some of those assets back in US. As a result, the sales generated by those assets will count as domestic production, not imports, reducing our official trade deficit. In the meantime, although rising imports are a positive sign about the underlying strength of the US economy, for GDP accounting purposes, they mean growth in production is temporarily lagging growth in spending. As a result, international trade was a substantial drag on fourth quarter GDP, and the 1.1 percentage point subtraction from the initial estimate of the real GDP growth rate due to trade looks it will be revised slightly higher. Plugging today's data into our estimates, as well as recent figures on construction and factory orders, it now looks like real GDP grew at a 2.4% annual rate in Q4 versus the original estimate of 2.6%. However, we are still projecting growth at a 4.0% annual rate in the first quarter of 2018 and 3.5% growth for all of 2018. The protectionist talk coming from Washington is worrisome, but, so far, there has been much more hot air than substance. We will continue to watch trade policy as it develops, but don't see any reason yet to sound alarm bells.

International Trade *All Data Seasonally Adjusted, $billions*	Dec-17 Bil $	Nov-17 Bil $	Oct-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-53.1**	-50.4	-48.9	-50.8	-47.8	-44.6
Exports	**203.4**	199.8	195.3	199.5	196.7	189.5
Imports	**256.5**	250.2	244.1	250.3	244.4	234.1
Petroleum Imports	**15.8**	16.8	15.3	16.0	14.8	13.8
Real Goods Trade Balance	**-68.4**	-66.5	-65.5	-66.8	-64.4	-62.6

Source: Bureau of the Census

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