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January International Trade

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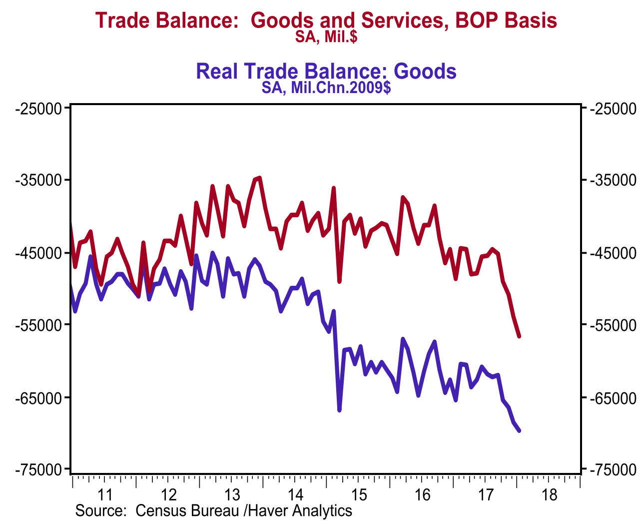
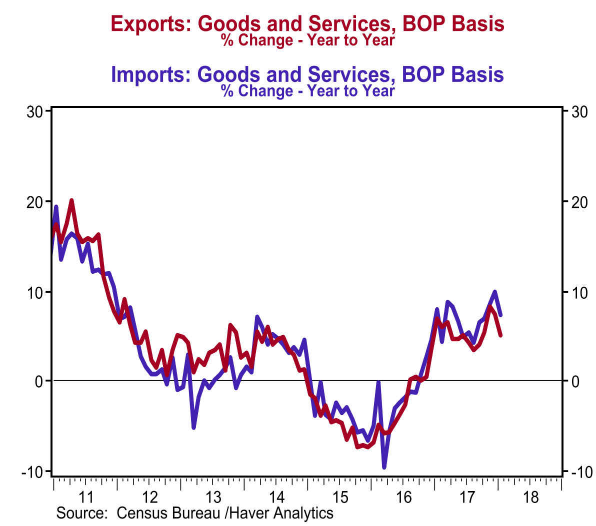
- The trade deficit in goods and services came in at $56.6 billion in January, larger than the consensus expected $55.0 billion.
- Exports fell $2.7 billion, led by declines in civilian aircraft, other goods and industrial machines. Imports were unchanged.
- In the last year, exports are up 5.1% while imports are up 7.4%.
- Compared to a year ago, the monthly trade deficit is $7.9 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $4.2 billion larger. The "real" change is the trade indicator most important for measuring real GDP.





Implications: When President Trump sees an increase in January's trade deficit he'll think the world is "killing" us in trade. But what really matters, and what President Trump and other policymakers should be focused on, is that the balance of trade is due to voluntary decisions made by producers and consumers. Moreover, it is the total *volume of trade* – imports plus exports – that signals how much value consumers find in the global economy. The disappointing part in today's report was not that the trade deficit increased to $56.6 billion in January, but that total trade fell by $2.7 billion. Exports fell $2.7 billion in January while imports were unchanged. Some argue today's trade deficits must be offset by future trade surpluses. We beg to differ. The US finances trade deficits with foreign capital inflows. The trade deficit must equal foreign investment and foreign investors have been willing to be paid a very low return on their US investments. So low, that Americans still earn more on their investments abroad than foreign investors earn on their US assets. As long as that continues, and we see no reason why it shouldn't, the US can continue to run trade deficits. Moreover, many of the policies President Trump has passed, including cutting tax rates and allowing for construction of more energy infrastructure, will make the US an even stronger magnet for capital from abroad. The protectionist talk coming from Washington, along with the new tariffs on steel and aluminum, is worrisome. But as we wrote in our Monday Morning Outlook, the tariffs just announced only partially offset the benefits of the tax cuts already passed. We will continue to watch trade policy as it develops, but don't see any reason yet to sound alarm bells. In other news today, nonfarm productivity was revised slightly higher from a preliminary reading of -0.1% at an annual rate to an unchanged reading in Q4. Productivity is up 1.1% versus a year ago. We expect productivity to accelerate in 2018. Companies have increased business investment, which should generate more output per hour. Meanwhile, the tight labor market should encourage firms to find more efficient ways to produce. In employment news this morning, the ADP Employment index showed private payrolls increased 235,000 in February. As a result, we're projecting that Friday's official report on nonfarm payrolls will show a gain of 225,000.

International Trade *All Data Seasonally Adjusted, $billions*	Jan-18 Bil $	Dec-17 Bil $	Nov-17 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-56.6**	-53.9	-50.9	-53.8	-50.1	-48.7
Exports	**200.9**	203.6	200.2	201.6	198.3	191.2
Imports	**257.5**	257.5	251.1	255.4	248.4	239.9
Petroleum Imports	**19.0**	15.8	16.8	17.2	15.8	16.8
Real Goods Trade Balance	**-69.7**	-68.5	-66.5	-68.2	-65.7	-65.5

Source: Bureau of the Census