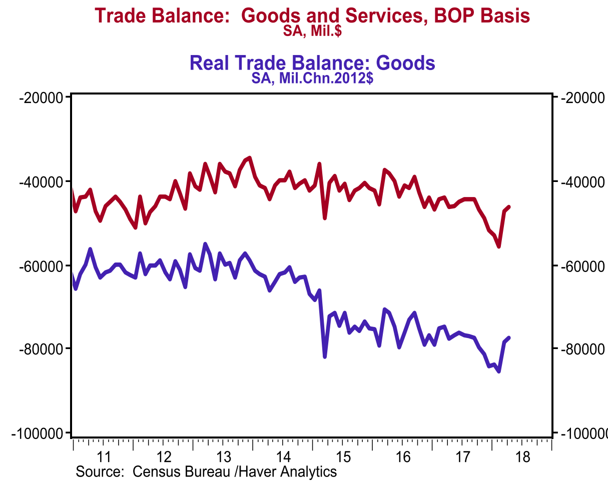
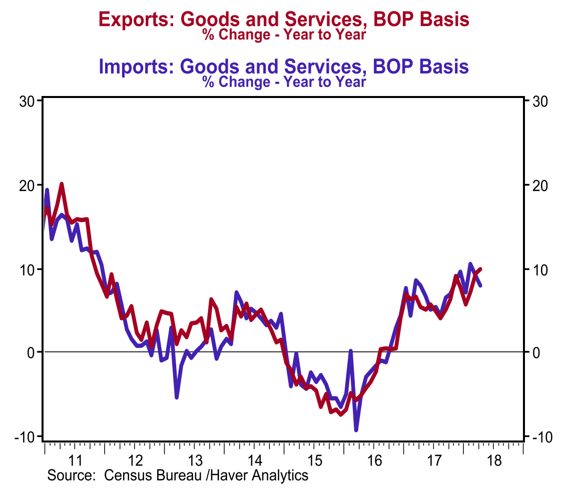
First Trust DATAWATCH
June 6, 2018 • 630.517.7756 • www.ftportfolios.com

April 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 $46.2 billion in April, much smaller than the consensus expected $49.0 billion.
- Exports rose $0.6 billion, led by fuel oil, soybeans and corn. Imports fell $0.4 billion, led by cellphones & other household goods, autos, and pharmaceuticals.
- In the last year, exports are up 9.9% while imports are up 8.0%.
- Compared to a year ago, the monthly trade deficit is $0.1 billion larger; after adjusting for inflation, the "real" trade deficit in goods is unchanged from a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit fell to a seven-month low in April, coming in at $46.2 billion. As a result, it now looks like the direct effects of a shrinking trade deficit will add almost a full percentage point to real GDP growth in the second quarter. In turn, that means our long-held forecast for a real GDP growth rate of 4.0% in Q2 is probably too low. We're now lifting that forecast to 4.5% and a growth rate of 5.0% is even possible. This helps explain why the job market has been so strong lately and adds to our confidence that real GDP will grow north of 3% this year, which would be the first that's happened since 2005. Exports grew by $0.6 billion in April to a new all-time record high; imports fell $0.4 billion. The strength in exports in April was driven by fuel oil, soybeans and corn. Meanwhile, imports fell mostly due to the cellphones & other household goods. In the past year, exports are up 9.9% while imports are up 8.0%, signaling healthy gains in the overall volume of international trade. While some are worried about protectionism from Washington, we continue to believe this is a negotiating tactic, and the chances of an all-out trade war are slim. Most likely, what will ultimately come from all the chaos will be better trade agreements for the United States. According to the World Trade Organization, average tariffs in the US are 3.5% compared to 5.2% in the EU, 9.9% in China, 4.1% in Canada and 7.0% in Mexico. It's time for tariffs to be lowered around the world, and the US holds a lot of power. Take NAFTA for example. In 2017, Canada exported $300 billion to the US. Its next biggest importer was China at only $20 billion. Mexico exported $314 billion to the US. Its next biggest importer? Canada at only $29 billion. Eventually a deal will be done. Moreover, many of the policies President Trump has passed, including cutting tax rates and allowing for construction of more energy infrastructure, which will make the US an even stronger magnet for capital from abroad. 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*	Apr-18 Bil $	Mar-18 Bil $	Feb-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-46.2**	-47.2	-55.5	-49.6	-50.4	-46.1
Exports	**211.2**	210.7	206.1	209.3	206.3	192.2
Imports	**257.4**	257.9	261.6	259.0	256.7	238.3
Petroleum Imports	**18.9**	18.0	18.4	18.5	17.9	15.2
Real Goods Trade Balance	**-77.5**	-78.2	-85.4	-80.3	-81.7	-77.5

Source: Bureau of the Census