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July 6, 2018 • 630.517.7756 • www.ftportfolios.com

May International Trade

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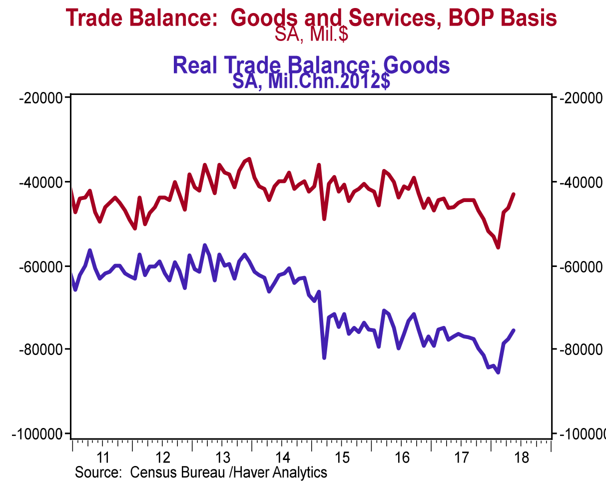
- The trade deficit in goods and services came in at $43.1 billion in May, smaller than the consensus expected $43.6 billion.
- Exports rose $4.1 billion, led soybeans and civilian aircraft. Imports rose $1.1 billion, led by telecommunications equipment, fuel oil and computers.
- In the last year, exports are up 11.7% while imports are up 8.3%.
- Compared to a year ago, the monthly trade deficit is $2.7 billion smaller; after adjusting for inflation, the "real" trade deficit in goods is $1.4 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Implications: What you will most likely hear today is about how the US is in a trade war with China. What you will not hear about as much is how trade actually shows strength in the global economy! The trade deficit fell to a 19-month low in May, coming in at $43.1 billion. As a result, it now looks like the direct effects of exports rising faster than imports will add at least a full percentage point to real GDP growth in the second quarter. In turn, that means our forecast for a real GDP growth rate of 5.0% in Q2 is still intact. 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. What we like to follow is the total volume of trade – imports plus exports – which signals how much value consumers find in the global economy. Total trade hit a new record all-time high in May as exports grew by $4.1 billion to a new all-time record high, while imports rose $1.1 billion. The strength in exports in May was driven by soybeans and civilian aircraft. Meanwhile, imports were driven by telecommunications equipment, fuel oil and computers. In the past year, exports are up 11.7%, the largest gain since late 2011, while imports are up 8.3%, signaling very healthy gains in the overall volume of international trade - a sign of growth for the global economy. While many are worried about protectionism from Washington, we continue to believe 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. 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 leverage. Germany has already agreed that it should lower tariffs on car and truck imports. 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. We will continue to watch trade policy as it develops, but don't see any reason yet to sound alarm bells, even with the new round of tariffs.

International Trade *All Data Seasonally Adjusted, $billions*	May-18 Bil $	Apr-18 Bil $	Mar-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-43.1**	-46.1	-47.2	-45.4	-49.4	-45.8
Exports	**215.3**	211.2	210.7	212.4	208.5	192.8
Imports	**258.4**	257.3	257.9	257.9	257.9	238.6
Petroleum Imports	**18.8**	18.9	18.0	18.6	18.2	15.5
Real Goods Trade Balance	**-75.3**	-77.5	-78.2	-77.0	-80.7	-76.7

Source: Bureau of the Census