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June International Trade

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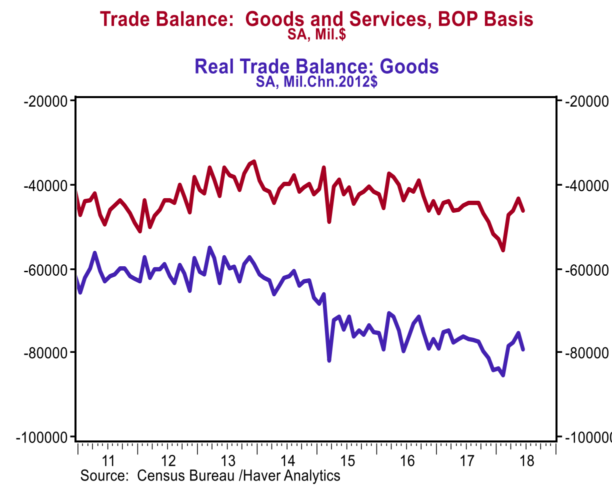
- The trade deficit in goods and services came in at $46.3 billion in June, very close to the consensus expected $46.5 billion.
- Exports fell $1.5 billion, led by passenger cars and pharmaceuticals. Imports rose $1.6 billion, led by pharmaceuticals and crude oil.
- In the last year, exports are up 9.8% while imports are up 8.6%.
- Compared to a year ago, the monthly trade deficit is $1.5 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $3.2 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Implications: With all the "trade war" rhetoric getting thrown around lately, many are getting the impression that the age of globalization is coming to an end. What you will not hear about as much is how trade continues to show strength in the global economy! We like to follow the total volume of trade – imports plus exports – which signals how much value consumers find in the global economy. Total US trade hit a new record all-time high in June. Pharmaceuticals played an outsized role for the month, driving two-thirds of the increase in the trade deficit. The Trump Administration's initial round of tariffs on $34 billion of Chinese goods went into effect at the beginning of July. It looks like pharma companies may have stocked up on the ingredients to create certain drugs in June – many of which come from China and are under threat of a 25% tax – to dodge higher costs. Despite this, in the past year exports are up 9.8%, outpacing the growth in imports, which are up 8.6%, signaling very healthy gains in the overall volume of international trade and outstripping nominal GDP growth of 5.4% in the past year. 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. According to the World Trade Organization, average tariffs in the US are 3.4% compared to 5.1% in the EU, 9.8% in China, 4.0% in Canada and 6.9% in Mexico. It's time for tariffs to be lowered around the world, and the US holds a lot of leverage. For example, President Trump and the EU recently announced a trade "ceasefire" and a tentative deal to move toward zero-tariffs on all non-auto industrial goods. 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.

International Trade *All Data Seasonally Adjusted, $billions*	Jun-18 Bil $	May-18 Bil $	Apr-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-46.3**	-43.2	-46.1	-45.2	-48.5	-44.8
Exports	**213.8**	215.3	211.2	213.5	209.9	194.8
Imports	**260.2**	258.5	257.3	258.7	258.5	239.6
Petroleum Imports	**19.6**	18.8	18.9	19.1	18.7	14.2
Real Goods Trade Balance	**-79.3**	-75.5	-77.6	-77.5	-79.9	-76.1

Source: Bureau of the Census