

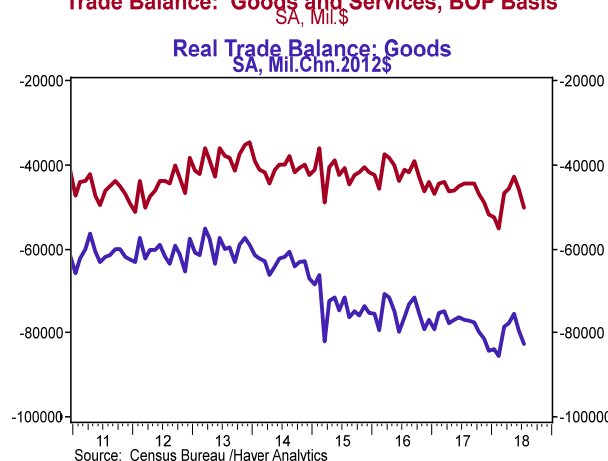
July International Trade

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Senior Economist

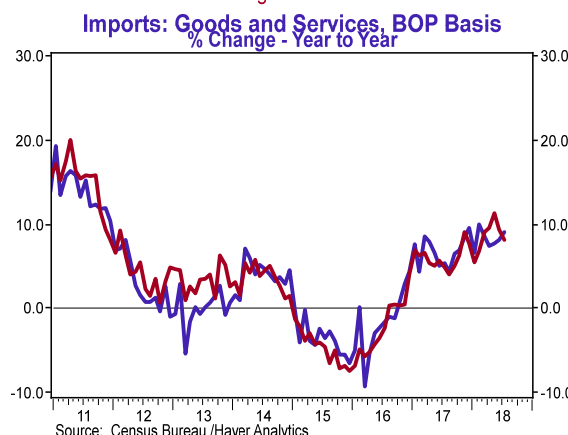
- The trade deficit in goods and services came in at \$50.1 billion in July, very close to the consensus expected \$50.2 billion.
- Exports fell \$2.1 billion, led by declines in civilian aircraft and soybeans. Imports rose \$2.2 billion, led by other goods, trucks, buses & special purpose vehicles and computers.
- In the last year, exports are up 8.2% while imports are up 9.1%.
- Compared to a year ago, the monthly trade deficit is \$5.9 billion larger; after adjusting for inflation, the “real” trade deficit in goods is \$5.6 billion larger than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

Implications: What you will most likely hear about the trade deficit is that it widened by the most since 2015 and that we now have a record deficit with China. What you will not hear about as much, but which is more important, 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 July. In terms of the trade deficit, commercial aircraft played an outsized role for the month, driving three-fourths of the decline in exports. Despite the overall drop in exports in July, however, in the past year exports are up 8.2%, while imports are up 9.1% signaling very healthy gains in the overall volume of international trade and easily 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 5.2% 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. Now, Europe has agreed to include cars on the list of goods that would have zero tariffs if the US does too! 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. In other news yesterday, automakers reported that they sold cars and light trucks at a 16.6 million annual rate in August, down 0.6% from July, but up 0.9% from a year ago. We expect auto sales to gradually decline versus year-ago levels as consumers, who have plenty of purchasing power, shift toward other sectors.

Trade Balance: Goods and Services, BOP Basis



Exports: Goods and Services, BOP Basis % Change - Year to Year



International Trade	Jul-18	Jun-18	May-18	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-50.1	-45.7	-42.6	-46.1	-47.6	-44.2
Exports	211.1	213.2	214.7	213.0	210.8	195.2
Imports	261.2	258.9	257.2	259.1	258.4	239.4
Petroleum Imports	20.3	19.6	18.8	19.6	19.0	13.5
Real Goods Trade Balance	-82.5	-79.3	-75.5	-79.1	-79.7	-76.8

Source: Bureau of the Census