

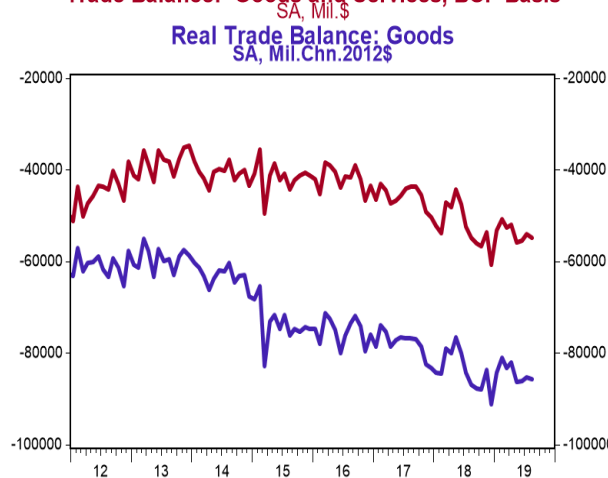
August International Trade

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 \$54.9 billion in August, slightly larger than the consensus expected \$54.5 billion.
- Imports rose \$1.3 billion, led by cell phones and semiconductors. Exports rose \$0.5 billion, led by fuel oils and autos.
- In the last year, exports are up 0.1% while imports are unchanged.
- Compared to a year ago, the monthly trade deficit is unchanged; after adjusting for inflation, the “real” trade deficit in goods is \$1.2 billion smaller than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

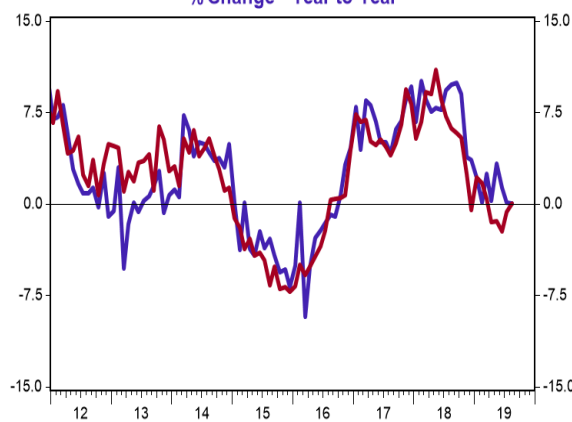
Implications: The Trump Administration may bemoan the larger trade deficit in August, as exports grew but imports grew faster. But, as a result, the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border, increased by 0.4% in August, and that’s what matters most about today’s report. However, compared to a year ago, exports and imports are essentially unchanged. Of particular note in today’s report, exports of petroleum products (think oil and gasoline) rose 6.8% in August, while imports decline 7.7%. As a result, the ratio of petroleum imports to exports fell to 1.02, the lowest reading since record keeping began back in 1989, and representing a virtual balance of trade. And it’s worth noting, the attack on Saudi Arabian oil facilities that roiled the markets and likely pushed more export activity towards the US didn’t occur until mid-September, so that isn’t reflected in today’s report. It’s possible that the ratio could dip below one in next month’s report for the first time ever. For comparison, the US imported petroleum products at more than eleven times the rate it exported as recently as 2005. Despite the progress, there is a lot of angst out there from the pouting pundits that the China trade battle is still a long way from done. We think the worst-case-scenarios much discussed by the financial press will prove excessively pessimistic, as they so often do. We still don’t believe an all-out trade war (like the Smoot-Hawley tariff act) will materialize, but rather that these short-term skirmishes will lead to longer-term gains for all countries involved. We have already seen outlined trade deals with Mexico, Canada, and Japan. Total trade from these three is far bigger than with China, yet that’s what the media obsesses over. China is hurting, and further tariffs ratchet up the pressure to get a deal done. So far this year, US imports from China are down 13.2% from the same period in 2018, while up 31.5% from Vietnam, 14.0% from Taiwan, 7.6% from India, 6.8% from South Korea, and 2.2% from Mexico. Companies are shifting production out of China. And the longer this drags on, the worse the outcome will be for China. The list of companies leaving China continues to grow and, at some point, the damage will become too much. Yes, this is hurting growth in the US to a small degree, sure. But the economic damage to China is greater. It’s in everyone’s best interest to get a deal done.

Trade Balance: Goods and Services, BOP Basis



Source: Census Bureau/Haver Analytics

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



Source: Census Bureau/Haver Analytics

International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Aug-19 Bil \$	Jul-19 Bil \$	Jun-19 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-54.9	-54.0	-55.5	-54.8	-54.1	-54.9
Exports	207.9	207.4	206.2	207.2	208.1	207.8
Imports	262.8	261.4	261.8	262.0	262.2	262.6
Petroleum Imports	15.4	16.7	16.7	16.3	17.2	20.2
Real Goods Trade Balance	-85.7	-85.4	-86.2	-85.7	-84.8	-86.8

Source: Bureau of the Census