

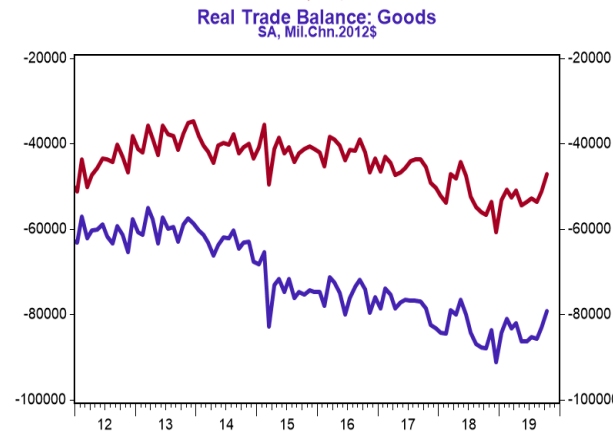
# October International Trade

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- The trade deficit in goods and services came in at \$47.2 billion in October, smaller than the consensus expected \$48.5 billion.
- Exports declined \$0.4 billion, led by drops in soybeans, civilian aircraft engines, and pharmaceuticals. Imports fell \$4.3 billion, led by declines in crude oil, other parts & accessories of autos, and pharmaceuticals.
- In the last year, exports are down 1.4% while imports are down 4.7%.
- Compared to a year ago, the monthly trade deficit is \$9.5 billion smaller; after adjusting for inflation, the “real” trade deficit in goods is \$8.8 billion smaller than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

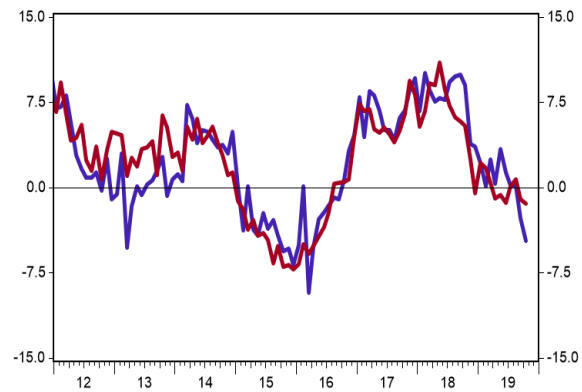
**Implications:** The trade deficit fell in October to \$47.2 billion from \$51.1 billion in September. While this will help boost Q4 GDP growth, we should step back before celebrating too much. Exports declined by \$0.4 billion while imports declined by \$4.3 billion. So, total trade between the US and the rest of the world fell \$4.7 billion in October. Overall, in the past year exports are down 1.4%, while imports are down 4.7%. If trade between nations is falling because of weakness in consumption or investment, this might not be a good sign for economic growth. For now, the jury is still out. The US trade deficit (and total trade) may have been distorted by lopsided tariffs which new trade deals and higher tariffs on China (and now Brazil and Argentina) are rebalancing. In the short-term, this rebalancing is painful for those who benefited from those trade patterns, but new trade patterns may be better for US and global growth in the long-term. Certainly, the drop in initial claims last week to 203,000 signals that the US is very near full employment. Meanwhile, digging into the details of the trade report shows that for the second month in a row, the dollar value of US petroleum exports exceeded the dollar value of US petroleum imports. Yes, you read that right: the US was again a net petroleum exporter in October. Horizontal drilling and fracking have transformed the global energy market and the US is no longer hostage to foreign oil. This alone may be one of the many reasons why overall trade is lower. If we used to buy more oil from other countries and are now purchasing less, that means these countries have fewer dollars to purchase goods. While many are worried about protectionism from Washington, especially regarding China, 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. It seems like major progress is being made on a “Phase One” trade deal with China to be signed in the next couple of months. It also looks like there is a strong possibility the US will start to roll back the 15% tariffs that went into effect on September 1st on \$125 billion of Chinese goods, and maybe even more, if China is willing to purchase more agriculture and address intellectual property protections. Either way, we have already seen outlined trade deals with Mexico, Canada, and Japan, three of our four biggest trading partners. In other words, the US isn’t in a trade war like it was with the Smoot-Hawley Tariff Act. There are many reasons why trade could be lower, including changing trade patterns in oil, a global slowdown, etc; tariffs are just one part. We will continue to watch trade policy as it develops, but don’t see any reason to sound alarm bells. With initial jobless claims falling and continuing claims at 1.693 million. Plugging this data into our models suggests nonfarm payrolls grew around 200,000 in November.

Trade Balance: Goods and Services, BOP Basis  
 SA, Mil.\$



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>	Oct-19 Bil \$	Sep-19 Bil \$	Aug-19 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
<b>Trade Balance</b>	<b>-47.2</b>	-51.1	-53.5	-50.6	-52.1	-56.7
<b>Exports</b>	<b>207.1</b>	207.6	209.3	208.0	208.8	210.1
<b>Imports</b>	<b>254.3</b>	258.7	262.9	258.6	260.9	266.8
<b>Petroleum Imports</b>	<b>14.7</b>	14.7	15.4	15.0	16.3	19.5
<b>Real Goods Trade Balance</b>	<b>-79.1</b>	-83.0	-85.8	-82.6	-84.3	-87.9

Source: Bureau of the Census