

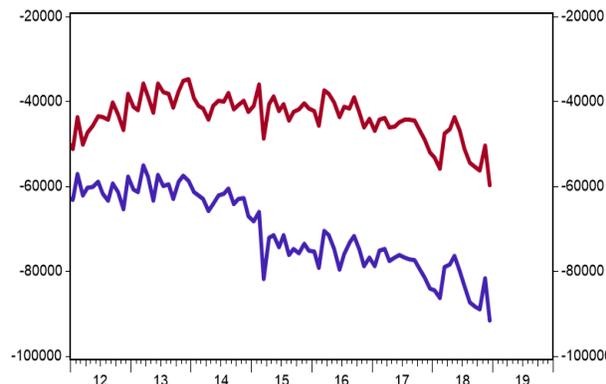
# December International Trade

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- The trade deficit in goods and services came in at \$59.8 billion in December, larger than the consensus expected \$57.9 billion.
- Imports rose \$5.5 billion, led by computers, computer accessories, and household appliances. Exports declined \$3.9 billion, led by drops in civilian aircraft and petroleum products.
- In the last year, exports are up 0.1% while imports are up 3.1%.
- Compared to a year ago, the monthly trade deficit is \$7.9 billion larger; after adjusting for inflation, the “real” trade deficit in goods is \$7.5 billion larger than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

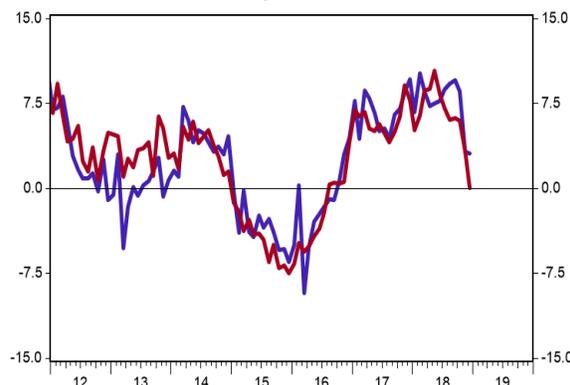
**Implications:** After shrinking in November, the trade deficit grew to \$59.8 billion in December to close out 2018. President Trump may look at the \$7.9 billion dollar increase in the trade deficit from a year ago as a sign that the US is “losing” in trade, but that shows little more than a misunderstanding of how the economy works. And it’s not just Trump. Many headlines this morning focus on the increase of \$68.8 billion in the trade deficit for full-year 2018 compared to full-year 2017, a 12.5% increase. But what matters more than the headline deficit number – but which you will not hear about as much – is the total volume of trade – imports plus exports – which signals how much businesses and consumers interact across borders. Total US trade rose \$1.6 billion in December and hovers near all-time highs. And for all of 2018, total trade rose \$366.6 billion, the largest annual increase in total trade activity since 2011, a number which shows that the world is not in a trade war. This is the number that should be making headlines. Focusing on activity in December shows the trade deficit widened as imports rose and exports fell. Civilian aircraft, petroleum products, crude oil, and fuel oils combined accounted for more than two-thirds of the December decline in exports, which were partially offset by a pickup in exports of pharmaceutical preparations (medicines) and natural gas. Imports, meanwhile, rose \$5.5 billion in December despite a massive \$1.9 billion decline in crude oil imports. And based on recent movement in the trade negotiations with China (including the delay in increased tariffs that were set to be put in place last Friday), we believe better trade agreements for the United States and world are on the way. Despite the confusing lack of coverage in the financial media, China has made more progress than many realize. Average tariffs in China were cut from 9.8% in 2017 to 7.5% in 2018, and have, or will be, cut further in the months ahead. We see this as real progress, and just the start. The US’s negotiating position simply continues to strengthen, in no small part due to the rise of the US as an energy powerhouse. As recently as 2005, the US was importing more than ten times the petroleum products that we were exporting. As of December, imports are down to 1.1 times exports and this trend should continue. Not only does this reduce US reliance on foreign trade partners and lower their bargaining power, it has served to shift power dynamics on a global scale (witness the political turmoil in Saudi Arabia). So at the end of the day, we will continue to watch trade policy as it develops, but the signs look positive. On the jobs front this morning, the ADP employment report showed an increase of 183,000 private payroll. Paired with other labor market data, we are forecasting an increase in nonfarm payrolls of 190,000 for tomorrow’s jobs report, a pare back from January’s blowout number of 304,000, but a healthy gain nonetheless.

Trade Balance: Goods and Services, BOP Basis  
 SA, Mil. \$  
 Real Trade Balance: Goods  
 SA, Mil. Chn. 2012\$



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	Dec-18	Nov-18	Oct-18	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	<i>Bil \$</i>	<i>Bil \$</i>	<i>Bil \$</i>	<i>Moving Avg.</i>	<i>Moving Avg.</i>	<i>Level</i>
<b>Trade Balance</b>	<b>-59.8</b>	<b>-50.3</b>	<b>-56.3</b>	<b>-55.5</b>	<b>-54.6</b>	<b>-51.9</b>
<b>Exports</b>	<b>205.1</b>	<b>209.1</b>	<b>210.4</b>	<b>208.2</b>	<b>208.6</b>	<b>205.0</b>
<b>Imports</b>	<b>264.9</b>	<b>259.4</b>	<b>266.7</b>	<b>263.7</b>	<b>263.2</b>	<b>256.9</b>
<b>Petroleum Imports</b>	<b>15.4</b>	<b>16.8</b>	<b>19.6</b>	<b>17.3</b>	<b>18.8</b>	<b>16.3</b>
<b>Real Goods Trade Balance</b>	<b>-91.6</b>	<b>-81.6</b>	<b>-89.0</b>	<b>-87.4</b>	<b>-86.9</b>	<b>-84.1</b>

Source: Bureau of the Census