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February International Trade

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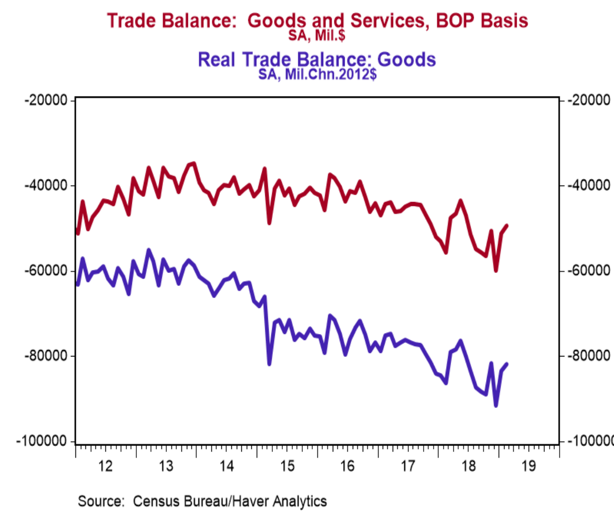
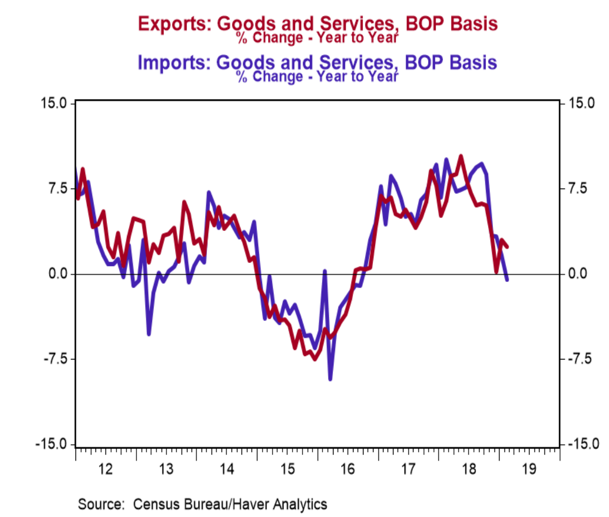
- The trade deficit in goods and services came in at $49.4 billion in February, smaller than the consensus expected $53.4 billion.
- Imports rose $0.6 billion, led by cellphones & other household goods, civilian airplane engines, and crude oil. Exports increased $2.3 billion, led by civilian aircraft, autos and pharmaceuticals.
- In the last year, exports are up 2.4% while imports are down 0.5%.
- Compared to a year ago, the monthly trade deficit is $6.3 billion smaller; after adjusting for inflation, the "real" trade deficit in goods is $4.4 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit shrunk unexpectedly in February to $49.4 billion. More important, there was a rebound in the total volume of trade – imports plus exports – which signals how much businesses and consumers interact across the US border. Exports rose by $2.3 billion, while imports grew by $0.6 billion. Total trade is still off of the record high set in October of 2018, but expect it to hit new highs later this year as global growth starts to reaccelerate and trade deals continue to progress. In the past year, exports are up 2.4% while imports are down 0.5%. In the meantime, one positive implication of today's report is that net exports look like they will make a large positive contribution to real GDP in the first quarter. As a result, we are estimating real GDP grew in the 2.0 - 2.5% range for the quarter, much better than many analysts have recently been forecasting. Despite lamentations by the pouting pundits, the China trade battles appear largely behind us, and the worst-case-scenarios much discussed on the financial "news" over the past year have (once again) proved excessively pessimistic. We never believed an all-out trade war would materialize, but that short-term skirmishes would lead to longer-term gains for all countries involved. We have already seen it happen with several countries, and now China looks to be extending an olive branch, too. Average tariffs in China were cut from 9.8% in 2017 to 7.5% in 2018. We see this as real progress, and just the start. The US's negotiating position is strong, 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 February, petroleum imports are down to only 1.09 times exports and this trend should continue. This massive shift means the US has changed power dynamics on a global scale (witness the political turmoil in Saudi Arabia and elsewhere in the Middle East). We will continue to watch trade policy as it develops, but don't see any reason to sound alarm bells yet.

International Trade *All Data Seasonally Adjusted, $billions*	Feb-19 Bil $	Jan-19 Bil $	Dec-18 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-49.4**	-51.1	-59.9	-53.5	-53.9	-55.7
Exports	**209.7**	207.4	205.4	207.5	208.8	204.7
Imports	**259.1**	258.5	265.3	261.0	262.7	260.4
Petroleum Imports	**15.1**	14.4	15.3	14.9	16.9	18.5
Real Goods Trade Balance	**-81.8**	-83.5	-91.7	-85.6	-86.0	-86.2

Source: Bureau of the Census