

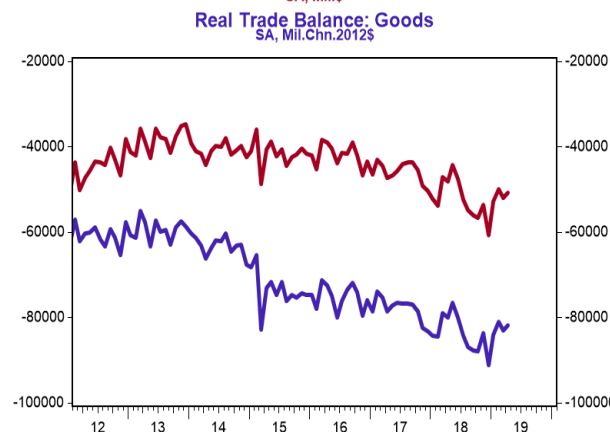
April International Trade

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- The trade deficit in goods and services came in at \$50.8 billion in April, almost exactly the consensus expected \$50.7 billion.
- Imports fell \$5.7 billion, led by semiconductors, gem diamonds and passenger cars. Exports fell \$4.6 billion, led by civilian aircraft and petroleum.
- In the last year, exports are down 1.0% while imports are up 0.2%.
- Compared to a year ago, the monthly trade deficit is \$2.6 billion larger; after adjusting for inflation, the “real” trade deficit in goods is \$1.9 billion larger than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

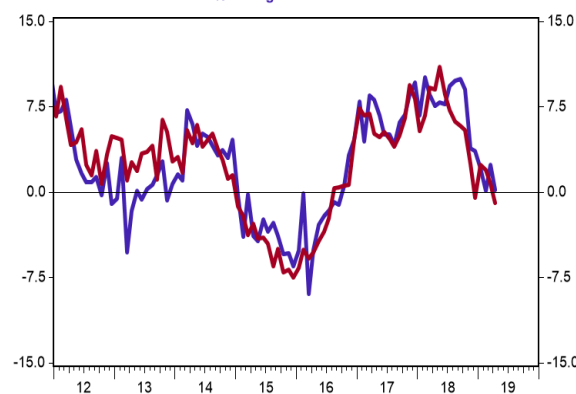
Implications: The Trump Administration may like the reduction in the trade deficit in April, but the details of today’s report show that the reduction was all due to weakness in trade. Exports posted the largest monthly decline in over four years, falling 2.2%, due largely to a decline in civilian aircraft shipments that probably has something to do with the issues surrounding Boeing’s 737 Max 8. Imports also declined 2.2% due to semiconductors and passenger cars. As a result, the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border, had the largest monthly decline since 2015. That said, total trade is only 2.6% below the record high set in October of 2018, a far cry from what you would see if a “trade war” was really ravaging the economy. Look for total trade to hit new highs later this year as global growth starts to reaccelerate and trade deals eventually get made. There is a lot of angst out there from the pouting pundits that the China trade battle is nowhere near done. We believe the worst-case-scenarios much discussed by the financial press will prove excessively pessimistic, as they have before. We still don’t believe an all-out trade war will materialize, but instead that these short-term skirmishes will lead to longer-term gains for the countries involved. All eyes will now be on Presidents Trump and Xi meeting later this month at the G20 summit for signs of progress in negotiations. Turning to the southern border, the recent announcement of tariffs on Mexico are potentially more worrisome due to the uncertainty that using these tactics outside of trade policy would create, as we pointed out in [this week’s MMO](#). We will continue to watch trade policy as it develops, but don’t see any reason to sound alarm bells yet. In other news this morning, productivity growth was revised down slightly in Q1 to a 3.4% annual rate from a previous reading of 3.6%. Productivity (which measures output per hour) is up 2.4% in the past year, the fastest pace since 2010. It looks like deregulation and the incentives for efficiency and capital investment built into the 2017 tax cuts are starting to take hold, boosting potential growth. In employment news this morning, initial jobless claims rose 3,000 last week to 218,000. Continuing claims rose 20,000 to 1.682 million. These readings suggest another solid month of job creation in May. We are forecasting a payroll gain of 155,000 for tomorrow’s Labor Department report.

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	Apr-19	Mar-19	Feb-19	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-50.8	-51.9	-50.0	-50.9	-53.3	-48.2
Exports	206.8	211.4	209.7	209.3	208.2	208.9
Imports	257.6	263.3	259.7	260.2	261.5	257.1
Petroleum Imports	17.7	17.0	15.3	16.7	16.2	18.8
Real Goods Trade Balance	-81.9	-83.0	-81.1	-82.0	-84.2	-80.0

Source: Bureau of the Census