

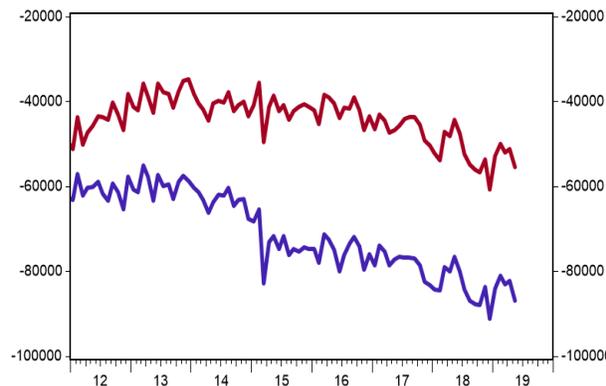
May International Trade

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- The trade deficit in goods and services came in at \$55.5 billion in May, larger than the consensus expected \$54.0 billion.
- Imports rose \$8.5 billion, led by passenger cars, crude oil, and other goods. Exports rose \$4.2 billion, led by soybeans and other goods.
- In the last year, exports are down 1.3% while imports are up 3.3%.
- Compared to a year ago, the monthly trade deficit is \$11.1 billion larger; after adjusting for inflation, the “real” trade deficit in goods is \$10.4 billion larger than a year ago. The “real” change is the trade indicator most important for measuring real GDP.

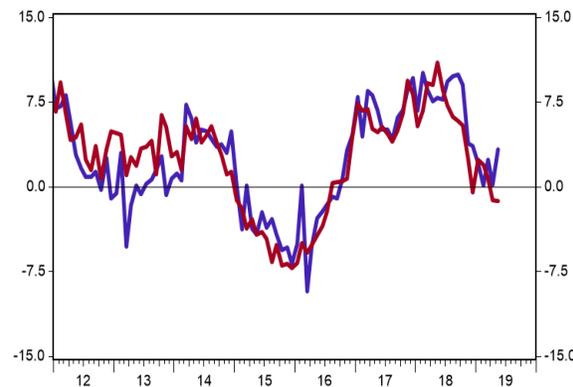
Implications: The trade deficit grew in May to \$55.5 billion, larger than consensus expectations. But, more important, there was significant gain in the total volume of trade – imports plus exports – which signals how much businesses and consumers interact across the US border. Exports rose by \$4.2 billion, while imports grew by \$8.5 billion. Total trade is now sitting just shy of a record high, and we expect it to hit new highs in the future as global growth starts to reaccelerate and trade deals eventually get made. In the past year, exports are down 1.3% while imports have risen 3.3%. There is a lot of angst out there from the pouting pundits, that the China trade battle is nowhere near done. We think 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 these short-term skirmishes will lead to longer-term gains for all countries involved. We have already seen it happen with several countries. In the meantime, China is hurting. So far this year, US imports from China are down 12.3% from the same period in 2018, while up 36.4% from Vietnam, 22.5% from Taiwan, 12.4% from South Korea, and 12.0% from India. Companies are starting to shift production out of China. The longer the uncertainty lasts, the worse the outcome will be for China. In the meantime, the surge in imports in May suggests that a larger share of US purchases came from foreign production in Q2, which suggests real GDP is growing at about a 1.5% annual rate in Q2 rather than our previous estimate of 2.0%. Regardless, we still project real GDP growth of near 3.0% for 2019 (Q4/Q4). In employment news this morning, initial jobless claims declined 8,000 last week to 221,000. Continuing claims fell 8,000 to 1.686 million. Also today, the ADP employment report showed private payroll gains of 102,000 in June. Plugging these figures into our model suggests nonfarm payrolls in June were up 155,000. In recent news on the auto sector, cars and light trucks sold at a 17.3 million annual rate in June, beating the consensus expected pace of 17.0 million. We expect auto sales to moderate in the years ahead as consumers shift their spending to other sectors.

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	May-19	Apr-19	Mar-19	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-55.5	-51.2	-51.9	-52.9	-53.7	-44.4
Exports	210.6	206.4	211.4	209.5	208.5	213.3
Imports	266.2	257.6	263.3	262.4	262.2	257.7
Petroleum Imports	19.4	17.7	17.0	18.1	16.7	19.0
Real Goods Trade Balance	-87.0	-82.2	-83.0	-84.1	-84.8	-76.6

Source: Bureau of the Census