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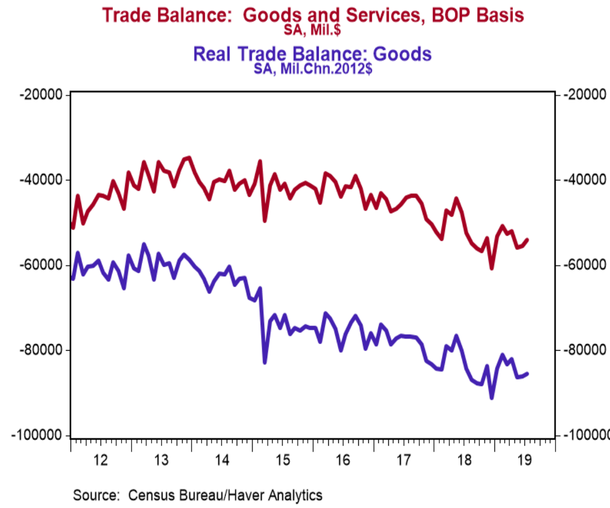
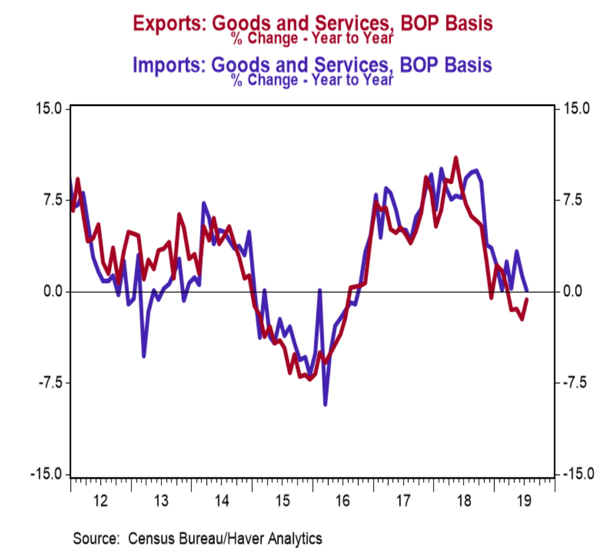
July International Trade

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- The trade deficit in goods and services came in at $54.0 billion in July, slightly larger than the consensus expected $53.4 billion.
- Imports fell $0.4 billion, led by computers and crude oil. Exports rose $1.2 billion, led by pharmaceuticals, autos, and drilling & oilfield equipment.
- In the last year, exports are down 0.6% while imports are up 0.1%.
- Compared to a year ago, the monthly trade deficit is $1.6 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $1.3 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 July, but the details of today's report still show relative weakness in international trade. Exports rose by 0.6% in July, while imports declined by 0.1%. As a result, the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border, which is what really matters, increased by 0.2% in July but is down 0.2% from a year ago. In the past year, exports are down 0.6% while imports have risen only 0.1%. 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 so often do. We still don't believe an all-out trade war will materialize, but rather that these short-term skirmishes will lead to longer-term gains for all countries involved. We have already seen outlined trade deals with Mexico, Canada, and Japan. Total trade from these three is far bigger than China, yet that's what the media obsesses over. China is hurting, and further tariffs ratchet up the pressure to get a deal done. So far this year, US imports from China are down 12.3% from the same period in 2018, while up 33.2% from Vietnam, 20.2% from Taiwan, 9.8% from South Korea, 9.7% from India, and 6.3% from Mexico. Companies are shifting production out of China. And the longer this drags on, the worse the outcome will be for China. The list of companies leaving China continues to grow and, at some point, the damage will become too much. Yes, this is hurting growth in the US to a small degree, sure. But the economic damage to China is greater. It's in everyone's best interest to get a deal done.





International Trade *All Data Seasonally Adjusted, $billions*	**Jul-19** **Bil $**	**Jun-19** **Bil $**	**May-19** **Bil $**	**3-Mo** **Moving Avg.**	**6-Mo** **Moving Avg.**	**Year-Ago** **Level**
Trade Balance	**-54.0**	-55.5	-55.8	-55.1	-53.4	-52.4
Exports	**207.4**	206.2	210.3	208.0	208.3	208.7
Imports	**261.4**	261.8	266.2	263.1	261.7	261.2
Petroleum Imports	**16.7**	16.7	19.3	17.6	17.1	20.1
Real Goods Trade Balance	**-85.5**	-86.2	-86.4	-86.0	-84.1	-84.2

Source: Bureau of the Census