First Trust DATAWATCH

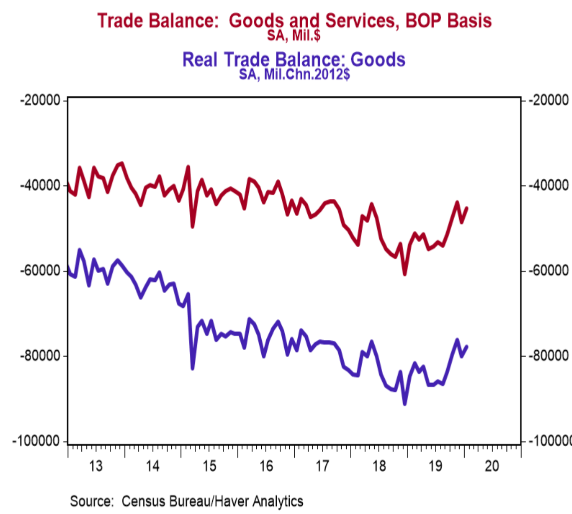
March 6, 2020 • 630.517.7756 • www.ftportfolios.com

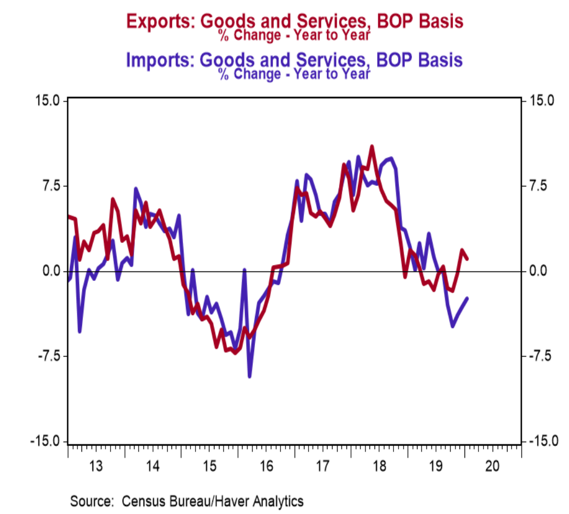
January International Trade

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 $45.3 billion in January, smaller than the consensus expected $46.1 billion.
- Exports declined $0.9 billion, led by a drop in civilian aircraft, other goods, and crude oil. Imports fell $4.2 billion, led by a decline in other goods, nonmonetary gold, and autos.
- In the last year, exports are up 1.1% while imports are down 2.4%.
- Compared to a year ago, the monthly trade deficit is $8.5 billion smaller; after adjusting for inflation, the "real" trade deficit in goods is $7.1 billion smaller than a year ago. The "real" change is the trade indicator most important for measuring real GDP.

Implications: The trade deficit in goods and services came in at $45.3 billion in January. Both import and export activity declined, but imports fell faster, which is why the trade deficit shrank. More important is that the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border, declined by 1.1% in January and is down 0.8% versus a year ago. In other words, we don't see the January decline in the trade deficit as particularly good news. We expect a further slowdown in both imports and exports (most notably with China) over coming months as the Coronavirus takes a toll. After that problem clears – and it will – imports and exports should rebound, boosted by new trade deals with key trading partners. The US now has a "Phase One" deal with China, the USMCA with Canada and Mexico, and a new trade deal that went into effect January 1 with Japan. The media focuses so much on China, yet in 2019, China was our third largest trading partner. Canada and Mexico were one and two and Japan was number four. Total trade with these three is far larger than with China, yet China is what the media obsess over. Negativity sells, but the data tells. Today's report also showed that, for the fifth month in a row, the dollar value of US petroleum exports exceeded that of US petroleum imports. Horizontal drilling and fracking have transformed the global energy market and the US is no longer hostage to foreign oil. This pattern may temporarily reverse in the following months due to the seasonal pattern of US oil imports, but should re-assert itself by Spring.





International Trade *All Data Seasonally Adjusted, $billions*	Jan-20 Bil $	Dec-19 Bil $	Nov-19 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-45.3**	-48.6	-43.8	-45.9	-48.4	-53.8
Exports	**208.6**	209.5	207.7	208.6	207.9	206.3
Imports	**253.9**	258.1	251.5	254.5	256.3	260.1
Petroleum Imports	**15.6**	16.9	14.4	15.6	15.3	14.6
Real Goods Trade Balance	**-77.7**	-80.0	-76.2	-78.0	-80.6	-84.8

Source: Bureau of the Census