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May International Trade

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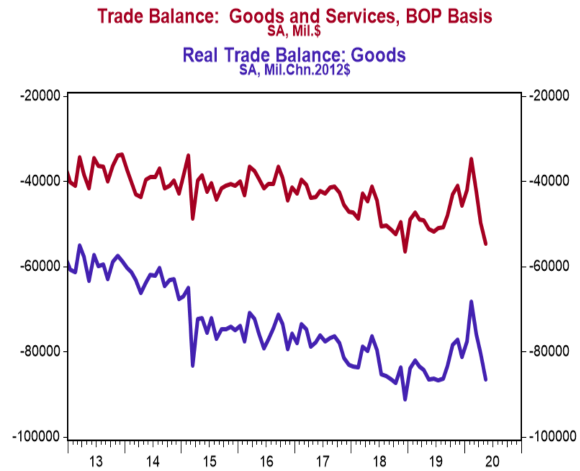
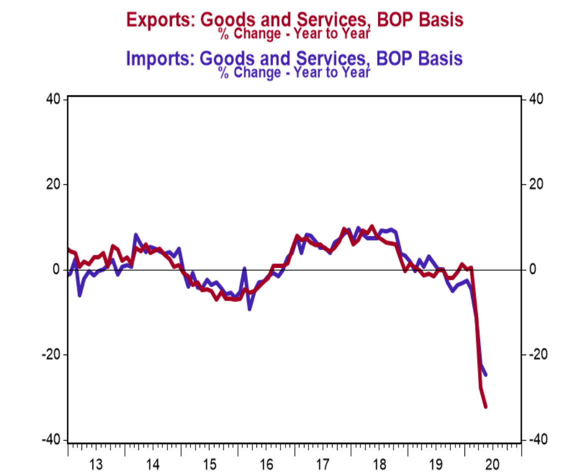
- The trade deficit in goods and services came in at $54.6 billion in May, larger than the consensus expected $53.2 billion.
- Exports declined $6.6 billion, led by drops in petroleum products, crude oil, fuel oil, and autos. Imports fell $1.8 billion, led by declines in autos, cotton household goods apparel, and auto parts.
- In the last year, exports are down 32.1% while imports are down 24.6%.
- Compared to a year ago, the monthly trade deficit is $3.3 billion larger; after adjusting for inflation, the "real" trade deficit in goods unchanged from a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Source: Census Bureau/Haver Analytics



Source: Census Bureau/Haver Analytics

Implications: Another ugly report for trade in May, but significantly less ugly than April. The trade deficit in goods and services came in at $54.6 billion in May. Both exports and imports declined, consistent with a decline in both US and global economic activity. Exports fell faster than imports, which is why the trade deficit grew. The total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border, dropped 2.4% in May and is down a massive 28.0% versus a year ago. Plugging these figures into our models suggests that net exports will be a substantial drag on real GDP growth in the second quarter. We're now estimating a drag of 3.5 percentage points on real GDP growth, which, if accurate, would be the largest for any quarter since the late 1940s. Expect trade to start expanding again in coming months as the shutdowns of business across the US and the world slowly dissipate, and new trade deals with key trading partners take effect. If there was any good news in today's report it was that, for the fifth month in a row, the dollar value of US petroleum exports exceeded or met 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. Also this morning, we got the latest reading on initial unemployment claims, which came in at 1.43 million last week, maintaining the spate of extremely high readings since March. However, initial claims have now dropped thirteen weeks in a row after peaking at 6.87 million in late March. We are also closely following regular continuing claims, data for which lag initial claims by one week. Continuing claims rose 59,000 to 19.29 million in the week ending June 20 but remain substantially off the peak of 24.91 million at the beginning of May. The reason that's important is that, typically, the economy has hit bottom when continuing claims peak or slightly before. In other words, the economy looks to have hit bottom in either April or May, returning to growth on a monthly basis in May or June, although not on a quarterly basis until the third quarter. In other news yesterday, cars and light trucks were sold at a 13.15 million annual rate in May. Sales were up 8.1% from April but still down 23.7% from a year ago. Expect sales to continue to pick up over the next few months as the economy continues to reopen.

International Trade *All Data Seasonally Adjusted, $billions*	**May-20** **Bil $**	**Apr-20** **Bil $**	**Mar-20** **Bil $**	**3-Mo** **Moving Avg.**	**6-Mo** **Moving Avg.**	**Year-Ago** **Level**
Trade Balance	**-54.6**	-49.8	-42.3	-48.9	-44.8	-51.3
Exports	**144.5**	151.1	190.2	161.9	186.6	212.9
Imports	**199.1**	200.9	232.5	210.8	231.4	264.1
Petroleum Imports	**6.0**	6.1	11.9	8.0	11.9	19.0
Real Goods Trade Balance	**-86.5**	-80.4	-75.9	-81.0	-78.3	-86.5

Source: Bureau of the Census