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May International Trade

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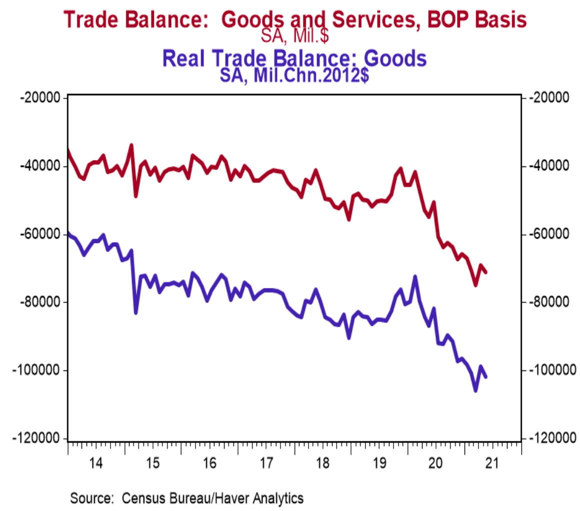
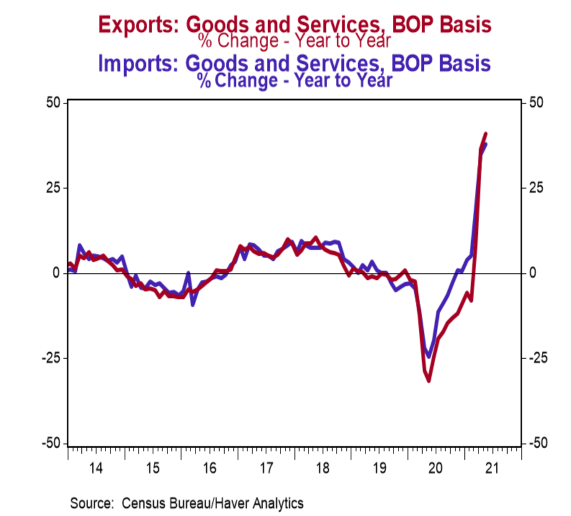
- The trade deficit in goods and services came in at $71.2 billion in May, nearly matching the consensus expected $71.3 billion.
- Exports increased $1.3 billion, led by pharmaceuticals, precious metals, and petroleum products. Imports grew by $3.5 billion, led by pharmaceuticals, crude oil, and fuel oil.
- In the last year, exports are up 41.0% while imports are up 37.9%.
- Compared to a year ago, the monthly trade deficit is $16.3 billion larger; after adjusting for inflation, the “real” trade deficit in goods is $15.0 billion larger 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 grew to $71.2 billion in May, the second largest on record, as imports rose faster than exports. We like to follow the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border. That measure rose 1.0% in May, is up 39.2% versus a year ago, and now sits at an all-time record high. We expect the trade deficit to remain volatile from month to month but generally get larger through year end for a few reasons. First, the US is recovering from the coronavirus pandemic faster than most other countries. This means the demand for imports should continue to outstrip the demand for exports to the rest of the world. Second, the US is running low on inventories for many goods due to the recent surge in consumer spending, which has been artificially boosted by large government checks to consumers. That means we will continue to see a stronger than normal appetite for imports as companies restock their shelves and warehouses. Supply-chain issues continue as ports remain overwhelmed in the US. For example, the port of Los Angeles currently has nine container vessels at anchor waiting to be unloaded with the average anchorage time right now at 5.3 days. The good news is this is a massive improvement from a month or two ago. Meanwhile, the cost to ship a forty-foot container from Shanghai to Los Angeles has begun to surge once again up 7.2% for the week and up 479% from the end of January 2020 (pre-pandemic), joining numerous other indicators in signaling inflationary pressures bubbling under the surface as the US continues to reopen. Look for overall trade to keep expanding in the coming months as businesses across the US get back on their feet, lockdowns end, and the COVID-19 vaccine continues to roll out. In other recent news, cars and light trucks were sold at a 15.4 million annual rate in June. Sales declined 9.8% from May but are up 18.0% from a year ago. The key impediment to auto sales remains supply constraints, largely related to a lack of computer chips. Look for that problem to ease over the next year, resulting in a faster pace of sales.

International Trade *All Data Seasonally Adjusted, $billions*	May-21 Bil $	Apr-21 Bil $	Mar-21 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-71.2**	-69.1	-75.0	-71.8	-69.8	-54.9
Exports	**206.0**	204.7	202.7	204.5	197.7	146.1
Imports	**277.3**	273.8	277.7	276.2	267.5	201.0
Petroleum Imports	**16.7**	15.2	15.4	15.8	13.8	5.9
Real Goods Trade Balance	**-101.8**	-98.8	-105.8	-102.1	-100.4	-86.8

Source: Bureau of the Census