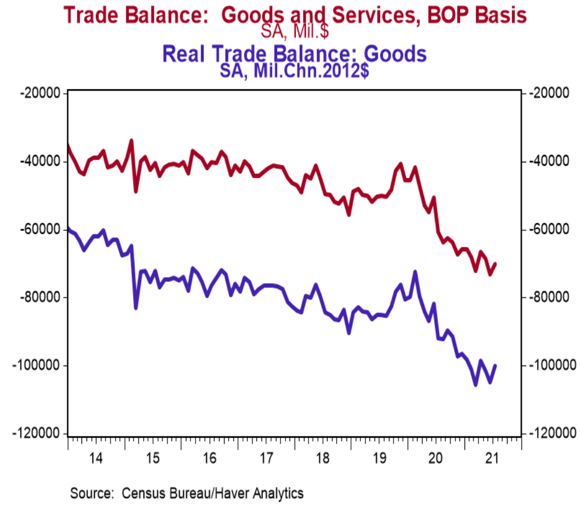
First Trust DATAWATCH

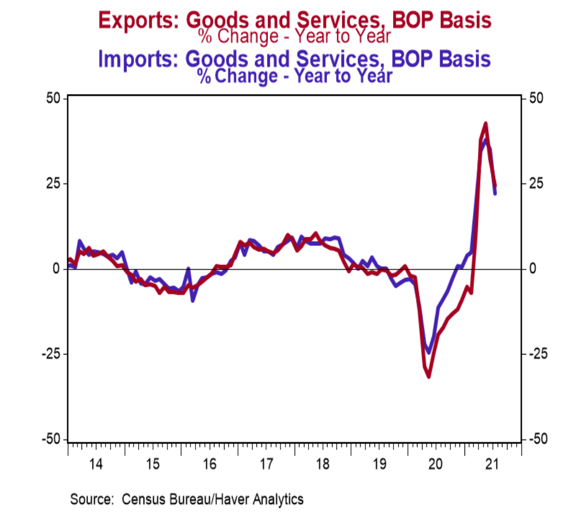
September 2, 2021 • 630.517.7756 • www.ftportfolios.com

July International Trade

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

- The trade deficit in goods and services came in at $70.1 billion in July, smaller than the consensus expected $70.9 billion.
- Exports increased $2.8 billion, led by industrial machines, gem diamonds, and trucks & buses. Imports declined $0.4 billion, led by toys, games & sporting goods, nonmonetary gold, and lumber.
- In the last year, exports are up 24.5% while imports are up 22.1%.
- Compared to a year ago, the monthly trade deficit is $9.3 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $8.2 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 declined to $70.1 billion in July, as exports rose and imports fell. 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 0.5% in July, is up 23.1% versus a year ago, and 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 (though that may not hold true each and every month, as the July report showed). Second, the US is running low on inventories for many goods due to the surge in consumer spending, which has been artificially boosted by large government checks to consumers. That means the appetite for imports will remain stronger than normal 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 22 container vessels at anchor waiting to be unloaded with the average anchorage time right now at 7.9 days. Meanwhile, the cost to ship a forty-foot container from Shanghai to Los Angeles has continued to surge, up 8.2% from a month ago, and up 618% 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. Delta cases in the United States appear to be peaking, and we do not expect states to re-institute the large scale restrictions that hampered activity in 2020, so look for overall trade to keep expanding in the coming months as businesses across the US get back on their feet. In employment news this morning, initial jobless claims fell 14,000 last week to 340,000. Meanwhile continuing claims declined 160,000 to a new recovery low of 2.748 million. These numbers are consistent with our forecast that nonfarm payrolls rose 710,000 in August with the unemployment rate falling to 5.2%. On the autos front, car and light truck sales fell 10.7% in August to a 13.06 million annual rate. These sales are down 14.4% from a year ago. The key hurdle for 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*	Jul-21 Bil $	Jun-21 Bil $	May-21 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-70.1**	-73.2	-68.5	-70.6	-69.8	-60.7
Exports	**212.8**	210.1	208.7	210.5	205.6	170.9
Imports	**282.9**	283.3	277.3	281.2	275.5	231.7
Petroleum Imports	**17.8**	17.3	16.8	17.3	15.9	8.1
Real Goods Trade Balance	**-100.1**	-105.0	-101.6	-102.2	-102.0	-91.9

Source: Bureau of the Census