



Economics Group

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The Nation's Trade Deficit Narrows Ahead of Tariffs

The nation's trade deficit narrowed slightly more than expected in May, falling \$3 billion to \$43.1 billion. The trade gap has fallen for three straight months and will add meaningfully to second quarter GDP growth.

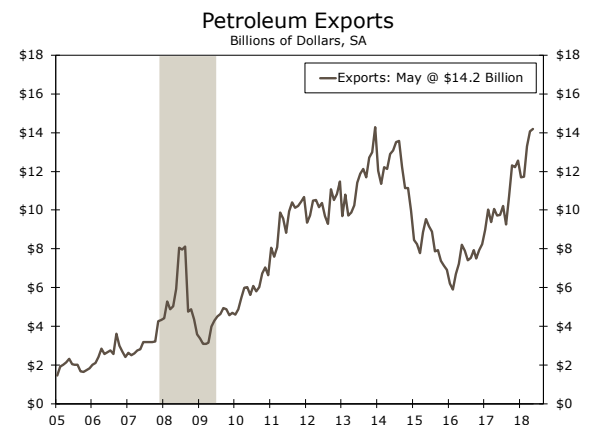
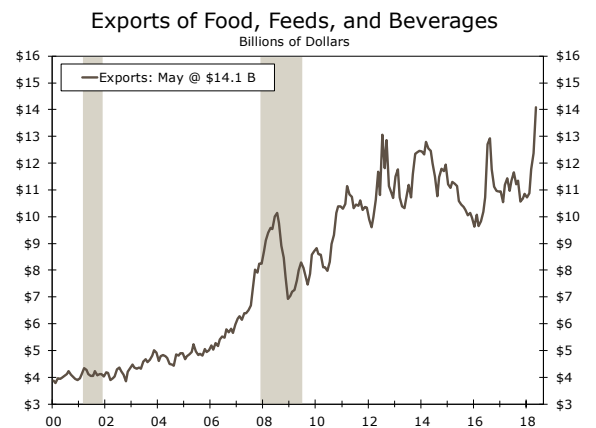
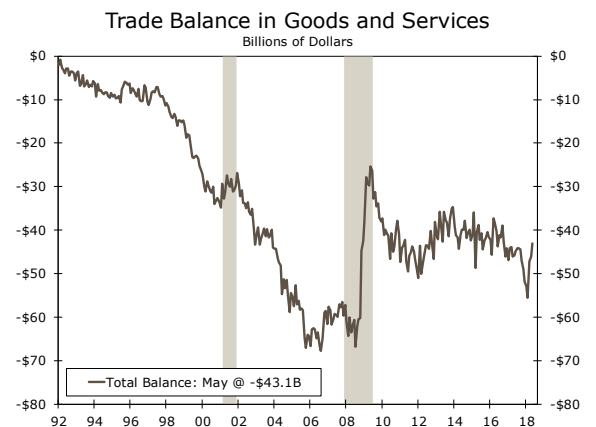
Exports Surge Ahead in Anticipation of Retaliatory Tariffs

The nation's trade deficit narrowed for the third consecutive month, falling \$3 billion to \$43.1 billion in May. Exports rose 1.9 percent, with a \$2 billion surge in soybean shipments accounting for a large part of the increase. Exports of civilian aircraft also increased meaningfully, rising \$1.9 billion, while exports of petroleum products declined during the month. We suspect the recent improvement, which has seen the monthly trade gap fall a total of \$12.5 billion over the past three months, reflects a rush by manufacturers and wholesalers to export products ahead of any retaliatory tariffs that will be put in place this summer. If so, we would likely see further improvement in June, but exports would likely falter in subsequent months. The surge in soybean exports is clearly evident in our middle chart, which shows exports of foods, feeds and beverages. Exports for this category totaled \$14.1 billion in May, of which \$4.1 billion was soybeans. On a year-to-date basis, exports for foods, feeds and beverages have risen \$4.7 billion from the same period last year. Exports of soybeans have risen \$2.3 billion, accounting for 48 percent of this increase. The second-largest increase has been in meat and poultry products, of which exports have risen \$965 million over the past year to \$8.5 billion.

Another area where exports have increased measurably this year is shipments of crude oil, natural gas, natural gas liquids, fuel oil and petroleum products. Combined, these five categories have seen exports surge 33 percent on a year-to-date basis, although higher prices contributed to part of this increase. Shipments of crude oil alone have more than doubled, climbing from \$7.8 billion dollars on a year-to-date basis in 2017 to \$15.7 billion this year. Shipments of chemicals and plastics are also up sharply.

Exports of capital goods rose \$2.0 billion in May, with civilian aircraft accounting for nearly all of that gain. Purchases of civilian aircraft have incredibly long lead times and cannot feasibly be pulled forward. On a year-to-date basis, exports of civilian aircraft are actually down slightly. Exports of aircraft engines, however, have risen \$3.6 billion year-to-date compared to the same period last year.

We suspect the recent improvement in the trade deficit has been partially fueled by an attempt to get ahead of tariffs later this year. The surge in exports may have also contributed to stronger job gains during the second quarter, particularly in manufacturing and transportation. The improving trade deficit will also add meaningfully to second quarter real GDP growth. In real terms, the trade balance narrowed \$2.2 billion, falling to \$75.3 billion in May from \$77.5 billion in April. The improvement was a little more than expected and the narrowing trade deficit now looks like it will add around 1.5 percentage points to second quarter real GDP growth.



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