

## April 2019 U.S. International Trade, May UI Claims

### Trade and Claims Data Positive Ahead of Important Jobs Report

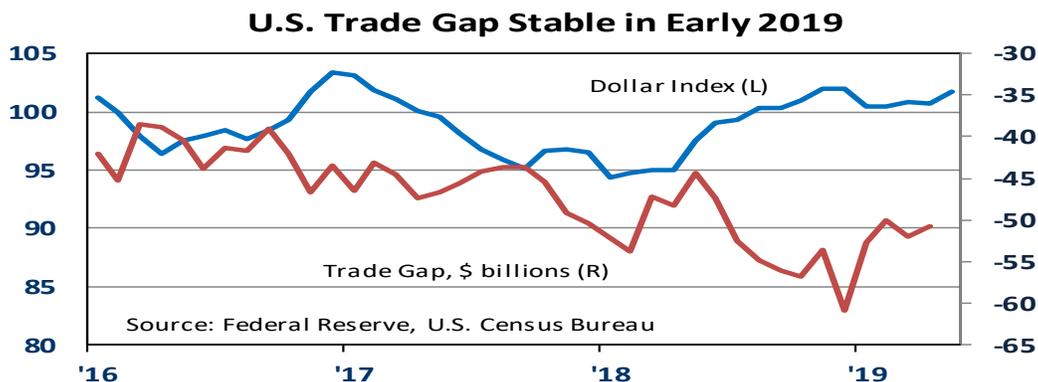
- The U.S. Trade Gap narrowed in April, to -\$50.8 billion, improving from March's -\$51.9 billion.
- Initial Claims for Unemployment Insurance remained at 218,000 for the week ending June 1.

International trade is a very complex space right now with multiple forces acting in different directions. The good news is that the nominal U.S. international trade gap narrowed slightly in April after widening in March. New threats of tariffs and counter-tariffs will tend to keep total trade subdued, while the month-to-month data may be skewed by merchants seeking to front-load shipments ahead of new tariffs. Meanwhile, the strong U.S. dollar and weaker international demand remain headwinds for U.S. exports. Nominal exports dropped by \$4.6 billion in April after increasing for three consecutive months. Exports of goods dropped by \$4.4 billion with losses in civilian aircraft, automotive and consumer goods. Boeing's problems with the 737 Max may be a factor. Year-to-date civilian aircraft exports are down moderately in 2019 compared to 2018. Nominal imports dipped by \$5.7 billion as imports of goods decreased by \$5.4 billion. After adjusting for price changes, the real trade balance in goods for April was below the first quarter average, suggesting that as of now, trade will be a moderate positive for Q2 GDP. This could change easily with two more months left to report in the second quarter.

Initial claims for unemployment insurance were unchanged at 218,000 for the week ending June 1. This is a good level, countering the concern about weakening labor markets raised by the disappointing ADP employment numbers for May. Tomorrow, we will see the official BLS employment numbers for May. We expect them to be stronger than the ADP numbers. Continuing claims gained 20,000 for the week ending May 25. This is well within the range of normal and should not cause alarm.

We believe that the payroll number for May, to be released by the BLS tomorrow morning, is an important data point for the Federal Reserve. The Fed is under pressure from financial markets to cut the fed funds rate at least once this year. The fed funds futures market shows a strong implied probability for at least two 25 basis point rate cuts before the end of this year. Some forecasters are calling for three rate cuts by the Fed within the next nine months. Trade disruptions and cooler rest-of-world growth are key concerns. However, U.S. data is still looking solid for the most part. The May ISM Non-Manufacturing Index improved, and the Fed's recent Beige Book, which discusses regional economic conditions from April through mid-May, was positive for almost all regions. A key exception to the recent positive data was the ADP employment data for May which showed a net gain of only 27,000 private-sector jobs for the month. A moderately positive payroll number tomorrow, showing about 120,000 or more net new jobs for May would erase concerns about the labor market, and buy some time for the Fed to watch data and see how trade discussions are working out before committing to a new course of action.

**Market Reaction:** U.S. equity markets gave up opening gains. The yield on 10-Year Treasury bonds is down to 2.10 percent. NYMEX crude oil is down to \$51.51/barrel. Natural gas futures are down to \$2.33/mmbtu.



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