Market Observations
May 2016

LET'S MAKE A DEAL

Trade among nations has received much attention in the campaign for the U.S. presidency. Trading among peoples is as old as mankind. It draws from the concept of comparative advantage. A good farmer and a good hunter each can benefit by focusing on their respective specialties and trading surplus output with each other. While comparative advantage has remained a core concept, modern trade agreements are more complex as they reflect geo-political realities and include non-economic parameters. Does more trade lead to more growth and better investment outcomes?

Perspective

2015 weightings for key components of the U.S. economy (Gross Domestic Product or "GDP") are shown in Chart I. Consumption was the largest component of economic activity by far at 68%. Trade was the smallest component with a negative value. Trade is the net difference between exports (the amount produced in the U.S. and sold elsewhere) and imports (the amount produced elsewhere and sold in the U.S.). The U.S. economy consumed more in 2015 than it sold (imports exceeded exports) and the result was a trade deficit of -3%. Beyond basic comparative advantage, this outcome reflected personal preferences, price and quality.

U.S. trade deficits have persisted over time as shown in Chart II. Trade surpluses occurred in only 6 years of the past 87 with 4 such years coming in the global rebuilding after World War II. Three important developments for U.S. trade have been: General Agreement on Tariffs and Trade ("GATT") in 1947; North American Free Trade Agreement ("NAFTA") in 1994; World Trade Organization ("WTO") in 1995. Outcomes were:

	ANNUAL AVERAGES	
	Real GDP	Trade Deficit
1929 – 1946	+4.2%	-1.2%
1947 – 1993	+3.5%	-0.8%
1994 – 2015	+2.5%	-3.3%

Comparative rankings of countries importing to the U.S. over the past 20 years are shown in Table I. The rise of China is unmistakable but changes for Vietnam, Ireland and South Korea are notable as well. Mexico's relative position has declined modestly while Canada has fallen from 3rd to 13th.

Investment Implications

Trade facts are informative but direct links among trade trends, economic activity and investment outcomes are less clear. Slower overall economic growth likely would suggest generally lower investment returns. The impact on both from trade likely will vary by country, suggesting an important, ongoing role for portfolio diversification.

Chart I

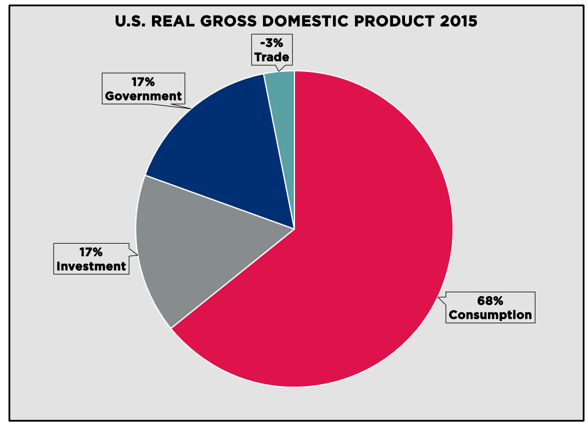

Chart II

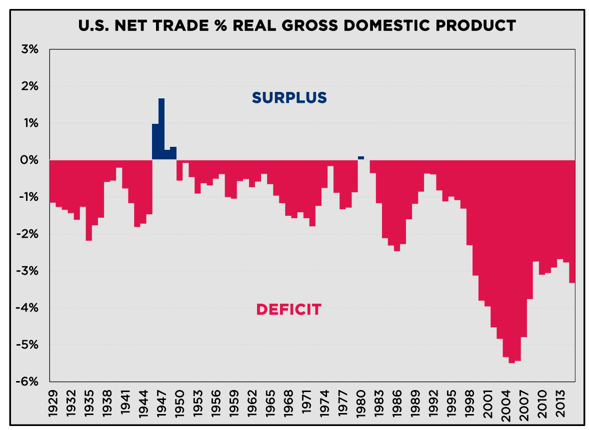

Table I

TOP 10 NET IMPORTERS TO U.S.
% of Total Net Imports

1996		2015	
Japan	20.6%	China	39.6%
China	17.1%	Germany	8.0%
Canada	10.3%	Japan	7.4%
Mexico	7.0%	Mexico	6.3%
Germany	6.7%	Vietnam	3.3%
Taiwan	5.0%	Ireland	3.3%
Italy	4.1%	South Korea	3.1%
Malaysia	4.0%	Italy	3.0%
Venezuela	3.5%	India	2.5%
Nigeria	2.2%	Malaysia	2.3%