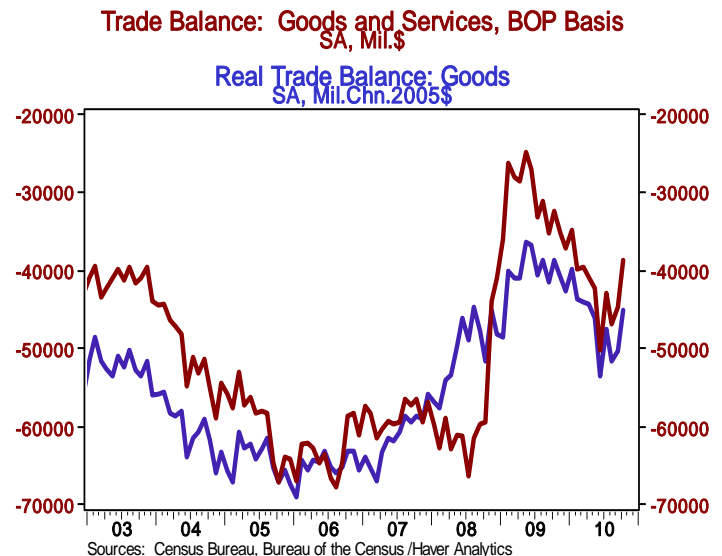


OCTOBER INTERNATIONAL TRADE

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The trade deficit in goods and services shrank by \$5.9 billion to \$38.7 billion in October. The consensus had expected a trade deficit of \$43.8 billion.
- Exports increased \$4.9 billion in October, led by widespread gains in industrial supplies/materials, soybeans, and autos. Imports declined \$0.9 billion, with a large drop in oil offsetting a gain in consumer goods. Petroleum imports declined due to lower volume. Oil prices rose in October.
- In the last year, exports are up 14.9% while imports are up 15.9%.
- The monthly trade deficit is \$6.4 billion larger than last year. Adjusted for inflation, the trade deficit in goods is \$6.5 billion larger than last year. This is the trade measure that is most important for calculating real GDP.

Implications: Reports over the past two days show an accelerating economy with rising inflation. Note that this is before the impact of the Fed's new round of quantitative easing. New claims for unemployment insurance fell 17,000 last week to 421,000. The four-week average of claims declined to 428,000, the lowest in more than two years. Continuing claims for regular state benefits declined 191,000 to 4.09 million. These figures suggest a solid rebound in job creation in December. Meanwhile, exports increased and imports declined for the second straight month, resulting in a large decline in the trade deficit in October. Due to problems with the way the government seasonally adjusts oil prices, trade was a huge negative for real GDP growth in Q2/Q3. However, the same adjustment issue will likely result in a very large positive contribution from trade on real GDP growth in Q4. We estimate that Q4 real growth will come in at about a 5% annual rate. (See, [Monday Morning Outlook](#) from 11/8/2010). In other trade news this morning, both import and export prices surged higher in November. Import prices increased 1.3% and are up 3.7% in the past year. Excluding oil, import prices were up 0.7% in November and are up 2.7% in the past year. Export prices spiked 1.5% in November and are up 6.5% in the past year. Excluding farm products, export prices increased 0.8% in November and are up 5.1% in the past year. We expect further large gains in trade prices as commodity markets react to an overly loose Federal Reserve.



International Trade	Oct-10	Sep-10	Aug-10	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-38.7	-44.6	-46.9	-43.4	-44.2	-32.3
Exports	158.7	153.8	153.0	155.2	153.4	138.1
Imports	197.4	198.4	199.9	198.6	197.7	170.4
Petroleum Imports	25.7	27.5	27.6	26.9	27.0	22.9
Real Goods Trade Balance	-45.2	-50.3	-51.5	-49.0	-49.0	-38.6

Source: Bureau of the Census