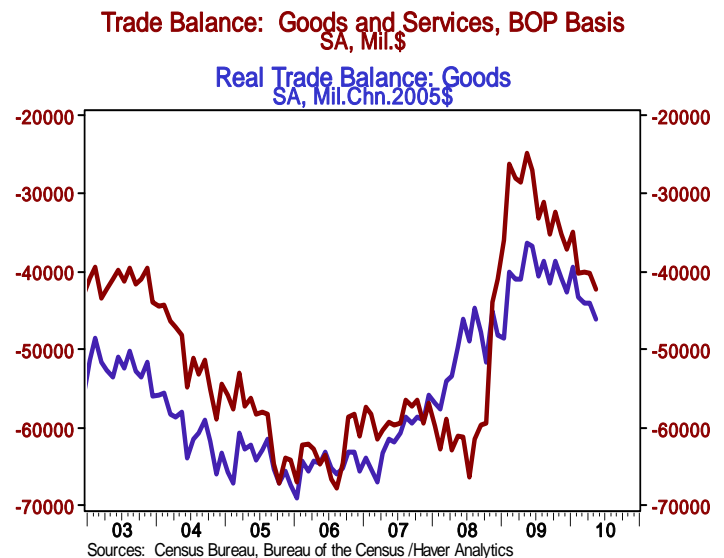


# MAY INTERNATIONAL TRADE

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- The trade deficit in goods and services expanded by \$1.9 billion to \$42.3 billion in May. The consensus had expected the trade deficit to shrink to \$39.0 billion.
- Exports increased \$3.5 billion in May, led by widespread gains for capital goods (such as industrial machines, medical equipment, and generators).
- Imports increased \$5.5 billion in May, led by autos, computers, and pharmaceuticals. Petroleum imports declined \$2.8 billion on lower volume and lower prices.
- In the last year, exports are up 21.0% while imports are up 29.1%.
- The monthly trade deficit is \$17.4 billion larger than last year. Adjusted for inflation, the trade deficit in goods is \$9.7 billion larger than last year. This is the trade measure that is most important for calculating real GDP.



**Implications:** The total volume of international trade – imports plus exports – increased 2.7% in May and is up 25.4% versus a year ago, right before the V-shaped recovery began. We expect more increases in global trade in the months ahead, despite financial turmoil in Europe. Recently, the trade deficit has been expanding again. This means the return to solid growth in the US is trumping, at least temporarily, the impact of a lower dollar (versus several years ago). The result is imports rising faster than exports. While some may worry about this trend, during recent decades a rising trade gap has been associated with a strong domestic economy, not a weak one. Moreover, as we explain more thoroughly in yesterday’s [Monday Morning Outlook](#), Americans generate much higher returns on the assets we own abroad – like direct investment in factories in emerging markets – compared to what foreigners earn on US-assets (such as Treasury securities). As a result, the US has more of an ability than any other country to run significant and persistent trade deficits.



International Trade	May-10	Apr-10	Mar-10	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	<b>Bil \$</b>	<b>Bil \$</b>	<b>Bil \$</b>	<b>Moving Avg.</b>	<b>Moving Avg.</b>	<b>Level</b>
<b>Trade Balance</b>	<b>-42.3</b>	-40.3	-40.0	-40.9	-39.2	-24.9
<b>Exports</b>	<b>152.3</b>	148.7	149.8	150.3	147.1	125.8
<b>Imports</b>	<b>194.5</b>	189.0	189.9	191.1	186.3	150.7
<b>Petroleum Imports</b>	<b>27.6</b>	30.4	30.3	29.4	28.6	17.5
<b>Real Goods Trade Balance</b>	<b>-46.0</b>	-44.2	-44.1	-44.8	-43.3	-36.3

Source: Bureau of the Census