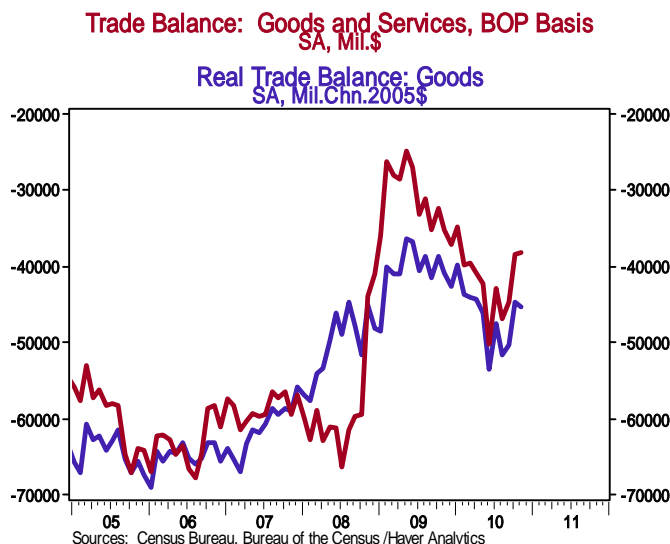


## NOVEMBER INTERNATIONAL TRADE

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- The trade deficit in goods and services shrank by \$0.1 billion to \$38.3 billion in November. The consensus had expected a trade deficit of \$40.5 billion.
- Exports increased \$1.2 billion in November, led by widespread gains in agricultural products as well as pharmaceutical drugs. Imports rose \$1.1 billion, primarily due to crude oil. Oil imports increased due to higher prices.
- In the last year, exports are up 14.9% while imports are up 13.6%.
- The monthly trade deficit is \$3.0 billion larger than last year. Adjusted for inflation, the trade deficit in goods is \$4.3 billion larger than last year. This is the trade measure that is most important for calculating real GDP.

**Implications:** Get ready for a blowout real GDP report for the fourth quarter of 2010, showing growth at an annual rate of 5% to 6%. This is well above the consensus expected pace of 3.3%. Based on today's data for November as well as figures for prior months, it looks like net exports alone will add more than three percentage points to real GDP growth in Q4. This is the exact opposite of what happened in the second quarter when many mistakenly thought we had entered a "soft patch." 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 an offsetting and very large positive contribution from trade in Q4. (For more explanation, see our [Monday Morning Outlook](#) from 11/8/2010). Beneath the headlines, both exports and imports continue to recover from the financial panic that reduced cross-border trade flows even more than purely domestic activity. Exports are now only 3.6% below the prior peak set in mid-2008. Other recent news on the trade sector shows the growing threat of higher inflation, with both import and export prices continuing to surge. Import prices increased 1.1% in December and are up 4.8% in the past year. Excluding oil, import prices were up 0.4% in December and are up 2.7% in the past year. Export prices rose 0.7% in December and are up 6.5% in the past year. Excluding farm products, export prices increased 0.6% in December and are up 5.1% in the past year. Expect further large gains in trade prices as commodity markets react to an overly loose Federal Reserve.



International Trade	Nov-10	Oct-10	Sep-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>-38.3</b>	-38.4	-44.6	-40.4	-43.5	-35.3
<b>Exports</b>	<b>159.6</b>	158.4	153.8	157.3	154.7	139.0
<b>Imports</b>	<b>198.0</b>	196.8	198.4	197.7	198.2	174.3
<b>Petroleum Imports</b>	<b>27.2</b>	25.5	27.5	26.7	26.9	24.5
<b>Real Goods Trade Balance</b>	<b>-45.2</b>	-44.8	-50.3	-46.8	-48.8	-40.9

Source: Bureau of the Census

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