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August International Trade

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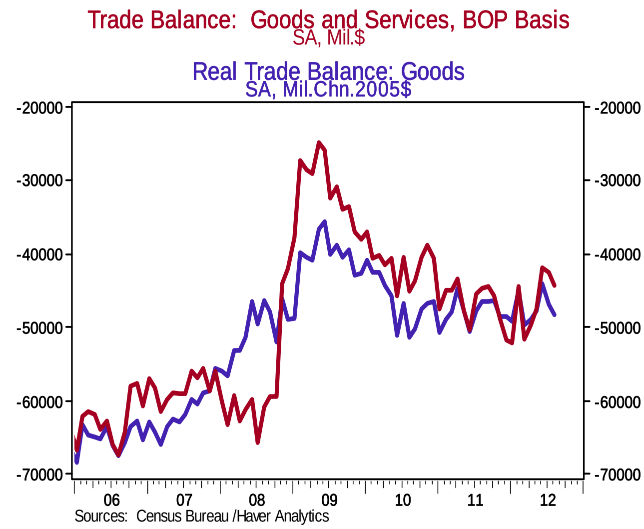
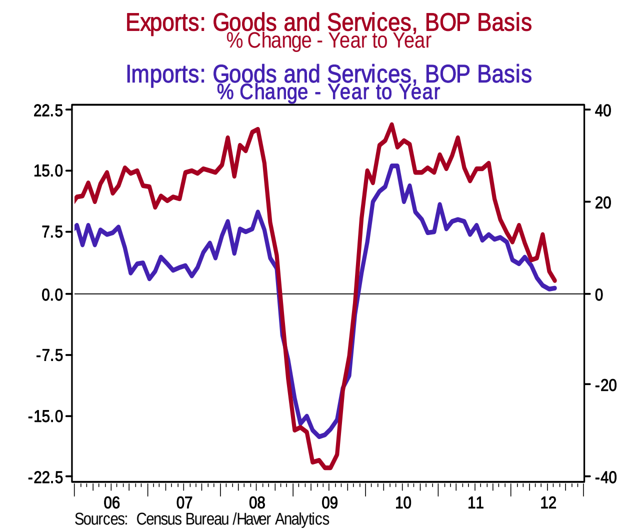
- The trade deficit in goods and services came in at $44.2 billion in August, slightly larger than the consensus expected $44.0 billion.
- Exports declined $1.9 billion in August, while imports declined $0.2 billion. The decline in exports was led by soybeans, pharmaceutical preparations, and petroleum products. The decline in imports was led by consumer goods and autos. Energy imports increased due to higher prices.
- In the last year, exports are up 1.6% while imports are up 1.1%.
- The monthly trade deficit is $0.6 billion smaller than a year ago. Adjusted for inflation, the trade deficit in goods is $1.8 billion larger than last year. This is the trade measure that is most important for measuring real GDP.





Implications: The trade deficit came in slightly larger than the consensus expected in September and the total volume of US-international trade appears to have leveled off over the past several months. A year ago, exports were up 15.1% from the prior year (August 2010 to August 2011). But in the past 12 months, exports are up only 1.6%. Financial and economic problems in Europe may be playing a role. Exports to the Euro-area were up 14.4% in the year ending in August 2011, but in the past year they are down 3.5%. However, we also see a similar pattern of slower export growth with Canada, Mexico, Central/South America, and the Pacific Rim (including China). Two notable exceptions, where our export growth has improved in the past year, are to the OPEC countries and India. Long-term, beneath the headlines, higher energy production in the US is having large effects on trade with other countries. Real (inflation-adjusted) oil exports have tripled since 2005, while real oil imports are down substantially. Given today's data, the trade sector should subtract about 0.4 percentage points from the growth rate of real GDP in Q3. At present, we're estimating real GDP grew at a 1.6% annual rate, although we get data next week on retail sales, inventories, consumer prices, and industrial production, all of which can influence the forecast. We also think the trade sector will be, on average, a small negative for real GDP growth in the year ahead. This is the normal outcome when the US economy is growing. In other trade news this morning, import prices were up 1.1% in September, mostly due to oil. Import prices were up 0.2% excluding petroleum. Export prices were up 0.8% in September and 0.7% excluding farm products. All of these import and export prices measures are down from a year ago. However, given the loose stance of monetary policy and the US farm drought, are likely to move up in the year ahead. In other broader economic news, new claims for unemployment insurance plunged 30,000 last week to 339,000, the lowest level since early 2008. However, the Labor Department reported that one state accounted for most of the decline (we find out which one next week). Continuing claims for regular state benefits declined 15,000 to 3.27 million. These figures are consistent with continued moderate growth in payrolls.

International Trade *All Data Seasonally Adjusted, $billions*	Aug-12 Bil $	Jul-12 Bil $	Jun-12 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-44.2**	-42.5	-41.9	-42.9	-46.3	-44.8
Exports	**181.3**	183.2	185.2	183.2	183.4	178.4
Imports	**225.5**	225.7	227.1	226.1	229.7	223.2
Petroleum Imports	**32.5**	30.9	32.9	32.1	34.8	35.9
Real Goods Trade Balance	**-48.4**	-47.0	-44.0	-46.5	-47.6	-46.6

Source: Bureau of the Census