

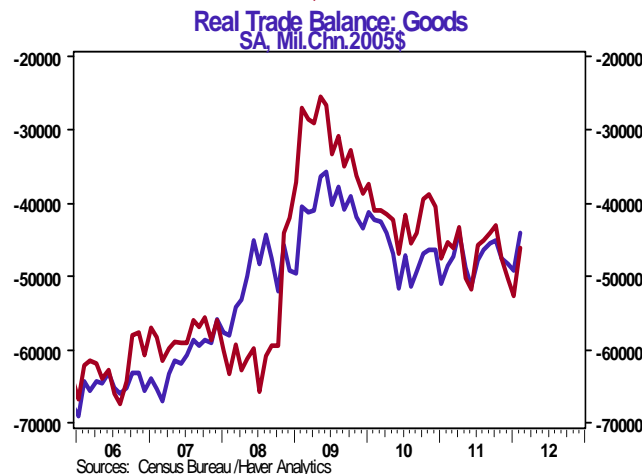
February International Trade

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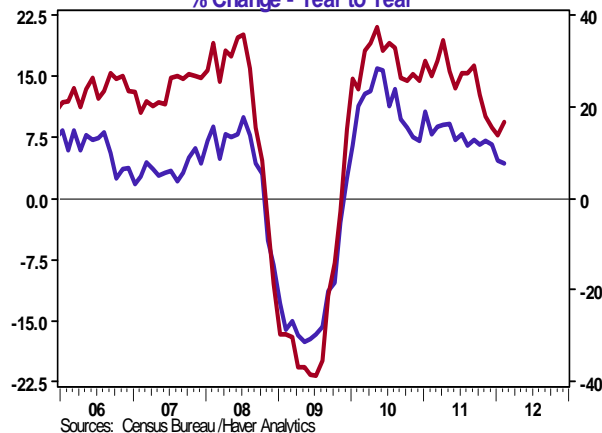
- The trade deficit in goods and services came in at \$46.0 billion in February, much smaller than the consensus expected deficit of \$51.8 billion.
- Exports rose \$0.2 billion in February, with increases in diamonds and aircraft roughly offset by a decline in autos and food. Imports declined \$6.3 billion, led by a widespread drop in consumer goods, oil, and autos.
- In the last year, exports are up 9.3% while imports are up 7.6%.
- The monthly trade deficit is \$0.6 billion larger than a year ago. However, adjusted for inflation, the trade deficit in goods is \$4.4 billion smaller than last year. This is the trade measure that is most important for measuring real GDP.

Implications: The trade deficit in February was much smaller than the consensus expected. As a result, there is now significant upside risk to our forecast that real GDP grew at a 2.5% annual rate in Q1. Exports hit a new record high in February while imports fell sharply. The drop in imports in February offset a surge in January and was largely due to consumer goods from China, with recent volatility apparently caused by the timing of holidays in that country. However, the drop in imports in February was also due to less imported oil. Measured in barrels, crude oil imports are now the lowest since 1997. (Thank you, North Dakota!) In the next few years, the trend of lower oil imports should continue. In addition, the large depreciation in the exchange value of the dollar in the past decade means the US is a much more attractive place from which to export. That's why Japanese automakers are increasingly using the US as an export hub. Meanwhile, companies like Caterpillar, Siemens, and Electrolux are noticing that unit labor costs are very low in the US (because productivity is high), so they're bringing activity here that was previously done abroad. Nonetheless, reviving US consumers still like imported goods, which will hold up import volumes. On net, while trade may help real GDP in Q1, trade should be a neutral for real GDP growth in 2012. In other news today, new claims for unemployment insurance increased 13,000 last week to 380,000. The rise may have been due to difficulties the government has in seasonally adjusting data around Easter. Meanwhile, continuing claims for regular state benefits fell 99,000 to 3.25 million, the lowest since July 2008.

Trade Balance: Goods and Services, BOP Basis
SA, Mil.\$



Exports: Goods and Services, BOP Basis
% Change - Year to Year
Imports: Goods and Services, BOP Basis
% Change - Year to Year



International Trade	Feb-12	Jan-12	Dec-11	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-46.0	-52.5	-50.4	-49.7	-47.3	-45.4
Exports	181.2	180.9	178.2	180.1	179.8	165.7
Imports	227.2	233.4	228.7	229.8	227.0	211.1
Petroleum Imports	37.3	39.0	37.8	38.0	37.2	33.0
Real Goods Trade Balance	-44.1	-49.1	-48.3	-47.2	-46.6	-48.5

Source: Bureau of the Census