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June International Trade

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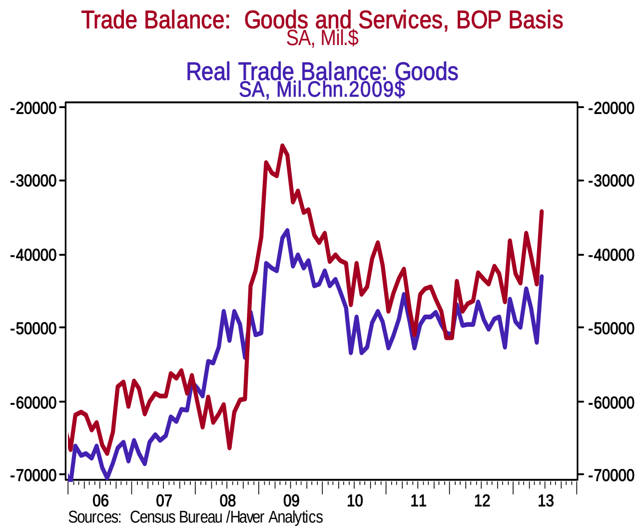
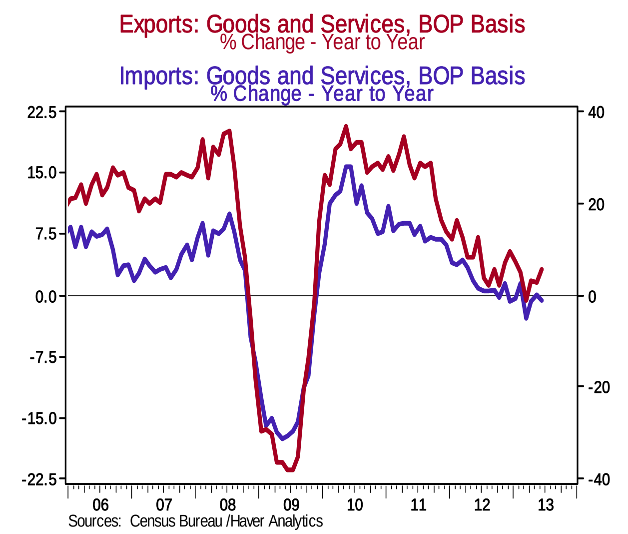
- The trade deficit in goods and services came in at $34.2 billion in June, much smaller than the consensus expected $43.5 billion.
- Exports rose $4.1 billion in June, led by gains in fuel oil, jewelry, and petroleum products. Imports declined $5.8 billion, led by consumer goods (such as cell phones), fuel oil, and petroleum products.
- In the last year, exports are up 3.2% while imports are down 1.0%. Petroleum imports are down 12.6% from a year ago, while non-petroleum imports are up 0.4%.
- The monthly trade deficit is $8.2 billion smaller than a year ago. Adjusted for inflation, the trade deficit in goods is $3.4 billion smaller than a year ago. This is the trade indicator most important for measuring real GDP.





Implications: The trade deficit in June narrowed to the lowest level since October 2009, as virtually all major categories of exports were up in June, while most major categories of imports were down. The trade deficit came in much smaller than the government estimated when it released GDP figures last week. As a result, the trade sector, which was originally estimated to be a drag of 0.8 points on real GDP growth, now appears to have had zero net effect on Q2 real GDP. For this reason we now believe real GDP grew at a 2.5% annual rate in Q2 versus the government's original estimate of 1.7%. The big story here is what is happening to energy production in the US. The US has been experiencing a boom in energy production and exports over the past few years because of the technological advances in horizontal drilling and fracking, meaning a larger share of what we consume is produced domestically. In turn, we are importing much less. In fact, exports of petroleum products are up 11.2% over the past year while imports of petroleum products are down 12.6%. We expect this trend to continue and have a major impact on the trade picture. Led by fuel oil and petroleum products *total exports* reached an all-time high in June. This is happening despite a drop in exports to the European Union which are still down 1.7% from a year ago, but we expect positive gains over the coming year as the European Union starts to recover. Sales to the Pacific Rim are up 1.7% and sales to South/Central America are up 3.3%. We have been arguing for years now that technological advances, not just in energy, are driving growth, so this June trade number is just the kind of positive surprise we have been expecting. As we said above, look for an upward revision to Q2 GDP.

International Trade *All Data Seasonally Adjusted, $billions*	Jun-13 Bil $	May-13 Bil $	Apr-13 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-34.2**	-44.1	-40.1	-39.5	-40.4	-42.4
Exports	**191.2**	187.1	187.6	188.6	187.5	185.2
Imports	**225.4**	231.2	227.7	228.1	227.8	227.6
Petroleum Imports	**29.0**	30.9	29.6	29.8	31.0	33.1
Real Goods Trade Balance	**-43.1**	-51.9	-47.3	-47.4	-47.7	-46.5

Source: Bureau of the Census