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July International Trade

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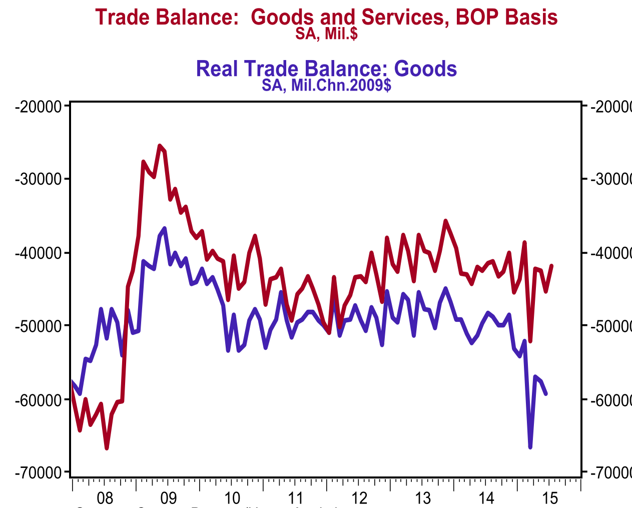
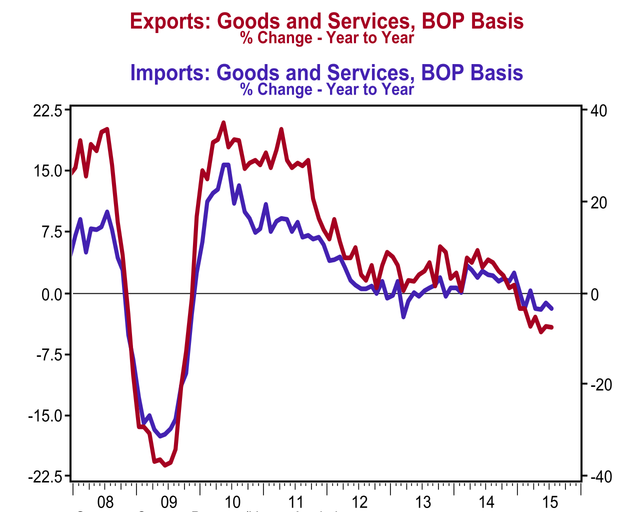
- The trade deficit in goods and services came in at $41.9 billion in July, slightly smaller than the consensus expected $42.2 billion.
- Exports increased by $0.8 billion in June, led by autos, industrial machines and nonmonetary gold. Imports declined by $2.5 billion, led by pharmaceutical preparations and cell phones & other household goods.
- In the last year, exports are down 4.3% while imports are down 3.3%.
- The monthly trade deficit is $0.5 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $7.9 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Source: Census Bureau /Haver Analytics



Source: Census Bureau /Haver Analytics

Implications: The trade deficit in goods and services shrank in July, as exports increased while imports declined. The trade deficit has been relatively stable over the past few years, with a smaller trade deficit in oil and a slightly larger deficit in other goods, powered by growing purchasing power among US consumers and businesses. We expect this trend to continue in the year ahead. However, in recent months, exports have been running below year-ago levels, as other areas of the world continue to struggle. Slower growth abroad, along with a stronger dollar have slowed exports. For instance, exports to the Euro Area are down 6.1% from a year ago. Exports to Africa are down 32.0% while exports to South & Central America are down 18.0%. This will not last forever, but may continue to be a factor over the coming year. Meanwhile, today's data underscore why OPEC continues to become less relevant. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In July, these imports were only two times exports. The US trade deficit with OPEC over the past year is now the smallest it has been since 1999. The US is headed toward energy independence thanks to fracking and horizontal drilling. In fact, despite lower oil prices over the past year, US domestic oil production is still expected to average 9.3 million barrels per day in 2015, a 600,000 BPD increase from 2014. Entrepreneurs and engineers, through the use of new technologies, have changed the way the world works and there's more to come. Trade now looks like it will add about 0.5 percentage points to real GDP in Q3, consistent with our forecast of 2.0% real growth in the third quarter. In other news this morning, new claims for jobless benefits rose 12,000 last week to 282,000. Continuing claims fell 9,000 to 2.27 million. Initial claims have now been below 300,000 for 31 straight weeks. Plugging these figures into our models suggests the first report on nonfarm payrolls for August coming out Friday will show a gain of 188,000.

International Trade *All Data Seasonally Adjusted, $billions*	Jul-15 Bil $	Jun-15 Bil $	May-15 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-41.9**	-45.2	-42.5	-43.2	-43.8	-41.4
Exports	**188.5**	187.7	187.9	188.0	187.6	196.9
Imports	**230.4**	232.9	230.4	231.2	231.4	238.3
Petroleum Imports	**17.1**	16.7	15.3	16.4	16.0	28.2
Real Goods Trade Balance	**-56.2**	-59.0	-57.6	-57.6	-58.1	-48.3

Source: Bureau of the Census