

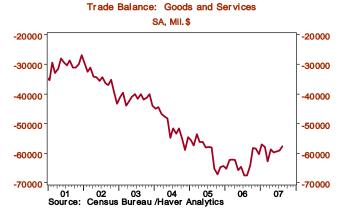
## Data Watch

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## AUGUST INTERNATIONAL TRADE

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- The trade deficit in goods and services declined to \$57.6 billion in August from a downwardly revised \$59.0 billion in July. The consensus expected a trade gap of \$59.0 billion.
- Exports increased \$0.6 billion in August and are up 12.8% versus last year. Imports declined \$0.8 billion and are up 3.0% versus a year ago.
- Industrial supplies accounted for the lion's share of the change in trade. Exports of industrial supplies increased \$0.9 billion led by non-monetary gold (up \$442 million), raw cotton (up \$379 million), and nonferrous metals (up \$269 million). Imports of industrial supplies dropped \$0.7 billion led by natural gas (down \$447 million) and iron and steel mill products (down \$269 million).
- By region, the largest declines in the trade deficit were with Europe (\$3.7 billion), China (\$1.3 billion), and Japan (\$1.3 billion). The trade deficit with Mexico increased by \$1.3 billion. However, none of the country/region figures are seasonally adjusted and so are not directly comparable to overall movements in the trade deficit.





**Implications**: Gangbuster positive data today on international trade. Adjusted for inflation the trade deficit in goods is the lowest since February 2004 and down \$7.2 billion versus a year ago, the largest one-year drop on record. These numbers suggest trade will add about a percentage point to real GDP growth in the third quarter. *As a result we are raising our forecast for real growth in Q3 to 4%*. In our view, many analysts have overestimated the damage to the economy from slower home building. Productive resources have shifted into the trade sector to take advantage of the weaker dollar and strong growth abroad. Other news today bolsters our case for strong growth and higher inflation. New claims for unemployment insurance dropped 12,000 last week to 308,000 and continuing claims declined to 2.521 million, the lowest in fifteen weeks. Import prices increased 1% in September and are up 5.2% versus a year ago.

International Trade	Aug-07	Jul-07	Jun-07	3-Mo	6-Mo	Year-Ago
All Data Seasonally Adjusted, \$billions	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-57.6	-59.0	-59.4	-58.7	-59.5	-67.6
Exports	138.3	137.7	134.1	136.7	133.5	122.6
Imports	195.9	196.7	193.5	195.4	192.9	190.2
Petroleum Imports	27.5	27.3	26.6	27.1	26.3	28.6
Real Goods Trade Balance	-52.0	-53.0	-55.2	-53.4	-55.0	-59.2

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