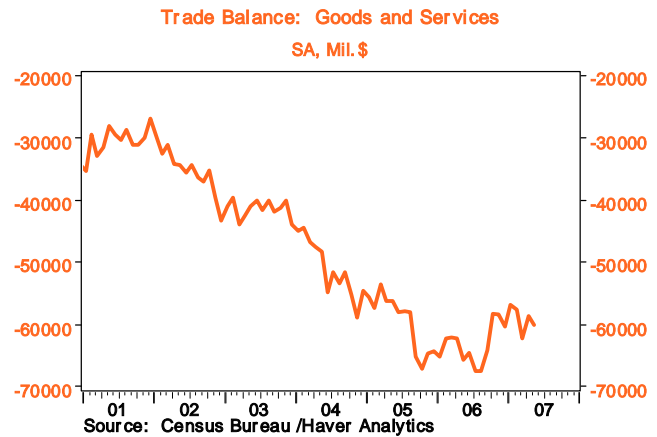


## MAY INTERNATIONAL TRADE

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA  
Economic Research Analyst – Trevor Scott

- The trade deficit in goods and services increased to \$60.0 billion in May, exactly as the consensus expected, from a revised \$58.7 billion in April.
- Exports increased \$2.9 billion in May and are up 11.1% versus last year. Capital goods exports rose \$1.9 billion (including \$0.8 billion in civilian aircraft).
- Imports increased \$4.2 billion in May and are up 4.1% versus a year ago. Petroleum imports increased \$1.8 billion (due to both higher prices and higher volume) while telecom equipment and pharmaceutical imports each rose \$0.4 billion.
- The merchandise trade deficit with OPEC grew by \$1.2 billion. Other countries/regions that accounted for the deficit increase were Asian emerging markets (\$0.9 billion), Africa (\$0.8 billion), Mexico (\$0.7 billion), and China (\$0.6 billion).



**Implications:** International trade subtracted one percentage point from the real GDP growth rate in the first quarter but is likely to add about a full point to the second quarter. All of the increase in the trade deficit in May was due to petroleum. The real (inflation-adjusted) goods trade balance was the lowest in twenty-one months. In year-to-year percentage terms, exports have been growing faster than imports since late last summer (see chart to the right), the longest such period since 1995-96. Exports are growing faster than imports due to the lagged influence of a weaker dollar and relatively strong growth abroad, in both emerging markets and industrialized countries. In other news this morning, initial claims for unemployment insurance fell 12,000 last week to 308,000 and continuing claims dropped 4,000 to 2.554 million. Job growth continues and the labor market remains strong.

International Trade <i>All Data Seasonally Adjusted, \$billions</i>	May-07 Bil \$	Apr-07 Bil \$	Mar-07 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
<b>Trade Balance</b>	<b>-60.0</b>	-58.7	-62.4	-60.4	-59.3	-65.7
<b>Exports</b>	<b>132.0</b>	129.2	129.2	130.1	128.5	118.8
<b>Imports</b>	<b>192.1</b>	187.8	191.6	190.5	187.8	184.5
<b>Petroleum Imports</b>	<b>26.6</b>	25.0	25.0	25.5	24.3	28.0

Source: Bureau of the Census