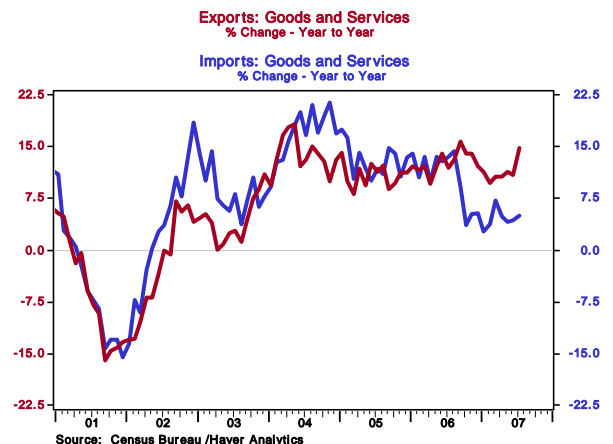


JULY INTERNATIONAL TRADE

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- The trade deficit in goods and services declined to \$59.2 billion in July from an upwardly revised \$59.4 billion in June. The consensus expected a trade gap of \$59.0 billion.
- Exports increased \$3.6 billion in July and are up 14.8% versus last year. Automotive exports increased \$1.4 billion while exports of civilian aircraft increased \$1.2 billion.
- Imports increased \$3.4 billion in July and are up 5.1% versus a year ago. Imports of autos increased by \$1.1 billion. Petroleum imports increased \$0.6 billion, all due to a rise in oil prices. The volume of petroleum imports declined slightly.
- By region, the largest increases in the trade deficit were with Europe (\$5.2 billion) and the Pacific Rim (\$6.5 billion), particularly China (\$2.6 billion) and Japan (\$1.7 billion). The trade deficit with Mexico declined by about \$0.8 billion. However, none of the country/region figures are seasonally adjusted and so are not directly comparable to overall movement in the trade deficit.

Implications: Today's international trade report contains very good news about the strength of the U.S. economy in the third quarter. The inflation-adjusted trade deficit declined to \$53.5 billion in July, the smallest since September 2004. The trade data make us more confident in our bullish (and lonely) forecast of 3% real growth in Q3. In fact, it introduces some *upside* risk to this estimate, as the contribution to GDP from the trade sector offsets the drag on growth from slower residential construction. In the early stages of the housing correction other sectors had difficulty offsetting the negative drag from housing as it takes time for resources to shift to other areas of the economy. Now the shift in resources is well underway and the export sector is able to more fully exploit the lagged influence of a weaker dollar and robust growth abroad, in both emerging markets and industrialized countries. In sum, this is not an economy that needs the Federal Reserve to ride to the rescue.



International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Jul-07 Bil \$	Jun-07 Bil \$	May-07 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-59.2	-59.4	-59.6	-59.4	-59.6	-67.6
Exports	137.7	134.1	132.4	134.7	131.3	119.9
Imports	196.9	193.5	192.1	194.2	190.9	187.5
Petroleum Imports	27.2	26.6	26.6	26.8	25.2	28.2

Source: Bureau of the Census