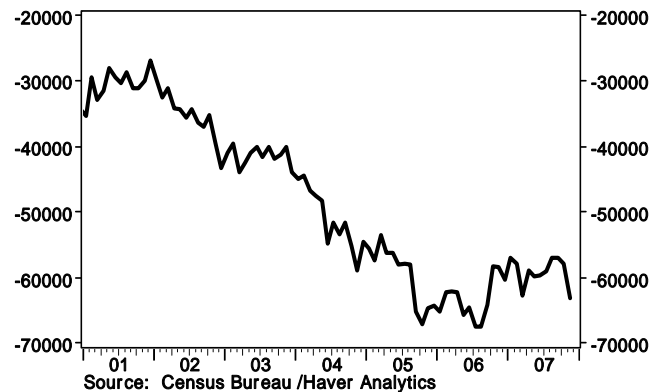


NOV INTERNATIONAL TRADE

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

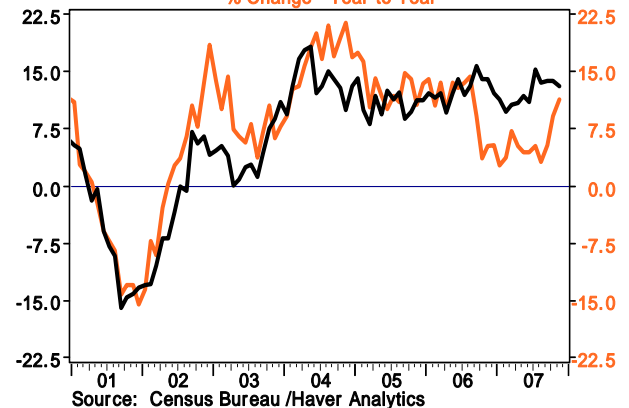
- The trade deficit in goods and services increased to \$63.1 billion in November from \$57.8 billion in October. The consensus expected a trade gap of \$59.5 billion.
- Exports increased \$0.6 billion in November and are up 13.0% versus last year. The increase in exports in November was led by services. Imports increased \$6.0 billion in November and are up 11.4% versus a year ago. Petroleum accounts for most of the increase in imports in the past year. Excluding petroleum, imports are up 5.4%.
- The trade deficit is up \$4.7 billion versus last year. By region, the largest expansions in the trade deficit have been with OPEC (\$5.0 billion), Mexico (\$2.0 billion), and China (\$1.0 billion).

Trade Balance: Goods and Services
 SA, Mil.\$



Implications: Today's trade data are not as bad for GDP growth as they first appear. Although the nominal trade deficit increased \$5.4 billion in November what matters for economic growth is the change in the real (inflation-adjusted) trade deficit, which increased \$2.1 billion. In other words, most of the increase in the trade gap was due to inflation (especially rising oil prices). We are sticking with our forecast of 2.5% real GDP growth in Q4, although there is now slightly more downside risk than upside risk for the forecast. In other news this morning, import prices were unchanged in December after rising 3.3% in November. Import prices are up 10.9% versus last year, a faster increase than anytime from the late 1980s through 2006. Chinese imports used to exert downward pressure on inflation. But in the past year import prices from China are up 2.4%. Export prices increased 0.4% in December and are up 6% versus last year. Non-agricultural export prices rose 0.3% in December and are up 4.5% versus last year. With the Federal Reserve's rate cuts since last summer, and more in the pipeline, the inflation problem is likely to get worse.

Exports: Goods and Services
 % Change - Year to Year
 Imports: Goods and Services
 % Change - Year to Year



International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Nov-07 Bil \$	Oct-07 Bil \$	Sep-07 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-63.1	-57.8	-57.1	-59.3	-58.9	-58.5
Exports	142.3	141.7	140.4	141.5	139.3	125.9
Imports	205.4	199.4	197.5	200.8	198.3	184.4
Petroleum Imports	34.4	29.6	27.3	30.5	28.8	22.1
Real Goods Trade Balance	-53.3	-51.2	-51.7	-52.1	-52.6	-56.5

Source: Bureau of the Census