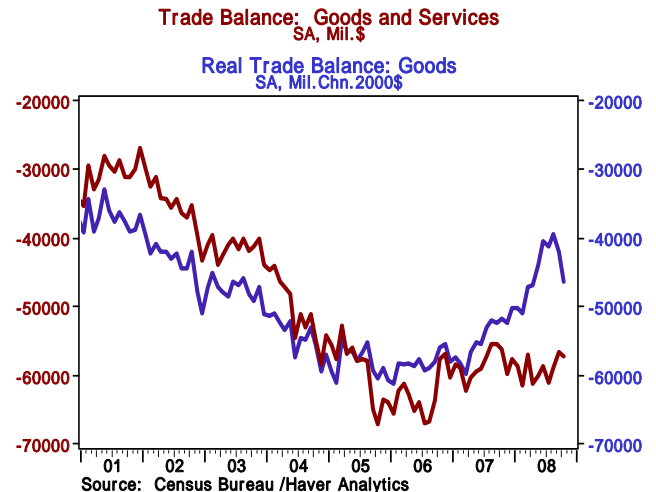


OCTOBER INTERNATIONAL TRADE

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- The trade deficit in goods and services expanded to \$57.2 billion in October versus a consensus expected \$53.5 billion.
- Exports declined \$3.4 billion in October but are still up 5.3% versus last year. The drop in exports in October was led by agricultural products, civilian aircraft, and chemical fertilizers.
- Imports declined \$2.7 billion in October, the third straight drop, but are still up 4.2% versus a year ago. The drop in imports was led by autos/parts and computer accessories.
- Adjusted for inflation, the trade deficit in goods was \$46.4 billion in October, \$5.5 billion smaller than last year. Without adjusting for inflation, the trade deficit for goods and services was \$0.9 billion larger than last year.

Implications: International trade in October suggests real GDP is declining at a 6% annual rate in the fourth quarter, the fastest contraction since 1982. The trade deficit was little changed on a nominal basis. However, what matters for real GDP is the “real” (inflation-adjusted) trade deficit and – because import prices are declining rapidly – the real trade deficit is expanding. (For a given level of import spending, lower import prices mean the *volume* of imports is rising.) Risk aversion by retailers led to a 3-month decline (Aug-Oct) in imports of consumer goods excluding autos. These are the three key months for holiday sales, and if those sales are stronger than expected, shortages could appear because inventories are already low. In other news this morning, the drop in prices for traded goods continued into November, with import prices falling 6.7% (-1.8% excluding petroleum) and export prices falling 3.2% (-2.9% excluding agricultural products). These are all the largest monthly declines in at least 20 years. Import prices are now down 4.4% versus a year ago while export prices are down 0.2%. In addition, the news on the labor market was bad, with new claims for jobless benefits up 58,000 last week to 573,000. The large increase was partially due to the timing of Thanksgiving, which pushed claims down to 515,000 the previous week. However, continuing claims spiked upward by 338,000 to 4.429 million. As a share of the workforce, continuing claims are already higher than the peak hit after the 2001 recession and at the peak hit after the 1990-91 recession.



International Trade	Oct-08	Sep-08	Aug-08	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-57.2	-56.6	-58.9	-57.5	-58.7	-56.3
Exports	151.7	155.1	165.6	157.5	160.2	144.1
Imports	208.9	211.7	224.5	215.0	218.9	200.4
Petroleum Imports	37.7	36.6	43.9	39.4	42.2	30.0
Real Goods Trade Balance	-46.4	-42.0	-39.4	-42.6	-42.2	-51.8

Source: Bureau of the Census