

MAY INTERNATIONAL TRADE

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- The trade deficit in goods and services declined to \$59.8 billion in May from \$60.5 billion in April. The consensus expected a trade gap of \$62.5 billion in May.
- Exports increased \$1.4 billion in May and are up 17.8% versus last year. The gain in exports in May was led by fuel oil, chemical fertilizers, and other petroleum products.
- Imports increased \$0.6 billion in May, a small rise after a large upward spike in April. Imports are up 12.5% versus a year ago. Imports were held down in May by a decline in autos and energy (petroleum products and natural gas).
- Adjusted for inflation, the trade deficit in goods is \$11.6 billion smaller than last May and the smallest since 2002. Without adjusting for inflation, the trade deficit is \$0.4 billion larger than last year.

Implications: The export boom continued in May and is adding substantially to real GDP growth. We now estimate the trade sector will add about two percentage points to real GDP growth in Q2, which leads us to boost our estimate of the overall real GDP growth rate in Q2 to 3% (previously 2.5%). It is important to note that the declining trade deficit undermines the theory that it is the federal tax rebates that are keeping us out of recession. Economic growth from tax rebates should come from higher consumption, which should *increase* the trade deficit. Yet it is the trade sector that is going to make an unusually large contribution to economic growth, not consumption. Meanwhile, the inflation news just gets worse and worse. Import prices increased 2.6% in June and are up 20.5% versus last year, the largest one-year increase on record (dating back to the early 1980s). Not all of this increase is oil related; ex-petroleum import prices are up 7.3% versus last year, a 20-year high. On the export side, prices rose 1% in June and are up 8.6% in the past year. Export prices ex-agriculture were up 0.9% in June and 6.4% in the past year. The increase in export prices in the past year, both overall and excluding agriculture, is the most since 1988.



International Trade <i>All Data Seasonally Adjusted, \$billions</i>	May-08 Bil \$	Apr-08 Bil \$	Mar-08 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-59.8	-60.5	-56.5	-58.9	-58.8	-59.4
Exports	157.6	156.2	150.6	154.8	152.4	133.7
Imports	217.3	216.7	207.1	213.7	211.2	193.1
Petroleum Imports	38.9	39.5	35.0	37.8	37.6	26.4
Real Goods Trade Balance	-43.6	-46.7	-47.0	-45.7	-48.2	-55.2

Source: Bureau of the Census