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Data Watch

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June International Trade

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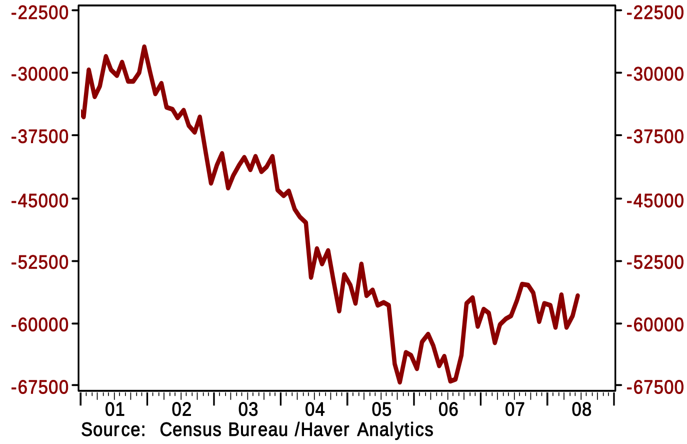
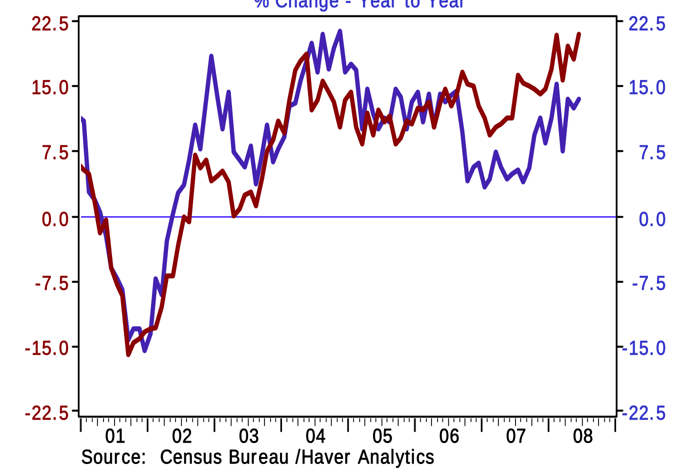
- The trade deficit in goods and services declined to $56.8 billion in June from $59.2 billion in May. The consensus expected the trade gap to expand to $62.0 billion.
- Exports increased $6.4 billion in June and are up an amazing 21.1% versus last year. The gain in exports in June was widespread but led by fuel oil, other petroleum products, and chemicals.
- Imports increased $4.0 billion in June and are up 13.5% versus a year ago. Crude oil and other petroleum products accounted for all of the gain in imports in June.
- Adjusted for inflation, the trade deficit in goods was $39.1 billion in June, $16.4 billion smaller than last June and the smallest since 2001. Without adjusting for inflation, the trade deficit for goods and services was $2.4 billion smaller than last year.





Implications: The US is becoming an export superpower. The trade deficit declined substantially in June, with exports up 21.1% versus last year, the fastest growth in the past twenty years. Largely as a result of this report, the real GDP growth rate in the second quarter is likely to be revised up to about 3% versus the 1.9% originally reported. The decline in the trade deficit is not like previous declines during periods of slow economic growth. Past declines have been due to slower imports, not rapidly rising exports. Much of the decline in the trade deficit is due to the drop in the exchange value of the dollar versus earlier this decade. Recently, the dollar has started to strengthen again. Rather than undermining the US's trade gains, the recent strengthening of the dollar may actually accelerate the decline in the trade deficit over the next twelve months as the short-term impact of dollar strength and the long-term impact of dollar weakness *both* tend to reduce the trade deficit. This is due to what economists call the "J-Curve," which means shifts in exchange rates lead to counter-intuitive results in the short-run.

International Trade *All Data Seasonally Adjusted, $billions*	Jun-08 Bil $	May-08 Bil $	Apr-08 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-56.8**	-59.2	-60.5	-58.8	-58.6	-59.1
Exports	**164.4**	158.0	156.2	159.5	155.5	135.7
Imports	**221.2**	217.2	216.7	218.4	214.0	194.9
Petroleum Imports	**44.5**	38.8	39.5	41.0	39.2	26.6
Real Goods Trade Balance	**-39.1**	-43.5	-46.9	-43.2	-46.3	-55.5

Source: Bureau of the Census