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Data Watch

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November International Trade

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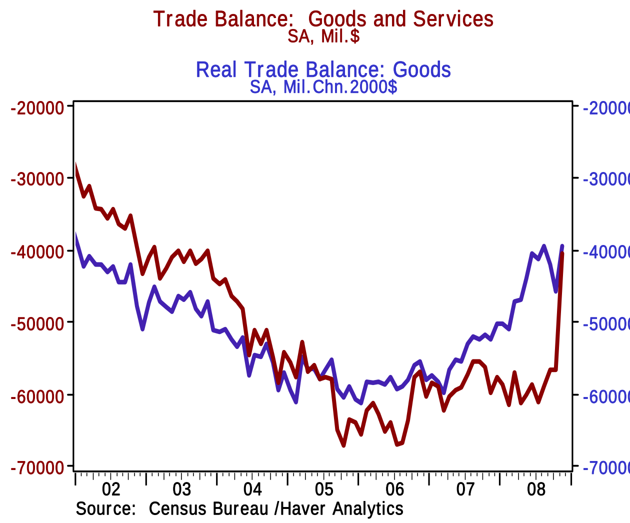
- The trade deficit in goods and services fell to $40.4 billion in November, a huge reduction versus the consensus expected $51.0 billion.
- Exports declined $8.7 billion in November and are down 1.7% versus last year. The drop in exports in November was led by autos/parts, petroleum, and chemicals.
- Imports declined $25.0 billion in November, the fourth straight decline and, by far, the largest drop on record. Imports are down 10.6% versus a year ago. The drop in imports was led by petroleum (both price and volume), pharmaceuticals, and autos/parts.
- Adjusted for inflation, the trade deficit in goods was $39.5 billion in November, $13.0 billion smaller than last year. Without adjusting for inflation, the trade deficit for goods and services was $19.4 billion smaller than last year.



Implications: The trade deficit shrank at a shockingly rapid rate in November. Exports declined forcefully, but imports declined even more, resulting in a much smaller trade gap. Our preliminary assessment of today's figures suggests the US economy did not contract in the fourth quarter as rapidly as the -5% annual rate we had previously estimated, nor the consensus expected -6.5%. Tomorrow's reports on retail sales in December and business inventories in November will confirm or refute this assessment. The drop in the trade deficit was not all due to declining oil prices. The real (inflation-adjusted) trade deficit also declined rapidly. The risk aversion hysteria that first struck the financial system in September appears to also have influenced not only consumer and business buying but also the volume of international trade, with firms pulling back from cross-border economic relationships even more than domestic ones. We believe the worst of the risk aversion hysteria has already passed – given the decline in the TED spread (the gap between yields on 3-month LIBOR and 3-month T-bills) and lower yields on corporate bonds – suggesting we have already seen the worst of the declines in imports and exports. We also believe the trade deficit trend should continue to decline over the next couple of years as trade flows keep shifting in reaction to the large dollar depreciation over the past several years.

International Trade *All Data Seasonally Adjusted, $billions*	Nov-08 Bil $	Oct-08 Bil $	Sep-08 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-40.4**	-56.7	-56.6	-51.2	-55.4	-59.9
Exports	**142.8**	151.5	155.1	149.8	157.7	145.2
Imports	**183.2**	208.2	211.7	201.0	213.1	205.1
Petroleum Imports	**23.6**	37.2	36.6	32.5	39.6	33.9
Real Goods Trade Balance	**-39.5**	-45.6	-42.0	-42.4	-41.4	-52.5

Source: Bureau of the Census