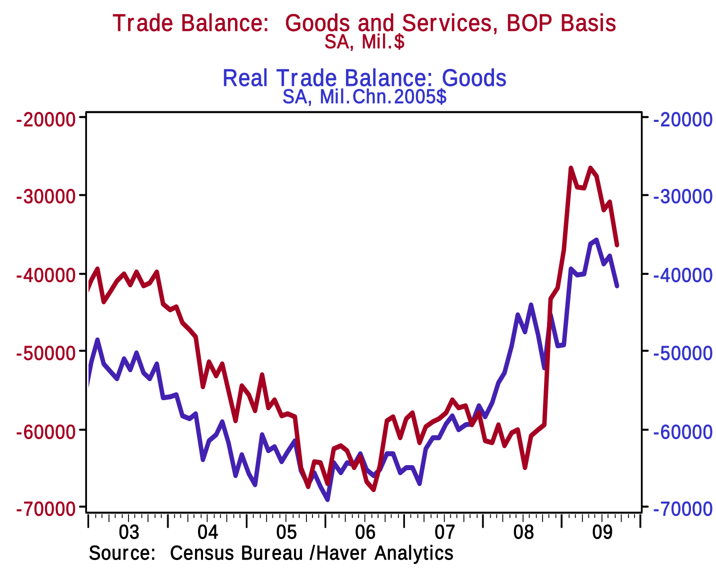
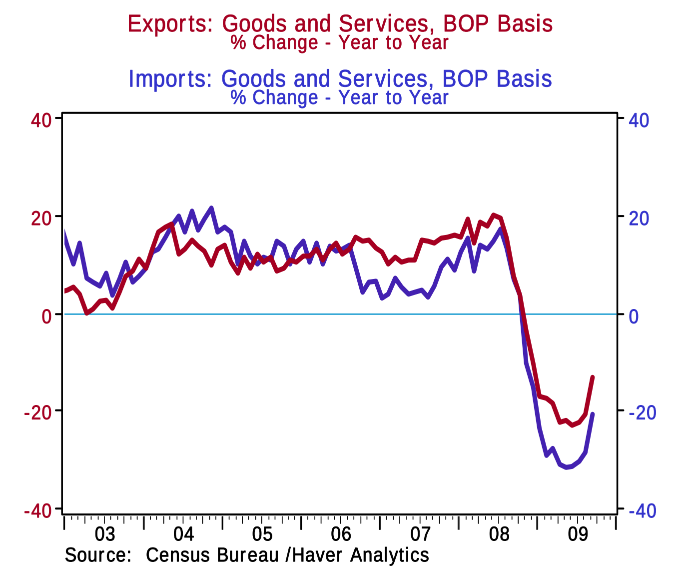
First Trust Data Watch
November 13, 2009 • 630.517.7756 • http://www.ftportfolios.com

SEPTEMBER INTERNATIONAL TRADE

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The trade deficit in goods and services expanded by $5.6 billion to $36.5 billion in September. The consensus had expected a trade deficit of $31.8 billion.
- Imports increased $9.3 billion in September, led by petroleum and autos/parts. The rise in petroleum imports was due to both higher volume and price. Exports increased $3.7 billion in September, led by aircraft and petroleum products.
- Since bottoming in April, exports are up five months in a row, at a 24.1% annual rate. During that time, imports are up at a 32.6% rate.
- The monthly trade deficit is $23.7 billion smaller than last year. Adjusted for inflation, the trade deficit in goods is $6.2 billion smaller than last year. This is the trade indicator that is most important for calculating real GDP.





Implications: The trade deficit surged in September, largely due to an increase in both oil prices and the amount of oil we're importing. In a strict mathematical sense, this report (along with other recent reports on construction and inventories) will trim the government's estimate of real GDP growth in the third quarter to right about 3% versus the 3.5% rate reported last month. However, the recent spike in imports and continued gains in exports signal the economy is getting better. When the economy went into panic-mode last year, trade fell even more than other kinds of business activity. Now, trade is reviving even faster than overall activity. Although the trade deficit has expanded the last few months, we expect it to start declining again soon, in large part due to the drop in the value of the dollar over the past several years. This will help boost real GDP growth at least through the end of 2010. Other recent news reinforces the theme of economic improvement. New claims for unemployment insurance fell 12,000 last week to 502,000. The four-week moving average of claims is the lowest in almost a year. On the inflation front, import prices increased 0.7% in October, both with and without petroleum included. Import prices are up at a 10.5% annual rate in the past three months (a 5.7% rate excluding petroleum). Export prices rose 0.3% in October, both with and without agricultural products. In the past three months, export prices are up at a 2.8% annual rate (4.3% ex-agriculture). Rising monetary velocity and loose money are the ultimate sources of the better economy and higher inflation. Both of these factors support the case for more growth and more inflation ahead.

International Trade *All Data Seasonally Adjusted, $billions*	Sep-09 Bil $	Aug-09 Bil $	Jul-09 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-36.5**	-30.8	-31.9	-33.1	-30.4	-60.1
Exports	**132.0**	128.3	128.0	129.4	126.0	152.0
Imports	**168.4**	159.1	159.8	162.5	156.4	212.1
Petroleum Imports	**25.5**	21.1	22.3	23.0	21.0	37.5
Real Goods Trade Balance	**-41.7**	-37.9	-38.9	-39.5	-38.4	-47.9

Source: Bureau of the Census