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October International Trade

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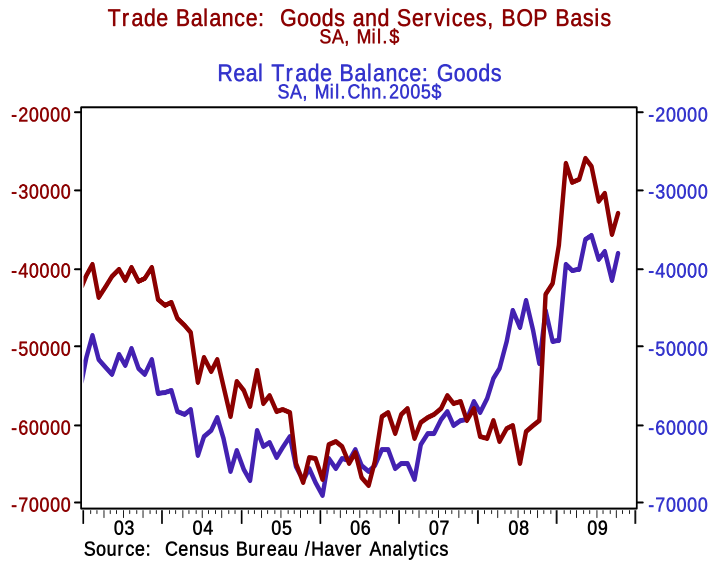
- The trade deficit in goods and services shrank by $2.7 billion to $32.9 billion in October. The consensus had expected a larger trade deficit of $36.8 billion.
- Exports increased $3.5 billion in October, with widespread gains led by capital goods, pharmaceuticals, and artwork/antiques. Imports increased $0.7 billion, led by a rise in computers and pharmaceuticals, but with a large drop in oil imports. The drop in oil imports was mainly due to lower volume, but also a slight decline in price.
- Since bottoming in April, exports are up six months in a row, at a 26.4% annual rate. During that time, imports are up at a 27.7% rate.
- The monthly trade deficit is $26.5 billion smaller than last year. Adjusted for inflation, the trade deficit in goods is $14.2 billion smaller than last year. This is the trade indicator that is most important for calculating real GDP.



Implications: The trade deficit surged upward in September and then dropped in October, with both moves largely due to oil. Over the past six months the trend in trade, both imports and exports, has been substantially upward, consistent with a V-shaped economic recovery. In the third quarter, imports increased faster than exports, resulting in an expansion of the trade deficit. This came despite the massive depreciation in the foreign exchange value of the US dollar over the past several years. This quarter, we are seeing signs that the impact of dollar depreciation is re-asserting itself, and is likely to result in the trade deficit shrinking again in Q4. A declining trade deficit will help boost real GDP growth at least through the end of 2010. In other news this morning, new claims for unemployment insurance increased 17,000 last week to 474,000. However, the four-week moving average of claims fell to 474,000, the lowest since September 2008. Meanwhile, continuing claims for regular state benefits fell 303,000 to 5.16 million, well below the consensus expected 5.45 million. The decline in initial claims in the past six months is faster than the declines during the "jobless" recoveries in 1991-92 and 2002, signaling that this recovery will not be jobless.

International Trade *All Data Seasonally Adjusted, $billions*	Oct-09 Bil $	Sep-09 Bil $	Aug-09 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-32.9**	-35.7	-30.3	-33.0	-30.5	-59.4
Exports	**136.8**	133.4	129.8	133.3	129.8	149.7
Imports	**169.8**	169.0	160.1	166.3	160.4	209.1
Petroleum Imports	**22.8**	25.5	21.1	23.1	21.8	38.7
Real Goods Trade Balance	**-38.0**	-41.5	-37.9	-39.1	-38.0	-52.2

Source: Bureau of the Census