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Data Watch

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DECEMBER INTERNATIONAL TRADE

- The trade deficit in goods and services fell to \$39.9 billion in December, smaller than November's deficit but larger than the consensus expected \$35.7 billion.
- Exports declined \$8.5 billion in December and are down 8.4% versus last year. The drop in exports in December was led by autos/parts, semiconductors, and chemicals.
- Imports declined \$10.2 billion in December and are down 14.7% versus a year ago. The drop in imports was led by petroleum (due to price declines, but volume rose) and autos/parts.
- Adjusted for inflation, the trade deficit in goods was \$43.3 billion in December, \$6.9 billion smaller than last year. Without adjusting for inflation, the trade deficit for goods and services was \$17.7 billion smaller than last year.

International trade continued to drop in **Implications**: December, with both imports and exports experiencing their fifth consecutive monthly decline. The risk aversion hysteria that struck the financial system in September has influenced not only consumer and business buying but also the volume of international trade, with firms pulling back from crossborder economic relationships even more than domestic ones. On net, the trade deficit fell again in December and is the smallest since 2003. Given the large dollar depreciation over the past several years, the trade deficit should continue to decline over the next couple of years. However, what matters for real GDP is the size of the inflation-adjusted trade balance and, that deficit expanded in December, rebounding from an unusually sharp decline in November. As a result, the trade sector was likely a significant drag on fourth quarter real GDP

Trade Balance: (Goods and Services Real Trade Balance: Goods SA, Mil.Chn.2000\$ -30000 -30000 -40000 -40000 -50000 50000 -60000 60000 -70000 70000 04 03 05 06 07 08 09 Source: Census Bureau /Haver Analytics Exports: Goods and Services % Change - Year to Year Imports: Goods and Services % Change - Year to Year 30 30 20 20 10 10



growth, as opposed to the federal government's estimate from two weeks ago that trade added slightly to real GDP in Q4. Combined with recent data on inventories and construction, it appears real GDP will be revised down to about -5.5% in Q4 versus the government's original estimate of -3.8%. Tomorrow's reports on retail sales and business inventories will add some texture to this forecast.

International Trade	Dec-08	Nov-08	Oct-08	3-Mo	6-Mo	Year-Ago
All Data Seasonally Adjusted, \$billions	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-39.9	-41.6	-57.2	-46.2	-52.8	-57.6
Exports	133.8	142.3	151.4	142.5	152.7	146.1
Imports	173.7	183.9	208.7	188.8	205.5	203.7
Petroleum Imports	22.3	23.9	37.5	27.9	36.0	35.1
Real Goods Trade Balance	-43.3	-40.1	-46.0	-43.1	-42.0	-50.2

Source: Bureau of the Census

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