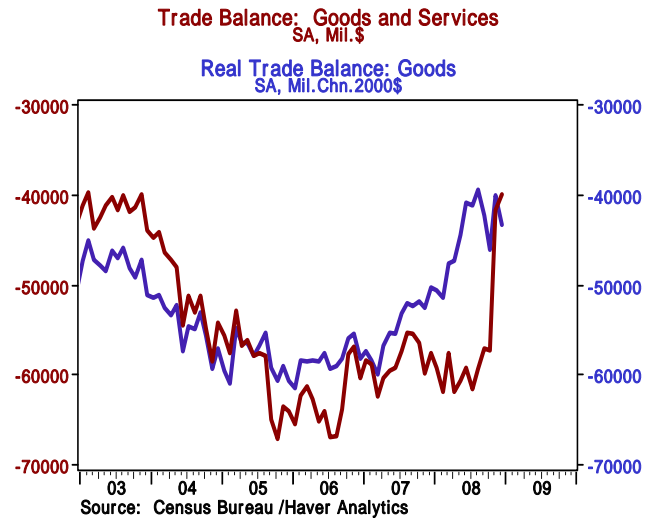


## DECEMBER INTERNATIONAL TRADE

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- 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.



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

Source: Bureau of the Census