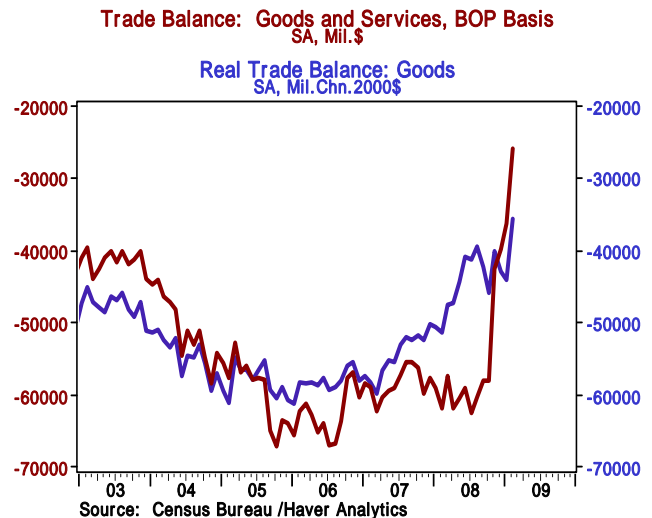


FEBRUARY INTERNATIONAL TRADE

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

- The trade deficit in goods and services fell to \$26.0 billion in February, much smaller than the consensus expected \$36.0 billion deficit.
- Exports increased \$2.0 billion in February but are down 16.9% versus last year. The rise in exports in February was led by pharmaceuticals.
- Imports declined \$8.2 billion in February and are down 28.8% versus a year ago. The drop in imports in February was widespread, but led by petroleum (almost all due to lower volume), autos/parts, toys, and drilling equipment.
- Adjusted for inflation, the trade deficit in goods was \$35.6 billion in February, \$15.7 billion smaller than last year. Without adjusting for inflation, the trade deficit for goods and services was \$35.9 billion smaller than last year.



Implications: The trade deficit plunged in February to the lowest level since 1999 and the details of the report suggest an important turning point for the economy. In previous months, the trade deficit was falling because even though exports were declining imports were falling even faster. But in February, exports increased a healthy 1.6%, with goods exports up a robust 3%. Even if trade volumes are completely unchanged in March, net exports will add about 1 1/2 to 2 percentage points to real GDP growth in the first quarter. This puts pessimists who are looking for another Q4-like, 6% decline in real GDP on the defensive. Although, we are still forecasting that real GDP growth will be flat in Q2, positive growth is becoming increasingly more likely as the recovery looks more like a “V”. Monetary velocity is clearly no longer falling, which means all the liquidity the Federal Reserve has poured into the financial system is starting to have a major impact. In other news this morning, import prices increased 0.5% in March, the first increase in eight months. Meanwhile, export prices fell 0.6%. These figures set us up for another potential decline in the inflation-adjusted trade deficit for March even if the nominal trade deficit widens slightly. Also in other news, new claims for unemployment insurance fell 20,000 to 654,000. Continuing claims increased 95,000 to 5.84 million.



International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Feb-09	Jan-09	Dec-08	3-Mo	6-Mo	Year-Ago
	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-26.0	-36.2	-39.9	-34.0	-43.4	-61.9
Exports	126.8	124.7	132.5	128.0	138.0	152.5
Imports	152.7	160.9	172.4	162.0	181.5	214.4
Petroleum Imports	16.8	18.3	22.3	19.1	25.9	38.1
Real Goods Trade Balance	-35.6	-44.0	-42.9	-40.9	-41.8	-51.3

Source: Bureau of the Census

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