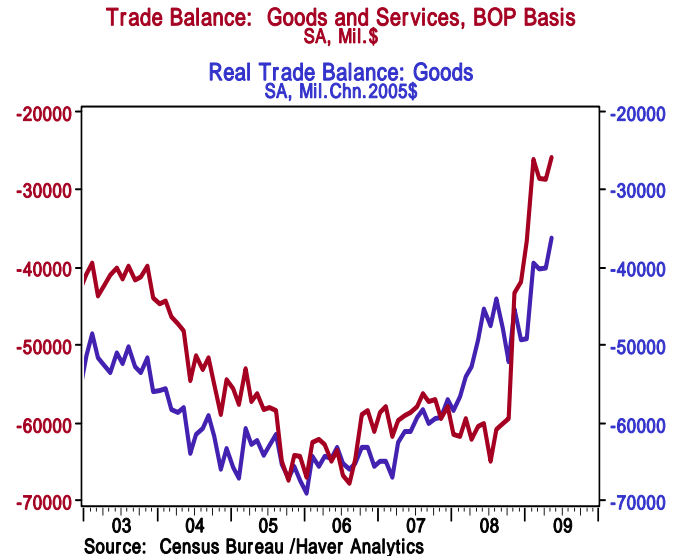


MAY INTERNATIONAL TRADE

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

- The trade deficit in goods and services shrank by \$2.8 billion to \$26.0 billion in May. The consensus had expected the trade deficit to expand to \$30.0 billion.
- Exports increased \$1.9 billion in May while imports declined by \$0.9 billion. The increase in exports was led by petroleum products and fuel oil. The contraction in imports was led by pharmaceutical drugs and crude oil.
- Although exports are down 21.3% versus last year, imports are down 31.3%. As a result, the monthly trade deficit is \$34.6 billion smaller than last year.
- Adjusted for inflation, the trade deficit in goods was \$36.2 billion in May, \$13.2 billion smaller than last year. This is the trade indicator that is most important for calculating real GDP.

Implications: The brightest sector in the US economy over the past few years has been international trade, and the second quarter appears to be no different. From mid-2007 through the first quarter of this year the drop in the trade deficit accounted for about 1.5 points of annualized real GDP growth. A declining trade deficit continues to add a similarly large amount to real GDP in the second quarter. Better yet, while the large decline in the trade deficit in Q1 was due to imports falling even faster than exports, exports may be turning the corner in Q2. The May increase in exports was the fastest since last July, before the financial panic started. Given the depreciation of the US dollar versus other major currencies from 2002 through 2008, the underlying trend of smaller trade deficits is likely to continue into 2010. In other news this morning, import prices increased 3.2% in June, the most for any month since 1990, even beating the months when oil prices were spiking up to \$145/barrel in late 2007 and early 2008. Meanwhile, export prices increased 1.1% in June, the most for any month in almost a year. These inflation signals are clearly showing an increase in monetary velocity. Yesterday, the Labor Department reported that initial claims for unemployment insurance dropped 52,000 last week to 565,000. Continuing claims increased 159,000 to 6.883 million. There are still three weeks to go before the government makes its first report on real GDP in Q2. In those weeks we will get important data on retail sales, business equipment, and home building. But right now it looks like real GDP fell at a 1.5% to 2% annual rate in Q2, a much slower decline than the roughly 6% rates of decline in late 2008 and early 2009. Recent data are also consistent with our forecast of healthy positive economic growth in Q3.



International Trade	May-09	Apr-09	Mar-09	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-26.0	-28.8	-28.5	-27.8	-31.3	-60.5
Exports	123.3	121.4	123.9	122.9	125.5	156.6
Imports	149.3	150.2	152.5	150.6	156.8	217.2
Petroleum Imports	17.4	18.0	17.7	17.7	18.4	39.7
Real Goods Trade Balance	-36.2	-40.1	-40.2	-38.8	-42.4	-49.3

Source: Bureau of the Census