First Trust Data Watch

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JUNE INTERNATIONAL TRADE

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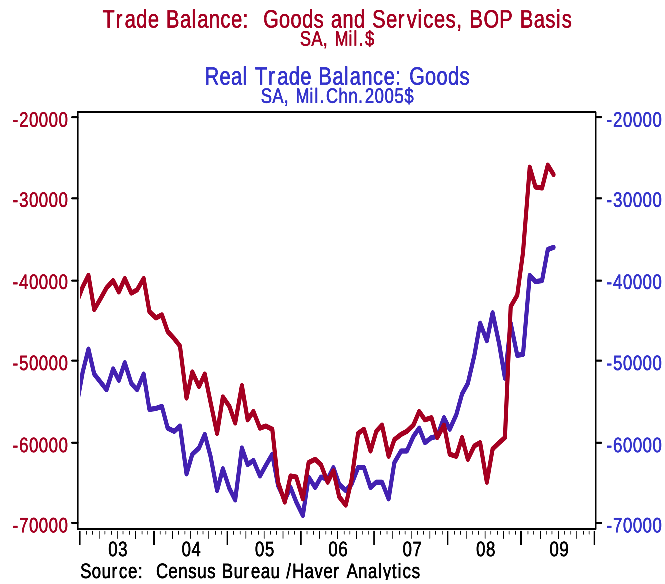
- The trade deficit in goods and services grew by $1.0 billion to $27.0 billion in June. The consensus had expected a larger expansion in the trade deficit, to $28.7 billion.
- Exports increased $2.4 billion in June while imports increased $3.5 billion. The increase in exports was widespread, but led by fuel oil, chemicals, coal, and semiconductors. The growth in imports was concentrated in oil and other petroleum products as well as autos.
- Although exports are down 22.2% versus last year, imports are down 31.1%. As a result, the monthly trade deficit is $33.2 billion smaller than last year.
- Adjusted for inflation, the trade deficit in goods was $35.9 billion in June, $9.4 billion smaller than last year and the lowest in almost a decade. This is the trade indicator that is most important for calculating real GDP.

Implications: When the financial panic struck late last year, international trade shrank even faster than the rest of the economy. Both imports and exports fell off a cliff. Now exports have increased two months in a row and imports are up for the first time in almost a year. The revival of cross-border trade is another sign that the US economy – as well as some economies abroad, particularly in Asia –are in a V-shaped recovery. In the past two years, trade has contributed, on average, 1.3 points to the annualized growth rate of real GDP in the US. 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. This is a key missing link between our forecast for robust economic growth over the next 18 months and the more pessimistic forecasts from most other economists. Improvements in trade (as well as home building and inventories) are going to help generate better incomes for US workers over the next year. In turn, this extra income is going to support growth in domestic consumption *and* higher household saving. Other economists, who are missing the improvements in trade (and, therefore, the extra income generated by US workers) and who also think US saving has to rise, are forced to assume consumption growth is going to be near zero for a very long time. Over the next several months, we think the data are going to force them to realize their mistake.



International Trade *All Data Seasonally Adjusted, $billions*	Jun-09 Bil $	May-09 Bil $	Apr-09 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-27.0**	-26.0	-28.8	-27.3	-28.8	-60.2
Exports	**125.8**	123.4	121.4	123.5	124.3	161.6
Imports	**152.8**	149.3	150.2	150.8	153.1	221.8
Petroleum Imports	**21.5**	17.4	18.0	19.0	18.2	44.7
Real Goods Trade Balance	**-35.9**	-36.3	-40.1	-37.4	-40.2	-45.3

Source: Bureau of the Census