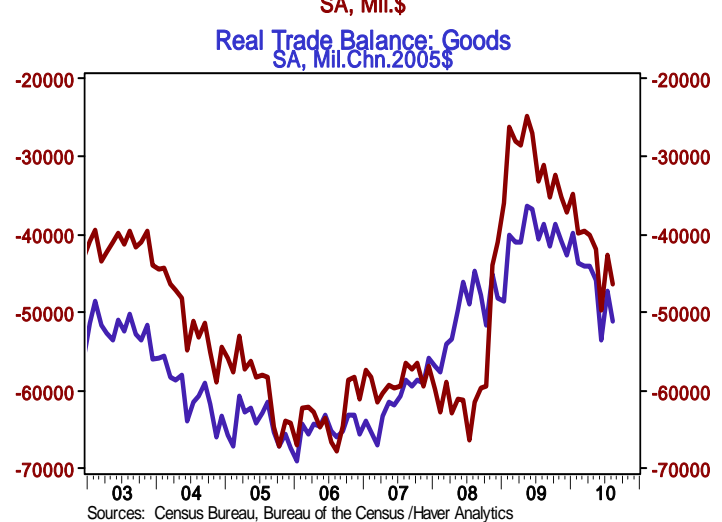


AUGUST INTERNATIONAL TRADE

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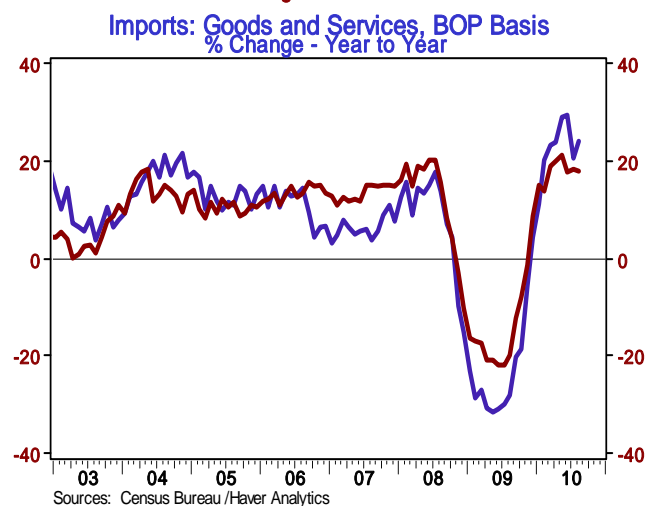
- The trade deficit in goods and services grew by \$3.8 billion to \$46.3 billion in August. The consensus had expected a trade deficit of \$44.0 billion.
- Exports increased \$0.3 billion in August, with gains for soybeans and gold roughly offsetting a large decline in civilian aircraft. Imports rebounded \$4.1 billion in August, led by broad gains in consumer goods, autos/parts, and semiconductors. Petroleum imports increased due to higher prices.
- In the last year, exports are up 18.0% while imports are up 24.0%.
- The monthly trade deficit is \$15.3 billion larger than last year. Adjusted for inflation, the trade deficit in goods is \$12.5 billion larger than last year. This is the trade measure that is most important for calculating real GDP.

Trade Balance: Goods and Services, BOP Basis



Implications: The trade deficit increased in August, resuming the upward trend it's been on since the economic recovery began in mid-2009. The US is sucking in lots of goods from the rest of the world, which supports the case that monetary policy has already accomplished its job of reviving domestic demand. The expansion of the trade deficit subtracted 3.5 percentage points from the growth rate of the economy in the second quarter, the biggest negative trade effect in more than 60 years. For Q3, trade is likely to be a negative factor again, but not nearly as large. Rather than trying to make monetary policy even more expansionary than it already is, policymakers should be focused on reducing regulations, cutting tax rates, and shrinking government spending (both now and in the future) to incent companies to meet more of revived domestic demand through domestic production. One policy that would accomplish all three goals would be to repeal the health care bill enacted earlier this year. In other news this morning, new claims for unemployment insurance increased 13,000 last week to 462,000. Continuing claims for regular state benefits dropped 112,000 to 4.40 million, the lowest level in almost two years.

Exports: Goods and Services, BOP Basis
% Change - Year to Year



International Trade	Aug-10	Jul-10	Jun-10	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-46.3	-42.6	-49.8	-46.2	-43.4	-31.1
Exports	153.9	153.5	150.6	152.7	151.6	130.4
Imports	200.2	196.1	200.3	198.9	194.9	161.4
Petroleum Imports	27.6	26.7	26.8	27.0	28.2	21.1
Real Goods Trade Balance	-51.2	-47.3	-53.6	-50.7	-47.7	-38.6

Source: Bureau of the Census