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December International Trade

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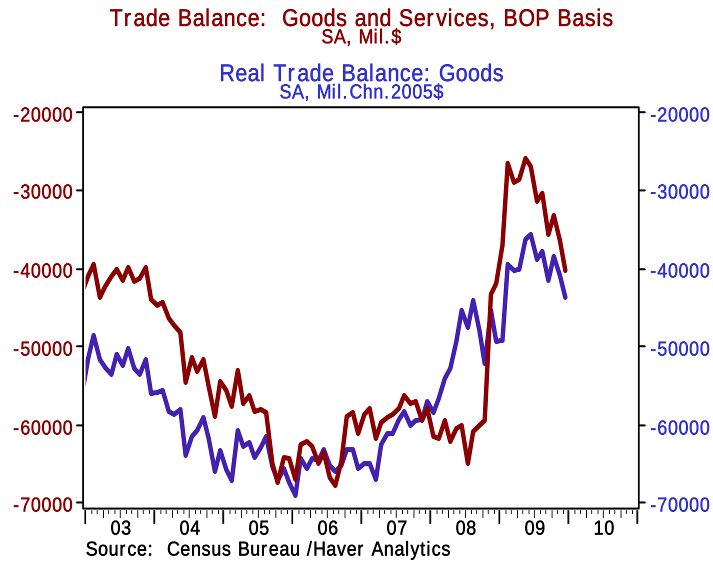
- The trade deficit in goods and services expanded by $3.8 billion to $40.2 billion in December. The consensus had expected a smaller trade deficit of $35.8 billion.
- Exports increased $4.6 billion in December, led by civilian aircraft and autos/parts. Imports increased $8.4 billion, led by crude oil and autos/parts. The rise in oil imports was mostly due to higher volume, but also included a slight increase in the price per barrel.
- Since bottoming in April, exports are up eight months in a row, at a 27.1% annual rate. During that time, imports are up at a 34.5% rate.
- The monthly trade deficit is $1.7 billion smaller than last year. Adjusted for inflation, the trade deficit in goods is $5.7 billion smaller than last year. This is the trade indicator that is most important for calculating real GDP.

Implications: The total volume of international trade – imports plus exports – continues to rebound sharply from the panic-induced decline of late 2008 and early 2009. When companies pulled back from business relationships during the panic, they pulled back even more from links across borders, perhaps due to the credit-sensitive nature of international commerce. But since bottoming in April 2009, total US trade volume is up at a 31% annual rate, with an even faster 42% rate of increase in the past three months. This strongly supports the case for a V-shaped economic recovery. Lately, imports have been growing faster than exports. However, more of the increase in imports is due to inflation. As a result, the *inflation-adjusted* trade deficit got smaller in the fourth quarter. This is the number that matters for calculating the impact of trade on real GDP. Given the depreciation of the US dollar versus other major currencies during the past several years (although not in recent months) as well as the typical multi-year time lag between shifts in the value of the dollar and the impact on the trade balance, trade should continue to add directly to GDP in the year ahead.



International Trade *All Data Seasonally Adjusted, $billions*	Dec-09 Bil $	Nov-09 Bil $	Oct-09 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-40.2**	-36.4	-33.2	-36.6	-34.5	-41.9
Exports	**142.7**	138.1	136.9	139.2	135.0	132.9
Imports	**182.9**	174.5	170.1	175.8	169.5	174.8
Petroleum Imports	**28.1**	24.5	22.8	25.1	24.0	22.6
Real Goods Trade Balance	**-43.7**	-40.9	-38.4	-41.0	-40.2	-49.4

Source: Bureau of the Census