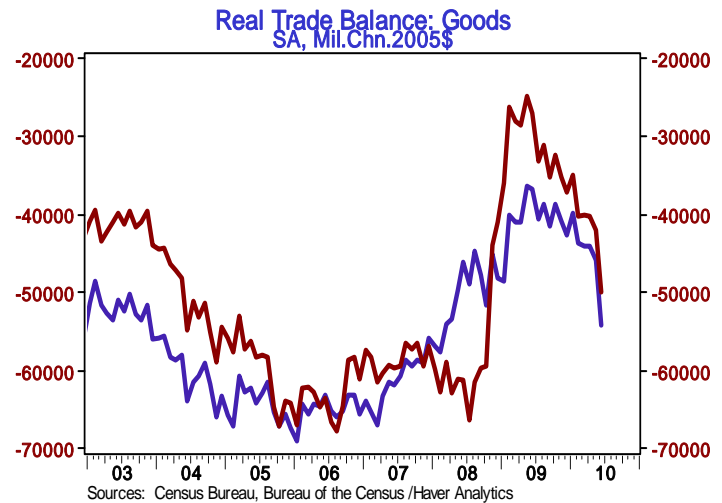


JUNE INTERNATIONAL TRADE

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

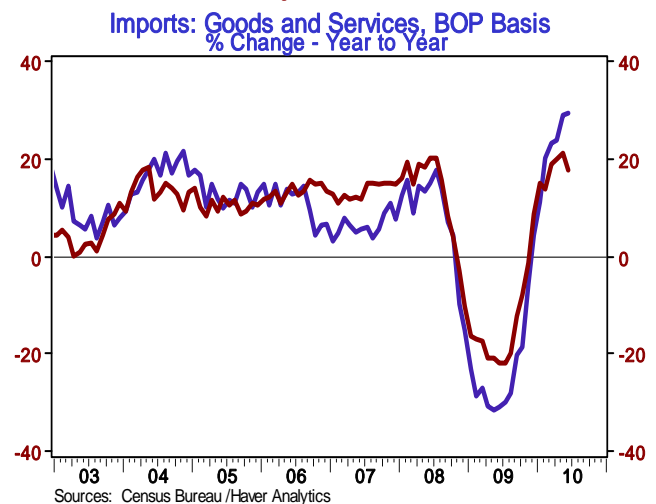
- The trade deficit in goods and services surged by \$7.9 billion to \$49.9 billion in June. The consensus had expected a trade deficit of \$42.1 billion.
- Exports declined \$2.0 billion in June, led by widespread losses for capital goods (such as semiconductors and computers) and fuel oil. Exports of these goods are still up 1.6% versus two months ago.
- Imports increased \$5.9 billion in June, led by autos, pharmaceuticals, and gem diamonds. Petroleum imports declined \$0.9 billion on lower prices.
- In the last year, exports are up 17.7% while imports are up 29.2%.
- The monthly trade deficit is \$22.8 billion larger than last year. Adjusted for inflation, the trade deficit in goods is \$17.3 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
SA, Mil.\$



Implications: The trade deficit surged much more than the consensus expected in June, mostly on higher imports but also on a small decline in exports. As a result, it is likely that when the government revises GDP for the second quarter it will be *downward* from the original estimate of a growth rate of 2.4%. Domestic final sales (adjusted for inflation) revived sharply in Q2, growing at about a 4% annual rate. In the previous three quarters of the recovery, it had grown at only a 1% rate. As a result, the US suddenly sucked in lots of goods from the rest of the world, trumping the impact of a lower dollar (versus several years ago). While some analysts may worry about this trend, during recent decades a rising trade gap has been associated with a strong domestic economy, not a weak one. Moreover, the total volume of international trade – imports plus exports – increased 1.1% in June and is up 24% versus a year ago. We expect more increases in global trade in the months ahead, but with exports growing faster than they have the past few months while the rise in imports starts to slow down.

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



International Trade <i>All Data Seasonally Adjusted, \$billions</i>	Jun-10 Bil \$	May-10 Bil \$	Apr-10 Bil \$	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	-49.9	-42.0	-40.3	-44.1	-41.2	-27.1
Exports	150.5	152.4	148.7	150.5	148.4	127.9
Imports	200.3	194.4	189.0	194.6	189.6	155.0
Petroleum Imports	26.7	27.6	30.4	28.2	28.4	21.4
Real Goods Trade Balance	-54.1	-46.0	-44.2	-48.1	-45.3	-36.8

Source: Bureau of the Census