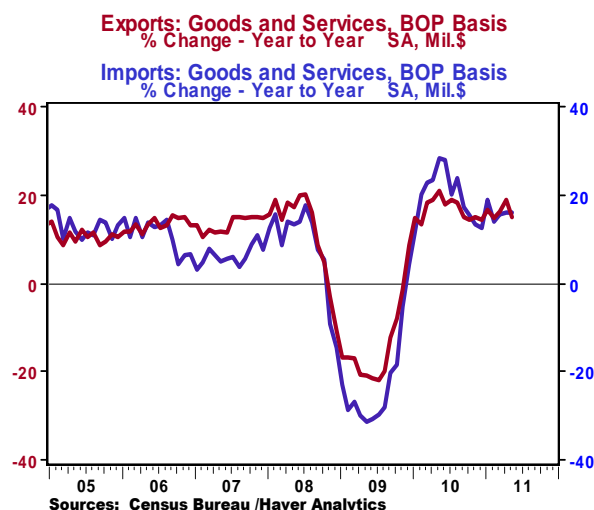
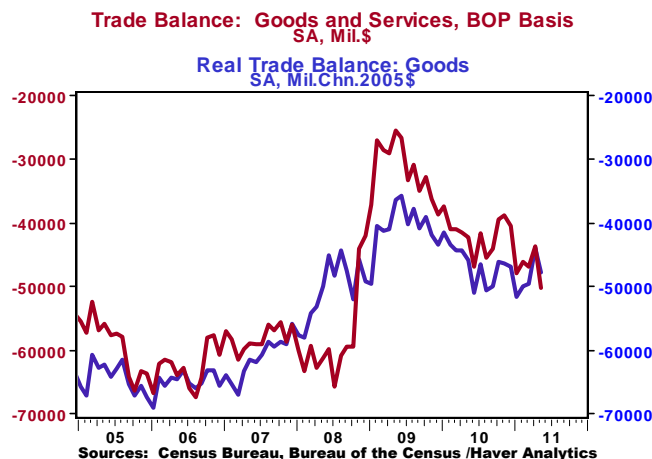


Brian S. Wesbury – Chief Economist  
 Robert Stein, CFA – Senior Economist  
 Strider Elass – Economic Analyst  
 Andrew Hull – Economic Analyst

## May International Trade

- The trade deficit in goods and services expanded by \$6.6 billion to \$50.2 billion in May. The consensus expected a trade deficit of \$44.1 billion.
- Exports declined \$1.0 billion in May, led by petroleum. Imports increased \$5.6 billion, led by oil and computers. The rise in oil imports was due to both higher volume and prices.
- In the last year, exports are up 15.0% while imports are up 15.9%.
- The monthly trade deficit is \$8.1 billion larger than last year. Adjusted for inflation, the trade deficit in goods is \$1.9 billion larger than last year. This is the trade measure that is most important for calculating real GDP.

**Implications:** Oil was the driving force behind the large increase in the trade deficit in May, with higher oil prices, a greater volume of oil imports, and lower oil exports. As a result, the trade deficit came in much higher than the consensus expected. In fact, of the 73 economic groups that forecasted the trade deficit, none thought it would be this high. It was also the largest trade deficit since late 2008. However, oil prices were down in June so next month we should see at least a partial reversal of May's expansion in the trade deficit. Beneath the headlines, the total volume of international trade in and out of the US – imports plus exports – hit an all-time high in May, finally fully recovering from the financial panic that hit cross-border business activity even more than domestic activity. In other news this morning, weekly (same-store) chain store sales were up 5.5% last week versus the same week a year ago, continuing the strength these sales exhibited in June. At present, it looks like real GDP grew at a 1.5% annual rate in Q2 but we are forecasting a substantial acceleration in the second half of the year. Later this week we will be incorporating reports on retail sales, inventories, and industrial production into these forecasts.



International Trade	May-11	Apr-11	Mar-11	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	<b>Bil \$</b>	<b>Bil \$</b>	<b>Bil \$</b>	<b>Moving Avg.</b>	<b>Moving Avg.</b>	<b>Level</b>
<b>Trade Balance</b>	<b>-50.2</b>	-43.6	-46.8	-46.9	-45.9	-42.2
<b>Exports</b>	<b>174.9</b>	175.8	173.4	174.7	170.2	152.1
<b>Imports</b>	<b>225.1</b>	219.4	220.2	221.6	216.0	194.2
<b>Petroleum Imports</b>	<b>39.8</b>	36.0	38.1	38.0	35.4	28.0
<b>Real Goods Trade Balance</b>	<b>-47.8</b>	-43.9	-49.7	-47.1	-48.3	-45.9

Source: Bureau of the Census