

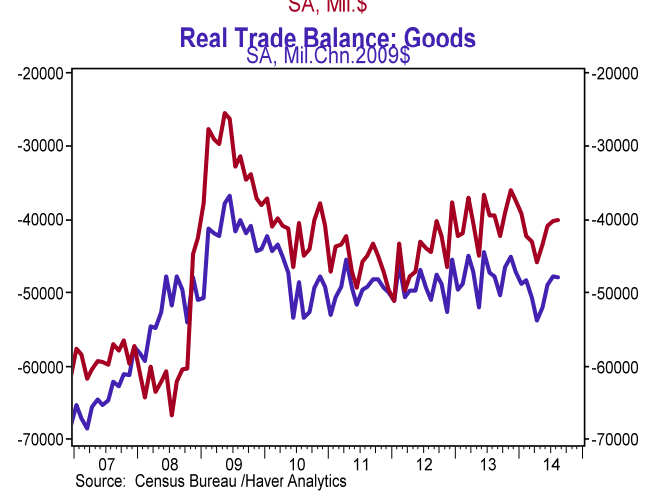
August International Trade

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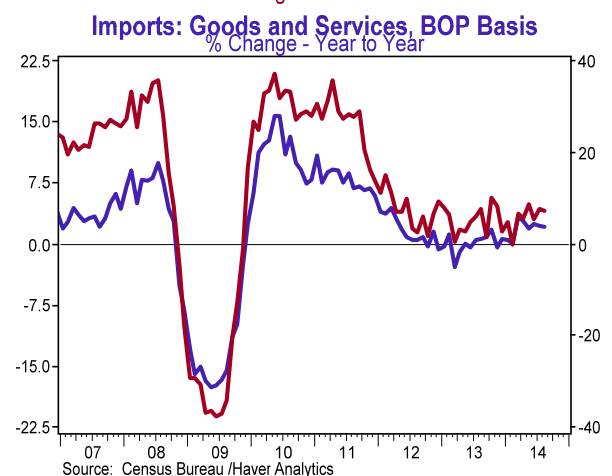
- The trade deficit in goods and services came in at \$40.1 billion in August, slightly smaller than the consensus expected \$40.8 billion.
- Exports increased by \$0.4 billion in August, led by telecommunications equipment and jewelry. Imports increased \$0.2 billion, led by civilian aircraft and apparel & household goods.
- In the last year, exports are up 4.1% while imports are up 3.7%.
- The monthly trade deficit is \$0.6 billion larger than a year ago. Adjusted for inflation, the “real” trade deficit in goods is \$0.2 billion larger than a year ago. This “real” change is the trade indicator most important for measuring real GDP.

Implications: Exports increased faster than imports in August, with the US trade deficit shrinking slightly to \$40.1 billion. As a result, it now looks like net exports will add about a full percentage point to real GDP growth in the third quarter, consistent with our forecast that real GDP grew at about a 3% annual rate in Q3. The best news from today’s report was that the total volume of trade – imports plus exports – hit a new all-time record high, underscoring continued improvement in the US economy. Over the next few years, higher energy production in the US due to hydraulic fracturing and horizontal drilling along with seismic imaging will continue to transform our trade relationship with the rest of the world. Nine years ago, back in August 2005, the US imported 11 times as much petroleum product as it exported. Since then, petroleum product exports are up 602% while imports are up only 23%. So now, petroleum product imports are only 1.9 times exports. Finally, policymakers are helping this trend, with the Commerce Department giving two companies permission to ship a type of ultralight oil known as condensate to foreign buyers. Given the huge glut of oil in the Permian Basin in Texas, we expect more moves to allow exports over the next couple of years, and for oil prices to keep trending lower. As a result of both the pre-existing trends and new policy direction, we expect the US to move to a petroleum trade balance and perhaps even surpluses in the next few years. In other recent news, automakers sold cars and light trucks at a 16.4 million annual rate in September, down 6.3% from August, but still up 6.6% from a year ago. Plugging this into our models suggests “real” (inflation-adjusted) consumer spending grew at a 2% annual rate in Q3.

Trade Balance: Goods and Services, BOP Basis



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



International Trade	Aug-14	Jul-14	Jun-14	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-40.1	-40.3	-40.8	-40.4	-42.3	-39.5
Exports	198.5	198.0	196.2	197.6	196.1	190.6
Imports	238.6	238.3	237.0	238.0	238.4	230.1
Petroleum Imports	27.2	28.3	27.4	27.6	28.6	30.9
Real Goods Trade Balance	-47.9	-47.8	-48.9	-48.2	-50.2	-47.7

Source: Bureau of the Census