

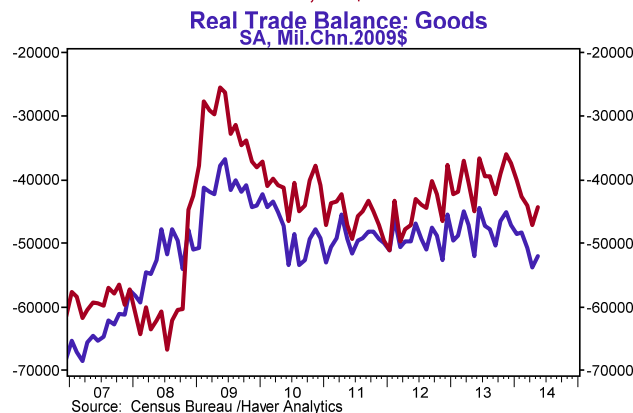
May International Trade

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- The trade deficit in goods and services came in at \$44.4 billion in May, smaller than the consensus expected \$45.0 billion.
- Exports increased by \$2.0 billion in May, led by petroleum products, autos, and gem diamonds. Imports declined \$0.7 billion, led by crude oil and cellphones & other household goods.
- In the last year, exports are up 4.4% while imports are up 3.4%.
- The monthly trade deficit is \$0.4 billion smaller than a year ago. Adjusted for inflation, the trade deficit in goods is \$0.1 billion larger than a year ago. This is the trade indicator most important for measuring real GDP.

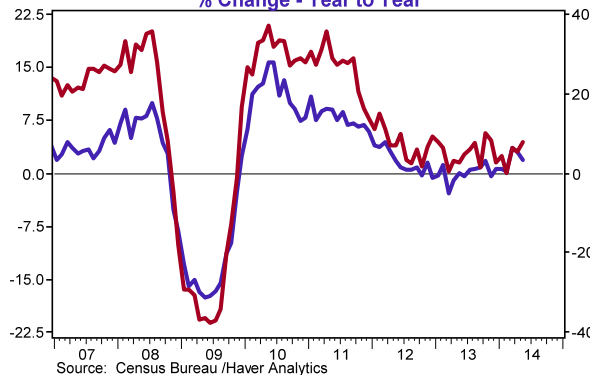
Implications: The US trade deficit came in at \$44.4 billion in March, \$2.6 billion smaller than last month, the result of an increase in exports and a decline in imports. The best news from today’s report was that the total volume of trade – imports plus exports – hit a new all-time record high, underscoring the continued improvement in the US and around the world. Higher energy production in the US has and will continue to transform our trade relationship with the rest of the world. Eight years ago, back in May 2006, the US imported 11 times as much petroleum product as it exported. Since then, petroleum product exports are up 409% while imports are up only 1.5%. So now, petroleum product imports are only 2.2 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. 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 news today, the ISM services declined to a still robust 56.0 in June from 56.3 in May. The business activity index– which has a stronger correlation with economic growth than the overall index – declined 4.6 points in June to a still strong 57.5. New orders continue to show strong gains, rising to 61.2 in June, the highest level since January 2011. The employment index also moved up, coming in at 54.4. On the inflation front, the prices paid index slipped to a still elevated 61.2 in June from 61.4 in May. Given loose monetary policy, we expect this measure to either stay elevated or even move higher over the coming year. In other news from earlier in the week, automakers sold cars and light trucks at a 17.0 million annual rate in June, up 1.2% from May, up 6.9% from a year ago, and the fastest pace since 2006. These gains reflect the increasing purchasing power of the American consumer. The decline in real GDP in Q1 was a weather-related fluke. Look for a healthy rebound in Q2.

Trade Balance: Goods and Services, BOP Basis
 SA, Mil.\$



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

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



International Trade	May-14	Apr-14	Mar-14	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-44.4	-47.0	-44.2	-45.2	-42.6	-44.8
Exports	195.5	193.5	193.7	194.2	192.6	187.2
Imports	239.8	240.5	237.8	239.4	235.2	232.0
Petroleum Imports	28.3	29.8	30.5	29.6	29.9	31.3
Real Goods Trade Balance	-52.0	-53.9	-50.9	-52.2	-50.1	-51.9

Source: Bureau of the Census