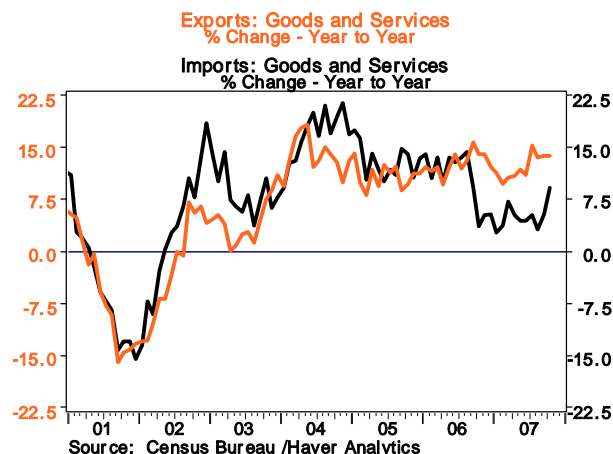
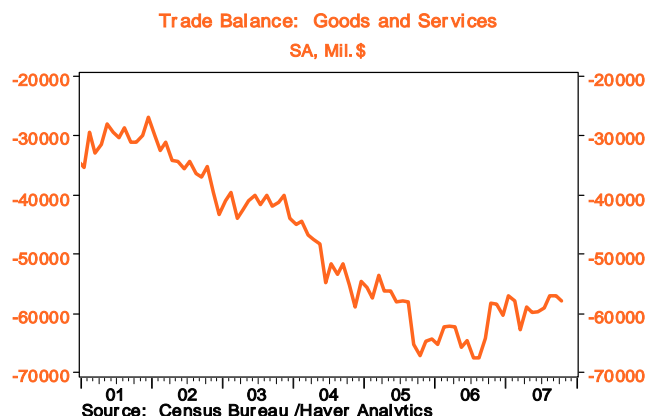


OCT INTERNATIONAL TRADE

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- The trade deficit in goods and services increased to \$57.8 billion in October from an upwardly revised \$57.1 billion in September. The consensus expected a trade gap of \$57.4 billion.
- Exports increased \$1.3 billion in October and are up 13.7% versus last year. Imports increased \$2.0 billion in October and are up 9.2% versus a year ago.
- The increase in exports was led by civilian aircraft, which rose \$0.9 billion. Petroleum accounted for all the increase in imports. Excluding petroleum, imports fell.
- By region, the largest expansions in the trade deficit were with Europe (\$6.4 billion), China (\$2.2 billion), and Japan (\$1.8 billion). The largest contraction in the trade deficit was with South/Central America (\$0.6 billion). However, none of the country/region figures are seasonally adjusted and so are not directly comparable to the overall trade deficit.

Implications: Although the nominal trade deficit increased in October what matters for economic growth is the change in the real (inflation-adjusted) trade deficit. This measure of the trade deficit shrunk in October to the lowest level since early 2004, supporting our relatively bullish forecast that real GDP will grow at a 2% annual rate in Q4. In other news this morning, the trade sector was ravaged by higher inflation in November. Import prices soared 2.7%, the largest single-month increase since oil prices spiked in 1990 when Iraq invaded Kuwait. Import prices are now up 11.4% versus a year ago, the largest one-year increase in at least the last 20 years. Not all of the increase was energy-related: non-petroleum imports were up 0.7% in November and are up 3% versus last year. From 1996 through 2002 these prices were generally falling, accounting for much of the decline in inflation over that period. In addition, export prices are up 6.1% versus last year (the most since 1995). Non-agricultural export prices increased 0.8% in October. With the exception of the one month affected by Hurricanes Katrina and Rita, that's the largest single-month increase since 1995. This time around we can't blame the inflation problem on a natural disaster. Instead, it's a man-made disaster created by bad monetary policy.



| International Trade | Oct-07 | Sep-07 | Aug-07 | 3-Mo | 6-Mo | Year-Ago |
|---|---------------|---------------|---------------|--------------------|--------------------|--------------|
| <i>All Data Seasonally Adjusted, \$billions</i> | Bil \$ | Bil \$ | Bil \$ | Moving Avg. | Moving Avg. | Level |
| Trade Balance | -57.8 | -57.1 | -57.0 | -57.3 | -58.4 | -58.2 |
| Exports | 141.7 | 140.4 | 139.3 | 140.5 | 137.7 | 124.6 |
| Imports | 199.5 | 197.5 | 196.2 | 197.8 | 196.2 | 182.8 |
| Petroleum Imports | 29.6 | 27.3 | 27.3 | 28.1 | 27.4 | 21.9 |
| Real Goods Trade Balance | -51.2 | -51.7 | -51.6 | -51.5 | -52.9 | -55.7 |

Source: Bureau of the Census