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AUGUST INTERNATIONAL TRADE

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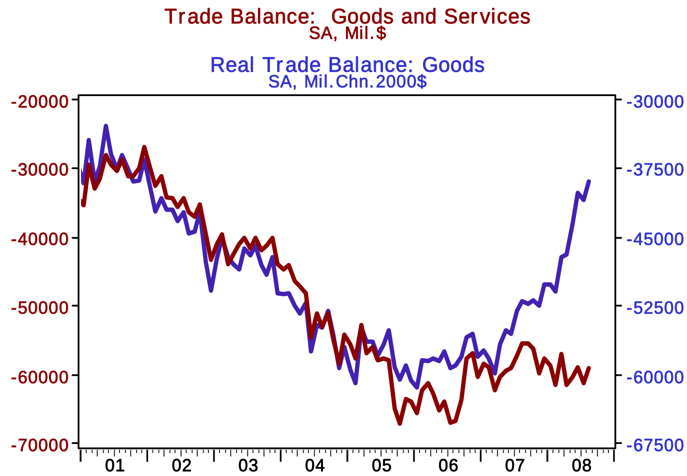
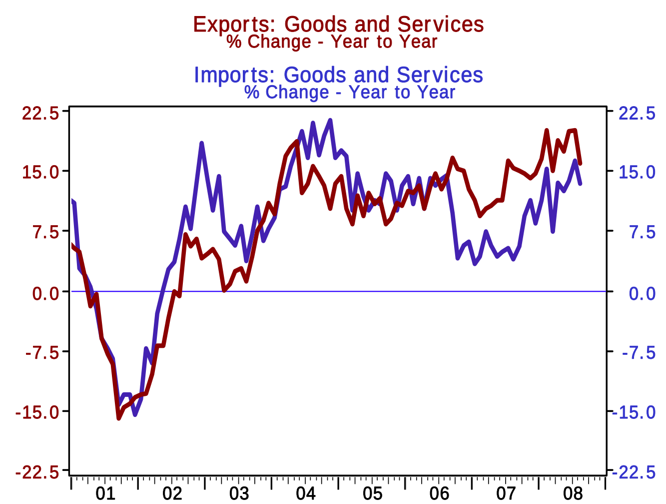
- The trade deficit in goods and services declined to $59.1 billion in August, almost exactly what the consensus expected. Also, the trade deficit for July was revised downward.
- Exports declined $3.4 billion in August but still are up 15.9% versus last year. The drop in exports in August was led by automobiles/parts and non-monetary gold, the same items that pushed exports up rapidly in July.
- Imports declined $5.5 billion in August but are up 13.4% versus a year ago. Crude oil accounted for all the drop in imports in August, due to both lower volume and prices.
- Adjusted for inflation, the trade deficit in goods was $39.0 billion in August, $13.0 billion smaller than last year. Without adjusting for inflation, the trade deficit for goods and services was $3.8 billion larger than last year.



Source: Census Bureau /Haver Analytics



Source: Census Bureau /Haver Analytics

Implications: The trade sector continues to be the most robust part of the US economy and appears set to add 1.5 to 2.0 percentage points to the real GDP growth rate in the third quarter, inserting some upside risk to our forecast of zero growth in Q3. Despite the global nature of the recession/slowdown, we expect the trade sector to continue to contribute substantially toward US growth through at least the end of 2009, as the massive decline in the US dollar versus other major currencies in the past several years continues to wend its way through the global trading system. In other news this morning, import prices fell 3.0% in September while export prices declined 1.0%. The decline in import prices was not all related to oil. Non-petroleum prices declined 0.9%. While import and export prices are still up 14.5% and 6.8%, respectively, versus last year, these year-ago comparisons will likely decline in the months ahead due to the precipitous fall in the speed with which money is moving through the economy and financial system. However, whatever decline in inflation we experience over the next several months is unlikely to be permanent. Once the credit crunch passes and monetary velocity accelerates back to normal levels, inflation will again become our leading economic problem.

International Trade *All Data Seasonally Adjusted, $billions*	**Aug-08** **Bil $**	**Jul-08** **Bil $**	**Jun-08** **Bil $**	**3-Mo** **Moving Avg.**	**6-Mo** **Moving Avg.**	**Year-Ago** **Level**
Trade Balance	**-59.1**	-61.3	-58.8	-59.8	-59.7	-55.3
Exports	**164.7**	168.1	162.8	165.2	159.6	142.1
Imports	**223.9**	229.4	221.6	225.0	219.2	197.4
Petroleum Imports	**43.7**	51.0	45.2	46.6	42.2	27.7
Real Goods Trade Balance	**-39.0**	-40.9	-40.1	-40.0	-43.0	-52.0

Source: Bureau of the Census