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Data Watch

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JANUARY INTERNATIONAL TRADE

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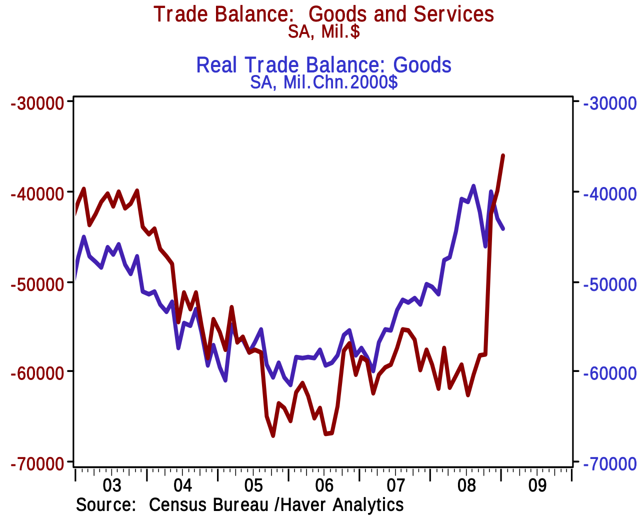
- The trade deficit in goods and services fell to $36.0 billion in January, which was smaller than the consensus expected $38.0 billion deficit.
- Exports declined $7.6 billion in January and are down 16.4% versus last year. The drop in exports in January was led by autos/parts and other capital goods, such as semiconductors and telecomm equipment.
- Imports declined $11.5 billion in January and are down 22.8% versus a year ago. The drop in imports was led by petroleum (due to both lower prices and lower volume) and autos/parts. Imports were also weak for aircraft, telecomm equipment, and pharmaceuticals.
- Adjusted for inflation, the trade deficit in goods was $44.0 billion in January, $6.5 billion smaller than last year. Without adjusting for inflation, the trade deficit for goods and services was $23.1 billion smaller than last year.



Implications: International trade continued to drop in January, with both imports and exports falling for the sixth straight month. The risk aversion hysteria that struck the financial system in September has affected the volume of cross-border trade even more than domestic commerce. However, trade data come out with a long time lag (today's report was for January) and, like auto sales, trade volumes are more "credit sensitive" than other measures of demand. As a result, a recovery in trade volumes will likely lag the economy as a whole. Yesterday's report of robust retail sales ex-autos in January and February is a more timely indication of the direction of activity. Netting out the decline in imports and exports in January, the trade deficit fell again and is the smallest since 2002. Given the large dollar depreciation over the past several years, the trade deficit should continue to decline over the next couple of years. Combining the trade report with recent data on inventories and construction, it appears real GDP will be revised down to -6.7% in Q4 versus a previous government estimate -6.2%. However, real GDP should not be as weak in Q1 and GDP prices in Q1 should be up at about a 2.0 - 2.5% annul rate, much faster than the 0.5% rate in Q4. In other news this morning, import prices fell 0.2% in February, which was a smaller decline than the consensus expected. Meanwhile, export prices fell 0.1% overall but increased 0.1% ex-agriculture, the second consecutive increase. These price changes suggest a stabilization of monetary velocity.

International Trade *All Data Seasonally Adjusted, $billions*	Jan-09 Bil $	Dec-08 Bil $	Nov-08 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-36.0**	-39.9	-42.5	-39.5	-49.1	-59.2
Exports	**124.9**	132.5	140.7	132.7	144.4	149.3
Imports	**160.9**	172.4	183.1	172.2	193.5	208.5
Petroleum Imports	**18.2**	22.3	23.9	21.5	30.5	39.5
Real Goods Trade Balance	**-44.0**	-42.9	-40.1	-42.3	-42.5	-50.5

Source: Bureau of the Census