July International Trade

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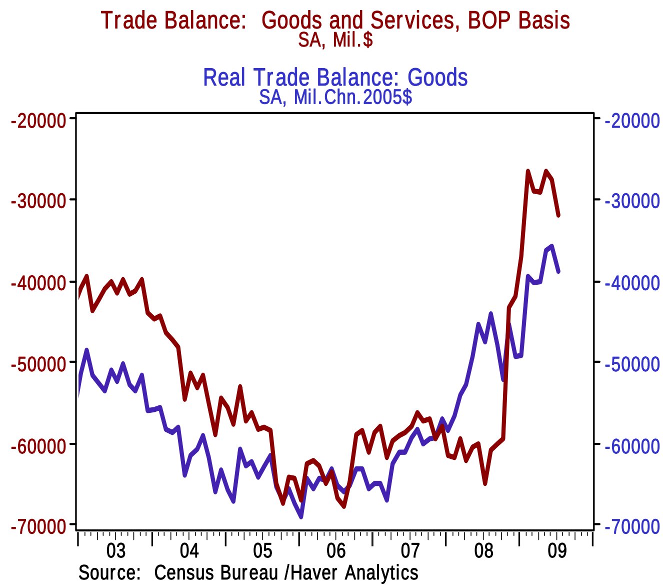
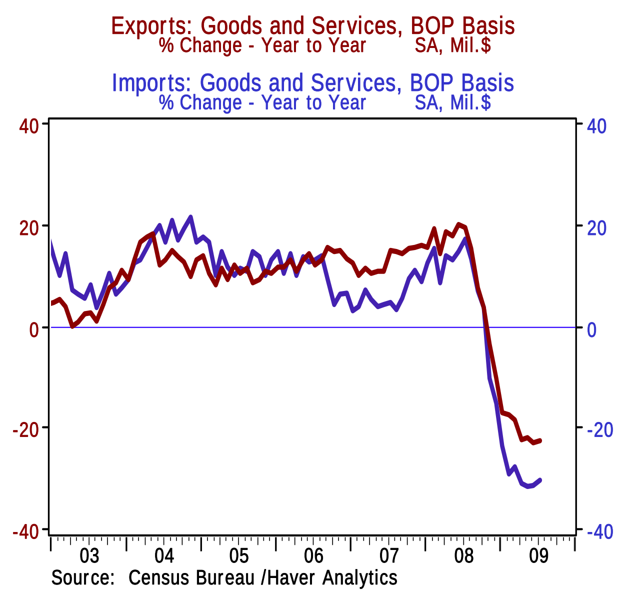
- The trade deficit in goods and services grew by $4.5 billion to $32.0 billion in July. The consensus had expected a trade deficit of $27.3 billion.
- Exports increased $2.7 billion in July while imports increased $7.2 billion. The increase in exports was led by autos/parts. The growth in imports was also led by autos/parts, with additional large contributions from crude oil and pharmaceuticals.
- Although exports are down 22.4% versus last year, imports are down 30.4%. As a result, the monthly trade deficit is $32.9 billion smaller than last year.
- Adjusted for inflation, the trade deficit in goods was $38.8 billion in July, $8.7 billion smaller than last year. This is the trade indicator that is most important for calculating real GDP.





Implications: Today's report on international trade was a glass half full. The "empty" part is that the trade deficit expanded the most in a year, led by autos and oil. This suggests trade will not add as much to real GDP growth in the third quarter as it has in the past year. The "full" part of today's report is that exports and the overall volume of international trade are up for the third month in a row. The revival of cross-border trade supports the case that the US economy – as well as some economies abroad, particularly in Asia – are in a V-shaped recovery. In addition, greater import demand suggests US companies are rapidly shifting away from inventory reductions and are starting to rebuild their investments in capital equipment ("capex"). In other words, even though trade will likely make less of a contribution to real GDP growth, today's report suggests inventories and capex will contribute more. Given the depreciation of the US dollar versus other major currencies, the underlying trend of smaller trade deficits is likely to re-assert itself soon and continue into 2010. In turn, the income generated by the gains in trade, as well as improvements in inventories and home building, will allow consumers to both increase their spending and repair their household balance sheets. In other news this morning, initial claims for unemployment insurance fell 26,000 last week to 550,000, the second lowest level yet in the recovery. Meanwhile, continuing claims for regular state benefits fell 159,000 to 6.09 million, the lowest in about five months.

International Trade *All Data Seasonally Adjusted, $billions*	Jul-09 Bil $	Jun-09 Bil $	May-09 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-32.0**	-27.5	-26.4	-28.6	-28.4	-64.9
Exports	**127.6**	124.9	122.3	124.9	123.9	164.4
Imports	**159.6**	152.4	148.7	153.5	152.3	229.3
Petroleum Imports	**22.4**	21.6	17.4	20.4	18.9	49.7
Real Goods Trade Balance	**-38.8**	-35.8	-36.3	-36.9	-38.4	-47.6

Source: Bureau of the Census