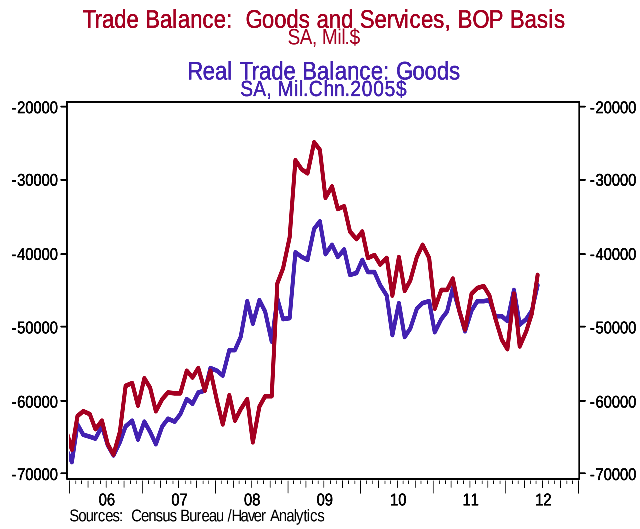
First Trust DATAWATCH
August 9, 2012 • 630.517.7756 • www.ftportfolios.com

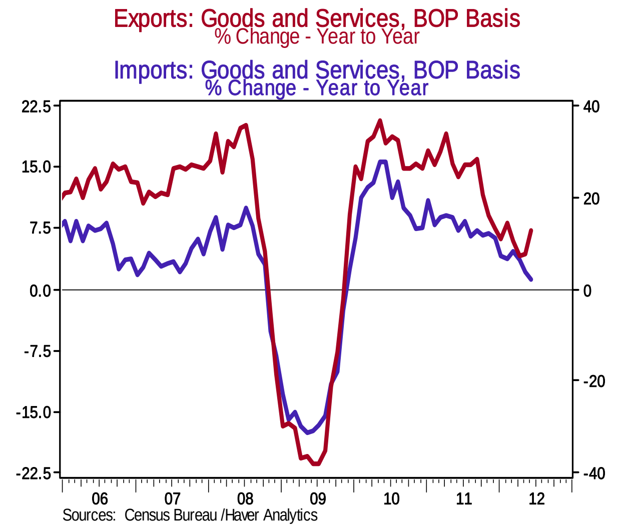
June International Trade

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- The trade deficit in goods and services came in at $42.9 billion in June, much lower than the consensus expected $47.5 billion.
- Exports increased $1.7 billion in June, while imports declined $3.5 billion. The gain in exports was led by consumer goods while the fall in imports was led by oil.
- In the last year, exports are up 7.1% while imports are up 2.2%.
- The monthly trade deficit is $7.4 billion smaller than a year ago. Adjusted for inflation, the trade deficit in goods is $6.3 billion smaller than last year. This is the trade measure that is most important for measuring real GDP.



Implications: The trade deficit shrunk much more than expected in June, a result of an increase in exports and another oil-led decline in imports. Exports are now at all-time record highs and do not show any clear signs of slowing due to the financial situation in Europe or a slowdown in China. Exports of goods to the Euro area are up 6.3% in the past year while exports of goods to China are up 10.2%. For GDP purposes, today's figures were much stronger than the government assumed when estimating Q2 real GDP growth. Along with better numbers on construction and inventories, we now estimate an upward revision to about 2.5% for Q2 from an original government report of 1.5%. Meanwhile, increasing energy production in the US is having large effects on trade with other countries. Real (inflation-adjusted) oil exports have tripled since 2005, while real oil imports are down substantially. As a result, the real trade deficit in oil has been cut almost in half in the past several years and is the smallest since at least the early 1990s. The US trade deficit is also caught between two powerful opposing forces. On one side, the large depreciation in the foreign exchange value of the dollar in the past decade means the US is a much more attractive place from which to export. Many foreign automakers are now using the US as an export hub and companies that had previously placed operations abroad are now moving them back home. The level of productivity is high, so unit labor costs are low in the US relative to other advanced economies. However, the resilient US consumer still likes imported goods. We think the trade sector will be, on average, a small negative for real GDP growth in the year ahead. This is the normal outcome when the US economy is growing. In other news this morning, new claims for jobless benefits declined 6,000 last week to 361,000. Continuing claims for regular state benefits rose 53,000 to 3.33 million. These figures are consistent with more moderate payroll growth in August. No boom, no recession. Just a plow horse rolling on.



International Trade *All Data Seasonally Adjusted, $billions*	Jun-12 Bil $	May-12 Bil $	Apr-12 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-42.9**	-48.0	-50.6	-47.2	-48.8	-50.3
Exports	**185.0**	183.3	182.7	183.7	182.3	172.7
Imports	**227.9**	231.4	233.3	230.9	231.1	223.0
Petroleum Imports	**32.9**	35.2	38.6	35.6	36.8	37.8
Real Goods Trade Balance	**-44.2**	-47.7	-48.9	-46.9	-47.4	-50.5

Source: Bureau of the Census