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July International Trade

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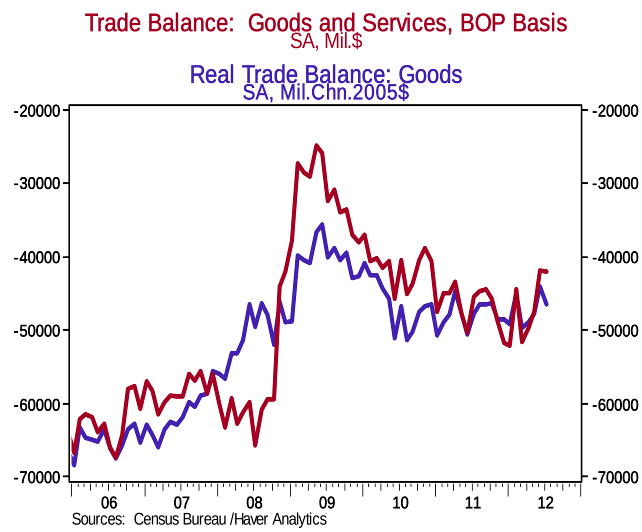
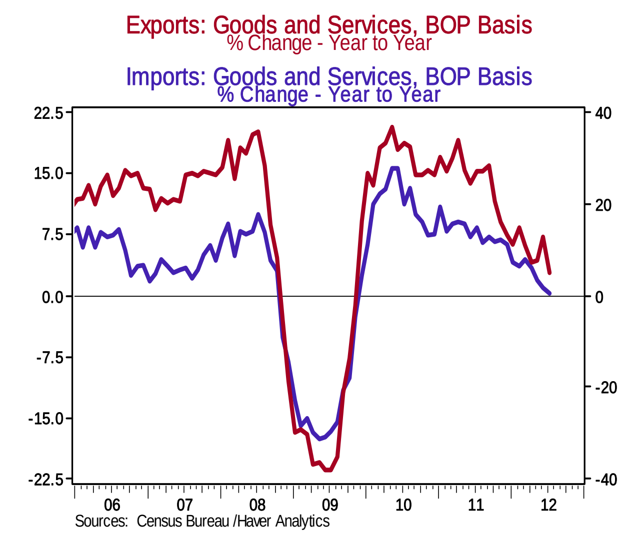
- The trade deficit in goods and services came in at $42.0 billion in July, smaller than the consensus expected $44.0 billion.
- Exports declined $1.9 billion in July, while imports declined $1.8 billion. The decline in exports was led by nonmonetary gold, autos, and oil, which offset an increase in soybeans and civilian aircraft. The decline in imports was led by oil.
- In the last year, exports are up 2.8% while imports are up 0.6%.
- The monthly trade deficit is $3.6 billion smaller than a year ago. Adjusted for inflation, the trade deficit in goods is $1.2 billion smaller than last year. This is the trade measure that is most important for measuring real GDP.





Implications: Mixed news on trade in July. The trade deficit came in smaller than the consensus expected and was essentially unchanged from June. However, the "real" (inflation-adjusted) trade deficit expanded and the total volume of US-international trade also appears to have leveled off over the past several months. A year ago, exports were up 15.3% from the prior year (July 2010 to July 2011). But in the past 12 months, exports are up only 2.8%. Financial and economic problems in Europe appear to be playing a role, with exports of goods to the Euro-area down 4% from a year ago. The good news is that the same cannot be said for China, where our exports of goods are up 4.9% from a year ago. Long-term, beneath the headlines, higher 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, on the other side, 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. However, the early read on the third quarter is that trade will be a neutral factor for real GDP growth.

International Trade *All Data Seasonally Adjusted, $billions*	Jul-12 Bil $	Jun-12 Bil $	May-12 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-42.0**	-41.9	-47.6	-43.8	-46.2	-45.6
Exports	**183.3**	185.2	183.1	183.8	183.3	178.3
Imports	**225.3**	227.1	230.7	227.7	229.5	223.9
Petroleum Imports	**30.8**	32.9	35.2	32.9	35.4	36.2
Real Goods Trade Balance	**-46.5**	-44.0	-47.7	-46.1	-46.9	-47.8

Source: Bureau of the Census