

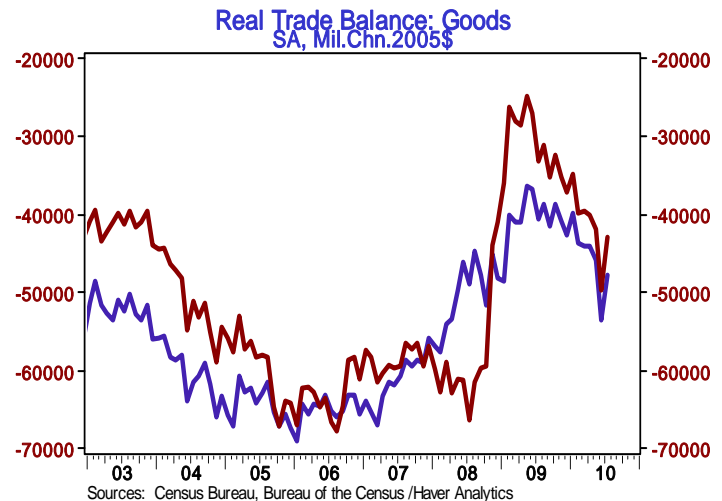
JULY INTERNATIONAL TRADE

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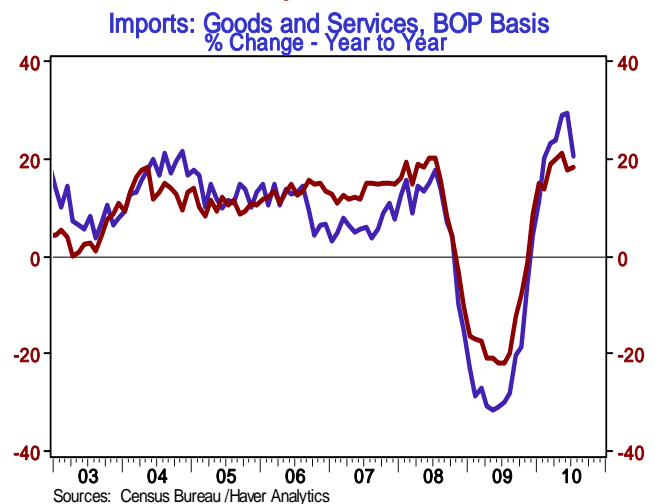
- The trade deficit in goods and services dropped by \$7.0 billion to \$42.8 billion in July. The consensus had expected a trade deficit of \$47.0 billion.
- Exports increased \$2.8 billion in July, led by civilian aircraft and fuel oil. Imports declined \$4.2 billion in July, led by autos/parts, crude oil, and widespread declines in consumer goods. Petroleum imports were essentially unchanged.
- In the last year, exports are up 18.3% while imports are up 20.5%.
- The monthly trade deficit is \$9.7 billion larger than last year. Adjusted for inflation, the trade deficit in goods is \$7.0 billion larger than last year. This is the trade measure that is most important for calculating real GDP.

Implications: Today’s data – a large drop in the trade deficit coupled with a large drop in unemployment claims – means the case for a “double dip” recession is burnt toast. Real GDP growth slowed to a 1.6% annual rate in Q2, which is what had many others worried about the economy. But real final sales to private domestic purchasers grew at a robust 4.3% annual rate. This is the part of real GDP that includes only consumer spending, business investment, and home building. It excludes the effects of government spending and inventories, both of which were positive in Q2, and also excludes the impact of the widening trade deficit. The US suddenly sucked in lots of goods from the rest of the world in Q2. As a result, the expansion of the trade deficit subtracted nearly 3.5 percentage points from the growth rate of the economy, the biggest negative trade effect in more than 60 years. Now that surge has ended and trade is likely to be a neutral factor for economic growth in Q3, not a large negative. As a result, headline real GDP growth appears to be accelerating again. The other good news this morning is that new claims for jobless benefits fell 27,000 last week to 451,000. Claims are down 53,000 from the recent peak three weeks ago. Continuing claims for regular state benefits ticked down 2,000 to 4.48 million. Not seasonally-adjusted, new claims fell to 377,000, the lowest level in two years.

Trade Balance: Goods and Services, BOP Basis
SA, Mil.\$



Exports: Goods and Services, BOP Basis
% Change - Year to Year



International Trade	Jul-10	Jun-10	May-10	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-42.8	-49.8	-41.8	-44.8	-42.3	-33.1
Exports	153.3	150.6	152.6	152.2	150.0	129.6
Imports	196.1	200.3	194.4	196.9	192.3	162.7
Petroleum Imports	26.8	26.8	27.6	27.1	28.4	22.4
Real Goods Trade Balance	-47.7	-53.6	-46.0	-49.1	-46.5	-40.7

Source: Bureau of the Census