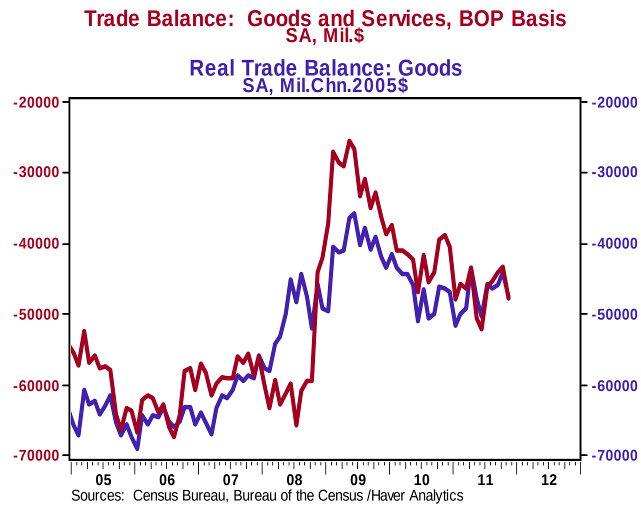
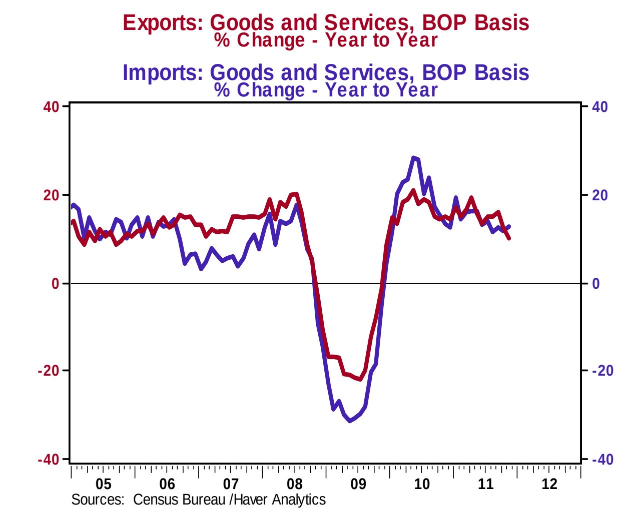
November International Trade

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

- The trade deficit in goods and services increased to $47.8 billion in November, higher than the consensus expected deficit of $45.0 billion.
- Exports declined $1.5 billion in November, led by gold. Imports increased $2.9 billion, led by oil and other petroleum products. The rise in petroleum imports was due to both higher volume and higher prices.
- In the last year, exports are up 10.3% while imports are up 12.7%.
- The monthly trade deficit is $8.9 billion larger than a year ago. However, adjusted for inflation, the trade deficit in goods is only $1.1 billion larger than last year. This is the trade measure that is most important for measuring real GDP.





Implications: The trade deficit surprised to the upside in November, coming in near the middle of the range that it's been in since mid-2010. Exports ticked down slightly and imports rose due to oil and other petroleum products. As a result, net exports are probably going to make a positive contribution to real GDP growth in the fourth quarter and to 2011 as a whole, but not very much. In 2012, the trade deficit is likely to be caught between two powerful opposing forces. First, economic growth should accelerate, putting upward pressure on the trade gap. But, second, the massive depreciation of the US dollar over the past decade should continue to make the US an attractive place from which to export. That's why Japanese automakers are increasingly using the US as an export hub. Companies like Caterpillar, Siemens, and Electrolux are noticing that unit labor costs are very low in the US, resulting in their bringing activity here that was previously done abroad. Our best guess right now is that the trade deficit expands modestly in 2012. In other trade news this morning, prices were generally falling in December, with import prices down 0.1% and export prices down 0.5%. Core import prices, which exclude oil, were unchanged, while core export prices, which exclude agriculture, were down 0.2%. However, the trend over the past year is still upward, across the board. Import prices are up 8.5% versus a year ago while prices ex-oil are up 3.3%. Export prices are up 3.6% in the past year, 4% excluding agriculture. Loose monetary policy means this trend is likely to continue.

International Trade *All Data Seasonally Adjusted, $billions*	Nov-11 Bil $	Oct-11 Bil $	Sep-11 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-47.8**	-43.3	-44.2	-45.1	-46.5	-38.8
Exports	**177.8**	179.4	180.6	179.3	177.6	161.2
Imports	**225.6**	222.6	224.8	224.3	224.0	200.1
Petroleum Imports	**37.9**	34.7	36.7	36.4	36.5	27.5
Real Goods Trade Balance	**-47.5**	-44.0	-45.9	-45.8	-46.6	-46.4

Source: Bureau of the Census