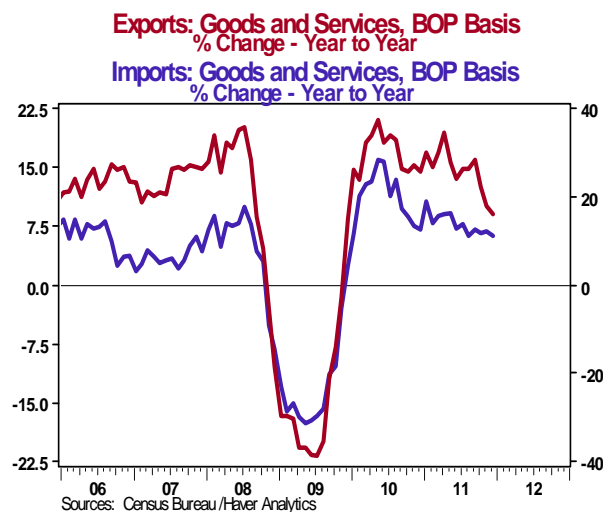
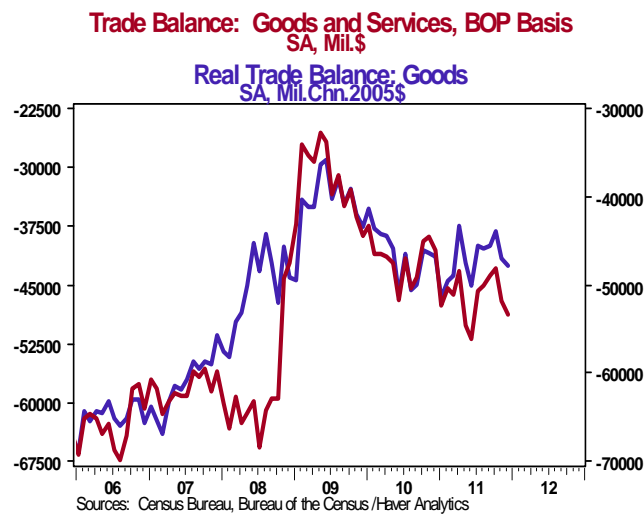


December International Trade

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- The trade deficit in goods and services increased to \$48.8 billion in December, slightly higher than the consensus expected deficit of \$48.5 billion.
- Exports rose \$1.2 billion in December, led by fuel oil and autos/parts. Imports increased \$3.0 billion, led by a broad rise in consumer goods, autos/parts and capital equipment including machinery and aircraft.
- In the last year, exports are up 9.0% while imports are up 11.3%.
- The monthly trade deficit is \$8.3 billion larger than a year ago. However, adjusted for inflation, the trade deficit in goods is only \$0.8 billion larger than last year. This is the trade measure that is most important for measuring real GDP.

Implications: Forget about trade for a second. Yesterday it was reported that new claims for unemployment insurance dropped 15,000 last week to 358,000. The four-week average dropped to 366,000, the lowest since April 2008, well before the collapse of Lehman Brothers. Continuing claims increased 64,000 to 3.52 million, but the four-week average dropped to slightly below 3.5 million, the lowest since September 2008. These figures show continued robust gains in payrolls for February. The trade deficit was about as expected for December, coming in near the middle of the range that it's been in since mid-2010. Exports and imports rose in December. People are worried about problems in Europe affecting the USA's trade with that region, but both exports and imports rose in the Euro Area in December. In fact, the total volume of international trade (exports plus imports) hit a new all-time record high. Based on today's figures, trade's contribution to Q4 real GDP growth will be revised up slightly. 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.



International Trade	Dec-11	Nov-11	Oct-11	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-48.8	-47.1	-43.0	-46.3	-45.6	-40.5
Exports	178.8	177.5	179.3	178.5	178.7	164.0
Imports	227.6	224.6	222.3	224.8	224.3	204.5
Petroleum Imports	37.6	37.8	34.7	36.7	36.5	30.9
Real Goods Trade Balance	-47.7	-47.0	-43.9	-46.2	-45.9	-46.9

Source: Bureau of the Census