May International Trade

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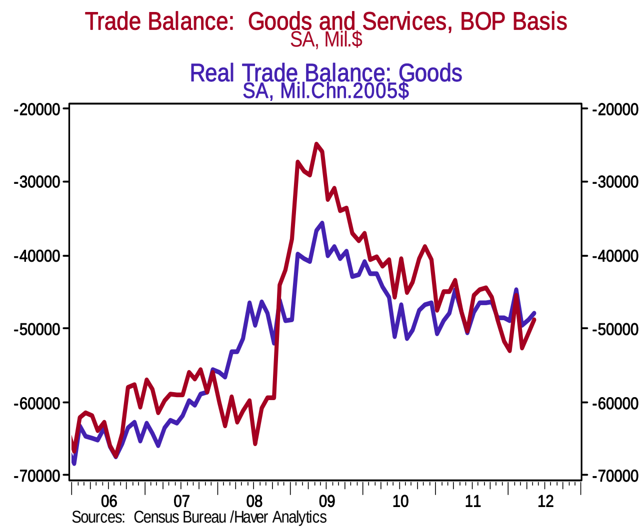
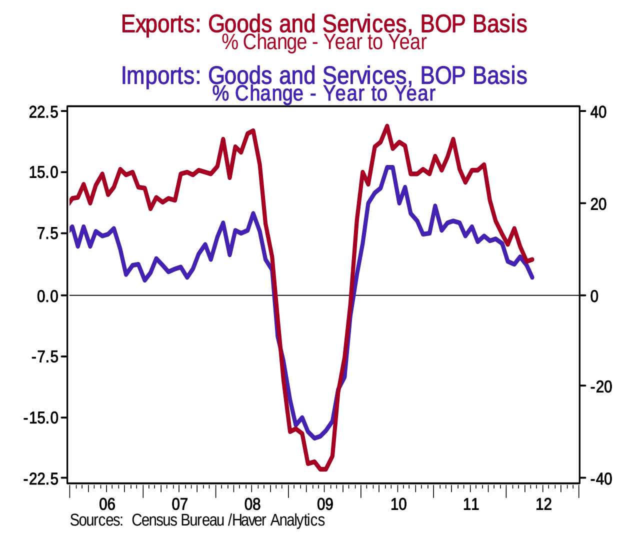
- The trade deficit in goods and services came in at $48.7 billion in May, almost exactly as the consensus expected.
- Exports increased $0.4 billion in May, while imports declined $1.6 billion. The gain in exports was led by soybeans while the fall in imports was led by oil.
- In the last year, exports are up 4.2% while imports are up 3.8%.
- The monthly trade deficit is $1.0 billion larger than a year ago. Adjusted for inflation, the trade deficit in goods is $0.3 billion larger than last year. This is the trade measure that is most important for measuring real GDP.





Implications: The trade deficit shrunk in May, a result of a small increase in exports and an oil-led decline in imports. Exports are at the second highest level on record and do not yet 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 4% in the past year while exports of goods to China are up 13.5%. 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 about 20%. 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, Airbus is moving business to Alabama, and companies that had previously placed operations abroad are now moving 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.

International Trade *All Data Seasonally Adjusted, $billions*	May-12 Bil $	Apr-12 Bil $	Mar-12 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-48.7**	-50.6	-52.6	-50.6	-50.3	-47.7
Exports	**183.1**	182.7	184.4	183.4	181.1	175.7
Imports	**231.8**	233.3	237.1	234.1	231.4	223.3
Petroleum Imports	**35.3**	38.6	39.0	37.6	37.7	39.2
Real Goods Trade Balance	**-48.0**	-48.7	-49.5	-48.7	-48.0	-47.7

Source: Bureau of the Census