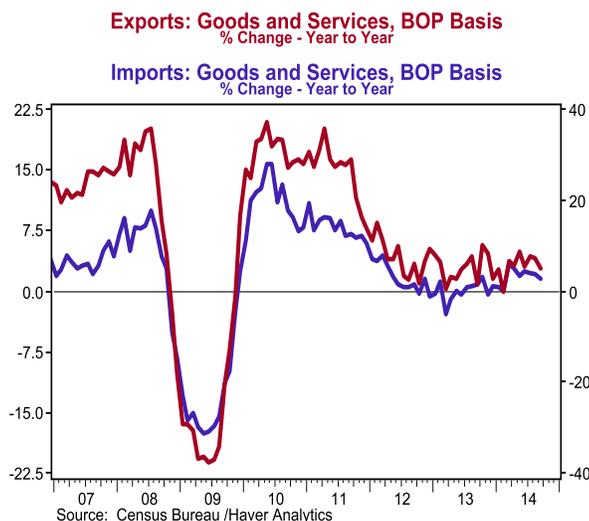
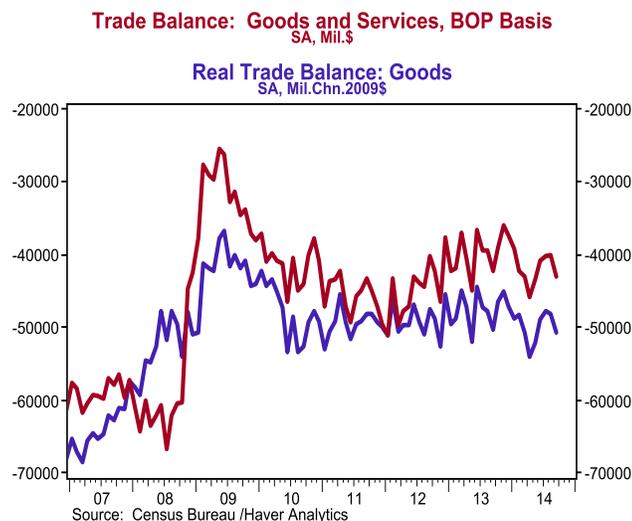


## September International Trade

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- The trade deficit in goods and services came in at \$43.0 billion in September, larger than the consensus expected \$40.2 billion.
- Exports declined \$3.0 billion in September, led by petroleum products and fuel oil. Imports increased \$0.1 billion, with a large increase in cellphones & other household goods offsetting declines in civilian aircraft, nonmonetary gold, and oil.
- In the last year, exports are up 2.8% while imports are up 2.6%.
- The monthly trade deficit is \$0.7 billion larger than a year ago. Adjusted for inflation, the “real” trade deficit in goods is \$0.4 billion larger than a year ago. This “real” change is the trade indicator most important for measuring real GDP.

**Implications:** The trade deficit came in much larger than expected in September as exports declined by \$3 billion and imports were roughly unchanged. The decline in exports reflects monthly volatility, not the start of some new downward trend. Meanwhile, on the import side, the key trend of the past several years remains intact: non-petroleum imports hit a new record high, reflecting solid growth in US purchasing power, while petroleum imports kept falling. Higher energy production, due to hydraulic fracturing, horizontal drilling, and seismic imaging, is transforming our trade relationship with the rest of the world. Nine years ago, back in September 2005, the US imported 14 times as much petroleum product as it exported. Since then, petroleum product exports are up 647% while imports are up only 10%. So now, petroleum product imports are only 2.1 times exports. This remarkable transformation was not because of government support or QE, it was due to American innovation and entrepreneurship. Now policymakers are helping this trend, with the government giving two companies permission to ship condensate to foreign buyers. Given the huge glut of oil in Texas, we expect more moves to allow exports regardless of the outcome of today’s elections and for the US to move to a petroleum trade balance and perhaps even surpluses in the next few years. In the meantime, as a result of today’s numbers, it looks like net exports added only about 0.4 percentage points to real GDP growth in Q3, much lower than the original estimate of 1.3 percentage points. Some of this may be offset by better inventories, but suggests real GDP grew at a 2.5% to 3% annual rate in Q3, not the 3.5% pace the government reported a week ago. In other recent news, automakers reported car and light truck sales at a 16.5 million annual rate in October, an increase of 0.2% versus September and 7% better than a year ago. So far, it looks like real PCE – consumer spending on goods and services, adjusted for inflation – is growing at a 2% annual rate in Q4, slightly faster than in Q3.



| International Trade                             | Sep-14        | Aug-14        | Jul-14        | 3-Mo               | 6-Mo               | Year-Ago     |
|---|---------------|---------------|---------------|--------------------|--------------------|--------------|
| <i>All Data Seasonally Adjusted, \$billions</i> | <i>Bil \$</i> | <i>Bil \$</i> | <i>Bil \$</i> | <i>Moving Avg.</i> | <i>Moving Avg.</i> | <i>Level</i> |
| <b>Trade Balance</b>                            | <b>-43.0</b>  | <b>-40.0</b>  | <b>-40.3</b>  | <b>-41.1</b>       | <b>-42.3</b>       | <b>-42.3</b> |
| <b>Exports</b>                                  | <b>195.6</b>  | <b>198.6</b>  | <b>198.0</b>  | <b>197.4</b>       | <b>196.4</b>       | <b>190.2</b> |
| <b>Imports</b>                                  | <b>238.6</b>  | <b>238.6</b>  | <b>238.3</b>  | <b>238.5</b>       | <b>238.7</b>       | <b>232.5</b> |
| <b>Petroleum Imports</b>                        | <b>26.4</b>   | <b>27.3</b>   | <b>28.3</b>   | <b>27.3</b>        | <b>27.9</b>        | <b>31.4</b>  |
| <b>Real Goods Trade Balance</b>                 | <b>-50.8</b>  | <b>-48.2</b>  | <b>-47.7</b>  | <b>-48.9</b>       | <b>-50.3</b>       | <b>-50.4</b> |

Source: Bureau of the Census