

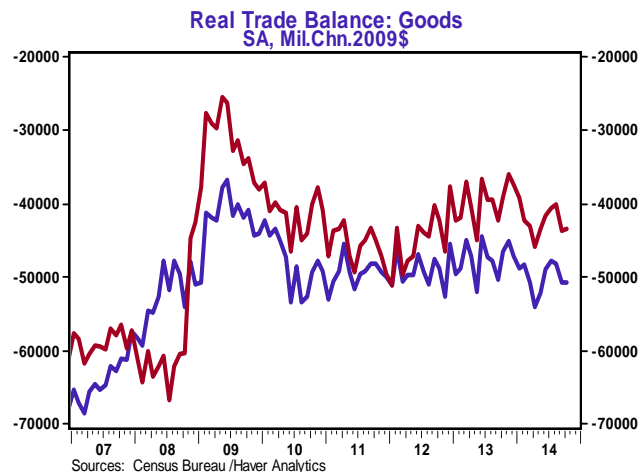
October International Trade

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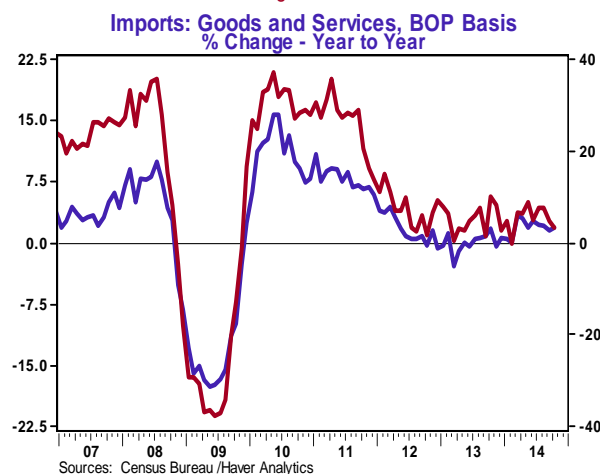
- The trade deficit in goods and services came in at \$43.4 billion in October, larger than the consensus expected \$41.2 billion.
- Exports rose \$2.3 billion in October, led by civilian aircraft and nonmonetary gold. Imports increased \$2.1 billion, led by autos and computers.
- In the last year, exports are up 1.8% while imports are up 3.4%.
- The monthly trade deficit is \$4.3 billion larger than a year ago. Adjusted for inflation, the “real” trade deficit in goods is also \$4.3 billion larger than a year ago. This “real” change is the trade indicator most important for measuring real GDP.

Implications: The trade deficit declined slightly in October as exports rose a bit faster than imports. But they both rose, which means the total volume of US trade with rest of the world (exports + imports) hit a new all-time record high. 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 October 2005, the US imported 16 times as much petroleum product as it exported. Since then, petroleum product exports are up 577% while imports are up only 3%. So now, petroleum product imports are only 2.4 times exports. This remarkable transformation was not because of government support, extended unemployment benefits, 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 and appearing to look the other way as others start to ship crude. The US is moving toward 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 overall net exports will be a mild drag on real GDP growth in Q4, but we still expect an overall growth rate of roughly 2.5%. In other recent news, new claims for unemployment insurance fell 17,000 last week to 297,000. Continuing claims for regular state benefits increased 39,000 to 2.36 million. Looks like we’re set up for another month of solid job growth in December.

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



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



International Trade	Oct-14	Sep-14	Aug-14	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-43.4	-43.6	-40.0	-42.4	-42.2	-39.1
Exports	197.5	195.2	198.7	197.2	197.0	194.0
Imports	241.0	238.8	238.8	239.5	239.1	233.1
Petroleum Imports	26.2	26.4	27.3	26.6	27.3	31.3
Real Goods Trade Balance	-50.8	-50.9	-48.2	-50.0	-49.8	-46.5

Source: Bureau of the Census