

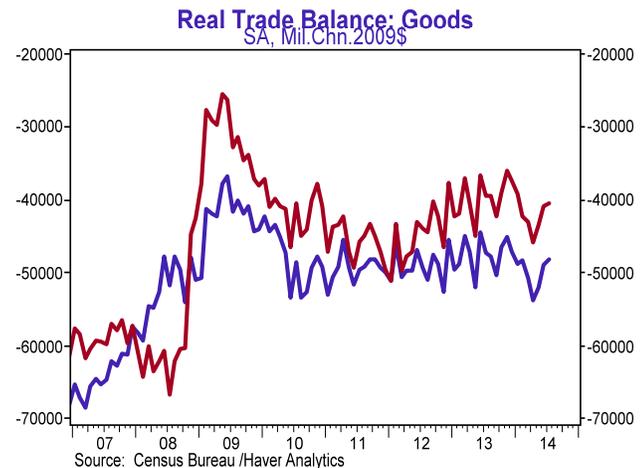
July International Trade

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

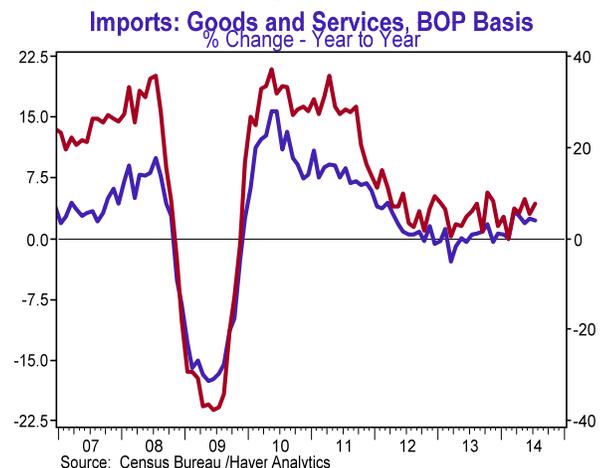
- The trade deficit in goods and services came in at \$40.5 billion in July, smaller than the consensus expected \$42.4 billion.
- Exports increased by \$1.8 billion in July, led by autos and petroleum products. Imports increased \$1.5 billion, led by autos and crude oil.
- In the last year, exports are up 4.3% while imports are up 4.0%.
- The monthly trade deficit is \$1.1 billion larger than a year ago. Adjusted for inflation, the “real” trade deficit in goods is \$0.8 billion larger than a year ago. This “real” change is the trade indicator most important for measuring real GDP.

Implications: The US trade deficit came in at \$40.5 billion in July, \$0.3 billion smaller than last month, as exports increased faster than imports. The trade deficit was smaller than the consensus expected and suggested net exports should add noticeably to economic growth in the third quarter. The best news from today’s report was that the total volume of trade – imports plus exports – hit a new all-time record high, underscoring continued improvement in the US economy. Over the next few years, higher energy production in the US will continue to transform our trade relationship with the rest of the world. Eight years ago, back in July 2006, the US imported 11 times as much petroleum product as it exported. Since then, petroleum product exports are up 272% while imports are up only 3.2%. So now, petroleum product imports are only 2.4 times exports. Finally, policymakers are helping this trend, with the Commerce Department giving two companies permission to ship a type of ultralight oil known as condensate to foreign buyers. Given the huge glut of oil in the Permian Basin in Texas, we expect more moves to allow exports over the next couple of years. As a result of both the pre-existing trends and new policy direction, we expect the US to move to a petroleum trade balance and perhaps even surpluses in the next few years. In other news this morning, the ADP employment index showed an increase of 204,000 private-sector payrolls in August. Meanwhile, initial jobless claims increased 4,000 last week to 302,000 and continuing claims dropped 64,000 to 2.46 million. As a result, our final call on tomorrow’s official Labor report is a nonfarm gain of 190,000, a private-sector gain of 175,000, and an unemployment rate of 6.1%. Don’t worry if August payroll gains come in below consensus expectations, which are 230,000 nonfarm, 215,000 private. If we’re right, August payrolls should be revised up substantially in later months.

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



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



International Trade	Jul-14	Jun-14	May-14	3-Mo	6-Mo	Year-Ago
<i>All Data Seasonally Adjusted, \$billions</i>	Bil \$	Bil \$	Bil \$	Moving Avg.	Moving Avg.	Level
Trade Balance	-40.5	-40.8	-43.5	-41.6	-42.7	-39.4
Exports	198.0	196.2	196.2	196.8	194.3	189.9
Imports	238.6	237.0	239.6	238.4	237.0	229.3
Petroleum Imports	28.3	27.4	28.3	28.0	29.2	31.1
Real Goods Trade Balance	-48.2	-48.9	-52.0	-49.7	-50.3	-47.4

Source: Bureau of the Census