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August International Trade

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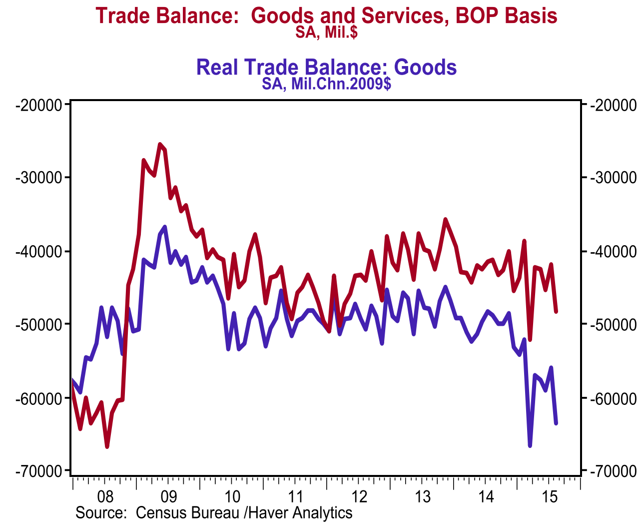
- The trade deficit in goods and services came in at $48.3 billion in August, slightly larger than the consensus expected $48.0 billion.
- Exports declined by $3.7 billion in August, led by fuel oil and autos. Imports increased by $2.8 billion, led by cell phones & other household goods.
- In the last year, exports are down 6.2% while imports are down 2.2%.
- The monthly trade deficit is $7.0 billion larger than a year ago. Adjusted for inflation, the "real" trade deficit in goods is $14.6 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.



Implications: The trade deficit in goods and services grew 15.6% in August, as exports declined while imports increased. In recent months, exports have been running below year-ago levels, as other areas of the world continue to struggle. Slower growth abroad, along with a stronger dollar have slowed exports. For instance, exports to the Euro Area are down 10.7% from a year ago. Exports to Africa are down 36.7% while exports to South & Central America are down 20.0%. This will not last forever, but may continue to be a factor over the coming year. Meanwhile, although imports are slightly below the year-ago level, they rose in August, led by the cell phones & other household goods. This jump was probably due to the launch of the iPhone 6S and 6S+. Meanwhile, today's data underscore why OPEC continues to become less relevant. Back in 2005 US petroleum and petroleum product imports were eleven times exports. In August, these imports were only two times exports. The US trade deficit with OPEC over the past year is now the smallest it's been since at least 1986, and through August the US is running a surplus with OPEC in 2015! This has a destabilizing impact on the Middle East, which compounds the problems of a vacuum in leadership. The US is headed toward energy independence thanks to fracking and horizontal drilling. In fact, despite lower oil prices over the past year and some recent dips in drilling activity, US domestic oil production is still expected to average 9.3 million barrels per day in 2015, a 600,000 barrel per day increase from 2014. Entrepreneurs and engineers, through the use of new technologies, have changed the way the world works and there's more to come. Trade now looks like it will very likely be a drag on real GDP in Q3, but we still expect overall real GDP growth of around 2% in the third quarter as some of the increase in imports leads to better inventories than we previously expected.

International Trade *All Data Seasonally Adjusted, $billions*	Aug-15 Bil $	Jul-15 Bil $	Jun-15 Bil $	3-Mo Moving Avg.	6-Mo Moving Avg.	Year-Ago Level
Trade Balance	**-48.3**	-41.8	-45.2	-45.1	-45.4	-41.3
Exports	**185.1**	188.8	187.7	187.2	187.6	197.3
Imports	**233.4**	230.6	232.9	232.3	232.9	238.6
Petroleum Imports	**15.1**	17.1	16.7	16.3	15.8	27.3
Real Goods Trade Balance	**-63.4**	-56.1	-59.0	-59.5	-59.9	-48.8

Source: Bureau of the Census