



Economics Group

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Price Effects Help to Keep Trade Deficit Unchanged in July

The moon shot in agricultural prices overstated exports, while the decline in oil prices helped to depress imports. In real terms, the trade deficit widened significantly during the month.

Nominal Trade Deficit in July Unchanged from June

The trade deficit in July, which edged up to \$42.0 billion from a downwardly revised \$41.9 billion in June, was not as large as the consensus forecast had anticipated. Not only did exports of goods and services decline by \$1.9 billion during the month, but imports also fell by \$1.8 billion. However, some of the underlying details raise some cause for concern.

Value of Total Exports Boosted by Agricultural Prices

On the export side of the ledger, exports of food, feed and beverages rose by \$1.8 billion, the largest increase in this broad category on record, as exports of soybeans skyrocketed 90 percent. Like many agricultural goods, the price of soybeans has risen to an all-time high this year due to the devastating drought in the Midwest. Moreover, the \$113 million increase in the value of capital goods exports was overstated by the \$1.4 billion jump in aircraft exports, which can be volatile on a monthly basis. Excluding food and aircraft, there was broad-based weakness in exports. Indeed, exports of autos and parts were down \$627 million, and exports of consumer goods fell by \$431 million. In real terms, exports of goods dropped by \$2.4 billion in July, which likely reflects the effects of slow economic growth in many of the country's major trading partners.

Oil Prices Helped to Depress Imports

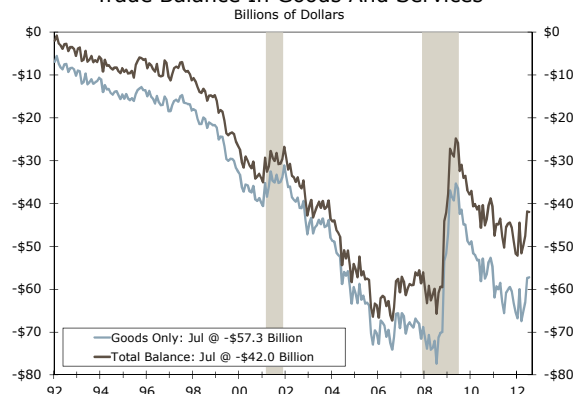
A similar price effect occurred on the import side of the ledger. That is, the value of petroleum imports fell by \$2.1 billion in July. Because the volume of petroleum imports remained essentially unchanged during the month, the decline in the value of petroleum imports was due entirely to the drop in oil prices that occurred earlier this year. However, with oil prices trending higher since July, the downward trend in the value of petroleum imports that has been in place since spring should soon come to an end.

The value of non-oil imports was essentially unchanged in July. Although imports of capital goods fell by \$553 million, imports of consumer goods rose by \$432 million. Auto imports also increased during the month. In real terms, total imports in July edged up \$152 million relative to the previous month.

Trade May Weigh on Growth in Q3

In real terms, the trade deficit in goods widened by \$2.6 billion in July. If the real trade deficit in August and September remain unchanged, then net exports would impart a very mild boost to overall GDP growth in Q3. However, with growth in some of the country's major trading partners looking increasingly fragile, further declines in exports volume over the next few months seem more likely than a sharp rebound. Therefore, it seems likely that net exports could exert some headwind on real GDP growth in the third quarter.

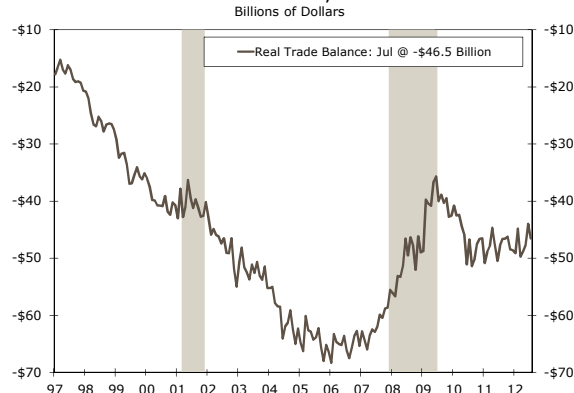
Trade Balance In Goods And Services



Exports of Food, Feeds, and Beverages



Trade Balance In Goods, Constant Dollar



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