

Economics Group

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September Trade Deficit Narrows As Exports Outpace Imports

The trade deficit narrowed in September as exports outweighed imports. Export growth was led by gold and consumer goods, while import growth was tame due to a drop in oil imports.

Gold Drives Export Growth Amid Global Financial Turmoil

The trade deficit narrowed to -\$43.1 billion in September from -\$44.9 billion in August as exports rose 1.4 percent on the month and imports rose just 0.3 percent. Over half of the \$2.6 billion increase in exports came from a \$1.6 billion increase in exports of nonmonetary gold. Gold prices plunged from a peak of around \$1,900/oz. in early September to just over \$1,600/oz. by the end of the month as investors sold risky assets in favor of safer U.S. Treasuries. Thus, the surge in gold exports likely reflected foreign holdings leaving the country as foreigners sold gold. Consumer goods exports were also strong, rising \$777 million. The fact that gems, jewelry and artwork led the increase while apparel and household goods were little changed might suggest that demand from upper-income consumers was carrying most of the weight. Pharmaceuticals exports were also strong, but these exports tend to be quite volatile. Automotive exports rose slightly by \$190 million. Capital goods exports rose a modest \$130 million, led by drilling equipment and industrial engines. This suggests that the deteriorating global economic outlook dampened global capital investment.

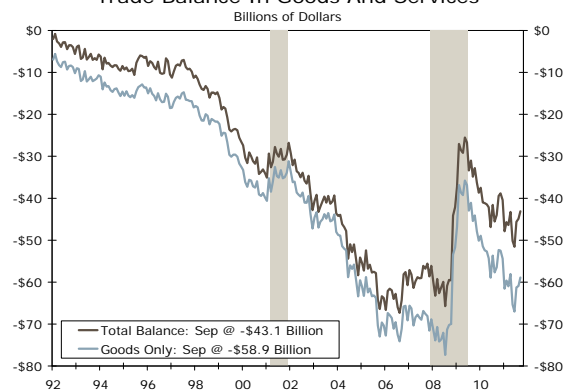
Import Growth Weak as Capital and Consumer Goods Decline

Imports rose just \$578 million in September. The increase was led by nuclear fuel materials, nonmonetary gold and copper. The strong increase in gold imports is reflective of the frantic trading in the yellow metal that occurred during the month, and could reflect foreigners in the U.S. selling their gold held abroad and then bringing it back into the U.S. for delivery. The other notable point within the industrial supplies category was a \$123 million decline in crude oil imports as both volume and prices declined during the month. However, compared to a year ago, prices were up nearly 40 percent while volume was down 4.3 percent, showing that higher prices has dampened demand for oil. Capital goods imports dropped \$432 million, led by computers, generators, telecom equipment and computer accessories. Again, this suggests that domestic companies pulled back on capital investment due to global uncertainty just as global companies did. Declines in pharmaceuticals and toys led a \$204 million drop in consumer goods. This was offset by strength in apparel and household goods imports.

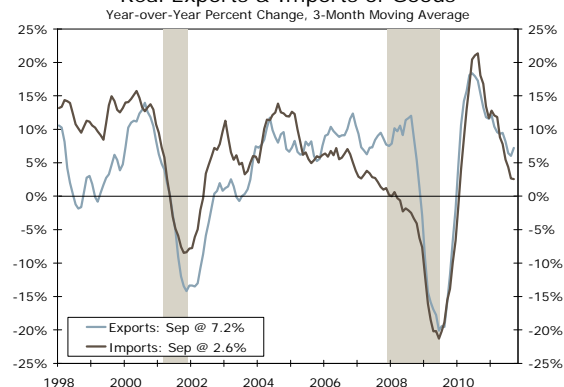
Third-Quarter GDP Will Likely Be Revised Higher

The September trade deficit was smaller than the government initially projected when reporting the first estimate of third-quarter GDP. By our estimates, trade should add about half a percentage point to the first estimate, which will largely offset the downward revision that will come from wholesale inventories. But looking ahead, the financial and political turmoil in Europe shows few signs of abating. The resulting decline in consumer and business confidence will likely constrain exports in the near term. However, this will likely be offset by similar weakness in imports.

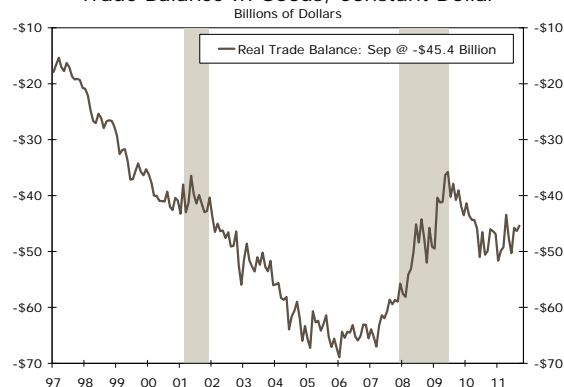
Trade Balance In Goods And Services



Real Exports & Imports of Goods



Trade Balance In Goods, Constant Dollar



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