

September 11, 2008



UNITED STATES

Oil brings on a deterioration by the trade balance

HIGHLIGHTS

- The balance of trade in goods and services deteriorated in July, going from -US\$58.8B in June (revised from -US\$56.8B) to -US\$62.2B.
- Exports rose 3.3% in July, with all of the main categories except food posting growth.
- Imports advanced by 3.9%. The increase is almost exclusively from growth in oil imports.
- The trade balance also deteriorated when price fluctuations are excluded. The real trade deficit went from -US\$40.1B to -US\$41.2B.

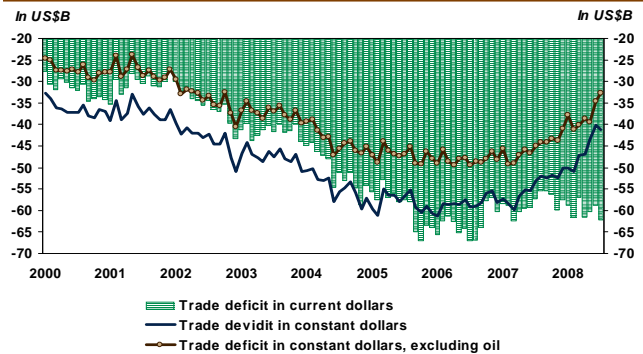
COMMENTS

For the first time since April, the U.S. trade deficit has deteriorated, posting the biggest deficit since March 2007. The deterioration mainly comes from a rebound by oil imports. According to seasonally adjusted figures, imports had fallen substantially last spring, when prices for this commodity were skyrocketing. July shows a monthly increase of 8% in the volume of oil imports. The impact of the increase was somewhat softened by the first monthly drop in oil import prices since February. The drop in prices has, of course, picked up since then and should lead to a sharp reduction in the current dollar trade deficit in August.

With oil trade movements excluded, trade is clearly favourable to American growth. Real exports are up 2.5% while imports remained fairly stable, showing a slight advance of 0.3%. July's statistics are thus better than they seem at first glance. Exports associated with aerospace, IT and motor vehicles (delayed result of the end of a strike) are doing well. In terms of imports, we are primarily seeing a sizeable drop in pharmaceutical goods and a slight decline in motor vehicle imports.

Note that foreign trade made a substantial positive contribution (3.1 percentage points) to the real GDP's 3.3% growth in Q2. Despite last month's surge, the American dollar is still weak enough against the other major currencies to keep supporting this trend. Fairly sharp deceleration by economies

The trade balance deteriorated in July, except if the oil effect is excluded



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

abroad is, however, limiting the potential for a speedy improvement in the trade balance. Although net real exports for July are beating the average for the second quarter, it would be a real surprise for the gain to be this large for the whole of the third quarter.

Implications: The trade balance's deterioration in July primarily reflects a return to normal by oil imports. Trade not associated with this sector is still tilted in the United States' favour. The trade balance will continue to play a positive role in economic growth.

Francis Généreux
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

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