

DAILY GLOBAL
COMMENTARY

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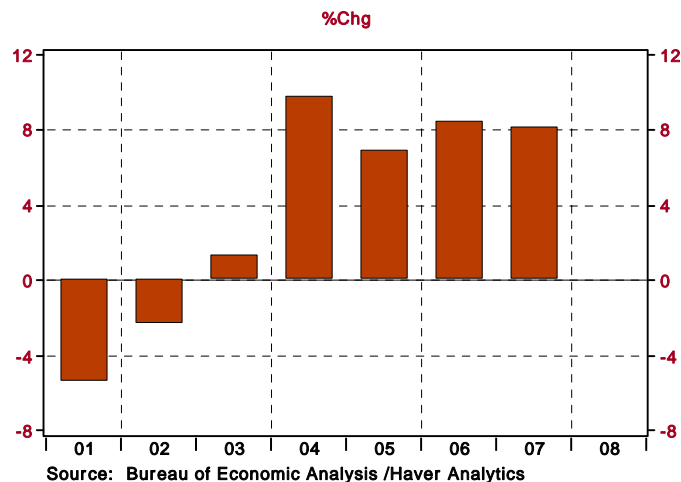
Incoming Data Present Discouraging Outlook for U.S. Exports

July 3, 2008

For four consecutive years exports of the U.S. have accounted for a significant part of GDP growth (see chart 1). Embedded in forecasts of U.S. economic growth in 2008 and 2009 is an expectation that exports will continue to make a substantial contribution and be a partial offset to weakness elsewhere in the U.S. economy.

Chart 1

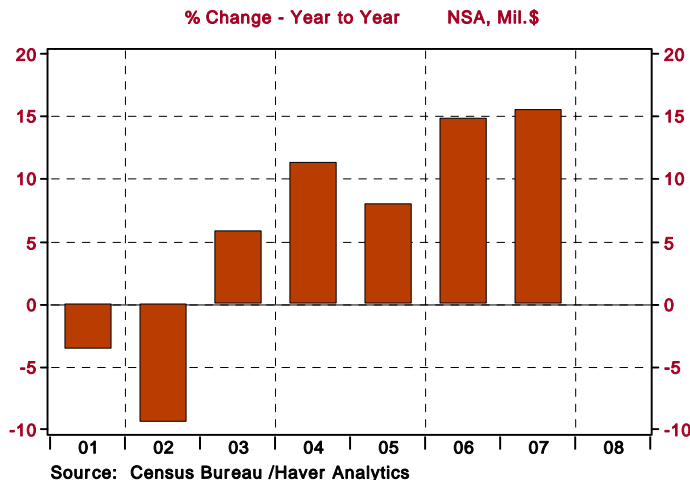
Real Exports of Goods & Services



Exports of the U.S. to the EU 25 grew at an average pace of 15% in 2006 and 2007 (see chart 2). Exports to the EU 25 have been close to 21% of total exports of goods of the U.S. economy in 2006 and 2007. Germany and the U.K. are placed as two of the top three economies of the EU. France and Italy will publish industrial production reports later in the week.

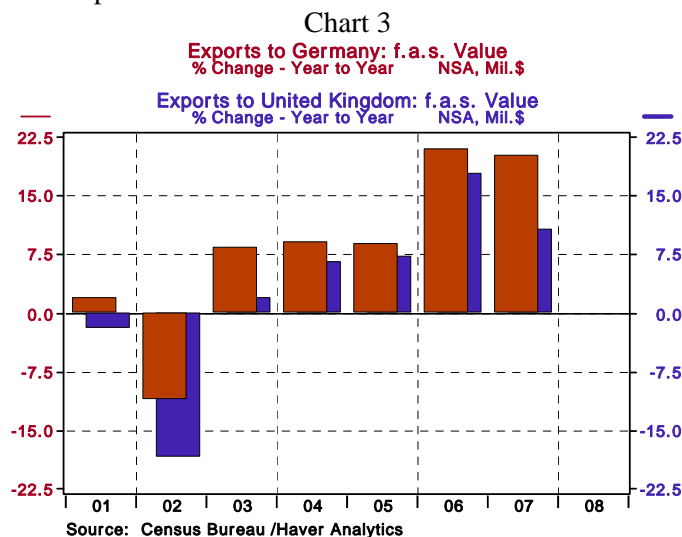
Chart 2

Exports to European Union (EU 25): f.a.s. Value

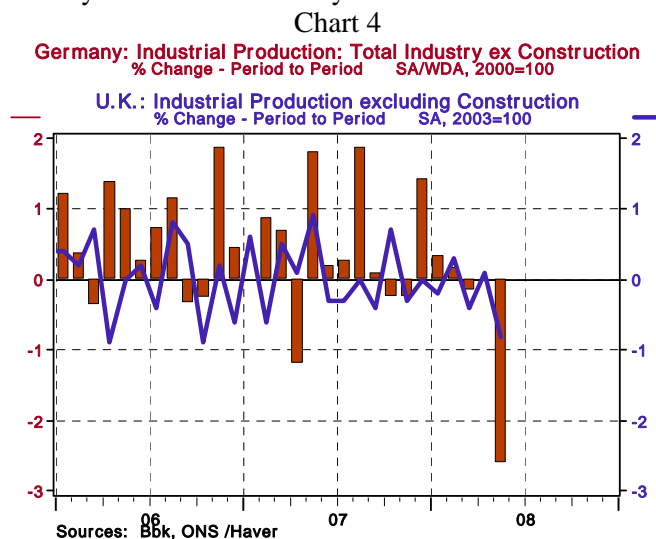


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Exports to Germany and the U.K. from the U.S. showed sharp gains in 2006, followed by a deceleration of the growth in exports to the U.K in 2007 (see chart 3). Latest industrial production reports of May for U.K and Germany suggest that growth of these economies could post a setback that should in turn affect exports of the U.S.



Industrial production in Germany plunged 2.4% in May, inclusive of a 2.6% decline when construction is excluded (see chart 4). The weakness was concentrated in manufacturing output, which declined 2.6%, after smaller contractions in March and April. It is widely expected that GDP of Germany will fall in the second quarter after a 1.5% increase in the first quarter. The news from the U.K. was also grim, with industrial production excluding construction declining 0.8% in May. In light of the weakness in factory production, headline GDP growth for the U.K is also expected to show a minus sign for the second quarter. These reports suggest that forecasts of exports of the U.S. economy in the near term may have to be revised.



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