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Trade Balance

The July trade deficit narrows by a more-than-expected $6.8 billion (Consensus: narrow $2.1 billion; Decision Economics: narrow $1.3 billion), to $44.8 billion. Action was centered in exports (+3.6%), with imports holding steady (-0.2%).

The services surplus was all but unchanged, improving by $0.3 billion, and the big improvement in goods trade had a solid contribution from non-petroleum exports (up about 4.0%), with a big contribution from a broad increase in capital goods (+5.5%) only minimally accounted for by the volatile aircraft category.

That export gain probably exceeds the expectations reflected in standing Q3 GDP forecasts. Odds are, the import performance was also less damaging than assumed, with this report showing a significant drop in physical petroleum imports (-4.4% in terms of barrels) and non-petroleum imports up only 1.3%.

The effect of those surprises should be to lift GDP estimates a moderate notch, subject to the business-inventory indication that will arrive next Wednesday--where a big downside surprise could still weaken the growth total.

But, even an upside surprise in GDP of the now-likely magnitude would probably not change minds on the FOMC. There is good news in the fact that foreign-growth-led export demand was rising as late as July--hinting that emerging-market growth is not fragile--but the issue is the future, and even the strength now evident did not have a very conspicuous effect on manufacturing activity.

Fed ultra-doves will still push for more stimulus, hawks will dig in their heels, and the middle-ground group who will drive the decision will probably remain content to wait to see the effects of what has been done already. But, that decisive group is probably very responsive to Chairman Bernanke's opinion--making his thinking critical. Odds are, there will be no clear tipping of his hand today--so body language will be important.

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