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Trade deficit (5/09) unexpectedly narrows as exports grow and imports decline



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The U.S. trade deficit narrowed unexpectedly in May as exports increased and imports continued to decline. Revisions to the data show that the trade balance for April was modestly narrower than first reported. Today's report suggests that net exports for the second quarter of 2009 are likely to be less negative than either consensus forecasts or our IIM forecast had assumed, and thus that second quarter GDP could actually be flat instead of negative. Nevertheless, the timing of global economic stabilization still implies that the U.S. trade deficit should widen in coming quarters as domestic demand recovers in this country sooner than elsewhere.

- Net exports for May were -\$26.0 billion, following a revised April figure of -\$28.8 billion (first reported as -\$29.2 billion). Consensus forecasts had called for the deficit to widen to -\$30.0 billion, with individual forecasts ranging from -\$25.5 to -\$34.0 billion. Exports rose 2.6%, only the second monthly increase seen since trade began contracting seriously in the third quarter of last year. Imports fell 0.6%, with oil imports declining on a seasonally adjusted basis and non-oil imports up slightly.
- All major categories of goods imports increased in May vs. April except for automobiles and parts, which were penalized by the production shutdowns. Agricultural exports rose 3%, industrial raw materials rose 10%, consumer goods rose 2% and non-automotive capital goods rose 0.4%. Service exports fell 0.4% with declines in tourism and in royalties and license fees. Imports were mixed, with raw materials falling on the decline in oil imports, automobile imports declining 2.3%, other consumer goods imports little changed and capital goods imports up just under 1%. Year to date, goods exports are down 23% but imports have declined even more, -32%. The total trade deficit has narrowed by 52% this year vs. the first five months of 2008.

Source: U.S. Census Bureau

In our view, the bulk of the narrowing of the U.S. trade deficit this year reflects cyclical influences, particularly the decline in imports since the third quarter of 2008, which results from contracting consumer demand for imports and from the decline in oil prices. We continue to expect that the U.S. domestic economy will recover earlier than those of most other countries, with the exception of China. Although the long-term trend in the trade deficit remains toward narrowing, the trade deficit should widen over the next 18 months as consumption spending revives in the United States first. Nevertheless, today's report, particularly the growth in U.S. exports, is a clear surprise relative to expectations and entails a material upward revision to trade and GDP forecasts for the second quarter. ■

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