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Economics Group

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Current Account Deficit Widened Further in the First Quarter

The current account deficit widened in the first quarter and was larger than expected. While the trade deficit grew, the bulk of the widening in the current account deficit was due to a decline in the income surplus.

Decline in Income Surplus Drives Widening in Deficit

The current account deficit widened in the fourth quarter to $137.3 billion from $118.7 billion in the fourth quarter, which was smaller than previously reported. The majority of the increase in the deficit was due to a decline in the income surplus, which narrowed from $59.9 billion to $47.6 billion, as income receipts fell by $4.4 billion while income payments increased by $7.9 billion. The decline in income receipts was driven by a drop in receipts on U.S. direct investment abroad. Income payments increased as payments on foreign direct investment in the United States rose. The decline in the income surplus accounted for two thirds of the increase in the current account deficit.

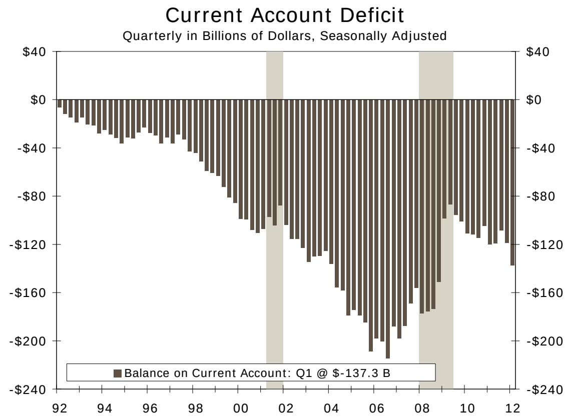
Most of the rest of the increase was due to a larger trade deficit, which rose from $146.3 billion in the fourth quarter to $151.0 billion in the first quarter. Although exports rose by $9.7 billion, imports rose by $14.4 billion as warm weather and strong job growth in the first quarter supported U.S. demand for foreign goods. The rest of the widening in the current account deficit came from increased unilateral current transfers, primarily from an increase in private remittances, which were the highest in a year. This also could be the result of a stronger job market, giving more income to immigrants who then sent some of their earnings home to their relatives.

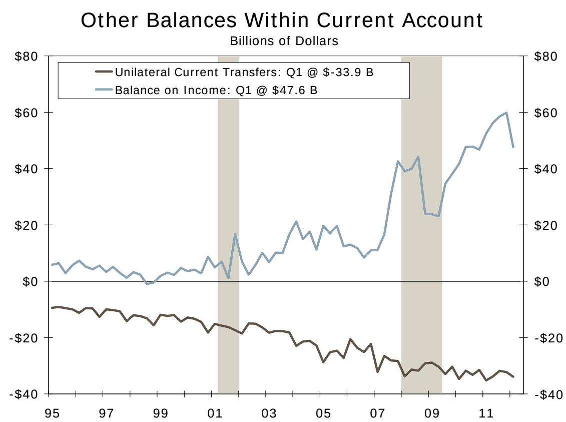
Net Financial Flows Jump on Bank Claims

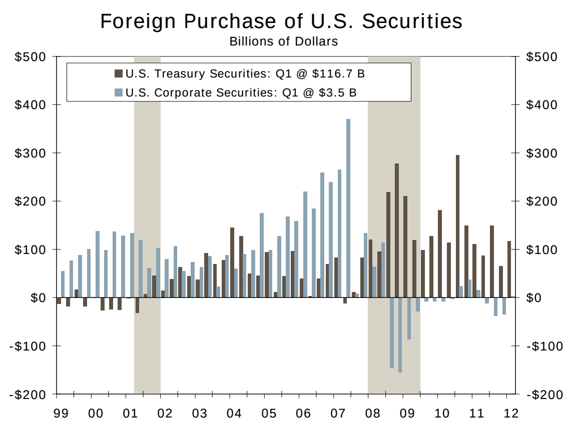
Net financial flows jumped from $63.4 billion to $156.7 billion, as reported in the capital account. The main driver was a huge $220.3 billion decline in U.S. claims on foreign liabilities reported by U.S. banks and securities brokers. Most of the decline was due to a drop in U.S. banks' deposits at foreign banks, while the rest was driven by foreigners paying down their loans from U.S. banks. U.S. direct investment abroad was largely unchanged. Meanwhile, foreign investment in the United States slowed during the quarter, driven primarily by a decline in U.S. liabilities reported by U.S. banks and securities brokers, as foreigners repatriated deposits and U.S. banks paid down loans to foreign banks. In addition, foreign direct investment slowed while foreigners purchased fewer Treasury securities. Meanwhile, foreign official assets rose by $67.6 billion, fueled by a $82.8 billion jump in Treasury securities holdings.

Revisions Show Current Account Deficit Smaller Than Thought

The current account deficit was shown to be smaller than thought in 2010, due primarily to higher exports and income receipts, and slightly smaller in 2011. Meanwhile, net financial flows were revised nearly 50 percent higher, driven primarily by upward revisions in Treasury securities holdings. Thus, investment in the United States was even more robust than previously thought despite all the concerns over our budget deficit and debt.







Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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