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Economics Group

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Trade Deficit Narrows as Oil Imports Plunge

The trade deficit narrowed in May as a slight increase in exports was overshadowed by a drop in imports, which was driven by a plunge in oil imports. Services accounted for the bulk of the rise in exports.

Small Increase in Exports Driven by Services

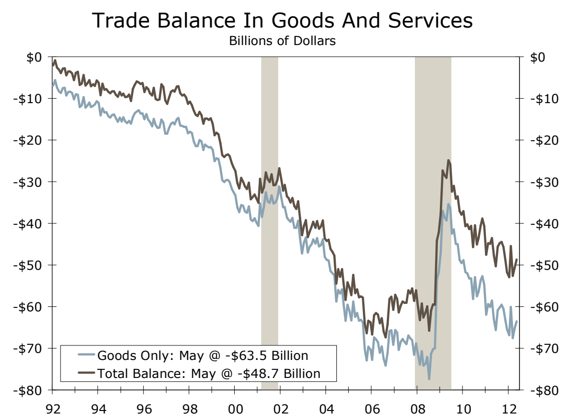
The trade deficit narrowed to -$48.7 billion in May from -$50.6 billion in April, which was slightly larger than previously estimated. Exports rose by $359 million, or 0.2 percent, but the increase was primarily in services, as goods exports were basically flat on the month. Goods exports were led by a $900 million increase in foods, feeds and beverages, with the lion's share coming from an $861 million increase in exports of soybeans. Although soybean prices fell in May, they had risen significantly the previous five months, leading to higher export values. Soybeans also saw the biggest increase in food exports in April. Capital goods exports rose by $673 million, as demand increased for telecommunications equipment, generators, industrial machines and agricultural machinery. This helped to offset a drop in exports of computers and industrial engines. Industrial supplies exports fell by $843 million, as big declines in exports of gold and petroleum products overshadowed higher demand for organic chemicals and fuel oil. Consumer goods exports also declined as the volatile pharmaceuticals component fell, while demand waned for cell phones and household appliances. Auto exports saw a modest decline of $105 million as well. The bulk of the increase in exports in May came from services, which rose by $339 million. Other private services led the increase, while passenger fares and royalties and license fees also rose.

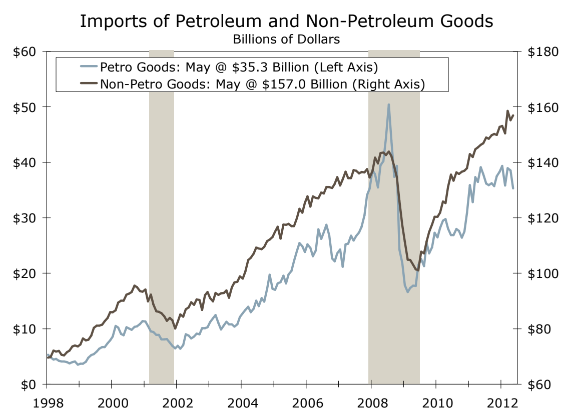
Imports Fall on Plunge in Oil Imports

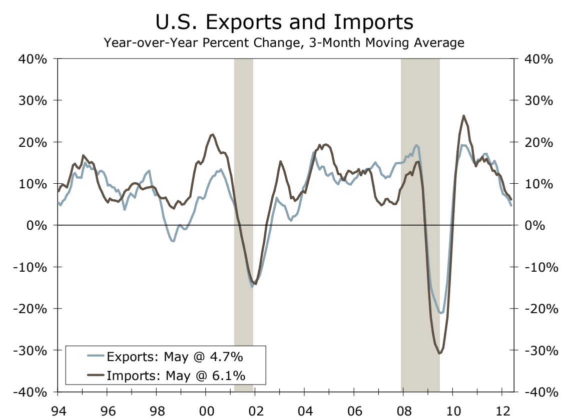
Imports fell by $1.6 billion, or 0.7 percent, in May. The biggest decline came from industrial supplies, driven primarily by a $2.8 billion plunge in imports of crude oil. Due to the slowing economy, volumes and prices were down from a year ago. Despite the relief from falling oil and gas prices, consumer imports fell for the second month in a row as job growth slowed. U.S. consumers bought fewer cell phones and other household goods, while plummeting cotton prices likely played a part in the decline in apparel imports. Meanwhile, Americans bought $745 million more in autos and parts. Capital goods imports also rose, as demand increased for computers, generators, telecommunications equipment and semiconductors.

Slow Global Growth Should Lead to Slightly Wider Trade Deficit

We expect that the real trade deficit is likely to widen a bit in the months ahead as import growth outstrips export growth. Import growth likely will remain slow due to continued sluggish growth in domestic demand. However, with many of our trading partners experiencing anemic growth—the Eurozone is in a modest recession at present—export growth will likely weaken. That said, we expect that real net exports will only make a modest drag to overall U.S. GDP growth. In nominal terms, the trade deficit could narrow somewhat due to continued low prices of petroleum.







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

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