The Journal
10/17/09

U.S. trade deficit narrows unexpectedly to $30.7B

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ASSOCIATED PRESS

WASHINGTON — The U.S. trade deficit unexpectedly narrowed in August as exports posted a small gain, while imports fell on a big drop in demand for foreign oil.

The fourth straight rise in exports was an encouraging sign that the global economy has started to recover from a severe recession that began in the United States and quickly spread to other parts of the world. But many economists expect the deficit to rise in coming months on the back of a rebounding U.S. economy, which will start importing more foreign products.

The Commerce Department said Friday that the trade deficit declined 3.5 percent to $30.7 billion, surprising economists who had expected higher oil prices to push the imbalance to $33 billion. Oil prices did shoot up, but the volume of shipments dropped sharply in August.

For August, exports of goods and services edged up 0.2 percent to $28.2 billion, the highest level since December. The strength reflected higher sales of American farm products including soybeans and wheat, and increases in sales of autos and related parts, industrial engines and telecommunications equipment.

The rise in exports is being aided by a weakening dollar, which is down nearly 12 percent against a range of other currencies since the beginning of the year. The dollar is expected to remain under pressure in coming months, due partly to soaring U.S. budget deficits. A weaker dollar boosts exports by making U.S. products cheaper on foreign markets.

Through the first eight months of this year, the trade deficit is running at an annual rate of $357 billion, about half of last year's $695.9 billion imbalance. That huge decline reflects the recession that sharply dampened demand for imported goods.

Nigel Gault, an economist for IHS Global Insight, said he expected the trade deficit to widen slightly in coming months as an improving U.S. economy pushes up imports faster than exports are helped by the rebound in the global economy.

Even though trade was probably a slight drag on U.S. growth in the July-September quarter, the overall economy, as measured by the gross domestic product, probably expanded at an annual rate of 3.5 percent, he said. That would be a significant improvement after four straight quarters of contraction.

The U.S. deficit with China dipped slightly to $20.2 billion, down 0.9 percent from July. Through August, the deficit with China totals $143.7 billion, down 15.1 percent from last year's record pace. Even with the small improvement, trade tensions have been rising between the two economic powers with China denouncing a move by the Obama administration last month to impose punitive tariffs on imports of Chinese tires.

Imports dropped 0.6 percent to $158.9 billion, reflecting a 5.7 fall in petroleum imports to $21 billion. A big decrease in the volume of shipments offset a sharp rise in prices. The average price of a barrel of imported crude oil rose to $64.75, up from $62.48 in July and the highest since last November.

Economists expect imports to resume rising in coming months, along with oil prices. Oil was trading around $71 a barrel on Friday, down slightly from Thursday. Oil has bounced between $65 and $75 per barrel for months.

Not even a bullish report on demand from the International Energy Agency could support crude Friday. The Paris-based IEA, which advises oil-consuming countries, said crude demand would reach 86.1 million barrels a day in 2010, up 1.7 percent from this year. That's up from the IEA's forecast last month for oil demand of 85.7 million barrels a day in 2010.

The drop in oil imports in August offset a jump in foreign-made autos and parts, which rose 8.6 percent to $14.6 billion. Economists believe the government's Cash for Clunkers' sales incentives for buyers to trade in their old cars for more fuel efficient vehicles helped drive the increase.

Imports of autos and related parts had jumped even more in July, as plants owned by General Motors and Chrysler ramped up production. Those companies had curtailed operations in May and June as they struggled to emerge from bankruptcy protection.

Both companies, as well as foreign automakers with plants in the U.S., make use of foreign-made auto parts in their U.S. manufacturing operations.



