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Economic Flash!

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Andrew Grantham (416) 956-3219

US exporters not sheltered from Europe's troubles

Commerce Department report of U.S. international trade (balance of payments basis, seasonally adjusted, $bn)

	Nov	Oct	Jan-Nov11	Nov10	Jan-Nov10
Balance	-47.75	-43.27	-512.78	-38.84	-459.57
Exports	177.84	179.37	1,925.08	161.24	1,673.57
Imports	225.59	222.64	2,437.86	200.08	2,133.14
Goods	-63.18	-58.57	-676.28	-52.50	-591.46
Services	15.43	15.30	163.50	13.66	131.89
EXPORTS					
Goods	126.56	128.07	1,371.94	113.79	1,172.38
Services	51.28	51.30	553.14	47.45	501.19
IMPORTS					
Goods	189.74	186.64	2,048.22	166.29	1,763.84
Services	35.85	36.01	389.64	33.79	369.30

Source: Thomson Reuters

- The US trade deficit widened appreciably more than expected in November, with a shortfall of $47.8bn much weaker than a consensus forecast for $45.0bn. Much of the weakening in trade position was due to increased imports of oil and petroleum products, offsetting the move seen in the previous month. However, excluding petroleum the trade deficit still managed to widen by just over $1bn, with evidence that troubles in Europe may have affected exports over the month.

- Exports fell 0.9% to mark a second successive monthly reduction. Weakness was broad-based, with particularly sharp declines in exports of industrial supplies, aircraft and autos. The only area to significantly buck the downward trend was consumer goods, exports for which increased by 5.4% to more than offset a 3.6% decline in the previous month.

- On the import side, total imports rose by 1.3% with goods posting a 1.7% advance. However, this was flattered by imports of oil and petroleum products. Excluding these, imports increased a mere 0.1% compared with October. Imports of consumer goods and food & beverage actually fell, mirroring recent weaker trends on US consumer spending. However, imports of autos rebounded following a decline in the previous month.

- The country breakdown, although not seasonally adjusted, suggested that much of the weakening in November's trade position may have been due to weak exports to Europe. The trade deficit with Europe widened by around $2.5bn ($12.1bn from $9.7bn), accounting for almost the entire move in the overall trade deficit.

- The US November trade deficit also widened appreciably in real terms, to a five-month high $47.5bn from $44.0 in the prior month. The average for Q4 so far ($45.8) is still marginally better than the $46.0 average deficit for the third quarter. However, a narrowing in the trade deficit will need to be seen in December if net trade is going to make a positive contribution to growth over the quarter.

Implications & Actions

Re: Economic Forecast — Much of the deterioration in US trade deficit reflected higher imports, particularly of oil. With this possibly signaling a rebuilding of inventory over the quarter, the net affect on Q4 GDP is likely to be only minor. However, with exports also weakening and net trade now looking set to make little contribution to growth in either direction, Q4 GDP should certainly struggle to exceed our current forecast of 3% annualized. More concerning is the longer term impact on US industrial production from a weakening in exports, which supports our view that growth could downshift quite noticeably in the first half of 2012.

Re: Markets — Stock futures were already lower this morning on weak earnings numbers and Eurozone downgrade fears, and continued to slide following the data release. The US $ and fixed income strengthened, as the figures supported 'risk-off' trades.