



Economic Flash!

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U.S. Trade Deficit: Less Thirsty for Oil

Trade in goods and services on balance of payments basis,
(seasonally adjusted, in billions of dollars).

	May	April	Jan-May08	May07	Jan-May07
Balance	-59.79	-60.50	-295.21	-59.44	-299.24
Exports	157.55	156.16	767.98	133.69	649.64
Imports	217.34	216.65	1,063.18	193.12	948.88
TRADE BALANCE					
Goods	-72.48	-72.95	-356.46	-68.47	-340.59
Services	12.69	12.45	61.25	9.04	41.35
EXPORTS					
Goods	110.83	110.06	538.71	93.41	454.94
Services	46.72	46.10	229.27	40.28	194.71
IMPORTS					
Goods	183.31	183.01	895.17	161.88	795.53
Services	34.03	33.64	168.02	31.24	153.35

- Despite expectations to the contrary, the US trade deficit narrowed in May, falling to \$59.8 bn from \$60.5 bn in April. Most economists had expected imports to shoot up on the back of ever rising prices for crude oil, but this did not happen as declines in energy demand appeared to more than make up for sharp price gains. This pushed down the real goods trade deficit from \$46.7 bn to \$43.6 bn.
- Exports were not as strong as in April, but they did manage to rise by a healthy 0.9% m/m (0.7% real). This shows that a weak US dollar and relatively good growth overseas is still motivating a lot of foreign purchases of US goods. The underlying details are less encouraging with exports of capital goods down 1.6% m/m and consumer goods up only 0.1% m/m. However, it must be noted that both categories saw growth of above 6% m/m in April.
- On the imports side, growth was up only 0.3% m/m even taking into account high energy prices. Excluding petroleum, this turns into a nominal gain of 1.3%, but once we add energy back in to the mix this works out to a 1.8% m/m decline in real terms.
- Following the strength seen in May's retail sales numbers, it is clear that US shoppers have suddenly begun to spend again, but it appears that this will be temporary and only last as long as consumers' stimulus checks do. Since over half of this money has already gone down drivers' gas tanks, and the payments are set to stop being mailed out in early Q3, the US trade deficit could get even narrower over the coming few months.

Implications & Actions

Re: Economic Forecast —This report will certainly boost our estimates for second-quarter real GDP growth, which is now looking like it may come in above 1% q/q annualized on the back of strength in trade and particularly consumer spending. However, this performance is unlikely to be enough to prevent a more dramatic economic slowdown over the next two quarters. Looking forward, we believe that the general improvement in the US trade position will continue, and that net real exports will remain one of only a very few positives for the American economy for the second half of the year.

Re: Markets —Despite the better-than-expected trade headline, markets are being weighed down by the rising price of crude and growing talk of a government bailout for two troubled US mortgage giants.

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