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Economics Group

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Special Factors Helped to Reduce Trade Deficit in April

The trade deficit narrowed sharply in April, which will lead to some upward revisions to Q2 GDP growth. However, the deficit likely will rise over the next few months as some special factors unwind.

Trade Deficit Surprises to Downside

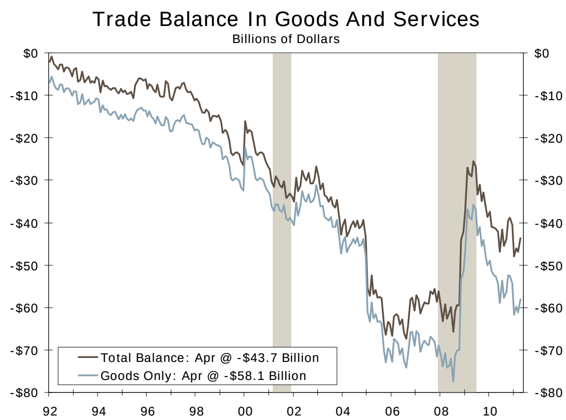
The U.S. deficit in trade in goods and services fell sharply to $43.7 billion in April from $46.8 billion in March (originally reported as $48.2 billion). The smaller deficit was the result of $2.2 billion increase in the value of exports of goods and services coupled with a $1.0 billion drop in imports. Not only was the outturn significantly smaller than most analysts had expected, but April's deficit was the least amount of red ink in the trade accounts so far this year. That said, there were some special one-time factors related to imports, which we will describe in more detail below, that conspired to reduce the deficit in April.

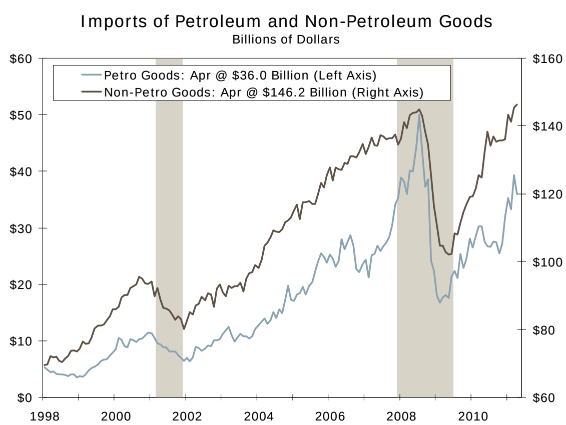
Exports of goods rose $2.0 billion in April, and there does not appear to be any special factors boosting the number. The $1.2 billion increase in capital goods exports was broad based, and exports of industrial supplies and materials were up $2.0 billion. Solid global economic growth has been a boost to American producers of capital goods and industrial supplies and materials. Indeed, volumes of both categories of exports in the first four months of 2011 were up about 12 percent relative to the same period last year. Restraining the overall increase in exports was the $772 million drop in auto exports, which really is not surprising in light of the troubles in the global auto industry that the Japanese earthquake and tsunami have caused over the past few months.

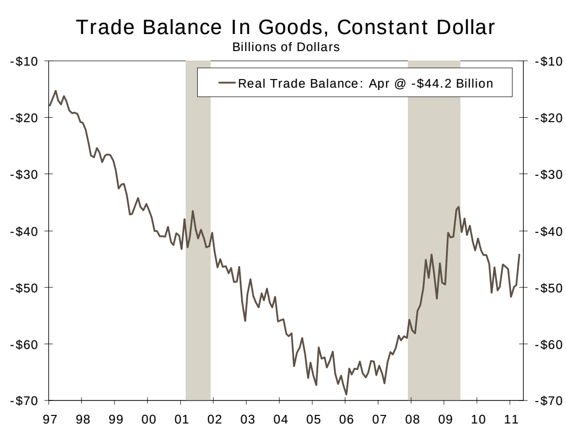
Overall imports of goods fell $1.0 billion in April. Although imports of consumer goods were very strong—they rose $2.1 billion during the month—imports of autos and parts plunged $2.8 billion. Can you say "Japanese earthquake effect?" In our view, auto imports will rebound strongly over the next few months as foreign auto output picks up again. In addition, petroleum imports plunged by $2.0 billion in April. Although the unit price of crude oil rose by $10 per barrel between March and April, the volume of crude oil imports plunged by 15 percent. Perhaps the moonshot in gasoline prices earlier this year led Americans to cut back sharply on the number of miles driven. Now that oil prices have retreated somewhat, we would expect oil imports to rise again in the months ahead.

Net Exports Will Probably Be Additive to GDP Growth in Q2

The real trade deficit fell by $5.3 billion in April. If the real trade deficit in May and June remain unchanged, then net exports would add about 2 percentage points to GDP growth in the second quarter. However, given our comments above about the outlook for auto and oil imports, we seriously doubt that the real trade deficit will remain unchanged in May and June. That said, many analysts, who have been busy marking down their Q2 GDP projections in recent weeks, may finally get the chance to boost those estimates somewhat.







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