

## Economics Group

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# Trade Deficit Widens Sharply on Jump in Crude Oil Imports

*The trade deficit widened sharply in May as crude oil imports jumped on higher prices and volume. Exports fell on a big decline in industrial supplies demand. Both exports and imports of autos rebounded.*

### Imports Rise on Surge in Crude Oil Imports

The trade deficit widened to \$50.2 billion in May from \$43.6 billion in April as exports dropped 0.5 percent while imports rose 2.6 percent. Nearly three-quarters of the \$5.0 billion rise in goods imports came from a \$3.8 billion increase in crude oil imports, which rose on both higher volume and higher prices. The number of barrels of crude oil imported rose to 275.2 million, up from 252.2 million in April, but down a bit from 281.6 million a year ago. The price of crude oil imported rose to \$108.70 from \$103.18 in April and was up substantially from \$76.95 a year ago. Other petroleum products, iron and steel products, and bauxite and aluminum also contributed to the \$4.3 billion rise in industrial supplies imports. Computer imports rose \$0.8 billion which, along with increases in computer accessories and industrial machines, which helped to lift capital goods imports by \$1.2 billion. Imports of vehicles and parts rose \$0.6 billion as production and shipments of vehicles from Japan rebounded in May following two months of extreme weakness due to the March earthquake and tsunami. Consumer goods imports declined \$0.9 billion as a \$1.2 billion plunge in pharmaceuticals outweighed increases in imports of apparel and other household goods.

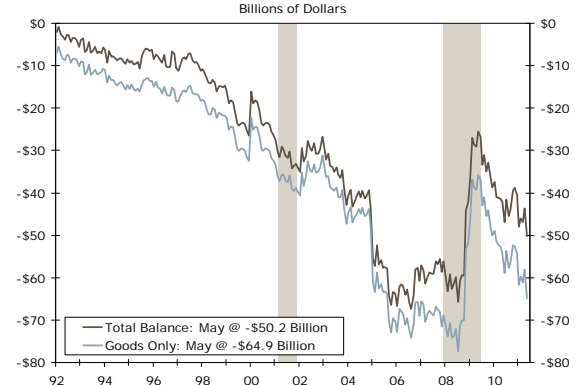
### Exports Drop on Industrial Supplies and Consumer Goods

Exports of goods fell \$1.5 billion. Big declines in exports of fuel oil, cotton, chemicals, plastics, petroleum products and natural gas all contributed to a \$1.8 billion drop in industrial supplies exports. Capital goods exports were fairly weak, rising only \$0.4 billion, driven primarily by increases in generators, industrial engines and industrial machines. Vehicle and parts exports rose a modest \$0.2 billion as supply disruptions, although waning, continued to be felt. Consumer goods exports fell \$0.4 billion, with half of the decline coming from pharmaceuticals.

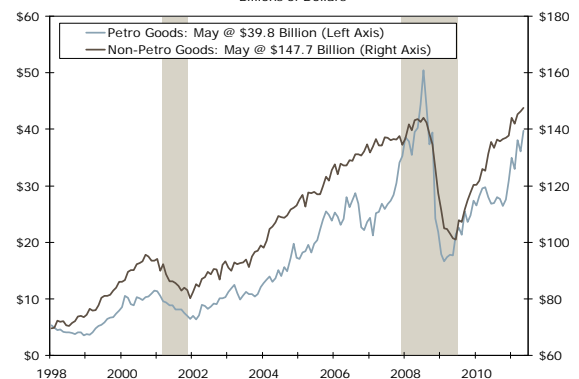
### GDP Growth Estimates Will Be Revised Downward

As a result of the much-wider-than-expected trade deficit in May, GDP growth estimates are likely to be revised lower. However, so far in the second quarter the average real trade deficit has been smaller than in the first quarter, and trade will contribute to second quarter growth if the June trade deficit comes in around the April/May average of \$45.8 billion. We expect oil imports in June will probably see a pullback on lower prices, but volume likely rose due to those lower prices and the summer driving season. However, the sharp slowdown in employment growth in June may have offset these factors. Auto imports likely saw a stronger increase in June than in May as the Japanese effect waned, but again, slower employment growth may be offsetting. Export growth in June was likely helped by a rebound in autos. Overall, we expect the trade deficit to narrow in June, suggesting trade will contribute modestly to second-quarter GDP.

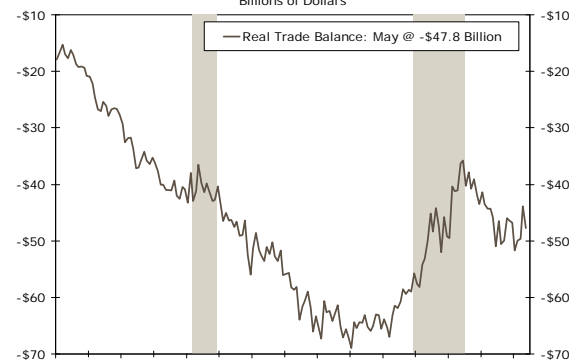
Trade Balance In Goods And Services



Imports of Petroleum and Non-Petroleum Goods



Trade Balance In Goods, Constant Dollar



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

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