U.S. Economic Flash

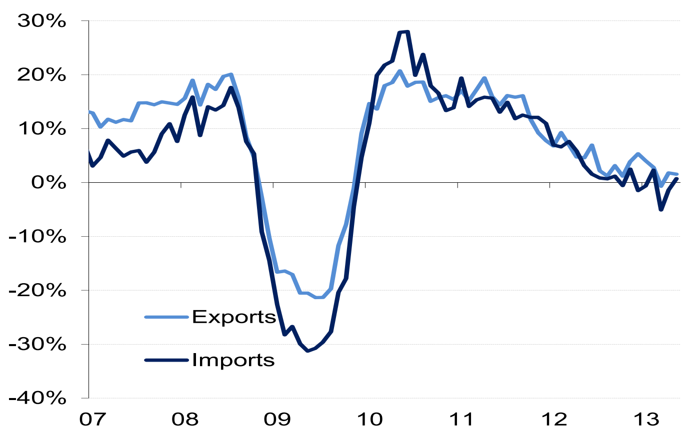
U.S. Trade Gap Expands on Heavy Import Growth

- **The international trade balance grew to -$45.0bn from -$40.1bn in April**
- **Exports declined by 0.3% as domestic goods saw weakness in the global markets**
- **Steady growth in imports is not all bad news, signaling a stronger domestic consumer**

The U.S. international trade deficit widened more than expected in May to -$45.0bn as exports did little to help alleviate the strong expansion of imports. Exports were weaker than anticipated, down 0.3% for the month, with the breakdown showing that the goods component declined enough to offset the growth within the services sector. According to the Census, the exports sector was influenced heavily by a decline in consumer goods (-7.3%), industrial supplies & materials (-2.2%) and food, feeds & beverages (-1.5%). However, there were some brighter spots in the report, as capital goods saw modest growth of 1.9% for the second consecutive month which suggests some growing demand from the foreign market as the component rises for the second straight month. Automotive exports continue to be a bright spot as the American auto industry begins to reshape the way they view their consumer, gaining 2.5% after a 4.5% gain the month prior.

Import growth, while not great for the actual trade balance, does impart some optimism with regard to how the domestic consumer feels. Goods and services imports increased 1.9% in May following a 2.4% gain in April. Food, feeds & beverages imports rose 3.9% after declining for the past two months, signaling growing demand as the summer season entrenches itself. Auto imports also grew quite significantly, up 3.1% as the domestic consumer continues to demand certain alternatives to the domestic market. Consumer goods rose 2.3% after jumping 7.5% in April. The petroleum-related deficit widened as imports increased 4.4% for the first time in four months, with exports up only 2.68%. While this has pushed the trade deficit further into negative territory, the situation is not, from an economic standpoint, as negative as it seems. While 1Q13 consumer spending seemed to have disappointed compared to the initial estimates, resurgence in domestic demand for foreign consumer goods can be a positive signal given that they tend to be more expensive than their domestic counterparts due to transportation costs and currency exchanges. Nevertheless, demand has risen somewhat which purports a stronger consumer in May.

Chart 1
U.S. Exports and Imports
YoY % Change



Source: U.S. Census Bureau & BBVA Research

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