U.S. Economic Flash

U.S. Trade Deficit Shrinks Dramatically On Lower Oil Imports

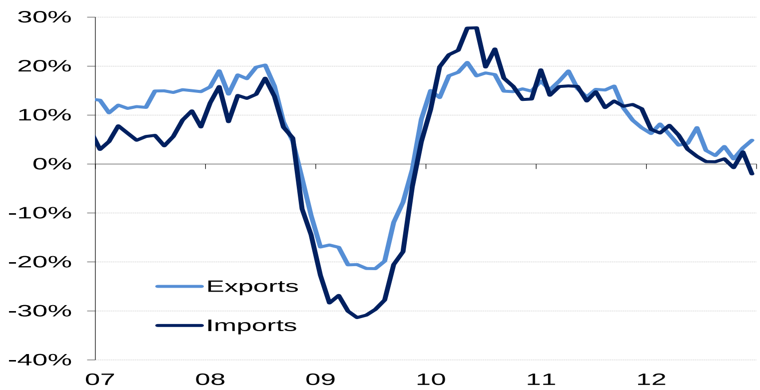
- **The international trade balance shrank to $38.5B, the lowest since early 2010**
- **Exports rose by 2.1% on end-of-year sales and a better global trade outlook**
- **Imports of oil and fuels declined dramatically to shed a significant portion of the deficit**

The U.S. international trade deficit shrank noticeably in December as oil imports dropped dramatically and global economies showed signs of improvement. Shrinking from $48.6B in November to $38.5B in December, the trade deficit reached its lowest level since January of 2010, showing a mixture of growing exports and a sharp decline in imports. Exports increased 2.1% following a 1.0% boost in November, led mostly by an increase in infrastructure-related industrial supplies going to South America and Asia. Additionally, the civilian aircraft sector saw in increase in exports from companies like Boeing due to the influx of orders for the new 787 airliner and the like. A generous boost to exports also came from the shift into positive territory for mining and minerals. Oil, gas and ore exports rose 11.8% over November as the U.S.'s mining industry grew. Goods exports grew the most within the figures at 2.6% but services also grew at a moderate rate, up 1%, the highest in the latter half of 2012.

The other half of the coin was imports, which fell sharply by 2.68%, the largest decline since 2009, on much lower fuel imports. The largest facet of the import decline was the 3.1% decline of goods imported which showed the large drop in petroleum products imported in December. The US imported $4.7B less of petroleum based products in December compared to the previous month, though mostly due to the lower price effect. In this sense, we can expect that the nominal value will increase in January given the rebound in oil prices. Additionally, tech imports that were in abundance in November, primarily due to iPhone demand, were reversed in December demand shrank a few weeks after the phone's release. A decline in auto imports was also reflected in the import figure: a revival of some of the US's key auto makers meant that imports of vehicles fell as the consumer opted for some of Chevy and Ford's options, including newer and cheaper models that are in competition with their Asian rivals. Imports of services also shrank but at a relatively small pace of 0.26%.

Overall, the trade figures for December suggest that the U.S. and its trading partners are performing on par with their individual paths of recovery but still looking for international trade prospects and competition for growth. While petroleum imports shrank in December it is unlikely the figure will continue to fall and therefore we expect imports to increase come January's figure. However, we remain optimistic about U.S. export opportunities in expanding nations, both south of the border and across the oceans, as their economies begin to fire on more cylinders.

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



Source: U.S. Census Bureau & BBVA Research

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