U.S. Economic Flash

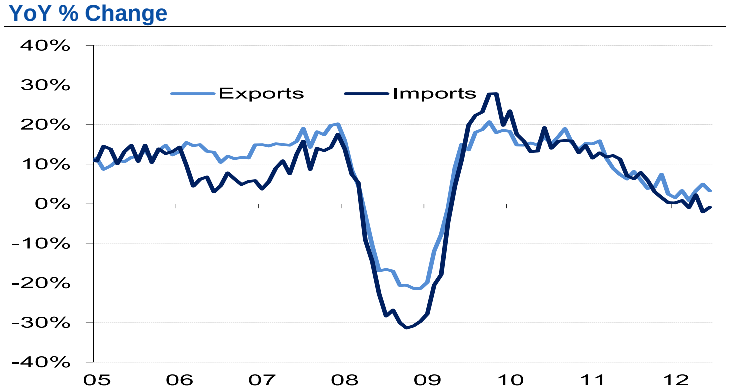
U.S. Trade Deficit Expands On Surge in Oil Imports

- **The international trade balance expanded to -$44.4bn in January from the prior -$38.1bn**
- **Exports declined 1.17%, with goods falling 1.5% and services down 0.25%**
- **The petroleum trade balance declined further putting pressure on the trade deficit**

The U.S. international trade deficit rose in January after a hefty decline in the prior month, pointing more toward a shift in the petroleum balance than a general slowdown in demand from abroad. Widening to -$44.4bn, the deficit felt the largest drag from the goods sector rather than services for both exports and imports. Once again, the petroleum deficit weighed in on both facets, growing from $18.6bn in December to $24.3bn in January. Petroleum-related imports increased 7.85% while exports dropped a significant 16.9%, the largest monthly decline since September 2008. Much of this nominal increase was due to the rise in crude oil prices to start 2013, with import prices for petroleum products up nearly 3% in January. Other sectors that caused the trade balance to increase were affected more by the global slowdown than any one determinant industry or export. Agricultural, manufacturing and mining exports all saw declines as demand from Europe tailed off from the end of the year and the rest of the global economy struggles to get back on both feet. According to the NAICS code breakdown of each sector, manufacturing exports saw the largest movement downward, falling 6.7% with minerals and ores falling even further by 8.6%. Imports faired roughly the same with a relatively broad-based increase in most categories. Agricultural imports rose at a modest pace of 9.4% over the prior month and manufacturing gained 2.6% as well while mining rose by 4.9% on oil and gas demand.

Overall, the decline in exports and rise in imports is largely tied to the petroleum balance for January and therefore not so discouraging when it comes to true global demand. However, we are still seeing somewhat of a temporary lull in the global market as Europe tries to gain momentum and China, still heavily tied to the U.S. in trade, struggles to maintain extreme levels of growth seen in prior years. With weaker exports primarily in the industrial sector for January and imports concurrently led by the same sector, it is likely that trade data in 1Q13 will show only a minor drag on GDP as fluctuations in manufacturing and industrial products are less volatile and point toward extended movements rather than a one-off figure. With rising oil prices putting upward pressure on the nominal figure, and as Europe's political headwinds and minimal growth are coupled with China's slower recovery, the likelihood of the U.S. trade balance shrinking in the early part of 2013 looks low. Still, this is only the first of three trade reports that will help gauge the extent of net export contribution on GDP growth for the quarter.

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



Source: U.S. Census Bureau & BBVA Research

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