U.S. Flash

U.S. Trade Deficit Widens on Weaker Foreign Demand

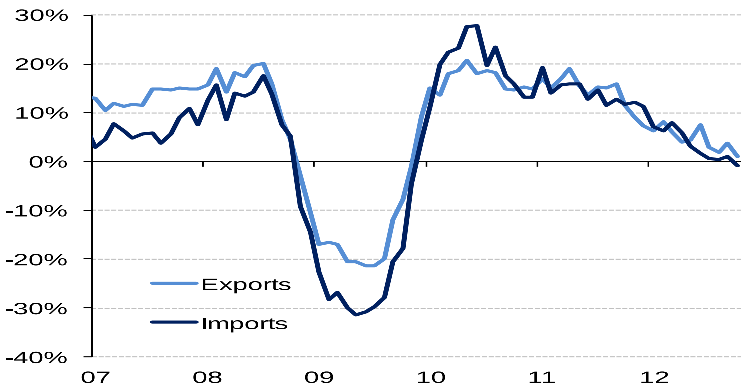
- **The international trade balance fell from -$40.3B to -$42.2B in October**
- **Exports declined 3.6% while imports fell 2.1%, led largely by the petroleum balance**
- **Low demand from Europe and Asia will likely put downward pressure on export growth for the coming months**

The U.S. international trade deficit expanded in October after shrinking in September, mostly due to weak demand from key trading partners and higher energy imports. The trade balance was even better in September, revised to -$40.3B from the initial estimate of -$41.5B. Growing to -$42.2B in October, the deficit conveys the overall sluggish global trade market that has plagued the export laden sectors like manufacturing and industrials which have seen a significant fall in foreign demand for goods. Exports fell 3.6% for the month, the sharpest drop in more than three years, on account of a 4.8% plunge in the goods component. More worryingly, this is the first month since November 2009 that goods exports have declined on a YoY basis, indicating that exports may still fall if the global outlook does not brighten. This slump in exports, it seems, has not been aided by the weaker U.S. dollar as expected. It stands to reason that even with cheaper products for foreigners to consume, the U.S.'s trading partners are not growing at a fast enough pace for sustainable import demand. Exports in the form of services also declined, although minimally, but accelerated in on an annual basis.

Imports followed suit, falling 0.75% for October as businesses remain weary of ongoing consumer demand for goods. Capital goods, automotives and consumer goods all fell while the only growing sector, industrial supplies and materials, looks to be fueled in part by the growing housing market that still requires large amounts of building materials that may still be cheaper for import.

As we enter the last quarter for 2012, the optimism of a global recovery fueling a rebound in U.S. trade seems bleak. Oil prices remain steady for now but the petroleum balance continues to have a negative impact on the trade deficit. Overall, we expect November to resemble recent data as consumer spending likely increased due to holiday shopping and auto sales increased, leading to some demand for foreign goods. On the other hand, U.S. exports are likely to remain sluggish until Europe and Asia return to a more comfortable pace. We could also see some impact from Hurricane Sandy's closure of trading ports on the East Coast, but so far the storm's significance on activity is unclear.

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



Source: U.S. Census Bureau & BBVA Research

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7342

Alejandro Vargas
alejandro.vargas@bbvacompass.com
+1 713 831 7348

2001 Kirby Drive, Suite 310, Houston, TX 77019 USA | www.bbvaresearch.com