

U.S. Trade Deficit Fell To \$48.7B In May

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WASHINGTON (AP) — The U.S. trade deficit narrowed in May from April, helped by cheaper oil that lowered imports and an increase in American exports to Europe and China.

But economists cautioned that decline wasn't enough to alter weak growth forecasts for the April-June quarter.

The Commerce Department said Wednesday that the trade deficit fell 3.8 percent to \$48.7 billion in May, down from \$50.6 billion in April.

Exports rose 0.2 percent to \$183.1 billion. The increase reflected stronger sales of telecommunications equipment and heavy machinery.

Imports dropped 0.7 percent to \$231.8 billion. America's foreign oil bill fell to the lowest level in 15 months.

A narrower trade gap is less of a drag on growth. It means the United States is spending less on foreign-made products, while taking in more from sales of U.S.-made goods.

The increase in exports to the second-highest level on record is a hopeful sign for growth.

Still, U.S. manufacturing has weakened this spring, hurt by Europe's financial crisis and slower growth in China. And sluggish U.S. job growth and meager pay increases have made American consumers more cautious about spending, which drives roughly 70 percent of economic activity.

Paul Ashworth, chief U.S. economist at Capital Economics, doesn't see growth picking up from the January-March's tepid 1.9 percent annual pace. He's predicting annual growth of between 1.5 percent and 2 percent in the April-June quarter.

Lower oil prices were the main reason for the narrower deficit in May, he said. Further price declines should narrow deficits further in June and July.

U.S. export growth has slowed and will slow further "given the sharp slowdown in economic growth in Europe and Asia," Ashworth said. He predicted that trade would be a drag on growth in the second half of this year "and probably through 2013 as well."

Exports are still rising. Through the first five months of this year, they are up 5.7 percent from the same month a year ago. And exports to the 27-nation European Union rose 2.6 percent in May from April.

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The U.S. deficit with the EU widened 21 percent in May to \$10.5 billion because imports from Europe increased 7.8 percent.

America's trade deficit with China increased to \$26 billion in May. U.S. exports to China rose 5.2 percent, but imports rose by a faster 5.8 percent. The deficit with China is the largest with any country and is on pace to break last year's all-time high.

Other reports suggest exports have slowed since May.

A survey by the Institute for Supply Management, a trade group of purchasing managers, said U.S. manufacturing shrank in June for the first time in nearly three years. The survey noted that exports declined and new orders plunged.

Economic growth of 1.9 percent is not enough to significantly lower the unemployment rate, which stayed at 8.2 percent in June.

High unemployment is also putting pressure on U.S. politicians to protect American workers against what critics see as unfair trade practices from such nations as China.

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