Broadest U.S. Trade Deficit Falls To $117.4B

Martin Crutsinger, AP Economics Writer

WASHINGTON (AP) — The U.S. current account trade deficit narrowed in the April-June period, pushed lower by an increase in American exports and cheaper oil imports.

The Commerce Department said Tuesday that the deficit in the current account decreased 12.1 percent to $117.4 billion in the second quarter. That's down from a deficit of $133.6 billion in the January-March quarter, which had been the largest in three years.

The current account is the broadest measure of trade. It tracks the sale of merchandise and services between nations as well as investment flows. Economists watch the current account as a sign of how much the United States needs to borrow from foreigners.

Many economists predict it will widen again in coming quarters. A global slowdown has dampened demand of for U.S. exports. And oil prices are rising again, in part because of increased Middle East tensions.

Europe's debt crisis has pushed much of the region into recession. The region accounts for about one-fifth of U.S. export sales. And other major export markets, including China, India and Brazil, have experienced slower growth.

The current account deficit hit an all-time high of $800.6 billion in 2006. It then shrank after a deep recession reduced U.S. demand for foreign goods by a greater amount than U.S. export sales were dampened. The trade gap began widening again after the recession ended in June 2009.

The economy grew at an anemic annual rate of 1.7 percent in the April-June quarter and job growth has been disappointing.

The Federal Reserve last week said it will purchase an average of $40 billion a month in mortgage-backed securities until the economy shows significant improvement. The goal of the program is to lower long-term interest rates and encourage more borrowing and spending. The Fed also said it plans to keep its benchmark short-term interest rate near zero until mid-2015.

In the April-June quarter, deficit in goods sold shrank to $185.8 billion, down from a deficit of $194.3 billion in the first quarter. U.S. exports rose 1.4 percent to $394.1 billion. Sales of farm products, led by a sharp rise in exports of soybeans, drove exports higher. Imports fell 0.5 percent to $579.9 billion, reflecting a drop in petroleum imports.

The U.S. surplus in services increased 1.3 percent to $46.5 billion. The gain was due to stronger U.S. overseas sales of financial services, business and professional services and higher royalties to U.S. companies.

The surplus in investment income increased 0.8 percent to $184.6 billion in the second quarter, reflecting higher interest and dividend payments earned by U.S. investors on their overseas holdings.

Net unilateral transfers, a category, which includes foreign aid payments, rose 2.7 percent to $33.6 billion in the second quarter.

The various changes left the current account deficit at 3 percent of the total economy, down from 3.5 percent in the January-March quarter.

Sal Guatieri, senior economist at BMO Capital Markets, said the 3 percent level for the current account deficit was less than half the peak hit in late 2005 when the deficit represented 6.5 percent of the overall economy.

He predicted that the deficit will decline modestly in 2013 as exports receive a boost from a weaker U.S. dollar which makes American products cheaper and more attractive in overseas markets.