Trade Deficit Widens as Exports Fail to Drive Recovery

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News of US trade figures for May surprised the markets but should they have? The US trade deficit, the [negative] difference between exports and imports, increased 4.8% to $42.3 billion in May, a Wall Street Journal article reported the Commerce Department as saying last week. That was the widest since November 2008. April's trade gap was also revised upward from earlier estimates. The Commerce Department reported US exports grew 2.4% to a 20-month high of $152.3 billion on the back of higher sales of heavy machinery, medical equipment, power generation and commercial planes an Associated Press article said. Imports however grew faster still, expanding 2.9% to $194.5 billion. The US trade deficit with China, America's largest overseas trading partner (Canada is its largest trading partner), expanded to $22.3 billion in May. This is the widest level since October and 15% higher than the previous month. Imports expanded by $3.1 billion, far outpacing a $162 million gain in exports.

But the US has been on a long-term trend of rising deficits interrupted briefly by the financial crisis of 2008/9 and although many had been hoping the slide in the value of the dollar would result in an export driven recovery the reality is major export markets in Europe and Japan have been equally depressed and hence not ready-made markets for US goods. It was probably naive to expect US exports to lead the recovery anymore than a weak pound has resulted in an export led recovery for the UK. The reality is both markets suffer from long-term structural problems of debt and lack of competitiveness. Many point to currency manipulation as one reason why the US will not be able to right the balance with China but the $22.3bn deficit with China is only part (admittedly a large part) of a wider $42.3bn deficit with the world at large.

Nor should a rise in imports be seen as wholly a bad thing. It is also reflective of a growing consumer confidence willing to spend money on consumer goods and cars. The strength of this confidence has taken many by surprise coming as it does on the back of stubbornly high unemployment figures, flat salary growth prospects and a depressed housing market. Indeed the rise in imports was after a 9.1% fall in oil imports to $27.6bn as both the price and volume of oil imports declined making the overall rise in the value of imports all the more profound.

Nevertheless there are already calls for action to be taken. A Washington Post article quotes Franklin Vargo, Vice President for International Economic Affairs at the National Association of Manufacturers as saying, "The US worked very hard to build a rules based trading system and if we were to say we need to play with it here and there the rest of the world will do the same thing and it will all come apart". Vargo's warning against protectionist action follows by an acknowledgment that, "Fundamentally we aren't enough of an exporter." Others were more strident Scott Paul, executive director of the American Alliance for Manufacturing is quoted as saying, "The widening trade deficit is not only an alarming trend, but also represents wealth and jobs heading overseas." His organization will not be alone in calling for a tougher line to be taken with China in particular as this recession drags on and the long awaited recovery proves slow to come.