June trade deficit rises, imports and exports up

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WASHINGTON — The U.S. trade deficit edged up in June as imports rose for the first time in 11 months and exports rose for the second straight month, confirming that the global recession is easing its grip.

The first back-to-back gains for exports in a year were especially good news for America's manufacturing sector. Those companies benefited from higher shipments of semiconductors, aircraft and telecommunications equipment.

The Commerce Department said the deficit rose 4 percent to $27 billion, from May's $26 billion. The May imbalance had been the lowest deficit in nearly a decade.

The gains in exports, and an even larger increase in imports, contributed to signs the recession is ending. But analysts said a recovery likely will widen the trade gap. In part, that's because a rebounding U.S. economy is projected to grow faster than the global economy. Americans' rising purchases of foreign goods would boost the U.S. trade deficit.

"The economic rebound is starting," said Joel Naroff, chief economist at Naroff Economic Advisors. "This is likely to be the beginning of the end for the narrowing of the trade deficit."

Despite a wider trade gap with China, the imbalance with Beijing so far this year is running below last year's record pace. More good news for U.S. companies came as the World Trade Organization ruled for the U.S. in a major case it had brought against China. The result could widen market opportunities for U.S. producers of CDs, DVDs, music downloads and books.

The bigger June deficit reflected an increase in imports for the first time in nearly a year. Economists said the increase showed that consumer demand in the U.S. was starting to revive. The increase was concentrated in a big jump in America's foreign oil bill from higher volume and world prices. Still, imports of foreign and auto parts also rose.

In a positive sign for producers, exports rose for two straight months for the first time since hitting a record in July 2008.

Nigel Gault, an economist with IHS Global Insight, predicted that the trade deficit for all of 2009 will total $417 billion, a significant improvement from last year's imbalance of $695.9 billion. The deficit will widen again in 2010 to $544 billion as the U.S. economy begins to recover but stay well below the all-time record of $753 billion set in 2006, he said.

"We are expecting the deficit to widen next year because we think oil prices will be higher on average than this year and that compared to the rest of the developed world, the U.S. economy will come back a little quicker," Gault said.

For June, imports of goods and services climbed 2.3 percent to $152.8 billion. A 23.8 percent jump in petroleum to $21.5 billion led the increase. Imports of autos and auto parts, computers and civilian aircraft rose. But the level of imported consumer goods fell as retailers kept reducing inventories amid sluggish consumer demand.

Exports rose 2 percent to $125.8 billion, an increase that offered hope for the country's manufacturing sector that foreign markets were starting to revive. Big gains in shipments of semiconductors, civilian aircraft and engines, and telecommunications equipment led the overall export increase.

Baltimore-based Marlin Steel Wire Products LLC, which makes baskets, shelves and other wire products for industrial customers, has seen exports rise, fueled by strong demand from the pharmaceutical and medical equipment industries.

"We've been exporting for a couple years now, but the pace has gotten wonderful recently," said Drew Greenblatt, the company's president. "We have guys working overtime."

Greenblatt said his company, which employs 30 people and exports to about 22 countries, recently bought a robot and plans to hire two more engineers to help handle the surge in activity.

Deliveries of commercial jetliners by Boeing Co., the Chicago-based aerospace giant and a major U.S. exporter, rose to 45 in June, up from 41 in May. Boeing receives payments for its jets when they're delivered.

Meanwhile, the WTO ruled that China had acted improperly by forcing America media producers to route their business in China through Chinese state-owned companies, a decision that could set a larger precedent for U.S. automakers and other American firms. U.S. Trade Representative Ron Kirk called the ruling a "significant victory for America's creative industries."

On Wall Street, stocks held on to sharp gains after the Federal Reserve ended a two-day meeting with a statement that had a more optimistic view of the economy. The Dow Jones industrial average added more than 120 points, or 1.3 percent, to 9,361.61, reversing a big plunge on Tuesday. Broader indices also gained.

The deficit with China increased 5.4 percent to $18.4 billion, the highest level since January. But for the year, that deficit is running 13.1 percent below last year's record pace.

The Obama administration sought to play down trade tensions between the two nations during recent high level meetings. The change in tone partly reflects growing dependence of the U.S. on the willingness of China, the largest holder of U.S. Treasury securities, to keep buying U.S. debt as the federal budget deficit soars to record levels.

The deficit has surged. It hit $1.27 trillion through the first 10 months of the budget year, due to spending by the administration to jump-start the economy and deal with the worst financial crisis since the Great Depression.

U.S. manufacturers have criticized the administration for not pressing the Chinese to do more to alter current trade practices, including its currency system. Besides the WTO case involving American CDs and DVDs, the administration is considering a petition from American tire makers complaining about a surge in Chinese tire imports.

Speaking to reporters in Beijing on Wednesday, a deputy Chinese commerce minister, Fu Ziying, said the complaint by U.S. tire makers was without merit. "I believe the case is neither supported by facts nor does it have valid legal grounds," Fu said. "It is against basic WTO principles and looks like trade protectionism."

AP Business Writers Bradley Klapper in Geneva, Joe McDonald in Beijing and Daniel Lovering in Pittsburgh contributed to this report.