



Trade gap increases to \$49.9 billion in June

Exports fall, consumers purchase more imports

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WASHINGTON — The trade deficit unexpectedly ballooned to \$49.9 billion in June, casting renewed doubt on the health of the limping economic recovery.

The trade gap rose almost \$8 billion from May's level as exports dipped slightly and cash-strapped consumers defied expectations by boosting purchases of imported products. June's \$150.5 billion in exports fell \$2 billion from May, while imports of \$200 billion were nearly \$6 billion higher than the month before.

Monthly imports were last higher in October 2008 shortly after the bankruptcy of Lehman Bros. intensified the global financial crisis. "Imports have just exploded in the last few months," said economist David Hensley of JPMorgan.

Economists struggled to explain how consumers could afford to increase purchases of foreign-made goods at a time of flat income and rising savings.

Overly exuberant retailers may have ordered excessively this spring at the first signs of life in consumer spending, according to Nigel Gault of IHS Global Insight. China's planned mid-July reduction of a tax rebate for exporters may also have encouraged earlier ordering that distorted the latest figures. Goods shipments to the U.S. from China in June totaled \$32.8 billion, up 13% from May.

The U.S. continues to run its largest bilateral deficit on trade with China: \$26.1 billion in June.

As the economy strains to move forward, more of the increase in U.S. demand for goods and services is being satisfied with imports. That's one reason job growth, with unemployment stuck at 9.5%, is so

anemic.

Economists said the new trade figures mean that the economy may have grown in the second quarter only about half as fast as the 2.4% annual rate the government initially estimated.

The Obama administration, which aims to double exports in five years, wants trade to help drive the economic recovery. But in the second quarter, cross-border commerce sucked more than 3 percentage points from the growth rate. "That's just enormous," Gault said. "We haven't seen that for about 30 years."

A weaker dollar — down 5.7% on a trade-weighted basis since June 1 — should make U.S. exports more attractive to foreign buyers. But soft spots are blossoming across the global economy.

"Europe is slowing, and Japan continues to play dead," said Rob Shapiro, head of Sonecon, a Washington, D.C., consulting firm.

Still, the drag on growth from trade is expected to moderate in the second half of the year, economists said. Hensley said he does not anticipate a return to recession. "Look for some improvement in coming quarters," he said.

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