TD Economics

June 4, 2013

Data Release: Trade deficit widens in April but remains on a narrowing path

- The U.S. trade deficit widened by $3.2 billion to $40.3 billion in April, but still came short of the consensus call for a $41.1bn gap. The widening came atop of a narrower than previously thought March figure.
- The decline in the trade balance was a function of the $5.4 billion (2.4%) increase in imports outpacing the $2.2 billion (1.2%) gain experienced by exports. Export gains were largely due to consumer goods (13.1%), but automotive (4.8%) and capital goods (2.1%) also rose on the month. Ditto for the import side of the ledger, where these three categories led also, increasing by 7.2%, 5.3% and 2.4%, respectively.
- The petroleum trade balance continued to shrink for the third consecutive month on lower imports of these products.
- After accounting for changes in prices, strength in both goods exports and imports growth was all the more apparent. Real merchandise exports rose by 2.0% while real goods imports advanced by 3.3% in April.

Key Implications

- The wider deficit was fully expected after an unusually large narrowing in March. But, the U.S. trade deficit remains on an improving path, and currently stands $6.3 billion lower than one year ago. In fact, the improvement in the trade balance over the last 12-months totaled a whopping $58.9 billion.
- While the trade balance shrinking, this is taking place in the midst of a continued global trade slowdown which began in mid-2012. As it stands, U.S. exports are up a meager 1.7% y/y while imports are 1.4% lower than last April, with some of the pullback in imports related to lower petroleum purchases, as the 'shale revolution' makes the U.S. more energy-independent.
- Going forward, we expect a gradually recovering global economy will result in a continued improvement in the U.S. trade deficit. U.S. exports have become substantially more competitive vis-à-vis many of its peers, while declining petroleum purchases on account of higher domestic production should keep import growth in check.

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