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U.S. trade deficit sinks to 4-year low as American exports rise

The November trade deficit of \$34.3 billion, down from \$39.3 billion in October, reflects surging domestic energy production and stronger global demand for U.S. products.

By Don Lee

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WASHINGTON — Rising American exports and surging energy production at home are narrowing the nation's typically large trade deficit, lifting the growth prospects for the economy and the job market.

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For the second straight month, American exports of goods and services climbed to a record high, reaching \$194.9 billion in November from \$193.1 billion in the previous month, the Commerce Department said Tuesday.

California appeared to get an outsized share of the increases, based on a separate analysis of the Commerce data by Beacon Economics.

"After a sputtering start to the year, California's exporters are finishing 2013 with a remarkably strong surge," said Jock O'Connell, Beacon's trade specialist.

Nationally, the export gains in November reflected stronger global demand for products such as automotive and capital goods, including aircraft and industrial machines.

Imports in November, meanwhile, saw a sharper change but in the other direction, falling to \$229.1 billion from \$232.5 billion in October. The decline was mostly because of a large drop in the quantity and value of imported crude oil.

The resulting monthly trade deficit of \$34.3 billion, down from \$39.3 billion in October, was the lowest in more than four years. And the unexpectedly upbeat report prompted some economists to raise their economic growth projection for the final months of last year as well as offer a more bullish outlook for this year.

The forecasting firm Macroeconomic Advisers, which was expecting a decline in U.S. exports for November, bumped up its estimate of fourth-quarter economic growth by nearly a full percentage point to a healthy annual rate of 3.5%.

The Economic Outlook Group on Tuesday said it was looking for the economy to expand 3.4% this year, in part because of rising exports amid a recovering Eurozone and a Chinese economy likely to keep expanding at a still-rapid rate.

"Clearly, the fundamentals that underpin the [U.S.] economy have improved," said Bernard Baumohl, the Economic Outlook Group's chief global economist. "Leading the charge will be consumer spending, followed by a rebound in business capital expenditures and finally a marked improvement in net exports."

Net exports are the difference between exports and imports. For the U.S. that has long been a negative figure, but a narrowing of the trade deficit contributes positively for overall economic growth calculations.

Higher export orders boost American manufacturing, and declining imports in some cases mean that overseas production is being shifted to home. And stronger economic growth and production translate into a greater need for workers.

U.S. manufacturing payrolls grew in October and November, and many factories are reporting job openings that are going unfilled because of an apparent shortage of skilled labor.

The Precision Machined Products Assn., a barometer of industrial production in the U.S., said its latest survey of members in November showed the strongest business-trends reading for that month in more than a decade.

"We expect December and the first two quarters of 2014 to be very strong," said Miles Free, the association's research director. He couldn't say how much of the optimism was based on improved overseas demand.

Another big reason that analysts expect the U.S. trade deficit to keep declining is the boom in domestic shale gas and oil production.

U.S. exports of petroleum rose 5.5% in November to \$13.3 billion, while imports fell 11% to \$28.5 billion. On an inflation-adjusted basis, the value of petroleum imports in November was the lowest since November 1996, Commerce Department figures show.

With the U.S. becoming more energy independent, the American trade balance with oil-producing countries has improved sharply over the last year. And analysts reckon that trend will continue.

Over the 12 months through November, imports of crude oil dropped to a 17-year low of 7.7 million barrels a day, 1 million barrels lower than the average in the previous 12 months, Paul Ashworth of Capital Economics said. Based on forecasts for this year, he said, imports could fall an additional 1 million barrels a day.

"Oil production doesn't create as many jobs because it's fairly capital intensive," Ashworth said, "but it will contribute and it is good for America."

For the first 11 months of last year, the U.S. trade deficit for all goods and services amounted to \$435.1 billion. That was down 12% from \$496.3 billion for the same period a year earlier.

Total U.S. exports of goods and services were up 3% to \$2.1 trillion, with civilian aircraft, oil and gas, cars and consumer goods all showing good gains. Among export of services, the U.S. saw strong revenue increases from foreign travelers and from royalties and license fees.

U.S. imports during the 11-month period were essentially flat at \$2.5 trillion.

The U.S. merchandise trade deficit with Saudi Arabia and other OPEC nations totaled \$64.1 billion in the first 11 months last year — a decline from \$95.7 billion in the same period a year earlier.

At the same time, the American trade gap in goods with some other major trading partners widened slightly. The U.S. trade deficit with Europe in the January-November period rose 4% to \$121.4 billion, and the gap with China increased 1% to \$293.9 billion.

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