U.S. Current-Account Deficit narrowed 5.7% in Second Quarter

By Victoria Stilwell - Sep 19, 2013 8:30 AM ET

http://www.bloomberg.com/news/2013-09-19/current-account-deficit-in-u-s-narrowed-5-7-in-second-quarter.html

The current-account deficit in the U.S. narrowed in the second quarter to the lowest in almost four years, helped by a pickup in exports and a bigger income surplus.

The gap, the broadest measure of international trade because it includes income payments and government transfers, shrank 5.7 percent to $98.9 billion, the smallest since the third quarter of 2009, from a revised $104.9 billion shortfall in the prior period, Commerce Department figures showed today in Washington. The median forecast of economists in a Bloomberg survey called for the deficit to shrink to $97 billion.

Improvement in overseas markets would bolster demand for American-made goods and help restrain growth in the trade gap, which is the biggest part of the current account shortfall. At the same time, U.S. economy is outpacing Europe and parts of Asia, indicating further narrowing of the deficit will be limited, underscoring the importance of foreign investment in financing domestic demand.
Estimates (USCABAL) of 41 economists in the Bloomberg survey ranged from current account deficits of $103.8 billion to $90.6 billion. The first-quarter shortfall was revised from an initially reported $106.1 billion.

The gap represented 2.4 percent of gross domestic product last quarter, compared with 2.5 percent in the prior three months. The deficit reached a record high of 6.2 percent of GDP in the fourth quarter of 2005.

The trade deficit in goods and services, which accounts for most of the current-account gap, narrowed to $117.8 billion in the April through June period from $122.6 billion in the first quarter, today's report showed. The trade deficit in the U.S. widened in July from an almost four-year low as imports rebounded and exports cooled. The gap increased 13.3 percent to $39.1 billion from $34.5 billion in June that was the smallest since October 2009, Commerce Department figures showed Sept. 4.

Overseas Income

Today's report also showed U.S. income on overseas assets increased to $192.5 billion in the second quarter from $191.6 billion in the prior three months. Foreign earnings on U.S. assets, including wages and compensation, fell by $1.3 billion to $139.4 billion. ***The surplus on income payments rose to $53.1 billion from $50.9 billion in the first quarter. U.S. investments overseas generally yield more than the Treasury securities that foreign investors prefer to buy, helping maintain the income surplus.***

Payments by the U.S. government to foreigners and other private transfers abroad outpacedofficial inflows from overseas by $34.2 billion last quarter, compared with $33.1 billion in the previous period.

Lecture and Discussion Questions:

1. Why do people hold U.S. Treasuries that pay almost no interest? (Hint: zero interest car loans, safe haven)

2. When did the U.S. CA deficit peak? How much lower is it now. As a % of GDP? Why has this happened? Is this good or bad for the U.S. and China? Explain.

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