



Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.
WSJ.com

JULY 11, 2009

Increase in Exports Bodes Well for Growth

By [ALEX FRANGOS](#) and [PETER STEIN](#)

Tentative signs of life in global trade are emerging, buoying growth forecasts in the U.S. and China, two of the world's most important economies.

U.S. exports grew in May, while imports fell, helping to narrow the trade deficit to its lowest level in nearly nine years. The report prompted economists to revise up their estimates of second-quarter gross domestic product. Some even suggested the economy might have grown slightly in the second quarter.

The trade gap decreased to \$26 billion in May from April's \$28.8 billion, the Commerce Department said Friday. Exports rose 1.6% in May to \$123.3 billion on a seasonally adjusted basis. Imports fell 0.6% to \$149.3 billion.

"It's a very good sign for GDP," says Paul Ashworth, senior U.S. economist for Capital Economics in Toronto. "The economy didn't shrink by much in the second quarter, and there's an outside chance it recorded a gain." Forecasting firm Macroeconomic Advisers increased its second-quarter GDP forecast from minus 1.6% to plus 0.2% on the news.

New figures from China offered more support for the prospect that the massive drop in global trade is abating. Exports in June fell 21.4% from a year earlier, a smaller drop than May's 26% decline, China's state-run Xinhua News Agency reported Friday, citing official data.

Goldman Sachs estimated Chinese growth will be faster than the nearly 8% it predicted earlier in the week because of the trade numbers, according to a note from Goldman economist Yu Song. Trade is "becoming less of a drag on the overall economy while domestic-demand growth has been gaining strength," the report said.

To be sure, the good news on the U.S. export front was tempered by the decline in imports, which underscores how American businesses and consumers spent gingerly on imported goods. That is bad news for overseas economies that rely on the U.S. market. And trade overall remains far below levels from before the financial crisis.

"Arithmetically this suggests trade is going to be a big positive boost, but largely as a result of imports falling at a rapid pace," says Ted Wieseman, economist at Morgan Stanley in New York. Because exports boost GDP and imports drag it down, the narrowing of the trade gap helps boost the overall growth figure. Exports accounted for 13% of GDP in 2008.

To some U.S. companies struggling through the recession, overseas markets have been a lifeline despite global weakness. "We have seen an increase in our business in the Middle East and North Africa," says Dyke Messinger, chief executive of Power Curbers Inc.

The Salisbury, N.C., company makes \$200,000 machines used to lay down highway barriers, curbs and sidewalks.

The company's business, tied closely to construction, swooned last fall when the credit crunch swept the globe. "International is really the only thing that's held up for us," he adds, "which is good because our U.S. business is still dead." In the past, exports accounted for a quarter of sales; they now account for 80%. "We're still getting orders from Canada, South America, Asia -- but the Middle East and Africa are the strongest," he says. The company shed 24 out of 82 workers during the crash last fall. It has no intention of rehiring until business gets stronger overall.

Though trade levels have stabilized at a lower level in the past few months, they are hardly growing strongly. Even as some buyers in the U.S. have placed orders to restock empty warehouses, most are still keeping inventories lean, delaying new orders until the last second, says William Fung, group managing director of Li & Fung Ltd. The Hong Kong-based company exports clothing, toys and other consumer goods to major brands and retailers in the U.S. and Europe from factories in China and around the world. The question Mr. Fung is most asked by customers is how cheaply he can get something made.

"The second-most asked question is, 'What's the latest we can do it,'" he says. "One customer used to have 17 weeks of inventory. Now he's learning to live with 10 weeks," says Mr. Fung. "That's his new business model."

Agricultural machinery maker Art's-Way Manufacturing Co., of Armstrong, Iowa, has seen its order backlog decline by almost half in the past year. But recent orders for a combo cattle feed grinder and mixer from Australia and the U.K. are helping make up for lost business elsewhere. Ward McConnell, the company's executive chairman, is heading to sales shows in the U.K. next week and Germany in September.

"We're pleased with what the foreign business is doing for us," he says.

Clothing retailer Forever 21 has taken over several retail spaces around the U.S. from failed competitors and needs to import goods to stock the shelves. "We need a lot of merchandise," says company Vice Chairman Sung Won Sohn, who is also an economist at California State University Channel Islands. "In some cases we are running short." The company imports clothes from China, Vietnam and Bangladesh, among other places.

Economists had feared that a recent run-up in oil prices would widen the U.S. trade deficit. But the decline in imports of foreign oil because of slack demand more than offset the price increases. The U.S. imported 11% less oil by volume in May from the month earlier. Oil prices rose 9.9% from April to May to \$51.21 a barrel, but were still down 52% from the year earlier.

High gasoline prices and a rise in mortgage rates were partially to blame for a drop in the Reuters/University of Michigan consumer sentiment index, which decreased to 64.6 in early July from 70.8 in June.

The narrowing of the U.S. trade deficit means the U.S. needs to borrow less from abroad. The dollar strengthened against the euro Friday on the news, and is now in positive territory against the European currency for the year.

—Timothy Aepfel contributed to this article.

Write to Alex Frangos at alex.frangos@wsj.com and Peter Stein at peter.stein@wsj.com

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com

