U.S. Trade Deficit and the Impact of Changing Oil Prices

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May 13, 2010

Congressional Research Service
7-5700
www.crs.gov
RS22204

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

Petroleum prices rose sharply in the first half of 2008, at one time reaching more than $140 per barrel of crude oil. After July 2008, however, petroleum prices and import volumes fell at a historically rapid pace; in January 2009, prices of crude oil fell below $40 per barrel. Since then, crude oil prices have nearly doubled, while the average monthly volume of imports of energy-related petroleum products has fallen nearly 10% year over year. Despite the drop in the volume of crude oil imports, the rise in the cost of energy imports through 2009 and early 2010 could add more than $100 billion to the nation's trade deficit in 2010 over that experienced in 2009. The strength of the U.S. economic recovery in the second half of 2010 could increase both the volume of energy imports and the price of those imports. This report provides an estimate of the initial impact of the changing oil prices on the nation's merchandise trade deficit.

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Background

According to data published by the Census Bureau of the Department of Commerce,[1] the prices of petroleum products over the first half of 2008 rose sharply, generally rising considerably faster than the change in demand for those products, before falling at a historic rate. After falling each month between August 2008 and February 2009, average petroleum prices reversed course and rose by 85% between February and December 2009, climbing to nearly $80 per barrel at times. Through the first three months of 2010, petroleum prices have hovered around $74 per barrel, but futures contracts indicate that prices could reach about $85 per barrel by the fall of 2010. As a result of changing petroleum prices, the price changes in imported energy-related petroleum products worsened the U.S. trade deficit in 2006, 2007, 2008, and likely will again in 2010. Energy-related petroleum products is a term used by the Census Bureau that includes crude oil, petroleum preparations, and liquefied propane and butane gas. Crude oil comprises the largest share by far within this broad category of energy-related imports. In 2009, the slowdown in the rate of growth in the U.S. economy reduced the amount of energy the country imported and helped to push down world energy prices. As economic growth improves, energy imports will increase and energy prices are expected to rise. In isolation from other events, lower energy prices tend to aid the U.S. economy, which makes it a more attractive destination for foreign investment. Such capital inflows place upward pressure on the dollar against a broad range of other currencies. To the extent that the additions to the merchandise trade deficit are returned to the U.S. economy as payment for additional U.S. exports or to acquire such assets as securities or U.S. businesses, the U.S. trade deficit could be mitigated further.

Summary data from the Census Bureau for the change in the volume, or quantity, of energy-related petroleum imports and the change in the price, or the value, of those imports for 2009 and for 2010 are presented in **Table 1**. The data indicate that during the first three months of 2010, the United States imported 1,012 million barrels of energy-related petroleum products, valued at $76 billion. Energy-related imports for this three-month period were down 9.5% in volume terms from the same period in 2009 and cost nearly twice as much as such imports during the same period in 2009.

The data also indicate that the United States imported 4.3 billion barrels of total energy-related petroleum products in 2009, valued at $245 billion, compared with a total value of $439 billion in 2008. Also, in 2009, the quantity of energy-related petroleum imports fell by 4.0% compared with the comparable period in 2008; crude oil imports also fell by 2.7% from the same period in 2008. Year-over-year, the average value of energy-related petroleum products imports fell by 44%, while the average value of crude oil imports fell by 45%. As **Figure 1** shows, imports of energy-related petroleum products can vary sharply on a monthly basis. In 2009, imports of energy-related petroleum products averaged about 355 million barrels a month. Through the first three months of 2010, such imports have averaged 337 million barrels a month, primarily due to low imports in February.

[1] Census Bureau, Department of Commerce. Report FT900, *U.S. International Trade in Goods and Services*, May 12, 2010. Table 17. The report and supporting tables are available at http://www.census.gov/foreign-trade/Press-Release/current_press_release/ftdpress.pdf.

Table 1. Summary Data of U.S. Imports of Energy-Related Petroleum Products, Including Oil (not seasonally adjusted)

	January through March					
	2009		2010			
	Quantity (thousands of barrels)	Value ($ thousands)	Quantity (thousands of barrels)	% change 2008 to 2009	Value ($ thousands)	% change 2008 to 2009
Total energy-related Petroleum Products	1,118,040	$46,007,956	1,012,011	-9.5%	$75,532,056	64.2%
Crude oil	844,703	$33,926,909	788,051	-6.7%	$58,122,816	71.3%

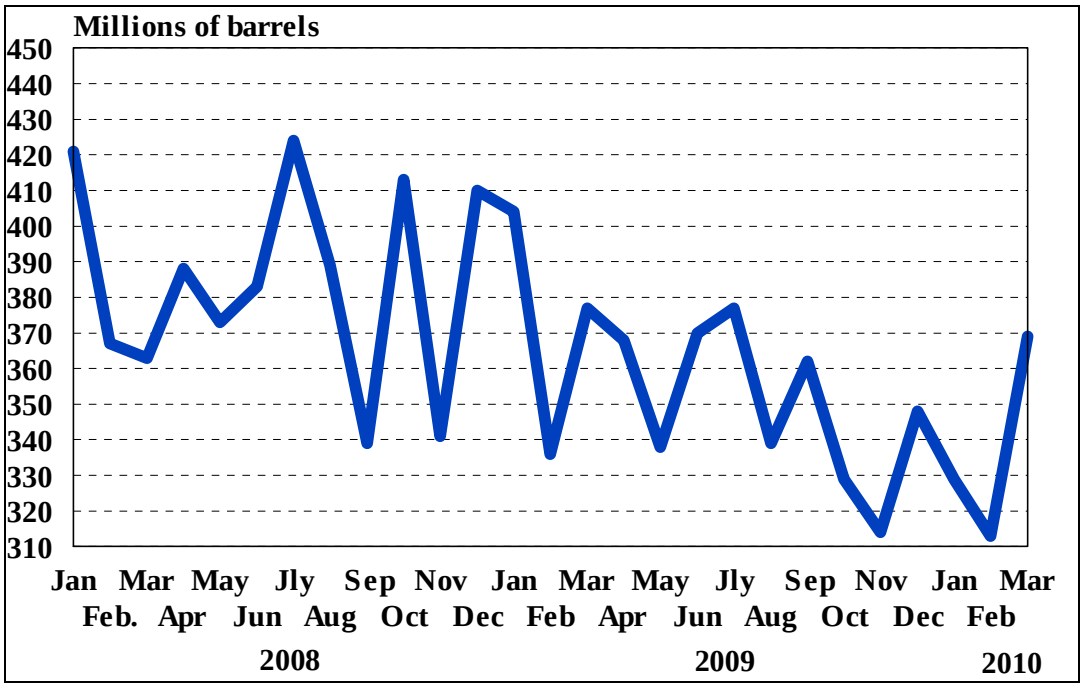
	January through December					
	2009		2010			
	(Actual values)		(Estimated values)			
	Quantity (thousands of barrels)	Value ($ thousands)	Quantity (thousands of barrels)	% change 2008 to 2009	Value ($ thousands)	% change 2008 to 2009
Total energy-related Petroleum products	4,263,292	$245,482,572	3,858,984	-9.5%	$403,012,978	64.2%
Crude oil	3,311,883	$188,498,323	3,089,764	-6.7%	$322,912,044	71.3%

Source: Census Bureau, Department of Commerce. Report FT900, *U.S. International Trade in Goods and Services,* May 12, 2010. Table 17.

Note: Estimates for January through December 2009 were developed by CRS from data through March 2010 and data through 2009 published by the Census Bureau using a straight line extrapolation.

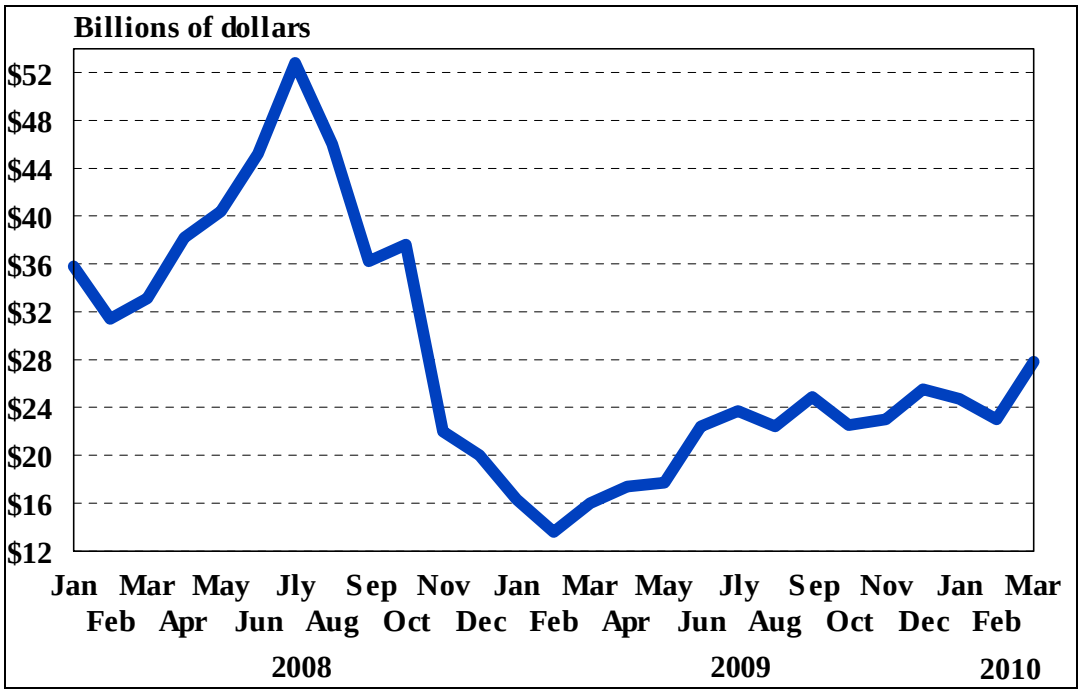
In value terms, energy-related imports fell from $439 billion in 2008 to $245 billion in 2009, or a decrease of 44%, to account for about 16% of the value of total U.S. merchandise imports. Energy prices rose sharply in 2007 and continued from January through July 2008, not following previous trends of falling during the winter months. As **Figure 2** shows, the cost of U.S. imports of energy-related petroleum products rose from about $17 billion per month in early 2007 to $53 billion a month in July 2008, but fell to $13.6 billion in February 2009, reflecting a drop in the price and in the volume of imported oil. The average price of imported oil in March 2010 was up 80% from the average price in March 2009. Energy imports accounted for $27 billion a month in March 2010, up from $16 billion a month in 2009, as indicated in **Table 2**.

Figure 1. Quantity of U.S. Imports of Energy-Related Petroleum Products



Source: Department of Commerce

Figure 2. Value of U.S. Imports of Energy-Related Petroleum Products



Source: Department of Commerce

Table 2. U.S. Imports of Energy-Related Petroleum Products, Including Crude Oil (not seasonally adjusted)

Period	Total energy-related petroleum products		Crude oil			
	Quantity (thousands of barrels)	Value ($ thousands)	Quantity (thousands of barrels)	Thousands of barrels per day (average)	Value ($ thousands)	Unit price (dollars)
			2009			
Jan.-Dec.	4,263,292	$245,482,572	3,311,883	9,074	$188,498,323	$56.92
Jan.-Mar.	1,118,040	46,007,956	844,703	9,386	33,928,909	40.17
January	404,658	16,342,408	300,137	9,682	11,949,605	39.81
February	335,912	13,618,145	254,874	9,103	9,996,300	39.22
March	377,470	16,047,403	289,693	9,345	11,983,004	41.36
April	367,943	17,403,719	292,601	9,753	13,633,848	46.60
May	338,081	17,703,718	261,888	8,448	13,410,641	51.21
June	369,963	22,415,123	280,424	9,347	16,592,370	59.17
July	377,218	23,720,887	296,274	9,557	18,510,434	62.48
August	338,539	22,389,783	268,429	8,659	17,381,693	64.75
September	361,956	24,872,287	286,217	9,541	19,511,645	68.17
October	329,245	22,450,143	258,829	8,349	17,441,313	67.39
November	314,238	22,969,832	245,448	8,182	17,805,957	72.54
December	348,069	25,549,123	277,069	8,938	20,281,513	73
			2010			
Jan.-Mar.	1,012,011	75,532,056	788,051	8,756	58,122,816	73.76
January	329,246	24,681,956	245,273	7,912	18,122,185	73.89
February	313,293	23,040,666	243,305	8,689	17,742,303	72.92
March	369,473	27,809,434	299,473	9,660	22,258,328	74.32

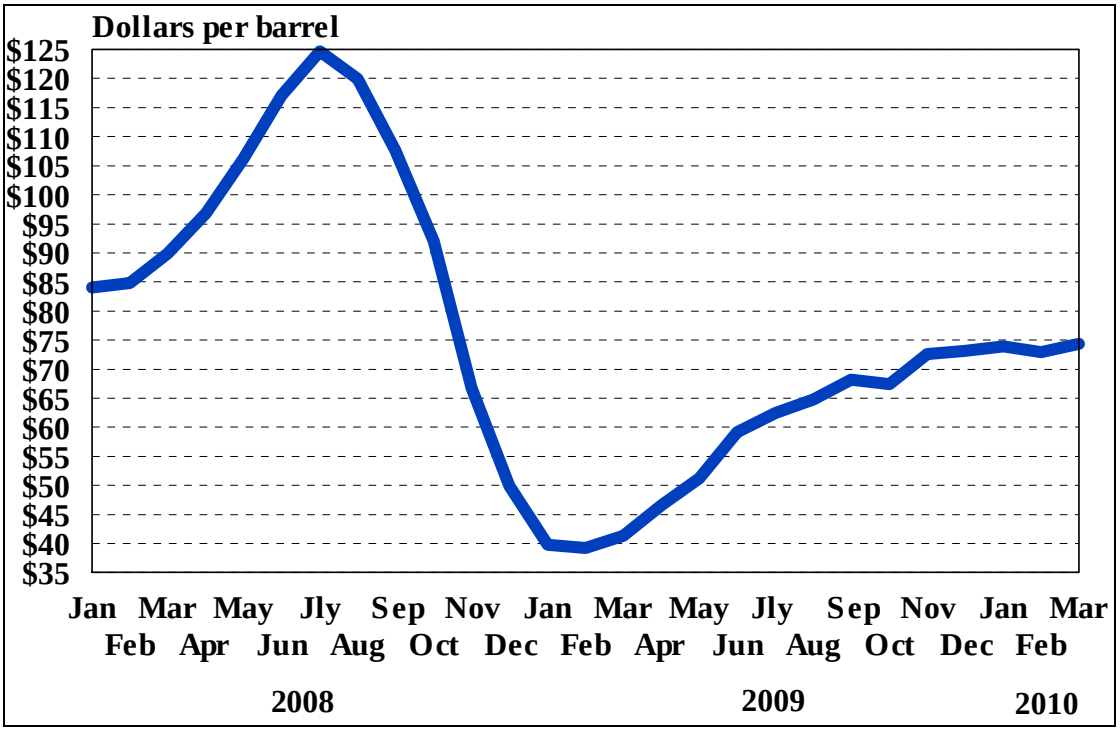
Source: Census Bureau, Department of Commerce. Report FT900, *U.S. International Transactions in Goods and Services.* May 12, 2010. Table 17.

a. Energy-related petroleum products is a term used by the Census Bureau and includes crude oil, petroleum preparations, and liquefied propane and butane gas.

As a result of the overall drop in the overall value of energy-related imports in 2009, the trade deficit in energy-related imports amounted to $204 billion, down by nearly half from the $386 billion recorded in 2008, and accounted for 40% of the total U.S. trade deficit of $517 billion for the year. In the three-month period of January-March 2010, the rise in oil prices, year over year, combined with an increased demand for energy imports, pushed up the overall value of energy imports, which accounted for 46% of the total merchandise trade deficit. This share is up from the 34% share of the trade deficit experienced during the same period in 2009.

Crude oil comprises the largest share of energy-related petroleum products imports. According to Census Bureau data[2], imports of crude oil fell from an average of 9.8 million barrels of crude oil imports per day in 2008 to an average of 9.1 million barrels per day in 2009, or a decrease of 7%. In March 2010, such imports averaged 9.7 million barrels per day, or an increase of 3.4% over the volume of such imports recorded in March 2009. From January 2008 to June 2008, the average price of crude oil increased from $84 per barrel to $117 per barrel, or an increase of 39%, as shown in **Figure 3**. As a result, the value of U.S. crude oil imports rose from about $27 billion a month in January 2008 to $35 billion a month in June 2008.

Figure 3. U.S. Import Price of Crude Oil



Source: Department of Commerce

Data for 2009 indicate that a number of factors, primarily the economic recession, had a large impact on pushing down oil prices in the first three months. As economic growth picked up, the higher demand tended to raise pressure on oil prices, which rose through the end of the year. The rise in oil prices combined with an increase in the volumes of oil imports experienced during the period combined to raise the overall cost of imported energy. At times, crude oil traded for nearly $148 per barrel in July 2008, indicating that the cost of energy imports would have a significant impact on the overall costs of U.S. imports and on the value of the U.S. trade deficit. Since those record prices, the price per barrel of imported crude oil fell to under $40 per barrel at times in January and February 2009. For the year 2009, the imported volume of energy-related petroleum products fell by 44%, due in large part to a slowdown in economic activity. At an average price of $56 per barrel in 2009, compared with an average price of $95 per barrel in 2008, energy-related import fell by nearly $130 billion as a factor in the overall U.S. trade deficit. For 2010, the total cost of energy imports could rise to more than $300 billion at an average price of $75 per barrel

[2] Report FT900, U.S. International Trade in Goods and Services, May 12, 2010. Table 17.

and could rise to nearly $330 billion at an average price of $85 per barrel and account for nearly half of the annual trade deficit.

Issues for Congress

The rise in the prices of energy imports experienced since early 2000 through March 2010 could have a significant impact on the annual U.S. trade deficit in 2010, should those price increase stick, or run even higher. The rise in energy prices may well affect the U.S. rate of inflation and could have a slightly negative impact on the rate of economic growth in 2010. Various factors, dominated by the rate of economic growth in the United States and Western Europe, could combine to push up the cost of energy imports, which will have a slightly negative impact on the pace of the economic recovery. Typically, energy import prices have followed a cyclical pattern that has caused energy prices to rise in the summer and decline in the winter. The slowdown in the rate of economic growth in the United States and elsewhere in 2009 sharply reduced the demand for energy imports and caused oil prices to tumble from the heights they reached in July 2008. An important factor that often affects crude oil prices is the impact Atlantic hurricanes have on the production of crude oil in the Gulf of Mexico The oil spill in the Gulf of Mexico and concerns over the safety of oil wells in the region could dampen somewhat oil production and further strain supplies as summer demand increases.

The return to a positive rate of economic growth will continue to place upward pressure on the prices of energy imports and contribute to the nation's merchandise trade deficit. Some of the impact of this deficit could be offset if some of the dollars that accrue abroad are returned to the U.S. economy through increased purchases of U.S. goods and services or through purchases of such other assets as corporate securities or acquisitions of U.S. businesses. Some of the return in dollars likely will come through sovereign wealth funds (SWFs), or funds controlled and managed by foreign governments, as foreign exchange reserves boost the dollar holdings of such funds. Such investments likely will add to concerns about the national security implications of foreign acquisitions of U.S. firms, especially by foreign governments, and to concerns about the growing share of outstanding U.S. Treasury securities that are owned by foreigners.

It is likely that the economy will again face high and rising prices for imported energy products as national economies recover to a more robust rate of economic growth. It is possible for the economy to adjust to the higher prices of energy imports by improving its energy efficiency, finding alternative sources of energy, or searching out additional supplies of energy. There may well be increased pressure applied to Congress to assist in this process. For Congress, the increase in the nation's merchandise trade deficit could add to existing inflationary pressures and complicate efforts to stimulate the economy should the rate of economic growth flatten out. In particular, Congress, through its direct role in making economic policy and its oversight role over the Federal Reserve, could face the dilemma of rising inflation, which generally is treated by raising interest rates to tighten credit, and a slow rate of economic growth, which is usually addressed by lowering interest rates to stimulate investment. A sharp rise in the trade deficit may also add to pressures for Congress to examine the causes of the deficit and to address the underlying factors that are generating that deficit. In addition, the rise in prices of energy imports could add to concerns about the nation's reliance on foreign supplies for energy imports and add impetus to examining the nation's energy strategy.

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