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Economics Group

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Current Account Deficit Rises to 9-Year High in Q2

The current account deficit rose to its highest level in about 9 years in the second quarter, but the country appears to have little difficulty financing this red ink at present.

Most Balances within the Current Account Deteriorated in Q2

The U.S. current account deficit widened from $113.5 billion (revised) in Q1-2017 to $123.1 billion in the second quarter, the most red ink in the overall current account in about 9 years (top chart). There are a few factors that have acted to push the deficit higher in recent quarters. First, the deficit in trade in goods, which was largely stable between 2014 and 2016 due in part to the collapse in petroleum prices, has widened again this year as oil prices have rebounded from their multi-year lows in early 2016. The surplus in the services balance has trended higher in recent quarters, but not enough to prevent the overall current account deficit from widening.

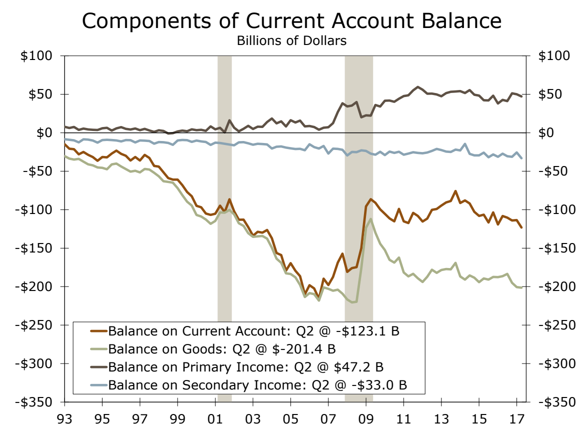
In addition, the overall red ink in the current account grew because the income that Americans earn on their overseas investments did not rise as much as the income that foreigners receive on their U.S. investments. Furthermore, the United States made more transfer payments abroad (e.g., workers' remittances to their families in foreign countries) and received less transfer payments in the second quarter than it did in the first quarter. That said, the current account deficit, which is equivalent to less than 3 percent of GDP at present, is really not that worrying because the United States appears to have little difficulty attracting the net capital inflows that are needed to finance the red ink in the current account.

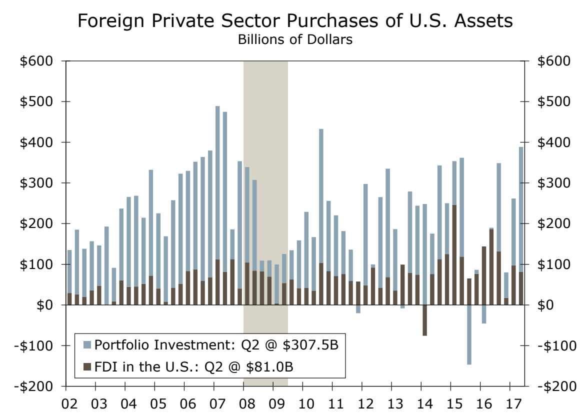
Net Capital Inflows Remain Buoyant

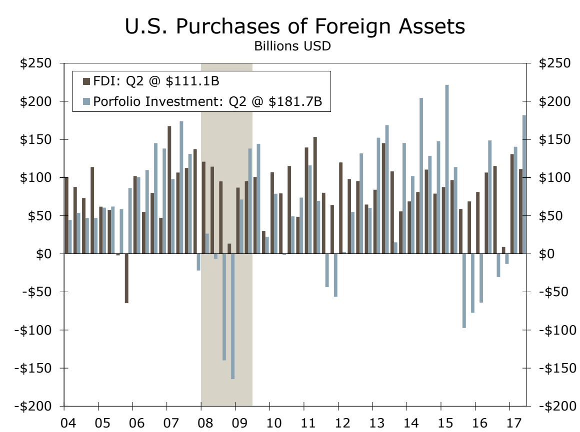
In that regard, foreign direct investment (FDI) in the United States remained buoyant at $81.0 billion in the second quarter (middle chart). Foreign portfolio investment in the United States was also very strong. Not only did foreign purchases of equity securities total $51.0 billion in Q2, but foreigners also gobbled up $257.0 billion worth of debt securities. Previously released monthly data show that foreign purchases of long-term corporate debt securities were very strong in the second quarter.

Of course, American investors can buy assets abroad, and their FDI purchases totaled about $100 billion in Q2 (bottom chart). They also bought $118 billion worth of foreign stocks, the largest amount in four quarters, but their purchases of foreign debt securities softened a bit in the second quarter. On net, however, more capital flowed into the country in Q2 than flowed out.

As noted above, we do not really worry about the red ink in the current account at present. As a percent of GDP, the current account deficit reached about 6 percent in 2006. It was more challenging for the country to finance its current account deficit a decade ago than it is today. Although we look for the dollar to trend lower in coming quarters as foreign central banks begin to tighten their respective policy stances, we believe U.S. assets will remain attractive to foreign investors, which will prevent a sharp decline in the value of the greenback.







Source: U.S. Department of Commerce and Wells Fargo Securities

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