Economics

Economic Indicator — July 6, 2023

Net Export Drag in Q2 Despite Narrowing in May Trade Deficit

Summary

The U.S. trade deficit widened to $69.0 billion in May amid a plunge in import growth. Net exports are still tracking to be a considerable drag on second-quarter growth, and the underlying import data demonstrate the domestic rotation away from goods and to services.

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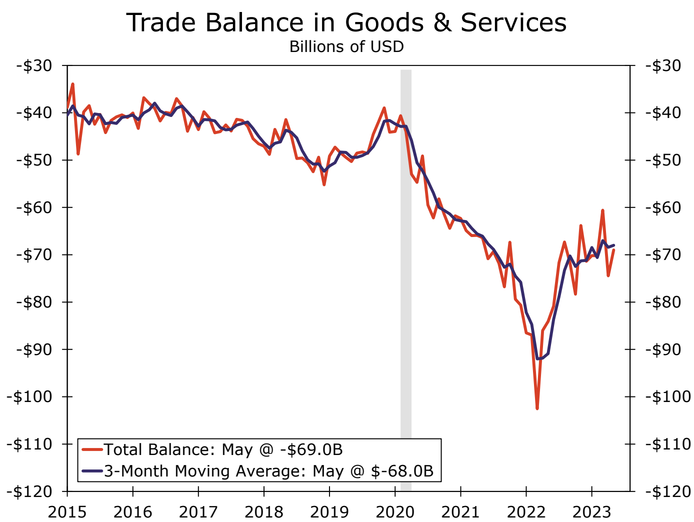
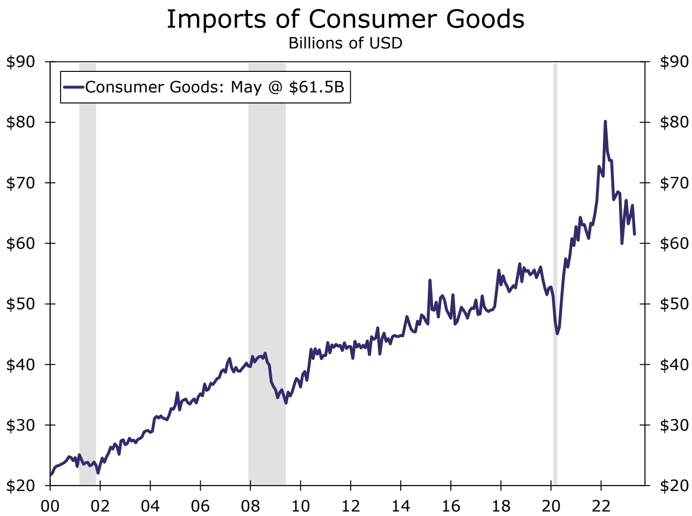


Source: U.S. Department of Commerce and Wells Fargo Economics

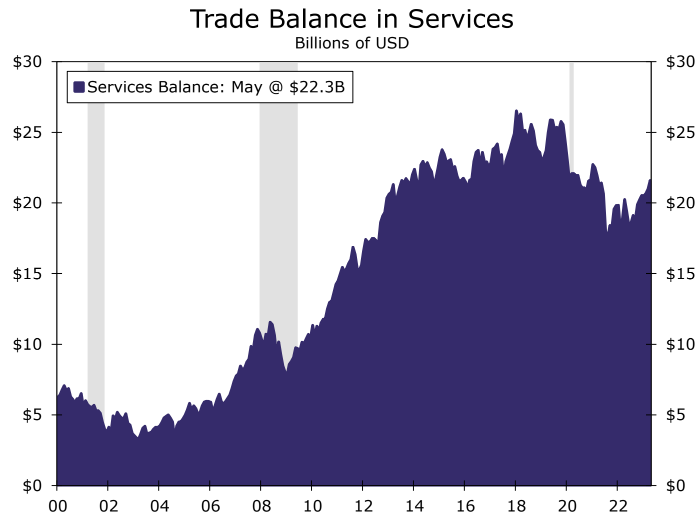
What a Drag

The U.S. trade deficit narrowed to -$69.0 billion in May amid a plunge in import growth. Imports slid 2.3% during the month, and while exports also declined, they fell by a more modest 0.8%. Monthly trade flows continue to be unusually volatile as trade finds its footing after pandemic-related disruption. Both exports and imports have been down in three of the first five months of this year, and in cutting through the monthly noise the outcome has been a fairly modest move in the overall trade deficit (chart). May marks the largest decline in imports in six months and somewhat reflects slower domestic demand for goods.

Despite the pullback in imports, net exports are still tracking to have been an overall drag on second-quarter GDP growth. We currently have net exports shaving about 1.4 percentage points off of second-quarter growth, which remains in the ballpark of expectations, though today's data for May suggest the drag will be a bit smaller than that. In real terms, imports are tracking to have slipped around 1% during the quarter, while exports look to be down around 10%.



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



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

Blame the Beans

Export weakness was fairly concentrated in May. A $2 billion plunge in soybean exports kept overall exports from growing, as it marked the largest decline of any end-use category and caused the overall foods & feeds category to drop by the most in over 40 years. Beyond that, some pullback in oil and petroleum products weighed on industrial supplies & materials exports, while capital goods were a fairly neutral factor in May. Autos were the standout, jumping 7.4% in May, and consumer goods exports rebounded by 3.9% in May after a volatile down-swing a month earlier.

Consumer goods had an opposite effect on imports in May, declining 7.2%. While some of this decline is likely somewhat due to payback from some one-off categories like pharmaceutical preparations, which slid $2.9 billion, or cell phones and other goods, down $1.1 billion, the trend is clearly lower (chart). Consumer goods imports are down around $49 billion year-to-date, which falls just behind industrial supplies imports as the largest decline of any major end-use category of both imports and exports. Industrial supplies are down around $52 billion on a year-to-date basis, which is more than double the decline we have seen in industrial supplies exports over the same period. Weakness in these categories of imports emphasizes the continued rotation away from goods and to services that we have seen in the U.S. specific economic data.

The U.S. has historically run a surplus in terms of services trade, and that continues to normalize (chart). Services exports rose for the 16th consecutive month, causing the overall services surplus to rise to $22.3 billion. While the surplus remains below its pre-pandemic position, it rose for the fourth-straight month.

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