

Economic Indicator — December 6, 2023

Trade Balance Widens in October but Normalization Likely Still in Train

Summary

The U.S. trade deficit widened for the second straight month in October amid a drop in exports and only a modest growth in imports. Net exports are positioned to be a fairly neutral force on Q4 growth, but we're still in the early innings.

Economist(s)

Shannon Seery Grein

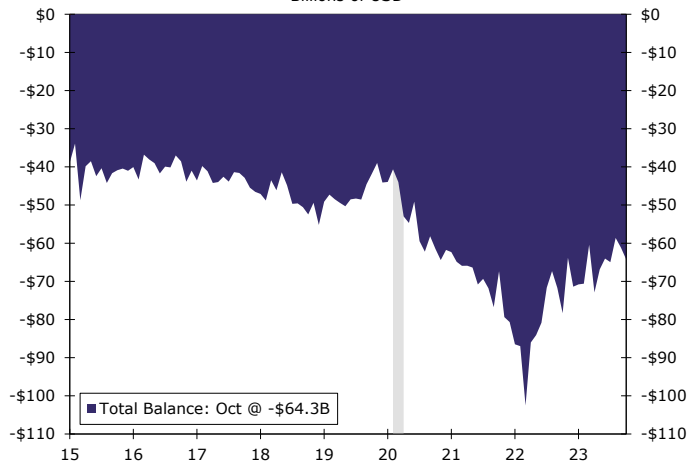
Economist | Wells Fargo Economics
shannon.grein@wellsfargo.com | 704-410-0369

Nicole Cervi

Economist | Wells Fargo Economics
Nicole.Cervi@wellsfargo.com | 704-410-3059

Trade Balance in Goods & Services

Billions of USD



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

Two Is a Coincidence, but Three Would Make a Trend

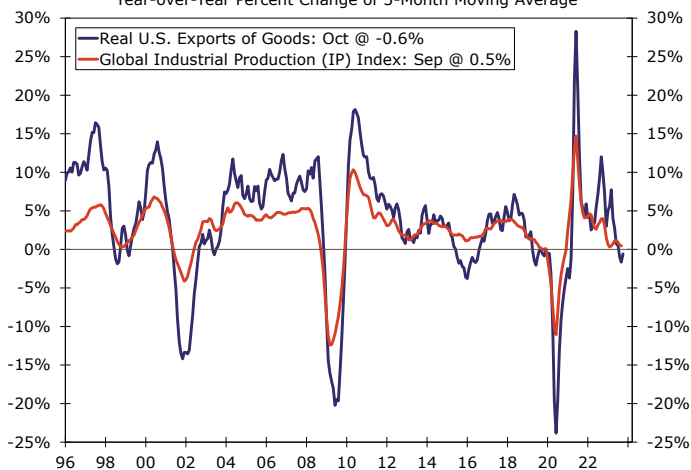
The trade deficit widened for the second straight month in October to -\$64.3 billion, leaving the deficit nearly as wide as it was in July and consistent with levels of late 2020 ([chart](#)). The deficit remains about 45% wider than it was just ahead of the pandemic, though the process of normalization in the deficit is likely still in place. As indicated by the advance merchandise trade data released last week, exports slid 1.0% or by \$2.6 billion, while imports rose by just 0.2% or \$0.5 billion.

Export weakness was largely tied to a \$2.1 billion decline across an array of consumer goods categories, and a pullback in the still-volatile auto category which slipped \$927M. Most other categories rose during the month. Drilling into consumer goods, the largest decline was tied to big-ticket items like gem diamonds, jewelry and cell phones, electronics & TVs, which suggests higher rates overseas are slowing consumer goods spending abroad just like they gradually are in the United States. Exports of industrial supplies rose 2.0% in October, marking the fourth straight monthly improvement. A pickup in organic chemicals, oil and gas exports drove the latest increase, while agriculture-related products were weak. Despite the recent momentum, industrial supplies exports are down more than 9% on a year-ago basis as growth in global industrial production has faltered ([chart](#)).

Although import growth was modestly positive, the gain can largely be chalked up to a \$1.8 billion rise in capital goods. Imports are still lower overall so far this year amid weakening demand for goods, with auto imports the lone exception. On a year-to-date basis, imports are off by about \$150 million, while overall exports are roughly \$30 million higher than they were by this time last year.

U.S. Real Goods Exports vs. Global IP

Year-over-Year Percent Change of 3-Month Moving Average



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

Advanced Foreign Economies U.S. Dollar Index

Index = January 2006



Source: Bloomberg Finance L.P. and Wells Fargo Economics

After adjusting for inflation, the decline in goods exports was less bad (down 0.3% versus -1.8% nominally), in part due to stronger food & beverage exports that tend to be volatile amid commodity price changes. While we're still in the early innings of the fourth quarter, the October data position net exports to again be a fairly neutral force on growth.

Export growth will likely continue to face headwinds from relatively weak global demand and the strong U.S. dollar, but some tailwinds may be in the offing next year. While the dollar's strength is poised to sustain in the final stretches of 2023, we [look](#) for the dollar to depreciate next year. A weaker dollar could help make U.S. products more affordable to foreign economies that are facing tepid growth locally. Activity has stalled or contracted in several major economies, such as the Eurozone and United Kingdom, and sentiment surveys suggest the sluggish trend will continue into 2024. That said, we expect the improvement in U.S. net exports to stem from weaker imports rather than materially stronger exports. A pullback in domestic consumer discretionary purchases and the continued stalling in manufacturing activity suggests further weakness in imports early next year.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2023 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE