

Economic Indicator — January 7, 2025

# U.S. Trade Deficit Widens in November, but Tracking to be Neutral on Q4 Growth

## Summary

The U.S. trade deficit widened in November amid a faster gain in imports than exports. There were still some data collection quirks in Canada influencing the November data, but the recent trend is consistent with a broad gain in trade flows ahead of potential Trump Administration tariffs this year.

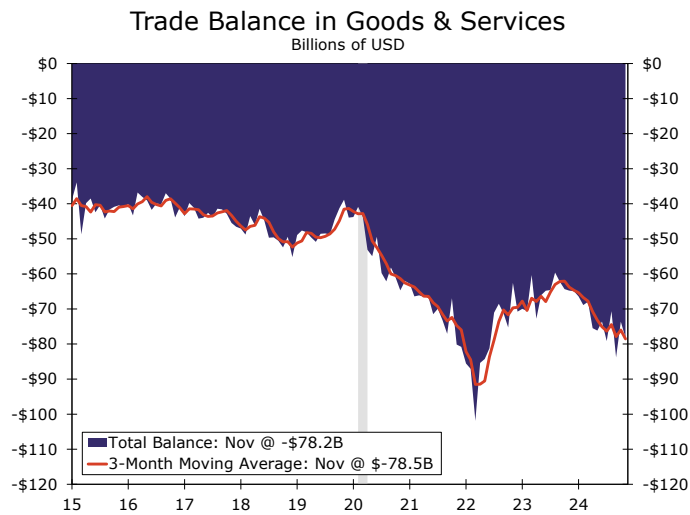
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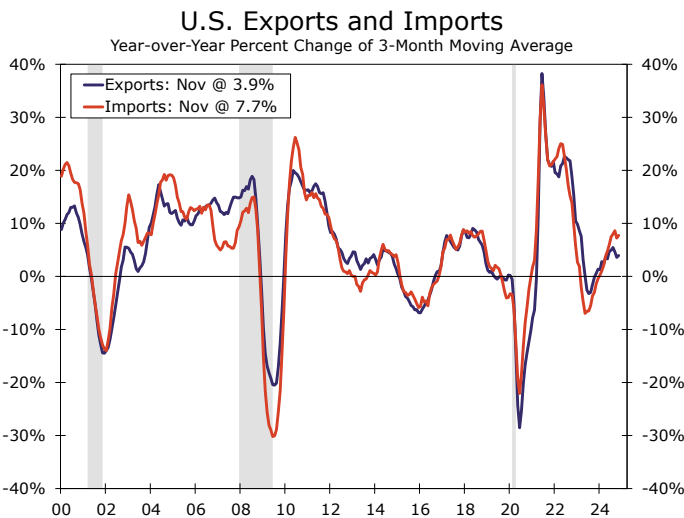
Source: U.S. Department of Commerce and Wells Fargo Economics

## Widening Deficit: Calm Before Tariff Storm?

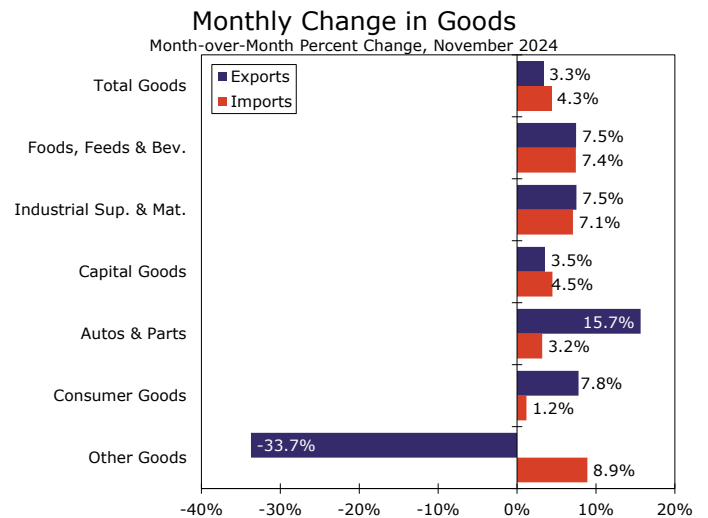
The U.S. international trade deficit widened to \$78.2 billion in November. While exports increased a solid 2.7% over the month, it was not enough to outpace imports, which rose 3.4%. In dollar terms, imports rose \$11.6 billion, or the most in two and a half years. There looks to be some payback from an unusually weak October, when every major category of end-use goods declined, but overall import gains were fairly broad based.

Pulling back from the month-to-month volatility, imports have outpaced exports on average the past six months or so at an annual rate (chart). Merchandise exports are up 6.6% on year-ago basis, signaling that trade outflows are sturdy relative to their pre-pandemic norm of roughly 4.5%. But imports are also strong; over the past year, goods imports have risen 9.4%. The underlying strength in imports has kept the trade deficit on a widening trajectory throughout 2024 (chart), consistent with robust domestic demand. For the fourth quarter, net exports are actually shaping up to be a more neutral force on growth, and potentially slight positive. Real merchandise imports (+4.1%) outpaced real goods exports (+3.4%) in November, but exports recovered more of the October pullback than imports leading to this more neutral outturn.

One thing to note is that annual growth in exports is likely stronger than November's data suggest. Shipment processing delays at the U.S.-Canadian border have overstated U.S. exports of "other goods" to Canada in September and October, as the Bureau of Economic Analysis lists estimates of unprocessed exports in that category. The data quirk underpins the \$5 billion plummet (-33.7% month-over-month) in other goods exports in November, which was the largest monthly change among the major end-use categories (chart). If we excluded other goods, total merchandise exports would have risen 7% over the month, more than double the reported 3.3% increase. Annual benchmark revisions will revise and re-categorize the historical data with actual transaction receipts in June.



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



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## Tariff Talk

The anticipation of new-tariff policy continues to keep trade front and center. For U.S. businesses, the threat of new tariffs could be leading to a pull-forward in imports, but there is still a lack of clarity around tariff expectations. Earlier this week, there were reports that President-elect Donald Trump was considering a narrower scope of tariffs where they would still be universal, but only apply to specific "critical" imports. But Trump was quick to refute those claims saying he won't be paring back tariff policy. Recall that President-elect Trump's original proposal was a universal tariff of 10% on all imports and 60% on imports from China.

There remains a tremendous amount of uncertainty about the degree and timing of tariffs, but we continue to expect to see them utilized early by the Trump Administration. If implemented as proposed, tariffs would put upward pressure on consumer inflation and weigh on U.S. output growth. Stay tuned.

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