

Economic Indicator — April 4, 2024

# We're Back to a Widening U.S. Trade Deficit

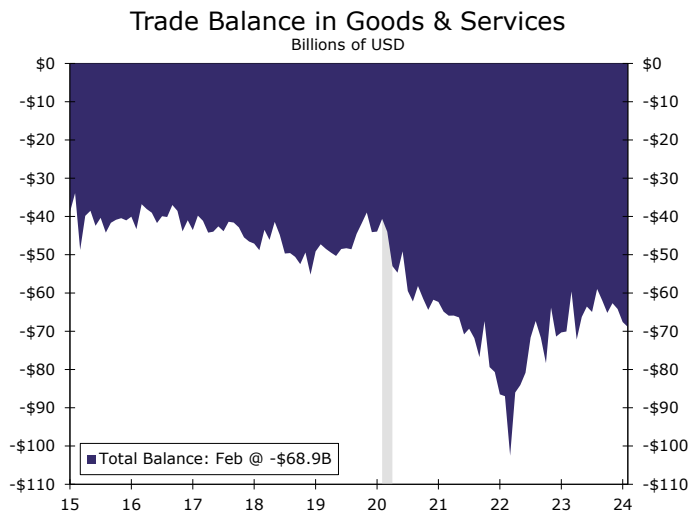
## Summary

Exports rose by the most in a year in February, while imports saw its second fastest gain in two. The solid outturn caused a modest widening in the U.S. trade deficit and suggests net exports will be a drag on U.S. real GDP growth in the first quarter.

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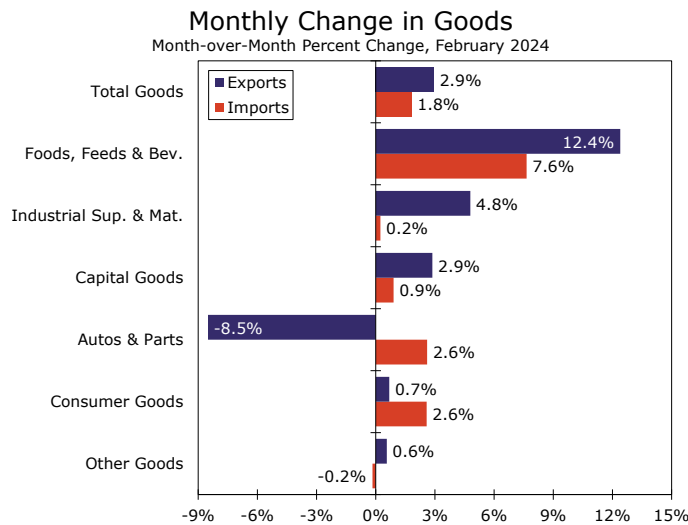


Source: U.S. Department of Commerce and Wells Fargo Economics

## Trade Flows Pop and Cause Deficit to Widen for Third Straight Month

International trade flows ripped higher in February with exports registering the largest gain in a year and imports seeing the second largest pickup in two years. U.S. exports advanced \$5.8 billion in February, while imports shot \$7.1 billion higher. The larger gain in imports caused the U.S. trade deficit to widen by \$1.3 billion to a balance of -\$68.9 billion. February marks the third consecutive month, or the fifth time in six months, that the trade balance has widened, a somewhat different pattern than the sharp narrowing we saw throughout 2022 and in the first half of last year ([chart](#)).

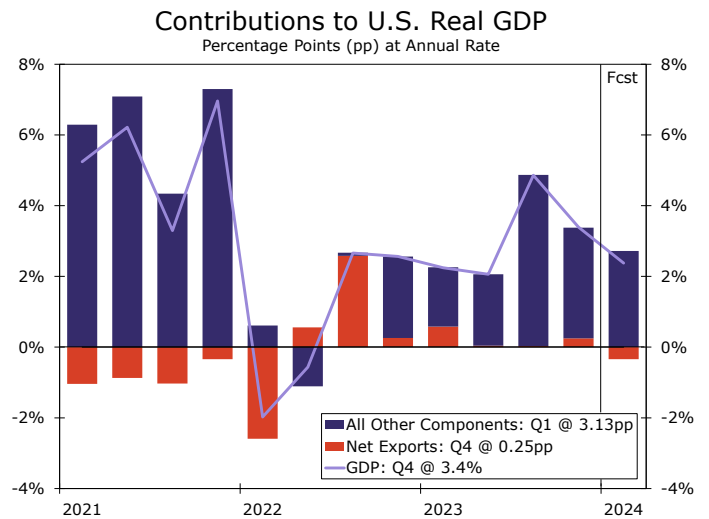
Trade flows were fairly broad based with auto exports the only major end-use category to register a decline ([chart](#)), as indicated by the advanced merchandise trade data release last week. Elsewhere, capital goods exports picked up thanks in large part to a bounce back in civilian aircraft shipments. On the import side, consumer goods rebounded in February, rising 2.6% over the month after slipping 1.8% in January. Imports of cell phones, furniture and apparel helped lift the overall category.



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

The recent strength in imports suggests domestic goods demand is normalizing after a relatively weak year for capital expenditures and durable good consumption. We anticipate imports will continue to outweigh exports in the coming months. In factoring in the revision to a wider January trade deficit and the February data, today's data suggest net exports are tracking to subtract about half a percent from headline real GDP growth in the first quarter. Should that come to fruition, Q1 would mark net exports' first negative contribution to headline GDP growth since Q1-2022 ([chart](#)).

Net exports ranged from an additive to neutral force on growth over the past year due largely to a pull back in merchandise imports and stable services exports. As we outlined in a recent [special report](#), the trade balance's normalization has occurred without any major policy overhauls. Much of the trade-related policy that was put in place during the Trump administration remains in effect today, with some tweaks from the Biden administration. U.S. importers have faced higher costs due to the 2018-19 trade war, but with the tariffs' limited direct hit to consumer products and elevated corporate profit margins allowing businesses to absorb most of the additional cost, there has been a limited pass-through to consumer prices. While the trade war's overall effect on the economy has been marginal, the president's near unilateral control of trade policy suggests trade may again take on greater importance headed into this contentious election cycle. Stay tuned.



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

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