

Economic Indicator — November 5, 2024

# Losing Balance: U.S. Trade Deficit Widens in September

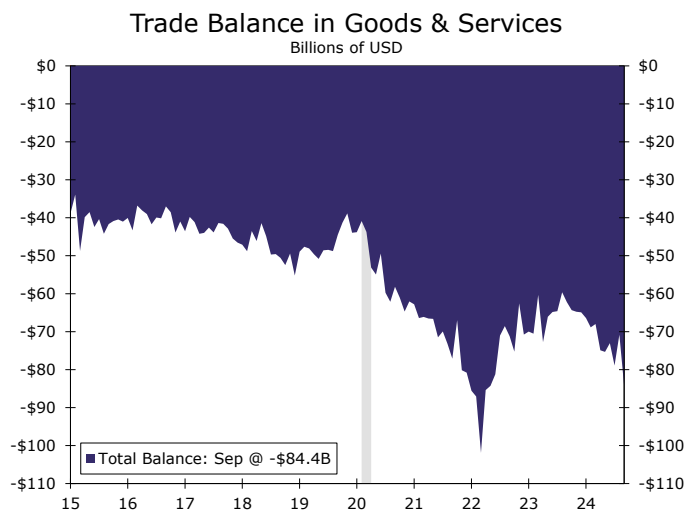
## Summary

International trade flows remain volatile on a month-to-month basis. Cutting through the noise, both exports and imports continue to expand as demand remains resilient. The outcome of the U.S. presidential election will determine the path of trade policy, but net exports are set to remain a headwind to domestic output growth.

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

## Not Your Usual Widening

Another whipsaw is in the books for U.S. trade. The international trade balance contracted \$13.6 billion to -\$84.4 billion in September ([chart](#)). That is not your usual widening—it marks the largest monthly drop in the deficit in two-and-a-half years and the third largest on record. The steep decline was driven by a pullback in exports (-1.2%) and a jump in imports (+3.0%). Today's report largely confirms last week's [GDP data](#) and continues to demonstrate the resilience of domestic demand.

Real GDP growth clocked a 2.8% annualized pace of growth in the third quarter, largely driven by consumer and government spending. Real exports expanded at a solid 8.9% rate over the quarter, but it was not enough to outstrip real imports, which rose 11.2%. The outturn led net exports to subtract 0.56 percentage points from real GDP growth—a much larger drag than the July and August trade data suggested.

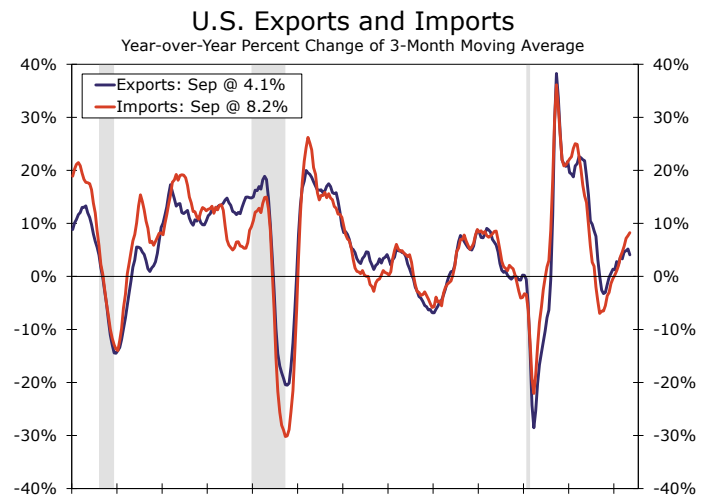
We learned today that real trade flows reversed course again in September. Real goods imports surged 4.1%, while real goods exports slipped 1.2%, underpinning the drag on overall U.S. output growth in Q3. While this development sets trade up to be another drag on real GDP growth in Q4, if recent volatility is any guide, another monthly swing could turn trade into a neutral, or even positive, contribution. In short, it's too soon to say which way trade will go in the final months of the year.

If there is good news in this release it is that the drop in goods exports was somewhat concentrated. Specifically, crude oil accounted for over 90% of the pullback in industrial supplies exports in September. Civilian aircraft exports were also another sore spot with nearly 90% of the drop in capital goods stemming from the product. Finally, if it weren't for a plunge in consumer pharmaceutical preparations, consumer goods exports would have expanded during the month. This is to say, while exports pulled back, a lot of the drop in goods was due to one-off factors and pockets of weakness rather than a broad-based souring on U.S. goods. While goods exports ended the quarter on a soft note, overall exports have had a decent year thus far. On a year-ago basis, goods exports were up 4.1% on average the past three months, which is just under the pre-pandemic annual average, but does lag strength in imports ([chart](#)).

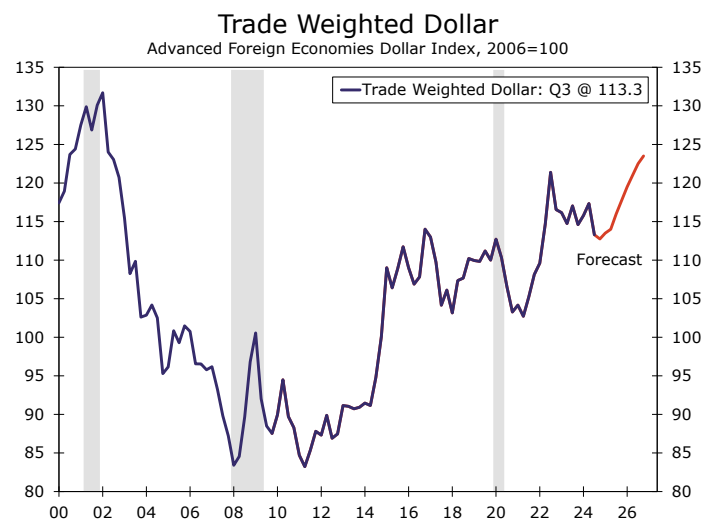
Import growth looks to have been more broad based and remains supported by solid domestic demand. The strength in merchandise imports (+4.0%) was supported by consumer goods (+6.0%) and capital goods (+3.4%), though every major end-use category of goods posted a gain in September.

As of this writing, millions of voters are hitting the polls to elect the next president of the United States. The election outcome will determine the path of trade policy, but any changes will not happen overnight. In short, we'd expect larger changes under a Trump presidency than under Harris. Trump has called for minimum tariffs between 10%-20% on all U.S. imports and is in favor of lifting tariffs on China to 60%. Harris, on the other hand, would likely support a continuation of current policy.

Irrespective of who gains control of the White House, trade policy will remain in focus, especially with the dollar's dominance. Our international economists look for [steady dollar appreciation](#) through 2025 and into 2026 ([chart](#)) amid faster interest rate reductions abroad than domestically and underwhelming growth in China. The dollar's strength is poised to support import growth, while softening activity across the G10 economies will weigh on export demand. Taken together, net exports are set to remain a headwind to domestic output growth.



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



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

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