

Economic Indicator — August 6, 2024

U.S. Trade Deficit Narrows at the End of Q2

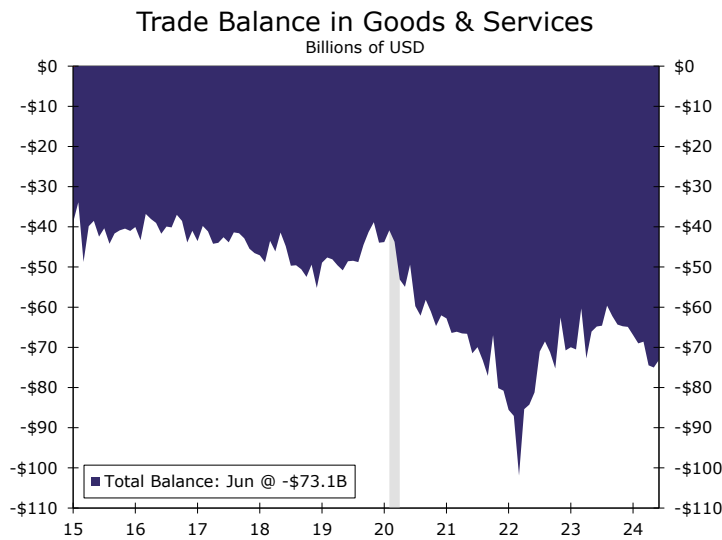
Summary

The international trade deficit narrowed to \$73.1B in June. We suspect cooler domestic demand, amid a moderating pace of consumer spending and business investment, will ease imports in the remainder of the year and help turn net exports into a neutral factor on overall GDP growth.

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

What A Drag

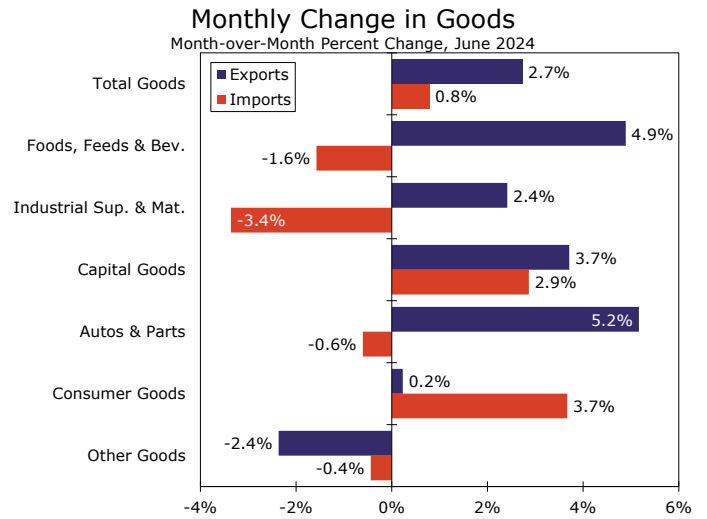
After widening the prior two months, the U.S. international trade deficit narrowed \$1.9B to \$73.1B in June (chart). The improvement confirms net exports' smaller-than-expected drag on real GDP growth in the second quarter, which we learned last week. The monthly details show that exports increased 1.5% in June, while imports rose a more modest 0.6%. Thus it was real imports that outpaced real exports by a considerable margin for the quarter overall, resulting in the drag on growth in Q2 that stemmed from trade.

The monthly export gain was driven entirely by merchandise goods, as services exports slipped over the month. The robust 3.7% rise in capital goods exports was primarily due to civilian aircraft, computers and semiconductors (chart). The gain in imports was solid and more evenly shared between goods and services. The drivers of import growth were somewhat narrower with consumer (specifically pharmaceutical products) and capital goods supporting growth while industrial supplies, primarily crude oil imports, held back the gain.

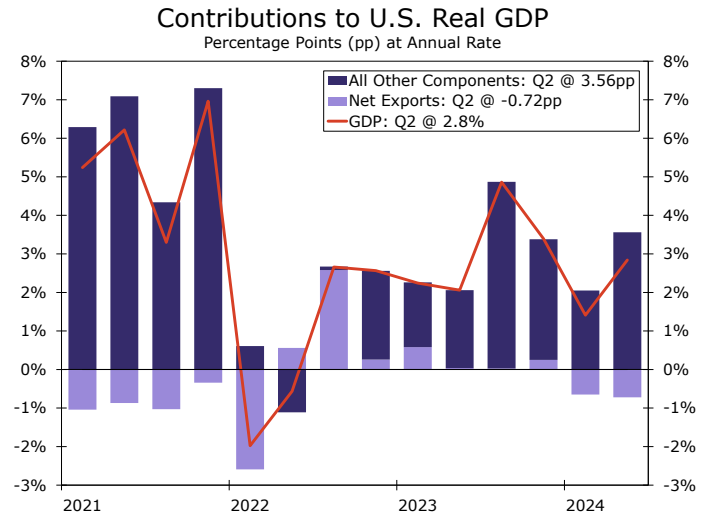
The softer pace of import growth, if sustained, will help trade turn back into a neutral factor on overall GDP growth. After being a positive-to-neutral force on growth for seven-consecutive quarters, net exports sliced more than half-a-percentage-point off of real GDP growth in the first (-0.65) and second (-0.72) quarters of 2024 (chart). The negative contributions stemmed from real imports far outpacing real exports over the first half of the year.

We suspect cooler domestic demand, amid a moderating pace of consumer spending and business investment, will ease imports in the remainder of the year. Exports are likely to remain firmer given the recent pickup in domestic industrial production and gradual economic upswing in the country's key trading partners, such as the Eurozone and United Kingdom. Taken together, these dynamics point to a scant contribution from trade to real GDP growth in the coming quarters. Specifically, real goods exports finished Q2 rising 3.2% in June, so even accounting for some payback in July, exports are set up well for Q3.

International trade data are ultimately volatile month-to month, but after narrowing over the course of 2023, the deficit has widened again on trend. While we anticipate trade to again become more of a neutral factor, we are not looking for a large narrowing in the deficit to take place in the near term unless domestic demand deteriorates more rapidly than we presently expect.



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



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