Economic Indicator — August 6, 2024

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

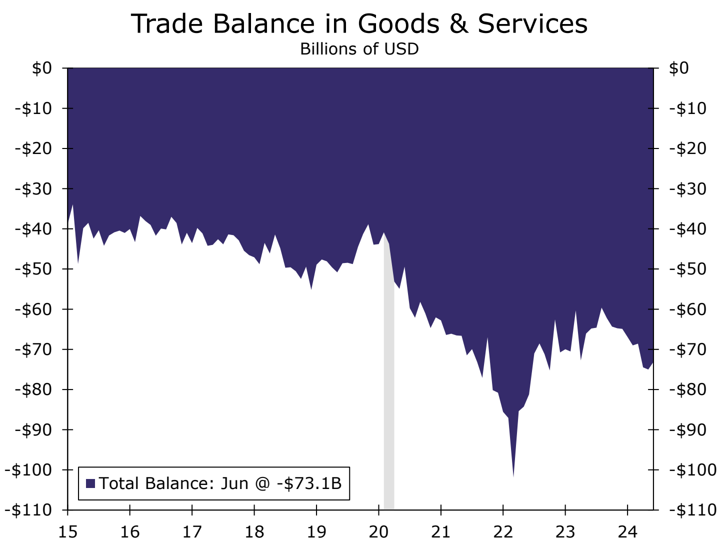
Summary

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 reminder of the year and help turn net exports into a neutral factor on overall GDP growth.

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



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

What A Drag

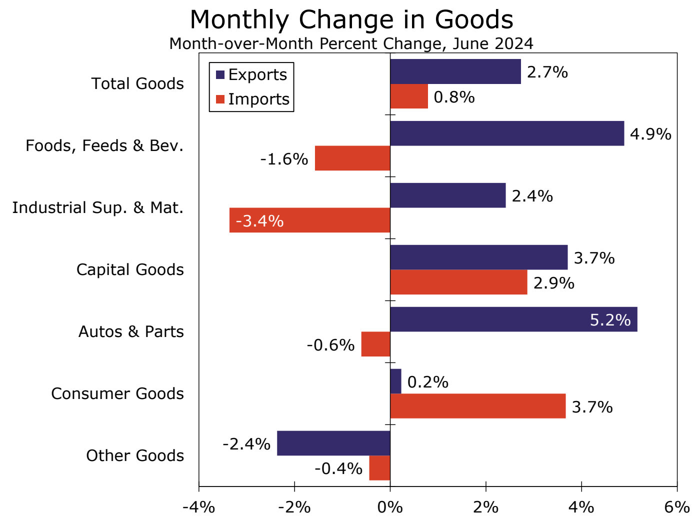
After widening the prior two months, the U.S. international trade deficit narrowed $1.9B to $73.1B in June (chart). The improvement confirms net exports' smaller-than-expected drag on real GDP growth in the second quarter, which we learned last week. The monthly details show that exports increased 1.5% 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 reminder 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.



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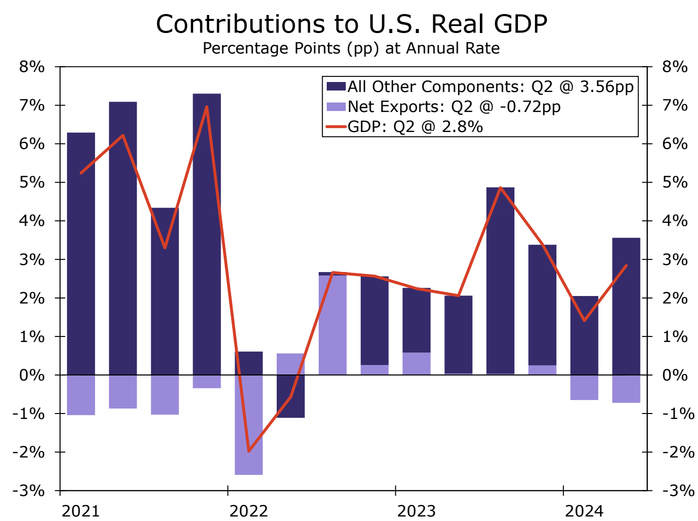

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Economics Group

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
Jeremiah Kohl	Economic Analyst	212-214-1164	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
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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