Economic Indicator — September 4, 2024

Wider U.S. International Trade Deficit Will Weigh on Q3 GDP Growth

Summary

U.S. imports jumped in July, which caused the international trade deficit to widen to the largest position in a year-and-a-half and positions net exports to once again subtract more than half-a-percentage-point off of third-quarter real GDP growth.

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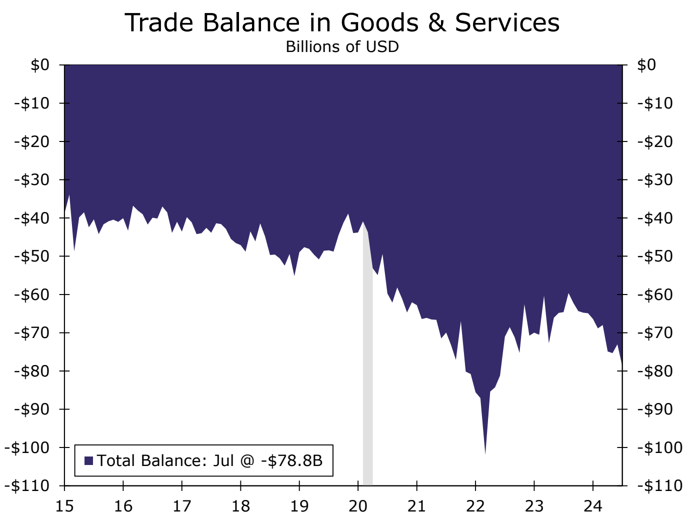


Source: U.S. Department of Commerce and Wells Fargo Economics

Brace for Another Drag from Trade in Q3

The U.S. international trade deficit widened $5.8 billion to $78.8 billion in July (chart). The larger deficit was presaged by advance data released last week that showed goods imports jumping over the month, while goods exports were essentially flat. Today's data confirm that import demand remains firm despite the dollar's slide over the past few months; total imports were up 8.4% over the past year in July. Exports have strengthened as well, although not to the same degree as imports. Total exports were up 5.0% on a year-ago basis in July. The comparative strength in imports has led the trade balance to decline to its lowest level since the summer of 2022.

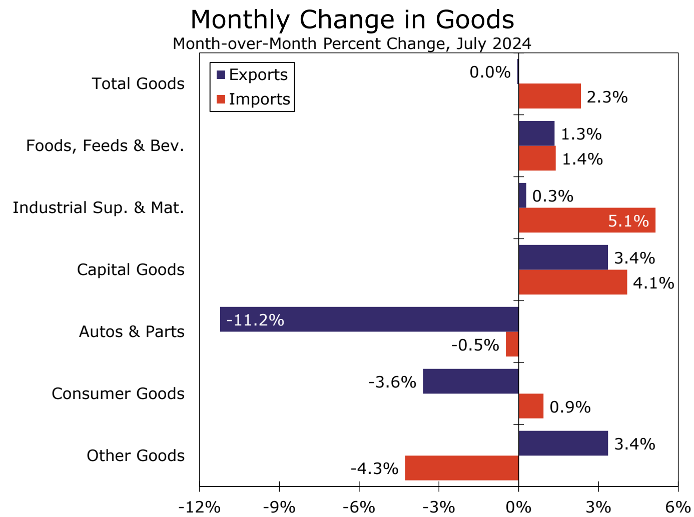
Goods exports were weak in July primarily due to a substantial decline in automotive vehicles and parts (-11.2%) outflows (chart). The choppiness in auto trade reflects the ongoing normalization in a sector that has faced several acute supply and labor challenges since the pandemic. Consumer goods exports (-3.6%) slipped as well, but the decline was offset by a solid increase in capital goods exports, which has been underpinned by strength in semiconductors and civilian aircraft.

On the import side, merchandise inflows rose 2.3% in July with support from capital goods and industrial supplies. Most of the uptick in supplies was driven by metals, as non-monetary gold and finished metal shapes each contributed nearly two percentage points to the category's overall 5.1% monthly rise. This is a notable outturn given that crude oil inflows typically dominate this category. A jump in computer accessories, which has been in high demand domestically, accounted for much of the gain in capital goods imports. Consumer goods rose a more modest 0.9%.

While modest, consumer imports were more broad-based in July than in recent months. That is, one category, that has little to do with underlying demand conditions, has accounted for all the growth in consumer imports so far this year—medical, dental and pharmaceutical preparations. Consider that while overall consumer goods imports are up $10.2 billion on a year-to-date basis so far this year (chart), pharmaceutical preparations have risen a whopping $19.4 billion over the period. In other words, without the gain in pharmaceutical prep, consumer goods imports would be down this year.

Despite this relatively concentrated strength in import growth, a resilient consumer has been a powerful source of growth for the U.S. economy in recent years. For the second quarter, consumer spending accounted for 65% of real GDP growth and July data suggest spending remained strong in the early innings of the third quarter. A normalization in consumer goods imports after the pandemic-related boost, better inventory management and sustained services spending help explain the divergence between consumer imports and domestic spend.

Yet the surge in underlying imports still suggests net exports will weigh on growth. Real goods imports rose nearly 2% in July while real exports slid over 1%. July's data thus position net exports to again be a considerable drag on third quarter growth, and we now expect trade to subtract more than half-a-percentage-point off of headline real GDP growth in the third quarter.



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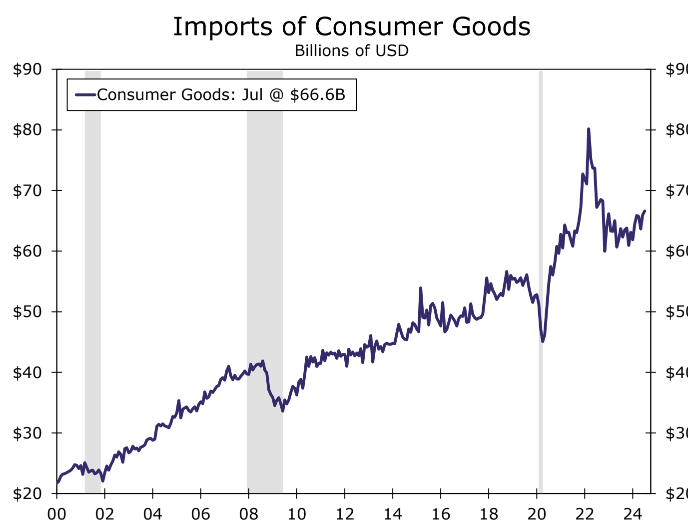

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