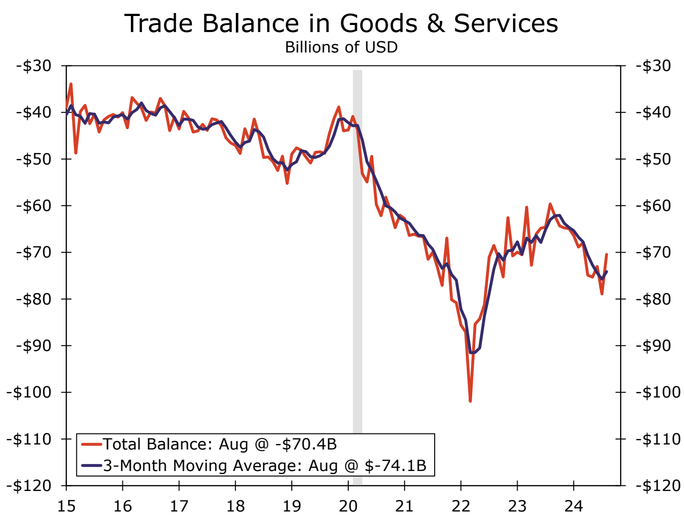
Economics

Economic Indicator — October 8, 2024

U.S. Trade Flows Reverse Course in August

Summary

The U.S. international trade deficit narrowed a sharp $8.5 billion to -$70.4 billion in August. Behind the swing was a 2.0% rise in exports and a 0.9% decline in imports. The pullback in imports suggests net exports will be a neutral factor on the economy's overall growth in the third quarter.



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

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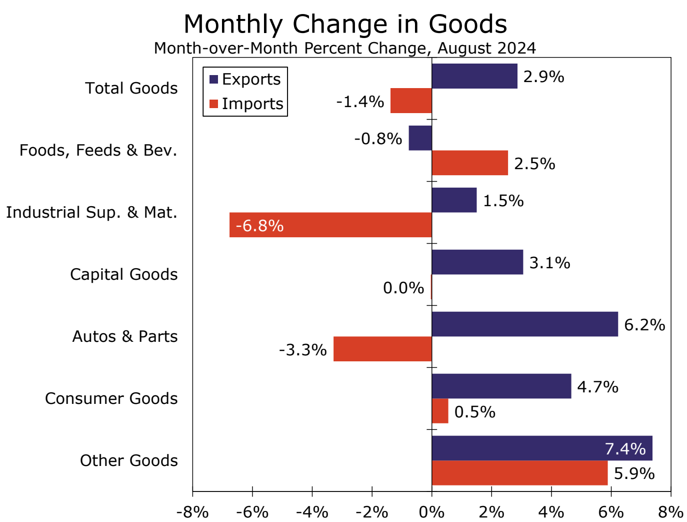
Two Paths Diverged

The U.S. international trade deficit narrowed $8.5 billion to -$70.4 billion in August (chart). The sharp narrowing brings the overall trade balance closer to where it started the year and marks the largest monthly change since early 2023. Behind the swing was a 2.0% rise in exports and a 0.9% decline in imports. We have written over the past few months that supply chain hurdles, such as shipping delays due to the attacks in the Red Sea and U.S. dockworker strikes, have underpinned strong import flows in the first half of this year. Today's data show that demand taking a breather.

The pickup in exports was broad-based across merchandise goods (+2.5%) and services (0.9%). On the goods side of the ledger, capital goods exports led the charge with support from civilian aircraft, telecommunications equipment and computer accessories. These categories have been some of the sole drivers of domestic durable goods demand and overall export growth this year; on a year-over-year basis, goods exports were up 4.5% in August, and capital goods account for nearly 4.0 percentage points of that annual gain.

Meantime, the weakness in imports was concentrated in goods. Merchandise imports declined 1.4% over the month (chart), while services imports expanded 1.1%. Industrial supplies dragged down overall goods imports, as crude oil and finished metals each posted sharp contractions. Global oil prices declined roughly 2% in August and likely contributed to crude oil's nominal import decline. Despite the monthly slide, total goods imports were up 7.2% on a year-over-year basis in August, much stronger than goods exports.



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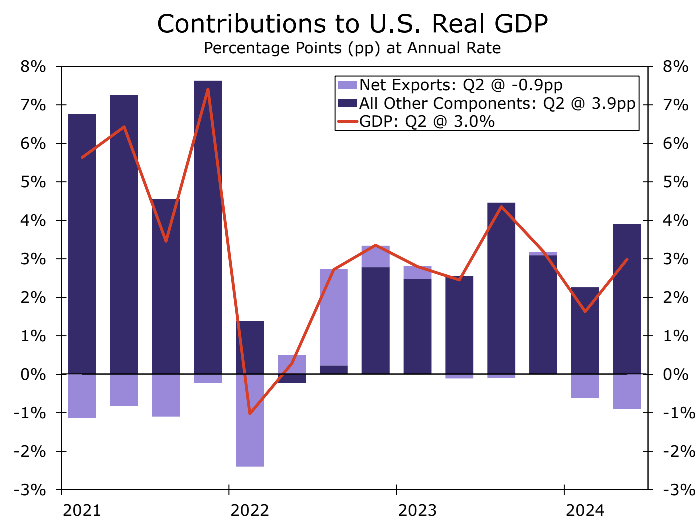

Source: U.S. Department of Commerce and Wells Fargo Economics

The sharp pullback in imports suggests net exports will be a neutral factor on the economy's overall growth in the third quarter. Real merchandise imports slipped 1.3% while real merchandise exports rose 3.8% in August. The outturn essentially reverses July's deficit widening and positions net exports' contribution to real GDP growth to be close to nil, or even modestly positive in Q3. A neutral trade factor would be a reprieve from the past few quarters where net exports have sliced more than half-a-percentage-point off of headline growth (chart).

The strength in exports is unlikely to persist, in our view. The risks to global demand are tilted to the downside, as China's economy has yet to meaningfully stabilize and growth across the Eurozone is showing some signs of fragility. On the flip side, domestic demand is poised to remain firm amid solid personal income growth and a strong dollar. Taken together, we look for trade to be a modest drag on real GDP growth throughout 2025.

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