Economic Indicator — January 8, 2026

Trade Balance Improves, but Q4 Growth Impact Is Limited

Summary

October's trade deficit narrowed, but the nearly $30B narrowing *overstates* the expected impact on real GDP growth in Q4. The shift reflects investment-driven precious metals transfers which won't translate to as large of a boost to fourth quarter growth as the headline data imply.

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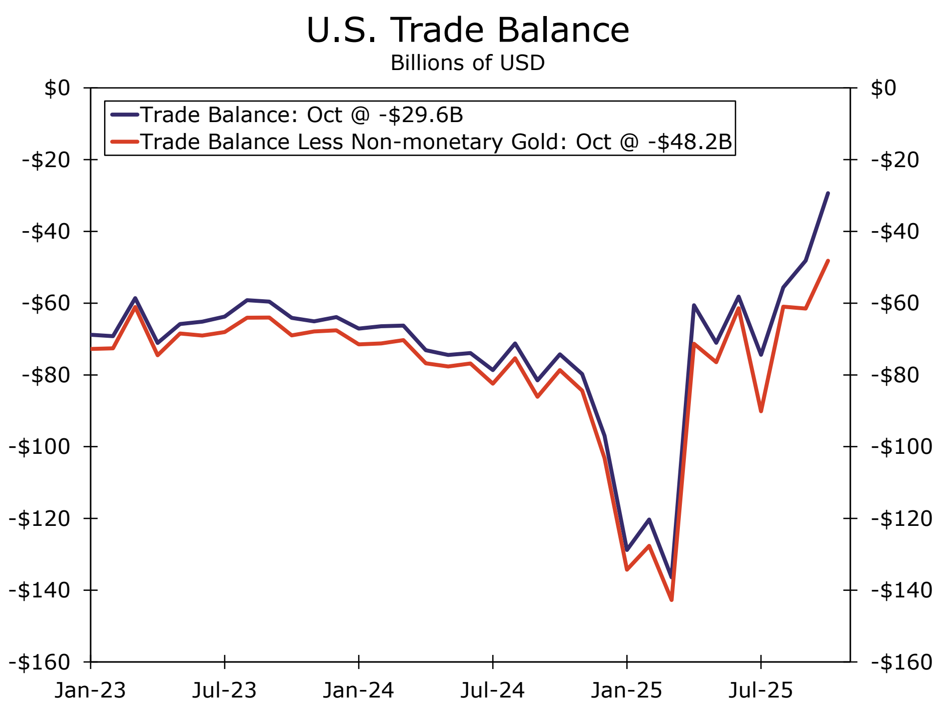


Source: U.S. Department of Commerce and Wells Fargo Economics

Not This Narrow

Today's release of October trade data brings a second consecutive monthly head-scratcher: despite expectations for a widening, the actual number once again showed a sharp narrowing in the trade deficit in October. One of the themes of our 2026 annual outlook dealt with our expectation for trade to be *less* of a disruptive factor in 2026. We still anticipate that will be the case, but the government is still getting caught up with economic indicators delayed during the shutdown, and we're still months away from our first look at 2026 trade flows.

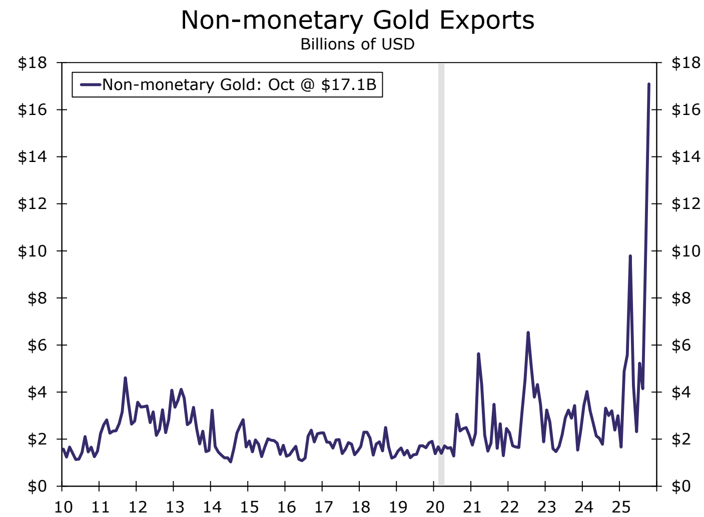
Ultimately this sharp narrowing in the October trade deficit is almost entirely due to the movement of gold. Exports of non-monetary gold (chart) and precious metals together increased a total of $10 billion in October, more than offsetting declines elsewhere responsible for 'only' the $7 billion gain in overall goods exports. The rub is, this *overstates* the true narrowing in the trade deficit today mainly because the BEA adjusts these flows to discount any transfer of metal related to investment purposes in GDP accounting, which tends to be a bulk of these monthly categories. In simple terms, this surge in exports will not translate to a *massive* boost to Q4 GDP growth of this magnitude, as seen in the chart above which proxies the trade balance excluding non-monetary gold. We also expect a reversal in this trend at some point, whether that is in November or later, which will in turn likely cause a sharp widening in the monthly trade deficit figures.

All of that aside, goods import growth was also weak, slipping $12 billion, so even discounting the effects from trade in precious metals for investment purposes, the trade deficit narrowed last month and suggests net exports are tracking to boost GDP growth, just not by as much as the headline figures suggest. But here too, we can talk away the extent of some of the narrowing due to weak imports mostly being tied to a drop in pharmaceutical preparations specifically (down $14 billion). But while this category is volatile, it is included in measured GDP. We expect net exports to boost fourth quarter growth, though to what extent is unusually cloudy at the moment.

The bottom line is that we can't read too much into recent moves in trade at the moment. Not only are the figures disrupted by the transfer of precious metals for investment purposes, but we still believe trade flows are somewhat normalizing from tariff-influenced decision-making early last year.

The rapid changes to trade policy over the past year took the average effective U.S. tariff rate from less than 3% in 2024 to north of 11% toward the end of 2025 (chart). The realized rate has lagged stated or estimated rates for a number of reasons including a shift in trade flows away from high tariffed countries to lower tariffed ones as well as more compliance with pre-existing trade agreements like the USMCA with Mexico and Canada, allowing more goods to enter duty free than previously implied. Regardless, the tariff burden to U.S. importers is up five-fold in the past 12 or so months.

It remains to be seen how much more adjustment comes to tariffs. The biggest consideration is how the Supreme Court rules on the legality of the Trump administration to implement a large swath of tariffs under the International Emergeny Economic Powers Act (IEEPA), a decision that can come as early as tomorrow morning. Even if the court strikes down the tariffs, the administration has other options to reimpose tariffs, likely keeping them largely in place near recent levels this year.



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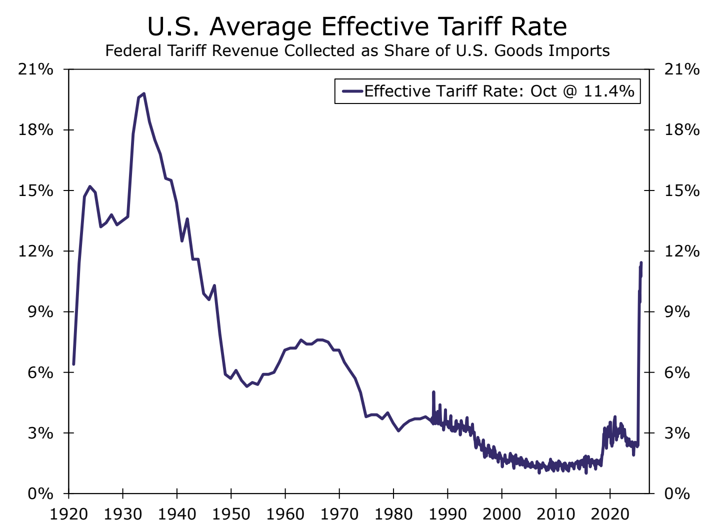

Source: U.S. Department of Commerce, U.S. Department of the Treasury and Wells Fargo Economics

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