

Economic Indicator — January 9, 2024

## U.S. Trade Deficit Continues Narrowing Trend

### Summary

The U.S. trade deficit narrowed modestly in November, and at -\$63.2 billion it's almost 1/5 smaller than it was a year ago. Trade flows may be bumpy month to month, but the narrowing trend is in place.

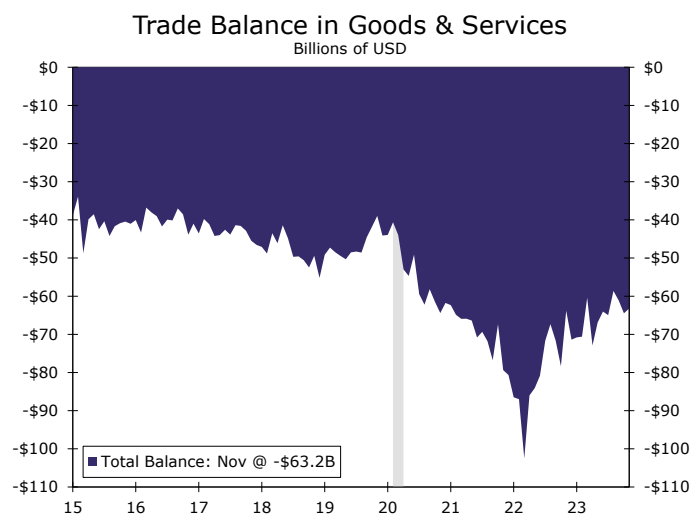
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Source: U.S. Department of Commerce and Wells Fargo Economics

## Larger Drop in Imports and Expansion in Services Surplus Cause Narrowing in Deficit

International trade flows were weak in November, but a larger drop in imports caused a modest narrowing in the U.S. trade deficit. Exports and imports both slipped by nearly 2% during the month, but the dollar decline was larger in terms of imports (-\$6.1 billion) than exports (-\$4.8 billion). This outturn caused the trade deficit to narrow modestly to -\$63.2 from a downwardly revised -\$64.5 previously ([chart](#)).

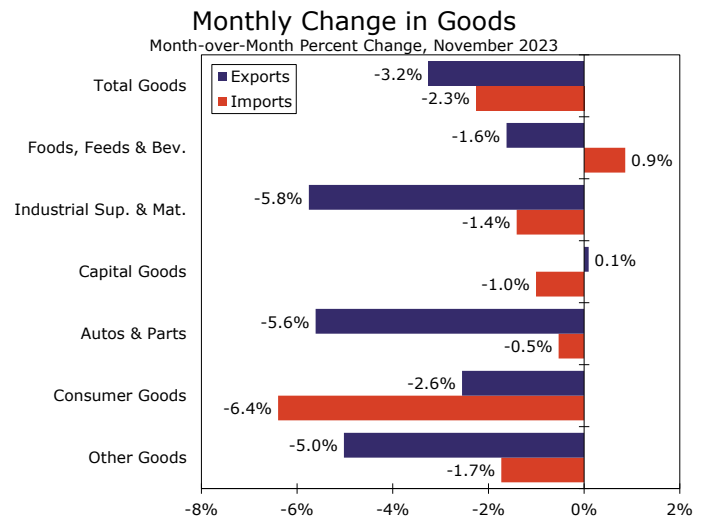
Most of the November weakness can be traced to goods specifically. Goods exports slid \$5.4 billion (or by 3.2%) amid a large drop in industrial supplies and materials, which accounted for nearly 70% of the total decline in goods exports ([chart](#)). Exports were weak elsewhere as well, with capital goods the only major end-use category to post growth, and modestly so, as exports here rose by just \$49 million.

Import weakness, on the other hand, was due to a \$4.1 billion drop in consumer goods specifically, responsible for about 70% of the drop in overall imports ([chart](#)). This is a sizable decline considering that this category comprises less than a quarter of total imports and may indicate dwindling sales expectations among wholesalers and retailers who appear to be more measured about their approach to inventory management as 2023 was winding down. Industrial supplies and materials and capital goods imports were also fairly weak in November.

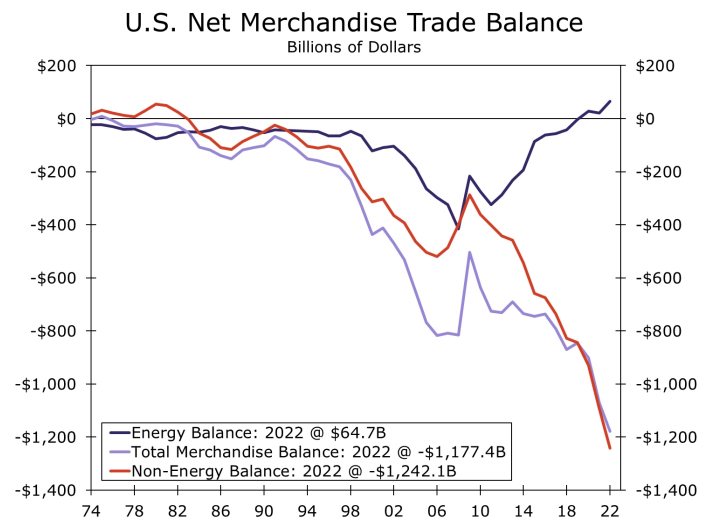
After adjusting for inflation, the decline in goods was slightly less bad in terms of exports. Net exports are still tracking to be a fairly neutral force on growth in the fourth quarter, though today's data suggest some upside to the 0.2 percentage point drag we have penciled in the forecast from the net exports on growth. Net exports could now very well provide a percentage point or two lift to headline growth in Q4.

Although the U.S. historically runs a large trade deficit, it has been narrowing on trend since reaching its pandemic-related low in early 2022. The deficit is about 1/5 smaller than it was roughly a year ago ([chart](#)). The U.S. also runs notable surpluses in key areas, which are helping chip away at the deficit. One would be in services, where the trade surplus widened by \$714 million to \$26.2 billion in November amid the fastest gain in services exports in four months.

Another would be in energy trade. As we discussed in a recent [special report](#), the ramping up in energy production amid the leveling off in U.S. consumption since around 2005 has led to a trade surplus in energy in recent years ([chart](#)). The United States has been a net energy exporter for the past three years straight, which helps diminish America's reliance on foreign providers, mitigating any direct economic impact of an uncertain geopolitical climate.



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



Source: Energy Information Administration and Wells Fargo Economics

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