

Economic Indicator — October 5, 2023

Narrowing in Trade Deficit Likely to Boost Q3 GDP

Summary

The U.S. trade deficit narrowed in August to the smallest gap in almost three years, as exports of goods rose and imports receded, while the surplus in services trade rose to nearly a record. Barring any sharp widening in September, net exports should tack on at least half a percentage point to Q3 GDP growth.

Economist(s)

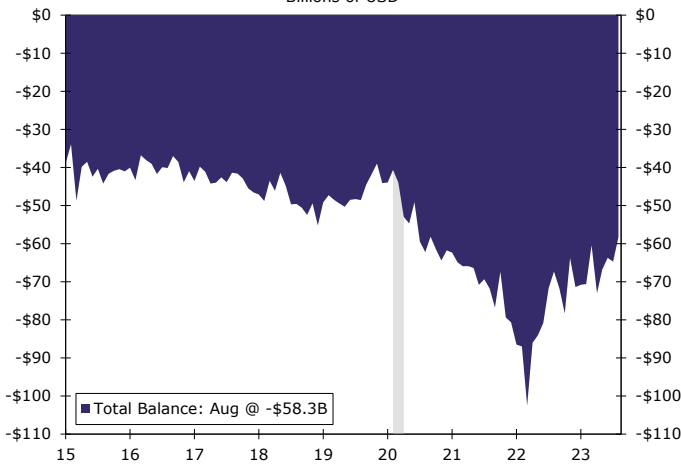
Tim Quinlan

Senior Economist | Wells Fargo Economics
 Tim.Quinlan@wellsfargo.com | 704-410-3283

Shannon Seery

Economist | Wells Fargo Economics
 Shannon.Seery@wellsfargo.com | 704-410-0369

Trade Balance in Goods & Services
 Billions of USD



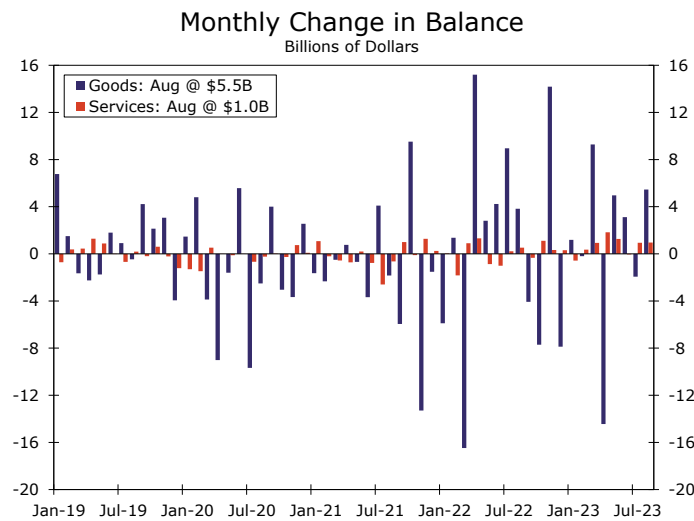
Source: U.S. Department of Commerce and Wells Fargo Economics

A Mostly Goods Story, Although Services Surplus Large as Well

The U.S. trade deficit narrowed in August to its smallest since 2020 ([chart](#)). This is a continuation of a narrowing trend back toward something reminiscent of a pre-COVID normal. In the 2015-2019 period, the trade deficit averaged about \$44 billion. At its widest point in early 2022, the trade deficit totaled more than \$100 billion. Today's reading of a \$58.3 billion indicates that the trade gap is more than two thirds of the way back to where it had been in the second half of the prior expansion from 2015-2019.

In terms of what happened in this specific month, exports rose and imports fell, resulting in an overall narrowing of \$6.4 billion from a July trade deficit that was slightly wider after revisions.

The goods deficit decreased by \$5.5 billion to \$84.5 billion, while on the services side, the surplus swelled by another \$1.0 billion to \$26.2 billion, enough to lift the services surplus to its third highest reading on record ([chart](#)).

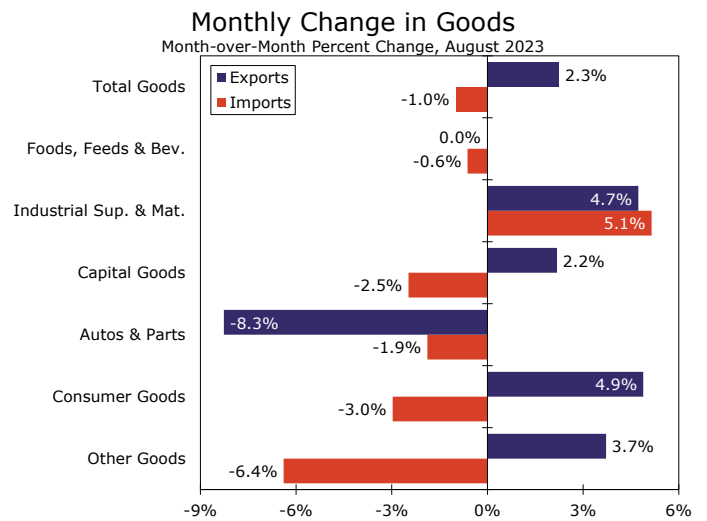


Source: U.S. Department of Commerce and Wells Fargo Economics

Goods exports increased \$3.1 billion, most of which was in exports of industrial products such as crude oil and fuel. U.S. firms also exported more capital goods and consumer goods products as well ([chart](#)). Exports of automobiles and parts were down sharply.

On the goods imports side, the only category where U.S. firms imported more product during August was industrial supplies and materials. Every other major goods category saw imports fall in August.

On balance, this is all a net positive for third quarter real GDP growth. The latest data through August and benchmark revisions to the National Accounts released last week suggest net exports are set to be a larger boost to third quarter growth than previously expected.



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

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|----------------------|--------------------------|--------------|-------------------------------------|
| 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 Seery | Economist | 704-410-0369 | Shannon.Seery@wellsfargo.com |
| Nicole Cervi | Economist | 704-410-3059 | Nicole.Cervi@wellsfargo.com |
| Patrick Barley | Economic Analyst | 704-410-1232 | Patrick.Barley@wellsfargo.com |
| Jeremiah Kohl | Economic Analyst | 704-410-1437 | 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 |
| Coren Burton | Administrative Assistant | 704-410-6010 | Coren.Burton@wellsfargo.com |

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