



Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 410-3274
E. Harry Pershing, Economic Analyst
harry.pershing@wellsfargo.com • (704) 410-3034

Current Account Deficits Widens Modestly in Q1

The current account deficit widened in Q1, driven by a larger trade deficit as well as a decrease in primary income.

Trade Deficit Leads to Larger Current Account Deficit in Q1

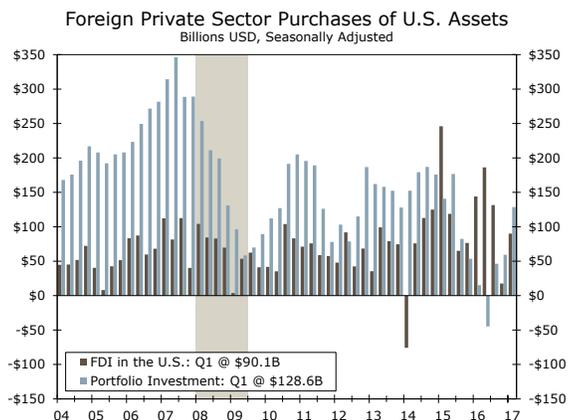
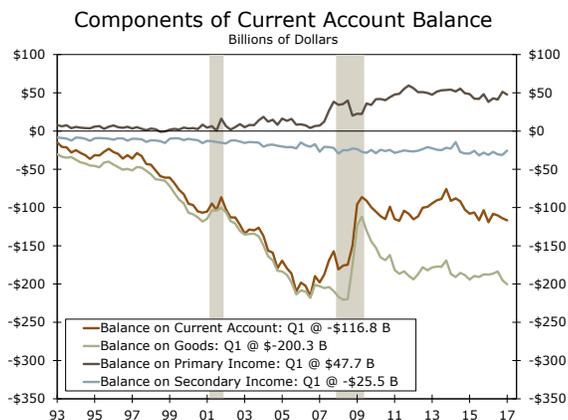
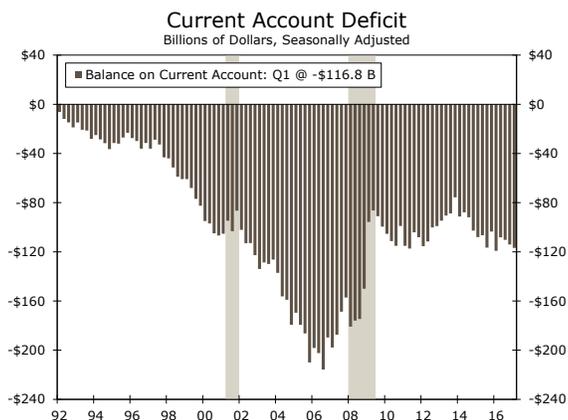
The red ink in the U.S. current account widened from a revised deficit of \$114.0 billion in Q4-2016 to \$116.8 billion in the first quarter (top chart). The actual figure was less severe than the consensus forecast, which called for a \$123.8 billion deficit. The current account balances for the previous quarter was also revised down. The deficit now represents 2.5 percent of GDP from 2.4 percent in the fourth quarter.

The overall current account deficit widened in the second quarter largely because the trade deficit in goods widened by \$5.3 billion. The widening trade imbalance in goods reflected in the current account release is consistent with the nominal monthly trade balance in goods, which fell further in April. Overall, exports of goods and services plus income receipts increased \$22.5 billion in the first quarter as imports of goods and services plus income payments increased \$25.2 billion. Within this figure, the level of goods exports increased \$13.1 billion—not enough to offset the \$18.4 billion increase in goods imports. The increase in goods imports mostly reflects increased imports of industrial supplies and materials, crude oil and automotive vehicles and parts.

There has been recent weakness on the export side of the ledger with exports of automobiles and parts down \$532 million and consumer goods off \$720 million in the month of April. The overall value of exports has declined now for two consecutive months. Moreover, the overall value of imports in April rose nearly \$2 billion, with consumer goods imports up \$1.9 billion during the month. We expect that export growth generally will remain positive going forward, although it likely will fall short of import growth. Therefore, real net exports probably will continue to exert some headwinds on overall GDP growth in coming quarters.

Capital Flow Implications

The surplus on primary income, or the amount of money Americans receive from their direct investments abroad, fell by \$3.6 billion in the first quarter. The red ink in the primary income account was offset by the secondary income balance, which increased \$5.8 billion on the quarter. In Q1, there was nearly \$90.1 billion worth of new foreign direct investment (FDI) in the United States, a marked increase from the \$17.6 billion figure registered in Q4 2016 (bottom chart). Likewise, purchases of U.S. stocks and bonds by private foreign investors, represented by portfolio investments, continued to strengthen, rising \$128.6 billion on the quarter. The recent bull market run in U.S. equities is continuing to attract foreign investment. As long as the underlying economic fundamentals of the U.S. economy remain solid, at least relative to other countries, then foreigners likely will continue to invest in the United States.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2017 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE