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Economics Group

Tim Quinlan, Senior Economist
tim.quinlan@wellsfargo.com • (704) 410-3283

Current Account Widens After Accounting for Revisions

The current account deficit did indeed widen in the first quarter, though the amount of red ink as a whole is smaller than it was first reported to be at the close of 2017, due to revisions to previously released data.

Modest Widening After Accounting for Revisions

Financial markets were expecting a widening in the current account deficit after an initially reported number of $128.2 billion in the fourth quarter. So when the headline number of $124.1 billion came across the wire it appeared to be a modest narrowing; but, upon closer analysis, previously released figures were revised to reflect a smaller deficit of just $116.1 billion in Q4 as well. So it turns out, the current account deficit did indeed widen, though the amount of red ink as a whole is smaller than it was first reported to be at the close of 2017.

Trade and Current Transfers Pull Deficit Lower

Throughout the current expansion, this broad measure of the flow of goods, services and investments into and out of the United States has been characterized by a surplus in the trade of services, as well as a primary income surplus. Those positives have been and continue to be swamped by a widening trade deficit and a small but steady deficit from current transfers, the result of which is a current account deficit that is now at its widest gap since the economy was still in recession.

This would be a problem if these numbers were large and growing as a share of the economy or if foreigners were not willing to provide financing for this deficit. But neither of those conditions exist at present.

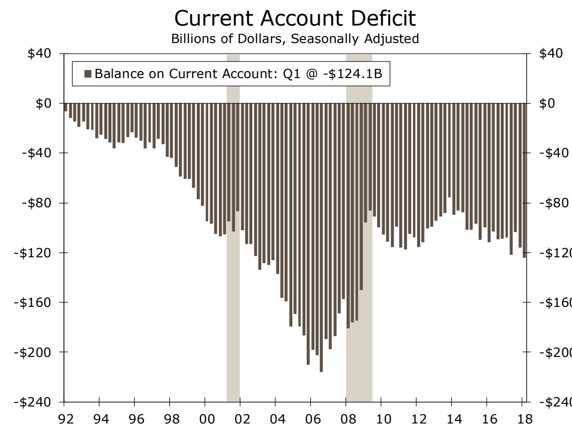
As a percent of GDP, the current account deficit has been roughly between 2 and 3 percent over the past few years. The fact that this measure has remained steady throughout the past several years indicates that the economy is growing as fast as the current account deficit. That 2.5 percent figure for Q1 (2.3 percent on a 4-quarter moving average as reflected in the middle chart) does not merit too much hand-wringing in our view, nor does it present a meaningful headwind to growth.

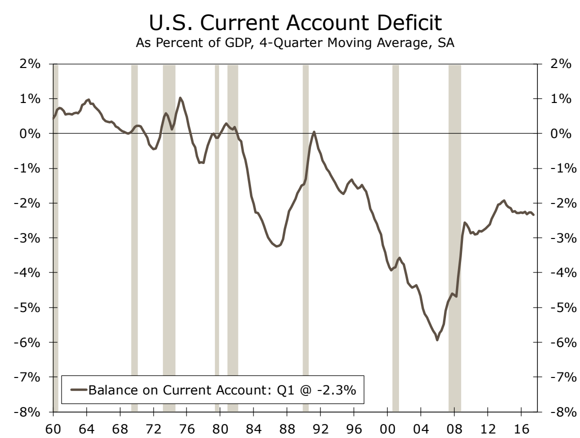
Foreign Purchases

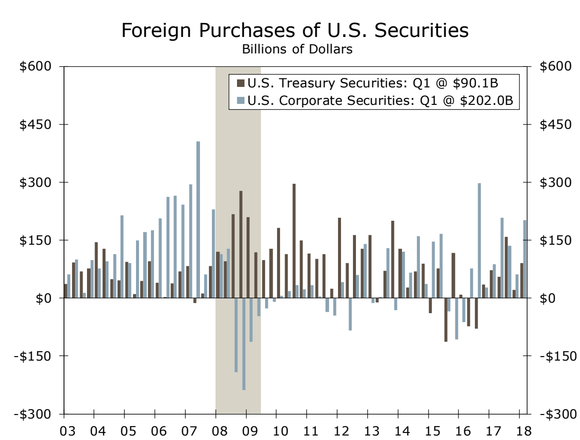
When a country incurs current account deficits, it has to finance that deficit via net capital inflows from abroad. In the past, foreigners have been quite willing to finance modest current account deficits, and this was still the case in the first quarter. Foreign purchases of both Treasuries and U.S. corporate securities have been positive in each of the past five quarters.

Outlook for the Current Account

Throughout this year and into next, our baseline expectation is that the current account deficit will grow incrementally larger as the trade deficit widens. There is, of course, potential for protectionist trade policies out of the United States and the resulting retaliatory measures from our trading partners to introduce a greater degree of variability than that which has existed in the past. But for now, the deficit is manageable and foreigners remain willing lenders to the United States.







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

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
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 Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@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	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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