



# Economics Group

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## Trade Deficit Widens to Start the Fourth Quarter

*The trade deficit widened a bit more than expected in October as the country imported more and exported less. Through the first 10 months of the year the deficit has narrowed by \$8.8 billion or 2.1 percent.*

### After a Respite, Trade Is on Track to Subtract from Growth

The widening in the trade deficit in October is, to some extent, a reflection of the strength of U.S. demand. U.S. imports of goods increased 1.5 percent to take the total to \$186.5 billion, the largest since October 2015.

Meanwhile, after four consecutive monthly increases, exports gave back some of the recent gains falling 1.8 percent.

So far in 2016, the contribution to overall GDP growth from trade has been positive in each of the first three quarters of the year. Admittedly, the contribution in the first quarter was miniscule, but it is significant in that it marked a departure from a trend in which trade has been a drag on growth.

Note that net exports were a drag on GDP growth in every quarter of the prior year (2015) and three out of four quarters in the year before that (2014).

### Crude Realities

Petroleum exports declined for the fourth time in the past five months even as petroleum imports increased for the third straight month. As the middle chart shows, this is a continuation of a theme in 2016 in which the trend from 2010 through 2015 has been reversed. With sustained downward pressure on oil prices, U.S. exports of petroleum are no longer growing as they were earlier in this decade.

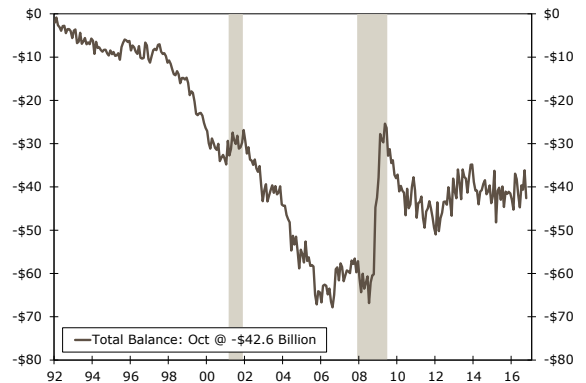
Meanwhile, foreign producers, particularly those with a lower cost of production, have been sending more oil to the United States. According to the latest estimates from the Energy Information Agency, the decline in U.S. crude oil production is expected to be much smaller in 2017 than it was in 2016. Since the OPEC meeting at the end of November, oil prices are back above \$50/barrel. Sustained prices at this level could be supportive of even more stabilization in U.S. production and, eventually, exports.

### Future Path for Trade

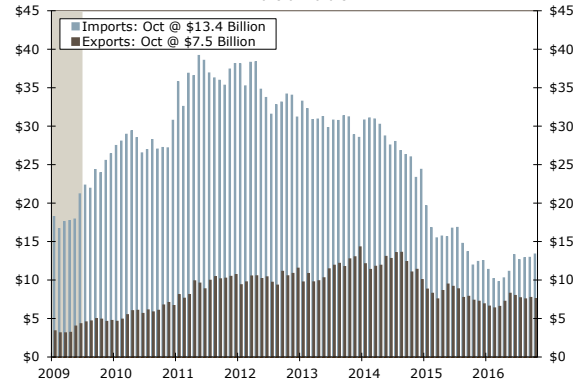
Looking forward, our baseline expectation is that trade will end up being a drag on GDP growth every quarter from now until the end of our forecast period which ends in 2018. That is not to say that a one-off dynamic like this year's unexpected surge in soybean exports will not result in a quarter in which trade boosts growth. But on balance, trade is expected to be a drag on GDP growth.

The primary rationale for that is the fact that growth in the United States is still relatively steady and we are forecasting steady growth in consumer spending. That ought to be supportive of a steady increase in imports. The global economy is still on shakier footing. Although we are forecasting a slight improvement in GDP growth over the next couple of years, we do not expect the pace of export growth to keep up with imports.

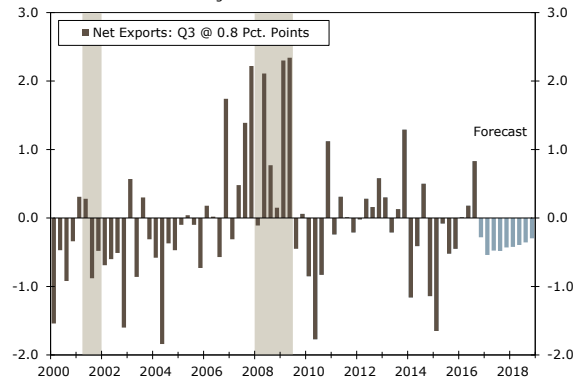
Trade Balance in Goods and Services  
 Billions of Dollars



Petroleum Imports and Exports  
 Billions of Dollars



Net Exports  
 Percentage Point Contribution to Real GDP



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