



Economics Group

Jay H. Bryson, Global Economist
jay.bryson@wellsfargo.com • (704) 410-3274

Widening Trade Deficit Will Exert Drag on GDP Growth in Q4

The trade deficit widened markedly in the last two months of 2017. Consequently, real net exports likely exerted a significant drag on overall GDP growth in the fourth quarter.

Deficit Widens as Imports Jump More than Exports

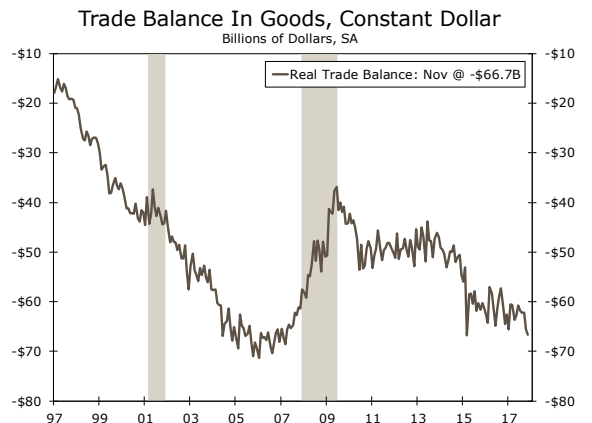
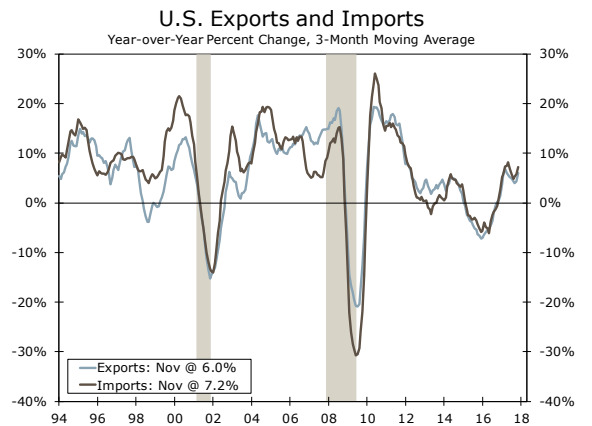
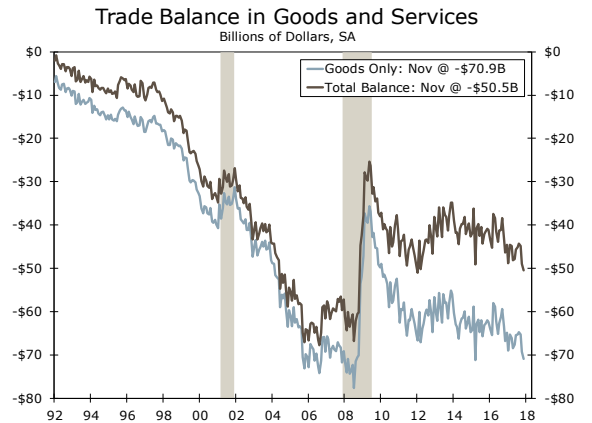
The U.S. trade deficit widened to \$50.5 billion in November from \$48.9 billion in October (top chart). Not only was the outturn a bit higher than most analysts had expected, but it was the first time that the deficit has exceeded \$50 billion since March 2012. Although exports of goods and services jumped by 2.3 percent in November, imports were up 2.5 percent.

There was broad-based strength on the export side of the ledger. The \$2.5 billion increase in the export of capital goods was flattered by the \$1.2 billion jump in exports of civilian aircraft, which can be volatile on a monthly basis. This sizeable increase in overall capital goods exports in November may reflect, at least in part, some statistical payback for weakness during the previous two months. Smoothing through the monthly volatility shows that overall exports clearly have rebounded in 2017 after their weakness in 2016. The value of American exports was up 6.0 percent in the September-November period relative to the same period in 2016 (middle chart).

There was also broad-based strength on the import side of the ledger. The value of imported petroleum products was up \$1.5 billion in November. This increase in the value of petroleum imports largely reflects the trend increase in oil prices that occurred during the autumn. The volume of petroleum imports edged higher in November, but they remain well off their peak of a decade ago. Imports of cell phones jumped about \$1.1 billion, which likely reflects the introduction of the Apple iPhone X. These one-off factors notwithstanding, import growth also strengthened over the course of 2017. Some of the increase in import values reflects higher commodity prices (e.g., oil), but growth in import volumes has strengthened as growth in domestic demand has picked up.

Net Exports Probably Exerted Headwinds on GDP Growth in Q4

In real (i.e., price adjusted) terms, the trade deficit widened by \$1.1 billion in November. The real trade deficit is important because it enters directly into calculations of real GDP growth. Real net exports of goods and services provided modest positive contributions to overall GDP growth in the first three quarters of 2017, but it appears that the string will end in the last quarter of the year because real net exports of goods deteriorated significantly in October and again in November (bottom chart). If real exports and real imports in December remain at their respective November levels, then real net exports would slice more than one percentage point off of the topline GDP growth rate in Q4. Although we do not expect that the overall drag will be quite that large, real net exports likely exerted significant headwinds on overall GDP growth in Q4. Moreover, we look for a modest drag from trade to continue for the next few quarters.



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 Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@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 Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	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

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 Clearing Services, 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 © 2018 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

WELLS
FARGO

SECURITIES