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Economics Group

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Trade Deficit Widens Further in August

Foreign tariffs on soybeans have distorted the overall value of American exports in recent months. Real net exports, which provided a positive boost to GDP growth in Q2, will exert a significant drag in Q3.

Soybeans Still Affecting Overall Exports

Data released this morning showed that the U.S. trade deficit widened from $50.0 billion in July to $53.2 billion in August (top chart). The increase in red ink in the trade account came about as exports of goods and services dropped by $1.7 billion during the month while imports rose by $1.5 billion.

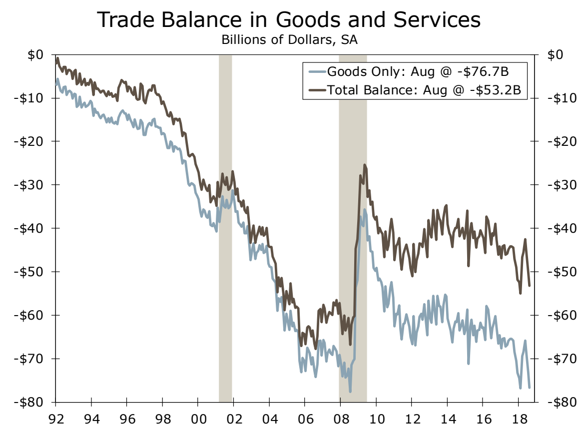
Tariffs on American soybeans still appear to be having a distorting effect on the overall amount of exports. Soybean exports surged by nearly $2 billion in May as American farmers expedited shipments of soybeans ahead of the imposition of foreign tariffs (middle chart). But this earlier surge was essentially unwound in July and August. Specifically, soybean exports slumped by $600 million in July and by another $1 billion in August. Although soybean exports could conceivably weaken for another month or so, they will find a floor sooner or later.

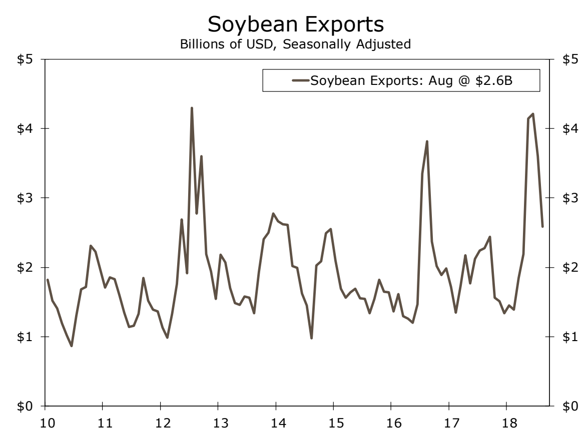
Exports of petroleum products, which fell by $1.8 billion, was another area of weakness in August. The drop in August was notable because American exports of petroleum products have boomed in recent years. We view the weakness in petroleum exports in August to be a temporary factor—much like the surge and subsequent slump in soybean exports—and expect that American exports of petroleum products will resume their upward trend in coming months. Outside of soybeans and petroleum products, U.S. exports were generally resilient, with exports of capital goods rising by $101 million in August and exports of consumer goods jumping by $1.6 billion. Indeed, overall export growth has been solid in recent months. The export value of goods and services was up more than 8% in the June-August period relative to the same three-month period in 2017.

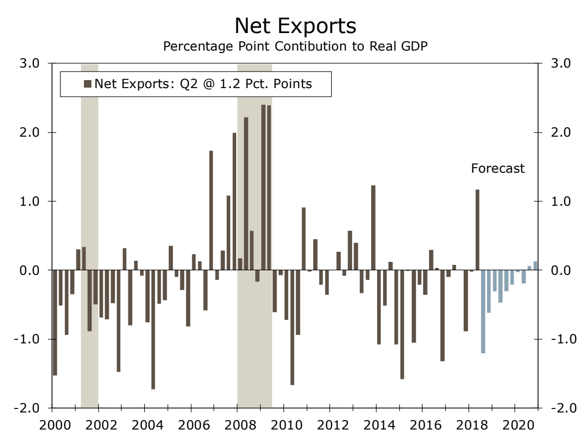
On the other side of the ledger, automobiles and consumer goods paced the growth in overall imports. Strong growth in U.S. domestic demand (i.e., final sales to consumers, businesses and the government) is helping to pull in imports. Although the tariffs that the U.S. government has levied in recent months may cause imports of the affected goods to weaken, overall growth in imports likely will remain solid in coming quarters as long as growth in domestic demand remains buoyant, which we forecast it will.

Significant Drag from Net Exports in Q3

Real net exports of goods and services made a 1.2 percentage point contribution to the 4.2% GDP growth rate that was notched in the second quarter. But the recent pullback in soybeans along with other areas of weakness in exports means that real net exports will exert a significant drag on overall GDP growth in Q3. Although we expect that the drag from the external sector will lessen going forward, we look for net exports to exert modest headwinds on overall GDP growth in coming quarters (bottom chart).







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

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