



Economics Group

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Amid Trade Turmoil, U.S. Deficit Widens in October

The nation's trade deficit widened in October, falling \$900 million to \$55.5 billion. Exports saw a modest 0.1% decline, while imports rose 0.2% over the month. Trade is poised to weigh on growth in coming quarters.

Further Widening in the Trade Deficit

Data released this morning shows that the U.S. trade deficit widened to \$55.5 billion in October, from \$54.6 billion in September. The increase in red ink came as exports of goods and services dropped by \$300 million and imports rose by \$600 million.

There were broad-based declines on the export side of the ledger, with every major goods category, other than industrial supplies and consumer goods, seeing declines over the month. The food, feeds and beverages category saw its fifth monthly decline. Weakness here continues to be led by declines in soybean exports due to the distorting effects of tariffs imposed earlier this year. Services exports rose a modest 0.1% in October.

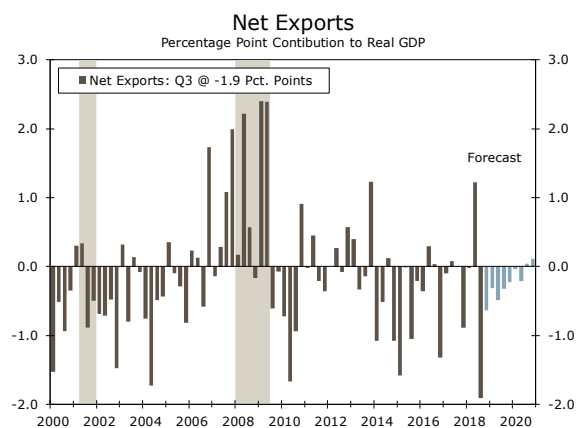
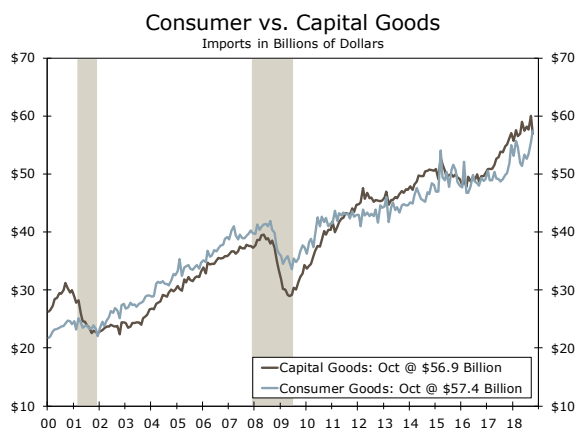
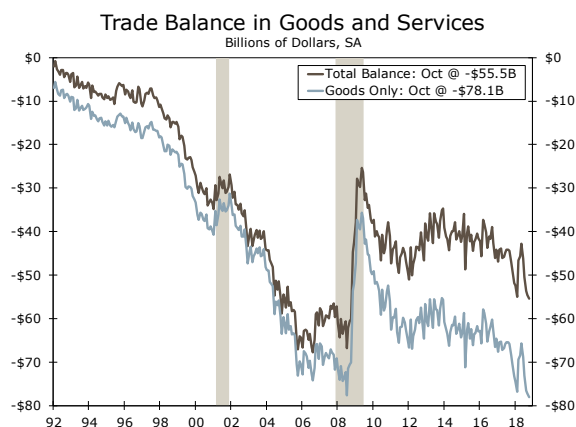
The trade-weighted value of the U.S. dollar against other major currencies has risen about 5% since the beginning of the year. All else equal, this makes exports relatively more expensive for our foreign trading partners. Despite the strong performance, we expect that the greenback will eventually reverse trend and begin to depreciate for the majority of 2019, which may be more supportive of export growth.

On the other side of the ledger, strong consumer demand continued to pull in imports, with consumer goods and automobiles leading import growth. But declines in capital goods and industrial supplies suggest caution among businesses. Capital goods imports declined \$3.2 billion, or 5.2%, which is the largest month-over-month percentage decline since November 2008. Industrial supplies saw a more modest \$224 million decline in imports. Although trade uncertainty regarding tariffs may be partially the cause of such weakness, if consumer demand remains buoyant, overall growth in imports likely will remain strong in coming quarters.

Truce or Trouble, Trade to Remain Drag on U.S. Growth

Ongoing trade tensions with China continue to add uncertainty to the outlook for trade. The Trump administration had previously said that in the absence of a resolution, the 10% tariff currently imposed on \$200 billion of Chinese goods would be lifted to 25% at the start of 2019. But, the recent meeting between President Trump and President Xi at the G-20 summit in Argentina resulted in a 90-day cease-fire to allow for negotiations. Even if negotiations were to end with a trade truce, fundamentals, such as slower global growth, are not necessarily supportive of net exports being a significant driver of U.S. GDP growth over the next couple of years.

Trade-related distortions caused net exports to contribute 1.2 percentage points to GDP growth in Q2, but net exports took back 1.9 percentage points from growth in Q3. Although we expect that the drag will lessen going forward, we look for net exports to exert modest headwinds on overall GDP growth in coming quarters.



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