

Economics Group

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

Narrowing Trade Deficit as Imports Fall Faster than Exports

Exports fell for the second straight month but imports fell by an even larger amount, marking the fourth decline in the past five months. As trade dries up, the budget deficit narrowed to \$47.2 billion.

The U.S. Economy is Sending Less to the Rest of the World

Exports from the U.S. economy to our trading partners peaked in May 2018, just before the steel and aluminum tariffs fully went into effect in June of that year. The U.S. economy exports \$6.2 billion less today, a decline of 2.9%.

In the most recent month, all major categories of goods exports posted declines with the exception of industrial supplies & materials, where exports grew \$556 million in October. It bears noting that the growth in crude oil exports offsets broad-based declines in exports of other industrial supplies. Specifically, crude oil exports increased \$629 million in October, exceeding the amount of crude oil imported. Were it not for that increase in crude oil exports, the broader category would have declined along with all other major goods export categories.

A notable silver lining on the export side of the ledger is that service exports, which tend to be less vulnerable to the trade war, rose to \$71.1 billion in October, just spitting distance from the all-time high. Service exports comprise about a third of overall exports.

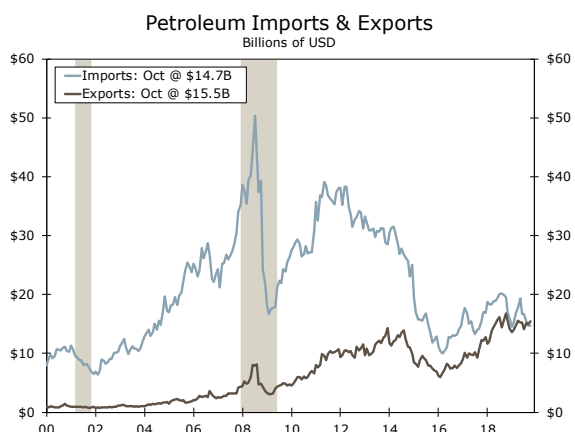
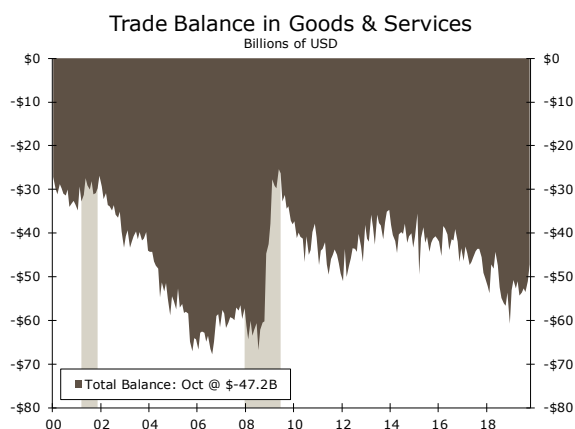
The U.S. Economy is Importing Less as Well

Imports into the United States also peaked last year. From the peak in October 2018 to the current reported level, imports are down \$12.5 billion or 4.7%. Roughly four fifths of all imports are goods, and that is where all of the decline has taken place; service imports actually hit a record high in this month's report.

Just as was the case on the export side, the weakening was broadly based across most major goods categories on the import side. The exception was capital goods, where imports increased \$399 million, pushed higher by imports of semiconductors, computers & computer accessories as well as civilian aircraft. Auto imports saw the second largest decline of the major categories, though this could be related to the GM strike. To the extent that is the case, an unwind next month could contribute to some payback.

Shrinking Our Way to Faster Growth?

Net exports have been a drag on GDP growth in four of the past five quarters. Prior to today's release, we looked for trade to subtract a tenth of a percentage point from growth in the fourth quarter. We were expecting a narrowing in the October trade deficit, but not as large as what we got today. On that basis, we will likely revise our forecast in such a way that trade is a modest boost to headline GDP growth in the fourth quarter. But shrinking the trade deficit by cutting imports even faster than you cut exports is obviously not a sustainable long-term path to drive growth for any economy. We are not expecting a swift resolution to the trade war, but we do not expect 2020 to match 2019 in terms of the pace of escalation.



Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Lisis	Economic Analyst	(704) 410-1309	jennifer.lisis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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