Economic Indicator — April 7, 2021

Logistics and Transportion Challenges Hit Trade Flows in February

Summary

The U.S. trade balance widened to a record -$71.1 billion in February. Both exports and imports were weak during the month, but a larger decline in exports caused the deficit to widen.

Logistics and transportation bottlenecks are disrupting trade flows and adding to lengthy supplier delivery times. As congestion eases, we expect trade to pick up this year. But as the U.S. economic recovery is generally outpacing many of its major trading partners, we look for imports to continue to outpace exports in the near-term. Net exports will therefore provide a drag on GDP growth this year.

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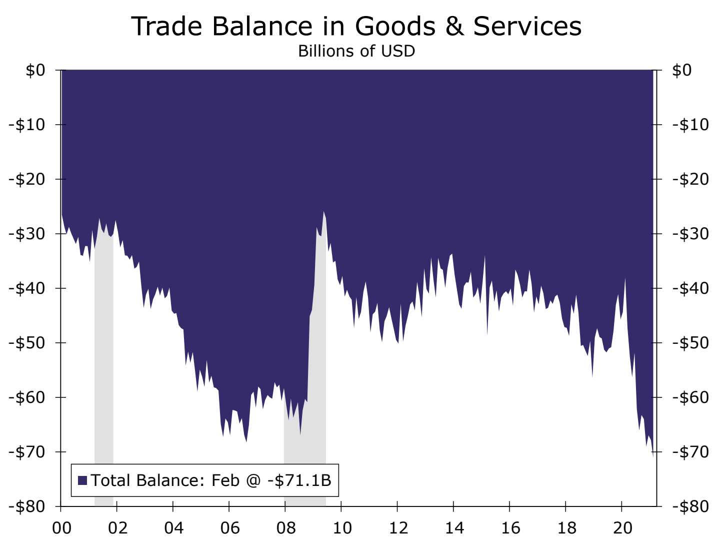


Source: U.S. Department of Commerce and Wells Fargo Securtities

U.S. Trade Deficit Widened to a Record in February

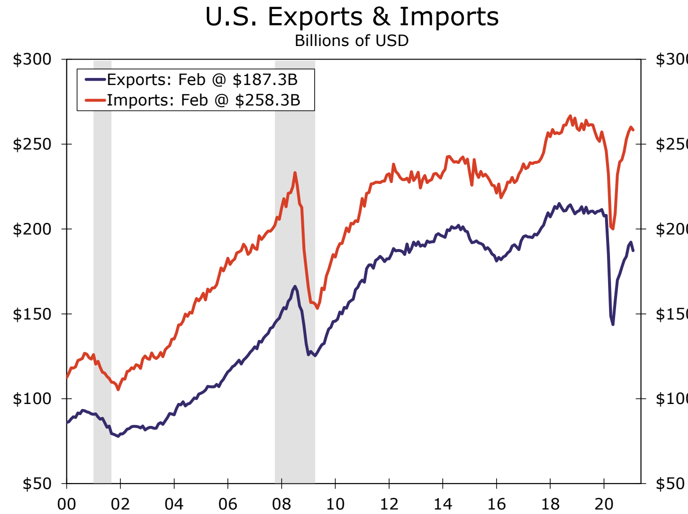
The U.S. trade balance widened to a record -$71.1 billion in February. Both exports and imports posted their first monthly decline since May, and although imports fell $1.7 billion, the overall trade deficit widened because exports nosedived $5.0 billion.

The February trade report added to the pile of weak U.S. economic data already reported for the month by domestic retailers, producers and home builders, as severe winter weather across the United States hampered activity and weighed on trade flows. But the supply chain constraints recently felt by many domestic producers are affecting trade even more.

Logistics and transportation bottlenecks specifically are disrupting trade flows, and we expect were a key issue in February. The uptick in goods spending late last year helped fuel a pick up in imports and therefore the use of container shipments, but under-resourced U.S. ports haven't been able to keep up with activity.

Even before the recent six-day blockage of the Suez Canal, congestion at the ports of Los Angeles and Long Beach, which together account for a third of U.S. container imports, caused container ships to anchor offshore while waiting for available port space. Even when ships are docked and unloaded, port executives report higher than normal container dwell time, or the time it takes importers to pick up their cargo from port. This echos the long supplier delivery times reported by U.S. purchasing managers in the recent ISM surveys. The knock-on effects from longer dwell time also causes a delay in the return of containers back to port, which then constrains exports.

Port executives have reported that the amount of ships at anchor has started to subside and to the extent congestion continues to ease, import growth should pick up this year amid a surge in consumer and business demand and low levels of retail and business inventories that will need to be replenished.



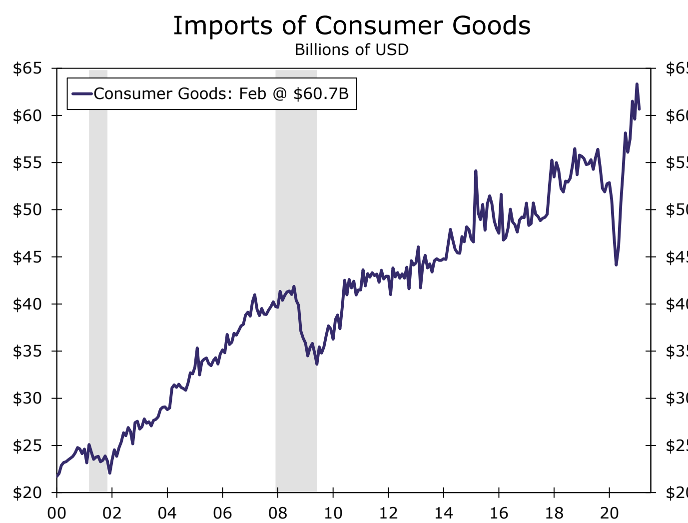
Source: U.S. Department of Commerce and Wells Fargo Securities

Autos and Consumer Goods Weigh on Imports

The $1.7 billion decline in February imports was driven by a 0.9% decline in merchandise or goods imports. Service imports rose 0.6%. A 10.7% decline in autos & parts and a 4.2% decline in consumer goods imports led the decline in overall goods exports.

The decline in autos likely reflects supply constraints more than dwindling demand, as auto sales rose to a three-and-a-half year high in March. The global shortage of semiconductors may have constrained auto imports, as manufactures struggle to get their hands on the key input. Imports of semiconductors held up in February and continued at their usual pace, while exports slipped by $409 billion.

Consumer goods imports have been a bright spot since lockdown measures were lifted and demand for goods surged. The February decline appears to have been largely driven by pharmaceutical preparations, and at $60.7 billion, total consumer goods imports still remained near a record high during the month. We expect consumer goods imports to pick up again in coming months as not only bottlenecks subside, but also more-widespread vaccines and an easing of restrictions provide a boost to the optimism of consumers flush with cash.



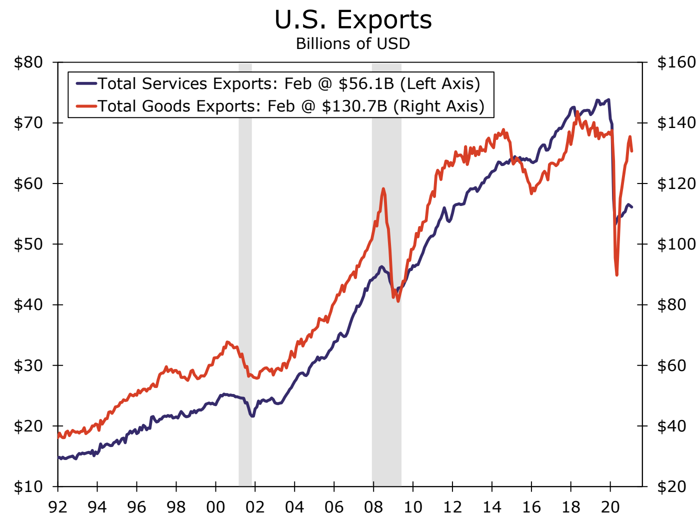
Source: U.S. Department of Commerce and Wells Fargo Securities

Broad-based Declines in Exports, Trade to be a Drag on Growth in 2021

The $5.0 billion decline in exports was broad-based, with every major category of goods exports except industrial supplies & materials posting their largest decline since April or May in February. Total goods exports slipped 3.6%, while services fell 0.4%.

The aforementioned transportation bottlenecks are also a factor on the export side but will constrain demand even as congestion eases slower growth abroad. The vaccine rollout is taking longer to materialize globally than it is in the United States, which is weighing on the economic recovery in some of America's key trading partners. Weaker near-term activity will therefore continue to hamstring U.S. exports, and export orders from the March ISM survey points to another slow month for exports.

Exports should pick up meaningfully later this year amid a rebound in global growth, but for the year as a whole, we expect net exports to subtract 1.6 percentage points from GDP growth.



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

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