Economics

Economic Indicator — March 8, 2023

First Gain in Five Months for Exports, Imports Rise Even More

Summary

Exports increased in January for the first time in five months, but a resilient domestic economy helped power an even larger gain in imports, particularly of autos and consumer goods. The result is a widening in the trade deficit, a trend we expect to reverse as consumer demand cools.

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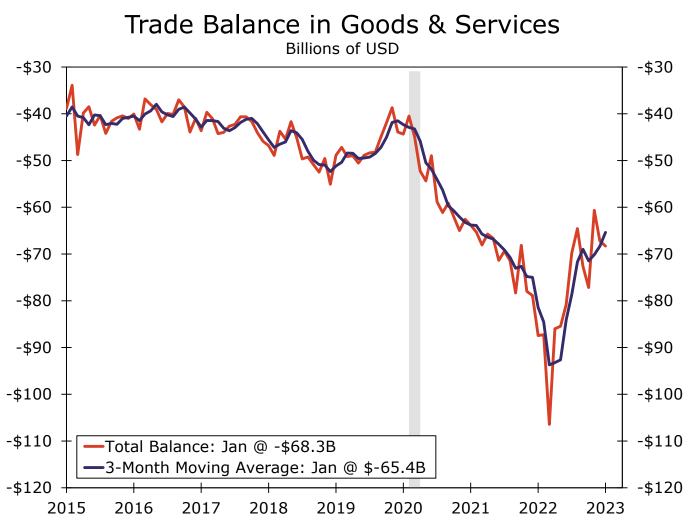
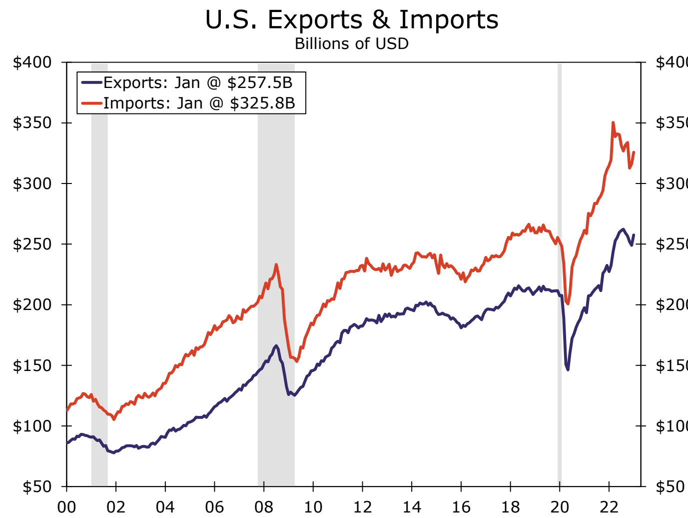


Source: U.S. Department of Commerce and Wells Fargo Economics

Exports Surged, but Imports Grew Even Faster

In a reversal of a trend decline that began in August 2022, exports increased in January for the first time in five months with all the gain coming on the goods side; service exports declined slightly. The net increase in overall exports was a stout $8.5 billion (chart). Somewhat remarkably, imports grew even faster adding $9.6 billion in the first month of the year with gains in both imported goods and services.

The big increase in exports and an even larger increase in imports resulted in a 1.6% widening of the trade deficit to $68.3 billion from $67.2 billion in December (chart). The opening trade report of the year puts net exports on track to be a slight negative for GDP growth in the first quarter. We are skeptical that these trajectories will be maintained throughout the quarter. If the import growth were to be sustained in February and March at the pace reported in January, that would imply a more robust pace of consumer and business spending than we presently project. A slowing U.S. economy suggests import weakness; combining that with steady or even slightly improved global growth would imply a modest boost from trade in coming quarters.



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

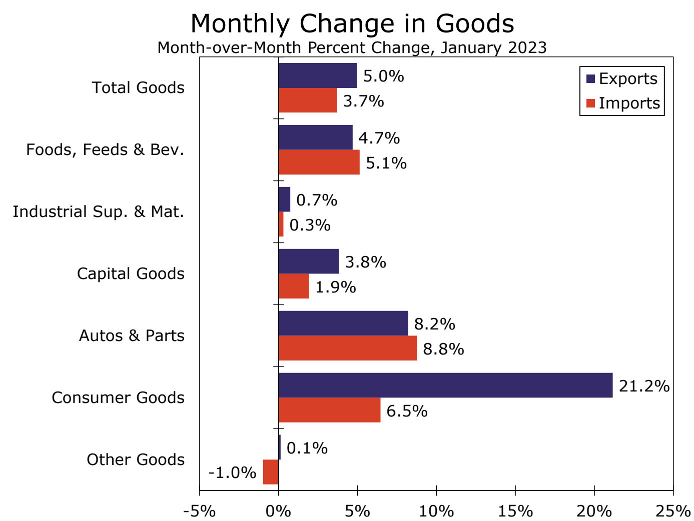
Imports Suggest a Stronger Consumer than We Have in Mind

Service exports fell $1.6 billion; of that decline $1.2 billion can be attributed to less foreign travel to the United States in January as Europe experienced a particularly warm winter.

In terms of the roughly $10 billion jump in goods exports, consumer goods accounted for just over $4 billion while capital goods exports accounted for another $1.9 billion and autos exports claimed just over $1 billion of the gain (chart). In short, the strength in goods exports was broadly based.

On the imports side, services imports edged only slightly higher, rising less than $1 billion in the month. Of the $9.5 billion increase in goods imports, the gains were also broadly based with every major principle end-use category higher in January.

The broad gains in imports are a little tough to square with our expectation of slowing consumer demand. Consumer goods and autos imports together accounted for about $7 billion or about 75% of the overall gain in imports. To the extent that we see some reversal here, that would be more consistent with a narrowing in the trade deficit in coming months.



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

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