U.S. Data Review

- International trade in goods: bearish improvement – both exports and imports decline

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International Trade in Goods

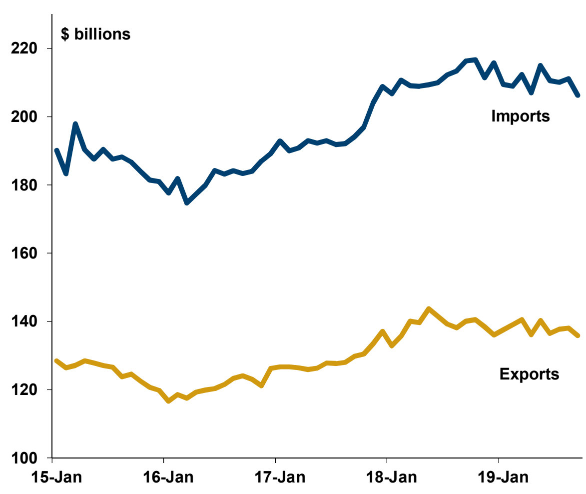
The U.S. trade deficit in goods narrowed by $2.7 billion in September to $70.4 billion, notably better than the expected slippage to a $73.5 billion. Although the deficit narrowed in the latest month, we hesitate to call it a positive development, as the improvement reflected a drop in imports that exceeded the decline in exports (-2.3 percent for imports and -1.6 percent for exports). Retreats on both sides of the trade ledger do not bode well for the global economic environment, and the declines did not seem to be random shifts, as exports and imports have been sluggish since the middle of last year (chart, left). Slow economic growth has most likely played a role in the softening of trade flows, but the imposition of tariffs has probably been a factor as well.

The trade data feed into the calculation of GDP, and the improvement, all else equal, suggests firmer economic growth. (However, all else might not be equal. If lighter imports were a reflection of weak consumer spending or soft business investment, GDP growth might still be slow despite a positive arithmetic contribution from net exports.) Our previous estimates (including the projected widening in the trade deficit in September) suggested that net exports would subtract approximately one-quarter percentage point from growth. The new data suggests a neutral influence or a marginal negative contribution.

This preliminary report did not include trade figures by country, thus it is not clear how much of the softness in exports and imports was the result of trade friction with China.

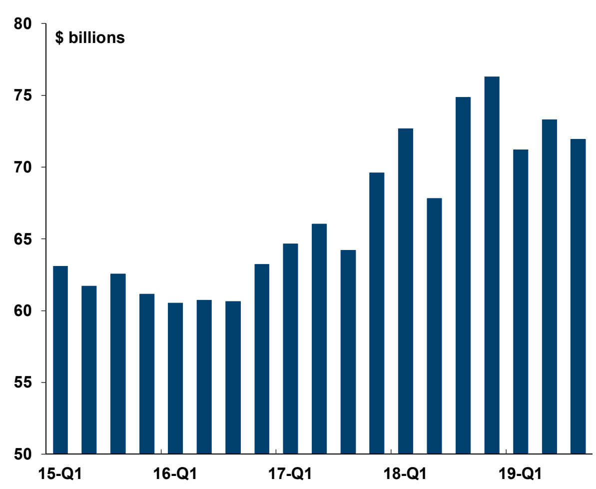
The trade data, all else equal, suggest an upward adjustment to whatever forecast of GDP had been in place. However, inventory data released this morning moved in the opposite direction. The increase of 0.3 percent in retail inventories was close to expectations, but the drop of 0.3 percent in wholesale inventories was surprisingly soft. Inventory investment, rather than having a previously estimated neutral influence on GDP growth will probably now be a slight negative, offsetting most of the positive adjustment implied by the trade figures.

Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics

Nominal Goods Trade Deficit*



** Quarterly averages of monthly data.*

Source: U.S. Census Bureau via Haver Analytics