U.S. Data Review

- International trade: soft exports, firm imports in January; marked widening in the deficit

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International Trade

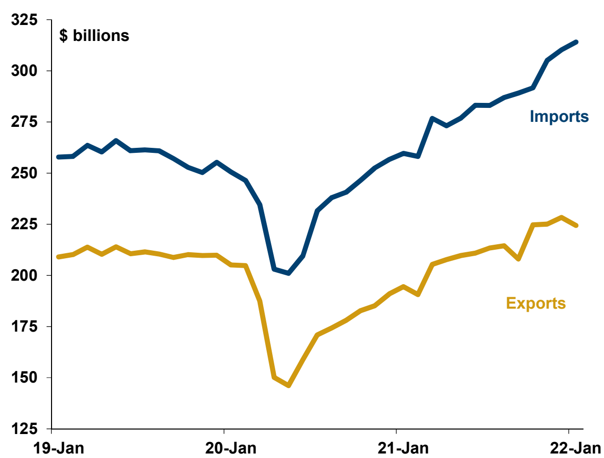
The U.S. trade deficit widened by $7.7 billion in January to $89.7 billion. Marked slippage was not surprising, as a preliminary estimate of the goods deficit published last week showed pronounced deterioration (wider by $7.1 billion). Still, the overall deficit was wider than expected as the surplus in services contributed as well, showing a drop of $0.6 billion to $19.2 billion.

The decline in the service surplus was not deeply disappointing, as results in the prior two months had shown considerable improvement, and the January reading was still well above low observations in the summer and fall. The past three months combined have recouped a good portion of the ground lost during the worst of the pandemic. The net slippage in service trade in the past two years was influenced by a reduction in travel and tourism, as the inflow of foreign visitors fell by more than the volume of U.S. residents traveling abroad. The spread of Omicron seemed to have a similar influence in January, as both exports and imports of services fell (especially travel), with exports dropping more.

The widening in the goods deficit reflected both firmer imports and softer exports (up 1.8 percent and down 1.5 percent, respectively). The changes in both included hefty increases in prices, but the pattern of strong imports, weak exports also carried through in real terms, as real imports of goods rose 0.1 percent while real exports of goods fell 3.9 percent.

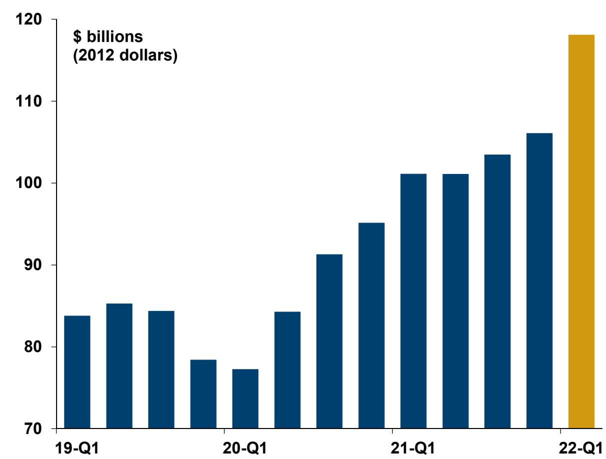
The real goods deficit in January was much wider than the average in the fourth quarter (chart), setting the stage for a sizeable negative contribution to GDP growth from net exports. If the January results were to be repeated in February and March, net exports would subtract more than 2.5 percentage points from GDP growth. However, we would expect (hope) that the next two months will bring some offset to the January slippage. Also, keep in mind that strong imports reflect robust demand from either consumers or businesses, which will boost other components of GDP.

Imports & Exports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

Real Goods Trade Deficit*



** Quarterly averages of monthly data. The reading for 2022-Q1 (gold bar) is the deficit for January 2022.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America