



# Economics Group

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## Trade Deficit Widened Sharply in August

*The surge in imports in August may be temporary, but weak export growth is here to stay. Net exports appear to have weighed on overall GDP growth in the third quarter.*

### iPhones Contribute to Widening in Trade Deficit

The U.S. trade deficit widened sharply to \$48.3 billion in August from \$41.8 billion in July (top chart). The outturn was more or less in line with the consensus forecast, because preliminary data released last week had pointed in the direction of significant widening. The \$3.7 billion plunge in exports of goods and services in combination with the \$2.8 billion rise in imports produced the sharp increase in the trade deficit.

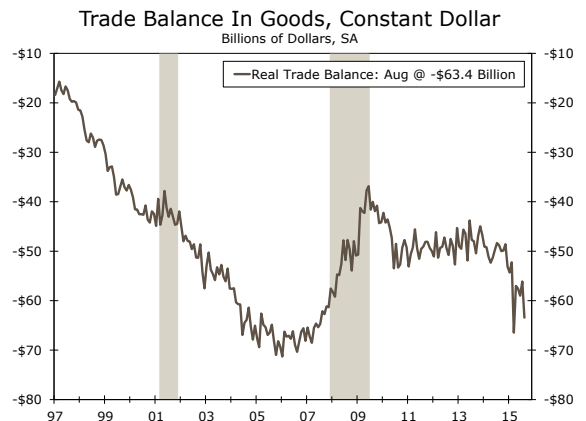
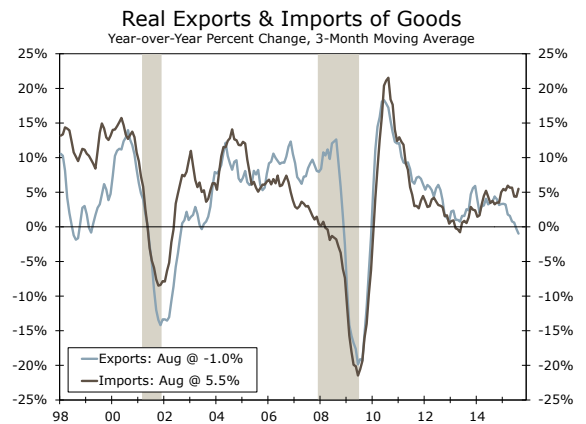
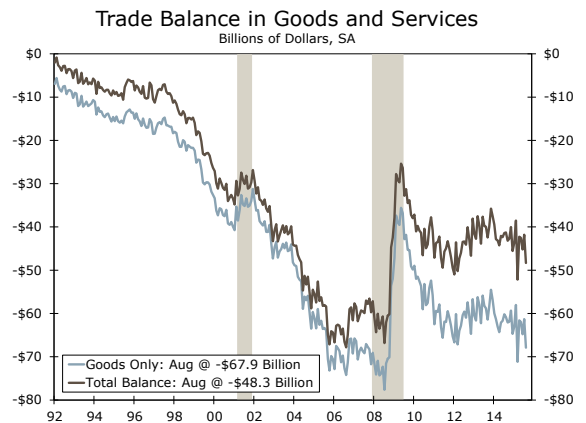
Let's start on the import side of the ledger. There was a notable \$2.1 billion jump in "cell phones and other household goods," which likely reflects imports of the Apple iPhone 6s. This one-off effect contributed to the \$4.0 billion rise in imports of consumer goods. The \$400 million increase in imports of telecommunication equipment helped to pull imports of capital goods up by \$1.1 billion.

This surge in total imports in August would have been even higher had not the value of imported petroleum products plunged by \$2.0 billion. With oil prices largely unchanged over the past month and with imports of cellphones likely to stabilize in coming months, the one-off surge in imports in August should reverse somewhat over the next few months.

The news from the export side of the ledger was a bit more disconcerting. Exports of industrial supplies and materials nosedived by \$2.2 billion. Although lower commodity prices helped to pull the value of industrial exports lower, volumes were also down by 2 percent in August. Exports of autos and parts were off \$499 million, and consumer goods exports fell \$571 million. This broad-based weakness in exports (middle chart) likely reflects slow growth in some of America's major trading partners as well as the effects of dollar appreciation over the past year or so. Unlike imports, which were pulled higher in August by some one-off effects, the underlying forces that are leading to weakness in exports are not likely to be reversed anytime soon.

### Net Exports Will Weigh on GDP Growth in Third Quarter

Real exports of goods were off by 1.5 percent in August while real imports rose 3.1 percent during the month. These inflation-adjusted figures are important because they feed directly into real GDP growth. Although some of the surge in import volumes in August may be reversed in the next month or so, weak growth in exports likely will persist for some time. The modest narrowing in the real trade deficit made a small contribution to overall GDP growth in Q2 2015. However, the reversal in the real trade deficit that occurred in the first two months of the third quarter (bottom chart) means that net exports likely will be a significant drag on overall GDP growth in Q3 2015.



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