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Economics Group

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Trade Deficit Widens in December as Exports Decline Again

Weakness in exports was broad based in December while a sharp rise in auto imports helped to pull up total imports. Net exports likely will continue to act as a headwind on overall U.S. GDP growth.

Exports Continue to Weaken

The U.S. trade deficit widened from $42.2 billion in November to $43.4 billion in December, which was in line with market expectations (top chart). The value of exports of goods and services fell by $513 million during December, the third consecutive month of contraction. On the other side of the ledger, the value of imports rose by $617 million.

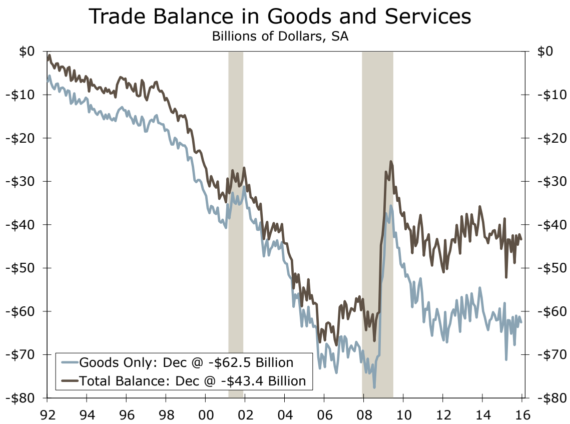
Weakness in exports was broad based. Not only did exports of industrial supplies and material fall by $414 million, but capital goods exports dropped $339 million and exports of autos and parts declined by $559 million. The $937 million rise in consumer goods exports looks like a one-off episode because two thirds of that increase came from exports of artwork, antiques and stamps. In general, slow growth in some of America's major trading partners and the effects of dollar appreciation are weighing on export growth. On an inflation-adjusted basis, real exports of goods edged up by 0.2 percent in December, which followed two months of sharp declines. Looking at the fourth quarter in its entirety, real exports of goods plunged at an annualized rate of 7.2 percent.

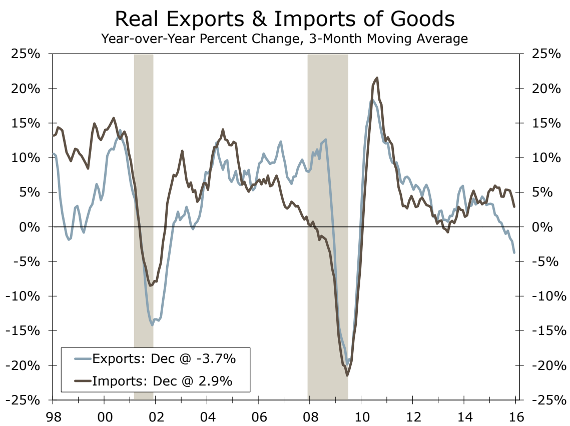
The value of petroleum imports edged up by more than $200 million in the month after posting sharp declines earlier in the year. Although imports of consumer goods dropped by $631 million, which was due in part to a sharp decline in imports of televisions and audio equipment, imports of autos and parts jumped nearly $1 billion. The sharp rise in auto imports comes as little surprise given the surge in car purchases in the United States that occurred last year. In general, solid growth in domestic demand continues to pull in imports of goods and services.

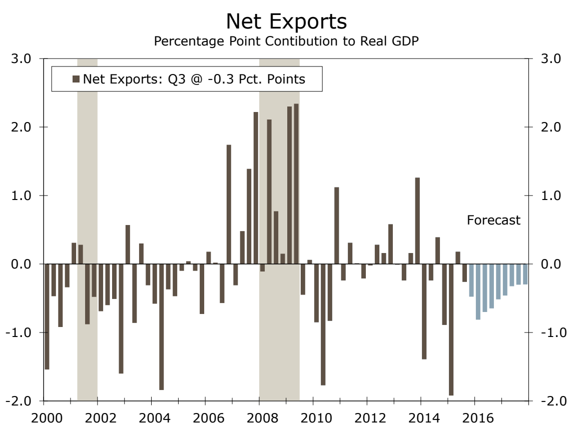
Net Exports Should Continue to Weigh on GDP Growth

Indeed, growth in real imports remains positive on a year-over-year basis (middle chart). In contrast, real export growth slipped into negative territory earlier in mid-2015 and it remains in the red today. This bifurcation in export and import growth rates has acted as a headwind on real GDP growth in the United States over the past year or so (bottom chart). In the GDP report for Q4-2015 that was released last week, net exports sliced 0.5 percentage points off of topline GDP growth.

Looking forward, we expect that these headwinds on GDP growth from the foreign sector will continue. The dollar continues to strengthen, especially against the currencies of many developing economies. Furthermore, economic growth in many foreign economies remains sluggish, which will also weigh on real export growth. On the other hand, continued growth in U.S. domestic demand, albeit at a modest pace, should cause real imports to continue to rise.







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

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