TD Economics

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Data Release: Trade deficit narrows to a six month low in July on auto and petroleum exports

- The trade deficit narrowed to $40.6 billion in July, or $264 million lower than the previously reported June figure. The narrowing was counter to expectations which called for a widening to $42.4 billion.
- The small improvement in the trade balance was led by a robust gain in exports, which advanced 0.9%, on the back of phenomenal rise in automotive shipments (+12.1% m/m) and industrial supplies (+3.0%). Capital goods also advanced (+0.9%) while services exports were largely flat (+0.1%). Food & beverage (-5.4%) and consumer goods (-3.8%) weighed on exports.
- Imports also gained, rising 0.7% in July. Automotive shipments (+5.0%) led the increase, with more muted gains in industrial supplies (incl. petroleum) and food & beverage (+0.5%), while both consumer (-1.1%) and capital goods (-0.7%) imports declined.
- After accounting for price changes, the improvement in the merchandise trade balance is even more pronounced with real goods exports up 1.3% (0.9% nominal) and real goods imports up 0.5% (0.8% nominal).
- The petroleum trade balance improved by $200 million, as exports of petroleum products (+1.1bn) outpaced the increase in imports (+$900mn). The improvement is all the more pronounced in real terms.
- The trade balance narrowed with China (+1.6bn) and the EU (+2.0bn) but widened with OPEC (-$1.3bn), Asian NICs (-$600bn) and South/Central America (-$500bn).

Key Implications

- This was a very encouraging report no matter how you cut it. The improvement in the trade balance, while not large in and of itself, comes atop a significant -$700 million revision to June's deficit. As such, net trade looks to finally contribute to U.S. GDP growth during the third quarter, after an underwhelming first half of 2014.
- Moreover, the improved trade balance was led by exports, rather than a pullback in imports. These were driven by automotive exports which have surged by 21.5% from year-ago levels (in real terms) likely boosted as global automakers that set-up shop in the U.S. (particularly in the southern states) expand production. This trend has allowed the automotive trade balance (in real terms) to narrow to its smallest deficit since the Tohoku earthquake in Japan in early 2011, despite surging domestic demand for autos in the U.S. (much of which are imported).
- Further benefiting the trade balance was the rising exports of petroleum products which outpaced the uptick in imports of crude. As it stands, the petroleum trade balance is, in real terms, at a record low (albeit data only go back to 1994) and is in any case only one-third the size it was during the mid-2000s as the shale revolution continues to manifest on both the export and import sides of the petroleum ledger.
- These trends will continue to support the U.S. trade outlook. However, we are not anticipating such large improvements in the trade balance to persist. Over the medium term, imports are likely to strengthen as U.S. consumption ramps up manifesting in some downward pressure on deficit.

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