TD Economics

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Data Release: Trade gap narrows slightly in October, as fight for crude market share intensifies

- The U.S. international trade deficit narrowed slightly in October to $43.4bn, from an upwardly revised $43.6bn gap in the previous month. The figure fell shy of expectations for a narrowing to $41.2.
- Exports were 1.2% higher than the previous month on strong goods shipments (+1.5%) with capital and consumer goods seeing the largest gains. Services exports were up a more muted 0.5%.
- Imports rose by 0.9% with inbound goods shipments up 1.0% in October driven by automotive and capital goods imports. Petroleum imports were lower, but this was primarily due to price effects, with the average price per barrel of imported crude falling by over $4 between September and October.
- After adjusting for price fluctuations, gains in merchandise exports and imports were more apparent, up 2.4% and 1.7%, respectively.

Key Implications

- While the top line number disappointed, the details were more constructive with trade looking to be less of a drag on Q4 growth than previously anticipated.
- Despite lower petroleum exports, a higher dollar and soft global growth, total exports grew robustly with the U.S. shipping more civilian aircraft and other high valued capital goods. At the same time, the uptick in the import number prevented the trade balance from narrowing more substantially, but the gain is a testament to the strength of U.S. domestic demand. This trend should continue as the U.S. economy gathers pace and will help global trade.
- The petroleum trade balance widened in both nominal and real terms as the number of barrel equivalents exported declined and inbound shipments increased as the fight for market share between domestic and international producers intensified.
- A higher dollar and lackluster global growth coupled with strong domestic demand will continue to weigh on the non-petroleum trade deficit going forward. At the same time, we expect the petroleum trade balance to continue to improve. Domestic production should continue to advance in the near term with the fight for market share ultimately benefitting American refiners.

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