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Economics Group

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July Trade Deficit Narrows Substantially After June Jump

The trade deficit narrowed substantially in July following the sharp widening in June. Exports rose while imports contracted after surging in June. Petroleum imports held steady while non-petroleum imports fell.

Non-Petroleum Imports Give Back Most of July's Gains

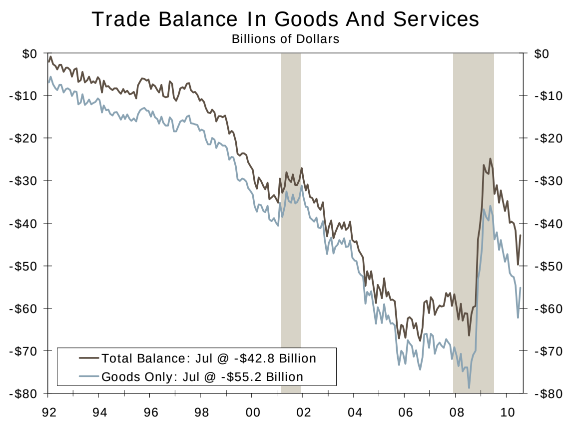
The trade deficit narrowed to $42.8 billion in July from $49.8 billion in June as exports rose and imports declined. The decline in imports was concentrated in non-petroleum goods and services as petroleum imports held steady around the lows of the year. Looking at the details shows that the number of barrels of crude imported held near the highs of the year, while prices were the lowest of the year, showing that demand remains strong and the market is well-supplied. As for non-petroleum imports, all categories saw a decline. Although this may suggest demand is slowing, we must take into account the fact that imports jumped in June. Averaging out the two months shows that imports remain on an upward trajectory, although the 3-month moving average of annual growth slowed a tad. The biggest decline in non-petroleum imports was seen in consumer goods as gems, pharmaceuticals and other household goods dropped. The decline was fairly broad-based though as only four categories saw increases. Capital goods contracted as fewer computers, accessories and industrial engines were imported. Equipment and software investment has been a stalwart during the recovery, so while this is considered payback from June, the drop in computer imports is worth watching. However, machines and semiconductor imports rose, which should alleviate some concern. Imports of foods, feeds and beverages declined only slightly.

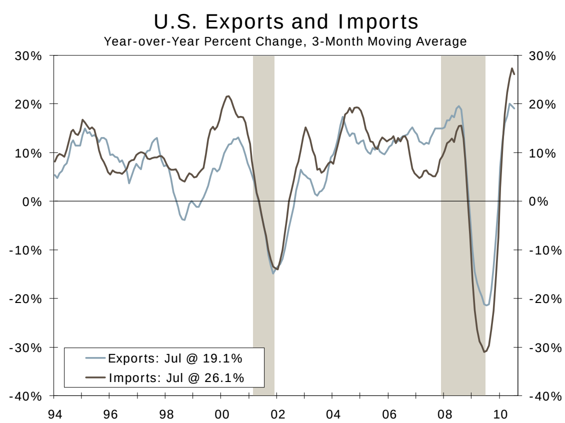
Rise in Exports Driven by Aircraft; Consumer Goods Decline

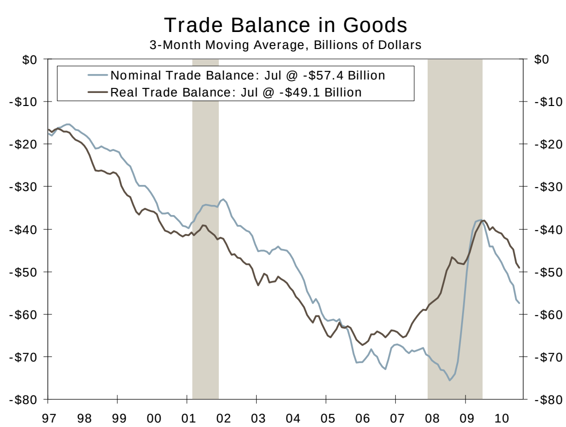
Exports rose $2.8 billion, but half of the increase was a $1.4 billion jump in civilian aircraft exports. Other capital goods, such as industrial machines, computers and telecommunications equipment also saw increases, showing that foreign demand for goods used in expanding production and increasing productivity remains strong. On the downside, exports of consumer goods contracted very slightly, suggesting that consumer spending in some countries remains weak. Global growth could remain modest since consumer spending accounts for the bulk of growth in many countries. The fact that both imports and exports of consumer goods declined suggests that businesses may be turning more cautious on inventories as the global economy has hit a soft patch.

July Data Suggest Little Effect on U.S. Growth in Third Quarter

The trade deficit in July was pretty much in line with the average for the second quarter. This suggests that if the deficit holds around these levels for August and September, trade will not be a drag on growth in the third quarter. That will be welcome news as the 3.4 percentage point drag from trade in the second quarter was the biggest since quarterly GDP data became available in 1947. However, we do expect the trade deficit to gradually widen in the months ahead as the economy returns to health and imports gain momentum.







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