

U.S. Data Review

- International trade: sharp narrowing in the real goods deficit in July

Lawrence Werther
Michael Moran

Daiwa Capital Markets America
 lawrence.werther@us.daiwacm.com
 michael.moran@us.daiwacm.com

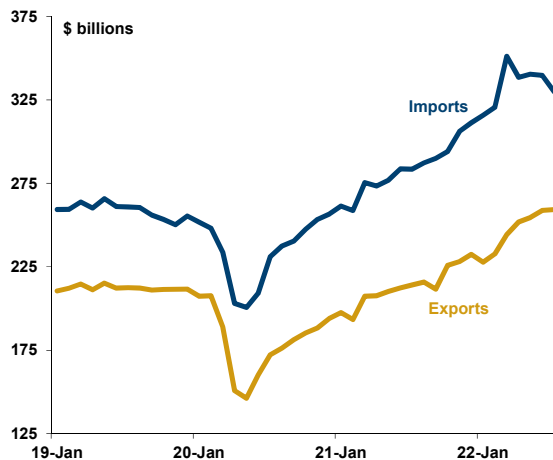
International Trade

The U.S. international trade deficit in goods and services narrowed by \$10.2 billion in July, exceeding the expected narrowing of \$9.4 billion. While the deficit narrowed by more than projected, results in the prior month were revised against the U.S. (deficit of \$80.9 billion versus \$79.6 billion first reported), leaving the level of the deficit slightly wider than the consensus estimate (\$70.7 billion versus \$70.2 billion expected).

Both sides of the trade ledger contributed to the notable improvement in July, with total exports increasing 0.2 percent and imports falling 2.9 percent (chart, left). The goods deficit narrowed by \$8.2 billion in July to \$91.1 billion. The improvement, however, was a soft one in that lighter flows of exports (-0.2 percent) were swamped by a drop of 3.0 percent in imports. The surplus in service trade improved by \$2.1 billion to \$20.4 billion, with service exports increasing 1.1 percent and service imports dropping 2.2 percent. However, much of the adverse revision to total trade in June occurred in the service sector, which left the level of the service surplus in July slightly shy of the preliminary reading in June. After falling noticeably during the worst of the pandemic, the surplus in service trade has ebbed and flowed, leaving an approximately flat trend in the past year or so.

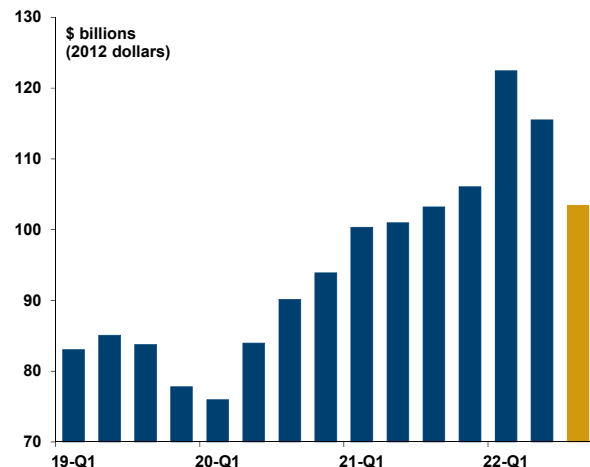
The real (inflation adjusted) good deficit narrowed by \$10.4 billion in July to \$103.4 billion. The deficit is noticeably narrower than the \$115.5 billion average in Q2 (chart, right), setting the stage for a large positive contribution from net exports to GDP growth in Q3. If the next two months were to match the results in July, net exports would add approximately three percentage points to GDP growth. Offsets could easily occur, but early results for Q3 suggest that net exports will be in the plus column for GDP growth. The boost from net exports in Q3 would follow a positive contribution of 1.4 percentage points in Q2, although net exports subtracted 3.2 percentage points in Q1 and averaged drags of 0.8 percentage point per quarter in 2021.

Exports & Imports of Goods & Services



Source: Bureau of Economic Analysis via Haver Analytics

Real Goods Trade Deficit*



* Quarterly averages of monthly data. The reading for 2022-Q3 (gold bar) is the real goods deficit for July.

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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