

US NET EXPORTS TO DRAG ON Q4 GDP, BUT DOMESTIC DEMAND IS STRONG

**The U.S. international trade balance widened markedly in October, to -\$48.7bn from -\$44.9bn in the prior month — the largest trade deficit since January and one of the three largest in the last five years (see Chart 1)*

**The widening was the result of another strong gain in imports to a record high (+1.6% m/m) and unchanged exports — weighed on significantly by an outsized drop in soybean exports*

**Net exports added to growth for the last three quarters — the longest such streak since 2012-13 — but that trend looks set to reverse in Q4*

Soybean exports fell by 46% in October, seemingly correcting for a rapid run-up through September (see Chart 2). Weekly soybean exports data from the U.S. Department of Agriculture (USDA) suggest that the correction continued through to November and that soybean exports will weigh on overall exports again. Soybean exports tend to be volatile and dependent on the level of crop production in other regions. There were similar swings last year that led to volatility in the overall trade deficit.

Goods exports excluding soybeans were up a solid 0.9% m/m, continuing its upward trend since the start of last year (see Chart 3). The very large increase in exports of industrial supplies and materials — that far outweighed the drop in capital goods ex autos — reflects the pick-up in global growth and capital formation (see Chart 4). The weak U.S. dollar is further boosting demand for U.S. manufactured goods.

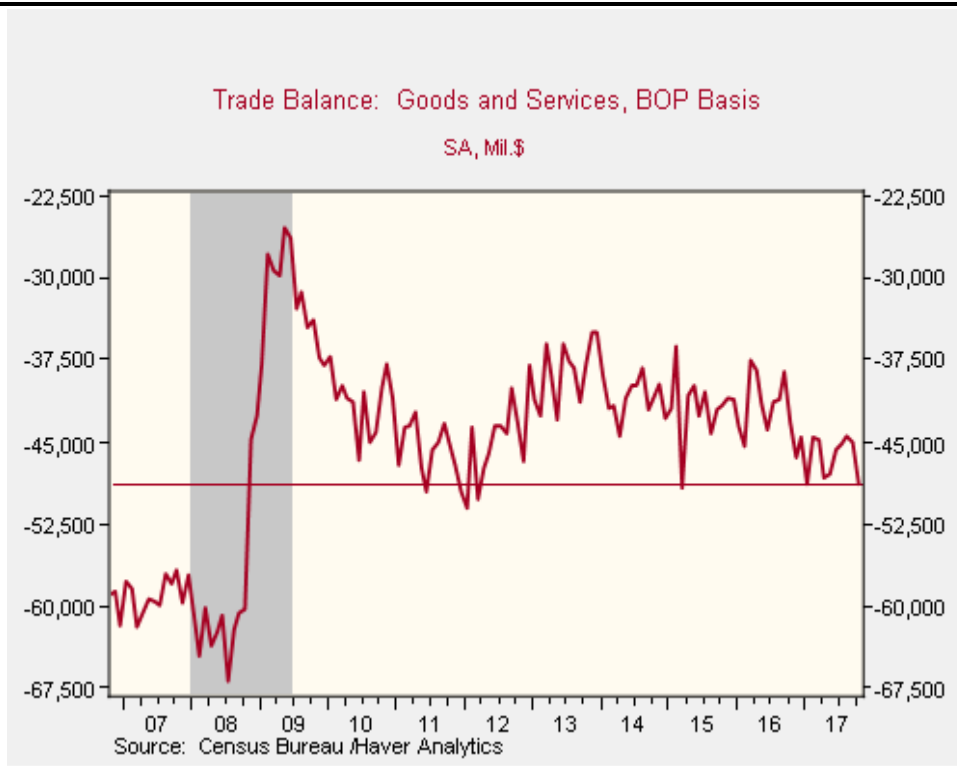
The robust import gains underscore the very strong momentum in the U.S. economy (see Chart 5). Goods imports stagnated in H1 but have improved markedly over the last few months. The strong gains in imports of industrial supplies and capital goods ex autos — both up over 10% yr/yr in October — are indicative of the acceleration in business fixed investment this year (see Chart 6) and the largest increase in imports of **consumer goods (nonfood) ex auto since April reflects retailers'** expectations of a strong holiday shopping season.

The headline Q4 GDP number will be less than rosy, with net trade and inventory investment expected to drag on growth. We forecast a 2.1% gain in Q4 real GDP. But final sales to domestic purchasers, which excludes net exports and inventory investment and gauges underlying demand, remains on track to grow a solid 3% this quarter, led by real business fixed investment.

Over the next year, tax reform should provide an additional boost to domestic activity and lead to increased demand for foreign goods and a wider trade deficit (see updated forecasts here: ["U.S. 2019 and 2019 growth projections revised up on tax reform"](#), December 4, 2017).

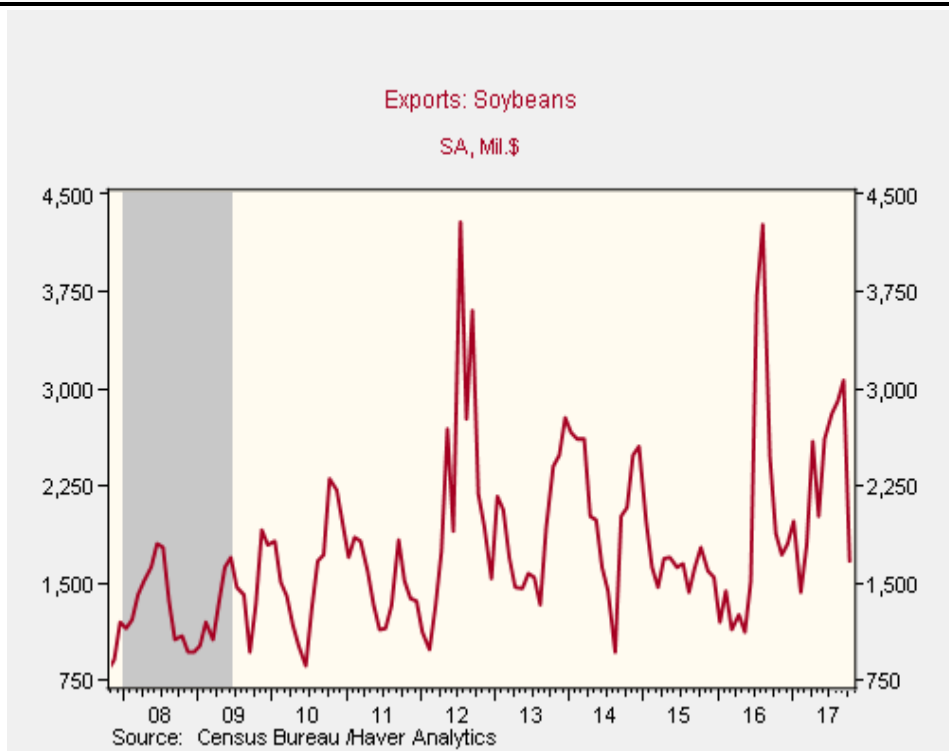
05 December 2017

Chart 1: US International Trade Balance



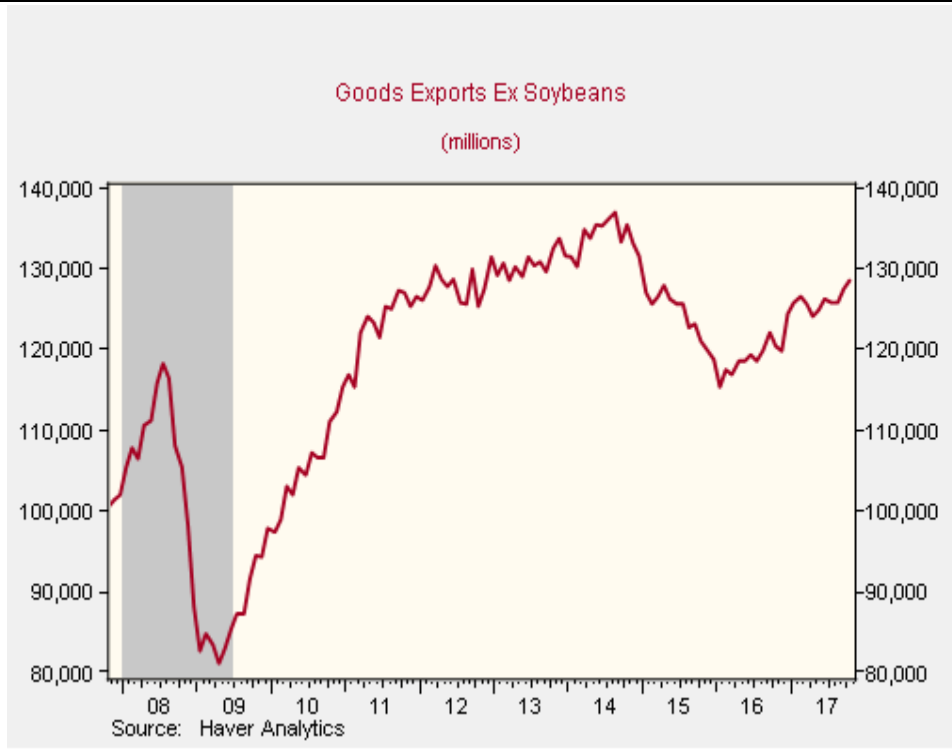
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 2: Soybean Exports



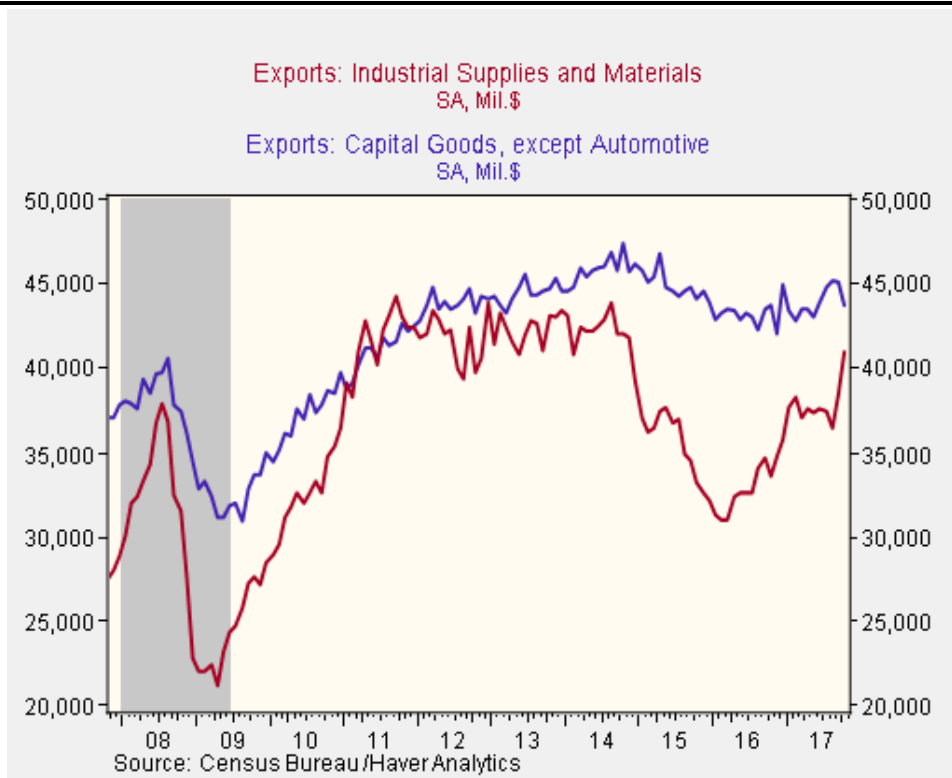
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 3: Goods Exports Excluding Soybeans



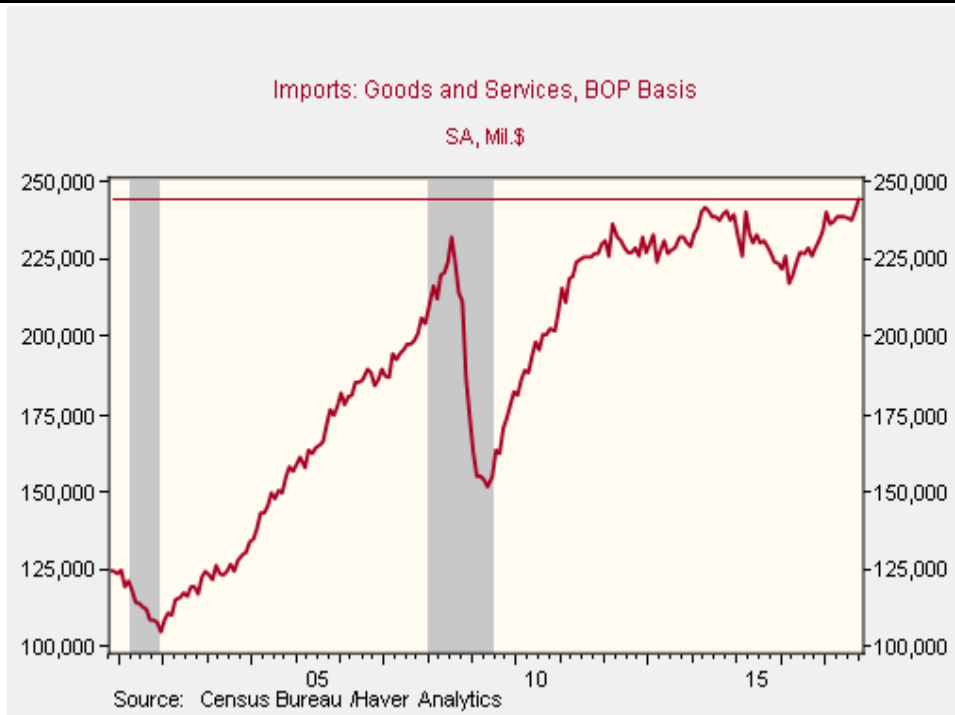
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 4: Exports of Industrial Supplies and Capital Goods Ex Autos



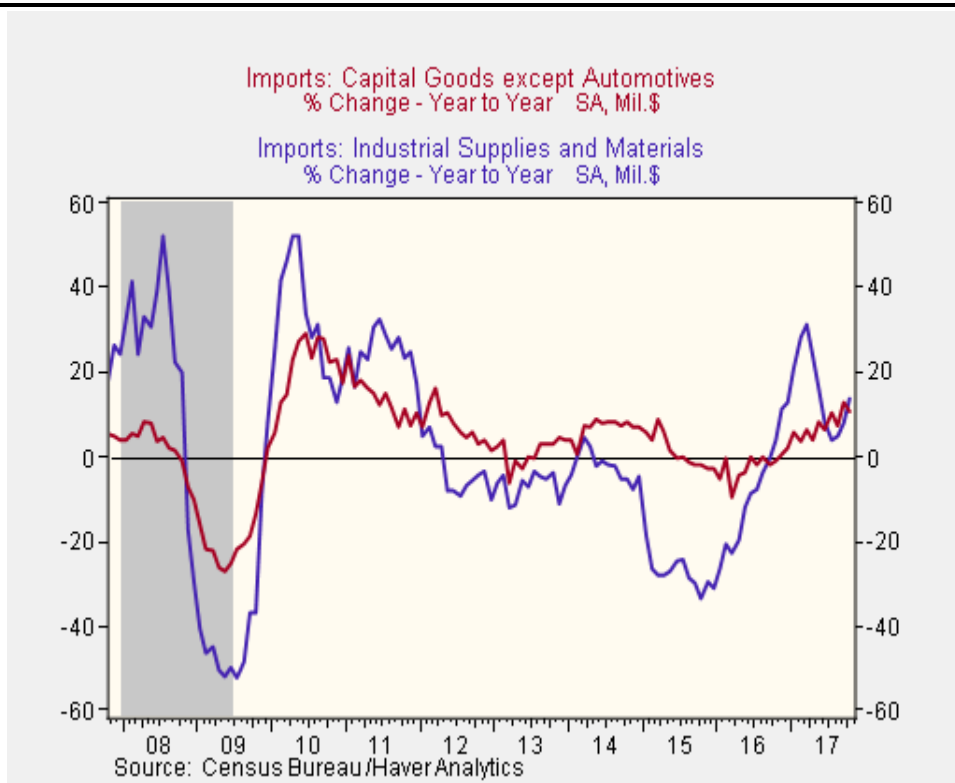
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 5: Total Imports



Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 6: Imports of Capital Goods Ex Autos and Industrial Supplies (year-over-year, %)



Source: Monthly data. Source: Census Bureau and Haver Analytics

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