

US TRADE DEFICIT WIDENS IN JANUARY AS FOCUS ON TARIFFS INTENSIFIES

**The U.S. trade deficit widened to -\$56.6bn in January from -\$53.9bn in December, as exports declined 1.3% m/m and imports remained unchanged, but the monthly data are notoriously bouncy and exports are up 5% yr/yr while imports are up 7% (Chart 1)*

**Exports and imports have pared back after robust gains in Q4. Imports surged in Q4 because of the strong holiday shopping season, robust gains in real business fixed investment, and a possible rush from some manufacturers to obtain raw materials in advance of tariffs. Local producers have had trouble satisfying strong domestic demand, which has led to a significant inventory drawdown*

**We expect the imminent tariffs on steel and aluminum to have a minimum direct impact on the U.S. economy — they account for roughly 2% of the total value of goods imports — and a modest impact on broader inflation, and place a low probability on a major escalation in global trade policy disagreements*

The resurgence in U.S. real business fixed investment since late 2016 has coincided with the rebound in real goods exports and imports growth (Chart 2). The concentration of the strong rise in imports of capital goods ex autos and consumer products reflects the improved demand from U.S. consumers and businesses (Chart 3). A similar trend in growth and trade has occurred in both advanced and emerging economies as healthy, free, unimpeded trade flows are usually associated with broader, stronger economic growth (Chart 4).

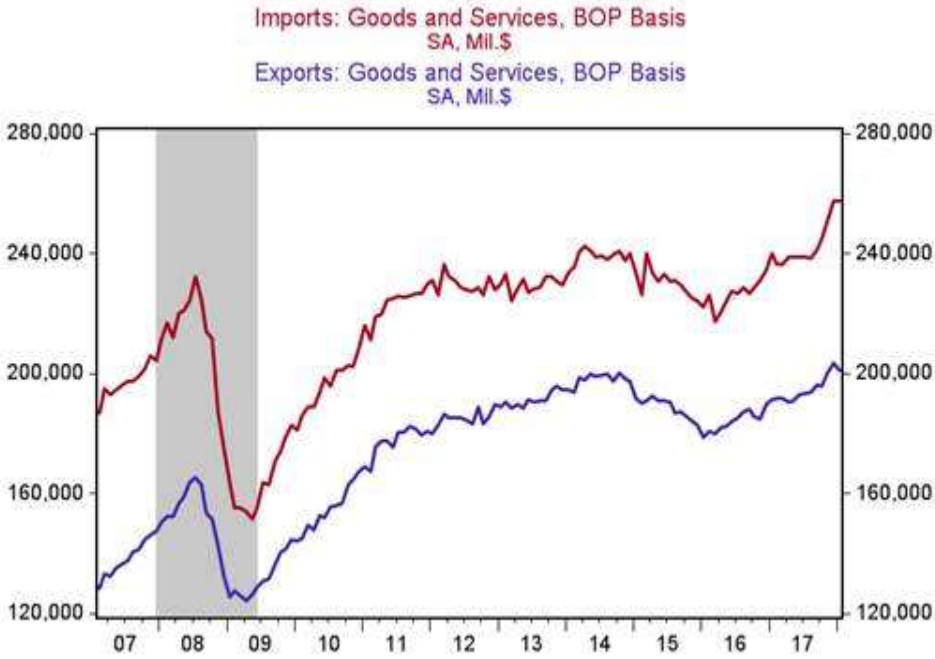
Thus, the current debate on trade policy and President Trump's proposed tariffs on imported steel and aluminum products is framed by a wide U.S. trade deficit. Trump has indicated concerns about bi-lateral trade deficits with specific nations. In that context, we note that the U.S.'s largest bi-lateral trade deficit is with China, at -\$337 billion in 2017. The U.S. imports minor amounts of steel (2.2%) from China and a moderate amount of aluminum (9.5%). The U.S. maintains a modest trade surplus with Canada (Chart 5). The U.S. relies very heavily on Canada for imports of steel products (16.1%) and aluminum products (43%) (see Tables 1 and 2). The U.S. runs a trade deficit with Mexico, with \$346 billion imports and \$277 billion exports in 2017 (Chart 6). Nine percent of U.S. imported steel products come from Mexico and only 1% of imported aluminum products.

The direct impact on the economy and inflation of the proposed tariffs on steel and aluminum are small (but concentrated in some sectors); the macroeconomic impacts would be accentuated if the tariffs and any retaliatory actions or threats of "trade wars" jar confidence. At the moment, we place a low probability on the tariffs severely denting economic performance. The final outcome likely will include modified tariffs and also include some exemptions for key allies.

Manufacturing sentiment, an important predictor of business production and investment, could be harmed by the tariff announcements (Chart 7).

07 March 2018

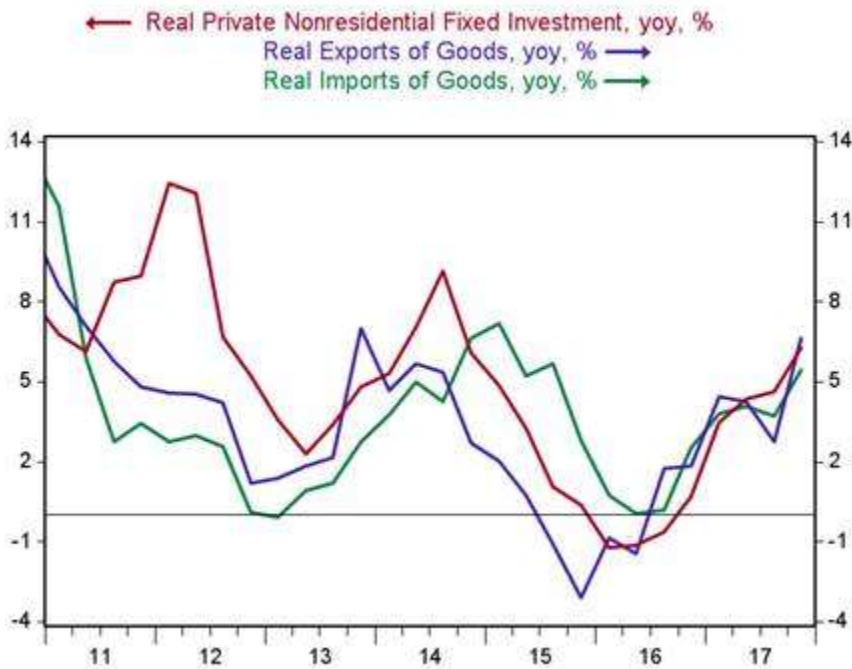
Chart 1: U.S. Imports and Exports of Goods and Services



Source: Census Bureau/Haver Analytics

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

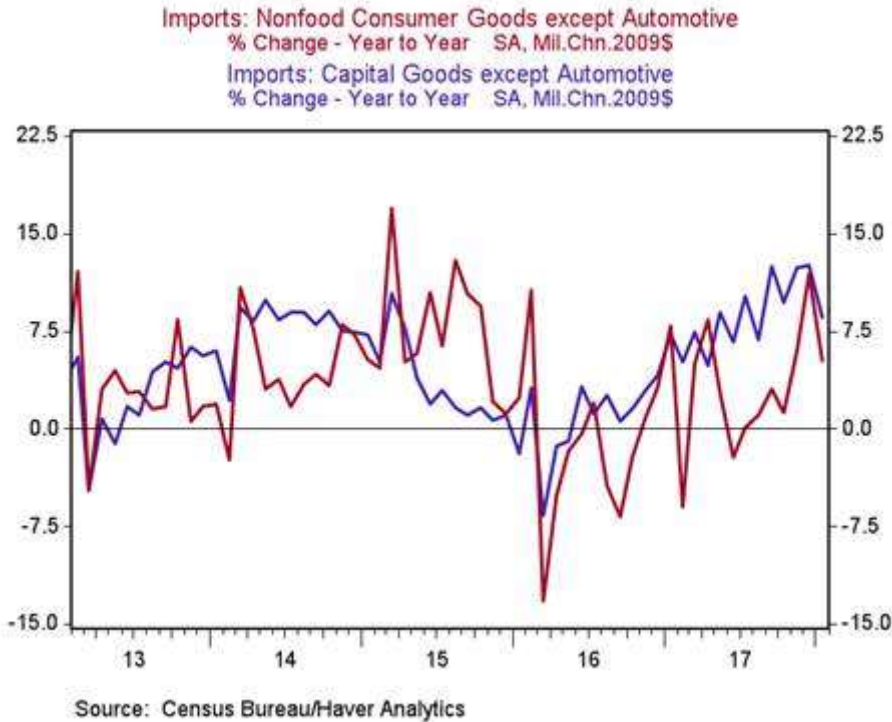
Chart 2: U.S. Real Business Fixed Investment, and Exports and imports of Goods (year-over-year, %)



Source: Bureau of Economic Analysis/Haver Analytics

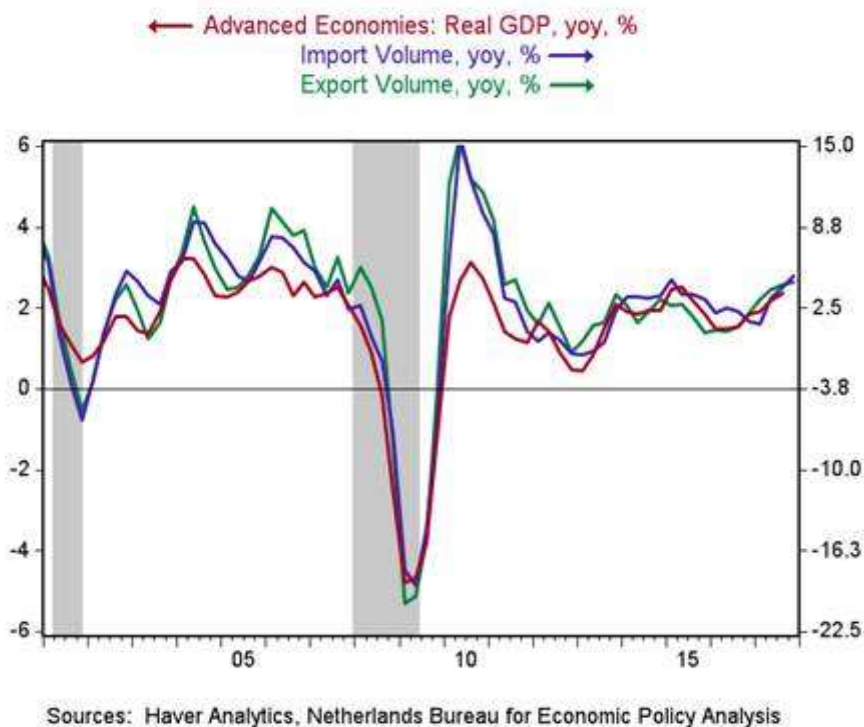
Source: Quarterly data. Source: Bureau of Economic Analysis and Haver Analytics

Chart 3: U.S. imports of Consumer and Capital Goods Ex Autos (year-over-year, %)



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

Chart 4: Advanced Economies' Real GDP and Export and Import Volume Growth (year-over-year, %)



Source: Quarterly data. Source: Netherlands Bureau of Economic Policy Analysis and Haver Analytics

Table 1: U.S. Imports of All Steel Products for Domestic Consumption by Country

2017 Rank	Country	Share (%)
1	Canada	16.1
2	Brazil	13.0
3	South Korea	10.2
4	Mexico	9.0
5	Russia	8.7
6	Turkey	6.3
7	Japan	5.0
8	Germany	3.8
9	Taiwan	3.5
10	India	2.4

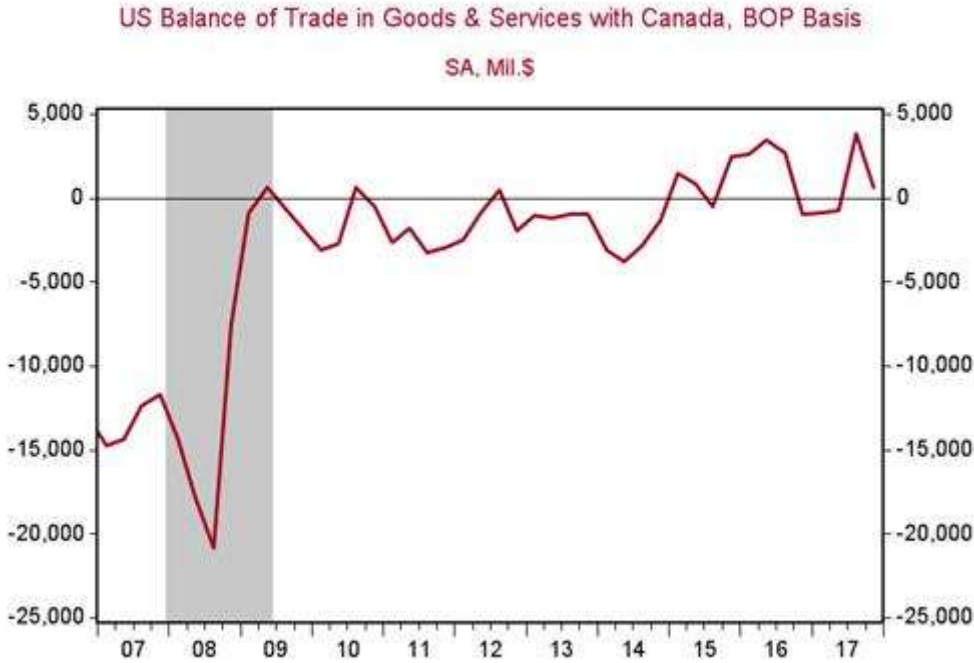
Source: United States Department of Commerce, Bureau of the Census, Foreign Trade Division, IHS Global Trade Atlas Database: Revised Statistics for 2011 - 2017. 2017 data is annualized based on YTD 2017 through October.

Table 2: U.S. Imports of Aluminum by Country

2017 Rank	Country	Share (%)
1	Canada	43.0
2	Russia	10.9
3	United Arab Emirates	9.9
4	China	9.5
5	Bahrain	3.7
6	Argentina	3.2
7	South Africa	2.5
8	India	2.3
9	Qatar	1.8
10	Venezuela	1.4

Source: U.S. Census Bureau, accessed through USITC Dataweb
Data for Tables 1 and 2 are from "The Effect of Imports of Steel on the National Security," An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as Amended, U.S. Department of Commerce, January 11, 2018."

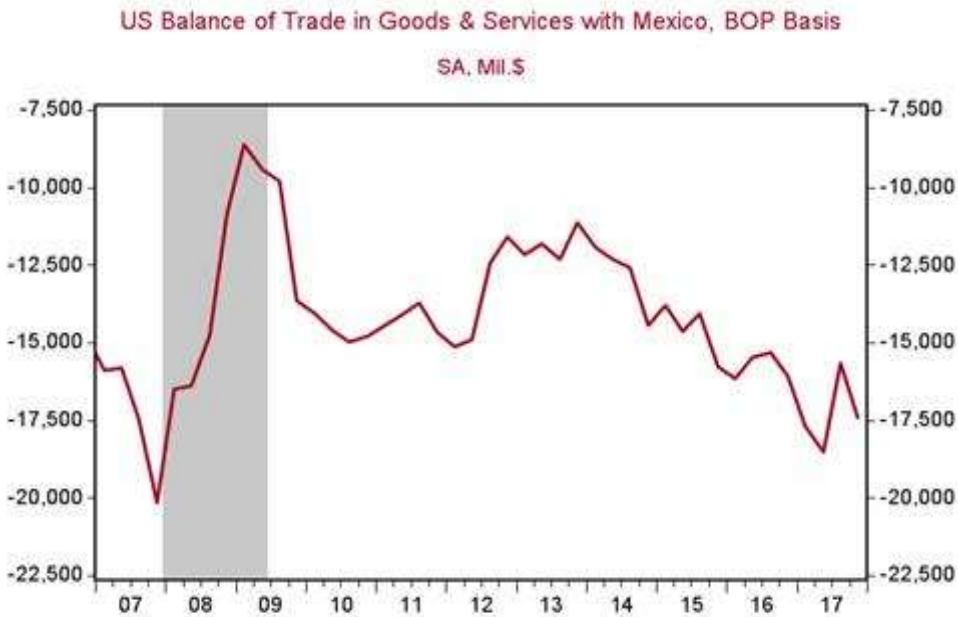
Chart 5: U.S. Trade Balance with Canada



Source: Census Bureau/Haver Analytics

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

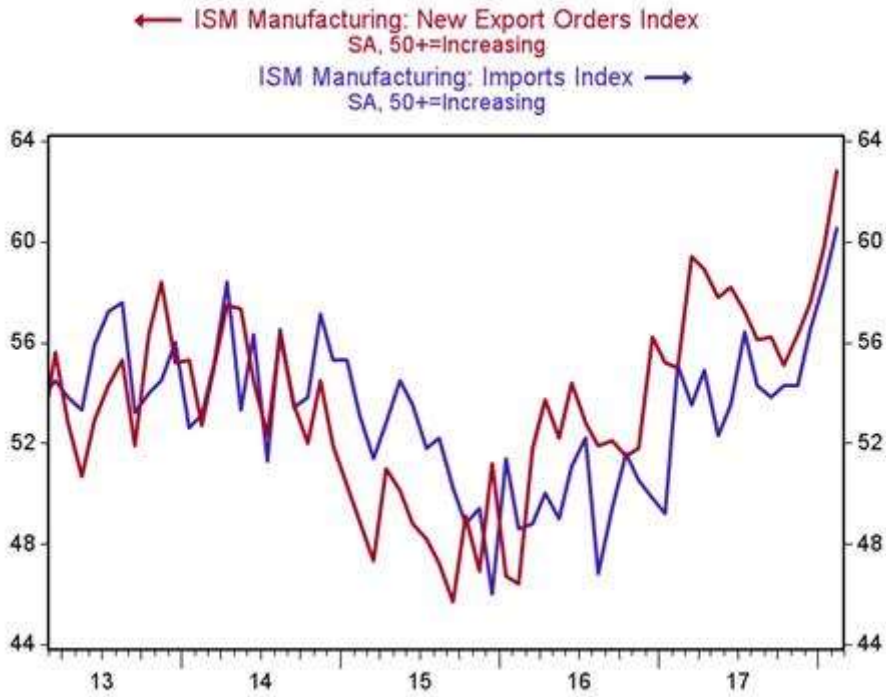
Chart 6: U.S. Trade Balance with Mexico



Source: Census Bureau/Haver Analytics

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

Chart 7: ISM U.S. Manufacturing New Export Orders and Imports Indexes



Source: Institute for Supply Management/Haver Analytics

Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

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