Trade Deficit Narrowed in July, but Trade Flows Slowing

The trade deficit narrowed $1.5 billion in July as a gain in exports outweighed a modest decline in imports. This morning’s release does not reflect the most recent escalation in the U.S.-China trade war.

Narrowing in the Trade Deficit
- The trade deficit narrowed slightly to $54.0 billion in July, as imports fell 0.1% and exports rose 0.6%. But, with global growth weakening, goods exports are slowing on trend, and not just to China. The export orders component of the ISM manufacturing index suggests exports are set to slow further in coming months.
- Imports were held down by capital goods imports, which are down 4.5% over the past year, due to weakness in investment.

July Data Do Not Reflect Recent Escalation
- The most recent escalation of a 15% tariff on $111B of imports from China that was announced in August went into effect on Sunday. That means the new tranche in the trade war, which affects mostly consumer products, did not affect trade in July.
- There is no denying the trade war is reducing trade flows. Given weakening global growth and further escalation in the trade war set to take place, we do not expect much relief for global trade.

Source: U.S. Department of Commerce, Office of the U.S. Trade Representative and Wells Fargo Securities