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TD Economics

Data Release: Rising prices widen trade deficit in August, but net exports to support growth in Q3

- The U.S. trade deficit widened slightly in August to \$40.7 billion, after narrowing considerably in July. The deficit was slightly larger than the median survey estimate of \$39.2.
- Nominal exports rose 0.8% on the month, led by industrial supplies (+4.2%) and automotive exports (+3.1%), while imports rose 1.5% in August, led by food and beverages (2.4%) and capital goods (2.4%).
- Adjusted for inflation the picture was better with real goods exports up 1.8% and imports up a more modest 0.8%.

Key Implications

- This was a good report, with the solid gain in August exports building on the strong gain in July. This sets up net-trade to contribute positively to growth in the third quarter, likely adding half a percentage point to real GDP growth.
- The contribution to U.S. economic growth from net-trade has moved from deeply negative last year (subtracting 0.6 percentage points from growth in 2015) to modestly positive over the course of 2016. The global economy will remain a source of uncertainty and potential downside risk to the American economy, but with a more stable dollar, the worst of the drag appears to be in the rear view mirror. This puts the emphasis back on the domestic economy where fundamentals continue to support ongoing improvement.

James Marple, Senior Economist
416-982-2557

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