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TD Economics

Data Release: Trade deficit narrowed slightly in December

- The U.S. trade deficit narrowed to $44.3 billion in December from a $45.7 billion deficit in November. The trade deficit was just slightly better than the consensus expectation.
- Exports bounced back (+2.7%) after two months of contraction. The increase was led by capital goods (+7.9% m/m), but industrial supplies (+2.1%), automotive exports (+1.4%) and consumer goods (+0.5%) also saw gains. Export gains were even stronger in real terms (+3.6%).
- Imports rose 1.5%, with all major categories posting gains. Most notably, automotive sector imports jumped 5.5%. Goods imports in real terms rose 1.5%.

Key Implications

- No major surprises here. Zeroing in on trade volume trends, both exports and imports picked up in the latter half of 2016, after a flat performance earlier in the year. That is very much in line with an acceleration in economic growth both at home and abroad.
- For the year as a whole, the trade deficit in goods shrank in 2016 to $750 billion, and is well below the peak deficits seen in 2006 to 2008 period when oil prices were at a record high. However, the trade *surplus* in services shrank slightly in 2016, as the strong U.S. dollar led to faster growth in services imports, such as travel. Therefore the overall trade deficit grew slightly in 2016 to $502 billion, up from $500 billion in 2015. Again, this is well below the record $762 billion deficit posted in 2006.
- The U.S. dollar has given back most of its post-election gains on a trade-weighted basis, and is now only about a percent higher than its year-ago levels. A strong dollar has been exerting a considerable drag on goods inflation, but that affect will likely start to move into the rear view mirror in the coming months. This will add to strengthening core price pressures in the latter half of the year.

Leslie Preston, Senior Economist
416-983-7053

@TD_Economics