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TD Economics

Data Release: Trade deficit deteriorated marginally in January, slightly more than consensus

- The U.S. international trade deficit widened in January to $45.7 billion from a $44.7 billion deficit in December (previous December deficit estimate: $43.4 billion). In nominal terms, exports fell (-2.1%) for the fourth consecutive month, while imports also fell (-1.3%) – likely a reflection of weaker oil prices. Consensus expected $44 billion dollar trade deficit for the month.

- In volume terms, exports declined 2.0% in the month, and were down 3.8% from a year ago. Year-over-year declines were broad-based, with capital goods falling the most since last January (-5.5%). Import volumes fell 0.4% month-over-month in January, but are up 1.8% on a year-over-year basis. Import growth this past year has been driven by strong demand for automotive vehicle and other goods, supported by U.S. dollar appreciation.

Key Implications

- January's trade report does little to change our view of U.S. growth this quarter. Monthly indicator data for the U.S. received so far this year confirms that growth will likely accelerate from the small expansion of 1% in the fourth quarter of 2015. The positive payroll data this morning helps reinforce our outlook.

- U.S. exporters are contending with slower than expected global demand and a rapid, USD-driven relative price increase for their exports (although the USD retraced a bit of its past appreciation in February). The failure for policymakers to agree on global stimulus to strengthen demand at the G-20 meeting this past weekend confirms the earlier downgrade in estimates of global growth for 2016, and virtually eliminates expectations of a global trade resurgence. As a result, we expect net trade to continue to drag on U.S. economic growth this year, and will likely be exacerbated by growing monetary policy divergence as the Federal Reserve recommences its gradual interest rate normalization beginning this June.

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