# US trade: a win for the President?

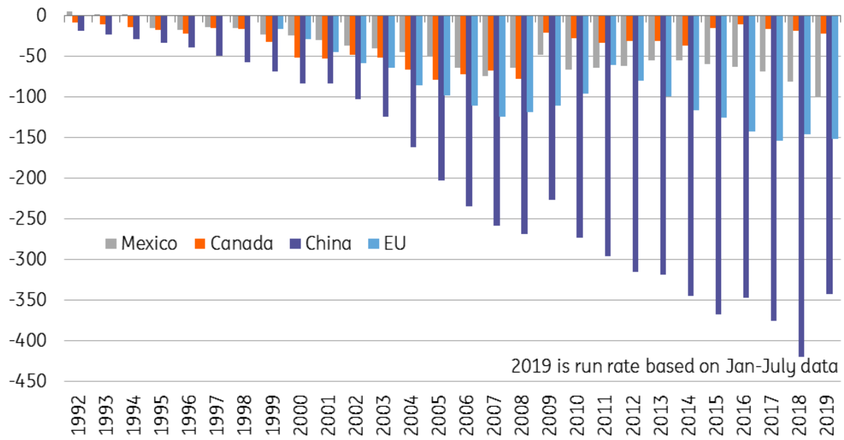
A strong US consumer and weak global growth means that the US trade deficit remains wide, but the fact that the US-China deficit is narrowing rapidly will boost President Trump's argument that being tough in negotiations yields results

## The US-China deficit has narrowed sharply...

The US trade balance narrowed to US$54.0bn in July as exports rose 0.6% month-on-month and imports fell 0.1%. The improvement is not quite by as much as hoped (US$53.4bn consensus) and the deficit remains wider than 12 months ago, but there is some encouragement for President Trump that his tough stance with China is having an impact. After all, the July deficit with China narrowed to US$32.8bn from US$37.0bn in July 2018 and US$33.6bn in July 2017. However, the broader impact on business and economic sentiment is clearly not as encouraging given the deteriorating outlook for investment and US growth.

The pattern of a narrowing US-China trade deficit is more clearly visible in the chart below. Creating a 2019 trade deficit estimate based on the Jan-July run rate, the deficit with China is on track to be the smallest since 2013. This may be enough for the President to claim that his tactics are working, but it is also likely to raise concerns within the EU and Mexico that they could once again face closer scrutiny given the annual US trade deficit with these economies is on course to widen out to new all-time highs in 2019.

## The US trade deficit with China is narrowing, but widening again with Mexico and the EU (US$bn)




Source: Macrobond, ING

## But trade is likely to remain a drag on growth overall

Looking more broadly at the path of trade and its contribution to US economic activity, the outlook is looking less positive. Within yesterday's ISM manufacturing report the new export orders painted a particularly bleak picture. It fell to 43.3 versus the 50 break-even level, making it the worst reading since April 2009 and the depths of the global financial crisis. Given the combination of weaker global demand, the stronger dollar and retaliatory tariffs from China, this index will almost certainly fall further.

At the same time, the US consumer appears to be an island of strength amidst the current sea of economic and market gloom. Households have a sense of job security with unemployment at such low levels and are experiencing rising incomes. Falling fuel prices additionally mean consumers' have more cash left in their pockets to spend on imported goods. As such, we expect the net trade contribution to weaken over the next couple of quarters, which will dampen US GDP growth and add to the pressure for additional policy easing from the Federal Reserve.

### Author

**James Knightley**
Chief International Economist, US
james.knightley@ing.com

#### Disclaimer