

## 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

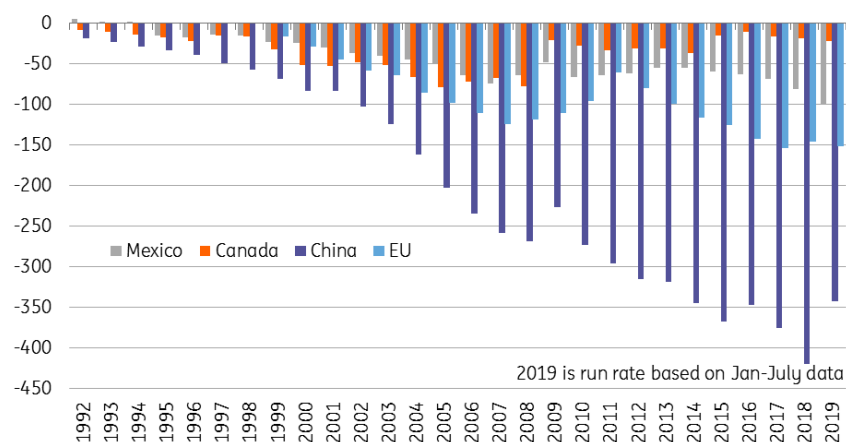


### The US-China deficit has narrowed sharply...

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](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.