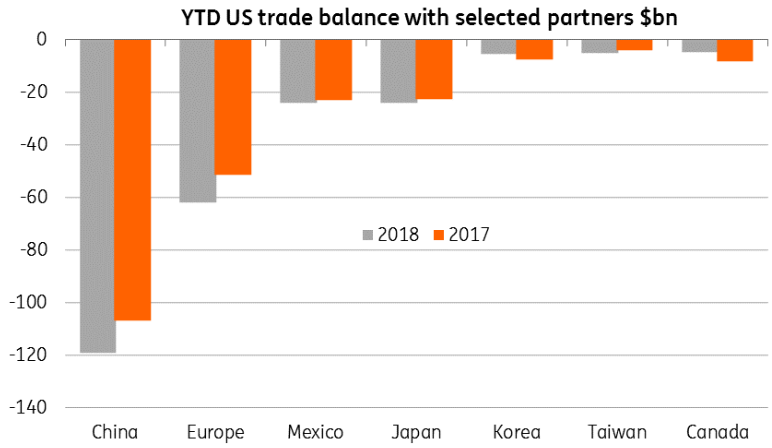
US trade numbers offer mixed messages for Trump

A narrower deficit is positive, but year-to-date the story is less rosy with China and the EU remaining firmly in the spotlight as Trump heads to the G7 meeting

The US trade deficit improved again in April to now stand at $46.2 billion in April, down from a revised $47.2 billion in March. This was much better than the consensus forecast of $49.0 billion and is a big reversal from the blowout $55.6 billion figure from February. As such, the latest trade report will help to boost President Trump's assertions that his aggressive trade policy stance is bearing fruit.

Imports fell 0.2% month on month while exports rose 0.3%, led by another big increase in food exports (5.6% MoM after an 8.2% rise in March). At this early stage, it looks as though trade could make a positive contribution to GDP growth in 2Q18 after having made barely any contribution at all in 1Q. Interestingly, the Atlanta Fed Nowcast model currently puts 2Q GDP at 4.8% annualised growth. We are more cautious given we have still got a lot more data to come, but something north of 3.5% is looking increasingly probable.

Nonetheless, President Trump is unlikely to be entirely pleased. Year to date the trade deficit shows little sign of narrowing. The deficit with China over the first four months of 2018 is $119 billion up from $106.5 billion in the first four months of 2017. The deficit with the EU is up nearly $11 billion over the same period and the deficit with Mexico is up by $1.1 billion. Only the deficits with Korea and Canada have narrowed. As such, Trump is likely to keep the pressure on China and the EU at the forthcoming G7 meeting on Friday, but when you have given households a $1.5 trillion tax cut, getting any meaningful reversal in the deficit will be challenging.



Source: Macrobond, ING

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