

US: Trade remains the weak link

The US is on course to hit a new record deficit in 2021 as strong domestic demand sucks in imports while ongoing Covid containment measures limit the opportunity for exports. Trade improvements with China appear to be holding, but it is merely resulting in import substitution with other Asian economies rather than boosting US manufacturing

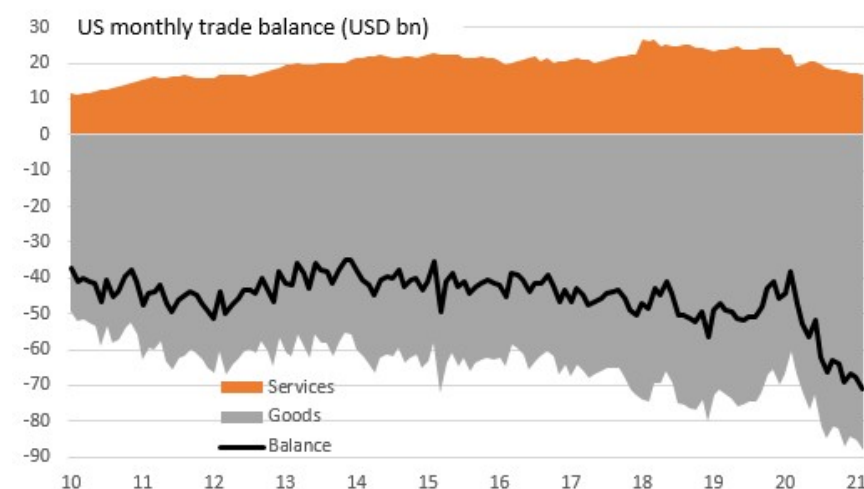


Source: Shutterstock

A new record monthly trade deficit

A new US record trade deficit is confirmed for February, coming in at -\$71.1bn versus -\$67.8bn in January. Imports fell 0.7% month-on-month, but exports fell 2.6% MoM with bad weather in February likely to have disrupted transport activity to some extent.

Monthly US trade balance USD bn

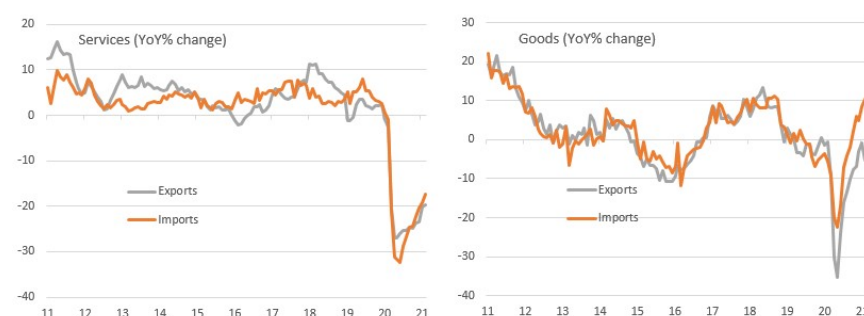


Source: Macrobond, ING

Weather and pandemic constraints are impacting the data

Supply constraints relating to an uneven re-opening pattern and industry specifics, such as the global shortage of semi-conductor chips, may also be leading to businesses curtailing imports of other components in the production process (auto parts, for example). It is also possible that the higher cost of international freight, reflecting a scarcity of containers where they are needed, is also impacting the data in the near-term.

Export and import growth (YoY%)



Source: Macrobond, ING

Trade to drag on growth in 2021

Based on the first two months of 2021 it looks as though the US is on track for a new record deficit for the full year. Admittedly it is very early days, but we believe the trade deficit will continue to deteriorate in the months ahead as strong domestic, stimulus fuelled demand sucks in more imports while exports struggle as ongoing Covid-related lockdowns weigh on activity elsewhere.

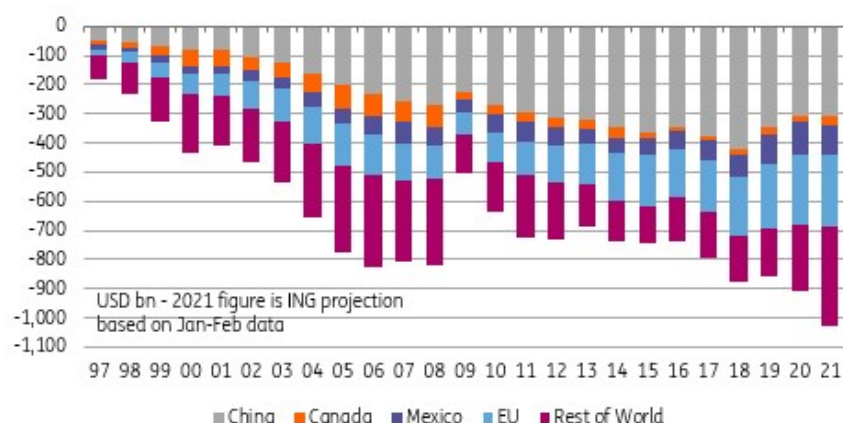
Rest of Asia benefiting from China moves

Geographically the smaller deficit with China after the escalation of trade tensions appears to be holding. In fact, year to date exports to China are up 58.7% versus 2020, but we have to

acknowledge that China was in the grips of its pandemic at the beginning of 2020 and we are likely to see that rate of growth slow. The trade deficits with Europe appears to be holding, while shrinking with Mexico and mildly expanding with Canada.

However, the trade deficit with “the rest of the world”, which is largely non-China Asia, continues to balloon. Vietnam, Malaysia, Taiwan, Thailand and Korea are the main beneficiaries, which highlights the point that we have merely seen substitution of US imports away from China to other parts of Asia rather than any meaningful improvement of reshoring activity to the US. Nonetheless, we don’t expect this to prevent the US economy from growing nearly 7% this year.

US goods trade balance by geography (USD bn)



Source: Macrobond, ING

Author

James Knightley

Chief International Economist, US

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 www.ing.com.