US: Trump’s trade triumph?

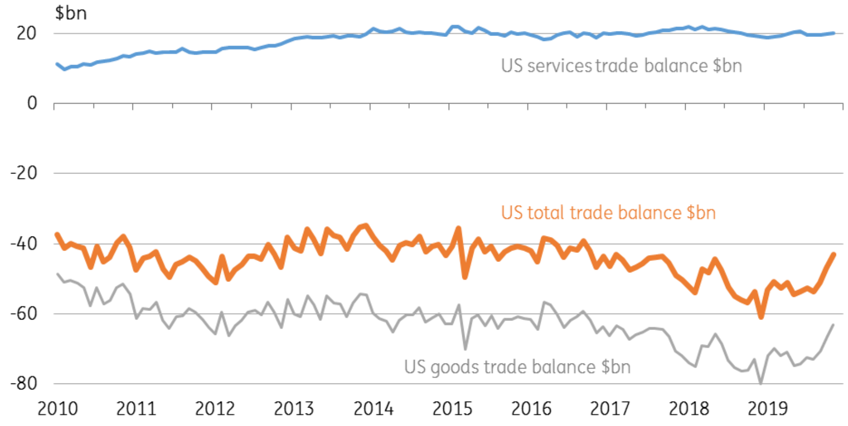
Another big decline in the US trade deficit will be taken as vindication of President Trump's tough stance on perceived unjust foreign trade practices. With the US-China Phase 1 deal set to be signed next week, other countries are likely to be nervous that they could soon find themselves in the President's cross hairs

President Donald Trump shakes hands with Chinese President Xi Jinping during a meeting on the sidelines of the G-20 summit in Osaka, Japan

Source: Shutterstock

The US trade deficit narrowed more than expected in November 2019 to US$43.1bn, the smallest deficit since October 2016, as imports fell 1% and exports rose 0.7%. We already knew that the goods deficit had shrunk in November, but we also now know there was an increase in the surplus on services.

US trade balances (US$bn)

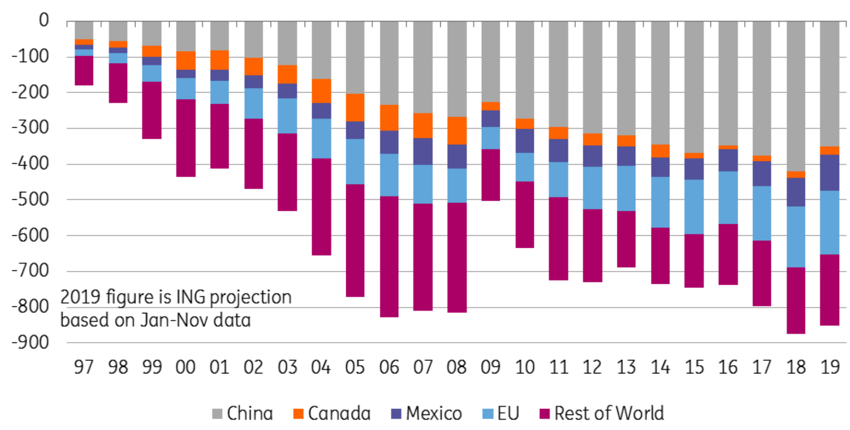


Source: Bloomberg, ING

In terms of the goods balance the slowdown in imports likely reflects the fact that inventories have been built up over recent quarters on the back of escalating trade tensions. Given the early October announcement that there was a phase one trade deal in the offing, we may be starting to see evidence of firms pulling back on some import demand, although we acknowledge the long lag between orders and the imports arriving. Given the de-escalation of tensions we may well see less volatility in imports in coming months with scope for imports to increase once again given decent US consumer demand fundamentals.

For exports we remain a little nervous. The ISM manufacturing report showed that after a brief move into positive growth territory in October, new export orders fell back into contraction territory in November and deteriorated further in December. This is despite data suggesting that the growth backdrop in Europe and Asia may be starting to stabilize. As such, exports demand growth may not be as positive in coming months. Taken together with our import narrative, it looks likely that we will see a renewed deterioration in the trade balance in 1Q20 after a positive contribution to 4Q19 GDP growth.

The deficit with China narrows, but is widening with other countries (US$bn)



Source: Macrobond, ING

Looking geographically, the numbers suggest that President Trump's tough stance with China has paid dividends. Based on the January-November data, it looks as though the US is on course to run its smallest trade deficit with China since 2016 - the US-China deficit looks set to contract nearly US$70bn in 2019 versus 2018. However, we continue to see a significant amount of substitution (although not be as much as the deficit with China has shrunk) given the US deficits with both Mexico and the EU will hit new all-time highs – the deficit with the EU is on course to increase by US$8bn while the deficit with Mexico is set to increase by US$21bn. Consequently, the EU is likely to remain nervous that President Trump could focus more of his attention on perceived European trade indiscretions in 2020.

Author

James Knightley
Chief International Economist
james.knightley@ing.com

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