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August International Trade

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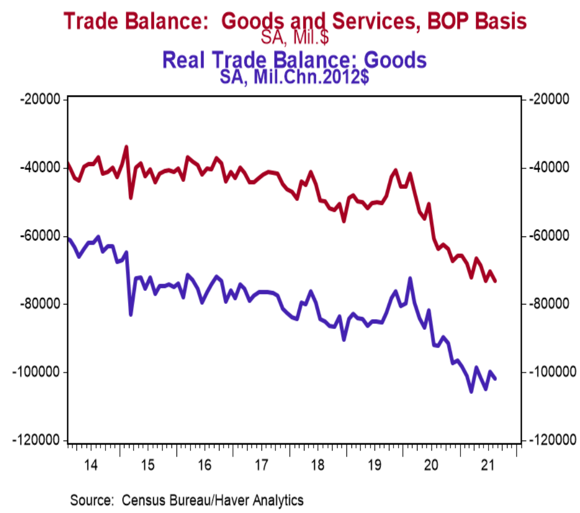
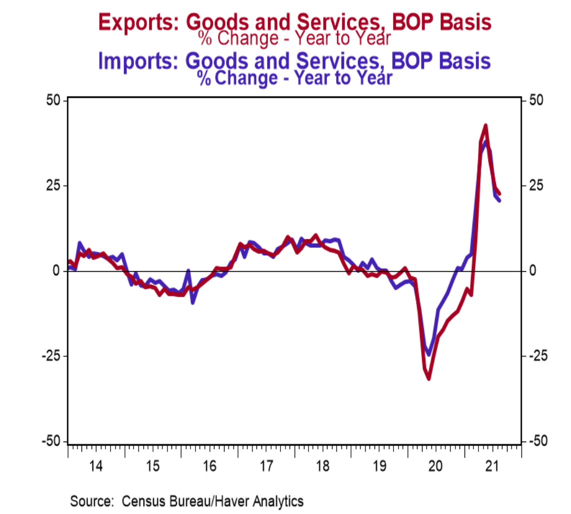
- The trade deficit in goods and services came in at $73.3 billion in August, larger than the consensus expected $70.8 billion.
- Exports increased $1.0 billion, led by nonmonetary gold, natural gas, petroleum products, and crude oil. Imports rose $4.0 billion, led by pharmaceuticals, organic chemicals, and toys, games & sporting goods.
- In the last year, exports are up 22.6% while imports are up 20.6%.
- Compared to a year ago, the monthly trade deficit is $9.6 billion larger; after adjusting for inflation, the "real" trade deficit in goods is $9.5 billion larger than a year ago. The "real" change is the trade indicator most important for measuring real GDP.





Implications: The trade deficit in goods and services grew to a record $73.3 billion in August, as imports rose faster than exports. We like to follow the total volume of trade (imports plus exports), which signals how much businesses and consumers interact across the US border. That measure rose 1.0% in August, is up 21.4% versus a year ago, and sits at an all-time record high. In general, the increase in the total volume of trade signals a recovery from COVID-19. However, it now looks like net exports will be a major drag on real GDP growth in the third quarter and suggest real GDP will grow substantially more slowly in the third quarter than in the first half of the year. We expect the trade deficit to remain volatile from month to month but generally get larger through year-end for a few reasons. First, the US is recovering from the coronavirus pandemic faster than most other countries. This means the demand for imports should continue to outstrip the demand for exports to the rest of the world. Second, the US is running low on inventories for many goods due to the surge in consumer spending, which has been artificially boosted by large government checks to consumers. That means the appetite for imports will remain stronger than normal as companies try to restock their shelves and warehouses. Supply-chain issues continue as ports remain overwhelmed in the US. For example, the port of Los Angeles currently has 30 container vessels at anchor waiting to be unloaded with the average anchorage time right now at 10.7 days. Meanwhile, the cost to ship a forty-foot container from Shanghai to Los Angeles has continued to surge, up 7.1% from a month ago, and up 669% from the end of January 2020 (pre-pandemic), joining numerous other indicators in signaling inflationary pressures as the US continues to reopen. Delta cases in the United States appear to have peaked, and we do not expect states to re-institute the large scale restrictions that hampered activity in 2020, so look for overall trade to keep expanding in the coming months as businesses across the US get back on their feet.

International Trade *All Data Seasonally Adjusted, $billions*	**Aug-21** **Bil $**	**Jul-21** **Bil $**	**Jun-21** **Bil $**	**3-Mo** **Moving Avg.**	**6-Mo** **Moving Avg.**	**Year-Ago** **Level**
Trade Balance	**-73.3**	-70.3	-73.2	-72.3	-70.7	-63.7
Exports	**213.7**	212.7	210.1	212.2	209.5	174.3
Imports	**287.0**	283.0	283.3	284.4	280.2	238.0
Petroleum Imports	**18.2**	17.9	17.3	17.8	16.8	9.2
Real Goods Trade Balance	**-101.8**	-99.8	-105.0	-102.2	-102.1	-92.3

Source: Bureau of the Census