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A Deep Dive into Trade Trends

The United States has the largest current account deficit of any country in the world on an absolute basis. As of May 2017, the U.S. deficit was $481 billion, according to The Economist. Other countries with sizable deficits include the United Kingdom, Canada and Australia. While these industrialized nations have major export industries, they import more.

Which countries have surpluses? Many can be found in the Asia Pacific region. Japan has the largest current account surplus at $187 billion, followed by China and South Korea. The European Union has a sizable surplus of $404 billion; Germany, a major auto exporter, contributes $288 billion to the European surplus.

There seems to be a very low correlation between current account levels and near-term economic growth. Of the surplus nations, China's GDP is expected to grow 6.5% this year, but Japan's growth has been mired at 1% for years. The major deficit nations are all expected to grow in the 1.5%-2.5% range in 2017-2018.

U.S. HAS A WIDE ARRAY OF TRADING PARTNERS

The top four U.S. trade partners constitute slightly more than half of the U.S.'s trade activity, including both imports and exports.

The two North American countries — Canada and Mexico — account for almost 30% of total trade, valued at $1.1 trillion. The main products exported to these countries are Automobiles and Automobile parts, Industrial Machines, and Computer Accessories; leading imports include Crude Oil and Telecom Equipment.

The Asia-Pacific region is the second largest-partner. Japan and China together represent 21% and $774 billion of total U.S. trade. The U.S. mainly sells Civilian Aircraft to these two countries, in addition to Pharmaceuticals and Medical Equipment; leading imports include Automobiles, Computers and Cellphones.

The European region is also an important partner. This region is led by Germany, which accounts for $164 billion and 4.5% of total U.S. trade.

The top U.S. trade partners are generally a mix of industrialized and developing nations. Negotiating trade policies with such different countries and cultures is likely to take a good deal of time.

TOP U.S. EXPORT CATEGORIES TEND TO BE VALUE-ADD

Though the U.S. runs a trade deficit and imports more goods than it exports, export activity is nonetheless critical for numerous U.S. industries.

The U.S.'s Top five exported goods are Industrial Supplies and Materials, including petroleum products and plastics; Capital Goods (except Automotive), such as telecom equipment and semiconductors; Automobiles and Automotive Parts; Consumer Goods, including household supplies; and Foods, Feeds, and Beverages.

These top five categories represent 76% of total exports, with Industrial Supplies and Materials as the largest segment, comprising $396 billion and 27.3% of U.S. exports. Other important, Top 10 export categories include Civilian Aircrafts and Aircraft Parts, which accounts for $98 billion of U.S. exports; and Pharmaceuticals, which accounts $53 billion of U.S. exports.

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We note that the largest segment of U.S. export goods tends to be value-added products. These value-added industries are the sectors most likely to be exposed to any potential retaliatory initiatives from trading partners that could be affected by any new changes to US trade and/or tariff policies.

IMPORTS CONTINUE TO OUTPACE EXPORTS

The U.S. runs a trade deficit by importing more goods than it exports. The nation's Top 5 import products are: Capital Goods (excluding Automotive), including semiconductors and telecom equipment; Consumer Goods such as household accessories; Automotive; Industrial; and Foods, Feed, and Beverages. Collectively, these categories account for 73% of U.S. imports.

The largest segment, Capital Goods (excluding Automotive), is 18% of total imports. Other important categories in the Top 10 include Computer and Computer Accessories, Pharmaceuticals, and Crude Oil. These other segments represent 15% of U.S. imports.

If the Trump Administration were to try to reduce the U.S. trade deficit by imposing tariffs on imports, U.S. consumers could expect to either have less choice among imported products, pay more for these goods, or both.

DEFICIT DIRECTION MAY IMPROVE

The U.S. may have the world's largest absolute trade deficit, but the deficit has been deeper. At the end of the country's fiscal 2016, the U.S. trade deficit was $585 billion, which equaled 3.1% of 2016 GDP. Over the past 25 years, the average U.S. trade balance was a $396 billion deficit, or 2.9% of GDP.

When things were going good, the U.S. surplus reached a 25-year high in 2000 at $236 billion or 2.3% of GDP. But then the deficit reached a 25-year low in 2009 at $1.4 trillion, or 9.8% of GDP.

Looking ahead, the Trump Administration's policies will no doubt have an impact on the trajectory of the deficit. But other factors, somewhat out of Washington's control, also play a role. For example, the U.S.'s increasing energy independence can reduce imports of crude oil. And if the dollar continues to drift lower as emerging markets and Europe recover, exports may get a boost, further trimming the U.S. deficit.

As we noted above, there seems to be a very low correlation between trade deficits and near-term economic growth. But it is a hot-button issue that affects numerous industries, posing risks but also creating opportunities.

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