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Trade Balance: Doves Only Encouraged

by Pierre Ellis

The October trade deficit widens by a more-than-expected $2.0 billion (Consensus: widen $1.0 billion; Decision Economics: widen $1.5 billion), but from a September deficit revised to be $1.3 billion narrower than before.

The September revision reflected a quarterly re-estimate of services trade that narrowed all the third-quarter monthly deficits--and will likely add several tenths to GDP growth in that quarter.

October, meanwhile, starts the fourth quarter off with a moderate deterioration from the third--as against the no-change result implied by the consensus forecast and unrevised Q3 numbers. That could put downward pressure on GDP forecasts, but the constant-dollar nudge is too uncertain to cause changes now, with so many other factors in play.

The overall October deterioration was more than accounted for by petroleum trade, with that deficit widening by $3.0 billion. The move was largely, if not totally, accounted for by prices--a factor which will limit, or neutralize, the real-GDP impact of the deterioration.

The non-petroleum goods deficit, meanwhile, narrowed by about $1.4 billion--but in the weak configuration of a 4.7% drop in exports, evident in every big category but consumer goods, and a 4.6% drop in imports, mainly in consumer goods.

On an accounting basis, the non-petroleum move should actually boost fourth-quarter GDP--though the plunge in exports could, obviously, be a bad omen.

However, it is not uncommon in these data for a very bad result to follow a very good result--or vice versa--at the turn of a quarter. That looks like what has happened this time--and predictions of the export trend will not shift unless the new deterioration is confirmed next month.

The FOMC, in particular, will read the data carefully--but doves will see the new uncertainty as only strengthening the case for stepping up accommodation.