



## THE U.S. TRADE DEFICIT: ANOTHER VIEW

The October U.S. trade deficit of \$17.63 billion is being taken by the markets as horrendous news. This reaction reflects widespread market expectations of a figure as low as \$14 billion.

Such expectations were unreasonable. October is normally the peak month for U.S. imports. Oil imports rise in October because of the pending onset of winter, and consumer goods imports rise because of the impending Christmas sales. Seasonally adjusted, the October trade deficit is in line with the average deficit from July to September.

Thus, the figure is disappointing but not horrendous. It is disappointing because U.S. export growth was under 4 percent and because import growth encompassed some high tech sectors where the U.S. should have a major comparative advantage.

The continued large deficits reflect rapid growth of the U.S. economy. Paradoxically, markets rallied earlier this week on news of high employment, a sign of vigorous economic growth, then fell on news of high imports, equally a sign of vigorous economic growth.

The November trade figure will continue to reflect strong U.S. economic growth (employment grew again in November), but for seasonal reasons should fall by more than a billion U.S. dollars. After currency and inflation adjustments, this will not signal improvement, but markets recently have tended to react to nominal figures rather than to inflation-adjusted or seasonally-adjusted figures.

From there on, the trade deficit should fall fairly rapidly. First, the inflation-adjusted trade deficit began to fall quite some time ago as compared with year-earlier figures. Second, weakening consumer demand and the likelihood that many businesses will postpone capital expenditures after the stock market crash declining imports. Third, U.S. exports are accelerating, and the main benefits of the dollar depreciation are still in the future.

Strong psychological reactions to the trade deficit imply short-run declines in the value of the U.S. dollar and heightened pressure on Asian countries for revaluation. The longer-term positive trend in the trade means that the dollar's low will probably be reached within the next few months and then strengthen steadily.

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