

Flash Economics

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What accounts for the United States' external deficit?

Beyond cyclical fluctuations, the United States has a chronic external deficit, primarily with China and Europe.

Donald Trump uses this external deficit as a reason to complain against other countries (for not opening their markets to US products, for manipulating their exchange rates). But why does it exist in the first place? Does it result from a factor external to the United States (protectionism against US products, abnormal exchange-rate depreciation) or within the United States:

- A savings shortfall?
- Poor-quality supply of goods and services?
- Insufficient production capacity?
- High production costs?

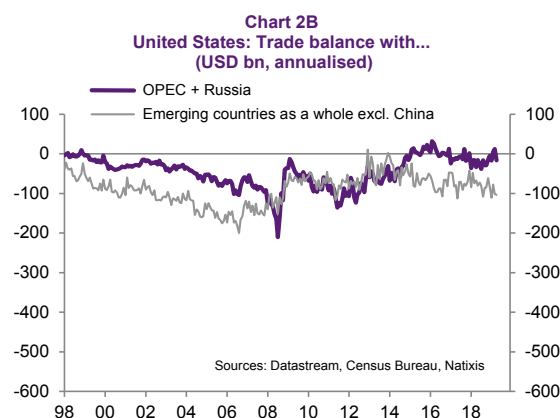
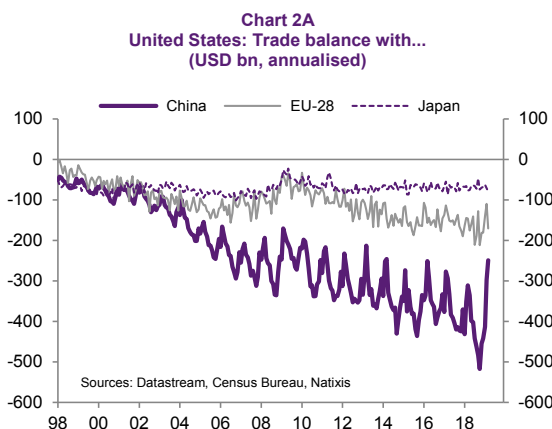
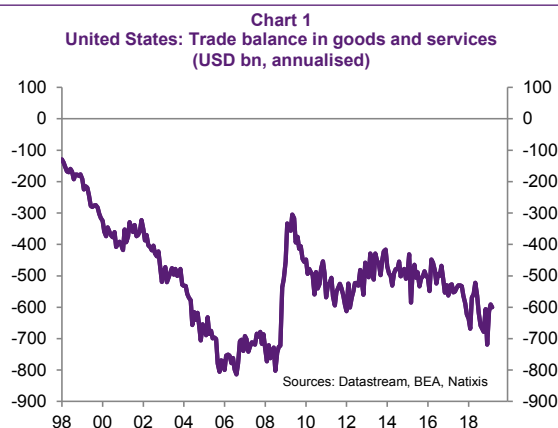
The United States' external deficit clearly results from internal causes.

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The United States' chronic external deficit

The United States has a chronic external deficit (Chart 1), which is mainly with China and Europe (Charts 2A and B).

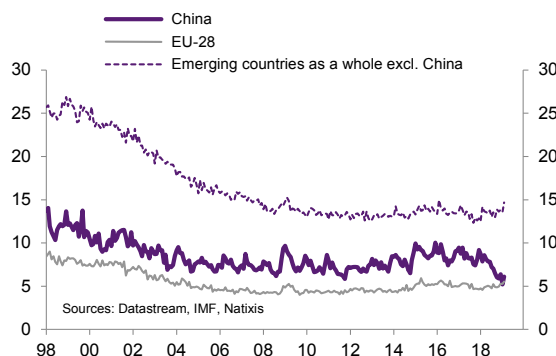


Donald Trump uses the United States' chronic external deficit as a reason to complain against other countries for not opening their markets to US products or for manipulating their exchange rates. **So it is important to know what causes this external deficit:** factors in other countries or within the United States?

Is the US external deficit due to external factors?

1. Chart 3 shows imports from the United States as a percentage of total imports in China, Europe and emerging countries.

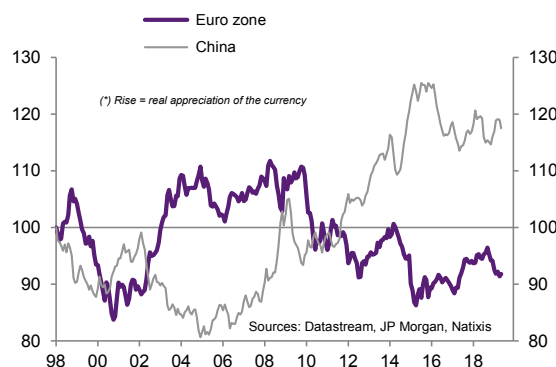
Chart 3
Imports in value terms from the United States
(as % of total imports in value terms)



A fall in the share of imports from the United States would reveal that **the problem is the United States' export capacity and not an abnormal slowdown in imports from the United States. The share of imports from the United States has clearly fallen.**

2. Chart 4 shows the real trade-weighted exchange rates of China and the euro zone.

Chart 4
Real trade-weighted exchange rate* (1998:1 = 100)



There is no sign of a real undervaluation of the renminbi or the euro.

Altogether, the United States' external deficit can hardly be attributed to factors related to other countries' behaviour.

Is the US external deficit due to internal factors?

The US external deficit could conceivably stem from:

- A savings shortfall in the United States (Charts 5A and B), which is clearly the case;

Chart 5A
National savings rate (as % of nominal GDP)

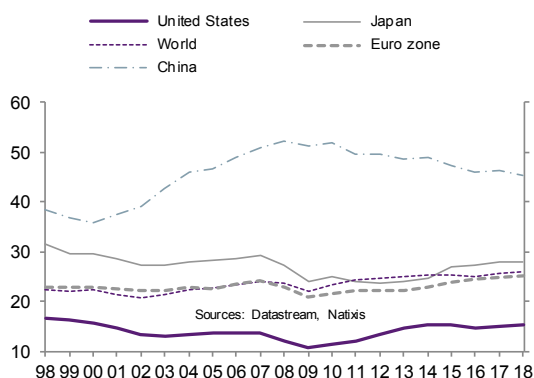
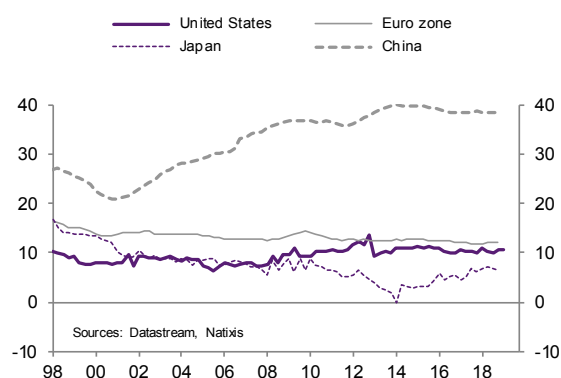
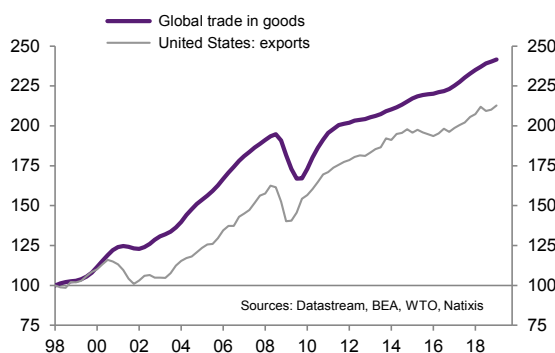


Chart 5B
Gross household savings rate (as %)



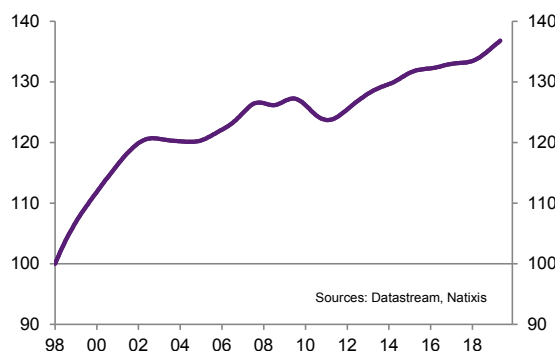
- **A poor-quality supply of goods and services in the United States.** If this is the case, US exports would not meet global demand and would not keep up with global trade. **Chart 6** shows that this is indeed the case;

Chart 6
Global trade and exports
(in volume terms, 1998:1 = 100)



- **Insufficient industrial production capacity in the United States?** **Chart 7** shows that it has increased significantly;

Chart 7
United States: Manufacturing production capacity
(1998:1 = 100)



- **Excessive production costs in the United States?** Table 1 shows that indeed, costs are high in the United States.

Table 1: Hourly wage including social contributions (in dollars) in manufacturing industry

Year	United States	United Kingdom	Germany	France	Spain	Italy	Euro zone	Japan
1998	23.48	17.70	28.76	24.94	16.61	19.31	22.96	20.60
1999	24.01	19.13	28.03	24.43	16.02	18.99	22.50	23.55
2000	24.95	21.48	25.44	22.12	13.92	16.59	20.19	25.03
2001	26.21	27.55	25.41	23.41	13.52	17.75	19.70	22.44
2002	27.35	27.92	27.43	25.60	14.96	19.38	21.52	21.45
2003	28.56	26.53	33.55	31.59	18.87	23.79	26.60	23.41
2004	29.30	27.33	37.15	36.03	21.62	27.21	29.94	25.26
2005	30.13	35.03	37.40	37.09	20.98	27.98	30.38	25.23
2006	30.47	36.45	39.27	38.70	22.05	28.81	31.52	24.03
2007	32.07	37.69	43.39	43.60	24.99	32.13	35.36	23.72
2008	32.78	34.23	47.26	47.99	29.70	34.82	39.06	27.48
2009	34.19	26.69	45.46	44.86	29.15	33.72	38.50	30.06
2010	34.75	27.66	43.19	44.38	27.99	32.91	37.24	31.75
2011	35.51	27.85	47.42	48.43	29.75	33.01	39.97	35.66
2012	35.70	30.59	44.98	45.88	28.79	34.44	38.81	35.25
2013	36.49	40.89	40.89	40.89	40.89	40.89	40.89	28.85
2014	37.04	40.87	40.87	40.87	40.87	40.87	40.87	26.94
2015	37.81	34.17	34.17	34.17	34.17	34.17	34.17	23.60
2016	39.03	29.42	42.24	40.03	24.99	29.97	34.94	26.46
2017	-	28.97	44.30	41.37	25.70	30.55	36.30	-
2018	-	31.04	47.21	44.37	27.14	32.46	38.83	-

Sources: Conference Board, Eurostat, Natixis

Conclusion: What accounts for the United States' external deficit?

The United States' external deficit, which irks Trump, stems:

- Not from the rest of the world (protectionism, currency manipulation);
- But from, among causes within the United States, a savings shortfall, the mediocre quality of production and high production costs.

It is therefore clearly in the equilibrium of the US economy that the causes of its external deficit are to be found.

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