

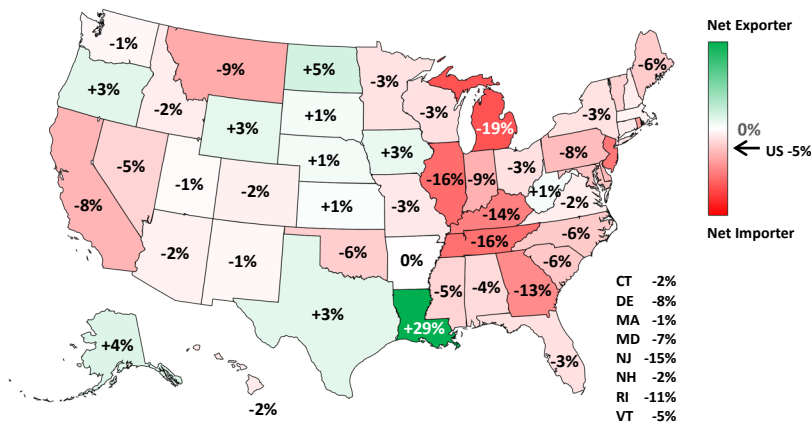
Economic & Market Watch Intelligence Brief

Briefing

- Each year, Americans import goods and services worth around 14% of U.S. GDP, and export goods and services worth around 11% of U.S. GDP, resulting in an overall trade deficit equal to 3% of U.S. GDP. This trade deficit causes dollars to flow out of the U.S. to the rest of the world (Fig. 1).
- By definition, trade deficits exactly balance with capital surpluses. That is, every dollar that flows out of the U.S. due to the trade deficit comes back into the U.S. in the form of foreign investment in U.S. businesses. Foreign governments, businesses and people purchase American stocks and bonds (foreign portfolio investment) and establish or purchase production facilities in the U.S. (foreign direct investment). In effect, this makes entrepreneurship (or, rather, the fruits of entrepreneurship—companies) one of the America's major "exports," though it is classified as a "capital inflow" rather than as an export (Fig. 2).
- While the U.S. as a whole had a \$790 billion trade deficit in 2023, 12 states had trade surpluses. Texas had a \$63 billion trade surplus in goods (its largest export market is Mexico). Louisiana had a \$69 billion trade surplus in goods (its largest export market is China). Trade in services is not tracked at the state level (Fig. 3).

Chart of the Week

Net Exports of Goods as Fraction of State GDP (2023)



Commentary

What distinguishes trade from other transactions is that the buyer and seller stand on opposite sides of a political boundary. Countries have trade deficits or trade surpluses with each other just as your household has a trade deficit with the local grocery store and a trade surplus with your employer.

In the same way that a person invests in human capital to specialize his production of labor (accountants don't usually grow their own food and farmers don't usually do their own taxes), a country invests in physical capital to specialize its production of goods and services.

In restricting trade, tariffs protect some domestic industries, but harm others. Consider two ways to produce a car: (1) push materials through a Michigan factory and get cars out the other end, or (2) send Iowa corn across the ocean and bring back cars. Tariffs on Japanese cars protect Michigan car makers by making it harder for Japan to sell cars in the U.S. But, the harder it is for Japan to sell cars in the U.S., the fewer dollars the Japanese earn with which to buy corn from Iowa farmers. Tariffs on foreign imports benefit American businesses and workers who compete with foreign imports, but they harm American businesses and workers who export to foreign markets.

Snapshots

Figure 1. Trade as a Fraction of US GDP

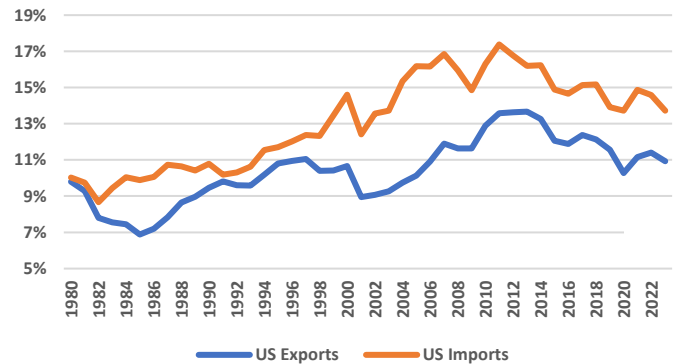


Figure 2. Foreign Direct Investment in the US (billions)

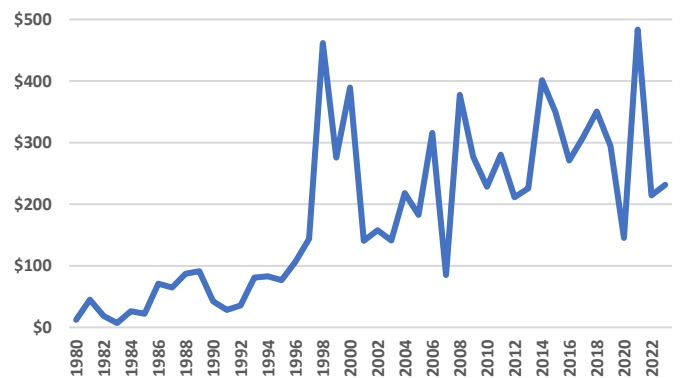
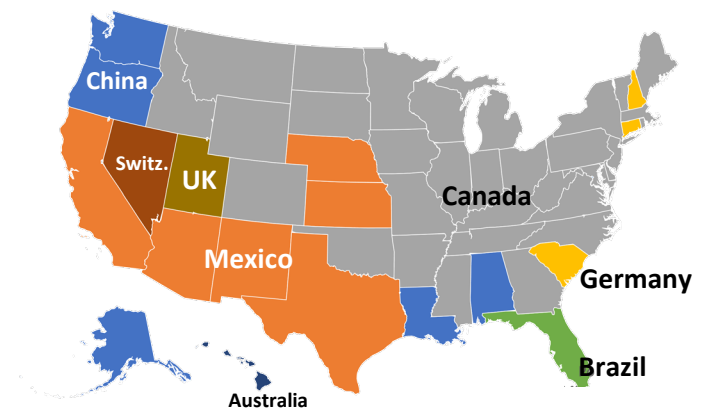


Figure 3. Top Destinations of State Exports



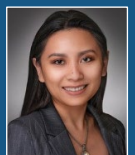
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Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES¹

| | 2024 | | | 2025 | | |
|-----------------------------------|---------|------|------|------|------|------|
| | Current | Q4 | Q1 | Q2 | Q3 | Q4 |
| Fed Funds Target ² (%) | 4.75 | 4.50 | 4.25 | 4.25 | 4.00 | 4.00 |
| SOFR (%) | 4.57 | 4.45 | 3.95 | 3.70 | 3.40 | 3.25 |
| 2Y UST (%) | 4.31 | 3.75 | 3.65 | 3.45 | 3.40 | 3.35 |
| 5Y UST (%) | 4.31 | 3.75 | 3.65 | 3.60 | 3.60 | 3.60 |
| 10Y UST (%) | 4.46 | 3.95 | 3.90 | 3.85 | 3.80 | 3.80 |
| 30Y UST (%) | 4.65 | 4.25 | 4.20 | 4.20 | 4.20 | 4.20 |

ECONOMY

| | 2024 | | | 2025 | | |
|---------------------------|---------|-----|-----|------|-----|-----|
| | Current | Q4 | Q1 | Q2 | Q3 | Q4 |
| PCE Inflation (%) | 2.1 | 2.1 | 2.2 | 2.1 | 2.1 | 2.1 |
| CPI Inflation (%) | 2.6 | 2.3 | 2.4 | 2.4 | 2.2 | 2.3 |
| Real GDP (%) | 2.8 | 1.9 | 1.8 | 1.9 | 1.9 | 2.0 |
| Unemployment (%) | 4.1 | 4.2 | 4.3 | 4.3 | 4.3 | 4.3 |
| Consumer Spending (%) | 3.7 | 2.3 | 2.0 | 1.9 | 2.0 | 2.0 |
| Industrial Production (%) | (0.3) | 0.8 | 1.3 | 1.2 | 1.3 | 1.5 |

Equities & Currency

| | Current | Year ago |
|-----------------|------------|------------|
| DJIA | 43,343 | 34,947 |
| Nasdaq | 18,770 | 14,125 |
| S&P 500 | 5,882 | 4,514 |
| US Dollar Index | \$1,283.69 | \$1,245.07 |

Commodities

| | Current | Year ago |
|-------------------------|------------|------------|
| Crude Oil (Per Barrel) | \$68.73 | \$75.89 |
| Natural Gas (Per MMBtu) | \$2.91 | \$2.96 |
| Coal (Per Short Ton) | \$14.10 | \$14.00 |
| Gold (Per Ounce) | \$2,614.50 | \$1,984.70 |
| Corn (Per Bushel) | \$427.25 | \$467.00 |
| Soybean (Per Bushel) | \$1,001.25 | \$1,340.25 |

Industry

| | Current | Year ago |
|--|-----------|-----------|
| Natural Gas Storage (Billion Cubic Feet) | 3,974 | 3,826 |
| U.S. Daily Power Consumption (MWh) | 8,561,813 | 9,715,400 |
| World Container Index (Per 40ft) | \$3,440 | \$1,469 |

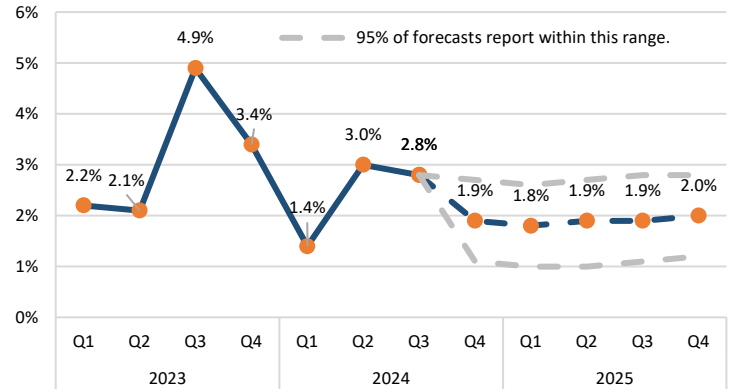
¹ Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters² Target rate forecast is based on futures market contracts

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

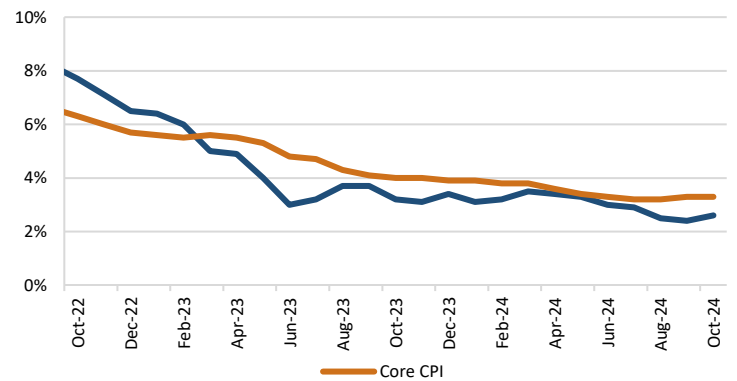
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Forecasts

Real GDP Growth Trend



Headline vs. Core Inflation



10-Year US Treasury vs. Fed Funds Trend

