

Goods Trade Deficit Dropped in June After Climbing This Year; Trade Will Be a Drag on Q2 Growth

- **The international trade in goods deficit narrowed in June from May, but was up from last year.**
- **Exports increased more than imports in June.**
- **Strong US consumer spending led to an increase in goods imports.**
- **Economic conditions are mixed in advanced economies.**
- **Trade was a drag on second quarter GDP growth.**

The U.S. trade deficit in goods dropped 2.5% to \$96.8 billion in June from \$99.4 billion in May (revised down from \$100.6 billion), according to the advance estimate from the Census Bureau. The international goods trade in June was also narrower than the consensus expectation of \$98.7 billion. The goods trade deficit had increased in every month of 2024 up until June. Trade will continue to be a drag on real GDP growth in the second quarter, with the trade larger than it was in the first quarter. The goods trade deficit was up 9.2% in June from a year earlier.

Exports increased more than imports in June, resulting in a narrower monthly goods deficit. Goods exports increased 2.5% to \$172.3 billion on the month, while goods imports rose 0.7% to \$269.2 billion. There was a broad-based increase in exports. Exports of capital goods jumped 3.6% on the month, with exports of foods, feeds, and beverages up 4.6%. On a year-ago basis goods exports were up 5.7%, led by big increases in capital goods (up 8.6%), while exports of autos were down 2.3% from a year ago.

Goods imports climbed up 0.7% on the month and 6.9% over the past year supported by strong U.S. consumer spending. The monthly gains in goods imports came from increases for capital goods and consumer goods, which declined in May. Imports of autos continued to drop in June after falling in May. Imports of autos, however, were still up 3.5% from a year ago. On a year-over-year basis total imports marched higher, led by a 14% jump in capital goods imports.

The European Central Bank and the Bank of Canada have cut their policy interest rates recently in the face of economic weakness. Although high interest rates in advanced economies continue to weigh on consumer spending and manufacturing, the UK economy is recovering from a recession at the end of last year, with both manufacturing activity and business services expanding more quickly in July. Domestically, easing inflation headed toward the Fed's 2% target paves the way for fed funds rate cuts starting in September.

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The overall US trade deficit, including both goods and services, broadened in the second quarter. Trade will be a drag on second quarter GDP growth when the Bureau of Economic Analysis releases the advance estimate on Thursday, July 26. Lower interest rates in many advanced economies and gradual economic recoveries overseas will continue to support US exports in the second half of 2024.

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