

Advance Goods Trade Deficit Widened in May for the Fifth Straight Month; Trade Will Be a Drag on Second Quarter Growth

- **The advance international trade in goods deficit increased in May from April and from one year earlier.**
- **The larger goods deficit came from a bigger drop in exports than imports.**
- **Goods imports fell from April, but all categories were up from last year.**
- **International trade flows will continue to soften in the near term with retreats in both exports and imports.**
- **PNC expects trade to be a drag on GDP growth in the second quarter.**

The advance U.S. trade deficit in goods rose 2.7% to \$100.6 billion in May from \$98.0 billion in April (revised down from \$99.4 billion) after seasonal adjustment, higher than the consensus expectation of \$96.0 billion. The goods deficit jumped in May after increasing in each of the first four months of 2024; the wider deficit in May indicates that trade will continue to be a drag on real GDP growth in the second quarter of 2024. Over the past year the trade deficit in goods broadened by 11.4% from \$90.3 billion.

The larger goods deficit came from a bigger monthly drop in exports (down 2.7%) than imports (down 0.7%). Exports of industrial supplies (down 5.6%) and autos (down 3.2%) declined the most, and exports in all categories decreased in May from April except for consumer goods. On a year-ago basis goods exports increased 2.4%; exports of industrial supplies and autos declined, while exports in other categories rose, led by a 6.7% increase for capital goods.

Imports of capital goods, autos and consumer goods dropped on the month, with consumer goods down for a second straight month. On a year-over-year basis imports were still up 5.7% in May, and all categories experienced gains from last year.

International trade flows will continue to soften in the near term with retreats in both exports and imports. High interest rates in advanced economies continue to take a toll on consumer spending and manufacturing activity. Domestically, continued high interest rates throughout 2024 will weigh on consumer sentiment and spending in the near term.

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PNC expects trade to be a drag on GDP growth in the second quarter this year. The goods trade deficit has increased since mid-2023, but it is still much lower than the highest deficit (\$121.2 billion) in March 2022. The trade deficit will increase in the near term, but will remain narrower than in 2022. Lower interest rates expected in many advanced economies later this year will support stronger demand and trade flows in the second half of 2024.

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