Economic Update

February 5, 2025

US Trade Deficit Widened in December to Its Highest Level in Over Two Years

- **The U.S. goods and services trade deficit increased for a second straight month in December 2024.**
- **The goods trade deficit jumped as exports fell while imports rose.**
- **The services trade surplus narrowed as imports increased more than exports.**
- **PNC expects that the strong US economy and strong US dollar will continue to support foreign buying in early 2025.**
- **Potential higher tariffs are a downside risk to exports and imports this year.**

The seasonally-adjusted nominal U.S. goods and services trade deficit increased 25% in December to $98.4 billion from $78.9 billion (revised upward from $78.2 billion) in November. December's total trade deficit was larger than the consensus expectation of $96.8 billion. The monthly trade deficit in December was the highest since April 2022. The three-month moving average of the trade deficit also reached the highest level in more than two years. On a year-ago basis the total trade deficit was up 52% in December.

The larger deficit in December came from a jump in the goods trade deficit and a smaller services trade surplus for the month. The goods deficit increased 18% to $123.0 billion in December; on a year-ago basis the goods deficit was 39% higher. The services trade surplus fell to $24.5 billion from $25.1 billion. Despite the monthly retreat, the services trade surplus increased 4% from December 2023.

Goods exports fell 4% while goods imports rose 4% in December, resulting in the larger goods trade deficit. Goods exports dropped in all categories of merchandise led by consumer goods and industrial supplies and materials. Noticeably, there was a large fallback in exports of pharmaceutical preparations, down 15% in December. Goods imports increased most in industrial supplies and materials. Specifically, imports of finished metal shapes more than doubled in December, and were larger than the annual gains made in 2024. Producers likely increased inventories for finished metal shapes in advance of potential tariff increases on imports from Canada and Mexico. Imports of autos fell 5% on the month and 6% from last year. Imports of capital goods and consumer goods all increased on the month and over the past year. On a year-ago basis goods exports were down 0.9% in December while imports were firmly up 13% on strong US demand in 2024.

Services imports increased more than exports, resulting in a narrower services surplus in December. Travel is the second-largest category of services; inbound travel to the US increased 1% while outbound travel from the US increased 2%. Still, there was a net surplus in travel. On a year-ago basis both services imports and exports were up.

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The strong US economy and a strong US dollar will continue to support US purchases of foreign goods in early 2025. PNC expects positive trade flows compared to 2024 under a gradual economic recovery overseas with further monetary policy interest rate cuts in the eurozone, the UK and China. However, risks to trade flows are to the downside; higher US tariffs would likely reduce US imports or divert trade flows elsewhere, while retaliation by US trading partners would weigh on US exports. President Trump imposed 25% tariffs on imports from Canada and Mexico for a couple of days in early February, but then quickly rescinded them. However, the President did impose additional 10% tariffs on imports from China which will weigh on demand in the near term.

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