Economic Update

December 5, 2024

US Trade Deficit Narrowed in October on a Larger Drop in Goods Imports; Current Strong Dollar and Labor Market Should Support Imports in the Near Term

- **The U.S. goods and services trade deficit narrowed in October 2024 after hitting a two-year high in September.**
- **Goods trade flows fell in October, with imports falling more than exports.**
- **The services surplus narrowed as services imports rose more than exports.**
- **PNC expects trade to pick up in 2025, but risks are tilted to the downside given potential tariffs and retaliation**.

The seasonally-adjusted nominal U.S. goods and services trade deficit narrowed 12% in October to $73.8 billion from $83.8 billion (revised downward from $84.4) in September. October's total trade deficit was also below the consensus expectation of $75 billion. September's trade deficit was the largest in two years. On a year-ago basis the total trade deficit was up 15% in October, but it remains far below the record $102 billion deficit in March 2022. A smaller goods trade deficit more than offset a smaller services trade surplus for the month. The overall trade deficit with the European Union narrowed 28% in October and with China by 5% on the month.

Goods imports fell more than goods exports in October, with declines in both exports and imports across almost all categories. The goods deficit narrowed 10% to $98.7 billion in October; on a year-ago basis the goods deficit was 12% higher. Goods exports fell 3.0% to $170.7 billion on the month, while goods imports fell 5.5% to $269.3 billion. Despite the month-on-month drop, goods imports were still firmly up more than 3% from the same time last year, supported by strong US consumer spending. Goods exports fell 1.6% in October on a year-ago basis.

The services surplus narrowed by less than 2% in October from September to $24.8 billion from $25.3 billion; imports rose more than exports. On a year-ago basis both services imports and exports increased.

Trade was a drag on growth in the third quarter, with a large trade deficit in September. With the deficit narrowing in October the drag from trade should be smaller in the fourth quarter. That being said the current strong US dollar, solid domestic growth, and weaker growth overseas will continue to support US imports over exports. PNC expects trade flows to pick up next year with a gradual economic recovery overseas, supporting U.S. exports. However, risks to trade flows are to the downside. Higher US tariffs would reduce imports, while retaliation by US trading partners would weigh on exports.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

PNC Economics
economics@pnc.com

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