Economic Update

May 2, 2024

U.S. Trade Deficit Essentially Unchanged in March on the Month, But Widened from Last Year

- **The U.S. goods and services trade deficit narrowed very slightly in March from February, but was up from last year.**
- **Both total exports and imports dropped on the month.**
- **The services trade surplus increased more than goods trade deficit.**
- **Goods exports and imports dropped in March.**
- **Services exports and imports dropped on the month but were still up from last year.**
- **PNC expects trade flows to gradually pick up in 2024.**

The U.S. international trade goods and services deficit narrowed a small 0.1% to $69.4 billion in March 2024 from $69.5 billion in February (revised wider from $68.9 billion). The March trade deficit was below the consensus expectation of $69.8 billion. On a year-ago basis the trade deficit was 14% wider in March. The trade deficit has increased in recent months from $59.0 billion in August 2023, but remains well below the record $102.5 billion in March 2022.

Both total exports and imports dropped on the month. Total exports decreased $5.3 billion (down 2%), while imports dropped $5.4 billion (down 1.6%). The three-month moving average of total trade deficit was up to $68.8 billion in March, the largest since January of last year.

The narrow drop in the total trade deficit came from a larger services surplus outweighing an increase in the goods deficit. The goods trade deficit broadened 1% over the month, with goods exports dropping 2% and goods imports declining 1.6%. The services trade surplus climbed up 4.1% on the month, with imports of services (down 1.7%) dropping more than exports of services (down 0.2%).

The larger drop in goods exports was caused by a decline in most export categories except for autos, which inched up 0.6% on the month. The drop in goods imports was led by a 11.1% drop in auto imports. Imports of consumer goods reached the highest level since February 2023. Over the past year goods exports have dropped while goods imports have increased, supported by a strong US labor market, strong domestic spending, and a strong US dollar.

The bigger drop in services imports in March was largely from falls in transport and travel. Outbound travel from the US dropped on the month; inbound travel to the US also dropped, just less than for outbound. Contractionary monetary policy and high borrowing costs in most advanced economies are weighing heavily on goods consumption, while exports and imports of services have risen over the past year with continued economic expansion.

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PNC expects current tight credit conditions will continue to exert downward pressure on near-term trade flows as borrowing costs are still high for consumers and businesses. The US trade deficit will increase slightly with continued strong domestic consumption, while easing credit conditions later this year will provide a boost for trade flows for consumer goods, industrial supplies, and autos. PNC expects federal funds rate cuts in the second half of 2024 and easing credit conditions will provide support for housing and manufacturing, supporting goods imports later in the year.

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