

## U.S. Trade Deficit Increased in January, With Larger Goods Deficit and Smaller Services Surplus; Trade to Weigh on U.S. Growth in Early 2024

- The overall U.S. trade deficit rose 5.1% in January from December.
- Both exports and imports rose on the month.
- The larger total trade deficit came from a bigger goods deficit and a narrower services surplus.
- Goods exports and imports dropped from last year.
- PNC expects trade to be a negative for economic growth in the first half of 2024.

The U.S. international trade goods and services deficit rose to \$67.4 billion in January 2024 from \$64.2 billion (revised up from \$62.2 billion) in December 2023, larger than consensus expectation of \$63.5 billion. This was an increase of 5.1% in the trade deficit. On a year-ago basis the January trade deficit was up 4.1%. Although the trade deficit increased in January, it is still well below the record \$102.5 billion in March 2022.

Both total exports and imports rose on the month, with exports increasing a small \$0.3 billion (up 0.1%), while imports rose \$3.3 billion (1.1%).

The larger total trade deficit came from both a higher goods deficit and a smaller services surplus. The goods trade deficit broadened 3.3% over the month, with goods exports rising a small 0.1% and goods imports increasing 1.2%. The services trade surplus dropped 1.3% on the month, with exports of services (up 0.2%) increasing less than imports of services (up 0.8%).

Over the past year, both goods exports and goods imports have dropped despite the easing in supply global chain pressure. Contractionary monetary policy is weighing on goods consumption in most advanced economies, while exports and imports of services continue to rise.

Imports and exports of capital goods rose in January on both a month-over-month and year-over-year basis. Exports of autos jumped 10.7% in January after dropping 3.3% last month but were still down 2.8% from last year. Imports of autos rose 5% after dropping 1% in December and were up 7.9% from January 2023. Exports of consumer goods in January continued to increase from December and November but were still down 8.2% from last year.

Trade flows for consumer goods, industrial supplies and autos will continue to drop in early 2024 with tight credit, a contraction in manufacturing, and softening labor markets in advanced economies. A larger U.S. trade deficit will be a drag on first quarter U.S. GDP. PNC expects federal funds rate cuts as early as May, and easing credit conditions will provide support for housing, manufacturing, and both U.S. and imported goods later in the year.

### PNC Economics

[economics@pnc.com](mailto:economics@pnc.com)

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