Economic Update

January 25, 2024

Trade Balance Narrowed in December 2023, Monetary Policy Pivots Will Support Global Trade Flows in 2024

- **The US goods trade deficit narrowed 1% in December from November.**
- **Softer global industrial activity has weighed on exports and imports of industrial supplies over the past year.**
- **The strong U.S. labor market is supporting imports of consumer goods.**
- **Looser global monetary policy later this year will benefit interest-rate sensitive industries, supporting U.S. exports.**

The U.S. advance trade deficit in goods dropped to $84.3 billion in December from $89.3 billion in November (revised lower from $90.3 billion), better than the consensus expectation of $88.7 billion. Compared to last year the goods trade deficit narrowed 2.9% from $91.1 billion, and has fallen sharply since peaking at $125.3 billion in March 2022. The narrower trade deficit on the month came from a larger increase in goods exports than in imports. Exports increased 2.5% in December from November to $169.8 billion, while goods imports rose 1.3% to $258.3 billion.

Exports of capital goods and autos dropped on the month. while exports of consumer goods; industrial supplies; and foods, feeds and beverages rose over 4%. Compared to last year, exports of consumer goods and capital goods grew while exports of autos; industrial supplies; and foods, feeds and beverages dropped. Exports of autos were down 4% from last year to $13.8 billion.

Strong U.S. household spending supported imports of consumer goods in December, and imports also rose for industrial supplies as the contraction in U.S. manufacturing activity is slowing entering 2024. Over the past year imports of industrial supplies were still down 7%. Imports of autos dropped 1% on the month but rose 10% from last year due to an easing in global supply chains and the tight U.S. labor market.

With continued tight global monetary policy PNC expects trade flows will continue to weaken in the coming months, weighing on the U.S. economy in early 2024. However, central banks are nearly done with contractionary monetary policies, and pivots to easing credit conditions later in 2024 will support stronger trade flows as overseas demand for industrial supplies and autos picks back up.

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