

US Trade Deficit Broadened to a Record High in January Ahead of Tariffs

- The U.S. goods and services trade deficit increased to a record high in January 2025.
- Total imports jumped to the highest level in two decades ahead of trade barriers.
- Goods imports increased with all categories rising at least 2% on the month; services imports rose only slightly.
- Both goods and services exports increased in January.
- PNC expects a growth in trade flows from 2024, but escalating trade barriers and the ongoing trade war will likely remain a drag.

The seasonally-adjusted nominal U.S. goods and services trade deficit came in higher than the consensus and jumped 34% in January to \$131.4 billion from \$98.1 billion (revised downward from \$98.4) in December. The monthly trade deficit in January was the highest on record. The three-month average trade deficit also reached the highest level in two decades. On a year-ago basis the total trade deficit almost doubled (up 97%) in January.

The larger deficit in January came from a 10% jump in imports, much larger than the 1.2% increase in total exports for the month. Speculative trade ahead of incoming tariffs implemented on February 1 pushed total imports to a record high of \$401.2 billion. Specifically, merchandise imports jumped 12% to \$329.5 billion, marking the highest level in the past two decades and one of the sharpest jumps made in a month during this period.

Goods imports increased with all categories rising at least 2% on the month; services imports rose only slightly. Goods imports increased the most in industrial supplies and materials (up 34%) on the month, led by a jump in finished metal shapes (up 149%). Consumer goods also jumped 8% in January, with the largest increases in pharmaceuticals, cell phones and other household goods. Capital goods, like computers, accessories and telecommunications equipment, jumped 6% on the month. Even imports of autos increased 2% in January, reversing the decline (down 5.5%) in December last year. Services imports rose less than 1% on the month.

Total exports increased 1% on the month to \$270.0 billion in January, with small increases in goods (up 1.6%) and services (up 0.6%). Exports of capital goods except autos and consumer goods increased 8% and 9% respectively in January while others fell. Civilian aircraft, semiconductors, computers, and pharmaceutical preparations contributed the most to the rise in goods exports on the month.

The second largest sector in services trade is travel for all purposes, including education. Inbound travel made to the US rose 0.4% from last month, and outbound travel (travel services imports) fell 0.7%. Exports of other business services (the largest category in services trade) increased 0.5% and imports rose 0.8% in January.

The strong US economy and a strong US dollar continued to support foreign buying instead of exports in January 2025. Meanwhile, speculative moves ahead of a trade war between US and other countries have pushed imports to a record high. PNC expects growth in trade flows from 2024 amid a gradual economic recovery overseas upon further interest rate cuts in major economies. However, risks to trade flows are to the downside, especially with escalating tariff retaliation between the US and its trading partners this year.

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