

US Trade Deficit Narrowed in February From a Record High, Recession Risks Have Increased with New Tariffs

- **The nominal U.S. goods and services trade deficit narrowed somewhat in February from a record high in January.**
- **A smaller goods trade deficit more than offset a smaller services trade surplus on the month.**
- **Goods exports increased 5% and imports fell 0.2% on the month.**
- **PNC expects the newly imposed tariffs against a broad range of countries to increase inflation and create additional drag on the US economy this year.**

The seasonally-adjusted nominal U.S. goods and services trade deficit retreated 6% in February to \$122.7 billion before adjustment for inflation, from the largest trade deficit on record of \$130.7 billion in January. Despite the monthly retreat, the three-month average trade deficit reached the highest level in more than two years. On a year-ago basis the total trade deficit was up 77% in February. Speculative moves ahead of President Trump's tariff announcement yesterday have pushed imports higher over the past three months. The monthly improvement in the February trade deficit came solely from exports, which increased 3% to \$278.5 billion as foreign buyers purchased more ahead of potential retaliatory tariffs by US trading partners. Total imports remained unchanged at \$401 billion in February.

The goods trade deficit fell more than the services trade surplus on the month. As shown in the advance trade report from last Thursday, the goods trade deficit narrowed 5.7% in February from a record high in January, led by a 5% increase in goods exports and a less than 1% decline in imports.

Exports of nonmonetary gold alone grew more than doubled (up 193%) in February. Capital goods and consumer goods exports also increased on the month, with the largest monthly gains in computer accessories and passenger cars as foreign importers tried to buy ahead of higher tariffs. Over the past year exports of capital goods, foods, feeds, and beverages have dropped; exports of industrial supplies, which include gold, have increased.

Goods imports fell 0.2% on the month. Imports of finished metal shapes (which includes gold bars) and nonmonetary gold fell from last month, but remained unusually high in early 2025, much larger than same period last year. Imports of consumer goods, however, rose 3% in February after increasing in January. In other, smaller, categories of consumer goods, imports of cell phones and other household goods jumped 14% on the month as retailers rushed their purchases ahead of higher tariffs. On a year-ago basis imports of all categories increased except for autos, which were down more than 8%.

The services trade surplus fell to \$24.3 billion in February from \$25.2 billion in January. This came from a narrow decline in services exports (down 0.4%) and a small rise in services imports (up 0.7%). Travel services, the second-largest category, registered a deficit for the month. Travel made outside the U.S. (services imports) rose 1.4%, while inbound travel to the US (an export) fell 1.4%. Over the past year total services exports and imports have increased, but exports rose more than imports, resulting in a 3% climb in the total services surplus from the same time last year.

Yesterday President Trump announced a 10% tariff on all countries taking effect on April 5, and individualized reciprocal tariffs are expected to take effect on April 9. A 25% tariff on imported autos started today. US trading partners are likely to announce retaliatory tariffs over the next few days and weeks. Higher tariffs both in the US and abroad will lead to lower US imports and exports, but will do little to change the overall trade deficit. Tariffs will lead to higher inflation and weaker economic growth in the short run. As more details on the tariffs become available PNC will incorporate those into its economic forecast. Incorporating the tariffs will require assumptions about how long they remain in place; the longer they do, the greater the impact on prices and growth. The US economy is in good shape at the start of the second quarter, but the ongoing trade war has increased the risk of near-term recession dramatically.

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