Economic Update

May 6, 2025

Goods Deficit Surged to a Record While Travel Made to the US Fell Sharply

- **The nominal U.S. goods and services trade deficit jumped to a record high in March.**
- **The goods trade deficit broadened while the services trade surplus fell in March, resulting in a record high total trade deficit.**
- **Speculative moves ahead of tariffs pushed goods imports higher.**
- **Travel made to the U.S. fell sharply in March, resulting in a smaller services trade surplus.**
- **PNC expects tariffs to increase inflation and create an additional drag on the US economy this year.**

The seasonally-adjusted nominal U.S. goods and services trade deficit rose 14% in March to $140.5 billion before adjustment for inflation from $123.2 billion in February. The trade deficit was also larger than the consensus expectation, and dragged on Q1 real GDP growth. On a year-ago basis the total trade deficit was up 105% in March.

The larger trade deficit came from a 4% jump in imports, to $419 billion, ahead of President Trump's proposed reciprocal tariffs in early April. Exports increased marginally in March from last month, up 0.2% to $278.5 billion.

The goods trade deficit broadened while the services trade surplus fell in March. The goods trade deficit jumped 11% on the month and a large 75% on a year-over-year basis, to $163.5 billion. As shown in the advance trade report released a week ahead, imports of consumer goods increased a sharp 28% in March to $103.2 billion. Specifically, imports of pharmaceutical preparations climbed 71% to $50.5 billion in March. Importers try to beat President Trump's reciprocal tariffs and moved ahead of the Liberation Day.

The trade deficit with China narrowed in March as imports from China fell on the month, while imports (up 36%) from Europe rose more than exports (up 20%), broadening the trade deficit with Europe by more than 50%.

Such speculative moves also pushed auto imports 7% higher in March. Imports of industrial supplies fell 12% on the month, but jumped 39% from last year. Imports easily passed their levels from last year, regardless of categories.

The services trade surplus narrowed for a fourth consecutive month in March to the lowest level since early 2023. The services trade surplus dropped 3.5% to $23 billion, as services exports fell more than imports on the month. As the second-largest category of services exports, travel services continued to register a surplus in March. However, there is a noticeable drop in travel made to the U.S. (services exports), down 7% after falling for two months. Travel made outside the U.S. (services imports) fell a smaller 2%. Over the past year total services exports and imports have increased, but imports rose more

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than exports, resulting in narrower total services surplus from the same time last year. On a year-over-year basis, the services trade surplus narrowed 8%.

President Trump announced a 10% tariff on all countries taking effect on April 5, and individualized reciprocal tariffs are temporarily on hold. A 25% tariff on imported autos started in early April. The speculative moves ahead of tariffs are expected to be short-lived, and should not show up in the following trade reports as record-high deficits. However, higher tariffs both in the US and abroad could lead to lower US imports and exports, and this will do little to change the overall trade deficit. PNC expects a noticeably slower economic growth in 2025, with dramatically increased risk of near-term recession.

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