Economic Update

June 5, 2025

U.S. Trade Deficit Narrowed Sharply in April 2025 With Much Higher Tariffs; Trade to Be a Drag on Growth This Year

- **The nominal U.S. goods and services trade deficit narrowed sharply in April as the Trump Administration raised tariffs dramatically.**
- **The noticeably weaker U.S. dollar boosted exports.**
- **U.S. goods imports fell sharply across all categories, led by consumer goods.**
- **The services trade surplus rebounded on the month, but the level remained below the same period last year.**
- **PNC expects tariffs to increase inflation and weigh on the U.S. economy this year.**

The seasonally-adjusted nominal U.S. goods and services trade deficit, before adjustment for inflation, narrowed sharply to $61.6 billion in April from a record-high $138.3 billion in March. The one-month 56% reduction was a record swing in the trade deficit as firms and consumers reacted to big tariff changes from the Trump administration, including the "Liberation Day" tariff increases on April 2. Specifically, the Trump Administration imposed so-called "reciprocal tariffs" in early April, raising the effective tariff rate to the highest level in 100 years, but then quickly suspended some of those tariffs. But with tariffs much higher than they were at the beginning of 2025 total imports fell sharply, down 16% on the month.

The Bloomberg Dollar Index fell 3% in March from February, and the U.S. dollar tumbled further against a broad range of currencies in the following month after Liberation Day, including the euro (down 4%), the Swiss franc (down 6%), the Japanese yen (down 3%), the British pound (down 2%), and many others. The cheaper dollar boosted exports in April and helped narrow the U.S. trade deficit. U.S. goods exports increased 3% to $190.5 billion in April, and services exports also rose on the month, up 2% to $98.9 million. Goods imports fell sharply in response to tariffs, down 20%, while services imports still increased 0.7%. The trade deficit with Europe dropped 78% to $13.4 million in April upon a sharp decline in imports, and the trade deficit with China narrowed 4%.

The rise in goods exports came from industrial supplies (up 16% to $75.2 million) and capital goods (up 1.7% to $59.3 million), while exports of autos and consumer goods dropped, and were down from April last year. The rise in industrial supplies and materials exports in the first four months in 2025 easily surpassed levels of the same period from last year, as foreign buyers rushed to buy American-made goods ahead of expected retaliatory tariffs from U.S. trading partners.

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U.S. goods imports fell sharply across all categories in April, led by consumer goods (down 32%). Pharmaceutical preparations dropped more than 50% in April after surging over 70% in March 2025. This extreme volatility in recent months did not hide a surge in pharmaceutical imports in the first four month of 2025 ahead of threatened pharmaceutical tariffs: through April, year-to-date imports of pharmaceutical preparations jumped 73% to $132.5 million from the same period last year. With new 25% auto tariffs auto imports were down 20% in April from March, and also down 20% from the same month in 2024. Imports of cell phones and other household goods also dropped 29% month-on-month. Imports of industrial supplies and materials fell on the month, but such imports jumped 40% in the first four months of 2025 to $303.8 million from last year. There was a 659% surge in year-to-date imports of finished metal shapes to $91.3 million from a year ago.

The services trade surplus rebounded on the month, but the level remained below the same period last year. The services trade surplus increased to $25.8 million after narrowing in both February and March. Services exports increased more than imports in April. Despite the 6% month-on-month rebound in April, the services trade surplus was down 0.2% from last year. The second-largest category of services exports, travel services, continued to register a surplus. Foreign travel made to the U.S. (a services export) rebounded 8% on the month after falling for three months. Foreign Travel by U.S. residents (services import) increased a smaller 2%. Over the past year total services exports and imports have increased, but imports rose more than exports, resulting in 4.3% narrower total services surplus from last year.

In late May the Federal Trade Court ruled that most of the tariffs implemented by the Trump Administration were unconstitutional, except for industry-specific tariffs including steel, aluminum and autos. However, an appeals court stayed that ruling, so the tariffs remain in place for now until a likely eventual Supreme Court ruling. President Trump also raised tariffs on steel and aluminum from 25% to 50% effective today (June 5). According to estimates from the Budget Lab, the effective tariff rate has gone from 2% at the end of 2024 to 16% currently, a tax increase of more than 1% of GDP. PNC's June baseline calls for a much slower economic growth in 2025 from 2024, at around 1.5%. The risk of recession over the next year is around 40%, up from 15% at the beginning of 2025. Inflation will reaccelerate in mid-2025 as tariffs drive prices higher, putting monetary policy on hold until the end of 2025. PNC expects the Federal Open Market Committee to cut the federal funds rate a few times at the end of 2025 and in early 2026, bringing the fed funds rate to 3.50% to 3.75% by the spring of next year.

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