

## Goods Trade Deficit Widens Again in May After Narrowing in April; Tariffs Continue to Drive Big Swings in Exports and Imports

- **The advance international trade goods deficit jumped in May as exports fell more than imports, led by a retreat in front-loaded industrial supplies and capital goods. The May deficit was still 40% smaller than March's record deficit.**
- **There were large tariff policy swings in April and May, resulting in large shifts in exports and imports.**
- **Goods imports fell marginally in May, remaining roughly flat from last month as autos jumped on the month.**
- **PNC expects the current environment and the dollar weakness to weigh on US imports.**

The U.S. trade deficit in goods jumped 11% to \$96.6 billion in May from \$87.0 billion in April after seasonal adjustment, according to U.S. Census Bureau. This was larger than the consensus expectation. The goods trade deficit surged to a record high of \$162.0 billion in March as importers tried to beat tariff increases from the Trump administration, and narrowed from there despite the jump on the month in May. On a year-over-year basis, the goods deficit was down 2.9% in May.

Goods exports fell 5% in May from April while goods imports essentially held steady over the month, resulting in a larger trade deficit on the month. On a year-ago basis exports were up 6% in May while imports were up 3%.

Big changes in tariff policy in 2025 have driven huge swings in imports and exports this year. Imports jumped 29% between October 2024, right before the election, to March 2025, as businesses tried to import ahead of large increase in tariffs under the Trump administration's "Liberation Day." Imports dropped 20% from March to April as tariffs rose, and then were flat in May. Auto imports jumped in May, offset by declines in other categories. Autos imports rose to a record high in March, tumbled 20% in April, and bounced back 12% in May. But imports of consumer goods dropped 6% in May from April, the second straight monthly decline, after surging to a record high in March. Both imports and exports of consumer goods were still up 2% in May on a year-ago basis.

U.S. goods exports rose 11% between October and April as foreign buyers tried to get ahead of potential retaliatory trade restrictions, then fell 5% in May. Exports of industrial supplies rose in April to their highest level since August 2022, but retreated 14% in May. Exports of autos and consumer goods increased 3.5% and 11%, respectively, in May as tariff swings and dollar weakness continued to support foreign buying. From a year ago, exports increased in all major categories except autos.

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The Trump administration retreated from the most onerous tariffs after big negative reactions from the stock and bond markets and big drops in consumer and business confidence following Liberation Day. But tariffs in June are much higher than they were at the beginning of the year, and many industry-specific tariffs remain in place. U.S. tariffs and retaliatory actions from other nations will continue to weigh on both imports and exports in the near term. Meanwhile, the labor market is cooling off in mid-2025, with job growth slowing from the beginning of the year. PNC expects persistent dollar weakness in mid-2025 to support foreign buying. This will benefit exports rather than imports over the near term, supporting foreign purchases of US goods. Meanwhile, high tariffs in the U.S. will raise prices of imports, discouraging buying.

Trade was a big negative for U.S. growth in the first quarter of 2025 as imports surged. Trade subtracted 4.6 percentage points from annualized growth in the first quarter with a much larger trade deficit. That is, real GDP fell 0.5% at an annualized rate in the first quarter, but growth would have instead been +4.1% if the trade deficit stayed at its fourth quarter of 2024 level. With the trade deficit shrinking from April, trade will be a positive for GDP growth in the second quarter.

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