U.S. Trade Deficit Shrinks in June as Imports Fall More Than Exports

- The U.S. nominal trade deficit narrowed again in June.
- Both exports and imports decreased on the month, but imports declined more than exports.
- Imports will likely decrease further this year as higher interest rates continue to weigh on the demand for durable goods.

The U.S. trade deficit in goods and services narrowed 4.1% in June to $65.5 billion from $68.3 billion (revised from $69 billion), according to the U.S. Commerce Department. Over the past three months, the trade deficit has averaged $69.4 billion, well below the peak deficit of $106.4 billion in March 2022. The largest trade deficit in June was with China ($23 billion), European Union ($18 billion), and Mexico ($13 billion), and the deficit with China decreased $2.1 billion in June.

Total exports dropped a small 0.1% in June following a 1% decline in May. Services exports dropped 0.2% following a 1% increase in May. Total imports fell 1% in June following a 2% decline in May. The decrease in exports in June was driven by declines in industrial supplies exports, automotive exports, and consumer goods. The decrease in imports in June was driven by declines in industrial supplies imports and capital goods other than automotive.

According to the advance estimate of second-quarter GDP by the Bureau of Economic Analysis, exports declined 10.8% at an annual rate in the second quarter, subtracting 1.3 percentage points from growth. The tightening in monetary policy in the U.S. continues to weigh on interest-rate sensitive sectors including real estate, construction, and manufacturing industries. High inflation and tight monetary policies outside the US will also weigh on US exports. Imports will likely decrease further this year as high interest rates weigh on the demand for durable goods and consumers increase spending on services.

Please reach out with any questions.

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