

Economic Indicator — February 5, 2025

Sharp Widening in Trade Deficit to End 2024 Driven by Temporary Factors

Summary

The U.S. trade deficit widened by a record amount in December, leaving the deficit 17% larger in 2024 than in 2023. While the sharp widening is likely temporary, tariff policy remains in focus and is set to disrupt trade flows over the course of the year. It's not just actual policy but the prospect of such policies that can dictate economic behavior.

Economist(s)

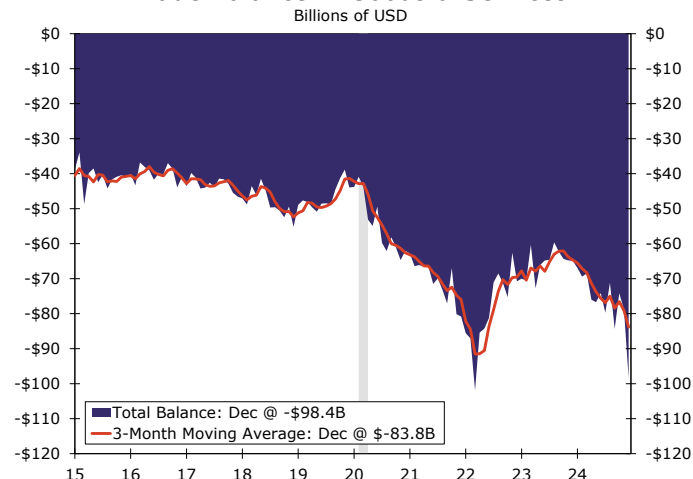
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Trade Balance in Goods & Services



Source: U.S. Department of Commerce and Wells Fargo Economics

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Sharp Widening

The U.S. international trade deficit widened considerably to end 2024. At -\$98.4 billion, the deficit has only been larger once, in March 2022, when it was temporarily larger for the month. The deficit widened by \$19.5 billion during the month of December, which is the largest-one month move in data going back to the early 1990s. The larger deficit was due to a surge in imports (+3.5%, or \$12.4 billion) and collapse in export growth (-2.6% or \$7.1 billion).

Goods exports were weak across the board in December with the largest drops in consumer (-8.5%) and autos (-6.7%). Meanwhile, most of the gain in imports is tied to a 19% pop in industrial supplies, and a little over \$9 million of the \$10.8 million gain there is from imports of finished metal shapes specifically. Beyond that there were some other import gains, but there wasn't large evidence of a pull forward in demand ahead of potential tariffs. Consider that if industrial supplies imports were flat in December, total imports would have grown just 0.2%.

Still these monthly data largely confirm what the advance merchandise trade balance showed last week, meanwhile they remain at odds with the Q4 real GDP data, which showed net exports were a *neutral* force on growth. Specifically, the Q4 data showed goods imports *fell* at a 4.0% annualized rate during the quarter. Today's data show real imports *rose* at a 1.7% annualized pace in Q4. The drop in real goods exports looks larger from these monthly data as well—a 9.6% annualized drop in Q4 compared to the GDP data showing a slightly more modest decline of 5%. While it is normal to have some discrepancy between the monthly and quarterly figures, this is unusually wide and suggests we may see some downward revisions to GDP growth in the second and third estimate or this December deficit may be revised smaller.

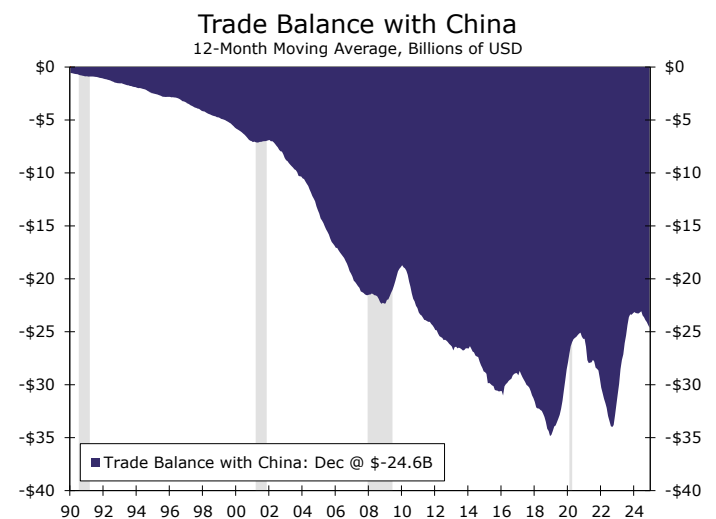
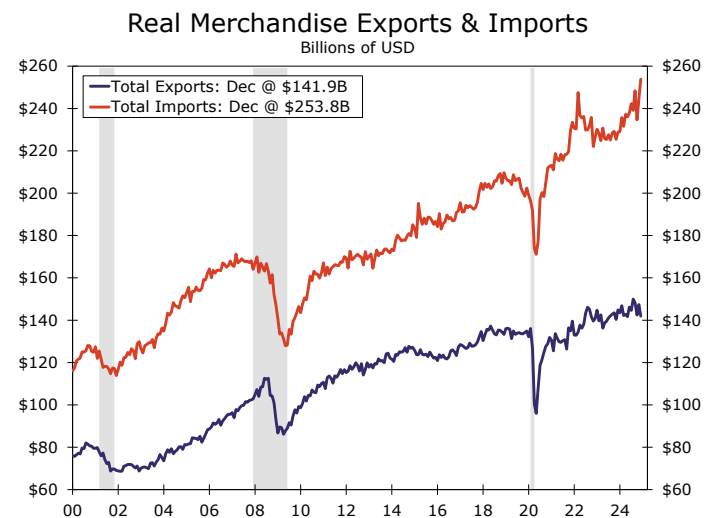
For the year as a whole, import growth outpaced exports, causing the overall U.S. trade deficit to widen \$134 billion, which leaves it about 17% larger than where it was in 2023.

And So Trade War Begins

Tariff policy continues to be a main focus for the Trump Administration. Earlier this week President Trump proposed a 25% tariff on Mexican and Canadian imports (10% on Canadian energy-imports), and a 10% tariff on Chinese imports. Tariffs on Mexico and Canada were postponed for 30 days after conversations with Mexico's Claudia Sheinbaum and Canada's Justin Trudeau led to some coordination around border security, but the new tariffs on China went into effect on Tuesday. China retaliated by announcing tariffs on some U.S. exports to the country.

In 2024 the U.S. imported around \$463 billion worth of goods from China, representing 14% of all U.S. goods imported. The U.S. collected about \$47 billion in duties from these imports, accounting for about 60% of all tariff revenue collected. Chinese-tariff revenue would double this year should these 10% tariffs remain in effect and if U.S. import levels remain steady, which is a big "if". Following the 2017-19 China trade war we saw some evidence of a diversification away from China to avoid duties.

President Trump has also made mention of a 10% tariff on imports from the European Union. There is less detail surrounding this front in the trade war at this point, but the EU is our largest source of goods imports today.



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