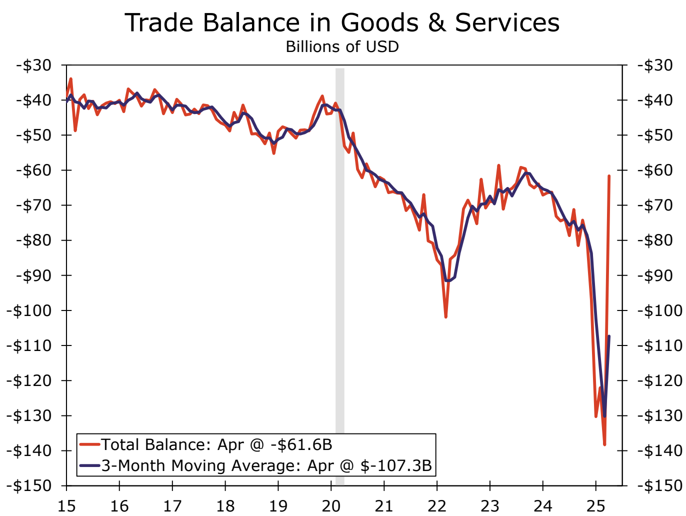
Economic Indicator — June 5, 2025

U.S. Trade Deficit Narrows Sharply Amid Unwinding of Temporary Import Surge

Summary

The temporary surge in imports as businesses pulled-forward demand to get ahead of tariffs has run its course. The U.S. international trade deficit narrowed sharply in April as a result and suggests a big boost to Q2 growth from net exports.



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

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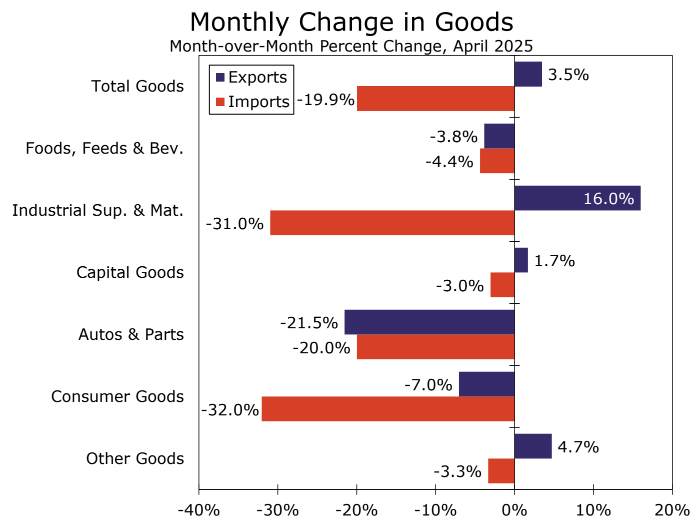
Going in Reverse

The sharp narrowing in the April U.S. international trade deficit tells us the temporary first-quarter splurge by businesses pulling-forward demand to get ahead of tariffs has run its course. The overall deficit is now $76.7 billion smaller than where it stood a month prior in March when the deficit widened to a record $138.3 billion (chart). The substantial widening in recent months defined the first quarter where net exports subtracted nearly five percentage points off headline GDP growth. This early Q2 read tells us to expect a big reversal.

The main driver of the narrowing was a $68.9 billion collapse in imports (chart). There was weakness across goods categories with the largest drop in consumer goods imports, which included a reversal of a gain in pharmaceutical products the month prior. Imports of autos also slipped by the most outside the pandemic, and industrial supplies imports continued to reverse the December & January finished metal shapes-induced surge.

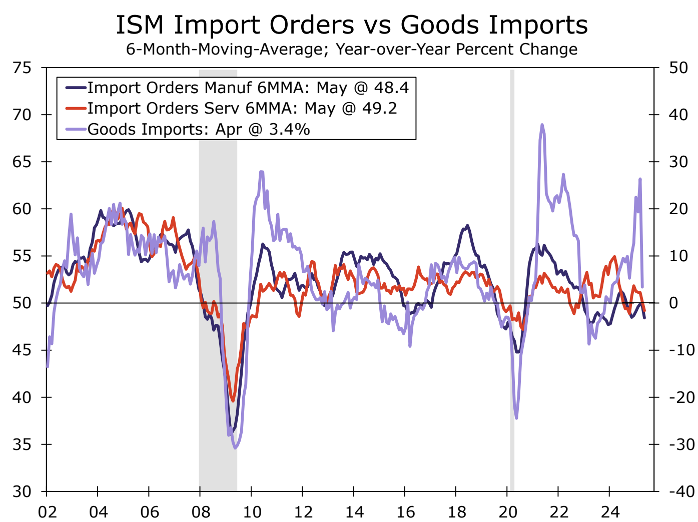
Exports also to a lesser extent contributed to the sharp narrowing in the April deficit. Goods exports expanded $6.2 billion in April, and while the details were a bit more mixed, overall exports have held up reasonably well. The question is if export strength will be sustained. Most of the gain stemmed from industrial supplies exports, which looks to be partly driven by finished metal shapes specifically and is noteworthy for two reasons. First, it likely won't continue given this was also the catalyst of the temporary-surge in Q1 imports. Second, if this is being driven by gold specifically, it may overstate Q2 export strength as the Bureau of Economic Analysis adjusts gold in the data that feed into the GDP calculation. More broadly, slowing global growth does not bode well for exports ahead.



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

Something flying slightly under the radar that helped narrow the deficit was an increase in the April trade services surplus, which expanded to a surplus of $25.8 billion after a sharp drop the prior two months amid a pickup in exports.

Ultimately there was some reason to question if the pull-forward in demand would continue into April. The biggest escalation in trade policy did not come until early in the month with reciprocal tariffs and there were lags of implementation allowing goods loaded and/or in-transit before tariff deadlines to enter the country duty free. That means there could been a last-ditch effort of businesses getting product in-transit and ashore later in the month/into May. Second, the temporary 90-day pause on higher reciprocal rates (11%-50% on 59 countries) could have led firms to acquire more product to capitalize on the lower 10% rate of goods coming from these potentially more highly-exposed countries later.



Source: Institute for Supply Management, U.S. Department of Commerce and Wells Fargo Economics

The April data tell us the show was over in Q1. Sentiment around imports has certainly shifted. The import components of the ISM surveys point to further weakness (chart), as do other comments from purchasing managers who feel their inventories are high, backlog is low and new demand is drying up. This suggests depressed activity and import-demand ahead.

There is still a large amount of uncertainty around tariff policy, including the recent court challenge to tariffs implemented under the *International Emergency Economic Powers Act of 1977*. But implemented tariffs are already influencing behavior. We've started to see early signs of price pressure as businesses pass initial tariff costs on and the pull-forward in demand will weigh on imports and inventory accumulation in Q2. Net exports will thus boost Q2 growth meaningfully, the degree of which depends on how much import-demand dries up in the remaining months but also to the extent exports remain steady.

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