U.S. Trade Deficit Rose To $44.2B In August

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WASHINGTON (AP) — The U.S. trade deficit widened in August as exports fell to the lowest level in six months, a worrisome sign that a slowing global economy is cutting into demand for U.S. goods.

The deficit increased to $44.2 billion in August, the biggest gap since May and a 4.1 percent increase from July, the Commerce Department said Thursday.

Exports dropped 1 percent to $181.3 billion. Demand for American-made cars and farm goods declined. Imports edged down a slight 0.1 percent to $225.5 billion as purchases of foreign-made autos, aircraft and heavy machinery fell. The cost of oil imports rose sharply.

A wider trade deficit acts as a drag on growth because it means the U.S. is earning less on overseas sales of American-produced goods while spending more on foreign products.

Trade was a positive for economic growth in the April-June quarter but Steven Wood, chief economist at Insight Economics, said he expected that trade would be a small negative in the July-September quarter given the weakening trend in U.S. exports.

So far this year, the deficit is running at an annual rate of $561.6 billion, up slightly from last year's $559.9 billion imbalance.

For August, the deficit with China dipped 2.3 percent to $28.7 billion as U.S. exports to that country edged up modestly while imports from China fell. But for the year, the U.S. deficit is on track to surpass last year's record, the highest ever recorded with a single country.

The widening trade gap with China has worsened trade tensions between the two countries and has become a debating point in the presidential race. GOP challenger Mitt Romney is promising to take a tougher approach than President Barack Obama has on Chinese trade practices which he says are giving the country an unfair advantage over American workers.

The deficit with the European Union fell by 2 percent in August to $11.7 billion as U.S. exports to the region outpaced imports. However, economists expect U.S. sales to Europe to weaken in coming months because many European nations are now in a recession brought on by a prolonged debt crisis.

The U.S. deficit with Japan fell 1.4 percent in August to $6.7 billion as American exports to Japan rose to the highest level since March 1996.

U.S. economic growth slowed to an annual rate of just 1.3 percent in the April-June quarter. Most economists don't expect the economy to grow much more than 2 percent for the rest of the year.

American manufacturers have been hampered by slumping economies in Europe, China and other key export markets. Many European countries are recession. The region accounts for about one-fifth of U.S. exports.

The International Monetary Fund this week projected global growth of just 3.3 percent for the year and 3.6 percent in 2013. The downgrade from its July forecast reflected disappointing growth in the United States, spreading recessions in Europe and a sharp slowdown in China.

There have been some hopeful signs that the U.S. economy is improving.

Manufacturing grew in September for the first time in four months, according to a closely watched survey from the Institute of Supply Management. The growth was driven by a jump in new orders and more hiring.

The unemployment rate declined to 7.8 percent in September, the lowest level since January 2009. It fell because of a huge increase in the number of people who said they found jobs.

Americans are gaining more confidence in the economy and stepping up major purchases.

Auto sales rose 13 percent last month from a year earlier to nearly 1.2 million. Home sales have been posting solid gains, which have driven home prices higher. When home prices rise, people tend to feel wealthier and spend more freely.