

Business News

TRADE

Weaker dollar shrinks deficit

The August gap is best since January, thanks to rising exports.

By Maura Reynolds, Los Angeles Times Staff Writer
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WASHINGTON -- The weak dollar produced economic benefits in August as U.S. exports rose sharply, helping shrink the country's trade deficit to its smallest size since January, the government reported Thursday.

Economists had been expecting for months that the cheap dollar, which in recent weeks has traded at record lows against the euro, would spur exports, said Gary Hufbauer, an economist with the Peterson Institute for International Economics. A weak dollar can help U.S. exporters by making their goods cheaper for foreign companies and consumers.

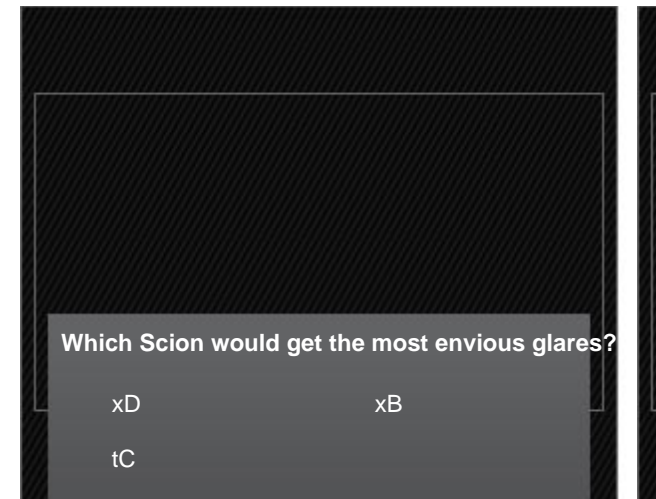
"Things are finally kicking in," Hufbauer said. "It's a very gradual reduction in the size of the trade deficit, but it's in the right direction."

Some economists expect the dollar to continue to lose value, which might narrow the trade gap further. That in turn could spur production and eventually create more jobs in the U.S.

"The numbers never move smoothly, but I think the kind of trend we are seeing now we will be seeing at least through next year," said Joel L. Naroff, president of Naroff Economic Advisors in Holland, Pa.

The trade gap totaled \$57.6 billion in August, compared with \$59 billion in July. The numbers are seasonally adjusted.

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In August 2006, the monthly trade deficit hit an all-time high of \$67.6 billion.

"That was an intergalactic record," Naroff said. "When you have a \$10-billion difference over a year earlier -- that's a nice differential."

The monthly trade gap has bounced around this year. But August's figure was the smallest since January, when the deficit was \$57 billion.

Despite the narrower deficit, Americans' appetite for foreign goods has not substantially slackened. Imports totaled \$196 billion in August, down a bit from July but up sharply from August of last year.

The dollar has declined fairly steadily on currency markets since 2001, losing more than half its value against the euro. Last week the euro hit an all-time high of \$1.428. It closed at \$1.422 on Thursday.

Hufbauer expects the euro to rise to \$1.50 before the dollar begins to strengthen. In the meantime, he said, U.S. exports are likely to keep rising, but not enough to affect the economic debate leading up to next year's presidential election.

"Will this happen fast enough to satisfy the political critics of trade deficits and trade deficits with China? I think the answer to that is no," Hufbauer said.

The U.S. trade deficit with China widened in August to \$22.5 billion from \$22 billion a year earlier.

The White House largely sidestepped news of the improving trade deficit Thursday, saying only that it was good news for exporters.

"I think that the president believes that we'll be able to [continue to] push more products out of America and we'll start to close those deficits," White House spokeswoman Dana Perino said.

Administration critics from both major parties continue to express concern about the growing trade deficit with China. They complain that China is buying up U.S. securities at a blistering pace with the heaps of dollars the Asian country is taking in from its exports.

"The bottom line is that our overall trade deficit is unsustainably high and the trade gap with China is at record levels," said Sen. Charles E. Schumer (D-N.Y.), chairman of Congress' Joint Economic Committee. "Unless the administration reins in soaring budget and widening trade deficits, its lasting legacy will be selling the future of our economy to our trading partners around the world."

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