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ECONOMIC DATA

U.S. Posts Record Annual Trade Deficit

The shortfall grew last year despite President Trump's aim to reduce it

U.S. pork producers have had to contend with a reduction in exports to China. PHOTO: SCOTT OLSON/GETTY IMAGES

By Paul Kiernan and Josh Zumbrun

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WASHINGTON—The U.S. trade deficit in goods hit a record in 2018, defying President Trump's efforts to narrow the gap, as imports jumped and some exports, including soybeans and other farm products, got hammered by retaliation against U.S. trade policies.

The deficit in goods grew 10% last year to $891.3 billion, the widest on record, according to Commerce Department data released Wednesday. U.S. trade gaps with China and Mexico, already the nation's largest, reached new records.

The picture looked less dire when services including tourism, higher education and banking are counted, though this deficit still deteriorated markedly. With services included, the trade gap grew 12% last year to $621 billion, the widest since 2008.

> Fast economic growth, driven in part by fiscal stimulus, led to a 7.5% increase in imports last year, marked by increased spending on consumer goods, industrial supplies and capital goods. Exports grew too, but by 6.3% and from a lower overall level.

“The fact that the U.S. economy is doing very well is the main reason the trade gap has risen,” said Kenneth Rogoff, a professor at Harvard University and former chief economist at the International Monetary Fund.

Mr. Trump, a Republican, has imposed tariffs on about $300 billion worth of goods that the U.S. imports from other countries, particularly China, in hopes of giving U.S. producers an edge and narrowing a deficit he has described as bad for the economy.

He has also publicly lambasted companies that outsourced jobs, renegotiated pacts with Mexico, Canada and South Korea, and rankled longtime European allies by deeming their steel and aluminum exports a threat to national security.

“Policies that play around at the margins with tariffs are always going to get swamped by macroeconomic factors,” Mr. Rogoff said. “That’s what happened, as everyone predicted.”

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Mr. Trump’s combative policies did drive other countries to the table for intense trade negotiations.

The president’s advisers argue they are playing a long game and the benefits to renegotiating trade deals will pay dividends over time if not right away.

White House economic adviser Kevin Hassett said the wider trade deficit is to be expected when the U.S. economy is growing faster than the rest of the world, as people with higher incomes in the U.S. buy more imported goods.

Meanwhile, the president is making progress toward his goal of revamping U.S. trade agreements, Mr. Hassett said.

“The president is right to try to improve trade deals, and a short-term fluctuation in the trade deficit doesn’t change that,” he said.

The goods deficit widened most last year with China, the U.S.’s largest commercial partner and the main focus of White House trade efforts. The deficit widened by $44 billion to $419 billion in 2018. People in the U.S. bought more TVs, auto parts, videogames and furniture from China.

Asked Wednesday about the status of negotiations to end the trade dispute with China, Mr. Trump expressed optimism, but didn’t address the trade deficit directly.

“They’re moving along well, and we’ll see what happens,” he said. “They’re either going to be a good deal or it’s not going to be a deal. But I think they’re moving on very nicely.”

Beijing slammed the brakes on purchases of key U.S. exports, especially agricultural products such as soybeans, wheat and sorghum. China’s purchases of those three crops dropped by nearly $10 billion last year.

As part of the deal that Washington and Beijing are negotiating, China would agree to purchase more U.S. goods, a step that is aimed directly at bringing the gap back down.

China's move to cut off U.S. soybean purchases caused prices to drop midyear, when there is often a seasonal uptick, as China started buying a lot of soybeans from Brazil instead. That forced some U.S. farmers who had been holding on to their soybeans in hopes of better prices to sell at a loss, said Bill Gordon, who plants around 2,000 acres of soybeans and corn in Minnesota.

"It's really tough," Mr. Gordon said. "There's a lot of farms that are going bankrupt now."

The U.S. trade deficit in goods also widened with other trading partners that are the focus of Mr. Trump's policies, including the European Union and Mexico.

The gap widened by $18 billion with the EU and by $11 billion with Mexico. China, the EU and Mexico account for about 54% of U.S. goods imports but made up 86% of the increased deficit.

In the past, Mr. Trump has described deficits as a result of bad policies. In a tweet last March, for instance, he wrote: "The United States has an $800 Billion Dollar Yearly Trade Deficit because of our 'very stupid' trade deals and policies. Our jobs and wealth are being given to other countries that have taken advantage of us for years. They laugh at what fools our leaders have been. No more!"

Many economists argue that a large trade deficit reflects a dearth of national savings, though they generally disagree with the view that a deficit is a measure of a nation's overall financial or economic success. Fast-growing economies can run large deficits, and vice versa.

Moreover, trade deficits don't represent a straight transfer of wealth from one nation to another. U.S. consumers and businesses receive goods and services in return for money they send overseas for imports.

Economists have also been skeptical of the utility of tariffs as a policy tool. American consumers have been saddled with $69 billion in added costs because of tariffs the U.S. imposed last year, according to a study released by a quartet of economists working on a National Science Foundation grant.

Wednesday's report showed the trade gap worsened at the end of last year, suggesting the broader forces that are driving the deficit expansion are intensifying and not abating, even as tariffs kick in. The overall monthly trade gap in December was the widest since 2008, jumping

19% from the prior month to a seasonally adjusted $59.8 billion. Economists surveyed by The Wall Street Journal had expected a $57.3 billion gap.

Many economists believe the shortfall is fueled in part by another Trump administration policy: tax cuts and resulting capital-spending increases that juiced demand from U.S. consumers and businesses as growth in the rest of the world was slowing.

Concern that the U.S. economy could overheat prompted the Federal Reserve to raise interest rates four times in 2018, contributing to a strong dollar in the second half of the year that made foreign goods relatively cheap for Americans

“Higher take-home incomes for households have definitely proven to be very conducive to imports,” said Pooja Sriram, an economist at Barclays. “The outcome has been in almost the opposite direction of what the administration has wanted.”

Andrew Hunter, an economist at Capital Economics, said the trends that drove the deficit in 2018 are likely to continue in early 2019, with imports set to grow while weaker global demand weighs on exports.

“Trade now looks set to be a more serious drag in the first quarter,” Mr. Hunter said in a note to clients. He estimates annualized gross-domestic-product growth will slow to 1.5% in the first three months of 2019 from 2.6% in the fourth quarter.

—Kate Davidson and Anthony DeBarros contributed to this article.

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