

TRADE ANALYSIS: Full-year 2005 trade figures

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U.S. Annual Trade Deficit Hits New Record; Worsens Threat to U.S. and Global Financial Stability

The overall U.S. trade deficit in goods and services shot up in 2005 by 17.5% to a new record of \$725.8 billion. The \$108.2 billion rise in America's annual trade shortfall pushed its global deficit to an unprecedented 5.8% of gross domestic product.

Warned Alan Tonelson, Research Fellow at the U.S. Business and Industry Council, "Worsening deficits of this magnitude can only further shake foreign creditors' confidence in America's creditworthiness. Without drastic measures to cut these deficits, the U.S. and world economies will remain in serious danger."

Exports of goods and services rose in 2005 from \$1.15 trillion to \$1.27 trillion, a 10.4% increase. Imports, however, increased from \$1.77 trillion to just under \$2 trillion, a jump of 12.9%.

Total U.S. goods exports ballooned from \$807.5 billion in 2004 to \$892.5 billion in 2005, a 10.5% increase. The 2005 increase in goods imports was faster, however – 13.7% – from \$1.47 trillion to \$1.67 trillion. The result was a 2005 goods deficit of \$782.1 billion, a 17.5% increase from 2004's \$665.4 billion level.

In one welcome bit of news, the U.S. services surplus rose 17.8%, from \$47.8 billion to \$56.3 billion. This figure represents the highest services surplus since 2001's total of \$68.88 billion. U.S. services exports in 2005 rose 10.1%, from \$343.9 billion to \$378.6 billion, while services imports increased 8.81%, from \$296.1 billion to \$322.2 billion.

USBIC's detailed analysis of the November to December changes in U.S. trade flows will be released later today.

Much of the increase in the 2005 goods deficit was concentrated in oil. The 2005 oil deficit of \$229.2 billion was just over 40% higher than the 2004 total of \$163.4 billion. Nonetheless, the non-oil deficit increased strongly as well. The \$537.6 billion total for 2005 topped the 2004 total by nearly 10.3%.

The U.S. manufacturing deficit jumped 9.5% in 2005 from \$550.8 billion to \$603.1 billion. U.S. manufactures exports rose from \$624 billion to \$685.1 billion, an increase of 9.8%. Yet much greater amounts of manufactures imports rose from \$1.19 trillion to \$1.29 trillion, an increase of 9.6%.

Once again, the U.S. goods deficit with China hit a new record of \$201.6 billion, a 24.5% increase from the 2004 total of \$161.9 billion. U.S. exports to China rose by 20.5% in 2005,

from \$34.7 billion to \$41.8 billion, but U.S. imports from China rose by nearly 30%, from \$196.7 billion to \$243.4 billion.

“As bad as it looks, however,” observed Tonelson, “U.S. trade with China is even more lopsided than these figures suggest. Many U.S. exports to China are not consumed in the Chinese economy. Instead, they are assembled for export, and sent right back to the U.S. market. In other words, many U.S. exports to China are the type that create even greater import flows in return.”

U.S. trade deficits with other major trade partners worsened markedly as well in 2005. America’s deficit with the high-cost European Union rose from \$109.3 billion in 2004 to \$122.4 billion in 2005, a 12% increase. U.S. exports to the European Union were up 7.9% to \$186.3 billion but U.S. imports from the EU increased even faster, by 9.5%, to \$308.8 billion.

The U.S. deficit with equally high-cost Japan increased at an even faster rate than with Europe. The 2005 U.S. goods deficit with Japan of \$82.7 billion represents a 9.4% jump from 2004’s \$75.6 billion level. U.S. exports to Japan rose only 2.2 % in 2005, to \$55.4 billion, despite a healthy recovery in the Japanese economy. U.S. imports from Japan last year surged nearly three times as fast, by 6.4%, to \$138.1 billion.

The 2005 trade figures brought particularly bad news on the high technology front, a sector widely considered to be the nation’s best hope for future prosperity. America’s recent trade deficit in advanced technology products continued its sharp deterioration in 2005, increasing 20.54% to \$44.63 billion. U.S. exports of advanced technology products rose by 5.47% in 2005, to \$215.6 billion, but imports surged 9.1% to just under \$260 billion.

In addition, America’s recent sluggish trade performance in the other private services category continued. In this sector, which creates many of America’s best-paying professional and information technology jobs, the U.S. surplus actually fell slightly in 2005 from \$49.86 billion to \$49.82 billion. U.S. exports of other private services increased 6.86% to \$155.4 billion, but U.S. imports in this category rose 10.36% to \$105.58 billion.

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