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Trade gap hits lowest level in six months

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WASHINGTON - The U.S. trade deficit fell sharply in March to $54.99 billion, the lowest level in six months, as U.S. exports climbed to an all-time high. Imports declined, reflecting in part a slowdown in clothing shipments from China.

The Commerce Department reported Wednesday that the gap between what the United States imports and what it sells to foreign countries narrowed by 9.2 percent from a record monthly deficit of $60.57 billion set in February.

Even with the big improvement in March, the deficit through the first three months of this year is still running at an annual rate of $696 billion, 12.8 percent higher than the $617.08 billion record set for all of 2004.

The March narrowing caught economists by surprise. They had been forecasting the trade gap would hit another record. However, they cautioned against reading too much into one month's improvement.

"This is a brief respite from a lot of continued red ink," said Mark Zandi, chief economist at Economy.com. "The large decline clearly overstates any improvement we will see this year."

The trade deficit, which has set records in six of the past seven years, has battered America's manufacturing companies, which have lost more than 3 million jobs since mid-2000.

That has raised protectionist pressures in Congress. Many lawmakers accuse China, the country with the largest trade imbalance with the United States, of unfair trade practices including manipulation of its currency.

The Treasury Department denied rumors circulating in global currency markets that China was on the verge of scrapping its current system of keeping the yuan tightly linked to the U.S. dollar. U.S. manufacturers contend the practice undervalues the yuan by as much as 40 percent, making Chinese goods cheaper for American consumers and U.S. products more expensive in China.

Treasury Secretary John Snow, speaking to reporters on Wednesday, refused to give a date for when China might revalue its currency, but he said China should do it soon.

"The Chinese have made enormous strides in preparing the way for a move to flexibility. We think they are ready. We think the time to act has come," Snow said, repeating the tougher line the administration has been using on the issue in recent weeks.

Private economists, who had been predicting that the March deficit could set a record, said the sharp improvement should boost economic growth for the first three months of this year from an initial estimate of 3.1 percent to 3.5 percent or even higher.

In other economic news, the Treasury Department's monthly budget report showed that the federal government had a surplus of $57.7 billion in April, the biggest monthly surplus in three years, as revenues came in sharply higher than expected.

Wall Street was bolstered by the better-than-expected trade performance, plus good news on falling oil prices. The Dow Jones industrial average rose 19.14 points to close at 10,300.25.

The March trade improvement reflected a 1.5 percent increase in exports of U.S. goods and services, which rose to an all-time high of $102.2 billion. It was the fourth straight monthly record for U.S. export sales and reflected big gains in shipments of a wide range of products from commercial aircraft and telecommunications equipment to soybeans, corn and other farm products.

Imports, which had hit a record high in February, fell by 2.5 percent to $157.19 billion, reflecting a big drop in imports of foreign cars and in textile and clothing imports from China.

This helped to offset a 4.1 percent increase in America's foreign oil bill, which rose to a near-record $18.9 billion. The record was $29.1 billion in petroleum imports set in November.

The deficit with China declined by 7 percent to $12.9 billion in March. Part of the decrease reflected a 21.2 percent drop in imports of Chinese clothing and textiles. However, even with this decline, textile and apparel shipments from China are running 54 percent higher than a year ago, reflecting the removal of global textile quotas.

The U.S. industry is pushing the Bush administration to re-impose quotas to protect American jobs.

The deficit with Japan shot up by 14.1 percent to $7.83 billion. The deficit with Canada declined by 12.5 percent to $5.05 billion, but the deficit with Mexico, the other partner in the North American Free Trade Agreement, surged by 16.1 percent to $4.26 billion. The deficit with the 25-nation European Union was up 9.9 percent to $9.31 billion.

The administration, facing an uphill battle to win congressional approval of the Central American Free Trade Agreement, brought the presidents of the six Latin American countries covered by the pact to the Capitol on Wednesday for a round of lobbying visits with lawmakers.