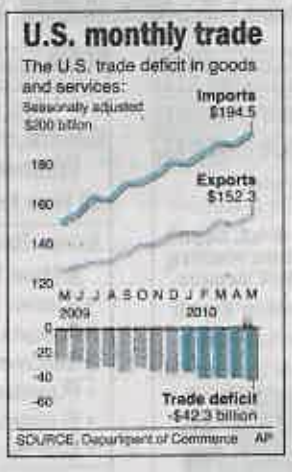
Trade gap widens as imports and exports rise

BY MARTIN CRUTSINGER
ASSOCIATED PRESS

WASHINGTON — The trade deficit rose in May to an 18-month peak as rising imports offset another solid gain in U.S. exports. The surge in imports was a hopeful sign for the economic recovery because it suggested U.S. consumers could spend more in coming months.

The trade deficit increased 4.8 percent to $42.3 billion, the largest gap since November 2008, the Commerce Department said Tuesday.



U.S. exports of goods and services rose 2.4 percent in May to $152.3 billion. It was the largest monthly total since September 2008, the month the financial crisis struck with force.

Imports grew at an even faster clip. They rose 2.9 percent to $194.5 billion. The gain reflected higher demand for foreign-made cars and consumer goods such as clothing, furniture and electronic appliances. The surge came even though oil imports declined 9.1 percent as both the price and the volume of oil shipments declined.

Economists said the widening trade deficit would likely reduce overall growth, as measured by the gross domestic product, in the April-to-June quarter. But in the long run, analysts hold out hope that the gains in both exports and imports point to higher business investment and consumer spending.

"This will certainly prove supportive to economic growth in the months to come," Martin Schwerdtfeger, an economist at TD Economics, wrote in a research note.

Through May, the U.S. trade deficit is running at an annual rate of $474.8 billion, up by 26.6 percent from $374.9 billion deficit for all of 2009.

The wider trade gap in May was a surprise to analysts, who had expected the deficit to decline slightly because of the fall in oil imports.

American manufacturing has been a standout performer during the recovery, benefiting from a global rebound. Those gains risk being diminished by the European debt crisis, which has slowed growth in Europe and raised the value of the dollar 14 percent this year versus the euro. A stronger dollar against the euro makes U.S. goods costlier and less competitive in Europe.

The deficit with the European Union rose 7.5 percent to $6.2 billion as imports rose 3.2 percent, outpacing a 1.9 percent rise in U.S. exports to that region.

The deficit with China rose to $22.3 billion. It was the largest imbalance since last October and a 15.4 percent jump from the April deficit.

"The widening trade deficit is not only an alarming trend, but also represents wealth and jobs heading overseas," said Scott Paul, executive director of the Alliance for American Manufacturing.