

TARIFF POLICY

U.S. trade deficit hits 17-month high

Translate

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The New York Times

WASHINGTON>> After 20 months in office and with the midterm elections approaching, President Donald Trump is at pains to demonstrate his administration's economic wins. But one metric he has identified as an important measuring stick for his policies has been moving steadily in the wrong direction.

The U.S. trade deficit — a measure of the difference between what the country imports and what it exports — rose sharply in August to hit a 17-month high, after also rising significantly in July, data from the Commerce Department showed Tuesday.

The trade deficit grew to \$105.6 billion in August, ^{Not} a 13.7% increase from July, driven by an increase in imports of petroleum, gold and chips used for artificial intelligence. It was the largest monthly total since before Trump imposed his global tariffs in April 2025, and larger than any monthly trade deficit in the last year of the Biden administration. The widening trade deficit stemmed from rising imports, which outpaced the growth in exports. U.S. imports hit a record \$420.8 billion in August, climbing 4.3% from July. Exports grew 1.4% compared with July, hitting \$315.2 billion.

Christopher Rupkey, chief economist at FWDBONDS, said there was simply "no good alternative" to foreign imports. The cost of American labor was simply too high to produce goods cheap enough for many Americans to consider purchasing, he said, and even if manufacturers were willing, factories could not be built fast enough.

"Despite the administration's economic policies which have jacked up the tariff-related costs of many imported goods, America is just as dependent as ever on foreign-produced goods," he said.

The trade deficit has tended to increase over time as the U.S. economy grows. But the Trump administration has viewed the metric as a sign of weakness in America's manufacturing sector. Officials have tried to reduce the trade deficit by imposing hefty tariffs on everything from toys and steel to drones and auto parts made outside the United States.

The lack of success in lowering the trade deficit is clearly partly a result of the AI boom. To construct new data centers, companies are importing far more computer chips, most of which are made in Asia. The United States imported more than \$90 billion worth of semiconductors in the first eight months of this year, the data showed, almost double the amount in the same period last year.

There's also a bigger economic question about how much tariffs by themselves can reduce the trade deficit, particularly at a time when the U.S. economy is expanding, government deficits are growing and consumers are continuing to spend on foreign goods.

Some economists agree that the trade deficit is a worrying sign of imbalances in global manufacturing. But many argue that tariffs are not a great tool for reducing it. Some believe that much of the U.S. trade deficit is fueled by fiscal deficits, and that Trump's tax cuts and spending on the war in Iran will increase it.

Others argue that tariffs do discourage people from buying foreign goods, but by adding costs that have proved unpopular with American households.

Trump officials have blamed the disruptions to their tariff plan for the increase in the trade deficit. The Supreme Court struck down many of Trump's tariffs in February, saying he had misused an emergency law to impose them. Since then, the administration has put a lower tariff of 10% to 12.5% in effect on many products.

Officials are still working to recreate a scheme of higher tariffs, and could issue new levies in the coming weeks and months. In July, the administration put a new round of tariffs on more than 80 countries, and it is planning to impose another round of tariffs that could apply to more than 40 countries.

Since Trump came into office for a second time, the average monthly trade deficit has been \$74.5 billion. That's just slightly above the monthly average for the last year of the Biden presidency, at \$73.8 billion.

But drastic changes in tariff policy have caused monthly trade deficits to jump around during the president's second term, spiking and plummeting as new tariffs have been introduced, removed and replaced.

After Trump was elected, importers raced to bring in more inventory ahead of tariffs, causing the trade deficit to soar to new levels in the first few months of Trump's term. Then, after the president introduced global tariffs on his so-called Liberation Day last year, imports and the trade deficit fell back.

Grace Zwemmer, U.S. economist at Oxford Economics, said in a note Tuesday that the trade figures were "on track to pose a sizable drag" on economic growth numbers in the third quarter.

Imports would remain solid in the near-term because of AI demand and the need for other businesses to restock their inventories, while U.S. oil exports would not do as much to lower the trade deficit as in the second quarter, she said.