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U.S. Trade Deficit Reaches a Record $489.4 Billion

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WASHINGTON, Feb. 13 - The United States trade deficit soared to a record of $489.4 billion last year, according to a federal report released on Friday, raising concerns about the problems such a large gap could create.

The deficit, which is the difference between the value of foreign goods and services purchased in this country and the amount of American goods and services sold overseas, is now the largest in history.

As a percent of gross domestic product, the goods and services deficit increased to 4.5 percent from 4 percent in 2002.

Despite a variety of reactions to some of the underlying patterns in the trade report, concern about the size of the deficit was almost uniform.

"This is not only a record, it is a record by a great deal," said Richard J. DeKaser, an economist at National City Corporation.

"We are developing a great reliance on foreign capital to pay for our debt," Mr. DeKaser said, "and it is clear that foreigners are losing confidence, that there is a greater reluctance to finance our trade deficit."

To finance its trade deficits, the United States has been borrowing record amounts from foreign investors and banks. The risk is that foreign investors could balk at continuing to lend the money needed just to finance that deficit. That has not been a problem so far amid very low interest rates.

The International Monetary Fund warned in a report last month that, given the ballooning trade deficit, the United States risked a loss in foreign confidence and that a quick, uncontrolled drop in the dollar could upset world markets.

The danger, according to the I.M.F. report, is that America's voracious appetite for borrowing could push up global interest rates and thus slow global investment and economic growth.

Alan Greenspan, the Federal Reserve chairman, added his voice to these concerns, telling the House Committee on Financial Services earlier this month that "given the already substantial accumulation of dollar-denominated debt, foreign investors, both private and official, may become less willing to absorb ever-growing claims on U.S. residents."

The persistent rise in the trade deficit has confounded experts.

It shot up during the recent recession and even accompanied the decline in the dollar, which fell 14 percent against a trade-weighted basket of 40 currencies.

Traditional economic theory holds that such events should trim a trade deficit.

"The easy answers of slower growth or letting the dollar decline aren't working, so the crisis is much deeper," said Robert L. Borosage, director of the Campaign for America's Future, a liberal public policy group. "You can't sustain a deficit of 5 percent of your G.D.P. indefinitely."

The 2003 trade gap included the poorest performance ever in goods. The deficit for goods was $549.4 billion, the highest on record. Services, which is the brightest side of the trade balance, showed a surplus of $60 billion, but the smallest surplus since 1992.

Robert E. Scott, director for trade studies at the Economic Policy Institute, said the human consequences of the rising trade deficit could be seen in the reconfiguration of the job market.

"As a consequence of the trade deficit," Mr. Scott said, "people are being pushed out of well-paying jobs with benefits in manufacturing and into the poor-paying service jobs, often with no benefits."

The United States deficit with China rose to a record $124 billion and to $94.3 billion with the European Union. It shrank by $4 billion with Japan, to $66 billion.

The deficit with China received the most attention. Imports from China are 5.7 times the value of American exports to China, a gap that many experts say is caused by China's refusal to float its currency and to allow the price of its exports to rise.

For the month of December, the trade gap widened by 11 percent. Imports rose by 3 percent and were led by purchasers of capital goods and industrial materials.

Several economists found reason for optimism in the December report saying that the weaker dollar was boosting exports as expected.

Manufactured exports increased 3 percent last year after two years of decline.

"With the value of the dollar now at its 30-year average and economic growth picking up abroad, I expect growing export opportunities," said David Heuther, chief economist of the National Association of Manufacturers.

For the full year, United States imports rose by $98.3 billion from 2002, with industrial supplies, petroleum products, consumer goods and capital goods leading the list.

Exports grew by $30.9 billion, with industrial supplies, consumer goods, foods, feeds and beverages accounting for the increase.