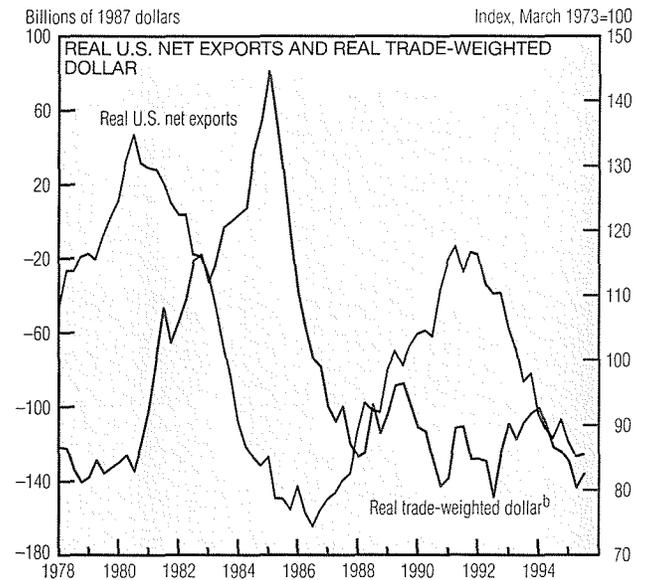
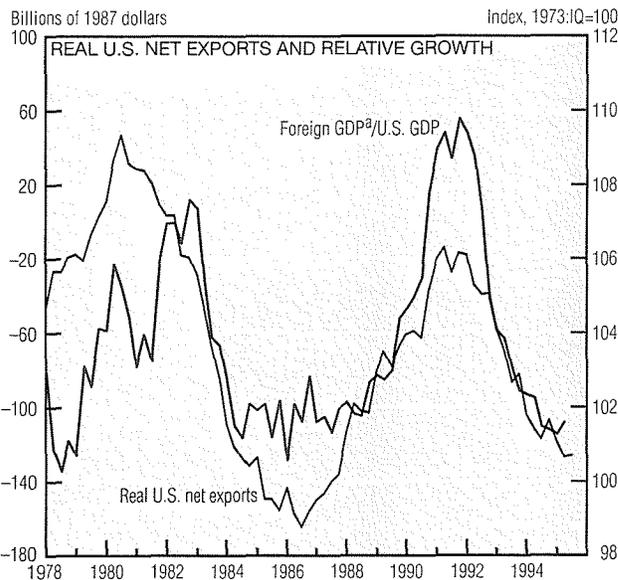
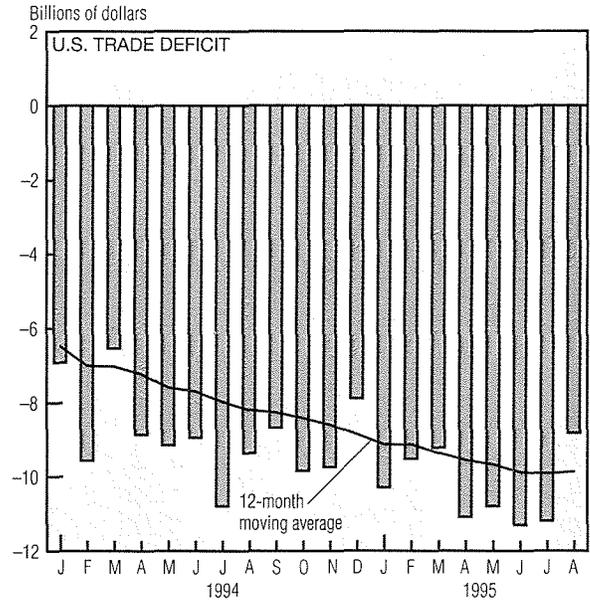
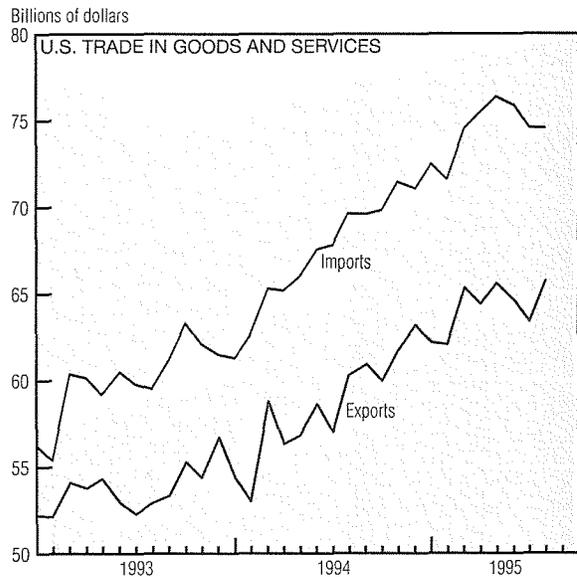


International Trade



a. Average GDP growth in Germany, Japan, France, the U.K., Canada, Italy, the Netherlands, Belgium, Sweden, and Switzerland, weighted by trade shares. Annual data for Belgium are interpolated to a quarterly series. Data extended using growth rates from national accounts and the International Monetary Fund's 1995 forecasts for Belgium, Sweden, and Switzerland.
 b. Weighted average of dollar exchange rates against the above-listed countries, adjusted for inflation differentials.
 SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; International Monetary Fund; Board of Governors of the Federal Reserve System; the Federal Reserve Bank of New York; and the Federal Reserve Bank of Cleveland.

Unexpectedly strong U.S. export growth in August narrowed our trade deficit to \$8.8 billion. This was the second consecutive monthly decline in a deficit that has generally expanded this year.

The U.S. trade deficit is sensitive to differences between our rate of economic growth and that of our major trading partners. In the late 1980s, the relatively early onset of

the U.S. recession narrowed the trade shortfall. In the 1990s, our relatively quick recovery and the speed of our subsequent economic growth widened our trade deficit. Early evidence now suggests that foreign economic growth is again catching up.

Swings in real exchange rates also affect our net exports, but often with a substantial lag. Although the real trade-weighted dollar has depreci-

ated 3.4% since early 1994, it has fluctuated, without any underlying direction, since 1990.

At best, these are only proximate determinants of our trade balance. A nation experiencing a trade shortfall is not generating sufficient savings to finance its investments. Ultimately, the factors that affect our saving and investment decisions determine our trade balance.