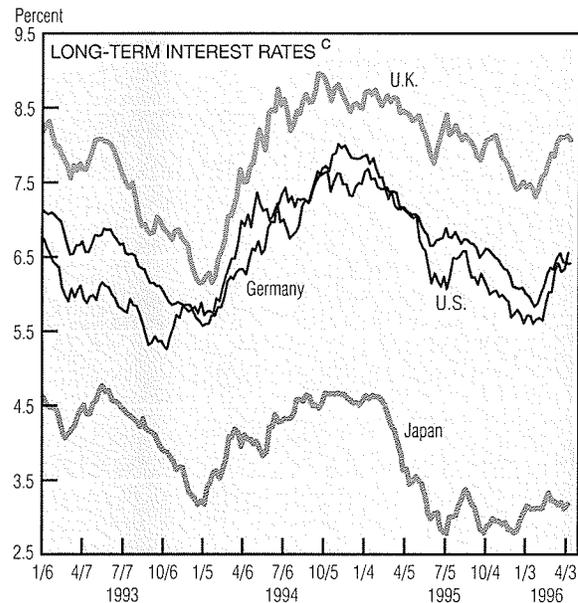
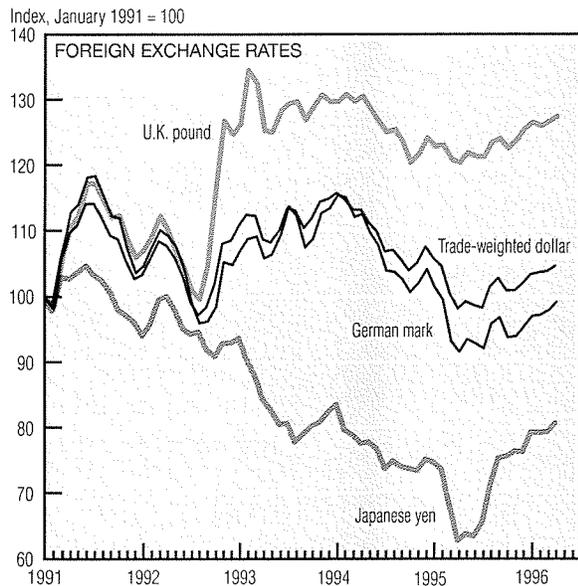
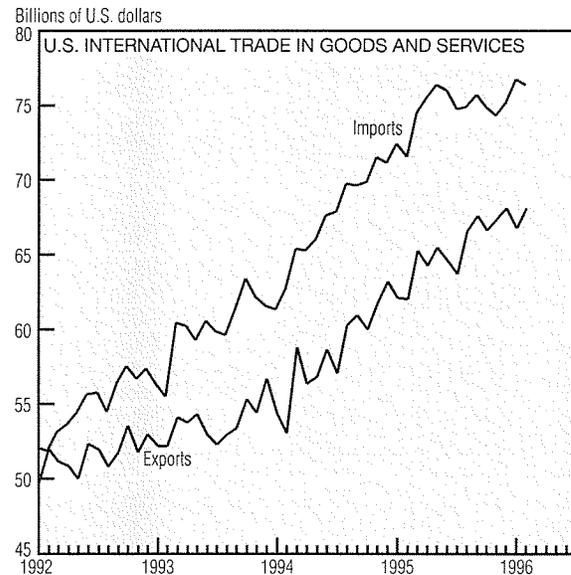


# International Developments

Output and Inflation (Percent change, s.a.a.r. <sup>a</sup> )				
	Real GDP		Consumer Price Index	
	Year over year	Quarterly change (1995:IVQ)	Year over year	Monthly change (Mar. 1996)
Germany	1.0	-1.6	1.6	1.0
Japan <sup>b</sup>	2.2	3.6	0.3	4.6
U.K. <sup>b</sup>	4.1	4.0	2.7	4.9
U.S.	1.3	0.5	2.8	4.7
Average	2.2	1.6	1.9	3.8



a. Seasonally adjusted annual rate.  
 b. CPI is not seasonally adjusted.  
 c. Three-month interbank rate or nearest equivalent; weekly average of daily rates.  
 SOURCES: DRI/McGraw-Hill; U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; and Board of Governors of the Federal Reserve System.

In January, the gap between U.S. imports and exports narrowed. It's too soon to tell whether this represents a break in what appears to be an almost uninterrupted decline in net exports since 1992. (Actually, since early 1995—around the time the dollar's decline was reversed—net exports have been relatively constant).

The past year's stronger dollar

may reflect lower U.S. inflation compared to the rest of the world or a change in the real terms of trade. (The trade-weighted dollar averaged 104.5 in April versus 103.7 in March.) Since the latest inflation numbers are almost uniformly higher—with U.S. inflation approximately constant relative to the rest of the world—the change in the terms of trade points to real, not nominal, factors. Although most people have

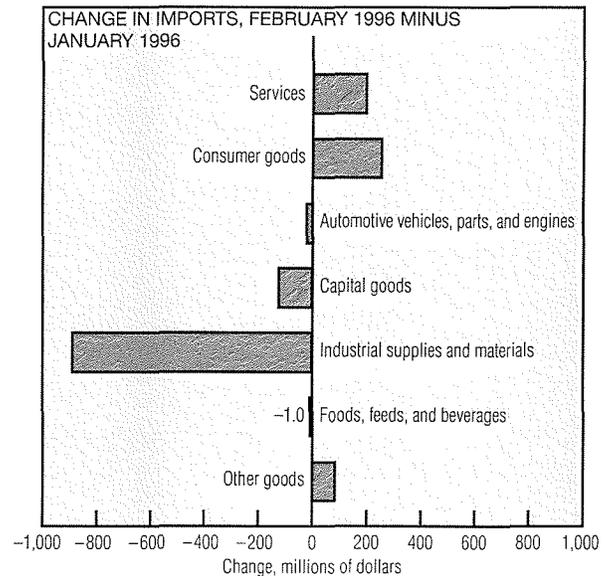
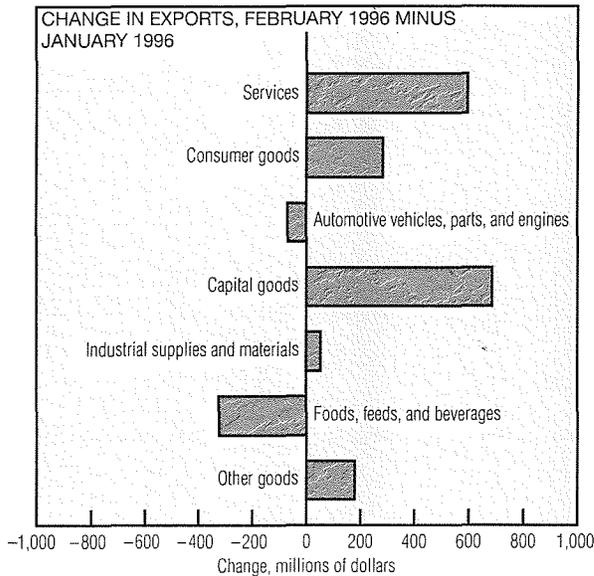
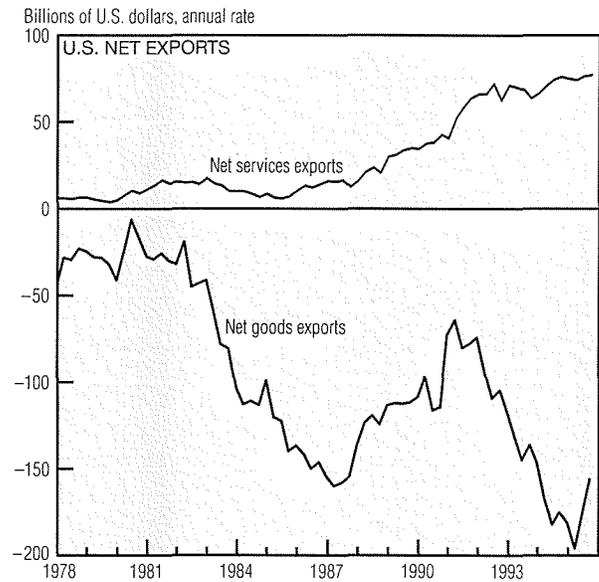
been trained to disfavor a widening trade deficit, the U.S. trade deficit simply reflects a desire to borrow goods and services from the rest of the world. Therefore, reversal of the decline in net exports since early 1995 implies a lessening of the nation's desire to borrow from abroad.

U.S. output is currently growing more slowly than that of most of its

*(continued on next page)*

# International Developments (cont.)

U.S. International Trade (Billions of U.S. dollars)				
	Feb. 1996	Jan. 1996	Feb. 1995	Feb. 1996 minus Feb. 1995
Net services exports	5.60	5.19	4.75	0.85
Services exports	18.38	17.78	16.44	1.94
Services imports	12.78	12.59	11.69	1.09
Net goods exports	-13.81	-15.08	-14.22	0.41
Goods exports	49.70	49.01	45.58	4.12
Goods imports	63.51	64.09	59.80	3.71



SOURCE: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

trading partners. If today's slow growth portends slow future growth, the diminished U.S. desire to borrow from other countries may simply indicate that the future does not look rosy enough to ensure repayment of the loan. Therefore, the narrowing of the trade deficit can actually reflect bad news—a slowing of U.S. growth relative to that of its trading partners.

About 67% of last year's increase in net exports of goods and services

came from an expansion of net services exports. Even net goods exports rose in 1995, reversing a four-year decline. Trade in goods continued to account for 83% of the nation's imports of goods and services and about 73% of its exports.

Imports fell slightly from January to February, largely due to a decline of almost \$900 million in industrial supplies and materials imports. Conversely, exports of American

goods and services rose over the month in a broad-based advance.

Much of the export gain was accounted for by capital goods and services. This is welcome news for the Fourth Federal Reserve District, whose businesses are key players in the capital goods sector. Apart from consumer goods, which also posted a healthy increase, most export categories changed only slightly from January to February.