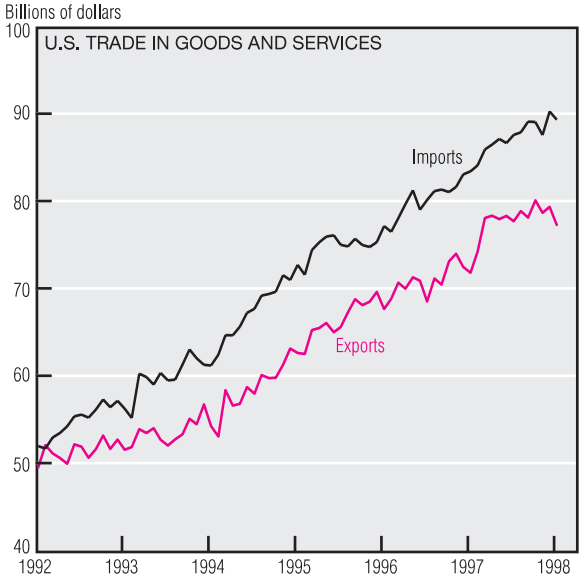
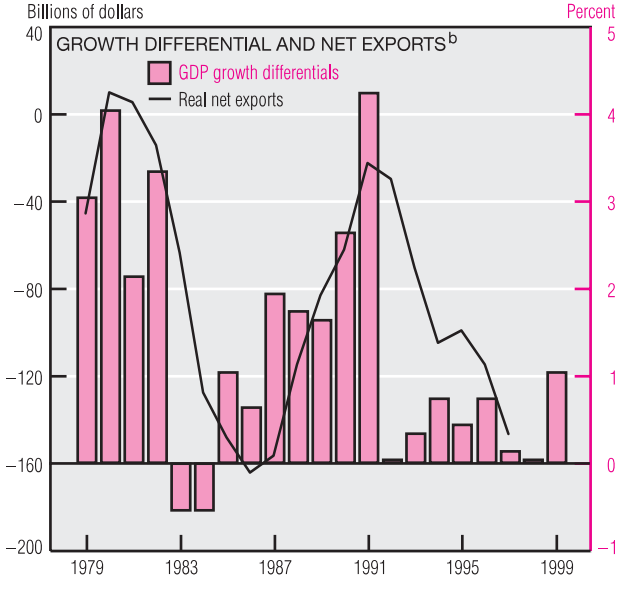
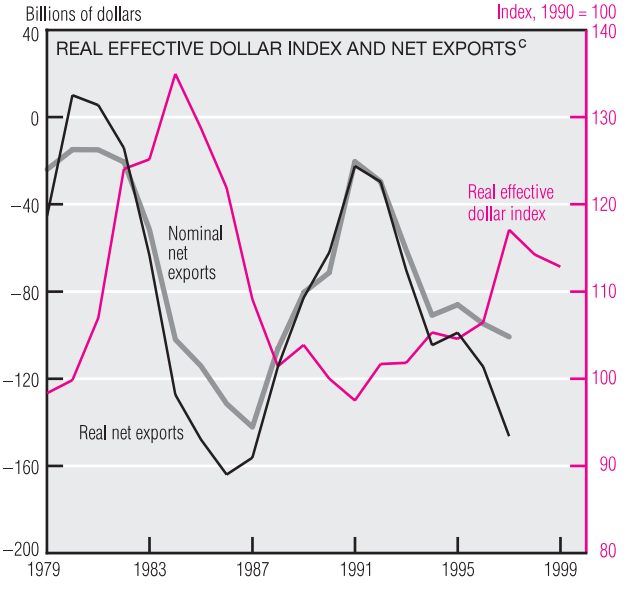
The Balance of Trade



Major Trading Partners[a]
(Trade balance, millions of dollars)

	1997	1998	Change
Canada	–1,696	–1,663	33
Japan	–4,294	–4,357	–63
Mexico	–1,241	–799	442
Germany	–1,237	–1,287	–50
U.K.	–85	345	430
Taiwan	–1,070	–1,106	–36
China	–3,723	–4,241	–518
Korea	181	–856	–1,037
France	–228	–235	–7
Singapore	–53	–287	–234
Italy	–679	–780	–101
Hong Kong	159	63	–96
Netherlands	905	1,115	210
Belgium	566	581	15
Malaysia	–618	–515	103





a. Order reflects total trade (exports and imports) with the U.S. between 1990 and 1995.
b. Growth differential equals the trade-weighted average growth rate for the 15 countries listed in the table minus the U.S. growth rate. Estimates for 1997 through 1999 are from various sources.
c. Real effective dollar index includes countries shown in table. Data include estimates of inflation for 1997 and earlier years in many cases. Forecasts for 1998 and 1999 utilize various sources.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; International Monetary Fund, *International Financial Statistics*; Organisation for Economic Co-operation and Development, *Economic Outlook;* DRI/McGraw–Hill; and *Blue Chip Economic Indicators,* March 10, 1998.

Many analysts fret that the U.S. trade balance will deteriorate significantly over the next year or so. This seems a safe bet. Many of the same analysts predict that further declines in net exports must slow overall economic growth, but while slower growth is likely, the connection to the trade deficit seems misguided.

U.S. net exports have deteriorated since 1991, largely *in response* to relatively fast economic growth at home. Since 1991, growth abroad has averaged 3.2% per year, while U.S. growth has averaged 2.3%. Typically, the growth differential must approach two percentage points (in favor of our trading partners) before the U.S. trade deficit begins to narrow. Recent forecasts of growth here and abroad anticipate a rather narrow differential over the next two years, implying no improvement in the trade balance because of relatively slower U.S. growth.

Since 1991, the dollar has appreciated approximately 20% on a real effective basis against our 15 major trading partners. Any such rise reflects either a nominal appreciation of the dollar, a higher inflation rate in the U.S. than abroad, or both. As the dollar appreciates on a real effective basis, the foreign price of U.S. goods rises and the U.S. price of foreign goods declines. Recent forecasts of exchange-rate movements (notorious for their inaccuracy) and global inflation rates suggest that the real effective dollar will depreciate 3.6% over 1998 and 1999.