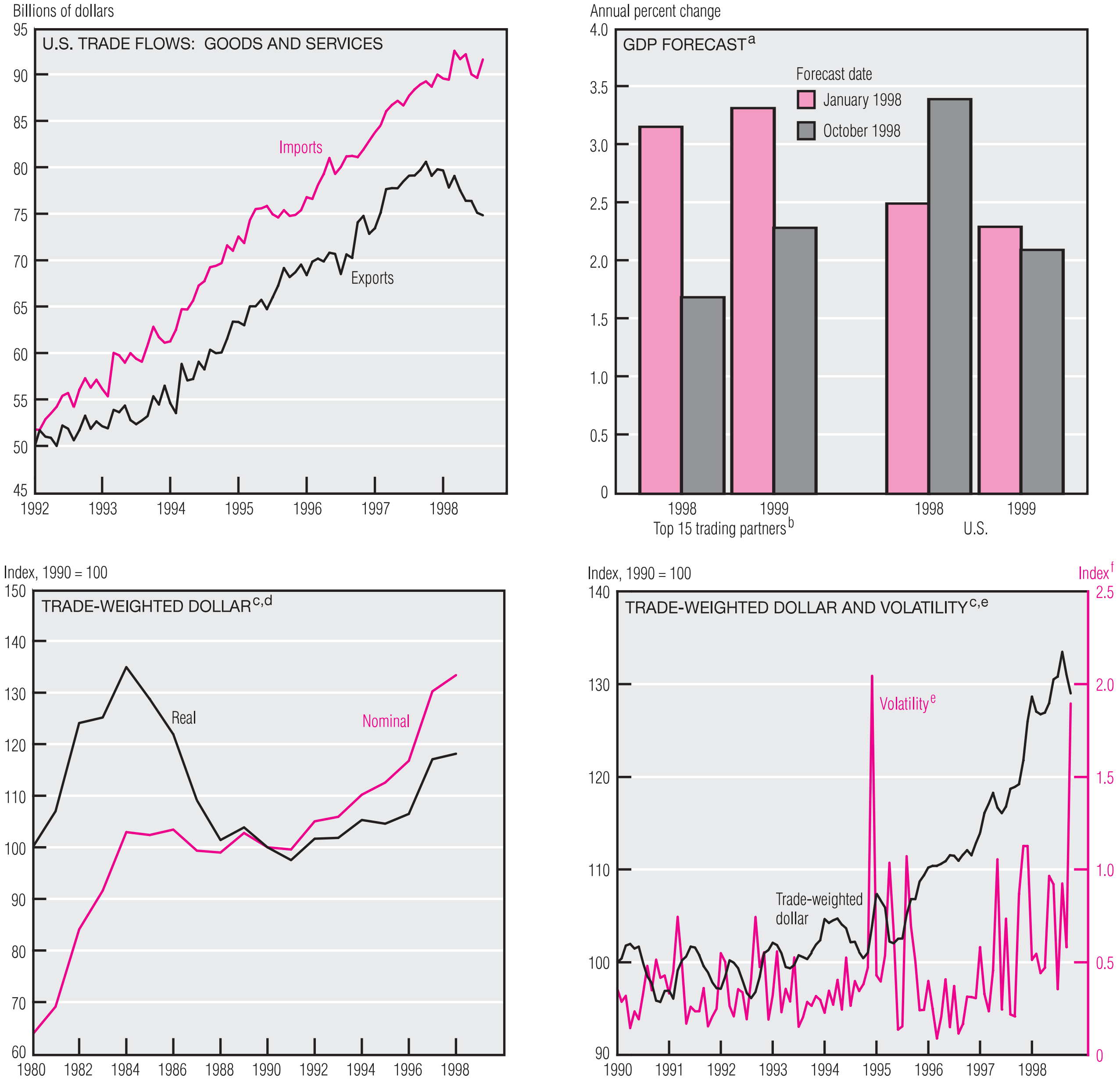
International Trade



a. U.S. forecast is from *Blue Chip Economic Indicators*; foreign forecast is from various sources.
b. Canada, Japan, Mexico, Germany, U.K., Taiwan, China, South Korea, France, Singapore, Italy, Hong Kong, Netherlands, Belgium, and Malaysia.
c. Trade-weighted dollar index includes the 15 countries listed above.
d. Estimates for 1998 utilize CPI forecasts from various sources and an average of exchange rates through September 1998.
e. October 1998 estimate is the average of daily data through October 23.
f. Standard deviation of daily trade-weighted dollar index each month.

SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; 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; *Blue Chip Economic Indicators*, various issues; and *The Economist*, October 17–23, 1998.

The U.S. posted a record $16.8 billion trade deficit in August. The imbalance has increased precipitously since July 1997 because U.S. exports of goods and services have fallen 5.4%. By most accounts, the trade deficit will widen still farther—reaching approximately $175 billion to $180 billion this year—as the effects of the Asian and Russian economic crises continue to filter through the world.

In part, larger projected increases in the deficit reflect a gloomier outlook for foreign economies. In January, economists generally expected real growth among our 15 largest trading partners to average 3.2% this year and 3.3% next year. The current consensus, however, is that these countries' real growth will be only 1.7% in 1998 and 2.3% in 1999. The outlook for U.S. growth this year is more optimistic now than it was in January, but economists have pared their forecast for 1999. To narrow our trade deficit, foreign growth typically must exceed U.S. growth by about two percentage points.

The sharp rise of the real trade-weighted dollar last year—which brought its cumulative appreciation since 1991 to 21.2%—also weakens our global competitiveness. Thus far this year, the trade-weighted dollar's real appreciation has been subdued, but higher nominal volatility since July 1997 suggests that international commerce has become riskier and more uncertain.