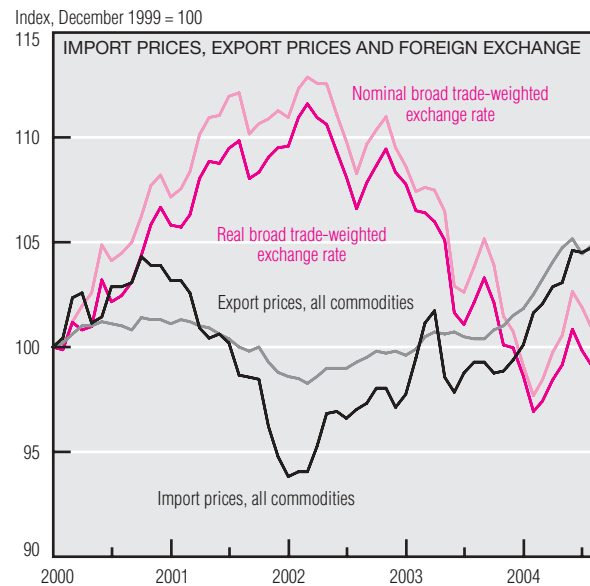
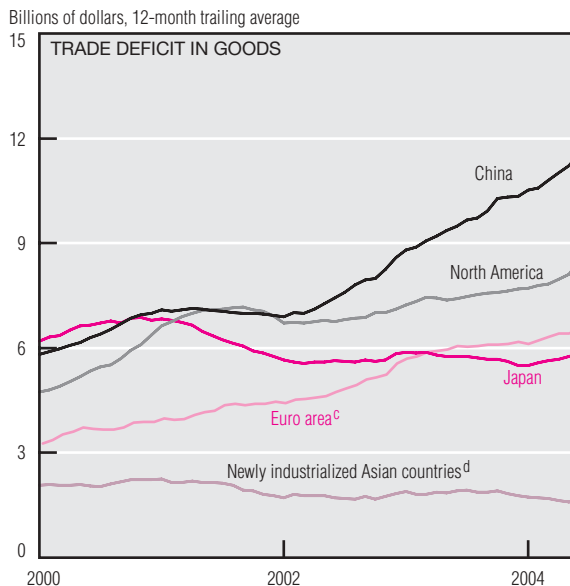
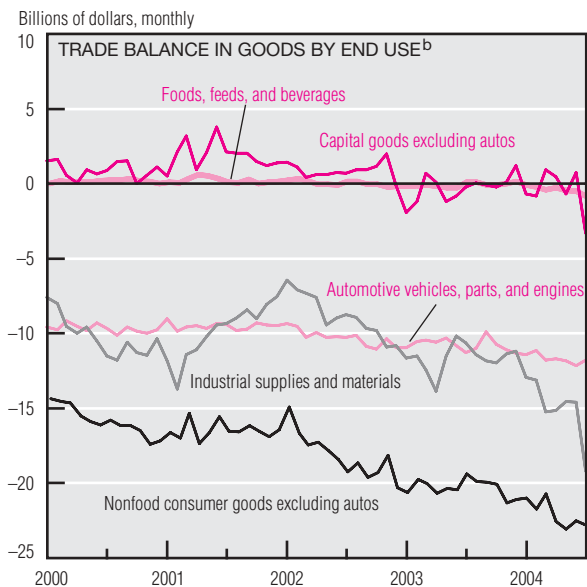
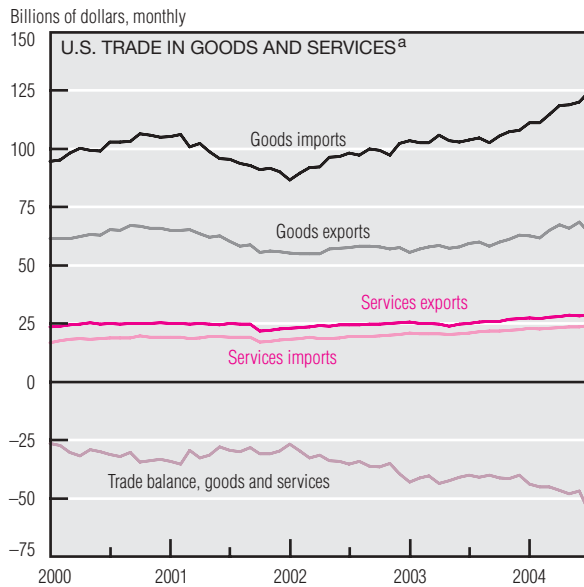


# International Trade and Transactions



a. Measured on a balance of payments basis.

b. Measured on a census basis.

c. Includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

d. Includes Hong Kong, Korea, Singapore, and Taiwan.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; and U.S. Department of Labor, Bureau of Labor Statistics.

In June, the U.S. trade deficit in goods and services grew by a record \$8.9 billion to reach \$55.8 billion. Goods accounted for nearly all of the decline in the trade balance, which was split about equally between decreased exports and increased imports. June's record \$4.4 billion decline in goods exports was notable because September 2001 was the only month in the previous 12 years when goods exports fell more than \$3 billion.

Although the decline in the trade balance was certainly significant, large swings from month to month are not

uncommon and can often be attributed to just a few areas. June's trade balance in capital goods excluding autos fell \$4 billion, of which about 40% came from the relatively small components of civilian aircraft, parts, and engines. The rest of the decline in the goods balance was in industrial supplies and materials, about 40% of it in petroleum products.

Nevertheless, the June data bolster the evidence that after a brief reprieve in 2003, the trade deficit resumed its downward trend in 2004. Although no single country or area accounts for a majority of the trade deficit, China

now accounts for roughly 25% of it and an even larger share of the increase in the deficit. Since growth in Japan and the euro area began picking up in the latter half of 2003, trade deficits with these regions have begun to increase as well.

The slight strengthening of the dollar in 2004, along with the larger trade deficit, squares well with the intuition that the trade balance deteriorates as foreign goods become cheaper. In practice, however, the strong dollar is not always positively associated with trade deficits.