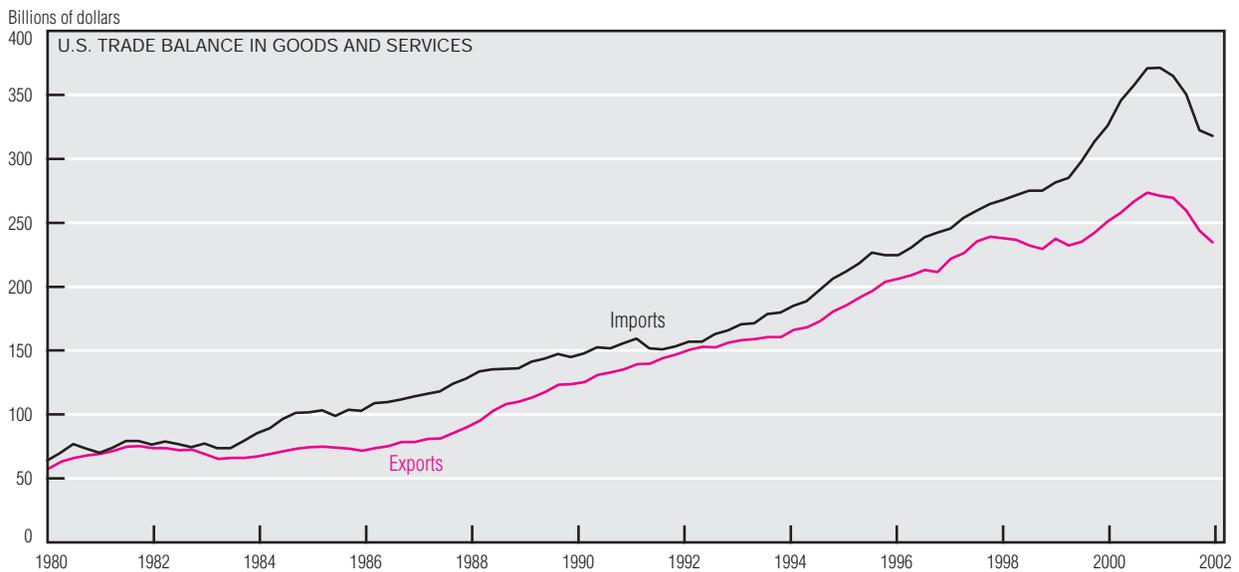
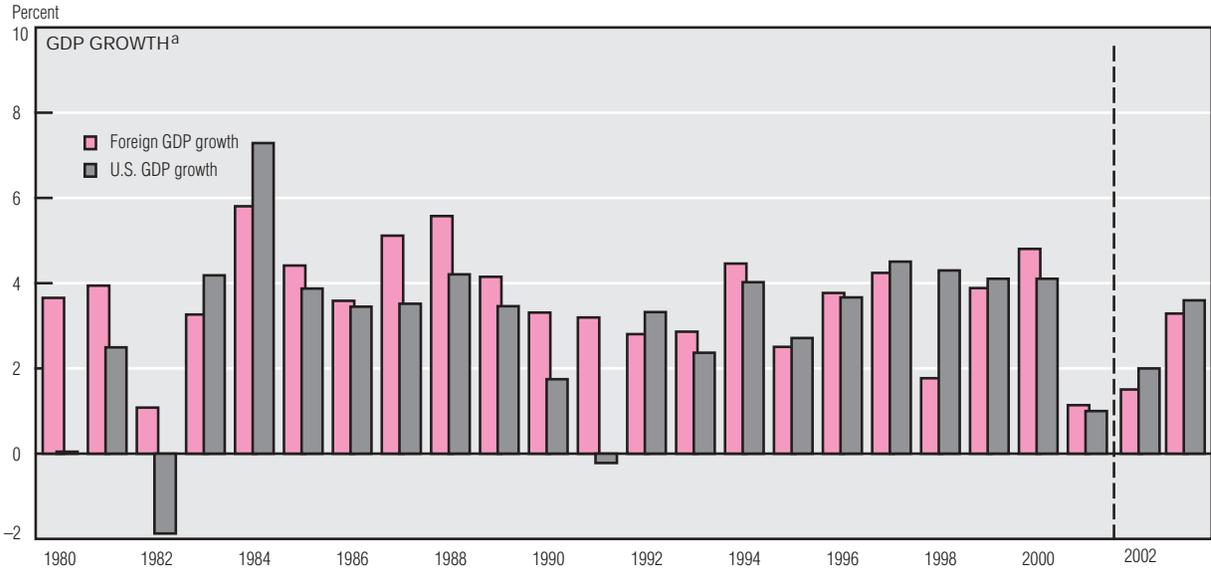


## Foreign Trade and the Business Cycle



a. Foreign GDP growth is the trade-weighted average growth rate for the top 15 U.S. trading partners in 1992–97: Canada, Japan, Mexico, Germany, U.K., China, Taiwan, Korea, France, Singapore, Italy, Hong Kong, Malaysia, Netherlands, and Brazil. Data for 2001 are estimates; data for 2002 and 2003 are forecasts. SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Organisation for Economic Co-operation and Development, *Economic Outlook*; International Monetary Fund, *International Financial Statistics*; DRI/McGraw-Hill; *Blue Chip Economic Indicators*; and *The Economist*.

Economic conditions in the U.S. have always been linked to those of our major foreign commercial partners. Some fear, however, that closer global integration will cause business cycles here and abroad to become more synchronous and, consequently, more severe. While reasonable, this prognosis seems a bit premature.

Over the past 20 years, U.S. economic activity has risen and fallen in fairly close association with foreign economic activity. Often, however,

when the U.S. slid into recession, foreign economic growth remained firm, at least initially, and world demand for our goods and services buffered the downturn. This was the case in 1980 and in 1991, and even though foreign economic growth slowed in 1982, it still exceeded U.S. growth and cushioned our contraction. Similarly, rapid U.S. economic growth moderated the global recessionary impact of foreign financial crises in 1997 and 1998.

Last year, the pattern seemed markedly different. Foreign and U.S. economic growth slowed in tandem, pulling U.S. exports (and imports) down dramatically. This pattern, however, seems more fluke than forecast. Although the rates of U.S. and foreign growth have converged somewhat, their correlation has not changed appreciably over the past two decades. One must look beyond business cycle patterns to explain U.S. trade developments in 2001.