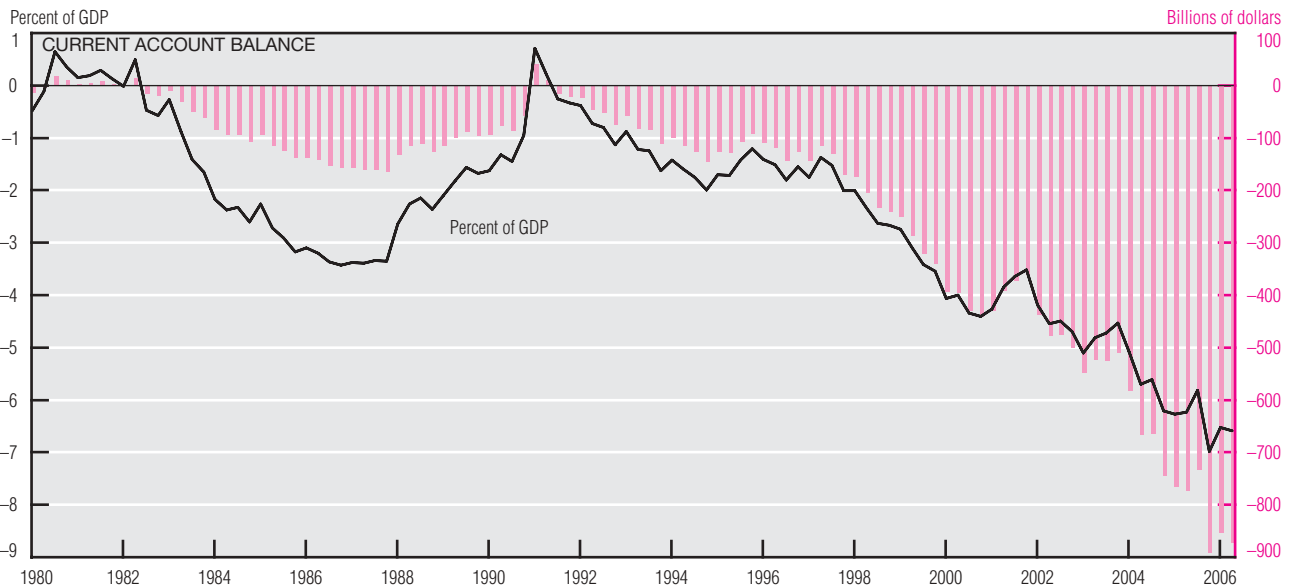
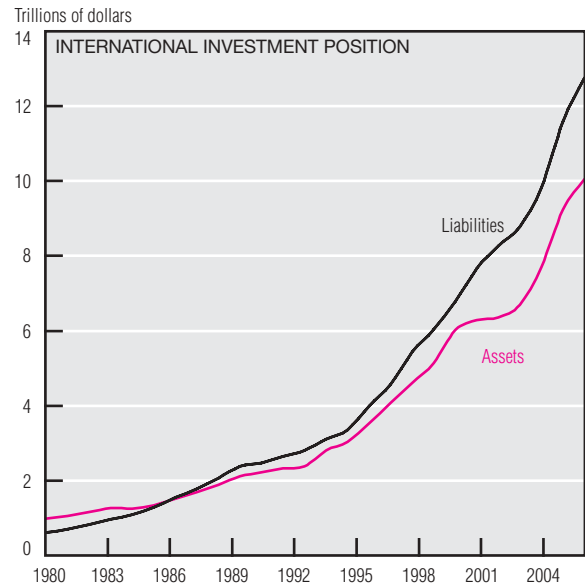
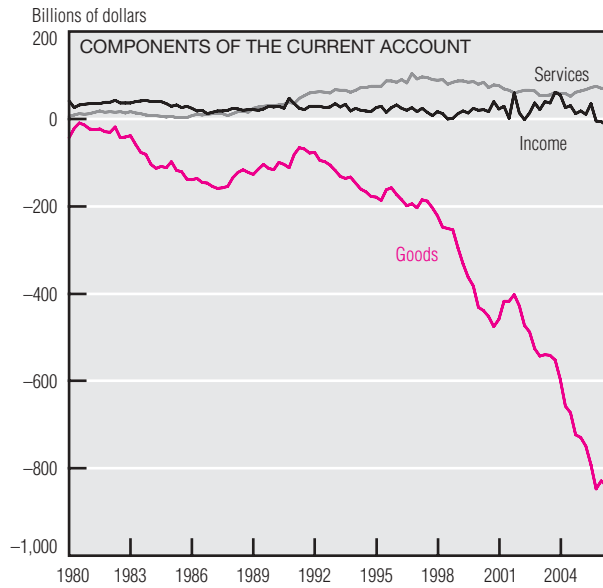


The Income Component of the Current Account



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

The U.S. current account deficit grew from \$852.8 billion in 2006:IQ to \$873.4 billion in 2006:IIQ (annualized rates). Most of the increase reflected a wider deficit in U.S. goods trade; in addition, our services trade surplus shrank, and the income component of the current account reported its third consecutive quarterly deficit. Over the last three quarters, however, the current account deficit has remained fairly flat.

The current account's income component consists primarily of international interest and dividend

payments. If a U.S. firm, for example, owns shares in a foreign company, its income from the foreign affiliate appears in this category. The balance of payments treats this income as compensation for services provided—that is, exported—by the U.S. firm to the foreign company; consequently, it records the income in the current account along with other export earnings. A deficit in the income component indicates that the U.S. pays out more than it receives in interest, dividends, and related types of income.

This nation runs current account deficits because it imports more goods

than it exports. We pay for the surfeit of imports by issuing financial claims, such as stocks, bonds, and bank accounts, to the rest of the world. Foreign governments hold many of these claims as official reserve assets. Because of our unrelenting 20-year string of current account deficits, foreigners now hold substantially more claims on the U.S. than we hold on them. So it was only a matter of time before our payments to service these foreign-held claims exceeded the income from our outstanding stock of foreign assets.