International trade is becoming increasingly important to the U.S. economy. Since 1987, exports have grown from less than 7% of GDP to more than 11%, while imports as a share of output have expanded 3 percentage points. The U.S. trade deficit narrowed through 1991, but has generally widened ever since.

While significant for the nation, international trade is becoming proportionally even more meaningful to Ohio and Pennsylvania. Between 1987 and 1994, exports from each of these states grew 151% (compared to 127% for the nation), with Ohio accounting for approximately 31/2%, and Pennsylvania for about 21/2%, of U.S. shipments abroad.

In October (the latest month for which data are available), the U.S. trade deficit declined slightly as imports fell somewhat more than exports. Since its June high, the trade deficit for goods and services has narrowed by $1.5 billion. The U.S. saw a substantial improvement in its trade balances with Japan, Europe, and Mexico over this period, but our trade deficit with China and other Pacific Rim countries deteriorated. Despite the marked improvement since June, full-year data will probably show that our overall trade position has worsened since 1994.

The U.S. trade deficit—on both a

(continued on next page)
nominal and a real basis—has widened since 1991, as economic growth at home has outpaced growth abroad. Foreign economic activity, which advanced rapidly in 1994, paused in 1995. In fact, Canada, France, Germany, and the U.K. are all likely to see their growth rate halved relative to 1994. Japan, on the other hand, recorded a slight improvement.

Most economists foresee foreign economic growth accelerating again in 1996. If their projections are correct, this will contribute to further U.S. export growth. However, with U.S. economic activity also expected to remain fairly brisk in 1996, not much change is anticipated in our overall trade deficit.

The relationship between the real trade balance and the real trade-weighted dollar is not as tight as many analysts suggest. When more complete data become available, the real trade-weighted dollar will probably prove to have exerted little influence on the 1995 trade balance. The nominal dollar depreciated somewhat over the year, but U.S. inflation was slightly higher than that of our key trading partners. With international inflation rates seeming to converge at low levels, large swings in the dollar appear less likely.