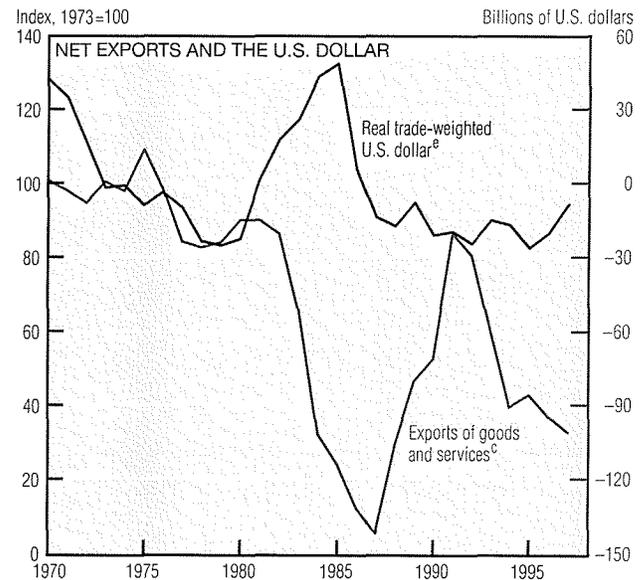
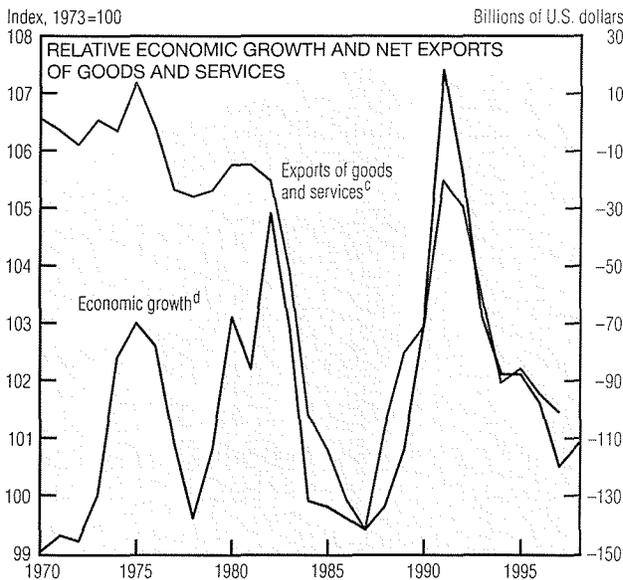
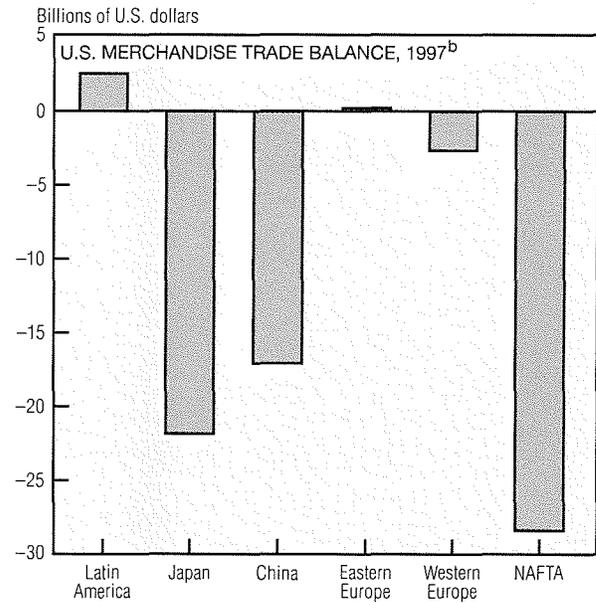
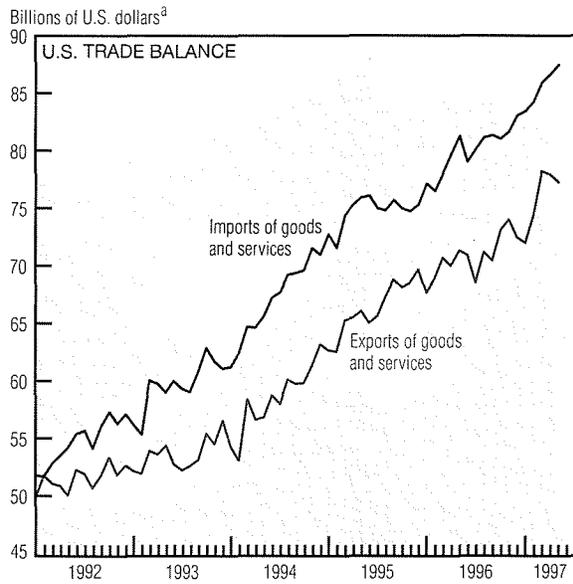


U.S. Trade Balance



a. Seasonally adjusted.

b. Through May.

c. 1997 plot is an average of the first two quarters of the year.

d. Ratio of foreign real GDP or GNP to U.S. real GDP. Foreign countries and trade weights are those used to construct the Federal Reserve Board's trade-weighted dollar index. Projections for 1997 and 1998 are from *The Economist*, August 2-8, 1997.

e. Annual average of monthly data; 1997 plot is an average of the first five months of the year.

SOURCES: Board of Governors of the Federal Reserve System; U.S. Department of Commerce, Bureau of the Census; International Monetary Fund, *International Financial Statistics*; and *The Economist*, August 2-8, 1997.

The U.S. trade deficit has widened since 1991. Over the first five months of this year, the shortfall was \$48.1 billion. Our largest deficits are with Japan, China, and our NAFTA partners.

The deterioration in the U.S. trade balance over the current business expansion largely reflects the more rapid pace of economic growth in the U.S. than abroad. Since 1991, the major industrialized countries have seen their output climb 1.5%

on a trade-weighted basis, while the U.S. economy expanded 2.5% (average annual rates). Our faster economic growth has attracted foreign savings and financed domestic investment at levels unsustainable through domestic savings alone. Other things being equal, foreign economies must grow at about twice the domestic rate in order to reverse this pattern and narrow the U.S. trade deficit. Although analysts expect foreign economic growth to

accelerate to 2.3% in 1997 and 2.7% in 1998, it will not surpass projected U.S. growth (3.5% in 1997 and 2.3% in 1998) by the requisite margin.

The relationship between exchange rates and the trade deficit is even more tenuous than that between growth rates and trade, but a dollar appreciation can widen the deficit. The dollar's 14.4% real appreciation since 1995 has not favored a narrower trade deficit.