International Developments

The U.S. current-account deficit reached an annualized $245 billion in 1998:IIIQ, a rise of $18.4 billion over 1998:IIQ. The expansion of the current-account deficit in the third quarter reflects increases of $7.5 billion in the trade deficit, $8.3 billion in net interest and dividend payments to foreigners, and $2.6 billion in unilateral transfers to foreigners. The shortfall is likely to grow even more in 1998:IVQ, resulting in a deficit of $225 billion to $230 billion for 1998 as a whole.

In large measure, the widening current-account deficit reflects a growing divergence between U.S. and foreign economic growth. Economists expect U.S. output to expand 3.6% in 1998, fully two percentage points more than that of our top 15 trading partners. Growth in Europe and Canada, while still fairly strong, is likely to slow. Growth in Japan and the emerging-market Asian economies will decline, but their prospects seem less bleak than they did a month ago.

The continued rise of the real trade-weighted dollar last year—which brought its cumulative appreciation since 1991 to 32.3%—has also contributed to our expanding trade deficit. Since August, the nominal trade-weighted dollar has depreciated approximately 5% in fairly volatile markets. Recently, that volatility has abated somewhat, suggesting that fewer risks and uncertainties are associated with international commerce.

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