U.S. trade in goods and services reached a record $19.4 billion deficit in February as imports advanced 2.2% and exports fell 0.6%. Global sales of U.S. products have remained flat since the onset of the Asian financial crisis in mid-1997. The cascading crises of the past two years have adversely affected our trade balance by slowing the economic growth of our major trading partners and promoting an appreciation of the dollar.

World economic crises cramped growth among our 15 most important trading partners to an average 1.3% in 1998. This is less than half their average pace since 1990 (3.3%), and is substantially below the 3.9% U.S. growth rate last year. Forecasters expect the disparity to persist in 1999, but anticipate that growth rates will converge in 2000. Holding all else constant, foreign economic growth must exceed U.S. economic growth by nearly two percentage points to narrow the trade deficit.

Inflows of foreign capital in 1997 and 1998 caused an 11% real dollar appreciation. Real exchange rates incorporate both nominal exchange-rate movements and inflation differentials. A real dollar appreciation reduces our competitive position by raising the foreign-currency price of U.S. goods and services and by lowering the dollar price of foreign output. The dollar’s appreciation seems to have stalled this year.