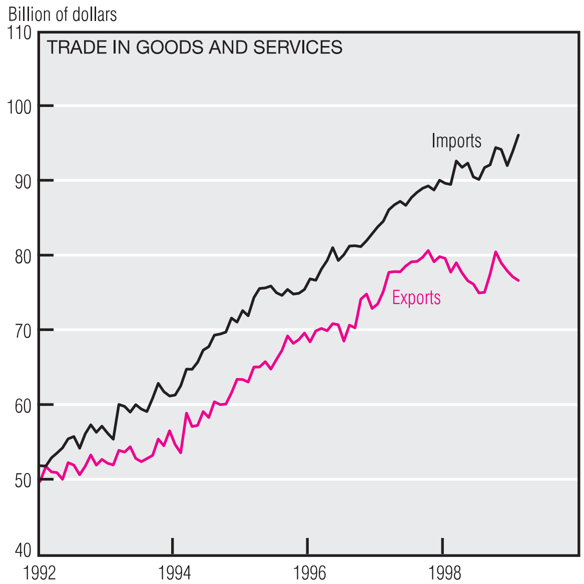
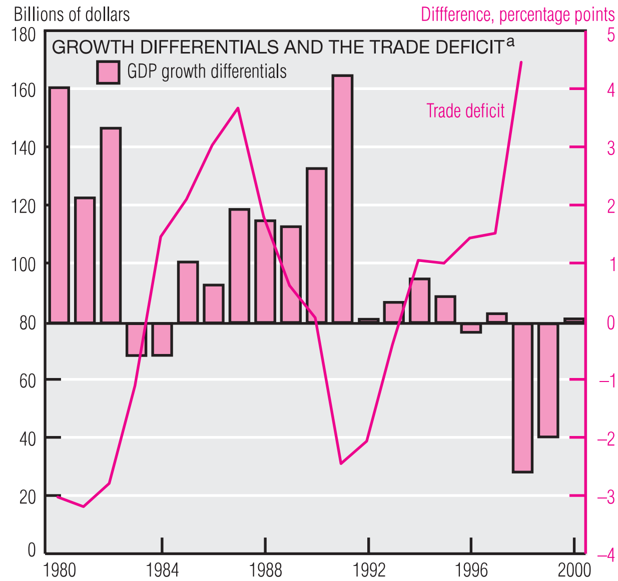
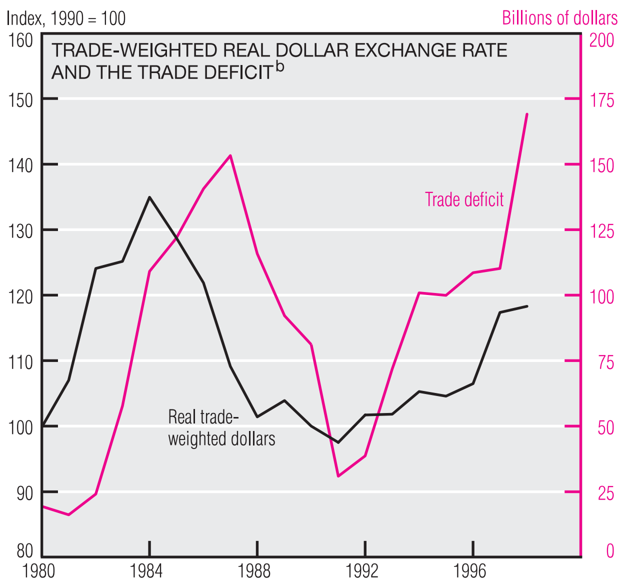
International Trade







The Current Account and its Components

	Billions of dollars 1996	1998	Change
Balance on goods and services	–108.6	–169.1	–60.5
Balance on investment income	14.2	–22.5	–36.7
Unilateral transfers	–40.6	–41.9	–1.3
Balance on current account	–134.9	–233.4	–98.5

a. The growth differential equals the trade-weighted average growth rate for the top 15 U.S. trading partners in 1990–95 minus the U.S. growth rate. Projections for 1999–2000 utilize various sources. The top 15 U.S. trading partners in the years shown are Canada, Japan, Mexico, Germany, U.K., Taiwan, China, South Korea, France, Singapore, Italy, Hong Kong, Netherlands, Belgium, and Malaysia.

b. The real effective dollar index includes the top 15 U.S. trading partners, 1990–95.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Organisation for Economic Co-operation and Development, *Economic Outlook;* International Monetary Fund, *International Financial Statistics;* DRI/McGraw–Hill; and *Blue Chip Economic Indicators,* April 10, 1999.

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 crimped 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.