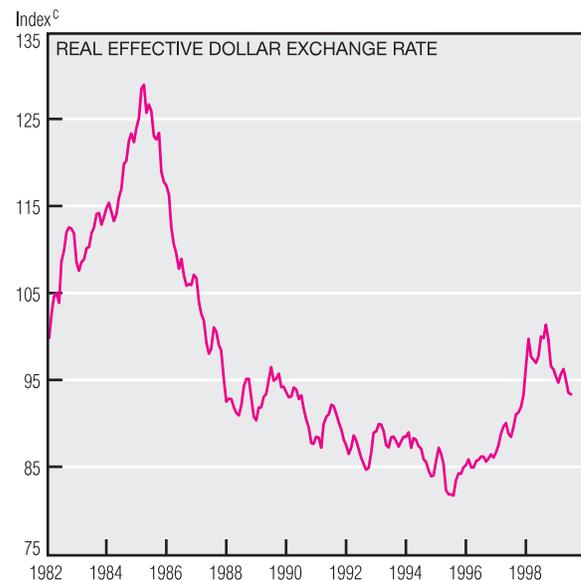
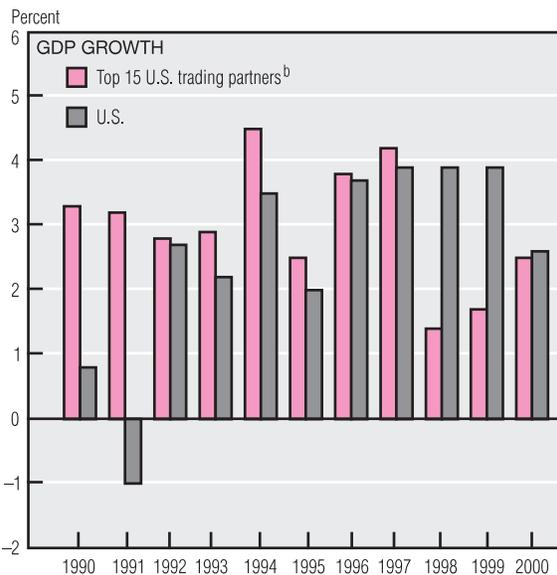
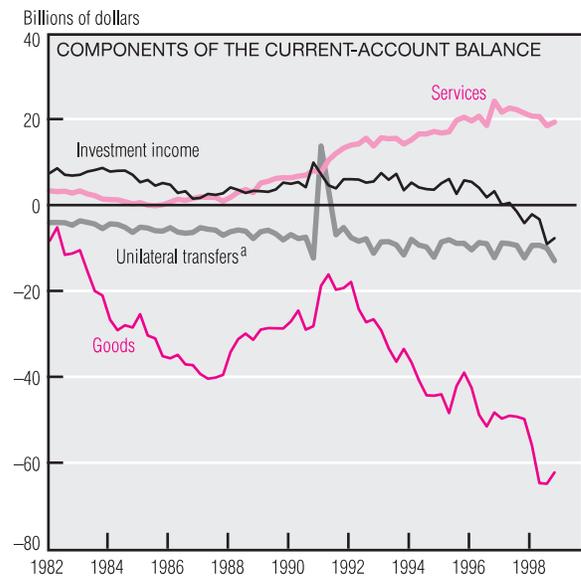
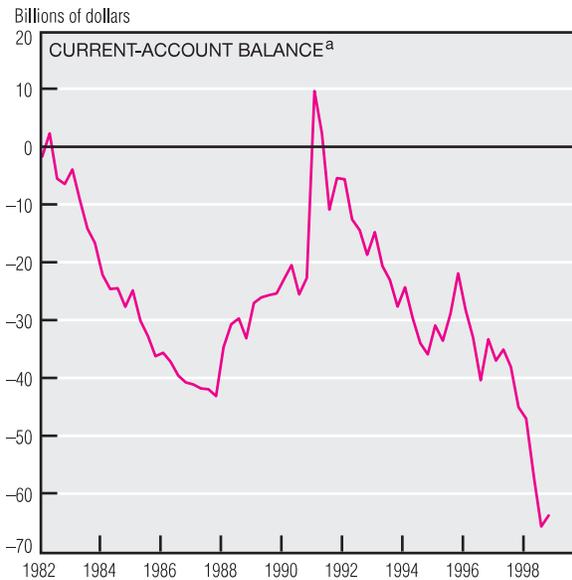


The Current Account



a. The surplus recorded for 1991 reflects allies' payments to the U.S. in conjunction with Operation Desert Storm.

b. The top 15 U.S. trading partners in 1992–97 were Canada, Japan, Mexico, Germany, U.K., China, Taiwan, Korea, France, Singapore, Italy, Hong Kong, Malaysia, Netherlands, and Brazil. Projections for 1999–2000 utilize various sources.

c. Board of Governors of the Federal Reserve System, Broad Index.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Organisation for Economic Co-operation and Development, *Main Economic Indicators*; International Monetary Fund, *International Financial Statistics*; and *Blue Chip Economic Indicators*, June 10, 1999.

Analysts often refer to the current account as a broad measure of our country's international trade position, although it includes a few non-trade items. Trade flows still make up its largest category by far, and our current-account deficit tends to mimic the shortfall in our goods trade. By contrast, the U.S. maintains a \$20 billion surplus in services trade. After expanding between 1988 and 1994, this surplus flattened out. The persistent small deficit in unilateral transfers, which are essentially gifts, reflects our country's

largesse. Investment receipts, the final category within the current account, shifted into deficit in 1997, a sign that interest and dividend payments on U.S. obligations to foreigners exceed earnings on our holdings of foreign obligations.

The U.S. current-account deficit is likely to widen further this year and next. Although most of the enormous differential between U.S. economic growth and that of our major trading partners will disappear next year, foreign economies must generally expand nearly two percentage

points faster than the U.S. if our trade deficit is to narrow.

The dollar has depreciated almost 8% on a real basis over the past year. Because a real depreciation incorporates both nominal exchange-rate movements and cross-country inflation differentials, its presence suggests that U.S. goods and services are becoming more price-competitive in world markets. This recent movement only partly offsets the dollar's 24% real appreciation between June 1995 and August 1998.