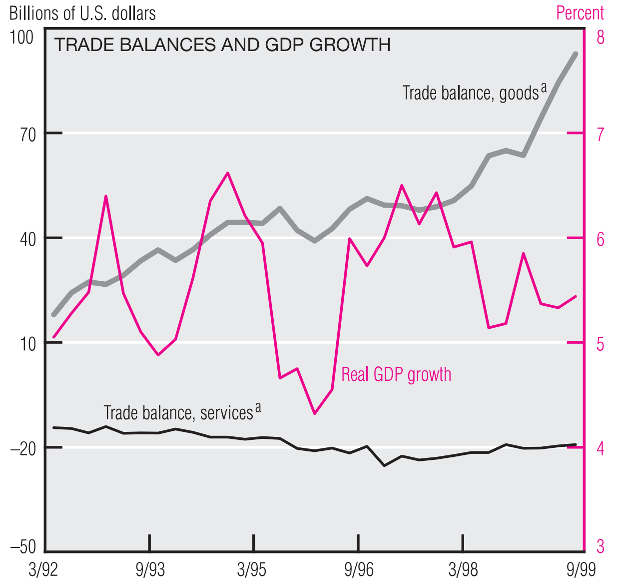
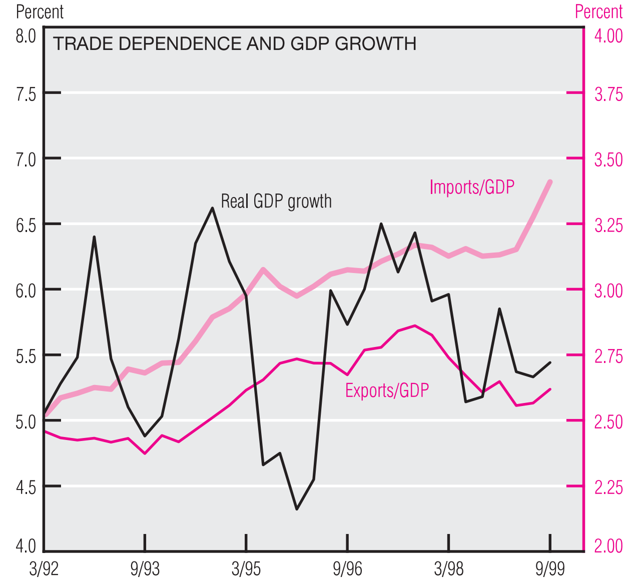
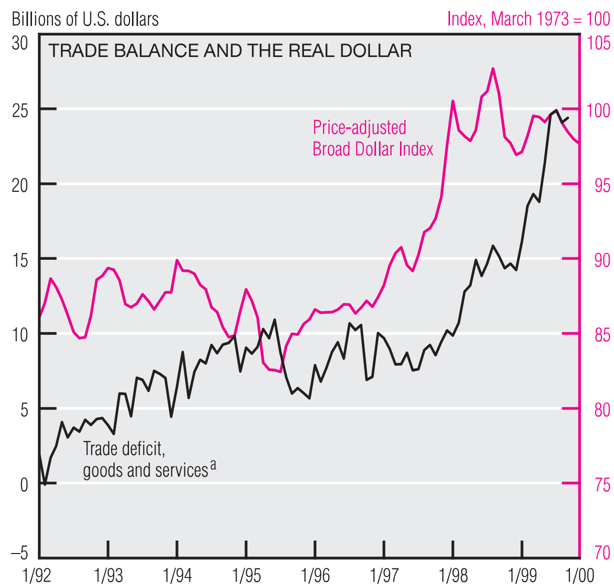
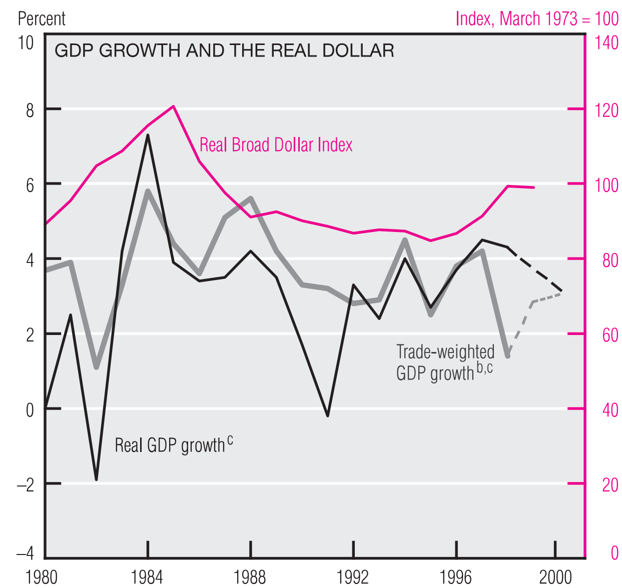
The U.S. Trade Balance









a. Calculated on a balance-of-payments basis, seasonally adjusted.

b. GDP growth for the top 15 U.S. trading partners in 1992–97: Canada, Japan, Mexico, Germany, U.K., China, Taiwan, Korea, France, Singapore, Italy, Hong Kong, Malaysia, Netherlands, and Brazil. Projections for 1999–00 utilize several data sources.

c. Dashed lines indicate projections for 1999–00.

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,* October 10, 1999.

The nominal U.S. trade balance on goods and services widened slightly in September. A closer look, however, shows that the goods deficit has widened significantly over the past year, while the services surplus has changed little. There appears to be little correlation between the growth rates for real GDP and the two balances since 1992. The growth rate of real GDP also seems unrelated to the ratios of nominal exports or imports to real GDP.

Movements in nominal exports and imports combine changes in quantity and changes in export and import prices. Changes in dollar export and import prices, in turn, reflect both domestic price changes and changes in the nominal dollar exchange rate. The real dollar combines changes in the nominal exchange rate and changes in prices within the U.S. and other countries.

A stronger real dollar implies that U.S. products are less competitive internationally. The strengthening of the real dollar after mid-1995 was accompanied by a continued deterioration in the nominal current-account balance. This supports the idea that the rising current-account deficit resulted partly from capital flows into the U.S., which boosted the dollar. However, since mid-1998, the real dollar has weakened, while the current-account deficit has continued to grow.

The relative economic strength of the U.S. and its trading partners is a major influence on the dollar. Recent forecasts are for strengthening of foreign econmies relative to the U.S. If U.S. capital moves abroad, the dollar may weaken and thus help reduce our deficit.