The U.S. trade deficit in goods and services reached a new record of $28 billion in January 2000. This is $1.5 billion greater than the consensus forecasts and $3.4 billion more than December’s deficit of $24.6 billion. Imports jumped $1.9 billion to a record $112.1 billion in January, while exports fell $1.5 billion, their first decline since last May. Strong dollar appreciation and relatively slow foreign economic growth have contributed to the substantial increase in the U.S. trade deficit in recent years.

World economic crises cramped growth among our 15 most important trading partners over the past two years. The 1.5% average in 1998 was less than half the average pace since 1990 (3.2%) and was substantially below the 4.3% U.S. growth rate in 1998. In 1999, foreign growth still lagged behind the U.S. by 1.2%, although it improved substantially to an average of 3.4%. Forecasters expect these growth rates to converge in 2000 but, holding all else constant, foreign economic growth must exceed domestic growth by nearly two percentage points to narrow the trade deficit.

The dollar has appreciated 16.5% on a real basis since 1995, largely on the strength of foreign capital inflows. Real exchange rates incorporate both nominal exchange-rate movements and inflation differentials. A real dollar appreciation reduces our competitive position by raising foreign currency prices of U.S. goods and services and by lowering dollars price of foreign output. The dollar’s appreciation seems to have stalled this year.