In September, the U.S. trade balance on goods and services deteriorated $4.5 billion to a deficit of $34.3 billion, reflecting a $3.8 billion increase in imports and a $0.6 billion decrease in exports. Most of the change may be attributed to a $3.5 billion deterioration in the goods balance. Imports of goods increased $2.9 billion to $107.5 billion, while exports decreased $0.7 billion to $67.3 billion. In September, the negative goods balance was most significant with Mexico ($0.7 billion), Canada ($0.4 billion), and China ($0.1 billion). Service exports were virtually unchanged from August, while service imports increased $1.0 billion because broadcast rights payments for the Summer Olympics boosted royalty and license-fee payments to foreigners $0.7 billion. Transportation, travel, and other private service payments increased about $0.1 billion each.

Although the U.S. trade deficit is likely to increase further this year, it is expected to narrow in 2001. Since 1997, it has largely reflected a divergence of U.S. and foreign economic growth. Forecasts expect foreign growth to exceed U.S. growth next year, closing the GDP growth gap of the past four years.

The dollar’s exchange value and volatility also influence international trade. The exchange rate affects the price competitiveness of goods and services in global markets, while volatility increases the risks associated with international trade and investment. Although the dollar has appreciated 7-8% on a real basis since January, its volatility has abated recently; if this continues, there will be more stability and fewer uncertainties associated with international commerce. However, if the dollar should continue to appreciate and U.S. growth were to accelerate in relation to our trading partners, the U.S. trade deficit might continue to rise.