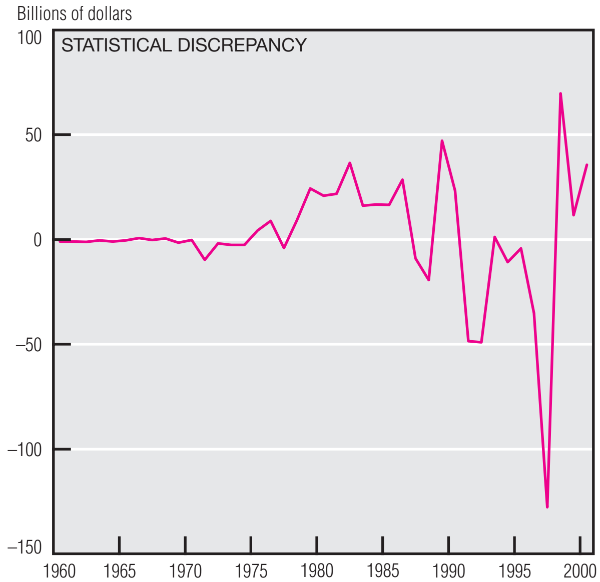
International Transactions and Statistical Discrepancy



Correlation with Statistical Discrepancy[a]

	Correlation coefficient
Current account items	**–0.21**
Exports of goods and services	0
Imports of goods and services	0
Income receipts	0
Income payments	0
Unilateral transfers	–0.20

Correlation between Statistical Discrepancy and Financial Transactions[a]

U.S.-owned assets abroad	Correlation coefficient	Foreign-owned assets in the U.S.	Correlation coefficient
Official reserve assets	–0.41	Official reserve assets	–0.50
Other U.S. government assets	–0.29	Direct investments	0.36
Direct investments abroad	–0.59	U.S. Treasury securities	–0.41
Foreign securities investments	–0.29	Other U.S. securities	–0.06
Other private investments	0.57	Other private investments	–0.72

a. All correlations are calculated using the first difference of published annual data, 1961–2000.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

No current account deficit can exist without an equal inflow of foreign investment funds. Practically speaking, however, the measurement of trade and financial flows is difficult and often incomplete. Consequently, the ledger of U.S. international transactions contains a statistical-discrepancy term to ensure that the current account deficit (or surplus) is balanced against net foreign financial flows.

The statistical discrepancy has grown significantly since the 1960s. Its average annual size, in absolute-value terms, was $3.8 billion during 1960–79, but it rose to $30.7 billion during 1980–99. Over the five years ending in 2000, the average annual statistical discrepancy amounted to $47.4 billion.

Although the statistical discrepancy aggregates measurement errors from all components of international accounts, economists believe that changes in the statistical discrepancy primarily reflect errors in the measurement of financial flows (investors can accomplish such transactions electronically, whereas traders must carry goods through ports of entry). The data seem to support this impression: The correlation between year-to-year changes in the statistical discrepancy and components of the financial accounts is typically higher than the correlation between year-to-year changes in the statistical discrepancy and components of the trade accounts.