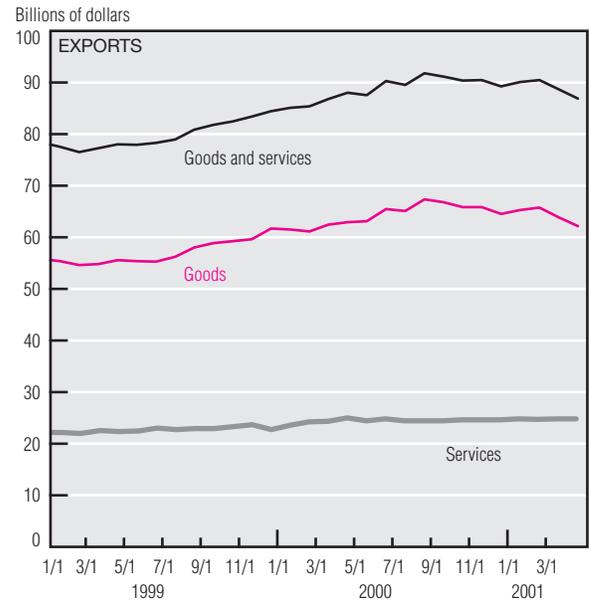
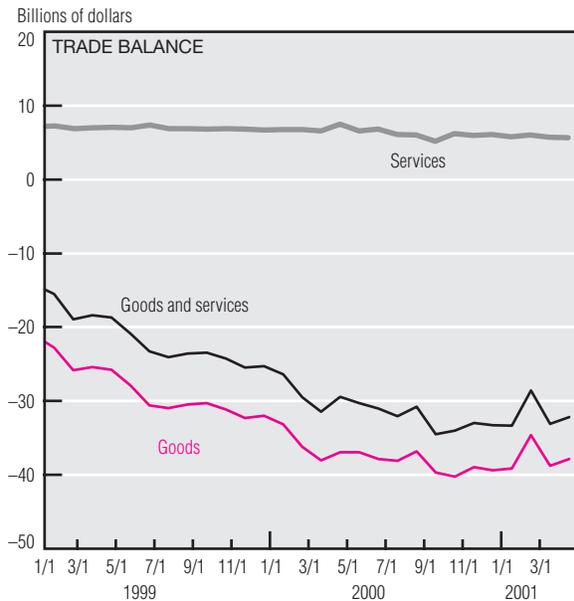
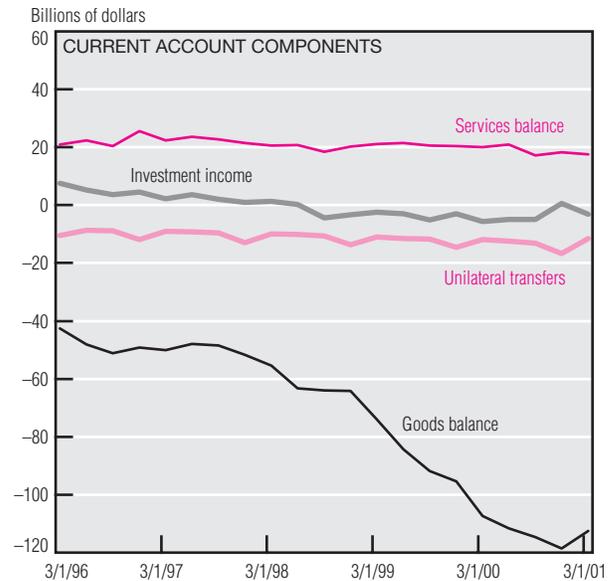
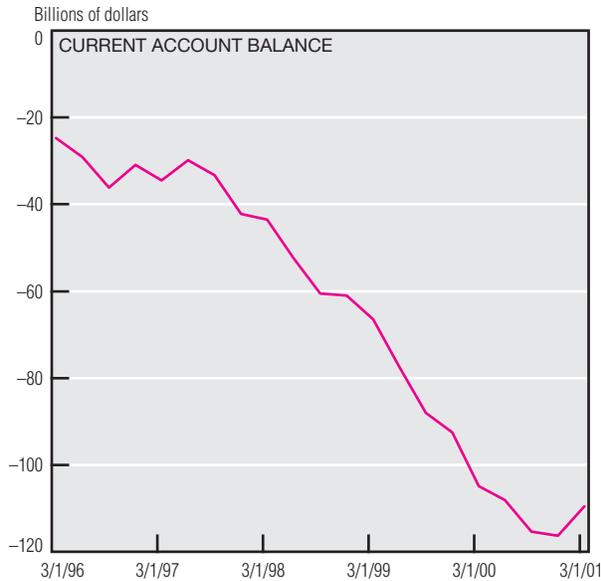


## International Developments



SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System.

The U.S. current account is measured quarterly. In 2001:1Q, the current account deficit decreased to \$109.6 (from \$116.3 billion in 2000:4Q). This decrease represents the first reversal in four years of the decade-long deterioration in the current account balance. Of the four components that constitute the current account—trade in goods, trade in services, income, and net unilateral current transfers—three components are in deficit positions and one, trade

in services, is in a surplus position. The deterioration of the current account balance is closely related to trade in goods. Consistent with movements in the current account as a whole, the goods balance has deteriorated since mid-1997, with the deficit decreasing between 2000:4Q and 2001:1Q. The other three components have remained fairly flat since 1997.

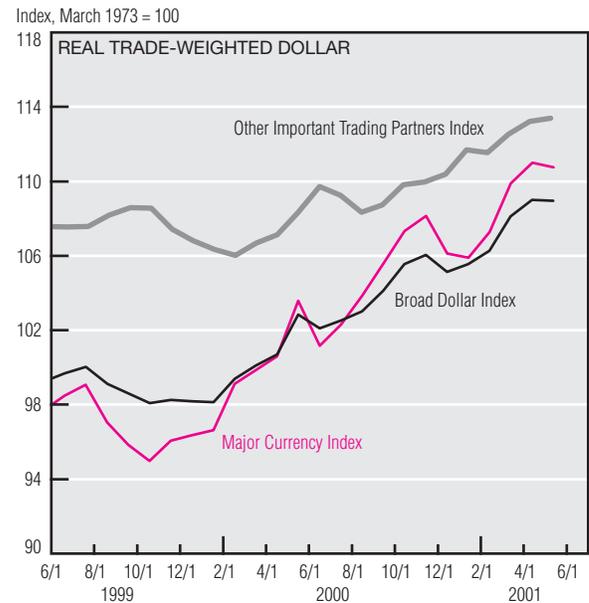
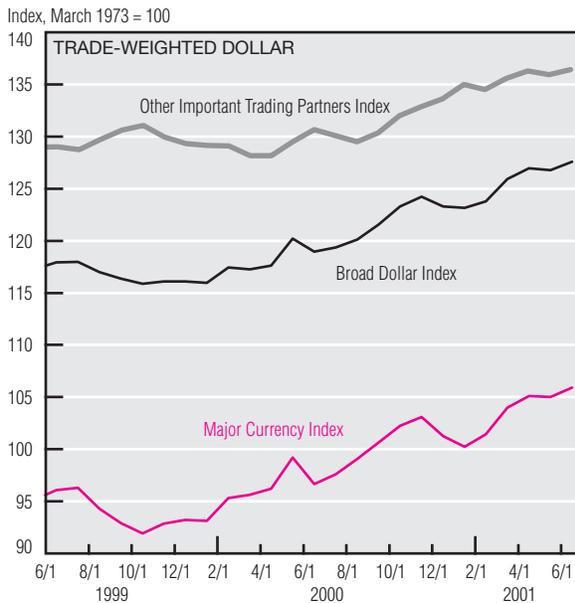
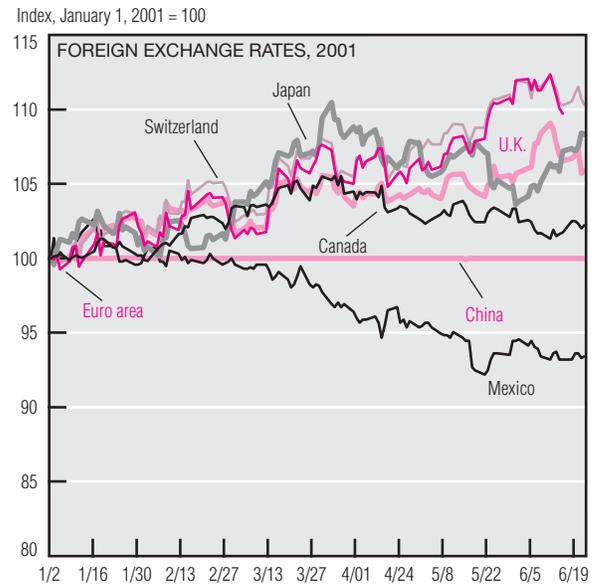
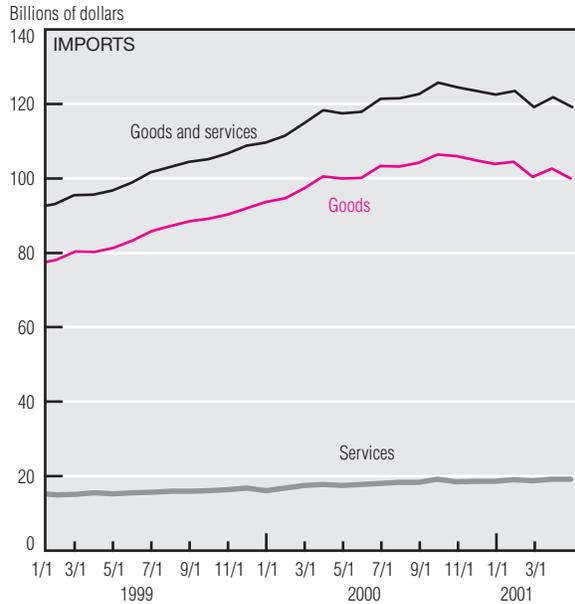
Trade balances are measured monthly. The service balance is in a surplus position. Its level has re-

mained stable since at least the beginning of 1999. The goods balance is negative. After declining throughout 1999 and in the first part of 2000, the goods balance has hovered around a deficit position of \$40 billion.

Both exports and imports of services have been stable since the beginning of 2000. Exports and imports of goods increased throughout 1999 and in the first part of 2000; since then, they have shown little

(continued on next page)

## International Developments (cont.)



SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System.

movement in either direction. What is puzzling is that although both imports and exports of goods leveled off after the middle of 2000, the current account continued to deteriorate throughout 2000.

The U.S. dollar continues to gain strength against the currencies of many other nations. Since the beginning of this year, the U.S. dollar has appreciated against the Swiss franc (10%), the euro (10%), the Japanese yen (8%), the British pound (6%), and

the Canadian dollar (2%). Against the Mexican peso, however, the value of the U.S. dollar has depreciated almost 7%.

The Major Currency Index, which is a weighted average of the exchange rates of seven industrialized nations plus the euro area, has appreciated approximately 6% since the beginning of the year. The Broad Dollar Index, which includes the currencies of the most important U.S. trading partners, has appreciated about 3.5% since the year began, and

the Other Important Trading Partners Index has appreciated about 1%. Real trade-weighted indexes take account of differences in the inflation rates between countries. Since the beginning of 2001, the real indexes have broadly mirrored the nominal indexes. With the general strengthening of the U.S. dollar since at least the beginning of the year, it is surprising to note that the current account position improved in the first quarter of the year.