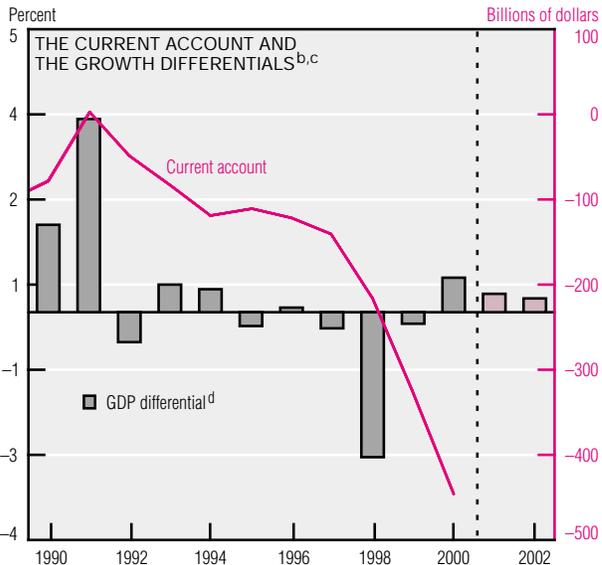
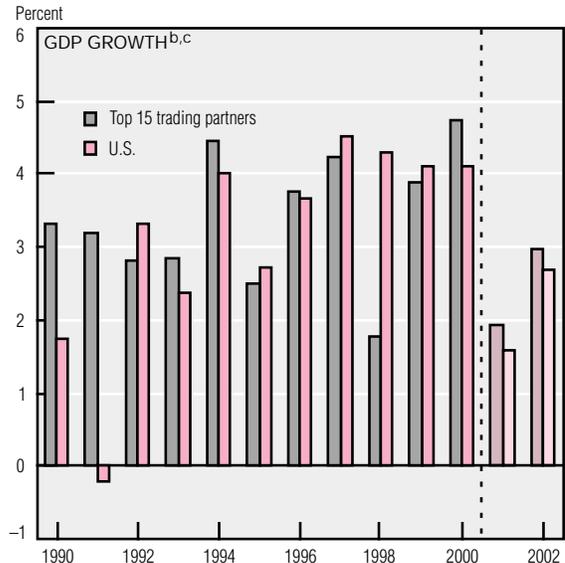
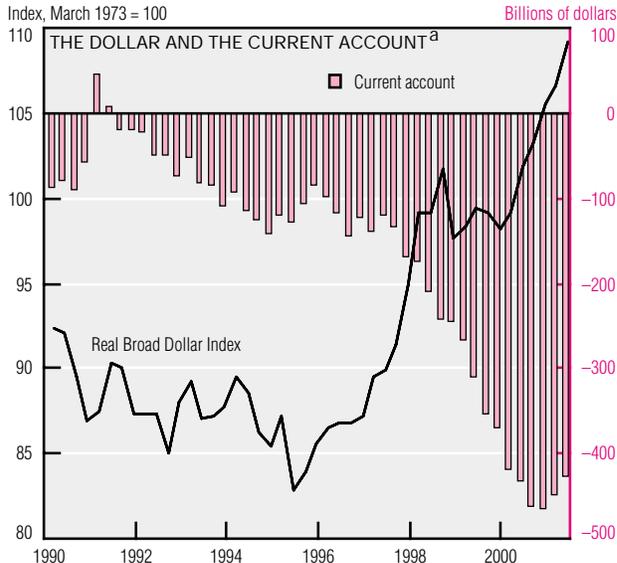


International Transactions



a. Increases (decreases) in the Real Broad Dollar Index measure average real appreciation (depreciation) of the dollar against the currencies of 31 U.S. trading partners. Real indexes profile changing competitiveness by incorporating both domestic and foreign price movements.

b. Foreign GDP growth is the trade-weighted average growth rate of 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, the Netherlands, and Brazil.

c. Columns to the right of the dashed lines represent Blue Chip forecasts.

d. The GDP differential is the difference between the trade-weighted growth rate of the top 15 trading partners and U.S. GDP growth.

SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Board of Governors of the Federal Reserve System; Organisation for Economic Co-operation and Development, *Economic Outlook*; International Monetary Fund, *International Financial Statistics*; DRI/McGraw-Hill; *Blue Chip Economic Indicators*, September 10, 2001; and the *Economist*.

During the first half of 2001, the U.S. current account deficit narrowed \$39.3 billion (annual rate) from its record \$465.3 billion in 2000:IVQ. The reduction is primarily attributable to a drop in imports of goods and services that exceeded the decline in exports of goods and services.

The dropoff in total trade results from a pronounced slowdown in economic activity here and abroad, but the narrower U.S. current account deficit reflects a faster pace of foreign activity.

Economic growth among our top 15 trading partners will surpass U.S. growth this year and next by at least 0.3 percentage point. (These estimates reflect conditions before the September 11 terrorist attacks, which may dampen U.S. GDP growth further.) Historically, the growth differential has favored our trading partners by roughly 1 percentage point before the current account deficit has narrowed substantially.

The dollar continues to appreciate,

on balance, against the currencies of our leading trading partners, despite sharp cuts in the federal funds target rate. Real dollar appreciations tend to favor larger trade deficits.

The U.S. finances its current account deficit by issuing financial claims on future U.S. output to foreigners. The cumulative total of these claims—a negative net international investment position—reached \$1.8 trillion in 2000, equivalent to approximately 19% of GDP.