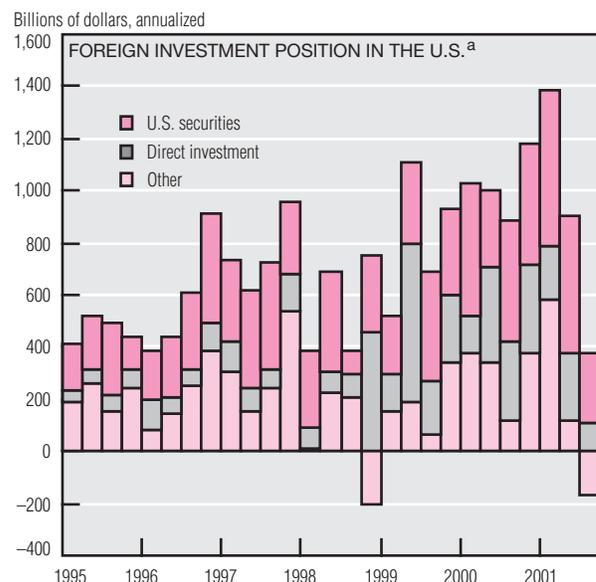
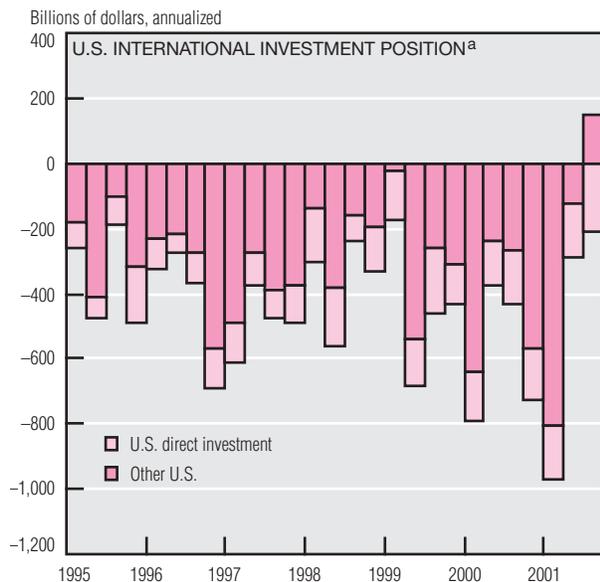
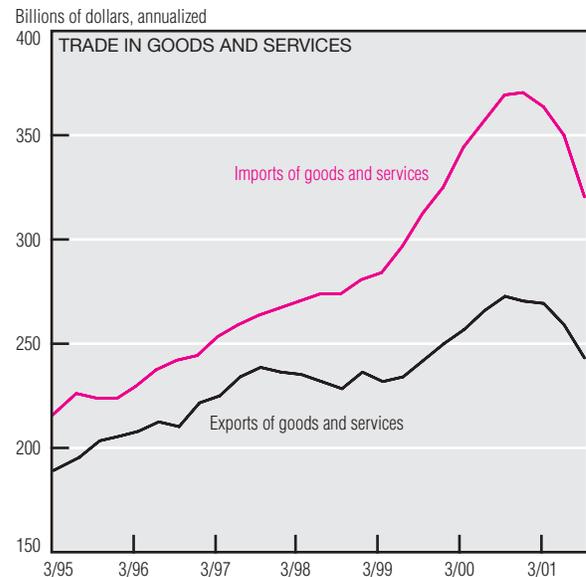
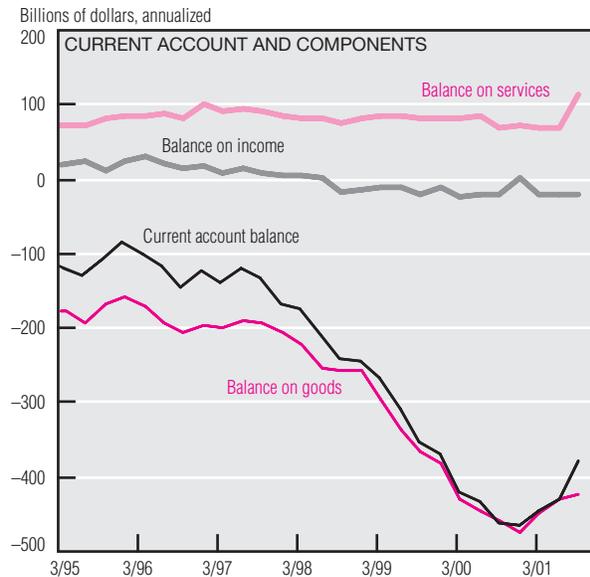


U.S. International Transactions



a. The sum of the bars is equal to the net investment position.
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

The U.S. current account deficit decreased from \$107.6 billion in 2001:IIQ to \$95 billion in 2001:IIIQ, mainly because of a decline in the deficit on goods and services. The U.S. continues to run a large deficit on goods (which decreased), along with a much smaller surplus on services (which increased). A sizeable portion of the decrease in service payments, related to the September 11 terrorist attacks, took the form of increased claims received abroad by reinsurance companies and decreased transportation payments.

The net financial outflow associated with changes in the total of U.S.-owned assets abroad fell from an annualized \$288.7 billion in 2001:IIQ to \$61.5 billion in 2001:IIIQ, largely because economic conditions abroad weakened and thus slowed demand for U.S. bank credit. U.S. purchases of foreign stock also dropped sharply.

The financial inflow associated with changes in foreign-owned assets in the U.S. also slowed in 2001:IIIQ, primarily because of a large drop in net foreign purchases of U.S. securities (excluding Treasury securities). However, net foreign sales of U.S. Treasury securities

changed little (from \$8.7 billion in 2001:IIQ to \$9.4 billion in 2001:IIIQ).

A basic national income accounting identity relates the current account to the capital account: If the U.S. is running a current account deficit, it must “borrow” to pay the “excess.” An alternate view is that the current account deficit reflects the judgment of world financial markets on the U.S. as an investment. In the current environment, though, it is possible that the change in the deficit is determined by the decline in GDP worldwide rather than a loss of confidence in the U.S. as an investment.