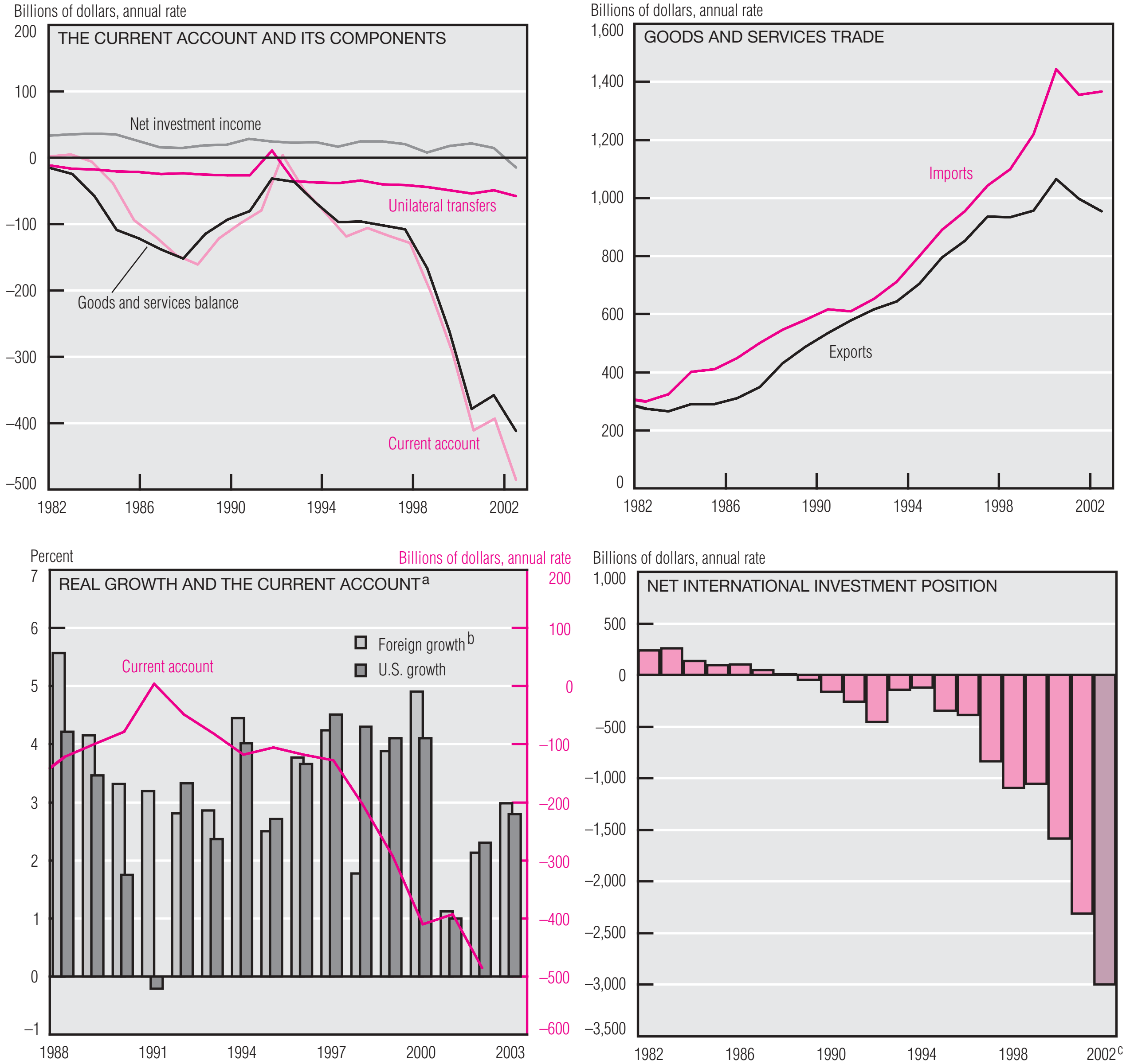
The Current Account Deficit



a. Data for 2002 and 2003 are averages of data from several sources.
b. Foreign GDP growth is the trade-weighted average growth rate for 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, Netherlands, and Brazil.
c. Author's estimate.
SOURCES: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; Organization for Economic Cooperation and Development, *Economic Outlook*; International Monetary Fund, *International Financial Statistics*; DRI/McGraw-Hill; *Blue Chip Economic Indicators*, November 10, 2002; and *The Economist*.

The U.S. seems to be emerging from the most recent economic frost a little faster than the rest of the world. As a consequence, our perennial current account deficit, which seemed dormant in 2001, is blooming again.

The nation's current account deficit in the first half of 2002 equaled $485 billion (annual rate), approximately 4.7% of GDP. Most observers recently trimmed their foreign growth estimates and expect the U.S. current account deficit will easily exceed 5% of GDP by year's end. Typically, foreign economic growth must exceed U.S. economic growth by approximately 1% before our trade pattern improves. Although trade shortfalls account for nearly all of our current account deficits, net income receipts, traditionally a surplus item for the U.S., became a deficit entry this year.

Our persistent current account deficit indicates that the U.S. has not exported enough goods and services to pay for its imports, unilateral transfers, and net income payments to foreigners. To settle the balance, the U.S. either must give foreigners financial claims against its future output or reduce its existing claims to their future output. This process creates financial inflows that, abstracting from measurement error, exactly equal the current account deficit.

These inflows consist of various financial instruments that give foreigners claims on our future output. Since the late 1980s, the resulting stock of foreign claims against this nation has exceeded the stock of U.S. claims on other countries. This year, the market value of our negative net international investment position will approach $3 trillion or 29% of GDP.