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John W. Suomela, *Director*

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Editor, *International Economic Review*
Trade Reports Division/OE, Room 323
U.S. International Trade Commission
701 E Street NW., Washington, DC 20436
Telephone (202) 523-1995

CONTENTS

INTERNATIONAL ECONOMIC COMPARISONS

Western commitment to liberal trade policies is intact but the plight of trade-battered industries (for example, textiles, electronics, motor vehicles, iron and steel in the United States) has enlarged the political base for import-curtailing legislation and increased tensions among national governments. Multilateral organizations are optimistic that a new surge in Western economic growth and the statecraft of pro-trade national leaders will diffuse the threat of unbridled protectionism. The General Agreement on Tariffs and Trade predicts an acceleration in the growth of world trade from less than 1.0 percent during 1985 to 4.0–5.0 percent during 1986. Overall short-to-midterm assessments of U.S. and Western economic prospects continue to be decidedly upbeat, although several important domestic and international economic policy issues remain unresolved.

The United States is leading the top five industrial nations in economic growth so far this year. During the first quarter of 1986, the U.S. real GNP grew by 3.7 percent. (Many analysts attribute the upward revision of the first quarter's growth from 3.2 to 3.7 percent to an unfavorable accumulation of inventories.) The first quarter growth rate was 2.0 percent in the Federal Republic of Germany; 0.9 percent in France; 0.4 percent in the United Kingdom; and there may have been a negative growth of 0.2 percent in Japan (estimate by the Swiss Bank Corporation).

With a 4.4-percent growth in its real GNP, Japan led major industrial nations in economic growth during 1985. Real GNP in the United Kingdom grew by 3.6 percent during 1985; by 2.4 percent in the Federal Republic of Germany; by 2.2 percent in the United States; and by 1.3 percent in France.

Industrial Production

Following declines of 0.8 percent in February and 0.7 percent in March, U.S. industrial production increased by 0.2 percent in April 1986. Orders for manufactured goods edged up only 0.1 percent during April. A cut in defense orders led to a 0.8-percent slip in demand for durable goods—the third consecutive monthly decline. Without the cut in defense orders, durable goods orders would have increased by 2.1 percent. April orders stood 2.5 percent below their average during January–March 1986.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, 6.1 percent; France, –0.7 percent; Italy, 6.6 percent; Japan, –0.3 percent; the United Kingdom, 1.6 percent; the United States, 0.8 percent; and West Germany, 2.8 percent. The decline in Japan's industrial output during April was the first in 38 months. Officials say that the decrease in exports is hurting the country's industries.

According to the French daily *FIGARO*, the nations of the European Community lag behind the United States and Japan in per capita production of high-technology products. The EC countries, with 44 percent of the combined population of the three trading partners produced 33 percent of the high-tech products during 1985; the United States, with 37 percent of the population, produced 42 percent; and Japan, with 19 percent of the population produced 25 percent.

Investment

Japan's investment in U.S. stocks and bonds jumped from $87.6 billion during 1984 to $145.8 billion during 1985. Japan's direct investments rose from $37.9 billion to $44.0 billion over the period. At $129.8 billion, Japan's net foreign asset position was the largest in the world during 1985. Japan built up its foreign assets by investing a large portion of its current account surplus.

Employment

The rate of unemployment in the United States (on a total labor force basis including military personnel) increased from 7.0 percent in April to 7.2 percent in May. The increase is attributed primarily to sluggishness in manufacturing. The average rate was also 7.0 percent during January–March 1986. The national statistical offices of other countries reported the following unemployment rates: the April rate was 9.6 percent in Canada, 10.2 percent in France, 14.0 percent in Italy, 2.9 percent in Japan, 13.2 percent in the United Kingdom, and 9.0 percent in West Germany. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

External Balances

The deficit in U.S. merchandise trade decreased from $14.5 billion in March to $12.1 billion in April 1986. The U.S. deficit in merchandise trade with Japan declined from an alltime monthly high of $5.5 billion in March to $4.7 billion in April. The deficit also declined in trade with the European Community (EC), Canada, and Mexico over the period. Administration officials do not regard this latest monthly drop as a turning point in the process of eliminating the deficit. They expect lasting improvement to show only later this year and project the annual deficit

for all of 1986 to remain in last year's $145 billion range.

Japan registered a historic-high monthly trade surplus of $7.7 billion during April. At $7.9 billion, the country's current account surplus also set a monthly record. The April record surplus in trade is explained by a significant appreciation of the yen and a decline in the value of oil caused by lower oil prices. The volume of total Japanese exports actually declined during April.

Despite an unchanged surplus in oil trade, the overall trade deficit of the United Kingdom increased from $1.88 billion during January–March 1985 to $2.08 billion during January–March 1986. This, however, was virtually offset by a surplus on invisible trade during the first quarter of 1986. The French current account surplus declined from $1.12 billion during the fourth quarter of 1985 to $964 million during the first quarter of 1986.

Japan was the only country among the five leading industrial nations that registered an increase in its exports in current dollars from 1980 to 1984 when the value of the dollar roughly doubled. Japanese exports in current dollars increased by 30.0 percent from 1980 to 1984. Over the same period, current dollar exports declined by 15.9 percent in France, 14.8 percent in the United Kingdom, 11.0 percent in West Germany; and by 1.3 percent in the United States.

Prices

The U.S. consumer price index dropped 0.3 percent in April following declines of 0.4 percent in both February and March. Prices in West Germany were 0.3 percent lower in May 1986 than during the corresponding month of 1985. The inflation rate over the 1-year period ending in April was 3.9 percent in Canada; 2.6 percent in France; 6.6 percent in Italy; 0.8 percent in Japan; 3.0 percent in the United Kingdom; and 1.6 percent in the United States.

Forecasts

Economic growth

The International Monetary Fund (IMF) predicts a 3.0-percent average growth for the industrial countries during 1986. This figure is the same as the recently issued forecast of the Organization for Economic Cooperation and Development (see IER May issue). The IMF expects tight fiscal policy in the United States and Japan, somewhat less strict fiscal policies in Western Europe and a general easing of monetary conditions throughout the industrial nations during 1986 and 1987. IMF's cautiously worded forecast for the average economic growth of the industrial countries during 1988–1991 is also 3.0 percent.

The European Commission (EC) forecasts 2.7-percent growth in the combined GNP of the 12 EC countries during 1986. The rate of growth was 2.2 percent during 1985. The EC revised downward its projection for U.S. economic growth from 3.2 percent to 2.5 percent and for Japan from 3.4 to 3.2 percent.

Many private economists in West Germany have begun to question the plausibility of official projections for the 1986 real GNP growth, which fall in the 3.5–4.0 percent range. Sluggish consumer demand and flat exports reduced the economy's inflation-adjusted growth rate to 2.0 percent during the first quarter of 1986. Analysts leaning toward pessimism predict not only lower than officially projected growth in the West German economy during 1985 but see this deceleration spreading to the rest of Western Europe. But on average, predictions for West German economic growth during the rest of the decade display confidence. Expenditures on plant and equipment expansion, automation, and modernization are projected to grow at an average real rate of 5.4 percent during the coming years. Some analysts go as far as predicting that West Germany will take the lead in economic performance among the industrial nations this year.

World debt

New commercial bank lending to developing nations expanded by 7.0 percent during 1983 and 3.0 during 1984, but remained level during 1985. Experts say that unless private lending to the developing world resumes, the current impasse in dealing with world debt will deepen. Spokesmen for multilateral lending organizations are confident that the abundance of loanable funds and official suasion will prompt Western commercial banks to gradually increase their lending to developing nations.

Trade deficit

Many analysts say that the dollar must further depreciate before a turnabout in the U.S. trade imbalance is achieved. The Institute for International Economics in Washington calculates that the dollar should depreciate by another 10.0–15.0 percent before the deficit becomes manageable. □

INTERNATIONAL TRADE DEVELOPMENTS

Japanese Airport Project Tests U.S. Patience

Japan's unwillingness to allow foreign participation in a $6 billion public works project promises to become another major irritant in bilateral relations. The planning and construction of the new Kansai International Airport in Osaka has not been open to competitive international bidding and there is little indication that it will be. The airport construction, scheduled to begin this fall and be completed by the summer of 1992, would provide numerous opportunities for U.S. firms in both the construction and telecommunications-related industries were it open to bidding. The initial project designs were developed by the Japanese Government in consultation with Japanese construction firms almost 10 years ago. U.S. firms only recently focused upon the project and brought it to the attention of the U.S. Government.

The timing of the issue is paramount considering the state of Japan's trade relations and the promise of trade opportunities for other upcoming projects. The airport represents a symbol of internationalization for the Government of Japan. The opening of the bids would be seen as a major step toward a Japanese commitment to internationalizing its closed economic structure. Of more concrete importance to the U.S. and other concerned countries, is to avoid allowing a precedent for closed bidding to be set for upcoming Japanese public works projects. H. P. Goldfield, Assistant Secretary of Commerce, cited in Senate testimony the U.S. desire to participate in the expansion of four other Japanese airports, a $7 billion bridge across the Tokyo Bay, and an $11 billion expansion of the port of Yokohoma.

Several aspects of the airport project are particularly troublesome. The project is to be built by the Kansai International Airport Company (KAIC), 75 percent of whose capital is provided by the Government of Japan. Yet, the government insists that the KIAC is a private corporation and all decisions are to be made by it as a private corporation. It is well known, however, that the Government of Japan has provided most of the staff, planning, and funding for the project. U.S. questions about participation directed at the KIAC have been referred to the Ministry of Transportation in Tokyo because of their political nature. The Osaka local government has responded in a similar fashion stating that it is a "national project."

The construction is to be completed in several phases. The first phase is the building of the infrastructure, including the landfill to create the artificial island, and the construction of the access bridges and highways. Subsequent phases include the construction of the actual buildings and terminal and the establishment of the systems supply and services. Specific U.S. firms that registered with the Japanese Government as being interested in the project include AT&T International, Westinghouse Electric, General Electric, Bechtel Overseas, and Lockheed Air Terminal. Registration is a prerequisite for being asked to bid on subcontracts for the project, but it does not guarantee bidding consideration. The bidding which does take place is to be carried out behind closed doors. U.S. industry officials are concerned that this will result in only a handful of token bids being awarded to foreign firms. Six Japanese firms (all shareholders of KIAC) have been awarded contracts as consultants to plan the layout of the airport facilities, but as yet no other bids have been officially awarded. Because of the quickly approaching start-up date, pressure by the U.S. Government is intensifying. U.S. Government and industry officials are insisting on the principle that the entire project be open to internationally competitive bidding.

KIAC states that the initial landfill phase will not be open to foreign firms. KIAC officials claim that this decision is based upon the belief that Japanese firms have a better understanding of the unique soil structure and weather conditions, and would be able to conduct construction more quickly and efficiently. In June 5 testimony before the Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs, representatives of both the U.S. Commerce Department and of U.S. industry claimed that U.S. firms are more experienced and that their technology in airport construction is more advanced than Japanese technology. They claim that this competitiveness should be considered in the awarding of bids.

Of additional concern to the United States is the increasing importance of the U.S. market for the Japanese construction industry. According to Department of Commerce Assistant Secretary Goldfield, 12.5 percent (or $1.7 billion) of all Japanese overseas contracts in 1985 were in the United States.

U.S. officials have begun taking up the issue with higher Japanese officials. Negotiations started with the senior officials of KIAC, through the Osaka local government, and moved up into the concerned Ministries of the Japanese national government. Most recently, Ambassador Yeutter wrote to the Japanese Minister of Transport calling on Japan to rethink its closed bidding system for the Kansai project and to allow foreign firms to participate. Little was gained from these representations except a statement that foreign firms would be considered for the final phases of the building, but in a closed bid process. □

Taiwan Sits on a Fortune in Foreign Reserves

Taiwan is sitting on a fortune in burgeoning foreign reserves—about $27 billion—while currency shifts are eroding its worth and jeopardizing future earning power. Taiwan's massive reserves, which could reach $35 billion by yearend, are among the largest in the world. Although a large amount of foreign reserves normally indicates a strong economy if kept at appropriate levels, excess reserves can also create strong inflationary pressures—a likely occurrence should Taiwan's central bank relax its tight control on the foreign exchange market. A method of determining an appropriate level of foreign reserves is by calculating how many months worth of imports it will buy. An import cover of 2–3 months is considered sufficient, while more than 6 months is often exorbitant. Taiwan's holdings now provide an import cover of about 16 months.

The Central Bank of Taiwan does not release precise information about the disposition of its foreign-exchange holdings, however, banking sources say it follows the most conservative investment policies possible. About 90 percent is reportedly in U.S. dollar securities. This means that as Taiwan sits on its fortune, its reserves have lost considerable value this year relative to currencies such as the yen and the Deutschemark.

Interest earnings on the reserves are substantial—building at the rate of several hundred million dollars a month—and as the reserves grow, Taiwan's financial and economic planners, increasingly uncomfortable with their riches, are struggling for strategies to utilize the funds. Yet, in light of Taiwan's declining or stagnant levels of domestic investment, the presence of such massive reserves reflects lost opportunities for long-term industrial investment. Since Taiwan lacks a well-developed capital market to convert savings into investment, its high liquidity is also coupled with low investment. Thus, Taiwan's huge export earnings flow into short-term foreign securities rather than into long-term domestic investments or new ventures. The low levels of investment on Taiwan also reflect widespread uncertainty among the island's businessmen about the future and where to invest. The traditional industries are unlikely to be viable much longer and alternative ventures appear risky. The economic and political emergence of China has also contributed to the uncertainty. The result is that long-term investment on Taiwan is lagging as manufacturers appear unwilling to invest in modernizing the island's partly outdated industrial base.

Gross fixed-capital formation has declined since 1980, in both absolute terms and as a portion of GNP. Even 2 years ago, when Taiwan realized a whopping 10.9 percent real economic growth, there was no real improvement in the investment picture. Now, businessmen and politicians are calling on the monetary authorities to use even a portion of the reserves on infrastructure development, upgrading the island's industrial technology, and providing incentives for investment. Since Taiwan's official strategy for the past few years has been to encourage a move away from the cheap, labor-dependent industries that brought about the rapid economic development of the past two decades, this option seems a viable one, but the monetary authorites appear unconvinced.

After the general economic malaise of 1985, in which most of Taiwan's sectors experienced declining sales, Taiwan's leading export industries (textiles, apparel, footwear, and other low-cost goods) are now experiencing surging export sales. Some economic planners fear that this upward trend may continue to stifle the desired transition to new industries or to raising value-added within the traditional industries. Indeed, data show that despite several new measures, investment in the traditional industries is not increasing. Rather than reinvesting a major portion of the profits—textile sales increased 21 percent in the first quarter to $1.5 billion while footwear increased 30 percent to $707 million—most of it is likely to flow into swelling bank coffers rather than into new ventures or funding for long-term domestic investment. □

EC Reminds GATT Council of Its Concerns on the U.S. Manufacturing Clause

In the May meeting of the GATT Council of Representatives, the European Community urged the United States to comply with the panel ruling approved in 1984 that called for the elimination of the manufacturing clause of the U.S. Copyright Act. Although the manufacturing clause is scheduled to lapse at the end of June, the EC fears that legislation proposing to further extend the provision may be passed by Congress.

In 1982, when Congress extended the manufacturing clause (section 601 of the U.S. Copyright Act) and overrode a Presidential veto of the measure, the EC requested a GATT panel examination. The measure prohibits imports into the United States of certain English language publications by American authors, that contain U.S. copyrighted material. Imports from Canada are exempted from the provision. According to the EC, the manufacturing clause prohibitions violate GATT rules on the elimination of quotas and nondiscrimination because it is not applied to all countries. The report of the panel, adopted by the Council in May 1984, concluded that the U.S. manufacturing clause was inconsistent with GATT provisions and should be eliminated.

During 1985, no action was taken by the United States to implement the panel findings. The U.S. Copyright Act has contained some version of this clause since its enactment in 1891 to protect the nascent domestic printing industry. With the manufacturing clause due to expire by July 1986, legislation is currently pending in Congress to extend its operation. Having vetoed the 1982 extension, the administration remains committed to the expiration of the provision and has informed the GATT Council of this position. If the measure is extended, the EC has indicated that it may retaliate against U.S. imports. The extent and form of retaliation the EC might take is not clear at this time.

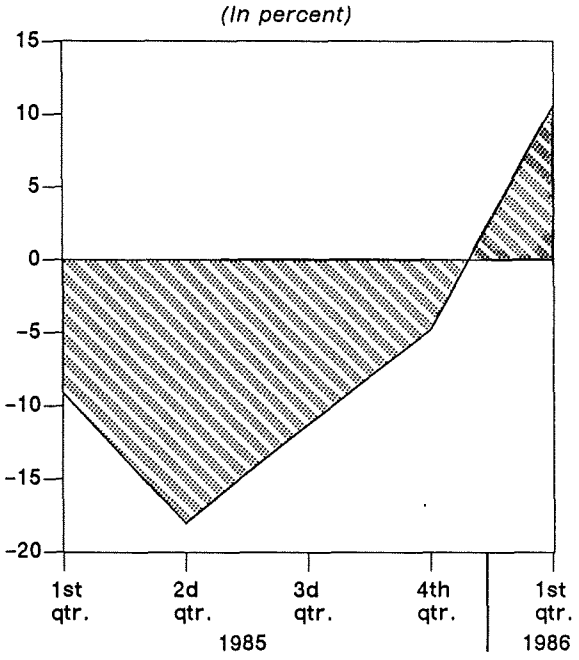
Reports by U.S. Government agencies differ widely on the import effects of lifting the manufacturing clause. Depending on the methodology used, estimates of the proportion of domestic book production that would be displaced by imports range from 2 to 45 percent. A U.S. International Trade Commission study put the estimated import displacement at between 2 and 10 percent. A Congressional Research Service study estimated this figure at between 9 and 18 percent and a Department of Labor study projected a 30 to 45 percent displacement. A recent (February 1986) Department of Labor study on employment effects estimated job opportunity losses in the publishing industry as a whole at less than 1 to 2 percent, with some subsectors of the industry affected more adversely than others.

The significance of these figures is twofold. On the one hand, the figures on import displacement and job loss indicate that the U.S. publishing industry will face some degree of adjustment once the longstanding protection provided by the manufacturing clause is removed. On the other hand, if the clause is extended and the EC moves toward retaliation, the import displacement figures serve as a measure of the trade opportunities lost by EC exporters due to the U.S. protection. □

An Illustration of the J-Curve Hypothesis Using Recent Data From the United States

Americans are hoping that the burgeoning U.S. trade deficit will be curbed somewhat as the value of the dollar against other foreign currencies continues to fall. Since the dollar's record high in March 1985, the exchange rate of the dollar has depreciated by about 30 percent. In recent months, the so-called group of five coordinated their macroeconomic policies to help deflate the value of the dollar. In September 1985, the five countries, the United States, Great Britain, Japan, West Germany, and France, agreed to intervene through the informal coordination of exchange rate and monetary policies. The success of the depreciation in adjusting prices is apparent, as can be seen in trade price indices, as import prices have steadily increased and export prices have generally fallen. However, it is equally apparent that the deficit did not, in fact, decrease in the short run (see graph 1). A possible explanation for this anomaly may lie in the J-curve hypothesis.

Graph 1
Rate of change in trade balance, 1985, by quarters, and first quarter 1986



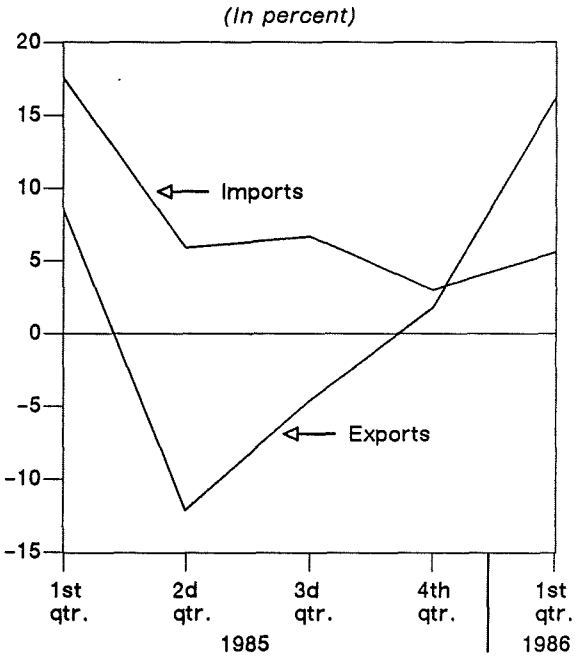
The J-curve hypothesis (Magee, 1973, and Razin, 1981) is based on the idea that the immediate effect of a devaluation may not be the expected one; the devaluation may, in the short run, cause a devaluing country's trade balance to worsen. A currency devaluation is usually expected to improve the devaluing country's trade balance. The change in domestic currency value makes the home country's exports less expensive in overseas markets, thereby increasing the demand for its export products and the quantity of goods actually exported. At the same time, the currency depreciation will make imports into the domestic market more expensive in terms of the domestic currency, decreasing the demand for imports and the quantity of goods imported. The net effect of these changes will be to increase the revenue from trade in exports, and to decrease the expenditures from trade in imports.

A short-term worsening of the trade balance, however, is the result of the use of contracts as the primary instrument of trade. If contracts are relatively long-term (i.e., for a period of 6 months or more), then the trade that takes place immediately after the devaluation will still be based on the pre-devaluation contract prices. Im-

ports will have to be paid for in the now more expensive foreign currency, increasing expenditures on imports (even though the quantity of goods imported may remain approximately the same). Meanwhile, export revenue will be denominated in the now less valuable domestic currency, the net effect of which will be to cause the trade balance to worsen as trade revenues fall in real terms, and trade expenditures increase.

Trade data relating the change in the value of exports and imports should show discernible trends if the J-curve hypothesis is to be substantiated in this particular case. These trends are, in fact, evident. The rate of decrease in exports slows through the fourth quarter of 1985 as is shown in graph 2. At the same time, the rate of change in imports over the same period was positive and falling, since imports were increasing at a slower rate (see graph 2). The result of these trends was that the trade balance began to improve by the first quarter of 1986 (see graph 1). This evidence seems to indicate that, in this case, the J-curve effect may have lasted for a period of 6 to 9 months, the length of time needed for the predevaluation contracts to expire. □

Graph 2
Rates of change in imports and exports, 1985, by quarters, and first quarter 1986



STATISTICAL TABLES

Industrial production

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1983	1984	1985	1984 IV	1985 I	1985 II	1985 III	1985 IV	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.
United States	5.9	11.6	2.3	-2.3	2.1	1.3	2.1	1.9	7.0	9.0	2.9	-9.1	-7.4	1.9
Canada	5.3	8.8	4.4	0.7	0.7	4.5	9.4	6.1	10.1		-0.8	8.2		
Japan	3.5	11.1	4.7	11.6	-2.6	11.2	-0.4	-2.9	-11.1	7.1	-6.7	1.0	-6.7	10.4
West Germany.....	0.3	2.4	5.0	5.5	-2.4	12.2	0.1	0.8	-11.9		23.4	-3.4		
United Kingdom....	3.9	1.3	4.6	3.4	11.5	7.6	0.4	0.7	15.2	-24.0	8.1	15.4	-1.1	
France	1.1	2.5	0.5	-9.5	-3.0	4.1	7.3	0.0	30.4	-36.0	0.0	9.5	0.0	
Italy	-3.2	3.3	1.2	-6.9	7.4	1.1	-2.5	-1.8	31.8	-39.3	20.7	39.3	11.5	

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 6, 1986.

Consumer prices

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.
United States	3.2	4.3	3.5	3.3	4.2	2.6	4.3	1.4	6.9	5.3	4.1	-4.6	-5.0	-3.3
Canada	5.8	4.3	4.0	5.4	3.8	3.4	4.4	4.8	3.9	9.6	5.4	2.6	3.0	2.4
Japan	1.8	2.3	2.0	2.4	1.3	2.1	2.1	0.0	-0.7	7.6	0.2	0	-6.3	0.3
West Germany.....	3.3	2.4	2.2	3.5	2.5	0.2	1.0	-0.9	2.2	1.4	-1.1	-3.2	-2.0	-1.5
United Kingdom....	4.6	5.0	6.1	7.1	9.1	3.0	3.2	4.6	4.5	5.9	5.9	3.4	1.0	-1.0
France	9.5	7.7	5.8	5.8	6.0	4.3	3.2	0.7	4.2	4.5	-0.6	-3.1	0.6	1.4
Italy	14.9	10.6	8.6	10.1	10.2	7.2	6.9	6.2	6.6	13.7	3.6	5.3	5.2	3.5

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 6, 1986.

Unemployment rates

(Percent; seasonally adjusted; rates of foreign countries adjusted to be roughly comparable to U.S. rate)

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May
United States	9.6	7.5	7.2	7.3	7.3	7.2	7.0	7.1	6.9	6.7	7.3	7.2	7.1	7.3
Canada	11.9	11.3	10.5	11.1	10.6	10.2	10.1	9.7	10.0	9.8	9.8	9.6	9.6	
Japan	2.7	2.8	2.6	2.6	2.6	2.7	2.9	2.7	2.9	2.7	2.6	2.8		
West Germany.....	7.5	7.8	7.9	7.9	8.0	7.9	7.8	7.8	7.8	7.8	7.8	7.8	7.7	
United Kingdom....	12.8	12.9	13.2	13.1	13.2	13.4	13.0	13.1	13.2	13.2	13.2	13.1	13.3	
France	8.6	9.9	10.3	10.5	10.4	10.4	10.1	10.2	10.0	10.2	10.2	10.3	10.5	
Italy	5.3	5.9	6.0	5.9	5.8	6.0	6.3	6.3		6.3				

Note.—Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S. Department of Labor, June 1986.

Trade balances

(Billions of U.S. dollars, f.o.b. basis, seasonally adjusted at annual rate)

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.
United States[1]	-57.5	-108.1	-132.0	-114.8	-135.2	-128.0	-147.2	-157.2	-147.6	-164.4	-180.0	-134.4	-157.2	-129.6
Canada	14.4	15.9	12.3	16.0	12.8	8.8	11.6		4.8	10.8	8.4	1.2	10.8	
Japan	31.5	44.0	55.9	46.4	52.4	57.2	67.6	70.8	73.2	70.8	70.8	66.0	76.8	
West Germany	16.6	18.8	25.3	18.4	25.6	27.6	29.6	40.4	27.6	33.6	43.2	39.6	38.4	
United Kingdom	-1.6	-5.3	-2.5	-5.6	-1.2	-2.4	-1.2	-8.0	-2.4	2.4	2.4	-6.0	-21.6	
France	-5.9	-2.8	-2.6	-4.4	-1.6	-3.2	-1.6	0.4	1.2	-4.8	6.0	0	-4.8	
Italy	-7.9	-10.9	-11.9	-15.2	-14.8	-4.4	-14.0	-14.4	-19.2	-13.2	-19.2	-8.4	-9.6	

[1] Exports, f.a.s. value, unadjusted; imports, customs value, unadjusted.

Note.—The U.S. Department of Commerce reports monthly exports and imports without seasonal adjustment beginning with January 1986. U.S. data for prior periods have been accordingly changed. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, June 6, 1986.

U.S. trade balance, by major commodity categories and by selected countries

(Billions of U.S. dollars, customs value basis for imports, seasonally adjusted unless otherwise indicated)

Item	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.
Commodity categories:														
Agriculture	20.0	18.4	9.6	3.3	2.1	1.7	2.5	1.7	1.2	0.8	0.5	0.7	.5	.3
Petroleum and selected products, unadj	-49.1	-52.5	-45.9	-9.5	-12.8	-11.0	-12.6	-10.6	-4.1	-4.5	-4.6	-3.2	-2.8	-1.6
Manufactured goods	-31.3	-78.9	-102.0	-23.2	-24.2	-24.9	-29.7	-31.1	-9.9	-10.4	-11.1	-9.1	-10.9	-9.6
Selected countries:														
Western Europe	1.2	-14.1	-23.3	-4.5	-6.0	-5.7	-7.1	-6.6	-2.3	-2.9	-2.7	-1.6	-2.3	-2.4
Canada	-12.1	-20.1	-21.7	-4.9	-5.3	-4.7	-6.8	-5.9	-2.0	-2.7	-1.7	-1.9	-2.3	-1.8
Japan	-19.6	-33.8	-46.5	-10.2	-11.8	-12.0	-12.5	-14.3	-4.0	-4.5	-5.1	-4.0	-5.2	-4.4
OPEC, unadj	-8.2	-12.3	-10.2	-1.3	-2.8	-2.4	-3.7	-3.5	-1.4	-1.2	-1.8	-1.0	-.7	-.1
Unit Value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.60	$28.11	$26.59	$26.96	$27.09	$25.98	$26.35	$22.70	$26.25	$26.53	$26.02	$23.70	$18.39	$13.94

Note.—The U.S. Department of Commerce reports monthly exports and imports without seasonal adjustment beginning with January 1986. U.S. data for prior periods have been accordingly changed. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Summary of U.S. Export and Import Merchandise Trade*, U.S. Department of Commerce, April 1986.

Money-market interest rates

(Percent, annual rate)

Country	1983	1984	1985	1984 I	1985 II	1985 III	1985 IV	1986 I	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May
United States	9.2	10.7	8.3	8.8	8.6	7.9	7.8	7.6	7.9	7.8	7.7	7.2	6.0	6.7
Canada	9.5	11.3	9.7	10.6	9.9	9.1	9.0	11.1	9.4	10.5	11.8	10.9	9.6	8.6
Japan	6.8	6.7	6.5	6.5	6.3	6.3	7.0	6.0	7.1	6.5	6.0	5.5	4.9	4.6
West Germany	5.7	6.0	5.5	6.1	6.0	4.9	4.8	4.5	4.8	4.6	4.5	4.5	4.5	4.6
United Kingdom	10.1	9.9	12.1	12.8	12.6	11.5	11.6	11.9	11.7	11.6	12.6	11.7	10.4	10.2
France	12.4	11.7	10.0	10.6	10.5	9.7	9.1	8.7	9.0	8.9	8.8	8.3	7.7	7.2
Italy	18.2	15.9	15.0	15.8	15.4	14.4	14.3	15.5	14.3	14.4	15.9	16.1	13.6	13.4

Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: Statistics provided by Federal Reserve Board.

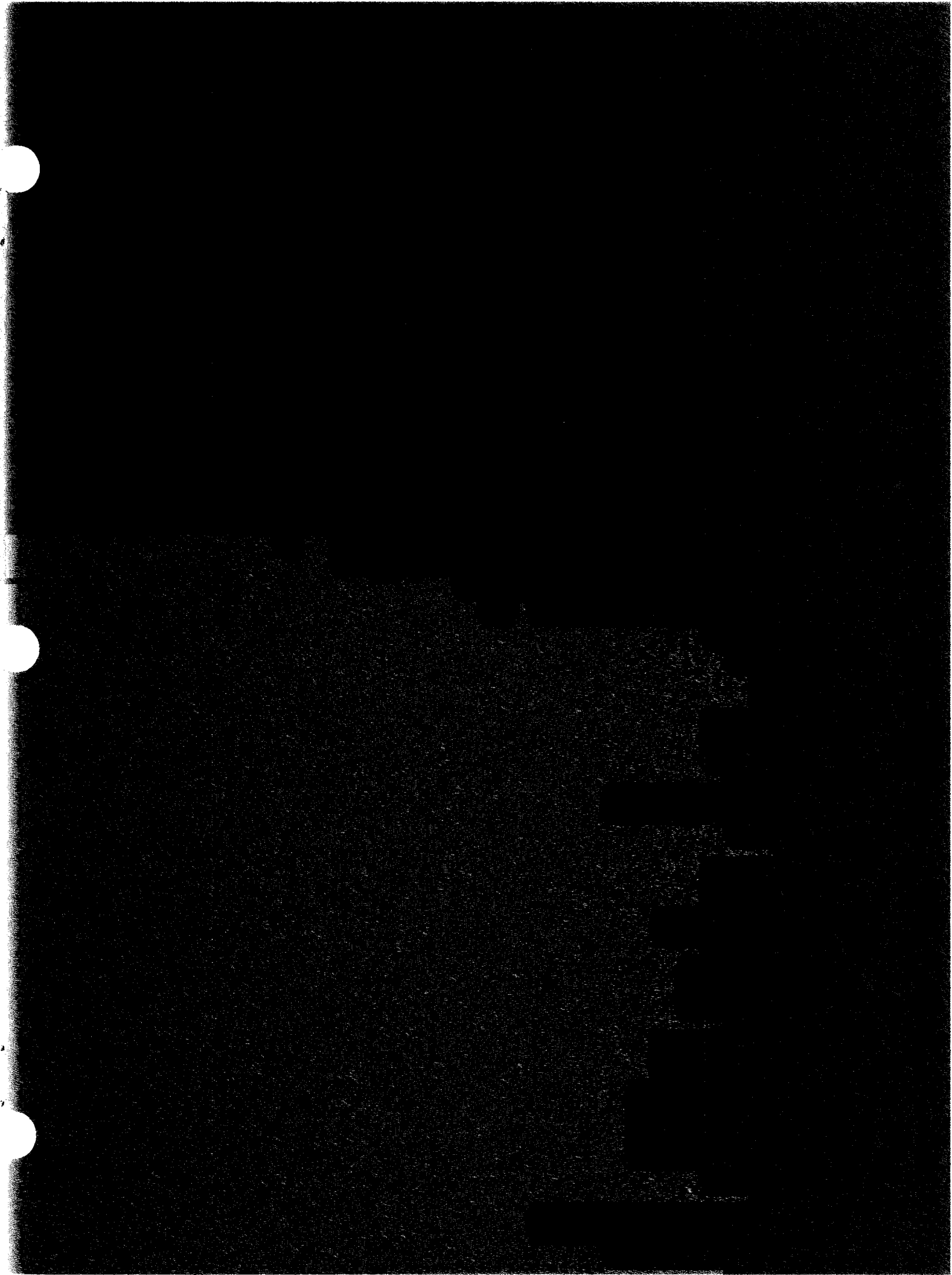
Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential

(Index numbers, 1980-82 average=100; and percentage change from previous period)

Item	1983	1984	1985	1984 I	1985 II	1985 III	1985 IV	1986 I	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May
Unadjusted:														
Index number	114.2	122.4	127.1	135.1	131.3	125.0	117.3	117.8	116.1	115.0	111.2	109.0	108.0	105.7
Percentage change	4.0	7.2	3.8	5.4	-2.8	-4.8	-6.2	0.4	-0.7	-0.9	-3.3	-2.0	-0.9	-2.1
Adjusted:														
Index number	112.7	118.2	121.3	128.8	124.3	119.4	112.0	106.3	111.9	110.3	105.2	103.3	100.2	97.5
Percentage change	2.5	4.9	2.6	4.7	-3.5	-3.9	-6.2	-5.1	-0.7	-0.5	-5.5	-1.8	-3.0	-2.7

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in these other nations; thus a decline in this measure suggests an increase in U.S. price competitiveness.

Source: *World Financial Markets*, Morgan Guaranty Trust Company of New York.



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