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INTERNATIONAL ECONOMIC COMPARISONS

Most current projections predict a lower rate of economic growth and a higher rate of inflation in 1989 than occurred in 1988 (see the section on forecasts). Nevertheless, recent business surveys conducted by the National Association of Purchasing Management (NAPM) and the U.S. Department of Commerce point to a brisk economic growth and a slowdown in inflation throughout the year. These surveys suggest that increased production and new orders, a slowdown in inflation, and buoyancy in capital spending will be the distinguishing features of 1989. The NAPM survey concluded that all indicators point to a moderate rate of inflation and a brisk economic expansion fueled by increased production and new orders in 1989. The Commerce Department's survey estimates that U.S. businesses plan to boost real capital spending (spending adjusted for price changes) in 1989 by 6.0 percent over that in 1988 (see the section on investment). The planned spending increase, if realized, should set in motion a momentum to expand output and boost productivity, thus strengthening U.S. producers' competitiveness. A capital spending boom and export growth provided the momentum for the 1988 economic growth and are expected to provide the momentum for the 1989 expansion as well.

Most economists, however, expect little or no action on cutting the budget deficit; therefore, they predict a rise in short-term interest rates as a result of the Federal Reserve tightening of monetary policy. According to the major forecasts (see the section on forecasts), higher short-term interest rates are expected to slow consumer borrowing and spending. However, higher rates might foster the current economic expansion by adding more to savers' incomes and thus boosting their consumption spending, and by discouraging business from piling up their inventories thereby increasing new orders. Higher short-term interest rates are not expected to stifle fixed investment demand since spending on plants and equipment depends largely on long-term interest rates. Moreover, financial observers expect the dollar to appreciate as foreign demand for dollar-denominated assets rises because of relatively higher U.S. interest rates, a lower trade deficit, and a robustly expanding economy.

Economic Growth

The annualized rate of real economic growth during the third quarter of 1988 was 3.7 percent in the United States, 3.4 percent in the United Kingdom, 4.0 percent in Canada, 3.4 percent in West Germany, and 5.6 percent in Japan. The latest available data indicate that the rate of real economic growth (annualized) during the second quarter of 1988 was 3.5 percent in France, and 3.1 percent in Italy.

Industrial Production

U.S. industrial production rose 0.3 percent in December 1988 after rising 0.4 percent in November. The December gain reflected further increases in the output of motor vehicles, business equipment, and construction supplies. Output of consumer goods increased 2.0 percent in December, manufacturing output increased 0.3 percent, mining output was unchanged and the output of utilities increased 0.8 percent. U.S. industrial production in December 1988 was 4.7 percent higher than it was in November 1987.

Capacity utilization in U.S. factories, mines, and utilities in December was 84.2 percent, the highest level in 9 years. In manufacturing, capacity utilization in December was 84.4 percent.

Other major industrial countries reported the following annual growth rates of industrial production: during the year ending August 1988, Italy reported an increase of 5.1 percent; during the year ending September, Canada reported an increase of 5.0 percent, and France reported an increase of 5.3 percent; during the year ending October, the United Kingdom reported an increase of 2.2 percent, and West Germany reported an increase of 3.2 percent; and finally during the year ending November, Japan reported an increase of 6.8 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index increased 0.3 percent from November to December 1988. Consumer prices increased 1.1 percent in Japan during the 1-year period ending in October 1988. During the 1-year period ending in November 1988, consumer prices increased 5.3 percent in Italy, 4.1 percent in Canada, 6.4 percent in the United Kingdom, 3.0 percent in France, and 4.2 percent in the United States.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor force basis, including military personnel) remained unchanged at 5.3 percent in December, matching the unemployment rate of November 1988. Japan reported an unemployment rate of 2.4 percent in October. The national statistical offices of other countries reported the following unemployment rates in November: West Germany, 8.5 percent; Canada, 7.8 percent; Italy, 16.5 percent; and the United Kingdom, 7.5 percent. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Investment

The Department of Commerce estimates that real capital spending on new plant and equipment in the United States will amount to $456.0 billion in 1989, compared with $430.2 billion in 1988 and $389.7 billion in 1987. It is estimated that real capital spending will increase by 6.0 percent in 1989 compared with an increase of 10.8 percent in 1988. In the manufacturing sector, it is estimated that capital spending will increase by 4.3 percent in 1989 compared with an increase of 12.1 percent in 1988. Within the manufacturing sector, it is estimated that spending by durable goods industries will increase by 2.0 percent in 1989 compared with an increase of 9.9 percent in 1988. For durables, it is estimated that the largest increases in capital spending will occur in nonferrous metals, blast furnaces-steel works, electrical machinery, and motor vehicles. Decreases are planned in stone, clay and glass, aircraft, and machinery other than electrical.

Table 1 shows that the annual percentage increase in U.S. business investment matched the average increase in the Group of Seven (G-7) in 1988 but is expected to be slightly lower than the average in 1989.

Indicators of U.S. Economic Competitiveness

Table 2 shows indexes of unit labor costs and export prices in manufactures relative to 17 other Organization for Economic Cooperation and Development (OECD) countries for the G-7. The table indicates that the United States gained substantially in price competitiveness in 1988 relative to 1985 and also relative to other G-7 countries. These gains accrued as a result of the depreciation of the dollar relative to other currencies and the relative decline in unit labor costs.

Table 1

Percentage changes in business investment in constant prices in the G-7, 1985-89

Item	*1985*	*1986*	*1987*	*1988*	*1989*[1]
United States	6.7	-4.5	2.8	10.6	5.9
Canada	7.1	3.2	8.8	19.0	10.2
Japan	12.7	6.2	8.2	12.9	9.5
France	3.3	4.0	4.8	9.0	7.0
West Germany	9.3	4.1	4.0	4.7	3.1
Italy	5.7	2.0	11.5	8.0	3.6
United Kingdom	12.7	-2.6	7.9	12.2	3.1
Average increase	8.3	0.3	5.4	10.6	6.3

[1] Estimates.

Source: International Monetary Fund, *World Economic Outlook*, October 1988.

Table 2

Indexes of relative unit labor costs and relative export prices in manufacturing in the G-7, 1985-89

(1982=100)

Item	*1985*	*1986*	*1987*	*1988*	*1989*[1]
Relative unit labor costs:					
United States	106	88	76	68	67
Canada	99	95	100	106	109
Japan	104	138	143	151	151
West Germany	97	106	113	112	111
France	99	102	100	97	95
Italy	107	110	117	116	116
United Kingdom	88	83	81	88	90
Relative export prices:					
United States	101	86	78	73	73
Canada	103	100	99	102	102
Japan	104	119	122	126	125
West Germany	96	104	109	108	107
France	104	106	109	108	107
Italy	100	103	104	103	104
United Kingdom	96	93	195	101	102

[1] Estimates.

Note.—Relative unit labor cost and export price indexes represent the ratio (expressed on base 1982=100) of the relevant indicator for the country listed to a weighted geometric average of the corresponding indicators for 17 other industrial countries after expressing all of the national indicators in terms of the U.S. dollar. These indices thus take account of changes in exchange rates.

Source: *OECD Economic Outlook*, 43, June 1988.

Forecasts

Table 3 shows newly revised macroeconomic projections for the U.S. economy in 1989, by four major forecasters, and the simple average of these forecasts. The forecasts represent percentage changes over the preceding quarterly period at annual rates.

The mean prediction of the four economic forecasts shown in table 3 is for a decline in nominal and real GNP growth rates in the second half of 1989, and a slight increase in unemployment rates because of a projected moderation in the pace of consumer spending, export growth, and a rise in short-term interest rates. Export growth rates are expected to slow, as the dollar appreciates in response to higher interest rates. Inflation (measured by the GNP deflator index) is expected to rise in the second and third quarters and moderate in the fourth quarter of 1989.

Worldwide, the International Monetary Fund (IMF), in its latest revised forecast, predicts that the overall output of industrial countries will increase by 2.8 percent in 1989 compared with a 3.9-percent increase in 1988, and inflation will rise slightly to 3.5 percent compared with that in 1988. Output of developing countries is estimated to increase by 4.0 percent in 1989 compared with 3.6 percent growth in 1988. World trade, in terms of volume, is estimated to grow by 5.6 percent in 1989 compared with 7.6 percent growth in 1988.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit increased by 22.0 percent, from $10.3 billion in October to $12.5 billion in November 1988. The November deficit was 7.8 percent higher than the $11.6 billion average monthly deficit registered during the previous 12-month period, but was 8.1 percent lower than the $13.6 billion deficit registered in November 1987. During the period from December 1987 to November 1988, the deficit was highest in December 1987 ($13.8 billion) and lowest in July 1988 ($9.5 billion). The cumulative January–November deficit declined from $156.5 billion in 1987 to $125.9 billion in 1988. The Department of Commerce projects that the deficit for 1988 will be $137.3 billion—a sharp drop from the 1987 record high of $170.3 billion.

Table 3

Projected quarterly percentage changes of selected U.S. economic indicators, 1989

Indicator and quarter	*Data Resources Inc.*	*Merill Lynch Economics Inc.*	*Wharton F.A. Inc.*	*UCLA Business Forecasting Project*	*Mean of 4 fore-casts*
GNP:[1]					
January-March	8.4	9.4	8.0	9.4	8.8
April-June	4.7	6.3	5.5	6.5	5.7
July-September	4.9	3.7	6.5	3.6	4.7
October-December	4.9	3.2	6.7	1.7	4.1
GNP:[2]					
January-March	5.0	4.3	3.3	5.5	4.5
April-June	.7	1.3	1.2	1.7	1.2
July-September	.9	-.3	2.3	-1.1	1.8
October-December	1.2	-.6	2.9	-2.5	.3
GNP deflator index:					
January-March	3.3	4.8	4.5	3.7	3.9
April-June	3.9	4.9	4.2	4.6	4.4
July-September	3.9	4.0	4.1	4.7	4.2
October-December	3.6	3.9	3.7	4.3	3.9
Unemployment rate:					
January-March	5.5	5.3	5.4	5.2	5.4
April-June	5.5	5.5	5.5	5.1	5.4
July-September	5.6	5.7	5.6	5.1	5.5
October-December	5.7	6.1	5.6	5.4	5.7

[1] Current dollars.

[2] Constant dollars.

Note.—Percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted.

Source: Compiled from data presented in The Conference Board, *Statistical Bulletin*, vol.21, No.11, November 1988. Used with permission.

The following tabulation shows the percentage changes in the January–November year-to-date figures for U.S. exports, U.S. imports, and the U.S. deficit:

Item	January–November 1986 to January – November 1987	January–November 1987 to January–November 1988
Exports	10.6	27.3
Imports	10.3	8.3
Deficit	9.9	-19.6

Seasonally adjusted exports declined by $639 million from $27.8 billion in October 1988 to $27.2 billion in November 1988. Imports, however, increased by $1.6 billion, from $38.1 billion in October to $39.7 billion in November.

In manufactured goods, total exports and imports declined; however, exports declined more than imports, consequently, the deficit in this sector increased slightly by $186 million from $13.6 billion in October to $13.8 billion in November. By commodity group, the biggest percentage gains in exports of manufactures were registered in organic and inorganic chemicals, general industrial machinery, iron and steel mill products, and vehicles and parts. Other manufacturing sectors registered declines in exports or increases in imports. The biggest percentage increases in manufactures imports were registered in automatic data processing and office machinery, iron and steel mill products, airplanes, metal working machinery, power generating machinery, scientific instruments and parts, and specialized industrial machinery. The biggest percentage decreases in imports were in telecommunications equipment and parts, chemical synthetics, general industrial machinery, airplane parts, chemical pharmaceuticals, clothing and footwear, copper, gem diamonds, and electrical machinery. The oil import bill remained virtually unchanged at $3.1 billion. The agricultural trade surplus remained unchanged at $1.4 billion.

On a regional basis, the United States experienced declines in its deficits with Canada, Japan, the Newly Industrialized Countries (NIC's) and the Organization of Petroleum Exporting Countries. The deficit with Western Europe almost doubled to $2.0 billion in November from $1.1 billion in October. The deficit with Japan declined by 4.3 percent in November to $5.3 billion from $5.5 billion in October. The deficit with Canada declined from $934 million in October to $859 million in November. The deficit with the NIC's declined from $3.0 billion in October to $2.9 billion in November. The U.S. trade balance with the rest of the world showed a deficit of $176 million in November, up from a surplus of $113 million in October.

INTERNATIONAL TRADE DEVELOPMENTS

Soviets Spur Joint Ventures With the West

The Soviet Government is trying hard to accelerate the formation of joint ventures with Western producers. New regulations that went into effect in January 1989 allow Western firms to own the majority of equity in joint stock companies, make the repatriation of profits easier, reduce taxes, and lower tariffs on equipment brought into the country. Soviet firms are making special efforts at international trade fairs to find Western business partners and show increased flexibility in negotiating new ventures. The ruble (now at an official rate of $0.6) will be devalued by 50 percent, making Soviet resources cheaper for Western investors.

For the Soviet Union, capital sharing with Western firms promises immediate gains. Western partner firms bring with them advanced equipment and technology that the Soviets otherwise would have had to import with hard currency. Moreover, the use of Western methods of production, sales management, and administration will most likely reduce the cost and increase the quality of jointly manufactured products, boosting both Soviet export revenues and domestic welfare. Western enterprise managers in the Soviet Union are also expected to foster the country's economic reform by demonstrating Western business practices to the local work force, not unlike a century ago in czarist Russia.

According to the Soviet Ministry of Finance, joint ventures between Soviet and foreign firms number 108. West Germany has 20 joint ventures with the Soviets, Finland, 15, Austria, 11, Italy, 9, the United States, 8, Japan and Switzerland, 6 each, France, 5, the United Kingdom, 4, and Canada, 3. There are 500 new ventures under negotiation (25 to 30 of these with U.S. firms).

Western ownership of Soviet enterprises was welcome during the 1920s but was terminated on ideological and security grounds in 1930. As dissatisfaction with the country's economic performance continued, the Soviets' long-held hostility towards foreign ownership began to dissolve in the middle of this decade. The mounting dissatisfaction culminated in glasnost and market-oriented economic reforms. In 1986, Soviet officials explored the possibilities of joint ventures with Western firms, and in January 1987, they promulgated a set of rules guiding the establishment and operation of jointly owned companies. During the past 2 years, the Soviet view evolved from considering foreign ownership in the Soviet Union desirable to considering it indispensible in modernizing the country's economy.

Most of the joint stock companies established so far are of low capitalization and involve service-oriented businesses. The Soviet side would like to see more large-scale manufacturing agreements. Soviet authorities have assembled a list of 320 projects in which they would welcome foreign capital participation through joint equity. Forty-two percent of these projects are in manufacturing, 32 percent in construction, and 26 percent in agroindustry. Over one third of the projects involve high technology by Soviet definition. The Russian republic has the largest number of potential project sites, followed by the Baltic States, the Ukraine, the Caucasus, and Byelorussia. For a couple of projects the invitation is also open in Central Asia and the Soviet Far East.

The majority of Western firms do not expect high returns on their Soviet investment in the short run, but they trust the future: "A potential market of 280 million people with a tremendous pent-up demand for consumer goods drives American entrepreneurs to get established in the U.S.S.R.," says Mr. Steven S. Diamond, attorney at the Washington law firm, Arnold & Porter. Through its business consulting affiliate, Arnold & Porter has recently opened an office in Moscow to help create more joint ventures between U.S. and Soviet firms. U.S. firms that have recently concluded joint ventures with the Soviets include: Combustion Engineering (instruments for the chemical industry); Delphi International (construction work); and Management Partnerships International, Inc. (assembly of personal computers). The roster of major U.S. firms with declared intentions of doing business in the Soviet Union includes Archer Daniel Midland, Eastman Kodak Co., Ford Motor Co., and RJR Nabisco.

Despite new Soviet flexibility in negotiations and on-site legal help, Western firms getting established in the U.S.S.R. still face some basic problems. The lack of market prices, different accounting practices, supply shortages, and insufficient systems of transportation, insurance, and other services make negotiating with Soviet partners and functioning in the Soviet Union—as in any other nonmarket economy country—difficult for Western firms. Businessmen with Soviet experience warn their colleagues to beware of unexpected claims on their earnings during negotiations. For example, Soviet labor laws require enterprises to provide a range of subsidized worker facilities, which can include soccer fields. Most Western analysts share the view that Soviet and most East European economic reforms have not progressed far enough to allow socialist managers to fully grasp that the survival and prosperity of Western firms depends solely on profits.

Socialist countries appear to be engaged in a competitive liberalization of their joint-venture rules to attract Western capital. Like the Soviet Union, Hungary, Poland, and Czechoslovakia have also increased Western advantages in their 1989 joint-venture legislation. Even China, with its roughly 6,000 joint equity ventures well out front in East-West capital sharing, has reaffirmed its wish to attract more Western capital. Some observers believe that competition for Western capital will spill over into setting up and expanding free trade zones in the socialist countries.

The fast growing increase of Western capital investment in the Soviet Union may have vast effects on East-West trade by the end of the century. In the short run, however, no more than improvement in East-West commercial and political relations should be expected. Direct Western capital investment, of which joint equity companies are only a part, will not generate significant amounts of trade during the next couple of years. For the small economies of neutral Finland and Austria, however, capital investment in the Soviet Union has a relatively greater immediate economic and financial significance than for major industrialized countries or for other small European nations that are members of the European Community.

Tax Reform in Canada Proceeding on Schedule

The problem of chronic budget deficits is not unique to the United States. A number of Western democracies share the difficulty, but the issue has become particularly significant in Canada, where the deficit as a percentage of gross national product (GNP) measures over 4.5 percent. (The comparable figure for the United States is under 2.5 percent.)

A proposal for a comprehensive program of tax reform was introduced in the Canadian Parliament in May of 1985, updated in October 1986, and implementing legislation appeared in December 1987. The legislation was approved by Parliament in September 1988. The proposal called for a two-stage alteration in the country's tax system. The first stage, to be implemented by the end of March 1989, lowers statutory corporate and personal tax rates; the second stage will see a form of value-added tax replace the existing manufacturers' sales tax.

The reform was prompted by a desire to enhance the performance of the economy by reducing marginal tax rates. It was believed that as a result of tax preferences and exemptions developed over the years, the efficiency and international competitiveness of the Canadian economy were being hampered. The desire for simplification led to proposals for lower tax rates, a wider tax base, and broader tax brackets.

It is no secret, however, that U.S tax reform influenced the speed of implementation in Canada. The economic implications of the U.S. tax changes were predictable in Canada. Left unchanged, Canadian corporate rates, much higher than those in the United States, would seriously disadvantage Canadian businesses as binational companies could arrange to account for revenues in the low-tax country and costs in the high-tax country. Similarly, any significant disparity in personal income tax rates could unduly affect the high-tax country (i.e., Canada).

In both Canada and the United States, the bulk of tax receipts comes from personal income taxes. The Canadian tax system, however, differs from that in the United States in a number of respects. Tax revenues from all levels of government equal about one third of gross domestic product. This is greater than the U.S. figure. Although the share of revenue from personal and corporate taxes is about the same, general sales tax revenue is greater in Canada. Indirect taxes (tariffs, specific excises, license fees, etc.) represent 28 percent of Federal tax revenue in Canada and only 8 percent in the United States. In Canada the Federal share of overall tax revenue is about 50 percent, with personal taxes accounting for 45 percent of the total of Federal tax receipts; corporate taxes, 11 percent; and the Federal sales tax, 14 percent.

The effects of the first stage of reforms were registered in mid-1988, as Canadian taxpayers on average took home about $25 more each month. On the income tax side, this was the result of the lowering of the statutory tax rates and the conversion of certain exemptions and deductions into tax credits. On the corporate tax side, the reduction in rates has been coupled with a number of base-broadening measures. These measures are aimed at offsetting the revenue loss resulting from the reform of personal income tax rates as well as enhancing international competitiveness and promoting small business.

The second stage of the comprehensive tax reform program is to address the manufacturers' sales tax (MST). Originated in the 1920s, the MST is considered cumbersome, inefficient, and unfair. It is levied at several rates, requires a number of arbitrary decisions for the categorization of goods, and the calculation of manufacturing costs. In addition, the MST discriminates in favor of imports and against exports. Implementation of the second stage is not expected before the early 1990's and will require coordination between the Federal and Provincial Governments. Ottawa prefers a National Sales Tax (NST) in order to spread the tax burden more equitably and to result in fewer distortions in the Canadian economy. Interim changes to the existing MST are supposed to be introduced in April, while consultations proceed with the Provinces on the NST.

China Puts Trade Reforms On Hold

One of the reform measures instituted during January–June 1988 was aimed at improving the management of China's foreign-trade system by integrating the administration of trade, in particular, the marketing of exports, and industrial production. The new trade reforms announced by the Ministry of Foreign Economic Relations and Trade (MOFERT) last March called for transferring the administration of most of the local branches of MOFERT's trading companies to local (Provincial, municipal, and county) governments, thus placing their operation under regional rather than central political control. The intention was to create a trade structure that paralleled that of industry, which had been decentralized as the enterprise management system evolved and was already operating largely under the control of regional authorities. Within only a few months, however, the flaws in this plan to decentralize trade became evident. Local government officials have in many cases used their new powers to trade for personal profit and, in doing so, have aggravated existing shortages of raw materials and contributed to China's record inflation. (*IER*, December 1988).

Numerous cases reported during the last few months indicate that bureaucratic profiteering is a widespread problem. One of the most sensational cases discovered by central Government authorities involved the use of foreign exchange legally retained by eight corporations in the Shenzhen Special Economic Zone (located in Guangdong Province) to import a huge volume of car parts. The parts were then illegally assembled, and the cars were sold for an exorbitant profit. In other cases, local officials have obtained export permits under false pretenses. Even though in short supply, industrial materials such as pig iron, ferro-silicon, and scrap steel were exported in large quantities during 1988. For example, Guangdong Province was discovered to have approved the export of 1.1 million tons of pig iron when its authorized quota was only 50,000 tons. Meanwhile, large quantities of pig iron had to be imported to meet production requirements.

MOFERT has already taken steps to tighten its control over import and export quotas and the issuance of licenses to both import and export. The export of 6 commodities has been banned effective January 1, bringing the total number of commodities on China's export prohibition list to 10. All are industrial raw materials. An additional 159 commodities have been placed under export licensing control in an effort to ensure supplies are available for domestic enterprises and prevent wild fluctuations in export prices. The amount of foreign exchange that enterprises in the Special Economic Zones (SEZ's) can retain from their export earnings has been reduced from 100 to 80 percent, and a proposal to allow enterprises operating outside the SEZ's to retain a larger proportion of their foreign-exchange earnings (the current allowance varies from 25 to 70 percent) has been shelved.

Although these new measures may serve to soak up excess liquidity in the Chinese economy and ease inflation, they are unlikely to do much to prevent local officials from seeking personal profits by buying goods to resell. The main source of this problem is China's distorted price structure. The administered domestic prices of many industrial raw materials are maintained, for example, at much lower levels than would prevail if free market conditions were allowed to operate, making it highly profitable to export these commodities. On the other hand, the domestic prices of many finished goods such as cars and color television sets are higher than those on international markets, providing an incentive to import parts and assemble them for domestic sale. Efforts to curb profiteering by local officials are also made more difficult by the widespread decentralization of authority that has taken place in recent years. The tightening of trade and other economic controls, which is widely viewed as a political test of the central Government's ability to restore economic stability, is reportedly meeting considerable resistance at the local level.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1985-November 1988

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

				1987		1988			1988					
Country	1985	1986	1987	III	IV	I	II	III	June	July	Aug.	Sept.	Oct.	Nov.
United States	1.9	1.1	3.8	8.7	7.1	4.0	4.5	7.1	3.6	14.0	4.4	.9	6.2	5.3
Canada	2.8	.8	2.7	5.8	4.4	4.1	3.5	3.1	1.9	2.9	1.9	1.9	0	4.8
Japan	3.7	-.3	3.4	15.2	15.7	13.5	-1.0	10.1	47.8	-10.2	37.6	6.5	-9.0	29.7
West Germany	3.8	2.2	.1	2.2	2.9	9.9	-4.0	6.1	18.7	-17.6	40.5	4.6	-21.0	(1)
United Kingdom	4.7	2.3	3.9	6.3	3.8	-1.3	5.8	3.9	6.8	4.4	4.4	4.4	-3.2	(1)
France	.6	.9	2.1	2.6	3.9	2.6	3.4	11.0	25.1	8.0	0	11.6	-28.2	(1)
Italy	1.2	3.8	2.7	-10.8	14.0	10.0	-2.1	14.7	19.8	39.9	31.3	-17.8	-1.1	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Jan. 13, 1989.

Consumer prices, by selected countries and by specified periods, January 1985-November 1988

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

				1987		1988			1988					
Country	1985	1986	1987	III	IV	I	II	III	June	July	Aug.	Sept.	Oct.	Nov.
United States	3.5	1.9	3.7	3.9	3.6	3.4	4.8	4.7	4.2	5.2	5.2	4.1	5.1	3.0
Canada	4.0	4.2	4.4	4.4	3.5	3.4	4.8	4.2	3.0	3.9	5.1	4.6	4.7	2.3
Japan	2.0	.6	.1	-.8	1.1	-2.1	2.8	.7	-2.3	-2.3	3.6	9.9	6.0	4.8
West Germany	2.2	-.2	.3	1.5	0	.7	1.8	2.0	.9	2.1	3.2	1.6	.6	2.3
United Kingdom	6.1	3.4	4.1	3.9	4.9	2.7	6.1	8.7	8.3	7.8	13.4	7.1	11.7	4.2
France	5.8	2.5	3.3	2.7	2.4	2.3	2.9	3.8	3.3	4.2	4.3	3.4	2.7	2.2
Italy	8.6	6.1	4.6	6.5	5.7	3.4	4.6	6.0	5.0	6.6	7.7	5.1	6.4	8.9

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Jan. 13, 1989.

Unemployment rates,[1] by selected countries and by specified periods, January 1985-December 1988

(In percent)

				1987		1988			1988					
Country	1985	1986	1987	III	IV	I	II	III	July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	7.2	7.0	6.2	6.0	5.9	5.7	5.5	5.5	5.4	5.6	5.4	5.3	5.4	5.3
Canada	10.5	9.6	8.9	8.8	8.2	7.9	7.7	7.9	7.9	8.0	7.8	7.9	7.9	(2)
Japan	2.6	2.8	2.9	2.8	2.7	2.7	2.5	2.5	2.5	2.6	2.5	2.5	(2)	(2)
West Germany	7.5	7.0	6.9	7.0	7.0	6.9	7.0	6.9	7.0	6.9	6.9	6.9	6.8	(2)
United Kingdom	11.2	11.2	10.3	10.0	9.5	9.0	8.6	8.1	8.2	8.0	7.9	7.8	7.6	(2)
France	10.4	10.6	10.8	10.8	10.6	10.6	10.6	10.7	10.8	10.8	10.6	(2)	(2)	(2)
Italy	6.0	7.5	7.9	8.0	8.1	7.9	7.9	7.8	(2)	(2)	(2)	(2)	2	(2)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.
[2] Not available.

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, January 1989.

Trade balances, by selected countries and by specified periods, January 1985–November 1988

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1985	1986	1987	1987 III	1987 IV	1988 I	1988 II	1988 III	1988 June	July	Aug.	Sept.	Oct.	Nov.
United States[1] ...	-132.8	-155.1	-170.3	-171.6	-171.9	-149.6	-133.1	-129.7	-158.6	-113.7	-147.2	-128.1	-123.1	-150.1
Canada	12.0	7.1	8.3	8.4	4.4	7.6	8.8	10.4	14.4	18.0	7.2	6.0	4.8	([2])
Japan	55.9	92.5	96.2	89.2	91.6	99.2	86.0	90.0	86.4	93.6	87.6	90.0	102.0	104.4
West Germany ...	25.4	52.7	65.7	62.8	74.0	64.8	76.4	72.8	97.2	70.8	79.2	66.0	67.2	81.6
United Kingdom ..	-2.6	-12.6	-16.9	-20.0	-21.2	-28.4	-32.4	-37.6	-32.4	-54.0	-37.2	-21.6	-61.2	-43.2
France	-2.6	.1	-5.2	-4.4	-4.4	-2.8	-4.0	-7.6	-2.4	-7.2	-16.8	1.2	-8.4	-7.2
Italy	-12.1	-2.0	-8.5	-6.4	-10.8	-12.0	-4.0	-10.4	-6.0	9.6	-4.8	-19.2	-15.6	-10.8

[1] Exports, f.a.s. value, adjusted; imports, c.i.f. value, adjusted. Beginning with 1986, figures include previously undocumented exports to Canada. Data for individual quarters do not reflect similar adjustments.
[2] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Dec. 2, 1988, and *Advance Report on U. S. Merchandise Trade*, U.S. Department of Commerce, Jan. 18, 1989.

U.S. trade balance,[1] by major commodity categories, by selected countries, and by specified periods, January 1985–November 1988

(In billions of U.S. dollars, c.i.f. value basis for imports)

Country	1985	1986	1987	1987 III	1987 IV	1988 I	1988 II	1988 III	1988 June	July	Aug.	Sept.	Oct.	Nov.
Commodity categories:														
Agriculture	9.6	4.5	7.0	2.1	3.2	3.0	3.3	3.1	.9	.9	.8	1.4	1.4	1.4
Petroleum and selected products (unadjusted)	-45.9	-31.8	-39.5	-11.7	-10.1	-9.7	-9.9	-9.5	-3.2	-3.1	-3.4	-3.0	-2.9	-2.9
Manufactured goods ..	-102.0	-134.3	-146.1	-36.3	-36.2	-35.0	-35.5	-36.8	-13.6	-12.8	-12.6	-11.4	-13.6	-13.8
Selected countries:														
Western Europe	-23.3	-28.2	-27.9	-7.0	-6.9	-4.0	-3.9	-4.6	-1.9	-2.3	-1.4	-.9	-1.1	-2.0
Canada[2]	-21.7	-23.0	-11.5	-2.8	-3.1	-3.8	-4.1	-2.6	-1.1	-1.1	-.4	-.9	-.9	-.9
Japan	-46.5	-55.3	-58.0	-13.8	-14.5	-13.1	-12.9	-13.3	-4.4	-4.4	-4.8	-4.1	-5.5	-5.3
OPEC (unadjusted) ...	-10.2	-8.9	-13.7	-4.6	-3.3	-2.6	-3.1	-2.8	-1.1	-.9	-1.2	-.7	-.8	-.6
Unit value (dollars per barrel) of U.S. imports of petroleum and selected products (unadjusted)	26.59	15.02	18.12	19.01	18.40	16.35	16.11	15.16	16.19	15.77	15.15	14.60	13.46	13.38

[1] Exports, f.a.s. value, unadjusted; imports, c.i.f. value, unadjusted.
[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, Jan. 18, 1989.

Money-market interest rates,[1] by selected countries and by specified periods, January 1985-December 1988

(Percentage, annual rate)

Country	1985	1986	1987	1987 III	1987 IV	1988 I	1988 II	1988 III	1988 July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	8.3	6.5	6.8	6.8	7.6	6.7	7.6	8.1	7.3	8.7	8.2	8.4	8.8	9.2
Canada	9.7	8.6	8.4	9.2	9.0	8.7	9.2	10.1	9.6	10.2	10.5	10.6	11.0	(2)
Japan	6.5	4.9	3.9	3.7	3.9	3.8	3.8	4.2	4.0	4.2	4.3	4.1	4.2	(2)
West Germany	5.5	4.6	4.0	4.2	4.1	3.3	3.9	5.2	5.3	5.4	5.1	5.0	5.1	(2)
United Kingdom	12.1	10.8	9.8	10.0	9.2	8.9	8.7	11.7	10.9	12.3	12.0	12.1	13.2	(2)
France	10.0	7.7	8.2	7.9	8.5	7.9	7.5	7.6	7.4	8.1	7.9	8.1	8.2	(2)
Italy	15.0	12.8	11.3	11.9	11.6	11.0	10.8	(2)	11.3	10.9	(2)	(2)	(2)	(2)

[1] 90-day certificate of deposit.
[2] Not available.
Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: *World Financial Markets*, Morgan Guaranty Trust Co. of New York, Dec. 30, 1988, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, Jan. 9. 1989.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1985-December 1988

(Percentage change from previous period)

Item	1985	1986	1987	1987 III	1987 IV	1988 I	1988 II	1988 III	1988 July	Aug.	Sept.	Oct.	Nov.	Dec.
Unadjusted:														
Index number[1]	127.0	106.0	94.1	95.2	90.3	87.5	86.5	90.9	90.1	91.3	91.3	88.8	86.6	86.2
Percentage change	3.8	-16.5	-11.2	1.2	-5.1	-3.1	-1.1	5.1	2.9	1.3	0	-2.7	-2.5	-.5
Adjusted:														
Index number[1]	121.7	100.9	90.2	87.0	87.4	84.9	84.1	88.8	87.9	89.2	89.3	87.2	85.3	84.6
Percentage change	1.8	-17.1	-10.6	-3.9	.5	-2.9	-.9	5.6	3.2	1.5	.1	-2.4	-2.2	-.8

[1] 1980-82 average=100.
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 other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co. of New York, January 1989.

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