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# INTERNATIONAL ECONOMIC REVIEW

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United States International Trade Commission  
Office of Economics

Washington DC  
20436

**September/October 1997**

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## OFFICE OF ECONOMICS

Robert A. Rogowsky, *Acting Director*

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# COUNTRY AND REGIONAL DEVELOPMENTS

## *At A Glance. . .*

### *China*

The Chinese Communist Party, meeting at its Party Congress in September, backed President Jiang Zemin's plan for reform of the ailing state sector. The plan calls for selling shares in thousands of China's approximately 120,000 state-run firms. The state would retain ownership, however, of about 1,000 firms in key sectors. State-owned enterprises, many of which produce little or no saleable output, account for at least \$250 billion in bad loans held by Chinese banks. China has been slow to undertake widespread reform of the state sector out of concern that increased unemployment and social instability could result from closure of inefficient state-owned enterprises.

China announced that it will cut tariffs on 4,800 tariff lines effective October 1, 1997. As a result, the average Chinese tariff will fall from 23 percent to 17 percent. China has previously agreed, in the context of trade liberalization initiatives in the Asia Pacific Economic Cooperation forum, to reduce its simple average tariff rate to 15 percent by the year 2000. In many cases, however, tariffs applied by Chinese customs on goods entering China may be considerably lower than the published tariff rates.

### *EU*

In May, a WTO dispute settlement panel ruled that the EU's regime for the importation, sale, and distribution of bananas was inconsistent with WTO obligations. The EU appealed the decision, but the report of the Appellate Body, released on September 9, upheld most of the original findings. The EU must now modify its banana regime to conform with WTO rules.

### *United States*

The U.S. trade deficit widened in July to \$10.3 billion, \$2.1 billion more than the \$8.3 billion in June due to increased imports of cars, consumer goods and foods.

### *Japan*

The United States put Japan on notice because of signs of an export-led recovery that was leading to a worsening of the bilateral trade relations. Growth in Japan weakened. GDP fell by 2.9 percent in the second quarter over the first or at an annualized rate of 11.2 percent. Japanese consumers had sharply reduced their spending after the sales tax almost doubled in April.

### *Developing Country Outlook*

The World Bank in its annual report reported that developing countries will double the share of global GDP to account for nearly a third of global output by 2020. China, India, Brazil, Indonesia and Russia will grab an even larger chunk of global exports rising from 9 percent in 1992 to 22 percent in 2020. In East Asia the Bank forecasts real GDP growth slowing to 7.6 percent over the next ten years from 9.2 percent in 1987-96. □



# INTERNATIONAL TRADE DEVELOPMENTS

## Is NAFTA Affecting U.S. Imports from the Caribbean Basin?

Ever since the North American Free Trade Agreement (NAFTA) appeared on the horizon in the early nineties, several U.S. trading partners in the Caribbean Basin have been concerned that this accord would divert trade and investment to NAFTA partners. In general, when tariffs or other trade barriers are selectively reduced for certain countries, as they were for Mexico and Canada in the framework of NAFTA, beneficiaries gain an advantage vis-a-vis imports from the rest of the world, whose tariffs remain the same. As a consequence, imports from the latter source are most likely to decrease. Caribbean Basin countries feared that NAFTA could result in a lowering of their exports to the United States, with negative consequences on investment inflows.

U.S. imports from the Caribbean Basin countries traditionally have consisted of agricultural products, raw materials and their derivatives—namely, sugar cane, coffee, cocoa, bananas, aluminum ores and concentrates, and petroleum products. The deterioration in the terms of trade for these export items, and the Caribbean Basin countries' quest for economic growth, prompted them to seek diversification in their export profile. This development was encouraged in a trade and investment policy developed in 1983 by the United States, the Caribbean Basin Initiative (CBI), and its associated Caribbean Basin Economic Recovery Act (CBERA). The latter took effect in January 1, 1984, a full decade before Mexico and Canada joined the United States in a free-trade accord on January 1, 1994.

CBERA is a U.S. government program, which features nonreciprocal, mostly duty-free access for certain Caribbean Basin exports to the U.S. market as its key component. Currently, 24 Caribbean, and Central and South American nations, hereinafter called CBERA countries, that is, most countries of the

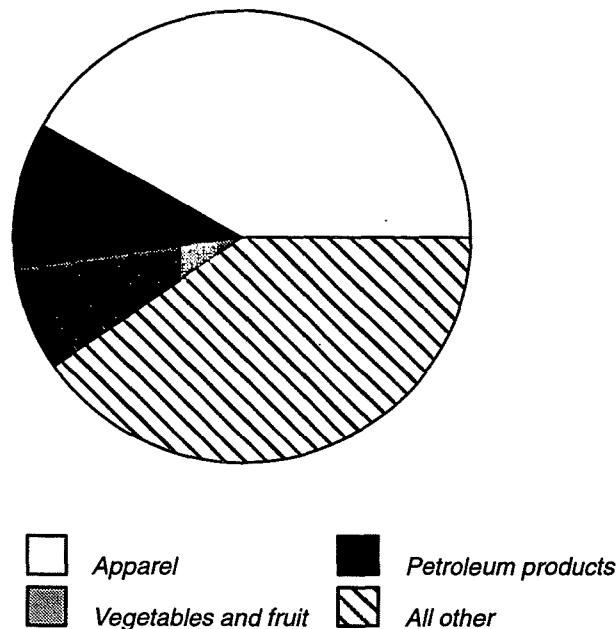
Caribbean Basin, enjoy these trade preferences. Throughout its 13-year history (1984-96), CBERA has been popular with Caribbean Basin exporters, who have taken greater advantage of it each year. In 1996, nearly one fifth (18.9 percent) of overall U.S. imports from the CBERA countries entered under CBERA provisions. Nonetheless, CBERA is considered a limited program by Caribbean nations because it covers only a portion of vital Caribbean Basin exports. For example, apparel products and petroleum-related products, both major groups in the export profile of CBERA countries, are not eligible for CBERA preferences.

Figure 1 shows the composition of U.S. imports from CBERA countries in 1996 by major product groups, illustrating the dominance of apparel in this trade flow, and the still significant, although generally declining, share of petroleum products. The efforts of Caribbean countries to diversify, assisted by CBERA, have been successful, giving rise to a wide range of new manufactured exports and agricultural ones, such as fruits and vegetables, that were more lucrative than the traditional sugar and banana industries. The new manufactured exports to the United States are part of the "all other" segment shown in figure 1, which by 1996 became a sizable portion of the total, accounting for a slightly smaller share than that of apparel.

## *The "NAFTA Parity" Issue*

On March 18, 1993, Representative Sam Gibbons (D-FL) introduced a bill that would prevent an erosion of the CBERA countries' privileged access to the U. S. market as a result of NAFTA, which was to be implemented on January 1, 1994. Senator Bob Graham (D-FL) introduced a companion bill in the Senate. These bills were commonly referred to as "NAFTA Parity" provisions, since their objective was to grant NAFTA-like preferences to CBERA countries for products that did not enjoy equivalent preferential treatment under CBERA. Shortly after the passage of NAFTA implementing legislation in November 1993, President Clinton pledged to provide short-term relief

**Figure 1**  
**Composition of total U.S. imports from CBERA countries, by SITC product groups**



to CBERA countries suffering a fallout from NAFTA implementation.

The original "NAFTA Parity" bills were followed by variations on the theme in terms of coverage and the conditions attached, notably by bills introduced in 1995 by Representative Philip M. Crane (R-Ill) and by Senator Bob Graham. In line with statements made in historic May 1997 meetings with Central American and Caribbean leaders, President Clinton submitted legislation to Congress in June 1997, to provide these nations with "NAFTA Parity." The administration's proposed legislation would permit the President to provide CBERA beneficiaries treatment comparable to that accorded Mexico under NAFTA in two stages, and under specified conditions, after taking into account the CBERA countries' performance in terms of trade, investment, and social policy.

The Chairman of the House Ways and Means Committee, Bill Archer (R-TX), had included "NAFTA Parity" legislation in the tax portion of the budget reconciliation package released June 9, 1997, but the provisions were dropped from the final budget reconciliation bill. On October 1, 1997, the Senate Finance Committee reported out another bill, this providing more immediate access for full tariff benefits, but for a shorter duration and with stricter

rules of origin than the Administration's proposal. The House Ways and Means Committee approved October 8 another version of "NAFTA Parity." The House proposal is for a 14 month program with more liberal rules of origin than the Senate Finance bill.

### *Analysis of U.S. Imports From CBERA and NAFTA countries*

The Commission's most recent report on CBERA—while not attempting to isolate the effects of NAFTA—analyzes the changes that have taken place in U.S. import shares held by CBERA partners, NAFTA partners, and the rest of the world (ROW) in selected products, before and during the NAFTA years. Specifically, the report examines the changes in U.S. market shares of the CBERA countries' major export items during this period. A high negative correlation between changes in U.S. import shares from two different regions would tend to suggest a high degree of import competition and trade diversion.

The Commission examined imports in 35 four-digit Standard Industrial Classification (SIC) categories that accounted for more than 80 percent of total U.S. imports from CBERA countries in 1993 (prior to NAFTA implementation) and 1996 (Table 1). Notably, 13 of the 35 items were apparel products, which



constituted approximately 40 percent of total U.S. imports from CBERA countries in 1996.

Table 2 presents U.S. import shares for each year between 1991-96; it breaks down the NAFTA shares between Mexico and Canada, and shows their annual percentage changes. Figure 2 reveals that NAFTA import shares of the U.S. market for these products increased from 19.69 percent in pre-NAFTA 1993 to 23.34 percent in 1996. CBERA-import shares of the U.S. market remained relatively unchanged in this period, edging up from 7.21 percent of the total to 7.73

percent, respectively, despite a drop-off in the rate of growth in U.S. imports from CBERA suppliers compared to the pre-NAFTA (1991-1993 period). The 1993 and 1996 shares for these leading items were also examined by focusing solely on CBERA, Canadian, and Mexican shares of U.S. imports (i.e., non-rest-of-world sources). For this subset of import sources, the change in U.S. import shares between 1993 and 1996 showed a 3.5- and a 2-percentage point decline in both the Canadian and CBERA shares, respectively. These declines were relative to a 5.5-percentage point increase in the Mexican share.

**Table 1**  
Leading 35 U.S. imports from CBERA countries, by four-digit SIC commodities, 1993 and 1996

| Commodity   | Customs value               |            |
|---|-----------------------------|------------|
|   | 1993                        | 1996       |
|   | <i>Thousands of dollars</i> |            |
| Total selected commodities .....                              | 8,448,248                   | 11,863,452 |
| 0179—Fruits and tree nuts, nspf .....                         | 919,038                     | 1,264,135  |
| 2911—Petroleum refinery products .....                        | 874,932                     | 1,314,625  |
| 2325—Men's & boy's separate trousers & casual slacks .....    | 809,056                     | 1,082,666  |
| 2369—Children's outerwear, nspf .....                         | 746,267                     | 1,036,126  |
| 2321—Men's and boy's shirts .....                             | 602,446                     | 1,112,223  |
| 1311—Crude petroleum and natural gas .....                    | 397,300                     | 225,520    |
| 2337—Women's and misses' suits, skirts, and coats .....       | 333,819                     | 412,953    |
| 2341—Women's, girls', & infants' underwear & nightwear .....  | 286,540                     | 458,473    |
| 2342—Brassieres and allied garments .....                     | 284,281                     | 364,562    |
| 0913—Shellfish .....  | 281,926                     | 386,467    |
| 2062—Beet and cane sugar, molasses, and byproducts .....      | 80,384                      | 474,781    |
| 2322—Men's and boys' underwear and nightwear .....            | 40,924                      | 660,643    |
| 3131—Boot and shoe cut stock and findings .....               | 213,265                     | 214,984    |
| 2331—Women's and misses' blouses and shirts .....             | 210,726                     | 235,485    |
| 2011—Meat prod & meat pkg prod ex poultry & sml gm .....      | 195,371                     | 78,979     |
| 2833—Medicinals and botanicals .....                          | 178,897                     | 46,736     |
| 2819—Industrial inorganic chemicals, nspf .....               | 175,391                     | 378,443    |
| 1099—Metallic ores, nspf .....                                | 163,947                     | 121,126    |
| 3841—Surgical & medical instruments & apparatus, nspf .....   | 154,527                     | 338,285    |
| 3911—Jewelry, of precious metal .....                         | 151,779                     | 185,879    |
| 2311—Men's and boy's suits and coats, except raincoat .....   | 108,022                     | 156,353    |
| 0161—Vegetables and melons .....                              | 103,449                     | 118,706    |
| 2252—Hosiery, exc women's full lngth & knee lngth hosry ..... | 86,645                      | 144,939    |
| 2869—Industrial organic chemicals, nspf .....                 | 73,621                      | 156,710    |
| 2353—Hats, caps, and millinery .....                          | 68,616                      | 55,753     |
| 2037—Frozen fruits, fruit juices, and vegetable .....         | 64,854                      | 82,443     |
| 0132—Tobacco .....  | 61,103                      | 47,518     |
| 0912—Finfish .....  | 56,052                      | 118,347    |
| 0139—Field crops, except cash grains, nspf .....              | 51,402                      | 92,876     |
| 2335—Women's and misses' dresses .....                        | 50,800                      | 121,153    |
| 2329—Men's and boys' clothing, nspf .....                     | 47,911                      | 84,699     |
| 3678—Connectors, for electronic applications .....            | 47,061                      | 17,064     |
| 2121—Cigars .....   | 44,947                      | 166,436    |
| 0181—Ornamental floriculture and nursery products .....       | 43,777                      | 58,144     |
| 3634—Electric housewares and fans, nspf .....                 | 39,170                      | 49,218     |

Source: U.S. Department of Commerce

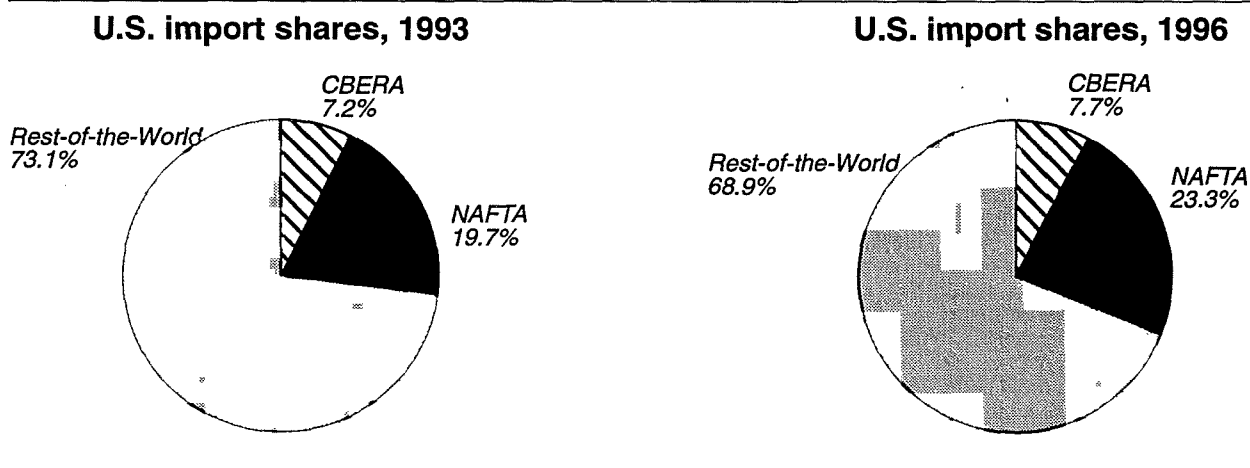
**Table 2**  
**Total U.S. import shares for 35 leading commodities from CBERA countries, NAFTA, and the Rest-of-the-World (ROW), 1991-96**

| Year  | CBERA | Mexico | Canada | NAFTA | ROW   |
|---|-------|--------|--------|-------|-------|
| <b>Import share (percent)</b>                       |       |        |        |       |       |
| 1991 .....  | 6.41  | 7.59   | 11.69  | 19.28 | 74.31 |
| 1992 .....  | 6.95  | 7.28   | 11.46  | 18.74 | 74.30 |
| 1993 .....  | 7.21  | 7.63   | 12.06  | 19.69 | 73.10 |
| 1994 .....  | 7.42  | 8.09   | 12.25  | 20.34 | 72.24 |
| 1995 .....  | 7.64  | 9.61   | 12.23  | 21.83 | 70.53 |
| 1996 .....  | 7.73  | 10.50  | 12.83  | 23.34 | 68.94 |
| <b>Change in import share (percent)<sup>1</sup></b> |       |        |        |       |       |
| 1991 .....  | NA    | NA     | NA     | NA    | NA    |
| 1992 .....  | 8.43  | -4.09  | -1.94  | -2.79 | -0.01 |
| 1993 .....  | 3.67  | 4.82   | 5.20   | 5.05  | -1.62 |
| 1994 .....  | 2.94  | 5.96   | 1.62   | 3.31  | -1.18 |
| 1995 .....  | 2.97  | 18.78  | -0.24  | 7.32  | -2.37 |
| 1996 .....  | 1.12  | 9.36   | 4.96   | 6.90  | -2.26 |

<sup>1</sup> Percentage change in import share from the previous year.

Source: Compiled by USITC staff from official statistics of the U.S. Department of Commerce.

**Figure 2**  
**U.S. import shares of CBERA-competitive items<sup>1</sup> from NAFTA, CBERA, and the Rest-of-the-World, 1993 and 1996**

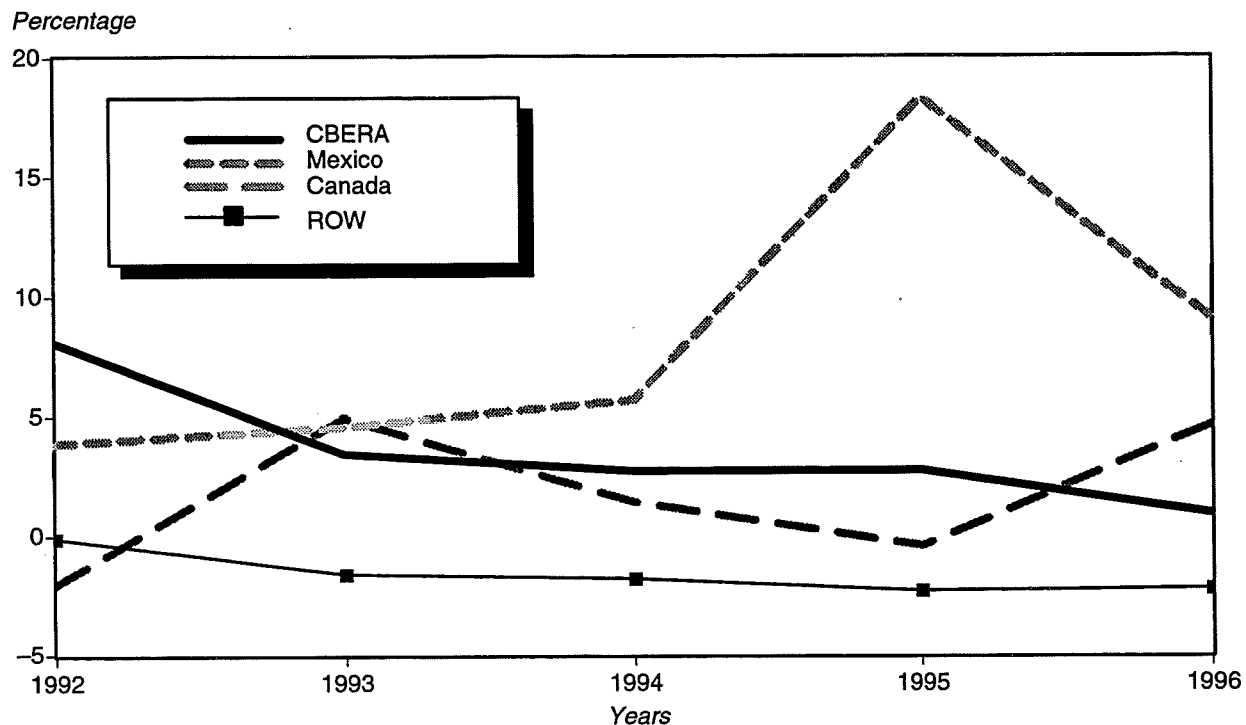


<sup>1</sup> Includes items listed in table 1.

Focusing on the rate of change, Mexico's share increased at a faster rate after NAFTA's inception than it had prior to its entry into force, while the rate of increase for U.S. imports from CBERA declined (figure 3). The total rest-of-world share of U.S. imports continually decreased over the 6-year period (that is before and after NAFTA), from approximately 73 percent to about 69 percent, or by 7.2 percent. The Commission staff also separated U.S. imports from CBERA countries into three groups: (1) Caribbean

countries with exports oriented towards the U.S. market; (2) Caribbean countries with exports oriented towards the European market; and (3) Central American countries with exports oriented towards the U.S. market. An examination of the three groups' U.S. import shares between 1991 and 1996 showed an increase in the Central American shares and a decline in the Caribbean shares, suggesting differential trends in U.S. imports from these subregions since NAFTA's implementation.

**Figure 3**  
**Percentage change in U.S. import shares<sup>1</sup> for leading commodities from CBERA countries, Mexico, Canada, and the rest-of-world, 1992-1996**



<sup>1</sup> Percentage change in import share from the previous year.

Source: Based on data in table 2.

### *The Case of Apparel: Competition Between CBERA Countries and Mexico*

Apparel is the fastest-growing category of U.S. imports from CBERA countries. Most apparel products are not eligible for CBERA tariff preferences, but they benefit from reduced duties under the 9802 production-sharing provisions of the Harmonized Tariff System (HTS), as well as from preferential market access under "guaranteed access levels" (GALs). This special access program (SAP) provides participating CBERA countries with guaranteed access to the U.S. market for apparel assembled from "fabric wholly formed and cut in the United States."

According to the Department of Commerce, apparel shipments from CBERA countries more than quadrupled during 1987-96, increasing on the average at a rate of 21 percent per year—the fastest increase among all suppliers. In 1996, over 80 percent of apparel imports from CBERA countries entered under the HTS 9802 tariff provision. The principal garments

assembled in Caribbean Basin production-sharing operations are trousers and shorts, shirts and blouses, foundation garments, underwear, coats and jackets, and babies' apparel.

CBERA countries compete with one another and with Mexico for assembly work from U.S. apparel firms. Both CBERA countries and Mexico offer competitively priced labor to perform labor intensive sewing operations, and their proximity to the United States provides U.S. firms greater management and quality control over production, shorter lead times, and lower transportation costs than would Asian operations. This proximity also enables U.S. firms to use "Quick Response" (QR) programs that they have developed with their retail customers.

Proponents of "NAFTA Parity" generally attribute the accelerated growth of Mexican apparel shipments to the United States compared with those of CBERA countries to NAFTA tariff preferences for Mexican goods. Apparel assembled in Mexico from "fabric wholly formed and cut in the United States" enters free of duty and quota under NAFTA. Meanwhile, even

though such garments from CBERA countries enter under GALs, they are subject to duty on the value added offshore. For every \$10 f.o.b. value, a typical CBERA garment entered under the HTS 9802 provisions contains \$6.40 worth of duty-free U.S. parts and \$3.60 worth of dutiable, foreign value-added. Applying the 1996 trade-weighted tariff for apparel of 16.7 percent to the foreign value-added yields an average duty of \$0.60, or an ad valorem equivalent duty of 6.0 percent for CBERA garments. In 1996, apparel that was assembled in Mexico from fabric wholly formed and cut in the United States and entered into the United States duty free under NAFTA provisions represented 88 percent of the total import value of apparel from Mexico.

Notably, the NAFTA years coincided with a serious depreciation of the Mexican peso, which effectively reduced assembly costs of garments and, in turn, dollar prices of Mexican goods in the U.S. market. The cheap peso was a major factor in the surge of U.S. apparel imports from Mexico which therefore cannot be attributed to NAFTA provisions alone.

Due to the special sensitivity of apparel, the 12th annual CBERA report examined the data separately for the 13 apparel items contained in the 35 leading CBERA export items for 1991-96, for NAFTA, Mexico, Canada, and the rest of the world. Data indicate that during the 3-year period after NAFTA went into force and the peso crashed (1994-96), U.S. imports of these apparel items accelerated at a faster pace from Mexico than from CBERA countries. The rate of increase in U.S. imports from Mexico were from 3.5 to 6 times faster than U.S. imports from CBERA partners. However, CBERA collectively still accounted for a greater share of U.S. apparel imports than did Mexico in 1996 and CBERA's share of U.S. apparel imports did not decline over the period (table 3).

The Commission's report, *Caribbean Basin Economic Recovery Act, Twelfth Report*, 1996, Sept. 1997, USITC publication 3058, is available by calling 205-205-1809. It is also accessible on the Commission's internet site (<http://www.usitc.gov>).

**Table 3**  
**Leading U.S. imports of apparel from CBERA, NAFTA, and the Rest-of-the-World (ROW), 1991-96**

| Year  | CBERA     | Mexico    | Canada  | ROW        | Total      |
|---|-----------|-----------|---------|------------|------------|
| <i>Value (1,000 dollars)</i>                  |           |           |         |            |            |
| 1991 .....                                    | 2,429,082 | 842,678   | 216,899 | 19,365,957 | 22,854,616 |
| 1992 .....                                    | 3,169,340 | 1,103,830 | 337,509 | 22,691,796 | 27,302,475 |
| 1993 .....                                    | 3,876,053 | 1,332,676 | 432,572 | 23,945,669 | 29,586,970 |
| 1994 .....                                    | 4,387,104 | 1,801,783 | 547,339 | 25,483,677 | 32,219,903 |
| 1995 .....                                    | 5,334,962 | 2,780,378 | 726,454 | 26,138,196 | 34,979,990 |
| 1996 .....                                    | 5,926,028 | 3,714,914 | 893,487 | 26,288,275 | 36,822,704 |
| <i>Import share (percent)</i>                 |           |           |         |            |            |
| 1991 .....                                    | 10.63     | 3.69      | 0.95    | 84.74      | 100.0      |
| 1992 .....                                    | 11.61     | 4.04      | 1.24    | 83.11      | 100.0      |
| 1993 .....                                    | 13.10     | 4.50      | 1.46    | 80.93      | 100.0      |
| 1994 .....                                    | 13.62     | 5.59      | 1.70    | 79.09      | 100.0      |
| 1995 .....                                    | 15.25     | 7.95      | 2.08    | 74.72      | 100.0      |
| 1996 .....                                    | 16.09     | 10.09     | 2.43    | 71.39      | 100.0      |
| <i>Changes in share (percent)<sup>1</sup></i> |           |           |         |            |            |
| 1991 .....                                    | NA        | NA        | NA      | NA         | NA         |
| 1992 .....                                    | 9.22      | 9.65      | 30.26   | -1.92      | NA         |
| 1993 .....                                    | 12.86     | 11.41     | 18.27   | -2.62      | NA         |
| 1994 .....                                    | 3.94      | 24.15     | 16.19   | -2.27      | NA         |
| 1995 .....                                    | 12.01     | 42.14     | 22.25   | -5.52      | NA         |
| 1996 .....                                    | 5.52      | 26.93     | 16.84   | -4.46      | NA         |

<sup>1</sup> Percentage change in import share from the previous year.

Source: Compiled by USITC staff from official statistics of the U.S. Department of Commerce.

## Retail Distribution in Japan

As in other countries, Japan's retail distribution system is a product of historical, social, demographic and geographic factors. The major differences in the characteristics of Japan's retail distribution system, as compared with that of other countries, include large numbers of small retailers despite the emergence of some large stores, fewer high-volume discount stores, large numbers of relatively weak wholesalers, extensive vertical integration of manufacturers into downstream distribution channels and the dominant influence of trading companies on imports. The degree of control exercised by manufacturers and wholesalers over distribution channels varies according to product. However, for certain intermediate and consumer goods, manufacturers exert considerable or exclusive control over distribution channels through the use of various business practices such as exclusive dealings, resale price maintenance, return of goods practices and discriminatory rebates. These business practices, which are used to maintain stability and prices, result in lowering the costs and risks for "insiders" and in raising them for foreign firms attempting to access distribution channels. This article examines the current structure of Japan's distribution system, the efficiencies and responsiveness of the system and the conditions of competition for various retail products within distribution channels.

### Overview

The most prominent and frequently cited feature of Japan's distribution system is the large number of retailers and wholesalers compared to other industrialized countries. In 1994, there were 1.5

million retail stores in Japan compared to 1.62 million in 1988, a decline of 7 percent (table 4). The retail sector employed a total of 7.4 million people in 1994. Small stores continue to dominate Japan's retail sector, despite the emergence of large retailers. Approximately 51 percent (764,772) of all retail stores had one or two employees in 1994. This figure compares with 54 percent in 1988. Several factors have contributed to the large number of neighborhood "mom-and-pop" stores including limited storage space in Japanese homes, the importance of fresh food in the Japanese diet, which requires frequent shopping trips, and congested traffic conditions that encourage walking to nearby shops. In addition, small stores require minimal capital investment and are a major source of employment for retired persons.

In 1994, there were 2,267 department stores compared with 1,911 in 1988, an increase of 16 percent. In 1994, only 2,861 stores, or less than 1 percent of the total number of stores employed 100 or more persons. More than one-half of these stores were department stores. Although the numbers of department stores and supermarkets have increased in recent years, legal restrictions, political opposition from small shopowners to opening large stores, high land prices, and an inadequate road system limit the emergence of these stores. In 1994, there were 1,928 applications requesting approval to establish large-scale retail stores compared to 1,406 in 1993, most for large supermarkets operated by supermarket chains. There has also been an increase in takeovers and mergers of small and medium-sized outlets by large supermarket chains. Another development in the food-retailing sector is the establishment of distribution centers by retail chains. This trend is expected to eliminate some wholesalers and lower consumer prices.

**Table 4**  
Wholesale and retail trade in Japan

| Year | Wholesale trade          |                     |                            | Retail trade             |                     |                            |
|------|--------------------------|---------------------|----------------------------|--------------------------|---------------------|----------------------------|
|      | Number of establishments | Number of employees | Annual sales (million yen) | Number of establishments | Number of employees | Annual sales (million yen) |
| 1982 | 428,858                  | 4,090,919           | 398,536,234                | 1,721,465                | 6,369,426           | 93,971,191                 |
| 1985 | 413,016                  | 3,998,437           | 427,750,891                | 1,628,644                | 6,328,614           | 101,718,812                |
| 1988 | 436,421                  | 4,331,727           | 446,483,972                | 1,619,752                | 6,851,335           | 114,839,927                |
| 1991 | 461,623                  | 4,709,009           | 571,511,669                | 1,605,583                | 7,000,226           | 142,291,133                |
| 1994 | 429,302                  | 4,581,372           | 514,316,863                | 1,499,948                | 7,384,177           | 143,325,065                |

Source: The Distribution Economics Institute of Japan, *Statistical Abstract of Japanese Distribution*, 1997.

Alongside the many small retailers in Japan, large numbers of primary and secondary wholesalers have emerged. During 1988 through 1994, the number of wholesalers decreased by 2 percent from 436,421 to 429,302. The largest numbers of wholesalers were involved with building materials; chemicals and related products; minerals, metals and recycled products; machinery and equipment; food, beverages, farm, livestock and fishery products; and miscellaneous wholesale trade. Total employment in the wholesale industry increased from 4.33 million in 1988 to 4.58 million in 1994. Most wholesalers are also small. In 1994, only 3 percent of the total number of wholesalers or 11,982 had 50 or more employees. In fact 73 percent of wholesalers employed fewer than 10 persons.

The number of wholesalers in a particular distribution channel varies according to the industry or product. For some consumer products, such as agricultural goods, fish, food, and beverages, there are many secondary wholesalers in the distribution chain. However, in the case of clothing, products may pass directly from the primary wholesaler to the retailer. In some cases large manufacturers have eliminated wholesalers to gain direct access to retailers, and large electronics manufacturers, in particular, have set up affiliated sales outlets that also serve as wholesalers. In other cases, wholesalers provide a sorting function to retailers by carrying a variety of goods from several manufacturers.

At the top of the distribution channel, manufacturers often control distribution activities through formal ownership of wholesalers and retailers and through various business practices that create dependent relationships with the wholesalers and retailers. These practices include exclusive dealings, resale price maintenance, return of goods practices and discriminatory rebate policies. In certain industries such as automobiles, consumer electronics, optics, cosmetics, pharmaceuticals, newspapers, and processed foods, manufacturers have developed distribution keiretsu or integrated marketing networks. These networks provide manufacturers with control over distribution, development of brand loyalty, provision of after sales service and acquisition of marketing information. The use of such business practices benefits wholesalers and retailers as well. Wholesalers are guaranteed assured supplies of products from particular manufacturers and are not likely to lose their retail customers to another distributor. Retailers benefit from the provision of inventory, financing, returned goods services and loans of sales personnel from wholesalers and manufacturers.

## *Efficiencies and responsiveness*

Japan's distribution sector exhibits a mixed record with regard to productivity or efficiency, on the one hand, and its effectiveness or responsiveness to both consumers and producers on the other. In general, based on previous research findings, Japan's retail distribution channels score low in terms of productivity, but according to some indicators, are an efficient adaptation to socio-economic conditions in Japan. The distribution system ranks high in terms of its effectiveness and responsiveness, but at a cost to Japanese consumers, certain segments of the economy, and foreign suppliers.

Any evaluation of the efficiency of Japan's distribution system depends largely on the assumptions and criteria used. Many analysts have attempted to assess the efficiencies in Japan's distribution system by examining the number of stages of distributors, comparing inventory turnovers, margins or retail prices. For example, the ratio of wholesale to retail sales provides an indication of the number of wholesalers that products must pass through before reaching the retailer. The larger the number of wholesale transactions, the higher the value of the ratio. In 1994, the ratio was 3.54 in Japan compared to 1.0 for the United States. In Japan, there is lower productivity in smaller retail outlets that account for the majority of stores, but high productivity for department stores or chain stores. Productivity per worker has been improving and floor space productivity has been increasing. Store location, hours of operation, and product assortment are all important factors affecting the performance of a store. The gross margin rate (sales minus the cost of goods sold) is lower for both Japanese wholesalers and retailers than Western countries indicating greater efficiencies. The merchandise turnover rate is high for convenience goods and low for nonconvenience goods, reflecting differences in purchasing frequency by consumers. Inventory costs are higher for small Japanese retailers so that frequent deliveries are necessary.

One criteria used to evaluate a distribution system is its effectiveness or the ability to deliver outputs to the consumer, both in the short and long term. This includes such considerations as the ability of manufacturers and distributors to adapt to changes in consumer needs or demands; development of new products and markets; access for newcomers to channels and information; and responsiveness to social concerns. Japanese consumer surveys show that retail channels score high in terms of delivering freshness, quality, and wide assortments of goods. For example, there are approximately 30,000 products in the average

supermarket in Japan, compared to 20,000 in the United States and 6,600 in Germany. Even small stores carry a large variety of products and most offer personalized services, such as packaging, wrapping, and delivery.

Japanese manufacturers have been successful in developing national brands and marketing programs. The traditional sector or small stores have helped rather than hindered manufacturers' marketing strategies in terms of providing direct access to consumers and "real world" test marketing for new products. The rate of new product introductions in Japan is very high as a result of "product churning", or the rapid development and marketing of new models by Japanese manufacturers. For example, in the food industry, it is estimated that 4,000 products are introduced every year. Japanese consumers benefit from "product churning" — at a cost. Rapid product launching creates very high fixed costs for manufacturers who must invest heavily in information-based networks, financial support and extensive sales forces. These levels of investment inevitably lead to higher domestic prices for Japanese consumers. Foreign consumers, however, may benefit from access to imported products that might not have been developed otherwise, without having to shoulder all of the development costs.

In terms of providing access to channels, outputs, and information for existing Japanese producers, distributors, retailers and consumers, the record of Japan's distribution system is mixed. On the one hand, the traditional and modern sectors are so closely integrated in Japan that the wholesalers and manufacturers can serve both sectors. Although the establishment of large-scale retail stores is limited by government regulations, few laws restrict the opening of smaller, neighborhood stores, and the start-up costs are lower. For the consumer, the high density of stores in neighborhoods and staggered operating hours of stores permit Japanese consumers to buy products needed at almost any time of the day. However, limits on the operating hours of large-scale retail stores may affect consumers' ability to access a wide range of goods.

In highly systemized distribution channels, information flows between existing retailers, distributors and manufacturers are relatively unimpeded. Japanese manufacturers are generally able to collect a lot of information about how many products can be sold and in which channel based on their own sales force's assessment, allowing them to respond quickly to market changes and to the moves of

their competitors. However, there may be competing trends in information flows with the increases in electronic ordering and inventory systems. There are apparently some inequalities associated with access to data between large and small retailers, among wholesalers and between retailers and manufacturers. Access to, and control of, data from electronic information systems is one of the most important factors likely to affect information flows and power relationships within distribution channels in the future.

In terms of social responsiveness, Japan's wholesalers and retailers provide employment and income to a large segment of the population. Neighborhood stores provide a pleasant atmosphere for social gatherings, exchange of information and entertainment. For example, even convenience stores offer table and chairs for customers and some department stores present movies for children. However, there are costs associated with the provision of fresh produce and small lots through frequent deliveries to the numerous neighborhood stores. Increased traffic congestion and air pollution are examples of the added costs of just-in-time deliveries. As awareness of these problems increases actions are being taken such as improving the accuracy of ordering through POS systems and reducing the numbers of deliveries.

Japan's retail distribution system does not win high marks in terms of retail prices which have been found to be between 25 and 50 percent higher than in the United States. Some of the reasons for the high prices of both domestic and imported products include: (1) high costs of land, rent, transportation, storage, inventories, utilities and public services; (2) necessity of meeting consumer demands for service, quality and freshness; (3) governmental regulations and restrictions on some products; (4) the impact of nonprice factors such as certain characteristics of Japanese corporate behavior; and (5) enforcement of pricing policies by dominant channel members, especially manufacturers in channels characterized by systemization. There is debate about which of the factors above is more important in contributing to higher prices than others, especially with regard to the role of producers in encouraging resale price maintenance. It has been suggested that if distribution margins in Japan and the United States are similar, then the high retail prices must be attributed to producers rather than wholesalers or retailers. The large discrepancies in prices between Japan and overseas markets suggest that Japanese producers are able to use their market power to engage in price discrimination.

## Competition Within Distribution Channels

There are divided views among analysts about the effects of business practices within Japan's vertical distribution channels. From one perspective resale price maintenance, exclusive dealings and rebates are actually an efficient means of disseminating information and service to consumers through retail networks. Resale price maintenance, in particular, is viewed as a means for manufacturers to prevent competing retailers from free riding, or winning sales without making investments in the provision of information to consumers. However, when there is a high level of industry concentration for a particular product, there appears to be a positive relationship to the market power of manufacturers. More specifically, where many industries can be characterized as oligopolistic, the effect of such business practices, when employed in some combination, may be to nullify intrabrand price competition or in the case of exclusive dealing, to limit brand competition to designated retailers. In addition, channels

characterized by vertical integration under the leadership of oligopolistic manufacturers may result in difficulties for low-priced or new entrants to gain access.

To understand the competitive environment better in Japan's retail distribution sector, recent market share data for various retail products are analyzed. Although such data do not provide conclusive evidence about the extent of market power or the ability of dominant producers to enforce pricing or brand loyalty policies within distribution channels, such data do provide a general overview of market conditions for selected retail products.

According to table 5, the market shares of the leading three pharmaceutical producers for five out of six products (except stomach relief products) was 50 percent or higher. For tonics, one firm was responsible for 64 percent of total sales.

For 12 out of 15 cosmetics and toiletries products, the market share of the leading 4 manufacturers was higher than 50 percent (table 6). For three products (toothpaste, synthetic detergent and kitchen detergent), three producers accounted for 100 percent of sales.

**Table 5**  
Market share of leading producers of pharmaceuticals, 1995

|                |      |
|----------------|------|
| Stomach relief | 32.4 |
| Pain relief    | 77.5 |
| Tonics         | 85.6 |
| Eye care       | 74.7 |
| Vitamins       | 69.0 |

Source: Compiled from statistics of the Distribution Economics Institute of Japan, *Statistical Abstract of Japanese Distribution*, 1997.

**Table 6**  
Market share of leading producers of cosmetics/toiletries, 1995

| Item                     | Market share of leading four producers |
|--------------------------|--|
| Facial skin cream        | 36.0                                   |
| Milky lotion             | 54.9                                   |
| Foundation               | 55.0                                   |
| Lipstick                 | 44.1                                   |
| Hair spray               | 56.2                                   |
| Perfume                  | 82.1                                   |
| Cologne                  | 42.2                                   |
| Shampoo                  | 58.6                                   |
| Hair rinse               | 65.2                                   |
| Toothpaste               | 100                                    |
| Bath soap                | 55.8                                   |
| Synthetic detergent      | 100                                    |
| Detergent, kitchen       | 100                                    |
| Detergent, home cleaning | 73.9                                   |
| Room cologne             | 100                                    |

Source: Compiled from statistics of the Distribution Economics Institute of Japan, *Statistical Abstract of Japanese Distribution*, 1997.



According to table 7, for seven types of home and office equipment, the combined market shares of the leading three producers was 60 percent or higher. In the case of fountain pens, three companies accounted for almost 98 percent of the market. For electronic desk calculators, one company accounted for 54 percent of total sales.

According to table 8, for 14 out of 16 types of home appliances, the leading 4 producers accounted for 65 percent of total sales or higher (except for electric refrigerators and cameras). For 10 products, the market share was 70 percent or higher. For five

products (ventilation fans, magnetic tape, personal computers, photographic film and wrist watches), two firms accounted for 50 percent of sales.

According to table 9, the leading 4 producers of 19 out of 22 food items accounted for a combined market share of 50 percent or higher. For eight items, the combined market share of the leading producers was higher than 80 percent. For instant noodles (in cup), canned tuna fish, and mayonnaise the leading producers accounted for 53.0 percent, 58.6 percent and 52.0 percent of total sales, respectively.

**Table 7**  
**Market share of leading producers of stationery/office equipment, 1995**

| Item                        | Market share of leading 3 producers (percentage) |
|-----------------------------|--|
| Fountain pens               | 97.9   |
| Pencils                     | 80.3   |
| Mechanical pencils          | 68.4   |
| Ball point pens             | 61.9   |
| Electronic desk calculators | 100  |
| Word processors             | 52.1   |
| Typewriters                 | 78.9   |
| Office processors           | 64.5   |
| Facsimiles                  | 39.2   |

Source: Compiled from statistics of the Distribution Economics Institute of Japan, *Statistical Abstract of Japanese Distribution*, 1997.

**Table 8**  
**Market share of leading producers of home appliances/precision machinery, 1995**

| Item                      | Market share of leading four producers |
|---------------------------|--|
| Electric refrigerators    | 63.3                                   |
| Electric washing machines | 77.1                                   |
| Electric fans             | 71.1                                   |
| Ventilation fans          | 92.4                                   |
| Electric blankets         | 80.7                                   |
| Microwave ovens           | 70.7                                   |
| Radio cassette recorders  | 70.1                                   |
| Television sets           | 55.9                                   |
| Stereo sets               | 66.7                                   |
| Car stereos               | 65.6                                   |
| VCRs                      | 52.5                                   |
| Magnetic tape             | 84.3                                   |
| Personal computers        | 77.5                                   |
| Cameras                   | 62.3                                   |
| Photographic film         | 100                                    |
| Wrist watches             | 90.4                                   |

Source: Compiled from statistics of the Distribution Economics Institute of Japan, *Statistical Abstract of Japanese Distribution*, 1997.

**Table 9**  
**Market share of leading producers of food items, 1995**

| Item                          | Market share of leading 4 producers |
|-------------------------------|-------------------------------------|
| Ham                           | 42.0                                |
| Butter                        | 65.7                                |
| Cheese                        | 55.1                                |
| Ice cream                     | 50.5                                |
| Bread                         | 56.4                                |
| Pasta                         | 84.2                                |
| Instant noodles (in bag)      | 85.3                                |
| Instant noodles (in cup)      | 87.6                                |
| Canned tuna fish              | 57.4                                |
| Bottled jam                   | 57.4                                |
| Chocolates                    | 65.3                                |
| Biscuits                      | 39.1                                |
| Snacks                        | 53.7                                |
| Margarine                     | 83.5                                |
| Edible oil                    | 88.0                                |
| Soy sauce                     | 46.8                                |
| Worcester sauce               | 60.0                                |
| Tomato ketchup                | 71.2                                |
| Mayonnaise                    | 86.6                                |
| Dressing                      | 81.2                                |
| Retort curry                  | 75.8                                |
| Microwavable convenience food | 91.5                                |

Source: Compiled from statistics of the Distribution Economics Institute of Japan, *Statistical Abstract of Japanese Distribution*, 1997.

In general, it appears that for several products (such as home appliances, consumer electronics, toiletries, cosmetics, pharmaceuticals and alcoholic beverages) where distribution channels are characterized by vertical integration, there is also a high level of market share held by only a few firms. Other studies have shown that in many of these industries, distributors have lost their independence from the manufacturers through various business practices, and they benefit from assured profits as long as they are willing to uphold manufacturers pricing policies.

## Conclusions

Based on preliminary research, several conclusions can be drawn regarding the current composition and operations of Japan's retail distribution channels. With regard to the structure of the retail sector, there have been only limited changes since 1988 with regard to the numbers of small stores. Although "mom-and-pop" stores are declining in number very slowly, they continue to account for a large part of sales, requiring the services of specialized wholesalers

to meet demands for frequent deliveries, especially for fresh food products. Discount stores are gaining in popularity and department stores are discounting certain items, however, long-term structural changes will depend largely on domestic economic conditions, consumer purchasing habits and continued movement towards regulatory reform.

Market share data suggests that there are opportunities for manufacturers to dominate and systematize the channels for certain products through the use of business practices, increasing the likelihood that manufacturers' pricing recommendations will be enforced. One of the most significant trends seems to be the continuing growth of convenience stores and the shifts in market power associated with the introduction of electronic information systems. To the extent that mass merchandisers can increase their market power vis-a-vis manufacturers (or large wholesalers) through volume orders, maintenance of accurate inventory systems, and focusing on consumer preferences there will be greater pressures on manufacturers to be responsive. However, as in the past, they may respond by strengthening their own traditional channels or developing new retail formats.

In overall terms, Japan's distribution system results in the delivery of a wide assortment of products to consumers frequently and conveniently. By many indicators, both wholesalers and retailers operate relatively efficiently given the geographic and socio-economic environment for distribution in Japan. Manufacturers, wholesalers, and retailers in existing channels have benefited to a large extent from assured supplies and customers, reduction of risks, access to information and channels and product development. The major disadvantages of current distribution

activities are: (1) high retail prices or minimal price competition for many retail products; (2) external social costs such as traffic congestion and pollution as a result of the delivery system; and (3) the exclusion of new entrants, including foreign companies, from access to channels. The question for Japanese consumers to answer is whether the benefits of the retail distribution sector outweigh the costs or effects of business practices and vertical integration on prices and competition in the economy.

# INTERNATIONAL ECONOMIC COMPARISONS

## U.S. Economic Conditions

Contrary to the conventional views that economic growth breeds inflation, revised GDP data released by the U.S. Department of Commerce show solid economic growth over the most part of the past 18 years, while inflation has remained dormant. Rising U.S. labor productivity combined with declining unit labor costs particularly in the durable manufacturing sector were major factors in promoting noninflationary U.S. economic growth.

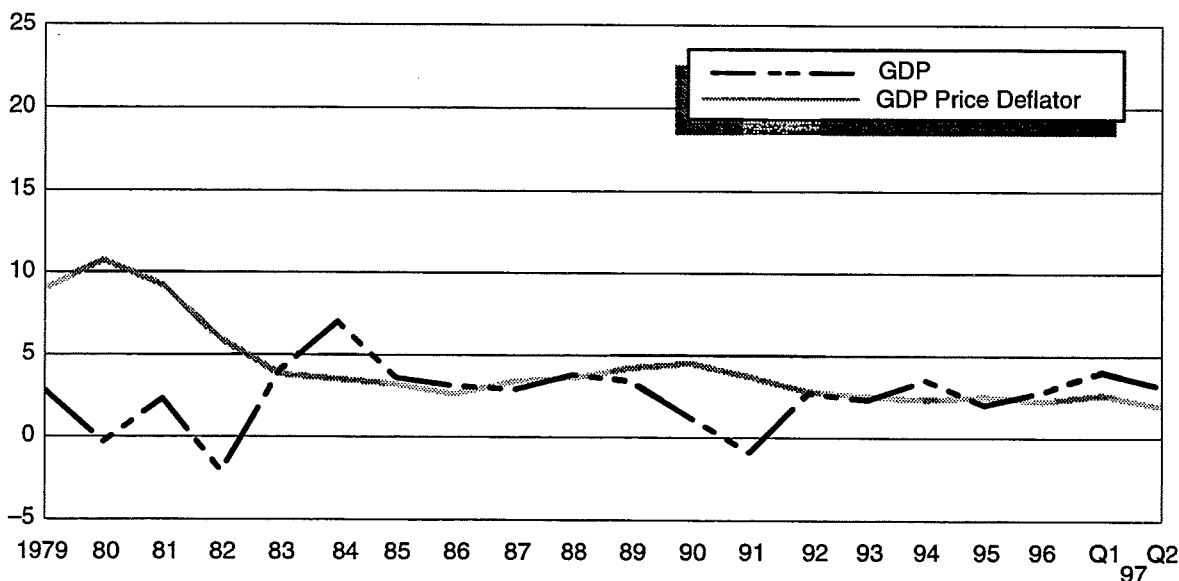
the exception of 1984, when GDP grew at 7.0 percent, GDP growth rates fluctuated within the range of 1.2 to 4.0 percent. GDP reached a trough in 1982, when the growth rate tumbled to a negative 2.1 percent and in 1991 when GDP growth fell to a negative 0.9 percent. With the exception of these cyclical movements, GDP exhibited a smooth sustained path of growth.

## U.S. Economic Growth Historical Perspectives

Commerce's revised GDP growth rates for the period 1979-1997 show a moderating trend in the pace of economic expansion. During this period, and with

Despite solid GDP growth rates, the GDP price deflator index, with the exception of the period 1979-1982, showed moderate hikes. After rising at a rate of 4.5 percent in 1990, the index declined afterwards to an annual rate of 1.9 percent in the second quarter of 1997. Modest increases over the most part of this period, averaging between 1.2 percent to 5.2 in personal consumption expenditures (PCE), but surging increases in gross private domestic fixed investment (GPDFI) and exports, contributed to GDP growth and kept inflation subdued. Figure 4 plots GDP and the GDP price index for the 1979-97 period. Table 10 shows percent changes in GDP, prices, and major GDP components.

**Figure 4**  
U.S. economic growth historical perspectives, percent change from previous period



Source: U.S. Department of Commerce.

**Table 10**  
**Real Gross domestic product (GDP), historical perspective: Percent change from previous period**

| Year                                      | GDP  | PCE <sup>1</sup> | GPDFI <sup>2</sup> | Exports               | Imports               | GDP price index |
|---|------|------------------|--------------------|-----------------------|-----------------------|-----------------|
|   |      |                  |                    | of goods and services | of goods and services |                 |
| <i>Percent change from preceding year</i> |      |                  |                    |                       |                       |                 |
| 1979                                      | 2.8  | 2.3              | 5.3                | 9.5                   | 1.7                   | 9.0             |
| 1980                                      | -0.3 | -0.3             | -6.8               | 10.8                  | -6.7                  | 10.7            |
| 1981                                      | 2.3  | 1.2              | 1.9                | 1.2                   | 2.6                   | 9.2             |
| 1982                                      | -2.1 | 1.2              | -7.6               | -7.1                  | -1.3                  | 5.9             |
| 1983                                      | 4.0  | 5.2              | 7.2                | -2.6                  | 12.6                  | 3.8             |
| 1984                                      | 7.0  | 5.2              | 16.5               | 8.3                   | 24.3                  | 3.5             |
| 1985                                      | 3.6  | 4.7              | 4.8                | 2.7                   | 6.5                   | 3.2             |
| 1986                                      | 3.1  | 4.0              | 0.7                | 7.4                   | 8.4                   | 2.6             |
| 1987                                      | 2.9  | 3.1              | -0.7               | 11.0                  | 6.1                   | 3.4             |
| 1988                                      | 3.8  | 3.9              | 2.4                | 15.9                  | 3.9                   | 3.6             |
| 1989                                      | 3.4  | 2.3              | 1.7                | 11.7                  | 3.9                   | 4.2             |
| 1990                                      | 1.2  | 1.7              | -3.1               | 8.5                   | 3.9                   | 4.5             |
| 1991                                      | -0.9 | -0.6             | -8.0               | 6.3                   | -0.7                  | 3.7             |
| 1992                                      | 2.7  | 2.8              | 5.7                | 6.6                   | 7.5                   | 2.8             |
| 1993                                      | 2.3  | 2.9              | 7.6                | 2.9                   | 8.9                   | 2.5             |
| 1994                                      | 3.5  | 3.3              | 8.6                | 8.2                   | 12.2                  | 2.3             |
| 1995                                      | 2.0  | 2.4              | 5.1                | 11.1                  | 8.9                   | 2.5             |
| 1996                                      | 2.8  | 2.6              | 8.3                | 8.3                   | 9.1                   | 2.2             |
| 1997:                                     |      |                  |                    |                       |                       |                 |
| Q. I                                      | 4.0  | 3.2              | 7.7                | 11.4                  | 12.9                  | 2.1             |
| Q. II                                     | 3.1  | 2.5              | 7.3                | 12.6                  | 14.8                  | 1.8             |

<sup>1</sup> Personal consumption expenditure.

<sup>2</sup> Gross private domestic fixed investment. 1997 figures are percent changes for the same quarter a year ago.

Source: U.S. Department of Commerce.

In general, Commerce's annual revisions to real GDP reflect four factors: (1) revisions to current-dollar components of GDP whose real estimates are prepared by using GDP price deflator, (2) revisions to the prices used in deflating GDP, (3) revisions to the quantities used to estimate components of real GDP by extrapolation or direct valuation, and (4) revisions caused by shifts in the composition of current-dollar GDP. In this latest annual revision, the first two factors were most significant.

### *U.S. productivity and costs*

The U.S. Department of Labor reported revised productivity data as measured by output per hour of all persons, for the second quarter of 1997.

The revised seasonally adjusted annual rates of productivity changes in the second quarter were:

2.7 percent in the business sector, and

2.7 percent in the nonfarm business sector.

In both sectors, productivity growth in the second quarter was stronger than in the first quarter of 1997, when output per hour increased at an annual rate of 1.8 percent in the business sector and 1.4 percent in the nonfarm business sector. The revised second quarter

productivity increases were greater than those previously reported because output was revised upward and increases in hours were revised downward.

In manufacturing, the revised productivity changes in the second quarter were:

2.4 percent in manufacturing,

4.8 percent in durable goods manufacturing, and

-0.3 percent in nondurable goods manufacturing.

The second-quarter increase in manufacturing productivity combined a strong increase in durable goods industries with the first decrease in nondurable goods industries since the third quarter of 1994 (when it fell 0.9 percent). Output and hours in manufacturing, which includes about 18 percent of U.S. business-sector employment, tend to vary more from quarter to quarter than data for the more aggregate business and nonfarm business sectors. Second-quarter measures are summarized in table 11.

Productivity measures describe the relationship between real output and the labor time involved in its production. They show the changes from period to period in the amount of goods and services produced per hour. Although these measures relate output to hours at work of all persons engaged in a sector, they do not measure the specific contribution of labor,

**Table 11**  
**Productivity and costs: Revised second-quarter 1997 measures (Seasonally adjusted annual rates)**  
*Percentage*

| Sector   | Productivity | Output | Hours | Hourly compensation | Real hourly compensation | Real unit labor costs |
|--|--------------|--------|-------|---------------------|--------------------------|-----------------------|
| <i>Change from preceding quarter</i>               |              |        |       |                     |                          |                       |
| Business .....                                     | 2.7          | 4.3    | 1.5   | 3.2                 | 2.1                      | 0.4                   |
| Nonfarm business .....                             | 2.7          | 4.2    | 1.5   | 3.2                 | 2.1                      | 0.5                   |
| Manufacturing .....                                | 2.4          | 3.6    | 1.1   | 2.6                 | 1.5                      | 0.1                   |
| Durable .....                                      | 4.8          | 6.7    | 1.8   | 2.0                 | 0.9                      | -2.6                  |
| Nondurable .....                                   | -0.3         | -0.1   | 0.2   | 3.3                 | 2.2                      | 3.6                   |
| <i>Percent change from same quarter a year ago</i> |              |        |       |                     |                          |                       |
| Business .....                                     | 1.3          | 4.1    | 2.7   | 3.5                 | 1.1                      | 2.1                   |
| Nonfarm business .....                             | 1.2          | 4.1    | 2.8   | 3.5                 | 1.1                      | 2.2                   |
| Manufacturing .....                                | 3.5          | 4.6    | 1.0   | 3.0                 | 0.6                      | -0.5                  |
| Durable .....                                      | 4.0          | 5.9    | 1.9   | 2.5                 | 0.1                      | -1.5                  |
| Nondurable .....                                   | 3.1          | 2.9    | -0.2  | 3.7                 | 1.3                      | 0.6                   |

Source: US, Department of Labor.

capital, or any other factor of production. Rather, they reflect the joint effects of many influences, including changes in technology; capital investment; level of output; utilization of capacity, energy, and materials; the organization of production; managerial skill; and the characteristics and effort of the work force.

Moreover, the data sources and methods used in the preparation of the manufacturing series differ from those used in preparing the business and nonfarm business series, and these measures are not directly comparable. Output measures for business and nonfarm business are based on measures of gross domestic product prepared by the Bureau of Economic Analysis of the U.S. Department of Commerce. Quarterly output measures for manufacturing reflect indexes of industrial production independently prepared by the Board of Governors of the Federal Reserve System.

### **Business sector**

From the first quarter to the second quarter of 1997, business sector productivity increased at a 2.7-percent annual rate. This was the largest increase in productivity since the fourth quarter of 1993, when output per hour grew by 4.3 percent. During the first quarter of 1997, productivity had increased by 1.8 percent, as output grew by 5.9 percent and hours of all persons rose 4.0 percent. In the second quarter, business sector output rose by 4.3 percent and hours of all persons engaged in the sector rose 1.5 percent. The slower second-quarter hours increase reflected a 1.8-percent increase in employment and a 0.3-percent decline in average weekly hours. The decline in

average weekly hours followed four quarters of increases.

Hourly compensation increased by 3.2 percent in the second quarter of 1997, following a 4.4-percent rise in the first quarter. This measure includes wages and salaries, supplements, employer contributions to employee benefit plans, and taxes. Real hourly compensation, increased at a 2.1-percent annual rate in the second quarter of 1997. This was the largest gain since the first quarter of 1992 (5.0 percent) and followed a 1.9-percent rise in the first quarter.

Unit labor costs, which reflect changes in hourly compensation and productivity, grew at a 0.4-percent annual rate during the second quarter, less than the 2.5-percent rise in the first quarter. The implicit price deflator for the business sector, which incorporates changes in both unit labor costs and unit nonlabor payments, increased by 1.2 percent in the second quarter and by 2.0 percent during the first quarter of 1997 (seasonally adjusted annual rates).

### **Nonfarm Business Sector**

In the smaller nonfarm business sector, productivity grew at a 2.7-percent annual rate in the second quarter of 1997, faster than at any time since the fourth quarter of 1993, when it rose by 3.3 percent. During the first quarter of 1997, nonfarm business productivity had increased by 1.4 percent, reflecting gains of 5.6 percent in output and 4.2 percent in hours. Both output and hours increases slowed in the second quarter. Output increased by 4.2 percent and hours of all persons increased by 1.5 percent. The modest rise in hours resulted from a 1.7-percent increase in

employment and a 0.3 percent decline in average weekly hours at work.

Hourly compensation increased by 3.2 percent in the second quarter, compared with a 4.5-percent increase one quarter earlier (seasonally adjusted annual rates). Real hourly compensation increased by 2.1 percent in both the first and the second quarters of 1997. Real hourly compensation growth has not exceeded 2.1 percent since the first quarter of 1992, when it increased 4.8 percent.

Real unit labor costs edged up by 0.5 percent during the second quarter of 1997, the smallest increase since the second quarter of 1994, when these costs fell by 0.2 percent. Unit labor costs had increased at a 3.1-percent annual rate in the first quarter.

## Manufacturing

Productivity increased by 2.4 percent in manufacturing in the second quarter of 1997, as output grew by 3.6 percent and hours of all persons increased by 1.1 percent (seasonally adjusted annual rates). In the previous quarter, a similar increase in productivity of 2.5 percent, occurred as output rose by 5.4 percent while hours grew by 2.8 percent. The second-quarter increase in productivity was due entirely to a 4.8-percent productivity gain in the durable goods sector, as output per hour worked declined by 0.3 percent in the nondurable goods sector.

Hourly compensation of all manufacturing workers increased by 2.6 percent during the second quarter, down from a 4.4-percent increase in the first quarter of 1997. Real hourly compensation in the manufacturing

sector rose by 1.5 percent in the second quarter. During the first quarter, real hourly compensation rose by 2.0 percent.

Manufacturing unit labor costs edged up at a 0.1-percent annual rate in the second quarter of 1997, after increasing by 1.8 percent in the first quarter. Unit labor costs declined by 2.6 percent in durable goods industries in the second quarter of 1997, after rising by 1.7 percent in the first quarter. In nondurable manufacturing, unit labor costs increased by 3.6 percent in the second quarter and by 0.7 percent in the first quarter of 1997.

## Nonfinancial corporations

In nonfinancial corporations (table 12), productivity increased by 3.2 percent during the second quarter, as output rose by 5.5 percent and hours increased by 2.2 percent (seasonally adjusted annual rates). In the first quarter of 1997, productivity had increased by 1.9 percent in nonfinancial corporations, as output increased by 6.1 percent and employee hours rose by 4.1 percent. Nonfinancial corporations include all corporations doing business in the United States, except for financial corporations, which include depository institutions, nondepository institutions, security and commodity brokers, insurance carriers, regulated investment offices, small business investment offices, and real estate investment trusts.

Hourly compensation rose by 3.2 percent in the second quarter, down from a 4.3-percent increase one quarter earlier. Real hourly compensation increased by 2.1 percent in the second quarter, slightly more than the 1.9-percent rise in the first quarter of 1997.

**Table 12**  
**Nonfinancial corporations: Preliminary second-quarter productivity and cost measures**  
**(Seasonally adjusted annual rates)**

| Period  | Productivity | Output | Hours | Hourly compensation | Real hourly compensation | Unit labor costs | Unit profits | Implicit price deflator |
|---|--------------|--------|-------|---------------------|--------------------------|------------------|--------------|-------------------------|
| <i>Percentage change from preceding quarter</i>       |              |        |       |                     |                          |                  |              |                         |
| 1997 II .....   | 3.2          | 5.5    | 2.2   | 3.2                 | 2.1                      | 0.0              | 4.0          | 0.5                     |
| <i>Percentage change from same quarter a year ago</i> |              |        |       |                     |                          |                  |              |                         |
| 1997 II .....   | 2.4          | 5.3    | 2.9   | 3.5                 | 1.1                      | 1.1              | 3.1          | 0.8                     |

Source: U.S. Department of Labor.

Unit labor costs for nonfinancial corporations were unchanged in the second quarter of 1997, following a 2.3-percent rise in the first quarter. Unit nonlabor costs fell by 0.2 percent, and unit profits rose by 4.0 percent. During the first quarter, unit nonlabor costs had dropped by 1.8 percent, and unit profits rose by 3.8 percent (seasonally adjusted annual rates)

## U.S. Economic Performance Relative to other Group of Seven (G-7) Members

### *Economic Growth*

U.S. real GDP—the output of goods and services produced in the United States measured in 1992 prices—grew at a revised annual rate of 3.3 percent, following a revised rate of 4.9 percent in the first quarter of 1997.

The annualized rates of real GDP growth in the second quarter of 1997 were 4.9 percent in Canada, 6.1 in Italy, 3.6 percent in the United Kingdom, 4.0 percent in France, 4.1 percent in Germany and -11.2 percent in Japan.

### *Industrial production*

The Federal Reserve Board reported that U.S. industrial production (IP) increased by 0.7 percent in August 1997, with widespread gains in manufacturing, following an increase of 0.4 percent in July 1997. Total industrial production in August 1997 was 4.7 percent higher than in August 1996. Manufacturing output in August 1997 was 5.3 percent higher than in August 1996. Total industrial capacity utilization increased to 83.9 percent from 83.6 percent in July 1997 and was 3.9 percent higher than in August 96.

Group of Seven (G-7) member countries reported the following changes in annual rates of industrial production. For the year ending July 1997, Germany reported a 5.9-percent increase, Japan reported a 4.4-percent increase, Italy reported a 3.5-percent increase, and the United Kingdom reported a 2.3-percent increase. For the year ending June 1997, Canada reported a 4.2 percent increase and France reported a 2.7- percent increase.

### *Prices*

The seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.2 percent in August 1997 following

a similar increase in July. For the 12-month period ended in June 1997, the CPI increased by 2.2 percent.

For other G-7 countries the latest annual price increases were 1.8 percent in Canada (July), 1.5 percent in France (August), 2.1 percent in Germany (August), 1.5 percent in Italy (August), 1.9 percent in Japan (July), and 3.5 percent in the United Kingdom (August).

### *Employment*

The Bureau of Labor Statistics reported that the unemployment rate edged up to 4.9 percent in August 1997 from 4.8 percent in July.

Among the major demographic groups, the jobless rate for black workers declined to 9.3 percent. Rates for adult women (4.4 percent) adult men (4.1 percent), teenagers (16.4 percent) whites (4.2 percent), and Hispanics (7.2 percent).

The services industry added 32,000 jobs in August, following a much stronger increase in July. Health services gained 21,000 jobs in August. Strong growth continued in computer and data processing services (10,000) and engineering, and management services (17,000). Retail trade employment rose by 31,000 in August. Manufacturing employment rose by 47,000 in August, following a small increase in July.

In other G-7 countries, their latest unemployment rates were as follows: Canada reported 9.0 percent (August), Germany reported 11.6 percent (August), the United Kingdom reported 5.3 percent (August), France reported 12.5 percent (July), Japan reported 3.4 percent (July) and Italy reported 12.4 percent (April).

## Forecasts

Six major forecasters expect real annual growth in the United States to average around 2.8 percent in the third quarter of 1997, increasing to 3.0 percent in the fourth quarter. Table 13 shows macroeconomic projections for the U.S. economy from July 1997 to June 1998, and the simple average of these forecasts.

Forecasts of all the economic indicators, except unemployment, are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are quarterly averages. The average of the forecasts points to an unemployment rate ranging around 4.9 percent in the remainder of 1997. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of 1.8 percent to 2.2 percent in the remainder of 1997.



**Table 13**  
**Projected changes in U.S. economic indicators, by quarters, July 97-June 98**  
*(Percentage)*

| Period                                     | Confer-<br>ence<br>Board | E.I.<br>Dupont | UCLA<br>Business<br>Forecasting<br>Project | Merrill<br>Lynch<br>Capital<br>Markets | Data<br>Resources<br>Inc.<br>(D.R.I.) | Wharton<br>WEFA<br>Group | Mean<br>of 6<br>fore-<br>casts |
|--|--------------------------|----------------|--|--|---------------------------------------|--------------------------|--------------------------------|
| <b>GDP current dollars</b>                 |                          |                |  |  |                                       |                          |                                |
| 1997:                                      |                          |                |  |  |                                       |                          |                                |
| July-Sep .....                             | 4.3                      | 4.3            | 5.4  | 5.0                                    | 4.6                                   | 4.2                      | 4.6                            |
| Oct-Dec .....                              | 6.3                      | 5.6            | 5.1  | 4.9                                    | 5.1                                   | 4.8                      | 5.3                            |
| 1998:                                      |                          |                |  |  |                                       |                          |                                |
| Jan-March .....                            | 7.0                      | 5.1            | 4.2  | 4.5                                    | 5.0                                   | 5.0                      | 5.1                            |
| Apr-June .....                             | 3.7                      | 4.7            | 4.5  | 5.0                                    | 3.8                                   | 4.7                      | 4.4                            |
| Annual average .....                       | 5.3                      | 4.9            | 4.8  | 4.9                                    | 4.6                                   | 4.7                      | 4.9                            |
| <b>GDP constant (chained 1992) dollars</b> |                          |                |  |  |                                       |                          |                                |
| 1997:                                      |                          |                |  |  |                                       |                          |                                |
| July-Sep .....                             | 3.0                      | 2.2            | 3.1  | 2.8                                    | 2.8                                   | 2.6                      | 2.8                            |
| Oct-Dec .....                              | 4.0                      | 3.0            | 2.6  | 2.7                                    | 3.1                                   | 2.5                      | 3.0                            |
| 1998:                                      |                          |                |  |  |                                       |                          |                                |
| Jan-March .....                            | 4.1                      | 2.5            | 1.3  | 2.3                                    | 2.8                                   | 2.3                      | 2.6                            |
| Apr-June .....                             | 1.4                      | 2.2            | 1.9  | 2.6                                    | 1.8                                   | 2.1                      | 2.0                            |
| Annual average .....                       | 3.1                      | 2.5            | 2.2  | 2.6                                    | 2.6                                   | 2.4                      | 2.6                            |
| <b>GDP deflator index</b>                  |                          |                |  |  |                                       |                          |                                |
| 1997:                                      |                          |                |  |  |                                       |                          |                                |
| July-Sep .....                             | 1.3                      | 1.8            | 2.3  | 2.2                                    | 1.8                                   | 1.6                      | 1.8                            |
| Oct-Dec .....                              | 2.2                      | 2.5            | 2.4  | 2.2                                    | 1.8                                   | 2.3                      | 2.2                            |
| 1998:                                      |                          |                |  |  |                                       |                          |                                |
| Jan-March .....                            | 2.8                      | 2.5            | 2.9  | 2.2                                    | 2.0                                   | 2.7                      | 2.5                            |
| Apr-June .....                             | 2.3                      | 2.5            | 2.5  | 2.4                                    | 1.8                                   | 2.5                      | 2.3                            |
| Annual average .....                       | 2.2                      | 2.3            | 2.5  | 2.3                                    | 1.9                                   | 2.3                      | 2.2                            |
| <b>Unemployment, average rate</b>          |                          |                |  |  |                                       |                          |                                |
| 1997:                                      |                          |                |  |  |                                       |                          |                                |
| July-Sep .....                             | 4.8                      | 5.0            | 4.5  | 5.0                                    | 5.0                                   | 4.9                      | 4.9                            |
| Oct-Dec .....                              | 4.8                      | 5.0            | 4.5  | 5.0                                    | 5.0                                   | 4.8                      | 4.9                            |
| 1998:                                      |                          |                |  |  |                                       |                          |                                |
| Jan-March .....                            | 4.6                      | 5.2            | 5.2  | 5.0                                    | 5.0                                   | 4.7                      | 5.0                            |
| Apr-June .....                             | 4.5                      | 5.3            | 5.3  | 5.0                                    | 5.0                                   | 4.6                      | 5.0                            |
| Annual average .....                       | 4.7                      | 5.1            | 4.9  | 5.0                                    | 5.0                                   | 4.8                      | 4.9                            |

Note.—Except for the unemployment rate, percentage changes in the forecast represent annualized rates of change from preceding period. Quarterly data are seasonally adjusted. Forecast date, August 97.

Source: Compiled from data of the Conference Board. Used with permission.

# U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that seasonally adjusted exports of goods and services of \$77.4 billion and imports of \$87.7 billion in July 1997 resulted in a goods and services trade deficit of \$10.3 billion (\$2.1 billion) more than the \$8.3 billion deficit of June 1997. The July 1997 deficit on goods and services was \$1.3 billion lower than the deficit registered in July 1996 (\$11.6 billion) and approximately \$1.0 billion more than the average monthly deficit registered during the previous 12 months (approximately \$9.3 billion).

The July 1997 trade deficit on goods was \$17.1 billion, approximately \$1.9 billion more than the June 1997 deficit (\$15.2 billion). The July 1997 services surplus was \$6.8 billion, slightly less than the June services surplus.

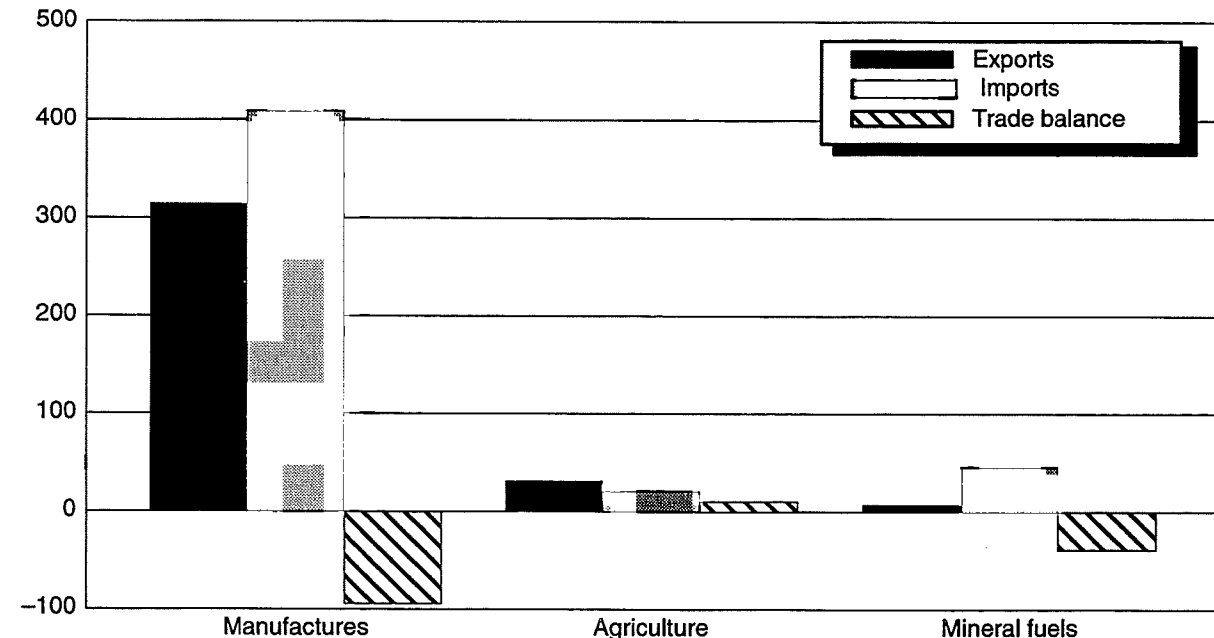
Exports of goods decreased in July 1997 to \$56.5 billion from \$57.4 billion but imports of goods increased to \$73.6 billion from \$72.6 billion. Most of June-July changes in exports occurred in industrial supplies and materials, automotive vehicles, parts and

engines, and consumer goods. The import increases reflected increases in imports of automotive vehicles, parts and engines, consumer goods, capital goods and foods, feeds and beverages.

In the period January-July 1997, U.S. exports of goods and services increased to a record \$535.7 billion from \$487.8 billion in January-July 1996. However, in the same period total imports increased to \$602.0 billion from \$551.7 billion. The deficit on goods and services was \$66.3 billion.

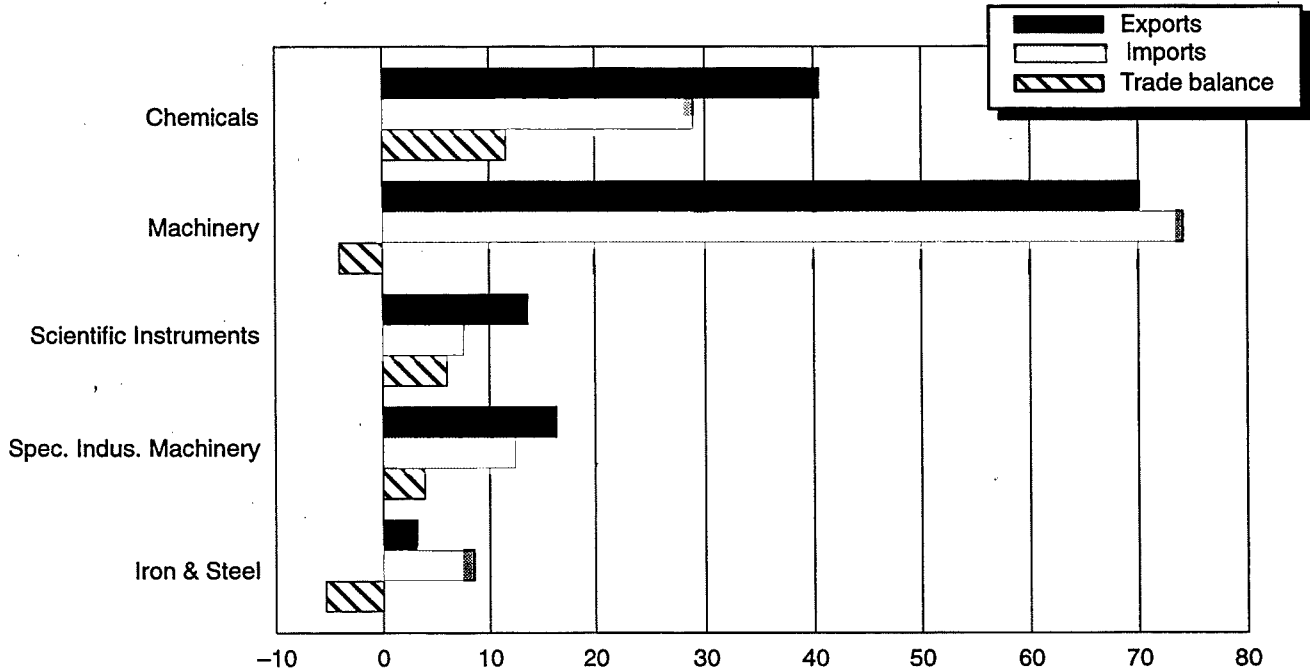
Major U.S. trade developments are highlighted in figures 5, 6 and 7. Seasonally adjusted U.S. trade in goods and services in billions of dollars as reported by the U.S. Department of Commerce is shown in table 14. Nominal export changes and trade balances for specific major commodity sectors are shown in table 15. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 16, and U.S. trade in services by major category is shown in table 17.

**Figure 5**  
U.S. trade by major commodity, billion dollars, Jan.-July 97



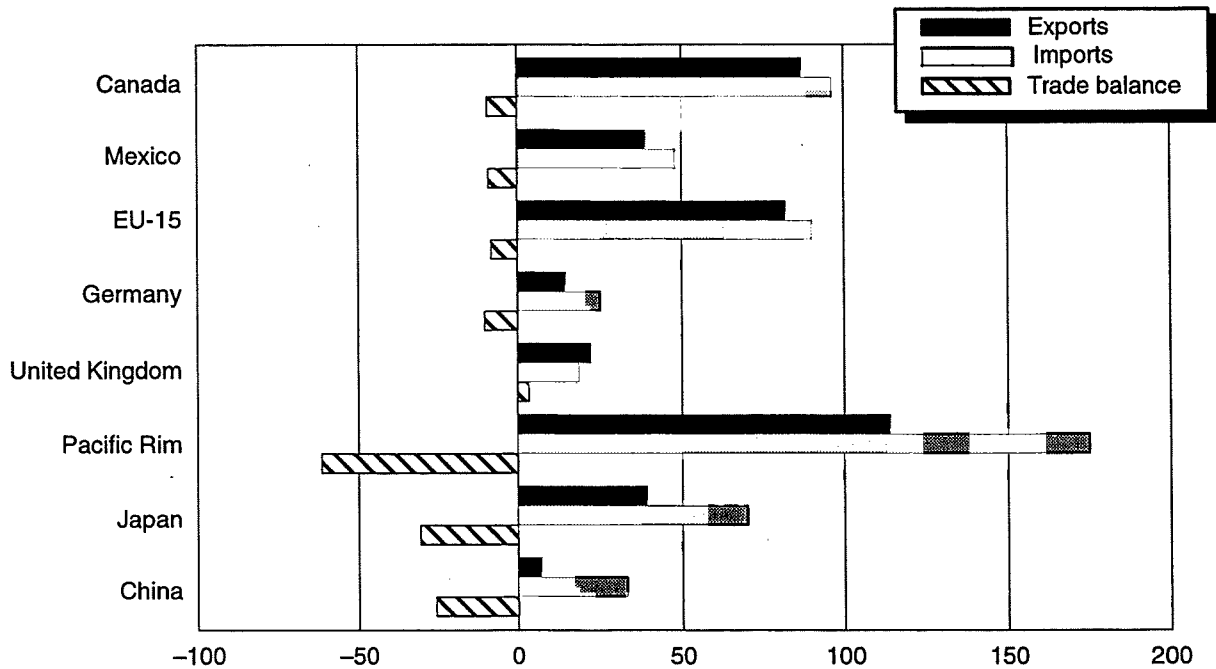
Source: U.S. Department of Commerce.

**Figure 6**  
U.S. trade in principal goods, billion dollars, Jan.-July 97



Source: U.S. Department of Commerce.

**Figure 7**  
U.S. trade with major trading partners, billion dollars, Jan.-July 1997



Source: U.S. Department of Commerce.

**Table 14**  
**U.S. trade in goods and services, seasonally adjusted, June-July 1997**  
*(Billion dollars)*

| Item  | Exports   |           | Imports   |           | Trade balance |           |
|---|-----------|-----------|-----------|-----------|---------------|-----------|
|   | July 1997 | June 1997 | July 1997 | June 1997 | July 1997     | June 1997 |
| Trade in goods (BOP basis)                                      |           |           |           |           |               |           |
| Current dollars—  |           |           |           |           |               |           |
| Including oil .....   | 56.5      | 57.4      | 73.6      | 72.6      | -17.1         | -15.2     |
| Excluding oil .....   | 56.6      | 57.4      | 67.6      | 65.8      | -11.0         | -8.4      |
| Trade in services   |           |           |           |           |               |           |
| Current dollars .....   | 20.9      | 21.1      | 14.2      | 14.2      | 6.7           | 6.9       |
| Trade in goods and services                                     |           |           |           |           |               |           |
| Current dollars .....   | 77.4      | 78.5      | 87.7      | 86.8      | -10.3         | -8.3      |
| Trade in goods (Census basis)                                   |           |           |           |           |               |           |
| 1992 dollars .....  | 70.9      | 71.1      | 88.2      | 86.3      | -17.3         | -15.2     |
| Advanced-technology products<br>(not seasonally adjusted) ..... | 14.9      | 14.9      | 13.0      | 12.4      | 1.9           | 2.5       |

Note.—Data on goods trade are presented on a balance-of-payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the Census Bureau. The major adjustments on BOP basis exclude military trade but include nonmonetary gold transactions, and estimates of inland freight in Canada and Mexico, not included in the Census Bureau data.

Source: U.S. Department of Commerce News (FT 900), Sep. 18, 1997

**Table 15**  
**Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan. 1996-July 1997**

|   | Exports                |                | Change                             | Share of total Jan.-July 1997 | Trade balances         |                |
|---|------------------------|----------------|------------------------------------|-------------------------------|------------------------|----------------|
|   | July 1997              | Jan.-July 1997 | Jan.-July 1997 over Jan.-July 1996 |                               | Jan.-July 1997         | Jan.-July 1996 |
|   | <i>Billion dollars</i> |                | <i>Percentage</i>                  |                               | <i>Billion dollars</i> |                |
| ADP equipment & office machinery .....        | 3.6                    | 24.5           | 7.0                                | 6.2                           | -16.9                  | -14.2          |
| Airplanes .....                               | 2.2                    | 16.2           | 63.6                               | 4.1                           | 13.5                   | 7.7            |
| Airplane parts .....                          | 1.2                    | 7.6            | 15.2                               | 1.9                           | 4.8                    | 4.7            |
| Electrical machinery .....                    | 5.4                    | 37.0           | 12.5                               | 9.4                           | -7.6                   | -11.2          |
| General industrial machinery. ....            | 2.5                    | 17.5           | 12.9                               | 4.4                           | 1.9                    | 0.3            |
| Iron & steel mill products .....              | 0.5                    | 3.2            | 10.3                               | 0.8                           | -5.3                   | -4.5           |
| Inorganic chemicals .....                     | 0.5                    | 3.0            | 15.4                               | 0.8                           | 0                      | -0.2           |
| Organic chemicals .....                       | 1.4                    | 9.7            | 11.5                               | 2.5                           | -0.1                   | -0.3           |
| Power-generating machinery ....               | 2.0                    | 15.7           | 23.6                               | 4.0                           | 1.8                    | -0.3           |
| Scientific instruments .....                  | 1.9                    | 13.6           | 15.3                               | 3.4                           | 5.9                    | 4.7            |
| Specialized industrial machinery .            | 2.5                    | 16.3           | 8.7                                | 4.1                           | 3.9                    | 3.9            |
| TVS, VCRs, etc .....                          | 2.1                    | 13.1           | 18.0                               | 3.3                           | -6.2                   | -6.9           |
| Textile yarns, fabrics and articles           | 0.7                    | 5.1            | 13.3                               | 1.3                           | -1.8                   | -1.3           |
| Vehicle parts .....                           | 3.5                    | 31.8           | 11.2                               | 8.1                           | -33.5                  | -30.0          |
| Manufactured exports not included above ..... | 13.9                   | 100.5          | 7.3                                | 25.5                          | -54.7                  | -46.6          |
| Total manufactures .....                      | 43.9                   | 314.8          | 12.7                               | 79.8                          | -94.3                  | -94.2          |
| Agriculture .....                             | 3.9                    | 31.2           | -9.3                               | 7.9                           | 10.3                   | 15.3           |
| Other exports not included above              | 6.7                    | 48.7           | 8.9                                | 12.3                          | -13.4                  | -11.9          |
| Total exports of goods .....                  | 54.5                   | 394.7          | 10.1                               | 100.0                         | -97.4                  | -90.8          |

Note.—Because of rounding, figures may not add to the totals shown. Data are presented on a Census basis.

Source: U.S. Department of Commerce News (FT 900), Sep. 18, 1997

**Table 16**  
**U.S. exports and imports of goods with major trading partners, Jan. 1996-July 97**  
*(Billion dollars)*

| Country/area                                 | Exports   |                |                | Imports   |                |                | Trade Balances |                |
|--|-----------|----------------|----------------|-----------|----------------|----------------|----------------|----------------|
|  | July 1997 | Jan.-July 1997 | Jan.-July 1996 | July 1997 | Jan.-July 1997 | Jan.-July 1996 | Jan.-July 1997 | Jan.-July 1996 |
| Total .....                                  | 54.5      | 394.7          | 358.5          | 74.9      | 492.1          | 449.3          | -97.4          | -90.8          |
| North America .....                          | 16.9      | 125.5          | 108.3          | 19.4      | 144.3          | 130.8          | -18.8          | -22.5          |
| Canada .....                                 | 10.9      | 86.8           | 77.0           | 12.4      | 96.4           | 89.2           | -9.6           | -12.2          |
| Mexico .....                                 | 6.0       | 38.7           | 31.2           | 7.0       | 47.9           | 41.5           | -9.2           | -10.3          |
| Western Europe .....                         | 11.5      | 91.3           | 82.7           | 15.9      | 98.9           | 91.0           | -7.6           | -8.3           |
| European Union (EU-15) .....                 | 10.4      | 81.6           | 74.5           | 14.5      | 90.0           | 82.4           | -8.4           | -7.9           |
| France .....                                 | 1.2       | 9.2            | 8.3            | 2.0       | 11.6           | 10.6           | -2.4           | -2.3           |
| Germany .....                                | 1.8       | 14.3           | 13.6           | 3.9       | 24.8           | 22.3           | -10.5          | -8.7           |
| Italy .....                                  | 0.7       | 5.3            | 5.4            | 1.9       | 11.2           | 10.8           | -5.9           | -5.4           |
| United Kingdom .....                         | 2.7       | 21.8           | 18.8           | 2.8       | 18.4           | 16.6           | 3.4            | 2.2            |
| European Free-Trade Association (EFTA) ..... | 0.7       | 7.0            | 6.2            | 1.2       | 7.1            | 7.1            | -0.1           | -0.9           |
| Former Soviet Republic/Eastern Europe .....  | 0.5       | 4.5            | 4.0            | 0.7       | 4.6            | 3.6            | -0.1           | 0.4            |
| Russia .....                                 | 0.3       | 1.8            | 2.0            | 0.4       | 2.3            | 1.8            | -0.5           | 0.2            |
| Pacific Rim Countries .....                  | 16.6      | 113.6          | 109.5          | 28.1      | 175.2          | 162.6          | -61.6          | -53.1          |
| Australia .....                              | 1.0       | 7.0            | 7.0            | 0.4       | 2.5            | 2.0            | 4.5            | 5.0            |
| China .....                                  | 1.1       | 6.9            | 6.7            | 5.8       | 32.8           | 26.2           | -25.9          | -19.5          |
| Japan .....                                  | 5.3       | 38.9           | 39.9           | 10.5      | 69.8           | 66.5           | -30.9          | -26.6          |
| NICs .....                                   | 6.9       | 46.1           | 43.8           | 7.8       | 47.9           | 47.5           | -1.8           | -3.7           |
| South/Central America .....                  | 5.2       | 34.8           | 29.1           | 4.8       | 31.1           | 27.7           | 3.7            | 1.4            |
| Argentina .....                              | 0.4       | 3.1            | 2.5            | 0.2       | 1.3            | 1.3            | 1.8            | 1.2            |
| Brazil .....                                 | 1.3       | 8.6            | 6.7            | 0.9       | 5.8            | 5.0            | 2.8            | 1.7            |
| OPEC .....                                   | 2.2       | 13.7           | 12.5           | 4.0       | 26.3           | 24.0           | -12.6          | -11.5          |
| Other Countries .....                        | 2.6       | 17.8           | 17.1           | 4.0       | 23.8           | 21.2           | -6.0           | -4.1           |
| Egypt .....                                  | 0.5       | 2.2            | 1.7            | 0.1       | 0.4            | 0.4            | 1.8            | 1.3            |
| South Africa .....                           | 0.2       | 1.7            | 1.8            | 0.2       | 1.4            | 1.3            | 0.3            | 0.5            |
| Other .....                                  | 1.9       | 13.9           | 13.6           | 3.7       | 22.1           | 19.5           | -8.2           | -5.9           |

<sup>1</sup> EFTA includes Iceland, Liechtenstein, Norway, and Switzerland.

<sup>2</sup> The newly industrializing countries (NICs) include Hong Kong, the Republic of Korea, Singapore, and Taiwan.

Note.—Country/area figures may not add to the totals shown because of rounding. Exports of certain grains, oilseeds, and satellites are excluded from country/area exports but included in total export table. Also some countries are included in more than one area. Data are presented on a Census Bureau basis.

Source: U.S. Department of Commerce News (FT 900), Sep. 18, 1997.

**Table 17**  
**Nominal U.S. exports and trade balances of services, by sectors, Jan. 1996-July 1997, seasonally adjusted**

|  | Exports                |                       | Change   | Trade balances         |                       |
|--|------------------------|-----------------------|--|------------------------|-----------------------|
|  | Jan.-<br>July<br>1997  | Jan.-<br>July<br>1996 | Jan.-July<br>1997<br>over<br>Jan.-July<br>1996 | Jan.-<br>July<br>1997  | Jan.-<br>July<br>1996 |
|  | <i>Billion dollars</i> |                       | <i>Percentage</i>                              | <i>Billion dollars</i> |                       |
| Travel .....   | 42.7                   | 39.7                  | 7.6  | 12.2                   | 11.2                  |
| Passenger fares .....                                  | 12.4                   | 11.7                  | 6.0  | 2.4                    | 2.6                   |
| Other transportation .....                             | 16.5                   | 15.6                  | 5.8  | -1.0                   | -0.9                  |
| Royalties and license fees .....                       | 18.3                   | 17.3                  | 5.8  | 13.8                   | 13.0                  |
| Other private services .....                           | 47.1                   | 42.1                  | 11.9   | 20.1                   | 17.5                  |
| Transfers under U.S. military sales<br>contracts ..... | 7.9                    | 8.3                   | -4.8   | 1.4                    | 2.0                   |
| U.S. Govt. miscellaneous service .                     | 0.5                    | 0.6                   | -16.7  | -1.1                   | -0.9                  |
| <b>Total .....</b>                                     | <b>145.4</b>           | <b>135.3</b>          | <b>7.5</b>                                     | <b>47.8</b>            | <b>44.5</b>           |

Note.—Services trade data are on a balance-of-payments (BOP) basis. Numbers may not add to totals because of seasonal adjustment and rounding.

Source: U.S. Department of Commerce News (FT 900), Sep.18, 1997.

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|----------------|--|---|
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| 97-04-A        | R & D Activity and Acquisitions in High Technology Industries  | *Bruce A. Blonigen and Christopher T. Taylor                |
| 97-02-A        | The Effect of U.S. MFN Status on China   | Hugh M. Arce and Christopher T. Taylor                      |
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| <b>1996</b>    |  |   |
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| 94-07-A        | Economic and Cultural Distance in International Trade: An Empirical Puzzle   | *Dale Boisso and Michael Ferrantino                         |
| 94-06-A        | Estimating Tariff Equivalents of Nontariff Barriers  | Linda A. Linkins and Hugh M. Arce                           |



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# STATISTICAL TABLES

**Indexes of industrial production, by selected countries and by specified periods, Jan. 1994-Aug. 1997**
*(Total industrial production, 1991=100)*

| Country                    | 1996  |       |       | 1997  |       |       |       |       |       |       |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                            | 1994  | 1995  | 1996  | IV    | Dec.  | I     | II    | Jan   | Feb.  | Mar.  | Apr.  | May   | June  | Jul.  | Aug.  |
| United States <sup>1</sup> | 108.6 | 112.1 | 115.2 | 117.0 | 117.7 | 118.5 | 119.5 | 117.7 | 118.4 | 118.8 | 119.2 | 119.5 | 119.9 | 120.4 | 121.3 |
| Japan                      | 93.1  | 96.0  | 98.7  | 102.7 | 102.5 | 103.0 | (2)   | 96.2  | 99.8  | 112.9 | 101.6 | 99.7  | (2)   | (2)   | (2)   |
| Canada <sup>3</sup>        | 105.5 | 107.6 | 109.3 | 111.1 | 107.0 | 108.0 | (2)   | 104.5 | 109.9 | 109.7 | 111.4 | (2)   | (2)   | (2)   | (2)   |
| Germany                    | 93.9  | 95.9  | 96.0  | 101.2 | 97.4  | 96.0  | (2)   | 92.1  | 94.1  | 101.9 | 100.6 | 95.8  | (2)   | (2)   | (2)   |
| United Kingdom             | 103.3 | 105.9 | 107.6 | 113.1 | 110.1 | 110.8 | (2)   | 109.9 | 107.2 | 115.3 | 107.5 | (2)   | (2)   | (2)   | (2)   |
| France                     | 97.5  | 99.0  | 99.7  | 104.2 | 100.5 | 103.0 | (2)   | 105.2 | 101.1 | 103.2 | 107.4 | (2)   | (2)   | (2)   | (2)   |
| Italy                      | 102.2 | 107.8 | 104.8 | 106.7 | 97.3  | 109.7 | (2)   | 99.2  | 113.5 | 115.8 | 112.6 | (2)   | (2)   | (2)   | (2)   |

<sup>1</sup> 1992=100.

<sup>2</sup> Not available.

<sup>3</sup> Real domestic product in industry at factor cost and 1986 prices.

Source: *Main Economic Indicators*, Organization for Economic Cooperation and Development, July 1997, *Federal Reserve Statistical Release*, September 16, 1997.

**Consumer prices, by selected countries and by specified periods, Jan. 1994-July 1997**
*(Percentage change from same period of previous year)*

| Country        | 1996 |      |      | 1997 |     |       |      |      |      |     |     |      |      |      |      |     |      |                  |
|----------------|------|------|------|------|-----|-------|------|------|------|-----|-----|------|------|------|------|-----|------|------------------|
|                | 1994 | 1995 | 1996 | III  | IV  | Sept. | Oct. | Nov. | Dec. | I   | II  | Jan. | Feb. | Mar. | Apr. | May | June | Jul.             |
| United States  | 2.6  | 2.8  | 3.0  | 2.9  | 3.2 | 3.0   | 3.0  | 3.3  | 3.3  | 2.9 | 2.3 | 3.0  | 3.0  | 2.8  | 2.5  | 2.2 | 2.3  | 2.2              |
| Japan          | 0.7  | -0.1 | 0.2  | 0.2  | 0.5 | 0.0   | 0.5  | 0.6  | 0.6  | 0.5 | 1.9 | 0.6  | 0.5  | 0.5  | 1.8  | 1.8 | 2.2  | 1.9              |
| Canada         | 0.2  | 1.7  | 1.6  | 2.0  | 1.5 | 1.8   | 2.0  | 2.2  | 2.2  | 2.1 | 1.6 | 2.2  | 2.2  | 2.0  | 1.7  | 1.5 | 1.8  | 1.8              |
| Germany        | 3.0  | 1.7  | 1.4  | 1.4  | 1.4 | 1.4   | 1.5  | 1.4  | 1.4  | 1.7 | 1.5 | 1.9  | 1.7  | 1.6  | 1.3  | 1.5 | 1.7  | 1.7              |
| United Kingdom | 2.5  | 3.4  | 2.4  | 2.2  | 2.6 | 2.1   | 2.7  | 2.7  | 2.5  | 2.7 | 2.7 | 2.8  | 2.7  | 2.6  | 2.4  | 2.6 | 2.9  | 3.3              |
| France         | 1.7  | 1.7  | 2.0  | 1.8  | 1.7 | 1.6   | 1.8  | 1.6  | 1.7  | 1.5 | 0.9 | 1.8  | 1.6  | 1.1  | 0.9  | 0.9 | 1.0  | ( <sup>1</sup> ) |
| Italy          | 1.0  | 5.2  | 3.9  | 3.4  | 2.9 | 3.4   | 3.1  | 2.8  | 2.7  | 2.5 | 1.8 | 2.8  | 2.6  | 2.2  | 1.8  | 1.7 | 1.6  | 1.8              |

<sup>1</sup> Not available.

Source: *Consumer Price Indexes, Nine Countries*, U.S. Department of Labor, September 1997.

**Unemployment rates (civilian labor force basis)<sup>1</sup>, by selected countries and by specified periods, Jan. 1994-July 1997**

| Country        | 1996 |      |      | 1997 |                  |                  |                  |      |      |                  |                  |                  |                  |                  |                  |                  |
|----------------|------|------|------|------|------------------|------------------|------------------|------|------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                | 1994 | 1995 | 1996 | IV   | Oct.             | Nov.             | Dec.             | I    | II   | Jan.             | Feb.             | Mar.             | Apr.             | May              | June             | Jul.             |
| United States  | 6.1  | 5.6  | 5.4  | 5.3  | 5.2              | 5.4              | 5.3              | 5.3  | 4.9  | 5.4              | 5.3              | 5.2              | 4.9              | 4.8              | 5.0              | 4.8              |
| Japan          | 2.9  | 3.2  | 3.4  | 3.3  | 3.4              | 3.3              | 3.3              | 3.3  | 3.5  | 3.3              | 3.4              | 3.2              | 3.4              | 3.6              | 3.5              | 3.5              |
| Canada         | 10.4 | 9.5  | 9.7  | 9.9  | 10.0             | 10.0             | 9.7              | 9.6  | 9.4  | 9.7              | 9.7              | 9.3              | 9.6              | 9.5              | 9.1              | 9.0              |
| Germany        | 6.5  | 6.5  | 7.2  | 7.5  | 7.4              | 7.5              | 7.6              | 7.7  | 7.8  | 7.8              | 7.8              | 7.8              | 7.8              | 7.8              | 7.8              | ( <sup>2</sup> ) |
| United Kingdom | 9.6  | 8.8  | 8.3  | 8.0  | 7.8              | 7.4              | 7.8              | 7.6  | 7.3  | 7.7              | 7.4              | 7.3              | 7.0              | 7.3              | 7.1              | 6.9              |
| France         | 12.3 | 12.3 | 12.4 | 12.7 | 12.8             | 12.9             | 12.8             | 12.7 | 12.7 | ( <sup>2</sup> ) | 12.8             | 12.8             | ( <sup>2</sup> ) | 12.7             | 12.7             | ( <sup>2</sup> ) |
| Italy          | 11.4 | 12.0 | 12.1 | 12.0 | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) | 12.3 | 12.7 | 12.3             | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) | ( <sup>2</sup> ) |

<sup>1</sup> Seasonally adjusted; rates of foreign countries adjusted to be comparable with the U.S. rate.

<sup>2</sup> Not available.

<sup>3</sup> Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, September 1997.

**Money-market interest rates,<sup>1</sup> by selected countries and by specified periods, Jan. 1994-Aug. 1997**  
(Percentage, annual rates)

| Country             | 1994 | 1995 | 1996 | 1996 |      |      | 1997 |     |      |      |      |      |     |      |      |      |
|---------------------|------|------|------|------|------|------|------|-----|------|------|------|------|-----|------|------|------|
|                     |      |      |      | IV   | Nov. | Dec. | I    | II  | Jan. | Feb. | Mar. | Apr. | May | June | Jul. | Aug. |
| United States ..... | 4.6  | 5.8  | 5.4  | 5.4  | 5.3  | 5.4  | 5.4  | 5.7 | 5.4  | 5.3  | 5.5  | 5.7  | 5.7 | 5.6  | 5.6  | 5.6  |
| Japan .....         | 2.2  | 1.2  | .5   | 0.5  | 0.5  | 0.5  | 0.5  | 0.5 | 0.5  | 0.5  | 0.5  | 0.5  | 0.5 | 0.6  | 0.6  | 0.6  |
| Canada .....        | 5.5  | 7.1  | 4.4  | 3.2  | 3.0  | 3.1  | 3.1  | 3.3 | 3.1  | 3.1  | 3.2  | 3.4  | 3.3 | 3.3  | 3.5  | (2)  |
| Germany .....       | 5.2  | 4.4  | 3.2  | 3.0  | 3.0  | 3.1  | 3.0  | 3.0 | 3.0  | 3.0  | 3.1  | 3.1  | 3.0 | 3.0  | 3.0  | (2)  |
| United Kingdom .... | 5.4  | 6.6  | 5.9  | 6.1  | 6.2  | 6.3  | 6.1  | 6.4 | 6.2  | 6.1  | 6.1  | 6.3  | 6.4 | 6.6  | 6.9  | (2)  |
| France .....        | 5.7  | 6.4  | 3.8  | 3.3  | 3.3  | 3.3  | 3.2  | 3.3 | 3.2  | 3.2  | 3.2  | 3.2  | 3.3 | 3.3  | 3.2  | (2)  |
| Italy .....         | 8.4  | 10.4 | 8.7  | 7.5  | 7.4  | 7.2  | 7.3  | 6.9 | 7.2  | 7.3  | 7.4  | 7.0  | 6.8 | 6.8  | 6.8  | (2)  |

<sup>1</sup> 90-day certificate of deposit.

<sup>2</sup> Not available.

Source: Federal Reserve Statistical Release, September 8, 1997; Federal Reserve Bulletin, September 1997.

**Effective exchange rate of the U.S. dollar, by specified periods, Jan. 1994-Sept. 1997**  
(Percentage change from previous period)

| Item                     | 1994  | 1995 | 1996  | 1996  |       | 1997  |       |       |       |       |       |       |       |       |       |       |
|--------------------------|-------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                          |       |      |       | IV    | Dec.  | I     | II    | III   | Feb.  | Mar.  | Apr.  | May   | June  | Jul.  | Aug.  | Sept. |
| Unadjusted:              |       |      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Index <sup>1</sup> ..... | 98.5  | 92.9 | 97.5  | 98.2  | 99.0  | 103.2 | 104.6 | 105.9 | 103.9 | 104.9 | 106.2 | 104.1 | 103.4 | 104.6 | 106.8 | 106.4 |
| Percentage change .....  | -1.6  | -5.6 | 4.6   | .8    | 1.7   | 5.0   | 1.4   | 1.3   | 3.0   | 1.0   | 1.3   | -2.1  | -0.6  | 1.2   | 2.2   | -0.4  |
| Adjusted:                |       |      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Index <sup>1</sup> ..... | 101.5 | 93.9 | 100.3 | 101.7 | 102.7 | 106.6 | 106.4 | 108.1 | 107.2 | 108.2 | 108.3 | 106.0 | 104.9 | 106.4 | 108.9 | 108.6 |
| Percentage change .....  | -2.7  | -7.4 | 6.4   | 1.0   | 2.1   | 4.9   | -0.2  | 1.7   | 2.3   | 1.0   | 0.1   | -2.3  | -1.0  | 1.5   | 2.5   | -0.3  |

<sup>1</sup> 1990 average=100.

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 18 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, October 1997.

**Merchandise trade balances, by selected countries and by specified periods, Jan. 1994-July 1997**
*(In billions of U.S. dollars, exports less imports [f.o.b - c.i.f], at an annual rate)*

| Country                    | 1994   | 1995   | 1996   | 1996   |        | 1997   |        | Feb.   | Mar.   | Apr.   | May    | June   | Jul.   |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                            |        |        |        | IV     | Dec.   | I      | II     |        |        |        |        |        |        |
| United States <sup>1</sup> | -150.6 | -159.6 | -166.6 | -161.7 | -183.8 | -181.7 | -167.1 | -187.9 | -149.1 | -165.7 | -173.6 | -161.9 | -190.0 |
| Japan                      | 121.2  | 106.0  | 68.2   | 68.2   | 54.0   | 51.3   | (2)    | 45.3   | 43.3   | 77.7   | 111.6  | (2)    | (2)    |
| Canada <sup>3</sup>        | 17.0   | 27.8   | 30.7   | 22.8   | 25.8   | 28.5   | (2)    | 24.3   | 31.5   | 13.3   | (2)    | (2)    | (2)    |
| Germany                    | 45.6   | 63.6   | 65.5   | 73.8   | 68.8   | 68.0   | (2)    | 70.9   | 92.0   | (2)    | (2)    | (2)    | (2)    |
| United Kingdom             | -22.5  | -22.4  | -25.3  | -26.5  | -29.6  | -17.0  | (2)    | -18.0  | -15.7  | -28.9  | (2)    | (2)    | (2)    |
| France <sup>3</sup>        | 14.7   | 20.0   | 17.8   | 30.0   | 18.8   | 22.5   | (2)    | 22.4   | 20.4   | 33.2   | (2)    | (2)    | (2)    |
| Italy                      | 22.0   | 27.6   | 43.9   | 41.7   | 19.9   | 32.0   | (2)    | 31.6   | 30.1   | (2)    | (2)    | (2)    | (2)    |

<sup>1</sup> Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.

<sup>2</sup> Not available.

<sup>3</sup> Imports are f.o.b.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, September 18, 1997; *Main Economic Indicators*; Organization for Economic Cooperation and Development, July 1997.

**U.S. trade balance,<sup>1</sup> by major commodity categories and by specified periods, Jan. 1994-July 1997**
*(In billions of dollars)*

| Country   | 1994    | 1995    | 1996    | 1996    |         |         | 1997    |         |         | Apr.    | May     | June    |         |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|   |         |         |         | III     | IV      | Dec.    | I       | II      | Feb.    |         |         |         | Mar.    |
| Commodity categories:   |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Agriculture   | 19.0    | 25.6    | 26.7    | 7.7     | 2.3     | 5.7     | 3.5     | 2.0     | 1.6     | 1.4     | 1.0     | 1.1     | 0.9     |
| Petroleum and selected product—<br>(unadjusted)                                     | -47.5   | -48.8   | -60.9   | -16.4   | -5.9    | -18.6   | -16.1   | -6.5    | -5.6    | -5.3    | -5.6    | -5.2    | -5.2    |
| Manufactured goods  | -155.7  | -173.5  | -175.9  | -46.0   | -13.0   | -37.1   | -37.7   | -12.1   | -9.6    | -12.1   | -12.4   | -13.2   | -19.3   |
| Selected countries:   |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Western Europe  | -12.5   | -10.6   | -10.4   | -5.1    | -2.0    | -6      | -2.3    | .3      | .3      | -4      | -1.2    | -7      | -4.3    |
| Canada  | -25.1   | -18.1   | -22.8   | -5.4    | -2.3    | -4.4    | -3.7    | -1.4    | -1.3    | -8      | -1.5    | -1.2    | -1.4    |
| Japan   | -66.4   | -59.1   | -47.6   | -13.4   | -4.2    | -13.1   | -12.4   | -4.2    | -4.6    | -4.8    | -3.6    | -4.0    | -5.1    |
| OPEC<br>(unadjusted)  | -13.8   | -15.7   | -19.8   | -5.2    | -1.8    | -5.5    | -5.2    | -1.6    | -1.4    | -1.6    | -1.7    | -1.9    | -1.8    |
| Unit value of U.S. imports of<br>petroleum and selected<br>products<br>(unadjusted) | \$14.22 | \$15.83 | \$18.98 | \$21.49 | \$21.65 | \$20.37 | \$17.08 | \$20.21 | \$18.72 | \$17.17 | \$17.00 | \$17.07 | \$16.50 |

<sup>1</sup> Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.

Source: *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, September 18, 1997.



