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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

Real GDP grew in the first quarter of 1996 at a revised annual rate of 2.3 percent down from the 2.8 percent annual rate estimated earlier by the Commerce Department. GDP grew by 0.5 percent annual rate in the fourth quarter of 1995. GDP growth was boosted by increases in consumer and non-residential fixed investment spending.

Real personal consumption expenditures increased by 3.6 percent in the first quarter following a 1.2 percent increase in the fourth quarter. Durable goods purchases increased by 8.0 percent following an increase of only 0.3 percent in the fourth quarter. Nondurable goods purchases increased by 3.7 percent following a decrease of 0.3 percent. Real nonresidential fixed investment increased by 12.3 percent in the first quarter of 1996 following an increase of 3.1 percent in the fourth quarter. Producer's durable equipment increased by 13.2 percent following an increase of 4.0 percent. Real residential fixed investment increased by 6.6 percent in the first quarter following an increase of 6.4 percent in the fourth quarter.

Real exports of goods and services increased at a much slower rate in the first quarter of 1996 than in the previous quarter, while imports accelerated. Exports increased by 4.9 percent to \$809.3 billion in the first quarter, following an increase of 11.0 percent in the fourth quarter of 1995; imports increased by 10.9 percent to \$919.9 billion, following an increase of 1.3 percent in the fourth quarter. The annualized trade deficit on goods and services increased to \$110.6 billion from \$96.6 billion.

Moreover, Commerce reported that seasonally adjusted retail sales declined by 0.3 percent in April with sales of durable goods declining by 2.1 percent. Furthermore, factory orders slipped 0.1 percent in April, the third drop in four months, as shrinking demand for aircraft offset other sales gains. Both orders of durable and nondurable goods declined. In addition, the Conference Board reported that the composite index of leading indicators rose by 0.3

percent in April following the same percentage increase in March 1996. This followed a larger increase of 1.3 percent in February. Over the 6-months period from October 1995 to April 1996, the index increased by 1.4 percent. Seven of the eleven indicators included in the leading index rose in April. The most significant upward changes were manufacturers' new orders for consumer goods and materials, change in sensitive material prices, and average weekly initial claims for state unemployment insurance. Four indicators decreased; most significant decreases were in contracts and orders for plant and equipment, consumer expectations, and money supply in 1987 dollars.

Productivity and costs

The Bureau of Labor Statistics reported that U.S. labor productivity—as measured by output per hour of all persons—rose in the first quarter of 1996 at seasonally-adjusted annual rates of 2.8 percent in the business sector, and 2.6 percent in the nonfarm business sector.

In both sectors, first-quarter productivity gains were larger than gains recorded in the third and fourth quarters of 1995. Productivity gains in the first quarter of 1996 were 6.3 percent in manufacturing, 8.2 percent in durable goods manufacturing, and 3.8 percent in nondurable goods manufacturing. The productivity increase in manufacturing in the first quarter of 1996 was the largest since the first quarter of 1994. First-quarter productivity measures are summarized in table 1 and details are provided in tables 2 through 4. 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 independent indexes of industrial production prepared by the Board of Governors of the Federal Reserve System.

Business Sector

From the fourth quarter of 1995 to the first quarter of 1996, business sector productivity increased at a

Table 1
Productivity and costs: First-quarter 1996 measures (Seasonally adjusted annual rates)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
Business	2.8	4.0	1.1	3.0	-0.2	0.2
Nonfarm business	2.6	3.7	1.0	3.3	0.0	0.6
Manufacturing	6.3	2.8	-3.2	-0.8	-3.9	-6.6
Durable	8.2	5.7	-2.3	-3.2	-6.3	-10.6
Nondurable	3.8	-0.9	-4.6	3.1	-0.1	-0.6
	Percent change from same quarter a year ago					
Business	1.7	2.4	0.6	4.0	1.2	2.3
Nonfarm business	1.6	2.4	0.8	4.0	1.2	2.3
Manufacturing	4.7	1.2	-3.4	2.3	-0.5	-2.4
Durable	5.3	3.1	-2.2	1.1	-1.6	-4.0
Nondurable	4.1	-1.3	-5.2	3.9	1.1	-0.1

Source: Bureau of Labor Statistics.

2.8- percent annual rate. Output and hours advanced by 4.0 percent and 1.1 percent, respectively. During the fourth quarter of 1995, output had increased 0.7 percent, and hours of all persons engaged in the sector increased by 1.3 percent (seasonally adjusted annual rates); productivity fell by 0.5 percent.

Hourly compensation increased by 3.0 percent during the first quarter of 1996 and by 3.1 percent in the fourth quarter of 1995. This measure includes wages and salaries, supplements, employer contributions to employee benefit plans, and taxes. Unit labor costs, which reflect changes in hourly compensation and productivity, increased at a 0.2-percent rate during the first quarter. Unit labor costs in the business sector had risen by 3.7 percent in the fourth quarter of 1995. The 0.2- percent increase in the first quarter of 1996 was the smallest since a 1.3-percent decline in the third quarter of 1994.

Real hourly compensation fell at a 0.2- percent annual rate in the first quarter. In the fourth quarter of 1995, real hourly compensation had increased by 0.7 percent.

Nonfarm business sector

In the non-farm business sector, productivity rose by 2.6 percent in the first quarter of 1996. Nonfarm business output rose by 3.7 percent, and hours of all persons increased by 1.0 percent. During the fourth quarter of 1995, productivity had fallen by 1.0 percent in this sector, reflecting gains of 0.6 percent in output and 1.6 percent in hours.

Hourly compensation increased at a 3.3- percent annual rate in the first quarter, compared with a 2.8-percent increase one quarter earlier. Real hourly compensation was unchanged; it had increased 0.4 percent in the fourth quarter. Unit labor costs rose 0.6 percent, considerably less than the 3.8- percent increase that occurred in the fourth quarter of 1995.

In the manufacturing sector, productivity increased at a 6.3- percent seasonally adjusted annual rate in the first quarter of 1996, as output rose by 2.8 percent and hours of all persons dropped by 3.2 percent (seasonally adjusted annual rates). In the fourth quarter of 1995, productivity rose by 3.0 percent as output rose by 1.4 percent and hours decreased by 1.5 percent.

Hourly compensation of all manufacturing workers fell by 0.8 percent during the first quarter of 1996, the first decrease since a 0.6- percent decrease in the second quarter of 1989. Hourly compensation had risen 2.5 percent in the fourth quarter of 1995. The 0.8-percent decrease in the first quarter of 1996 reflects very different trends in the durable and nondurable manufacturing sectors—in durable goods, hourly compensation dropped by 3.2 percent in the first quarter, and in nondurable goods hourly compensation rose by 3.1 percent. First quarter's movements in hourly compensation for durable and total manufacturing were affected by a pension contribution made in 1995 by a large manufacturer. Real hourly compensation in the manufacturing sector fell by 3.9 percent. Unit labor costs dropped at a 6.6- percent annual rate in the first quarter of 1996, marking the sixth consecutive quarter of decreases in the manufacturing sector. These costs had fallen by 0.5 percent in the fourth quarter of 1995.

Table 2
Business sector: Productivity, hourly compensation, unit labor costs, and prices, seasonally adjusted

Year and quarter	Output per hour of all persons	Output	Hours of all persons	Compensation per hour	Real compensation per hour	Unit labor costs	Unit non-labor payments	Implicit price deflator
Percent change from previous quarter at annual rate								
1994 I	-1.9	1.8	3.7	3.4	1.4	5.4	-2.8	2.4
1994 II	1.4	6.7	5.3	1.5	-1.0	0.1	4.9	1.8
1994 III	2.8	4.1	1.3	1.5	-2.2	-1.3	10.0	2.6
1994 IV	0.7	4.0	3.3	2.9	0.7	2.3	1.5	2.0
ANNUAL	0.7	4.2	3.4	2.2	-0.4	1.4	3.5	2.2
1995 I	-1.6	0.6	2.2	3.4	0.5	5.0	-1.0	2.8
1995 II	3.0	0.3	-2.5	5.6	2.1	2.5	1.2	2.1
1995 III	1.6	4.4	2.8	4.3	2.3	2.7	1.1	2.1
1995 IV	-0.5	0.7	1.3	3.1	0.7	3.7	-4.1	0.8
ANNUAL	0.9	2.5	1.6	3.5	0.6	2.6	1.6	2.2
1996 I	2.8	4.0	1.1	3.0	-0.2	0.2	4.3	1.6
Percent change from corresponding quarter of previous year								
1994 I	0.2	3.3	3.1	2.5	0.0	2.3	1.9	2.2
1994 II	0.8	4.4	3.6	2.0	-0.4	1.2	3.5	2.0
1994 III	1.2	4.7	3.5	1.9	-1.0	0.6	5.4	2.3
1994 IV	0.7	4.2	3.4	2.3	-0.3	1.6	3.3	2.2
ANNUAL	0.7	4.2	3.4	2.2	-0.4	1.4	3.5	2.2
1995 I	0.8	3.8	3.0	2.3	-0.5	1.5	3.8	2.3
1995 II	1.2	2.3	1.1	3.3	0.3	2.1	2.9	2.4
1995 III	0.9	2.3	1.4	4.1	1.4	3.1	0.7	2.3
1995 IV	0.6	1.5	0.9	4.1	1.4	3.5	-0.7	2.0
ANNUAL	0.9	2.5	1.6	3.5	0.6	2.6	1.6	2.2
1996 I	1.7	2.4	0.6	4.0	1.2	2.3	0.6	1.7

Source: Bureau of Labor Statistics.

Table 3
Manufacturing sector: Productivity, hourly compensation, and unit labor costs, seasonally adjusted

Year and quarter	Output per hour of all persons	Output	Hours of all persons	Compensation per hour	Real compensation per hour	Unit labor costs
Percent change from previous quarter at annual rate						
1994 I	6.9	8.8	1.8	3.4	1.4	-3.2
1994 II	5.7	8.5	2.6	1.4	-1.1	-4.0
1994 III	3.0	5.1	2.1	3.6	-0.2	0.6
1994 IV	3.5	7.9	4.2	3.1	0.8	-0.4
ANNUAL	4.2	6.5	2.2	2.8	0.3	-1.3
1995 I	2.2	3.9	1.6	2.1	-0.8	-0.1
1995 II	4.0	-2.1	-5.9	3.5	0.1	-0.5
1995 III	5.7	2.6	-2.9	4.0	1.9	-1.6
1995 IV	3.0	1.4	-1.5	2.5	0.1	-0.5
ANNUAL	3.7	3.5	-0.2	3.1	0.2	-0.6
1996 I	6.3	2.8	-3.2	-0.8	-3.9	-6.6
Percent change from corresponding quarter of previous year						
1994 I	3.1	4.7	1.5	3.2	0.7	0.1
1994 II	4.4	6.5	2.0	2.7	0.3	-1.7
1994 III	4.7	7.1	2.2	2.9	0.0	-1.7
1994 IV	4.7	7.6	2.7	2.9	0.2	-1.8
ANNUAL	4.2	6.5	2.2	2.8	0.3	-1.3
1995 I	3.6	6.3	2.6	2.5	-0.3	-1.0
1995 II	3.2	3.6	0.4	3.1	0.0	-0.1
1995 III	3.8	3.0	-0.8	3.2	0.5	-0.7
1995 IV	3.7	1.4	-2.2	3.0	0.3	-0.7
ANNUAL	3.7	3.5	-0.2	3.1	0.2	-0.6
1996 I	4.7	1.2	-3.4	2.3	-0.5	-2.4

Source: Bureau of Labor Statistics.

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

Economic growth

Real GDP—the output of goods and services produced in the United States measured in 1992 chain-type prices—grew at a revised annual rate of 2.3 percent in the first quarter of 1996 following a growth rate of 0.5 percent in the fourth quarter of 1995. Real GDP increased by 3.6 percent in the third quarter of 1995, and increased 2.0 percent in 1995.

The annualized rate of real GDP growth in the first quarter of 1996 was 1.5 percent in the United Kingdom. The annualized rate of real GDP growth in the fourth quarter of 1995 was 0.8 percent in Canada, 4.9 percent in France, -1.5 percent in Germany 0.8 percent in Italy, and 3.6 percent in Japan.

Industrial production

Seasonally adjusted U.S. nominal industrial production advanced by 0.9 percent in April following a decline of 0.5 percent in March 1996. The increase was due to a rebound in the output of motor vehicles after a strike caused the output of motor vehicles to plunge. In the first quarter of 1996, industrial production grew at an annual rate of 2.7 percent compared with a 0.6 percent increase in the fourth quarter of 1995. First quarter increase was mainly due to the rebound in the production of aircraft and parts following a strike at a major aircraft producer. Industrial production in April 1996 was 2.6 percent higher than in April 1995.

Total capacity utilization rose by 0.5 percentage point in April 1996, to 83.0 percent but was 3.8-percent higher than in April 1995. Capacity utilization in manufacturing rose by 0.8 percent in April 1996, and was 4.3 -percent higher than in March 1995.

(G-7) member countries reported the following growth rates of industrial production. For the year ending April 1996, Germany reported a decline of 2.0 percent and Japan reported an increase of 0.9 percent. For the year ending March 1996, the United Kingdom

Table 4
Durable manufacturing sector: Productivity, hourly compensation, and unit labor costs, seasonally adjusted

Year and quarter	Output per hour of all persons	Output	Hours of all persons	Compensation per hour	Real compensation per hour	Unit labor costs
Percent change from previous quarter at annual rate						
1994 I	7.6	11.0	3.1	3.4	1.3	-4.0
II	5.2	8.6	3.2	1.2	-1.4	-3.8
III	4.5	7.8	3.2	3.4	-0.4	-1.0
IV	4.3	9.9	5.4	2.4	0.2	-1.8
ANNUAL	5.2	8.5	3.2	2.7	0.1	-2.3
1995 I	4.5	7.0	2.3	1.4	-1.5	-3.0
II	2.7	-1.9	-4.4	2.5	-0.9	-0.2
III	6.6	5.1	-1.5	4.0	1.9	-2.5
IV	3.9	3.6	-0.4	1.3	-1.0	-2.5
ANNUAL	4.6	5.5	0.9	2.5	-0.3	-2.0
1996 I	8.2	5.7	-2.3	-3.2	-6.3	-10.6
Percent change from corresponding quarter of previous year						
1994 I	4.4	6.8	2.3	3.2	0.7	-1.2
II	5.2	8.4	3.0	2.7	0.2	-2.4
III	6.2	9.5	3.2	2.9	0.0	-3.1
IV	5.4	9.3	3.7	2.6	-0.1	-2.7
ANNUAL	5.2	8.5	3.2	2.7	0.1	-2.3
1995 I	4.6	8.3	3.5	2.1	-0.8	-2.4
II	4.0	5.6	1.5	2.4	-0.6	-1.5
III	4.5	4.9	0.4	2.6	-0.1	-1.9
IV	4.4	3.4	-1.0	2.3	-0.4	-2.0
ANNUAL	4.6	5.5	0.9	2.5	-0.3	-2.0
1996 I	5.3	3.1	-2.2	1.1	-1.6	-4.0

Source: Bureau of Labor Statistics.

reported an increase of 0.6 percent, France reported a decrease of 0.3 percent, Italy reported a decrease of 6.2 percent and Canada reported nil increase.

Prices

Seasonally adjusted U.S. Consumer Price Index (CPI) rose 0.4 percent in April 1996. For the 12-month period ended in March 1996, the CPI increased by 2.9 percent. During the 1-year period ending April 1996, prices increased by 1.4 percent in Canada, 2.4 percent in France, 1.5 percent in Germany, 4.5 percent in Italy, 0.3 percent in Japan, and 2.4 percent in the United Kingdom.

Employment

The Bureau of Labor Statistics reported that U.S. unemployment edged down in April 1996, to 5.4 percent, 0.2 percentage point lower than in March. Factory employment continued to decline, despite the return of auto workers who were on strike. Factory employment declined 17,000 in April. Construction employment had a slight drop. The services industry

added 20,000 jobs in April. Retail trade added 20,000 jobs, finance industry added 12,000 jobs and the real estate industry added 4,000 jobs in April.

In other G-7 countries, the unemployment rate in April 1996 was 9.4 percent in Canada, 11.9 percent in France, 10.4 percent in Germany, 12.6 percent in Italy, 3.4 percent in Japan, and 7.8 percent in the United Kingdom.

Forecasts

Forecasters expect real growth in the United States to average around 2.8 percent (annual rate) in the second and third quarters of 1996 and then to decelerate to an average of 2.3 percent (annual rate) in the fourth quarter. Factors that might restrain growth in 1996 include slowing consumer spending due to consumer debt overhang, a slowdown in producers demand for new goods and a resulting slowdown in industrial output and factory employment, and the contractionary impact of the decline in government spending and investment if unaccompanied by monetary policy easing. Table 5 shows macroeconomic

Table 5
Projected changes of selected U.S. economic indicators, by quarters, Jan.-Dec. 96
(Percent)

Period	Confer- ence Board	E.I. Dupont	UCLA Business Forecasting Project	Merrill Lynch Capital Markets	Data Resources Inc. (D.R.I.)	Wharton WEFA Group	Mean of 6 fore- casts
GDP current dollars							
1996							
Jan.-Mar.	5.2	3.7	4.7	4.4	3.0	4.8	4.3
Apr.-June	5.9	4.9	4.7	4.8	5.3	5.0	5.1
July-Sep.	5.9	5.2	5.0	3.7	4.9	5.5	5.0
Oct.-Dec.	5.2	4.7	4.8	4.1	3.7	4.7	4.5
GDP constant (1987) dollars							
1996:							
Jan.-Mar.	2.9	1.0	2.2	1.5	0.8	1.9	1.7
Apr.-June	3.4	2.6	2.9	2.1	3.0	3.0	2.8
July-Sep.	3.6	2.5	2.7	2.0	2.8	2.7	2.7
Oct.-Dec.	2.6	2.4	2.6	2.1	1.7	2.1	2.3
GDP deflator index							
1996:							
Jan.-Mar.	2.3	2.6	2.4	2.9	2.2	2.9	2.5
Apr.-June	2.4	2.2	1.8	2.6	2.3	2.0	2.2
July-Sep.	2.3	2.6	2.3	1.7	2.1	2.7	2.3
Oct.-Dec.	2.6	2.2	2.1	2.0	2.0	2.6	2.3
Unemployment, average rate							
1996:							
Jan.-Mar.	5.6	5.6	5.7	5.6	5.6	5.6	5.6
Apr.-June	5.5	5.7	5.7	5.6	5.7	5.6	5.6
July-Sep.	5.4	5.7	5.7	5.6	5.7	5.6	5.6
Oct.-Dec.	5.4	5.8	5.7	5.8	5.7	5.7	5.6

Note.—Except for the unemployment rate, percentage changes in the forecast represent annualized rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: April-March 1996.

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

projections by six major forecasters for the U.S. economy from January to December 1996, 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 averages for the quarter.

The average of the forecasts points to an unemployment rate of 5.6 percent in 1996. Inflation (as measured by the GDP deflator) is expected to remain subdued at an average rate of about 2.2 to 2.5 percent. The moderation of general economic activity during 1996 is expected to keep inflation down and unemployment sticky downward.

U.S. International Transactions

The U. S. Department of Commerce reported that the U.S. current-account deficit increased to \$152.9 billion in 1995 from \$151.2 billion in 1994 as increases in the deficits on merchandise trade and investment income were nearly offset by an increase in the surplus on services and a reduction in net unilateral transfers (table 6).

The deficit on goods and services increased to \$111.4 billion in 1995 from \$106.2 billion in 1994 mainly due to the large increase in the merchandise trade deficit. The surplus on services increased. The

Table 6
U.S. International Transactions, billions dollars, seasonally adjusted

	1994	1995	1994-IVQ	1995-IVQ
Exports of goods, services & income	838.8	965.0	223.2	250.4
Merchandise, adj., excluding military	502.5	574.9	133.9	148.8
Services	198.7	208.8	50.9	53.3
Transfers under U.S. military contracts	12.4	12.7	3.0	3.3
Travel	60.4	60.3	15.4	3
Royalties and license fees	22.4	25.8	5.8	6.4
Other private services	9.0	62.5	15.1	16.1
Income receipts on U.S. assets abroad	137.6	181.3	38.3	48.3
Direct investment receipts	67.8	91.2	18.7	25.2
Other private receipts	65.8	85.5	18.5	22.0
U.S. Government receipts	4.1	4.6	1.1	1.0
Imports of goods, services, and income	-954.3	-1,087.8	-255.2	-273.8
Merchandise, adjusted, excluding military	-668.6	-749.4	-177.4	-186.9
Services	-138.8	-145.8	-34.9	37.1
Direct defense expenditures	-10.3	-9.9	-2.3	-2.5
Travel	43.6	-45.5	-11.1	-11.8
Royalties and license fees	-5.7	-6.6	-1.4	-1.7
Other private services	-35.6	-38.2	-9.0	-9.2
Government miscellaneous services	-2.7	-2.8	-2	-7
Income payments on foreign assets in the				
United States	-146.9	-192.7	-42.9	-49.8
Direct investment payments	-22.6	-32.1	-9.4	-9.0
Other private payments	-77.3	-99.4	-22.4	-25.4
U.S. Government payments	-47.0	-61.3	-13.2	-16.2
Unilateral transfers, net	-35.8	-30.1	-11.2	-7.7
U.S. assets abroad, net (increase/capital				
outflow (-))	-125.9	-280.1	-55.2	-76.8
U.S. official reserve assets, net	5.4	-9.7	2.0	.2
U.S. private assets, net	-130.9	-270.0	-56.3	-76.7
Direct investment	-49.4	-96.9	-11.9	-40.9
Foreign securities	-49.8	-93.8	-15.2	-31.5
U.S. claims on unaffiliated foreigners				
reported by U.S. nonbanking concerns	-32.6	n.a.	-12.5	n.a.
U.S. claims reported by U.S. banks .....	.9	-59.0	-16.7	-4.4
Foreign assets in the United States, net				
(increase/capital inflow(+))	291.4	426.3	84.7	90.6
Foreign official assets in the United States, net.	39.4	110.5	-.4	11.0
U.S. Government securities	36.8	72.5	21.0	13.7
U.S. Treasury securities	30.7	68.8	20.5	13.0
Other	6.0	3.7	.5	.8
Other U.S. Government liabilities	2.2	1.8	.1	1.4
U.S. liabilities reported by U.S. banks	2.9	32.9	18.5	-4.4
Other foreign official assets	-2.5	3.3	-.2	.3
Other foreign assets in the United States, net	252.0	315.8	77.2	79.6
Direct investment	49.5	74.7	23.7	20.9
U.S. Treasury securities	33.8	99.1	37.2	1.7
U.S. securities other than U.S. Treasury				
securities	58.6	94.6	31.0	27.2
U.S. liabilities reported by U.S. banks	114.4	20.0	-21.6	29.8
Statistical discrepancy	-14.3	6.7	-48.8	17.2
Memoranda:				
Balance on merchandise trade	-166.1	-174.5	-43.3	-38.0
Balance on services	59.9	63.1	16.0	16.2
Balance on goods and services	-106.2	-111.4	-27.3	-21.9
Balance on investment income	-9.3	-11.4	-5.2	-1.5
Balance on goods, services, and income	-115.5	-122.8	-32.5	-23.4
Unilateral transfers, net	-35.8	-30.1	-7.8	-7.7
Balance on current account	-151.3	-152.9	-40.2	-31.1
Net recorded capital inflows	165.5	146.2	29.5	13.2

Note.—Details may not add to totals because of rounding and omission of some entries.

Source: U. S. Department of Commerce, Bureau of Economic Analysis, BEA 96-07.

merchandise trade deficit increased to \$174.5 billion in 1995 from \$166.1 billion in 1994. Merchandise exports increased to \$574.9 billion from \$502.5 billion; both nonagricultural and agricultural exports increased. Merchandise imports increased to \$749.3 billion from \$668.6 billion; nonpetroleum products accounted for most of the increase. The surplus on services increased to \$63.1 billion in 1995 from \$59.9 billion in 1994. Service receipts increased to \$208.8 billion from \$198.7 billion. "Other" private services, royalties and license fees, and "other" transportation all increased; travel was little changed. Service payments increased to \$145.8 billion from \$138.8 billion. Other private services, travel, and other transportation all increased.

The deficit on investment income increased to \$11.4 billion in 1995 from \$9.3 billion in 1994. Receipts of income on U.S. assets abroad increased to \$181.3 billion from \$137.6 billion. The increases in both direct investment receipts and other private investment receipts were especially strong. Payments of income on foreign assets in the United States increased to \$192.7 billion from \$146.9 billion. The increases in other private payments and U.S. Government payments were especially strong and accounted for much of the increase, but direct investment payments also increased considerably.

Capital account

Net recorded capital inflows slowed to \$146.2 billion in 1995, compared with \$165.5 billion capital inflows in 1994. In 1995, increases in U.S. assets abroad and in foreign assets in the United States both accelerated sharply. U.S. assets abroad increased \$280.1 billion in 1995, compared with an increase of \$125.9 billion in 1994. Outflows for net U.S. purchases of foreign securities, U.S. claims on foreigners reported by U.S. banks, and U.S. direct investment abroad were all especially strong in 1995. Net U.S. purchases of foreign securities were \$93.8 billion, nearly double the \$49.8 billion in 1994, but well below the previous record of \$141.8 billion in 1993. Net U.S. purchases of foreign bonds were up strongly and accounted for most of the step-up.

U.S. claims on foreigners reported by U.S. banks increased \$59.0 billion in 1995, in contrast to a decrease of \$1.0 billion in 1994. Much of the increase was related to lending by securities dealers to the Caribbean to finance purchases of U.S. securities, and to lending by foreign-owned banks in the United States to their offices overseas. Claims payable in foreign currencies also increased, mostly in the first half of the year.

Net capital outflows for U.S. direct investment abroad rose to a record \$96.9 billion in 1995, compared with \$49.4 billion in 1994. The previous record was \$72.6 billion in 1993. Both strong equity outflows for acquisitions and strong reinvested earnings led to record outflows. U.S. official reserve assets increased \$9.7 billion in 1995, in contrast to a \$5.3 billion decrease in 1994. The increase in 1995 official reserves largely reflected acquisitions of Mexican pesos, which were partly offset by sales of German marks and Japanese yen in foreign exchange markets.

Foreign assets in the United States swelled, increasing by \$426.3 billion in 1995, compared with an increase of \$291.4 billion in 1994. Increases in foreign official assets were sharply higher, as were net foreign purchases of U.S. Treasury securities, net foreign purchases of securities other than U.S. Treasury securities, and foreign direct investment inflows to the United States.

Net foreign purchases of U.S. Treasury securities were a record \$99.1 billion in 1995, up from \$33.8 billion in 1994. The previous record was \$36.9 billion in 1992. The unprecedented surge was partly attributable to a shift from U.S. bank deposits to higher-yielding U.S. Treasury securities.

Net foreign purchases of U.S. securities other than U.S. Treasury securities were a record \$94.6 billion in 1995, up from \$58.6 billion in 1994, and well above the previous record of \$79.9 billion in 1993. Net foreign purchases of U.S. bonds accounted for much of the step-up.

U.S. liabilities to foreigners reported by U.S. banks, excluding U.S. Treasury securities, increased \$19.9 billion in 1995, compared with an increase of \$114.4 billion in 1994. The decline was due to both a drop in the demand for funds by U.S. banks as the U.S. economy slowed and a shift by foreigners to a to higher-yielding U.S. Treasury securities.

Net capital inflows for foreign direct investment in the United States were a record \$74.7 billion in 1995, compared with \$49.4 billion in 1994; the previous record was \$67.7 billion in 1989. Equity inflows financed a large volume of acquisitions, and reinvested earnings increased substantially.

Foreign official assets in the United States increased a record \$110.5 billion in 1995, compared with an increase of \$39.4 billion in 1994; the previous record was \$72.1 billion in 1993. Much of the increase in 1995 was attributable to developing countries, whose assets increased by much larger amounts than in 1994.

U.S. TRADE DEVELOPMENTS

The U.S. Department of Commerce reported that in March 1996 exports of goods and services of \$68.8 billion and imports of \$77.7 billion resulted in goods and services deficit of \$8.9 billion, \$1.9 billion more than the \$7.0 billion deficit of February 1996. March's exports were \$0.6 billion less and imports were \$1.3 billion more than February's exports and imports. The March 1996 trade deficit was approximately \$0.3 billion less than the deficit registered in March 1995 (\$9.2 billion) and \$0.2 billion less than the average monthly deficit registered during the previous

12-months (\$9.1 billion). 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 7. Nominal export changes and trade balances for specific major commodity sectors are shown in table 8. U.S. exports and imports of goods with major trading partners on a monthly and year-to-date basis are shown in table 9. U.S. exports and imports of motor vehicles by selected countries are shown in table 10, and U.S. trade in services by major category are shown in table 11.

Table 7
U.S. trade in goods and services, seasonally adjusted, Feb. - Mar. 96
(Billion dollars)

Item	Exports		Imports		Trade balance	
	Mar. 96	Feb. 96	Mar. 96	Feb. 96	Mar. 96	Feb. 96
Trade in goods (BOP basis):						
Current dollars—						
Including oil	49.9	50.9	64.7	63.6	-14.8	-12.6
Excluding oil	50.2	51.0	59.0	58.8	- 8.8	- 7.8
Trade in services						
Current dollars	18.9	18.4	13.0	12.8	5.9	5.6
Trade in goods and services						
Current dollars	68.8	69.4	77.7	76.4	- 8.9	- 7.0
Trade in goods (Census basis):						
1987 dollars	50.3	51.1	63.4	63.3	-13.1	-12.2
Advanced-technology products (not seasonally adjusted)	14.0	12.1	11.3	10.1	2.6	1.9

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), May 17, 1996

Table 8
Nominal U.S. exports and trade balances, of agriculture and specified manufacturing sectors, Jan. 95-
Mar. 96

Sector	Exports		Change		
	Mar. 1996	Jan.-Mar. 1996	Jan.-Mar. 1996 over Jan.-Mar. 1995	Share of total, Jan.-Mar. 1996	Trade balances, Jan.-Mar. 1996
	<i>Billion dollars</i>		<i>Percent</i>		<i>Billion dollars</i>
ADP equipment & office machinery	4.0	10.4	23.8	6.8	-5.5
Airplane	1.1	2.9	-14.7	1.9	1.9
Airplane parts	1.0	2.7	12.5	1.8	2.0
Electrical machinery	5.0	14.2	16.4	9.3	-5.3
General industrial machinery	2.2	6.3	6.8	4.1	0
Iron & steel mill products .....	.3	0.8	14.3	0.5	-1.6
Inorganic chemicals .....	.3	1.0	-9.1	0.7	-0.2
Organic chemicals	1.3	3.8	-5.0	2.5	-0.1
Power-generating machinery	1.8	5.5	7.8	3.6	0.1
Scientific instruments	1.9	5.1	13.3	3.3	2.2
Specialized industrial machinery	2.4	6.3	14.5	4.1	1.5
TVs., VCRs., etc.	1.7	4.6	2.2	3.0	-2.6
Textile yarns, fabrics and articles .....	.7	1.9	5.6	1.2	-0.4
Vehicles	4.1	12.0	-4.0	7.8	-12.9
Manufactured exports not included above	17.7	48.2	8.6	31.5	-9.7
Total manufactures	45.5	125.7	8.0	82.2	-30.6
Agriculture	5.4	16.0	13.5	10.5	8.0
Other exports not incl. above	3.4	11.3	7.6	7.3	-9.7
Total exports of goods	54.3	153.0	8.5	100.0	-32.3

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), May 17, 1996.

Table 9
U.S. exports and imports of goods with major trading partners, Jan.95- Mar. 1996
(Billion dollars)

Country/area	Exports			Imports		
	Mar. 96	Jan.-Mar. 96	Jan.-Mar. 95	Mar. 96	Jan.-Mar. 96	Jan.-Mar. 95
North America	16.0	46.0	43.3	18.5	54.2	50.7
Canada	11.5	33.0	31.7	12.8	37.5	35.8
Mexico	4.5	13.0	11.6	5.6	16.7	15.0
Western Europe	13.0	35.4	32.5	13.1	37.1	34.1
European Union (EU)	11.4	32.0	29.8	11.9	33.6	31.0
Germany	2.2	6.0	5.4	3.5	9.1	8.3
European Free-Trade Association (EFTA) ¹	1.3	2.4	1.9	1.1	2.9	2.4
Former Soviet Union/Eastern Europe	0.6	1.9	1.2	0.5	1.3	2.0
Former Soviet Union	0.4	1.4	0.8	0.3	0.8	1.4
Russia	0.3	0.9	0.6	0.2	0.6	1.2
Pacific Rim Countries	16.8	46.2	42.5	22.9	68.6	66.2
Australia	1.1	3.0	2.7	0.3	0.8	0.8
China	1.1	3.1	2.9	2.9	10.1	9.4
Japan	6.2	17.0	15.1	10.3	28.8	30.7
NICs ²	6.7	18.0	17.6	6.7	20.4	17.9
South/Central America	4.1	11.7	11.9	3.8	11.0	10.2
Argentina	0.3	1.0	1.1	0.1	0.5	0.4
Brazil	0.9	2.6	2.8	0.7	2.1	2.2
OPEC	1.9	5.0	4.9	3.0	8.8	8.4
Total	54.3	152.9	141.0	63.1	185.3	176.3

¹ EFTA includes Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.

² 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), May 17, 1996.

Table 10
U.S. total exports and imports of motor vehicles (cars, trucks and auto parts) to specified countries, Jan.- Mar. 1996

Country	Exports		Imports	
	March 1996	Cumulative Jan.-Mar. 1996	March 1996	Cumulative Jan.-Mar. 1996
<i>Million dollars</i>				
Australia	83	246	7	20
Austria	71	222	13	46
Belgium	67	188	87	226
Brazil	53	106	86	226
Canada	2,794	8,502	3,775	11,367
Germany	197	553	895	2,249
Japan	381	1,241	3,084	8,462
Korea	56	173	178	591
Mexico	715	1,898	1,837	5,702
Saudi Arabia	121	289	0	0
Sweden	21	56	205	522
Taiwan	56	216	62	201
United Kingdom	72	231	207	622
Other	615	1,779	369	1,065
Total	5,305	15,699	10,806	31,289

Source: U.S. Department of Commerce, FT 900, May 17, 1996.

Table 11
Nominal U.S. exports and trade balances of services, by sectors, Jan. 95- Mar. 96, seasonally adjusted

Sector	Exports		Change		
	Jan.-Mar. 96	Jan.-Mar. 95	Jan.-Mar. 96 over Jan.-Mar. 95	Trade balances,	
	<i>Billion dollars</i>		<i>Percent</i>		
				Jan.-Mar. 96	Jan.-Mar. 95
				<i>Billion dollars</i>	
Travel	16.0	15.2	5.3	3.9	4.1
Passenger fares	4.8	4.5	6.7	1.2	1.3
Other transportation	7.4	6.9	7.2	0	-0.4
Royalties and license fees	6.6	6.3	4.8	4.8	4.8
Other private services ¹	16.5	15.0	10.0	6.2	5.8
Transfers under U.S. military sales contracts	3.5	3.0	16.7	0.9	0.5
U.S. Govt. miscellaneous services	0.2	0.2	0	-0.5	-0.5
Total	55.1	51.1	7.8	16.6	15.6

¹ "Other private services" consists of transactions with affiliated and unaffiliated foreigners. These transactions include educational, financial, insurance, telecommunications, and such technical services as business, advertising, computer and data processing, and other information services, such as engineering, consulting, etc.

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), May 17, 1996.

INTERNATIONAL TRADE DEVELOPMENTS

The United States Registers a Large Deficit in Trade with Mexico During the Second NAFTA year

The peso's collapse in December 1994 had a profound effect on Mexico's foreign trade. According to official statistics of the Banco de Mexico, Mexico posted a \$7.39 billion trade surplus in 1995, reversing a 4-year string of trade deficits, which by 1994 reached an unsustainable level of \$18.4 billion (*IER*, April, 1995). Mexico's 1995 trade surplus resulted from a 31.2-percent growth of exports and a 8.8-percent decline of imports. The surge of exports — the largest since 1980 — was made possible by the competitive edge Mexico acquired with the cheap peso. By the same token, the dramatic loss of the peso's purchasing power in the wake of the currency crash accounted for falling Mexican imports.

Among all Mexico's trading partners, the reversal of Mexico's trade balance affected principally the United States, because of its commanding role in Mexico's foreign trade. (In 1995, the United States received an estimated 80 percent of Mexico's total exports and supplied an estimated 72 percent of Mexico's overall imports.) According to official U.S. statistics, U.S. exports to Mexico fell by 10.4 percent during the year, while U.S. imports from that country surged by 27.0 percent. These divergent developments of the export and import flow caused a sharp deterioration of the U.S. trade balance with Mexico in 1995: a record \$17.7 billion U.S. trade deficit, compared with a slight U.S. surplus in 1994 (figure 1).

The United States accounted not only for Mexico's overall trade surplus, but also helped offsetting Mexico's trade deficit with third countries. Notably, even when Mexico still registered a large overall trade deficit in 1994, this deficit was not caused by trade with the United States or Canada, but by trade outside the North American Free Trade Agreement (NAFTA,)—predominantly with Asian countries and the European Union (*IER*, April, 1995). Mexican official data show that Mexico continued to have trade

deficits with both Europe and East Asia in 1995, although significantly smaller ones than in 1994. Thus, in both the first and second NAFTA year, before and after the peso crash, trade with NAFTA partners had the effect of strengthening Mexico's trade position.

Although affected by Mexico's severe recession and a major change in the dollar/peso exchange rate, the first U.S. deficit vis-a-vis Mexico in 5 years essentially continued an ongoing deterioration in the U.S. bilateral trade position. A U.S. surplus in this trade, which was attained in 1991 for the first time in years, and which peaked at \$5.7 billion in 1992, narrowed considerably next year already. Subsequently, in the first year of the NAFTA, the U.S. surplus virtually disappeared (figure 1). Thus, this tendency of the balance to shift in Mexico's favor, first asserted itself in 1993-94, in spite of the then overvalued peso that made U.S. imports from Mexico expensive. In 1995, this trend was, of course, reinforced by a cheap peso, upsetting the balance attained in the first NAFTA year, and switching bilateral trade into a record U.S. deficit.

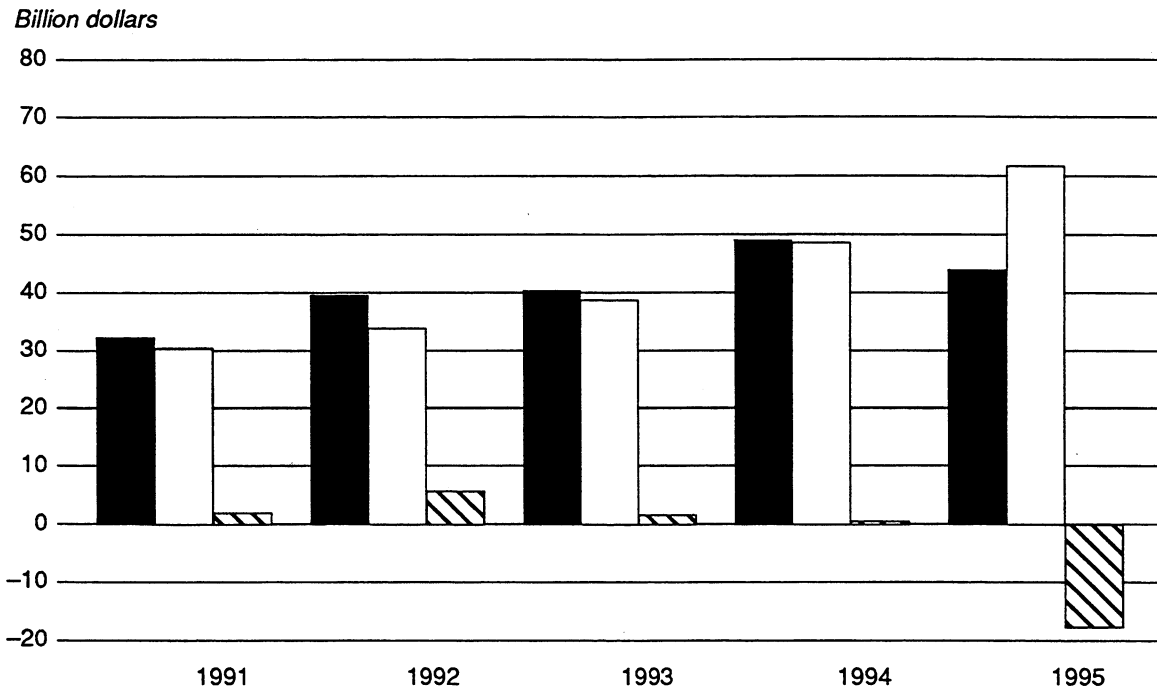
However, the NAFTA—at first, the expectation of such an accord, then its implementation—can be credited with generating record levels of trade in both directions. In the first NAFTA year, two-way trade reached a record \$97.7 billion; it continued to rise to \$105.7 billion in the second NAFTA year, due this time solely to the continued surge of U.S. imports from Mexico. Mexico continued to rank as the third-largest U.S. trading partner, after Canada and Japan, on both the export and import side, accounting for 8.1 percent of overall U.S. exports and 8.3 percent of total U.S. imports.

U.S. exports

U.S. merchandise exports to Mexico amounted to \$44.0 billion in 1995. The 10.4-percent decline in the second NAFTA year signals a drastic change compared with a 22.0-percent increase in the first. Nonetheless, 1995 U.S. exports to Mexico still represent a record value compared with all the pre-NAFTA years (figure 1).

Exports in 1995 were down in virtually all Standard Industrial Trade Classification (SITC)

Figure 1
U.S. trade with Mexico: Exports, imports, and trade balance, 1991-95



Exports	\$32.3	\$39.6	\$40.3	\$49.1	\$44.0
Imports	\$30.4	\$33.9	\$38.7	\$48.6	\$61.7
Balance	\$1.9	\$5.7	\$1.6	\$0.5	-\$17.7

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

product categories compared with 1994 (table 12). As before, machinery and transportation equipment was the largest product category, since Mexican producers continued to depend on the capital goods this U.S. industry provides. Machinery and transportation equipment accounted for 45.8 percent of total U.S. exports to Mexico, slightly down from 46.7 percent in 1994 (figure 2). Meanwhile, the aggregate exports of the 20 leading U.S. export items edged higher in 1995, indicating that the decline of overall U.S. exports has not taken place in the realm of the leading export items. The exceptions among the leading exports, which have declined, were 2 top automotive parts' categories, and soybeans.

Notably, official Mexican data show 1995 Mexican imports from the United States declining less than imports from important third-country groups: Europe and East Asia. According to an analysis of the Commerce Department, "There is no doubt that NAFTA helped limit U.S. export losses, preserving U.S. jobs."¹ This report compares the effects of the

peso's crash in 1982 and 1994. In 1982, Mexico responded by raising duties to 100 percent, imposing import licenses across the board and nationalizing sectors of the economy. U.S. exports to Mexico were cut in half as a result, and took 6 years to recover. Based on this experience, U.S. exports would have plunged to \$20 billion in 1995 without the NAFTA, and could not be expected to recover until the year 2,000. Meanwhile, with the NAFTA in existence, U.S. exports to Mexico bottomed out in the second quarter of 1995, and have since began to recover.

The NAFTA's tariff provisions have protected U.S. exporters from Mexico's 1995 decision to raise tariffs from 20 to 35 percent, and apply duties on textiles, apparel, and footwear articles imported from countries with which Mexico does not have free trade agreements. It has been argued that one of the more important achievements of NAFTA is that Mexico cannot return to a protectionist trade regime, since it is now committed to a continuing liberalization of trade policies.²

¹ NAFTA: 1995 Update, prepared by the U.S. Department of Commerce, International Trade Administration, NAFTA office, on Feb. 28, 1995.

² Tornell, Aaron and Gerardo Esquivel, *The Political Economy of Mexico's Entry to Nafta*, Working Paper 5322. Cambridge, National Bureau of Economic Research, Oct. 1995, p. 27.

Table 12
Leading exports to Mexico, by Schedule B number, 1993-95

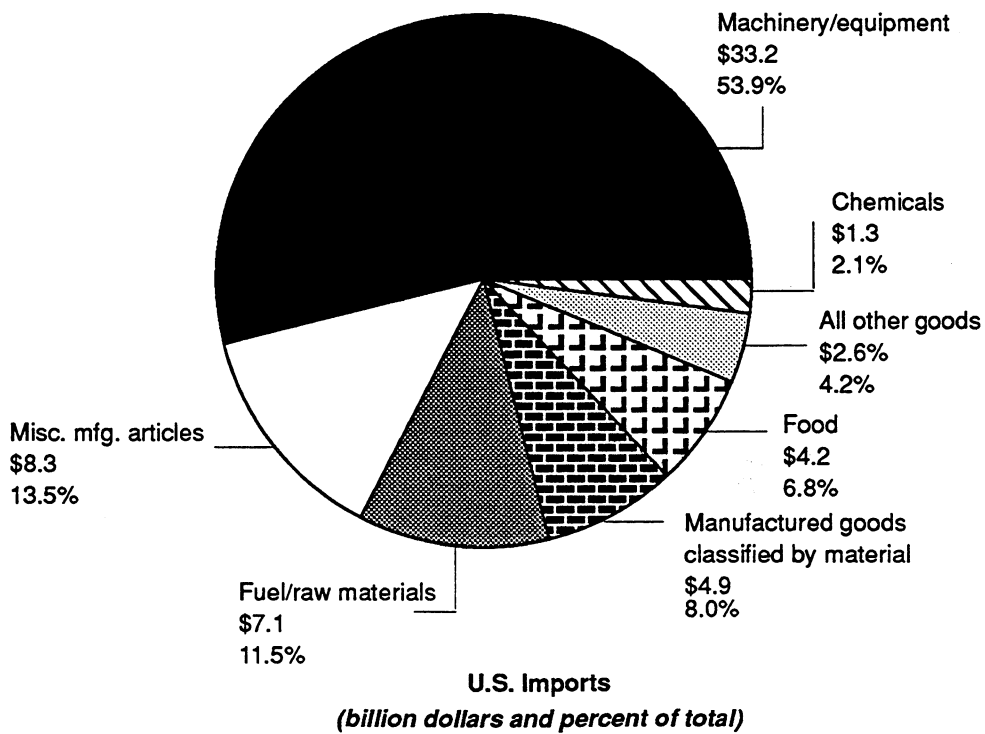
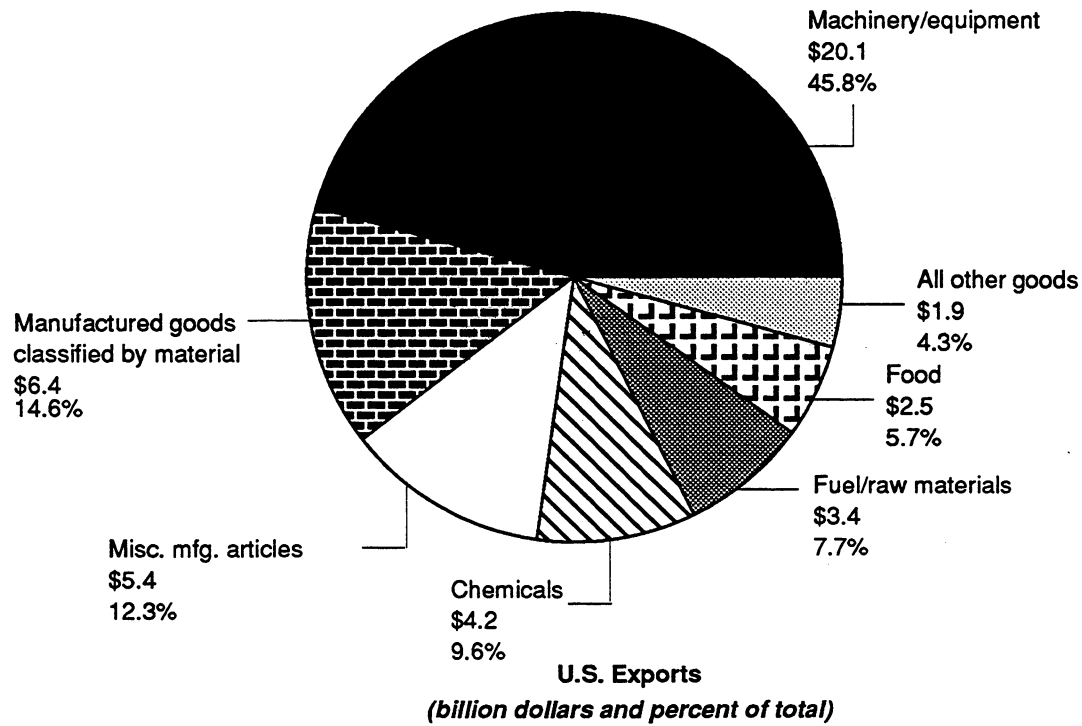
(1,000 dollars)

<i>Schedule B</i> No.	Description	1993	1994	1995
9880.00	Estimated "low value" shipments	1,411,996	1,756,361	1,624,591
8708.99	Parts and accessories, nesi, of the motor-vehicles of headings 8701 to 8705	1,252,895	1,775,818	1,334,487
8708.29	Parts and accessories nesi, of bodies (including cabs) of motor vehicles of headings 8701 to 8705	1,292,703	1,498,549	1,255,186
2710.00	Petroleum oil and oils from bituminous minerals, other than crude; and preparation nesi	717,719	689,668	764,542
3926.90	Articles of plastics and articles of other materials of headings 3901 to 3914	389,311	664,476	656,256
8473.30	Parts and accessories of machines of heading 8471	611,548	631,536	599,517
8529.90	Parts suitable for use solely or principally with the apparatus of headings 8525 to 8528, excluding antennas and antenna reflectors of all kinds	673,013	487,175	571,486
8540.11	Cathode-ray tv picture tubes, including video monitor cathode-ray tubes	359,588	471,568	567,622
8544.30	Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships	810,170	719,065	556,648
8504.90	Parts of electrical transformers, static converters and inductors	432,863	514,832	543,527
8536.90	Electrical apparatus for switching or protecting electrical circuits, nesi	172,816	368,833	487,347
1201.00	Soybeans, whether or not broken	420,948	536,717	485,346
8542.80	Electronic integrated circuits and mcrossmbis nesi	74,562	344,504	475,526
8538.90	Parts, nesi, suitable for use solely or principally with the apparatus of heading 8535, 8536, 8537	370,297	368,575	447,529
4819.10	Cartons, boxes and cases of corrugated paper and paperboard	270,682	364,681	442,815
8534.00	Printed circuits	88,223	192,632	426,788
9401.90	Parts of seats (other than those of heading 9402)	456,049	402,683	426,096
8407.34	Reciprocating piston engines of a kind used for the propulsion of vehicles of chapter 87, of a cylinder exceeding 1,000 cc	327,459	393,823	418,363
8542.19	Monolithic integrated circuits, except digital	13,587	24,315	393,035
7326.90	Articles of iron or steel nesi	130,362	303,940	371,773
	Total of items shown	10,276,790	12,509,751	12,848,479
	Total other	29,988,688	36,626,295	31,182,676
	Total all commodities	40,265,478	49,136,046	44,031,155

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

Top 20 commodities sorted by Domestic exports, F.a.s. value in 1995.

Figure 2
U.S. trade with Mexico: Exports and imports, by product sectors, 1995



Note.—Because of rounding figures may not add up to totals shown.

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

