

U.S. International Transactions

Third Quarter of 2006

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THE U.S. current-account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—increased to \$225.6 billion (preliminary) in the third quarter of 2006 from \$217.1 billion (revised) in the second quarter (table A, chart 1).¹ The increase resulted from increases in the deficits on goods and on income. These increases were partly offset by an increase in the surplus on services and a decrease in net unilateral current transfers to foreigners.

In the financial account, net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—increased to \$176.4 billion in the third quarter

from \$153.2 billion in the second quarter. Net acquisitions by foreign residents strengthened more than net acquisitions by U.S. residents.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive \$49.7 billion in the third quarter, compared with a positive \$64.9 billion in the second quarter.

The following are highlights for the third quarter:

- Goods exports increased at a substantial rate for the fourth consecutive quarter. Goods imports accelerated as a result of a sizable pickup in nonpetroleum products.
- Both receipts and payments of income on financial assets other than direct investment increased much less than in recent quarters.
- Net U.S. purchases of foreign bonds increased to a record level, and net U.S. purchases of foreign stocks slowed.

1. Quarterly estimates of U.S. current-account and financial-account components are seasonally adjusted when series demonstrate statistically significant seasonal patterns. The accompanying tables present both adjusted and unadjusted estimates.

Table A. Summary of U.S. International Transactions

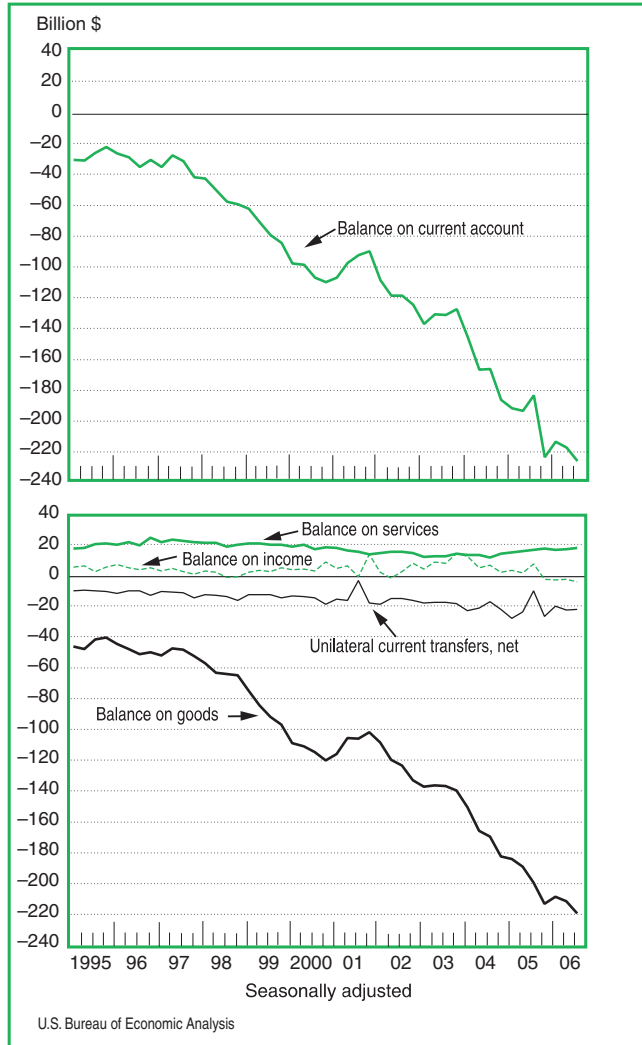
[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 11 are indicated in () (Credits +; debits -)	2005	2005				2006			Change: 2006:II-III	January-September		
			I	II	III	IV	I	II ^r	III ^p		2005	2006	Change: 2005-2006
Current account													
1	Exports of goods and services and income receipts (1)	1,749,892	415,277	429,326	442,935	462,357	484,396	511,983	526,874	14,891	1,287,538	1,523,253	235,715
2	Goods, balance-of-payments basis (3).....	894,631	214,189	222,591	224,947	232,904	244,512	252,843	262,069	9,226	661,727	759,424	97,697
3	Services (4).....	380,614	92,391	94,054	95,906	98,261	99,918	103,102	104,014	912	282,351	307,034	24,683
4	Income receipts (12).....	474,647	108,697	112,681	122,081	131,192	139,966	156,038	160,791	4,753	343,459	456,795	113,336
5	Imports of goods and services and income payments (18)	-2,455,328	-579,764	-599,390	-616,886	-659,290	-678,052	-707,254	-730,974	-23,720	-1,796,040	-2,116,280	-320,240
6	Goods, balance-of-payments basis (20).....	-1,677,371	-397,457	-410,811	-423,693	-445,410	-452,481	-463,441	-480,681	-17,240	-1,231,961	-1,396,603	-164,642
7	Services (21).....	-314,604	-77,231	-77,892	-78,952	-80,529	-83,089	-85,618	-85,720	-102	-234,075	-254,427	-20,352
8	Income payments (29).....	-463,353	-105,076	-110,687	-114,240	-133,351	-142,482	-158,195	-164,573	-6,378	-330,003	-465,250	-135,247
9	Unilateral current transfers, net (35)	-86,072	-27,237	-23,194	-9,464	-26,176	-19,542	-21,856	-21,450	406	-59,895	-62,848	-2,953
Capital account													
10	Capital account transactions, net (39)	-4,351	-2,691	-589	-557	-514	-1,756	-1,003	-551	452	-3,837	-3,310	527
Financial account													
11	U.S.-owned assets abroad, net (increase/financial outflow (-)) (40)	-426,801	-87,391	-196,376	-132,380	-10,656	-355,978	-211,375	-223,769	-12,394	-416,147	-791,122	-374,975
12	U.S. official reserve assets, net (41).....	14,096	5,331	-797	4,766	4,796	513	-560	1,006	1,566	9,300	959	-8,341
13	U.S. Government assets, other than official reserve assets, net (46)	5,539	2,591	989	1,501	459	1,049	1,765	287	-1,478	5,081	3,101	-1,980
14	U.S. private assets, net (50).....	-446,436	-95,313	-196,568	-138,647	-15,911	-357,540	-212,580	-225,062	-12,482	-430,528	-795,182	-364,654
15	Foreign-owned assets in the United States, net (increase/financial inflow (+)) (55)	1,212,250	224,128	346,179	388,592	253,350	527,498	364,576	400,161	35,585	958,899	1,292,235	333,336
16	Foreign official assets in the United States, net (56).....	199,495	18,965	74,613	33,983	71,934	75,697	75,869	80,775	4,906	127,561	232,341	104,780
17	Other foreign assets in the United States, net (63).....	1,012,755	205,163	271,566	354,609	181,416	451,801	288,707	319,386	30,679	831,338	1,059,894	228,556
18	Statistical discrepancy (sum of above items with sign reversed) (70)	10,410	57,678	44,044	-72,240	-19,071	43,434	64,929	49,709	-15,220	29,482	158,072	128,590
Memoranda:													
19	Balance on current account (76).....	-791,508	-191,724	-193,258	-183,415	-223,109	-213,198	-217,127	-225,550	-8,423	-568,397	-655,875	-87,478
20	Net financial flows (40 and 55).....	785,449	136,737	149,803	256,212	242,694	171,520	153,201	176,392	23,191	542,752	501,113	-41,639

^r Revised
^p Preliminary

- Net foreign purchases of U.S. securities other than U.S. Treasury securities picked up as a result of a shift to net foreign purchases of U.S. stocks.

Chart 1. U.S. Current-Account Balance and Its Components



Revisions to the Estimates

The preliminary estimates of U.S. international transactions for the second quarter that were published in the October 2006 SURVEY OF CURRENT BUSINESS have been revised.

The current-account deficit was revised to \$217.1 billion from \$218.4 billion. The goods deficit was unrevised at \$210.6 billion; the services surplus was revised to \$17.5 billion from \$16.8 billion; the deficit on income was revised to \$2.2 billion from \$4.1 billion; and net unilateral current transfers to foreigners were revised to \$21.9 billion from \$20.4 billion. Net financial inflows were revised to \$153.2 billion from \$154.1 billion.

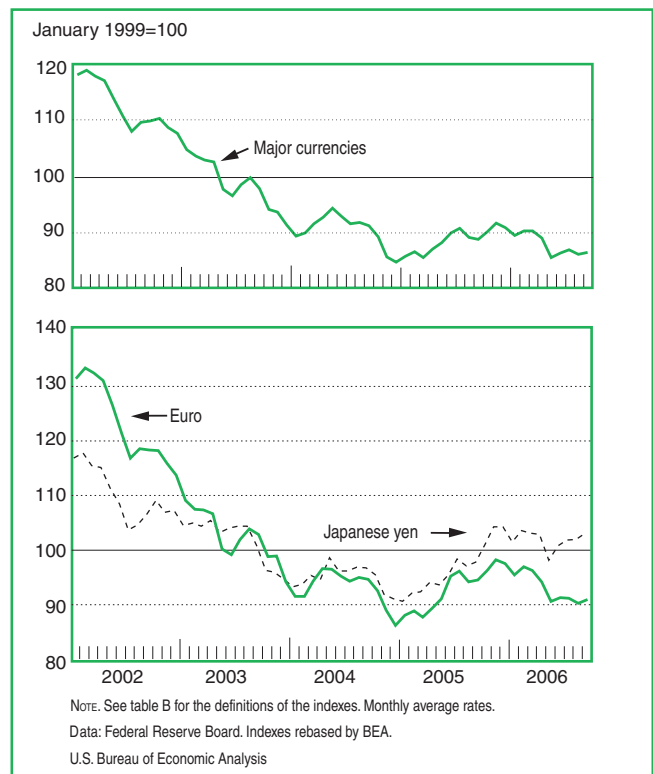
Selected economic and financial market developments

In the third quarter, the U.S. dollar depreciated 1 percent on a nominal, trade-weighted, quarterly average basis against a group of seven major currencies that are widely traded in international markets (table B, chart 2). The U.S. dollar depreciated 1 percent against the euro; it changed little against the Canadian dollar; and it appreciated 2 percent against the Japanese yen.

In the United States, data releases in the third quarter indicated that U.S. economic growth in the second quarter slowed substantially. Releases indicated that the U.S. deficit on trade in goods and services on a 3-month moving-average basis was again increasing after decreasing for a brief period. U.S. monetary authorities left the target level for the Federal funds rate at 5.25 percent after steadily raising it over the last 2 years; other U.S. short-term interest rates leveled off or eased slightly (chart 3). U.S. long-term interest rates decreased, and U.S. and foreign stock markets rebounded.

In Europe, data releases indicated that euro area economic growth remained moderately strong in the second quarter. Among countries with the largest economies, economic activity in Germany and France strengthened further, and activity in Spain remained

Chart 2. Nominal Indexes of Foreign Currency Price of the U.S. Dollar



Goods

The deficit on goods increased to \$218.6 billion in the third quarter from \$210.6 billion in the second quarter. Exports continued to increase substantially, but imports increased more than exports as a result of a sizable pickup in imports of nonpetroleum products (chart 4).

Exports. Exports increased \$9.2 billion, or 3.6 percent, to \$262.1 billion (table C). The increase resulted

from increases in all the major commodity categories (chart 5). Real exports increased 2.3 percent, and

Chart 5. U.S. Trade in Goods by Selected End-Use Categories: Change From Preceding Quarter

Chart 4. U.S. Trade in Goods: Change in Value From Preceding Quarter

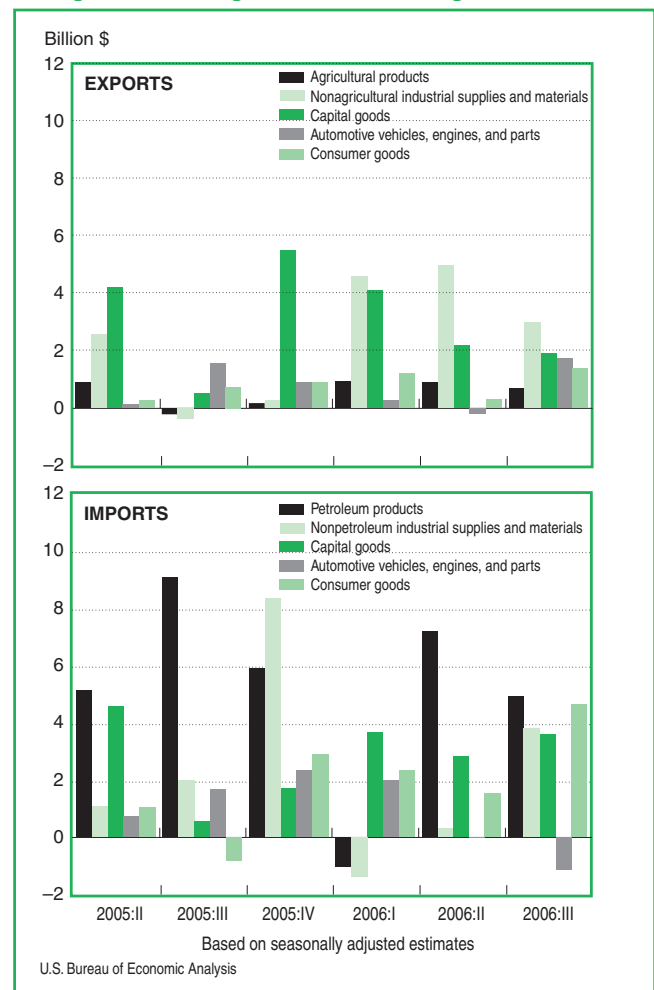
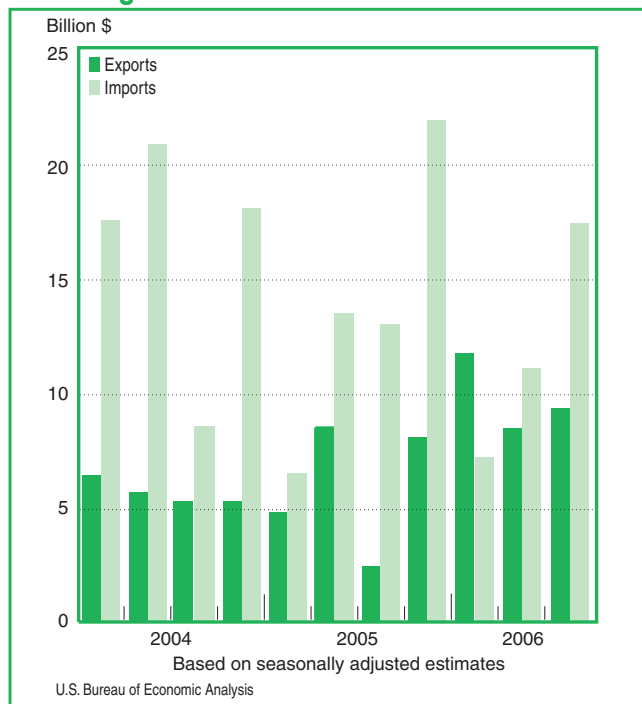


Table C. U.S. Trade in Goods in Current and Chained (2000) Dollars and Percent Changes From Previous Period

[Balance-of-payments basis, millions of dollars, quarters seasonally adjusted]

	Current dollars									Chained (2000) dollars ¹									
	2004	2005	2005				2006				2004	2005	2005				2006		
			I	II	III	IV	I	II	III ^p	I			II	III	IV	I	II	III ^p	
Exports	807,516	894,631	214,189	222,591	224,947	232,904	244,512	252,843	262,069	773,542	831,225	200,713	207,059	208,582	214,757	223,928	228,091	233,394	
Agricultural products.....	62,939	64,883	15,610	16,511	16,291	16,471	17,385	18,275	18,947	50,891	53,533	13,196	13,495	13,315	13,521	14,261	14,899	14,976	
Nonagricultural products	744,577	829,748	198,579	206,080	208,656	216,433	227,127	234,568	243,122	723,776	779,150	187,826	193,899	195,651	201,665	210,095	213,583	218,849	
Imports	1,472,926	1,677,371	397,457	410,811	423,693	445,410	452,481	463,441	480,681	1,430,553	1,530,141	375,402	378,834	380,393	394,902	402,810	402,810	411,457	
Petroleum and products	180,459	251,856	53,157	58,261	67,284	73,154	72,129	79,292	84,177	137,841	140,986	36,658	34,543	33,409	36,377	35,931	34,163	34,758	
Nonpetroleum products	1,292,467	1,425,515	344,300	352,550	356,409	372,256	380,352	384,149	396,504	1,292,713	1,391,615	338,458	345,238	348,849	358,867	368,330	371,331	380,168	
	Percent change from previous period (current dollars)									Percent change from previous period (chained (2000) dollars)									
	2004	2005	2005				2006				2004	2005	2005				2006		
I			II	III	IV	I	II	III ^p	I	II			III	IV	I	II	III ^p		
Exports	13.2	10.8	2.2	3.9	1.1	3.5	5.0	3.4	3.6	9.1	7.5	1.1	3.2	0.7	3.0	4.3	1.9	2.3	
Agricultural products.....	3.4	3.1	-1.9	5.8	-1.3	1.1	5.4	5.1	3.7	-5.5	5.2	-3.7	2.3	-1.3	1.5	5.5	4.5	0.5	
Nonagricultural products	14.1	11.4	2.6	3.8	1.3	3.7	4.9	3.3	3.6	10.5	7.7	1.5	3.2	0.9	3.1	4.2	1.7	2.5	
Imports	16.8	13.9	1.6	3.4	3.1	5.1	1.6	2.4	3.7	11.3	7.0	1.2	0.9	0.4	3.8	2.0	-0.1	2.3	
Petroleum and products	35.6	39.6	-0.7	9.6	15.5	8.7	-1.4	9.9	6.2	6.6	2.3	1.7	-5.8	-3.3	8.9	-1.2	-4.9	1.7	
Nonpetroleum products	14.6	10.3	2.0	2.4	1.1	4.4	2.2	1.0	3.2	11.8	7.7	1.1	2.0	1.0	2.9	2.6	0.8	2.4	

^p Preliminary

¹ Because chain indexes use weights of more than one period, the corresponding chained dollar estimates are usually not additive.

NOTE: Percent changes in quarterly estimates are not annualized and are expressed at quarterly rates.

export prices increased 1.3 percent.²

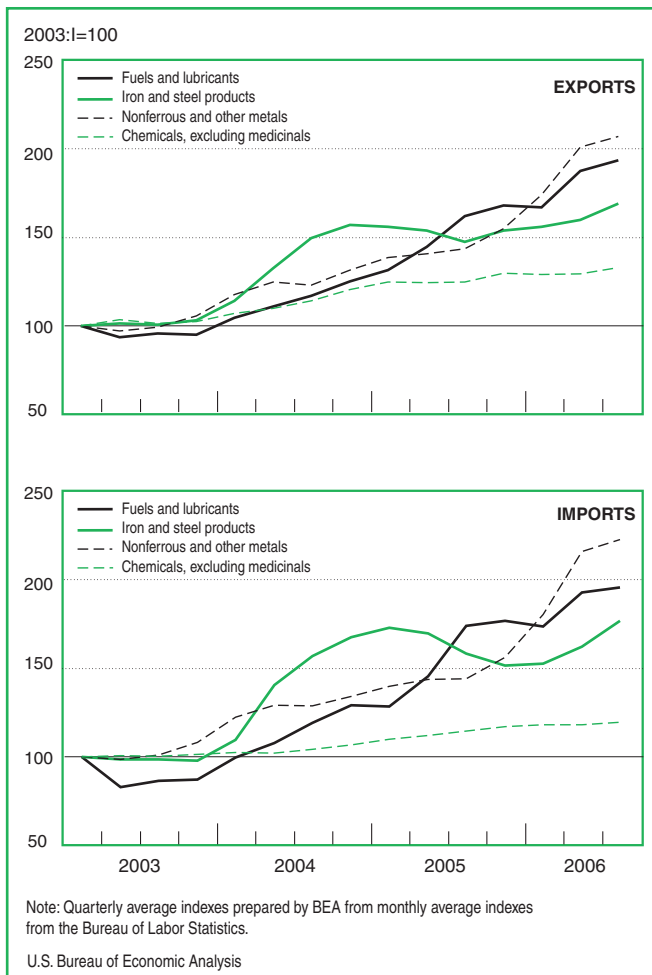
Exports increased substantially for the fourth consecutive quarter, partly as a result of strengthened economic growth in many foreign countries and the lagged effect of the substantial depreciation of the U.S. dollar against many foreign currencies since early 2002.

In the third quarter, nonagricultural industrial supplies and materials increased \$3.0 billion, considerably less than in the previous two quarters. The slowdown largely resulted from slowdowns in nonferrous metals and in energy products. Prices of nonferrous metals increased much less than in the previous two quarters, and prices of energy products also moderated (chart 6). Exports of chemicals increased considerably for the third consecutive quarter; the third-quarter rise was mostly in plastic and organic chemicals.

Capital goods increased \$1.9 billion. Among high-

2. Quantity (real) estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters. Real estimates are expressed as chained (2000) dollars. Price indexes (2000 = 100) are also calculated using a chain-type Fisher formula.

Chart 6. Export and Import Prices of Selected Industrial Supplies and Materials



technology products, telecommunications equipment increased strongly for the second consecutive quarter; in contrast, semiconductors and computers, peripherals, and parts decreased. Oil drilling, mining, and construction machinery increased substantially for the second consecutive quarter; most other types of machinery also increased.

Automotive vehicles, parts, and engines jumped \$1.7 billion after a second-quarter decrease. The rebound resulted largely from a strong increase in passenger cars, mostly to Canada and Germany.

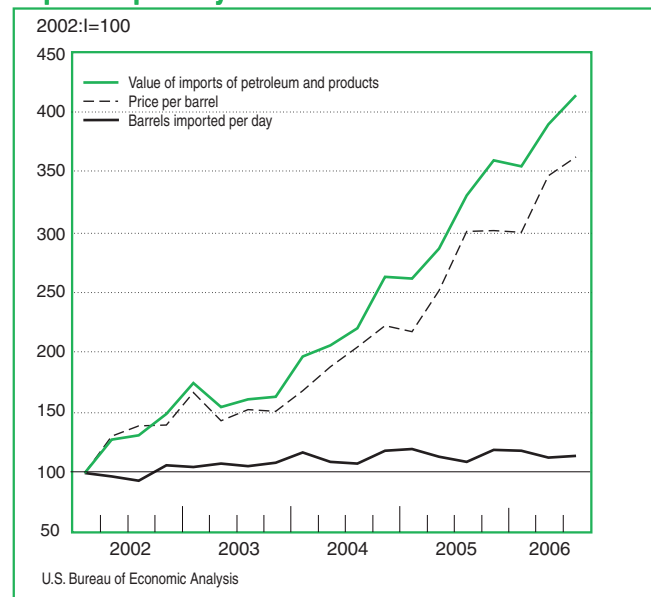
Consumer goods increased \$1.4 billion. The rise was attributable to increases in durable goods—mainly artwork, antiques, stamps, and collectibles—and in nondurable goods—mainly medical, dental, and pharmaceutical preparations.

Agricultural products increased \$0.7 billion. A record increase in soybeans and smaller increases in several other agricultural commodities were partly offset by a substantial decrease in raw cotton, which may have partly reflected the termination of certain U.S. agricultural trade subsidies on August 1.

Imports. Imports increased \$17.2 billion, or 3.7 percent, to \$480.7 billion in the third quarter (table C). The increase largely resulted from a substantial pickup in nonpetroleum products, which had slowed in the previous two quarters. Petroleum and products also increased. Real imports increased 2.3 percent, and import prices increased 1.4 percent.

Petroleum and products increased \$4.9 billion, continuing their strong growth in recent years (charts 5 and 7). In the last 3 years, these products

Chart 7. Imports of Petroleum and Products: Indexes of Value, Price per Barrel, and Barrels Imported per Day



have increased 157 percent, mostly as a result of rising prices; quantity increased only 8 percent. In the third quarter, the average price per barrel increased 4 percent, to \$66.54, and the average number of barrels imported daily increased 2 percent, to 13.86 million. The largest increases in petroleum imports were from members of OPEC, particularly Algeria and Venezuela, from Angola, and from Canada. U.S. domestic petroleum production increased for the third consecutive quarter, but it remained below the level attained before Hurricanes Katrina and Rita.

Consumer goods increased \$4.6 billion, considerably more than in recent quarters. The pickup was attributable to a strong upturn in durable goods, largely resulting from increases in household and kitchen appliances from China and in television and video receivers from Mexico. Nondurable goods also increased, mostly because of increases in medical, dental, and pharmaceutical products from Ireland and the United Kingdom and in textile apparel from China.

Nonpetroleum industrial supplies and materials also picked up, increasing \$3.8 billion. The rise was mostly attributable to strong rebounds in iron and steel products and in chemicals and to continued substantial growth in nonferrous metals.

Capital goods increased \$3.6 billion. About half of the increase was accounted for by increases in computers, peripherals, and parts, in telecommunications equipment, and in semiconductors. A sharp rise in electric generating machinery, apparatus, and parts, mainly from China, also contributed to the gain in capital goods.

Foods, feeds, and beverages increased \$0.8 billion. The largest increases were in vegetables, fruits, nuts, and preparations and in coffee, cocoa, and sugar products.

In contrast, automotive vehicles, parts, and engines decreased \$1.1 billion, the largest decline in 3 years. The decrease resulted from a downturn in imports from Canada, particularly of passenger cars.

Balances by area. The goods deficit with Asia and Pacific increased strongly, and the goods deficit with Africa also increased; the goods deficits with most other major areas decreased.³ The deficit with Asia and Pacific increased \$11.7 billion, mostly as a result of a

surge in imports from China, which was the top quarterly provider of foreign goods to the United States for the first time, surpassing Canada. The deficit with Africa increased \$1.3 billion, mostly as a result of higher imports of petroleum products from Algeria.

Services

The surplus on services increased to \$18.3 billion in the third quarter from \$17.5 billion in the second quarter, as services receipts increased more than services payments. The services surplus has increased considerably since falling to a 13-year low in the third quarter of 2004.

In the third quarter, travel receipts were virtually unchanged at \$21.5 billion. An increase in receipts from overseas travelers to the United States was almost completely offset by a decrease in receipts from travelers from Mexico. Travel payments decreased \$0.5 billion to \$18.1 billion. The decline mostly resulted from decreases in payments to countries overseas and to Canada as result of a drop in the number of U.S. travelers. Passenger fare receipts increased \$0.1 billion to \$5.3 billion, and passenger fare payments decreased \$0.4 billion to \$6.6 billion.

“Other” transportation receipts were virtually unchanged at \$12.2 billion. Increases in receipts for air and ocean freight services were mostly offset by a decrease in receipts for air port services. “Other” transportation payments increased \$0.2 billion to \$16.6 billion. The increase resulted from a rise in payments for ocean freight services, partly reflecting an increase in the volume of U.S. goods imports.

“Other” private services receipts increased \$1.0 billion to \$45.1 billion. The rise was attributable to increases in receipts for unaffiliated services—mostly for financial services and business, professional, and technical services—and for affiliated services. “Other” private services payments increased \$0.7 billion to \$29.1 billion. The rise mostly resulted from an increase in payments for unaffiliated services—mainly for insurance services and business, professional, and technical services.

Income

The deficit on income increased to \$3.8 billion in the third quarter from \$2.2 billion in the second quarter. In the last 3 years, the balance on income has declined and has been negative in recent quarters because of a strong increase in the deficit on income on financial assets other than direct investment. In contrast, the surplus on direct investment income has increased moderately.

In the third quarter, receipts of income on U.S. direct investment abroad increased \$1.0 billion to \$75.9

3. Seasonally adjusted estimates of exports for areas and countries are derived by applying seasonal factors for total U.S. agricultural and nonagricultural exports to the unadjusted agricultural and nonagricultural exports for areas and countries and then summing the seasonally adjusted estimates. Seasonally adjusted estimates of imports for areas and countries are derived by applying seasonal factors for total petroleum and nonpetroleum imports to the unadjusted petroleum and nonpetroleum imports for areas and countries and then summing the seasonally adjusted estimates. (The seasonal factors are derived from the seasonal adjustment of U.S. exports and U.S. imports by five-digit end-use commodity categories.)

sales to the Netherlands, Switzerland, and France, and transactions with Latin America shifted to net U.S. sales from net U.S. purchases.

Net U.S. purchases of foreign bonds were a record \$45.1 billion, up from the previous record of \$36.9 billion in the second quarter. Global bond markets rallied in the third quarter after falling in the second quarter. Net U.S. purchases of bonds from Europe, mostly from the United Kingdom where the bonds of many foreign countries are traded, were very strong for the second consecutive quarter. In addition, net U.S. purchases from Canada increased, and transactions with Latin America shifted to net U.S. purchases from net U.S. sales.

Direct investment. U.S. direct investment abroad increased \$63.1 billion in the third quarter after an increase of \$46.8 billion in the second quarter. The pickup was mostly attributable to a shift from a decrease to an increase in net intercompany debt investment abroad. In addition, net equity capital investment abroad picked up. In contrast, reinvested earnings decreased.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased \$400.2 billion in the third quarter after an increase of \$364.6 billion in the second quarter. The pickup was mostly attributable to larger increases in U.S. liabilities reported by U.S. nonbanking concerns and U.S. banks in the third quarter than in the second quarter and to an increase in net foreign purchases of U.S. securities other than U.S. Treasury securities.

Foreign official assets. Foreign official assets in the United States increased \$80.8 billion in the third quarter after increasing \$75.9 billion in the second quarter. Assets of Asian countries increased much more strongly in the third quarter than in the second quarter. In contrast, assets of European countries decreased in the third quarter after an increase in the second quarter.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased \$89.1 billion in the third quarter after an increase of \$79.6 billion in the second quarter.

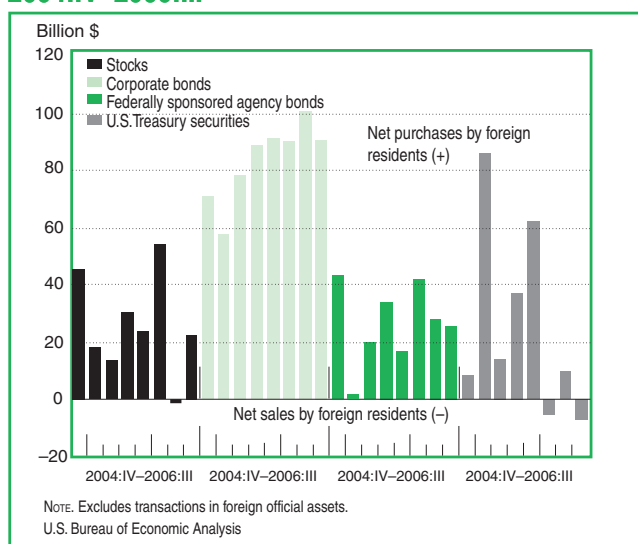
Banks' own liabilities denominated in dollars increased \$43.9 billion after a decrease of \$3.4 billion. The increase mainly resulted from substantial borrowing by U.S. brokers and dealers in the form of repurchase agreements, mostly with foreign banks in the United Kingdom. In contrast, U.S.-owned banks' borrowing decreased after increasing for several quarters. The decrease may have been partly related to a cutback in lending to foreigners by these banks.

Banks' customers' liabilities denominated in dollars increased \$41.4 billion after a particularly large increase of \$84.9 billion. The sizable increases in both quarters were mostly in the form of "other" liabilities.

U.S. liabilities reported by U.S. nonbanking concerns increased \$53.5 billion after an increase of \$25.1 billion. The third-quarter increase was largely accounted for by an increase in financial liabilities to the United Kingdom.

U.S. Treasury securities. Transactions in U.S. Treasury securities shifted to net sales by foreigners of \$7.2 billion in the third quarter from net purchases by foreigners of \$9.8 billion in the second quarter (chart 8). Prices of U.S. Treasury securities increased in the third quarter after decreasing in the previous two quarters. In the third quarter, net sales of U.S. Treasury securities by the United Kingdom and Caribbean financial centers, where many international investment funds are located, increased and net purchases by Asia slowed.

Chart 8. Transactions in U.S. Securities, 2004:IV–2006:III



Other U.S. securities. Net foreign purchases of U.S. securities other than U.S. Treasury securities were \$138.8 billion in the third quarter, up from \$127.3 billion in the second quarter. The increase resulted from a shift to net purchases of U.S. stocks by foreigners from net sales. In contrast, net purchases of U.S. corporate bonds and of federally sponsored agency bonds by foreigners decreased.

Transactions in U.S. stocks by foreigners shifted to net purchases of \$22.4 billion from net sales of \$1.4 billion. The U.S. stock market strengthened in the third quarter as concerns about inflation may have eased and as U.S. monetary authorities left monetary policy unchanged after a period of tightening. The shift to net

purchases by foreigners was more than accounted for by a step-up in net purchases from Europe and a shift to net purchases from net sales from Caribbean financial centers.

Net purchases by foreigners of U.S. corporate bonds remained strong at \$90.7 billion, but they were down from a record \$100.6 billion. Conditions that have encouraged foreigners to invest heavily in U.S. corporate bonds in recent quarters remained in place. These conditions include the higher yields available on U.S. corporate bonds than on foreign bonds, healthy U.S. corporate balance sheets, and low U.S. bond default rates. In addition, U.S. corporate bond prices increased in the third quarter. The decrease in net purchases by foreigners of U.S. corporate bonds was mostly attribut-

able to a decrease in net purchases from Europe.

Net purchases by foreigners of U.S. federally sponsored agency bonds were \$25.7 billion, down from \$28.0 billion. Decreases in net purchases from Asia and from Europe were largely offset by a shift to net purchases from net sales from Caribbean financial centers.

Direct investment. Foreign direct investment in the United States increased \$44.1 billion in the third quarter after increasing \$45.8 billion in the second quarter. The small slowdown was mainly attributable to a slowdown in net intercompany debt investment in the United States. Net equity capital investment in the United States and reinvested earnings both changed little.

Tables 1 through 11 follow.