U.S. International Transactions

Third Quarter of 2007

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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—decreased to $178.5 billion (preliminary) in the third quarter of 2007 from $188.9 billion (revised) in the second quarter (table A, chart 1).[1] The decrease resulted from increases in the surpluses on income and on services and a decrease in the deficit on goods. Net unilateral current transfers to foreigners increased.

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—were $93.4 billion in the third quarter, down from $152.8 billion in the second quarter. Net foreign acquisitions of assets in the United States and net U.S. acquisitions of assets abroad both slowed sharply, although net foreign acquisitions slowed more than net U.S. acquisitions. The sizable slowdowns in financial inflows and outflows resulted from turbulence in U.S. and some foreign financial markets, which were initially caused by rising delinquencies on U.S. subprime mortgages.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive $85.6 billion in the third quarter, compared with a positive

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

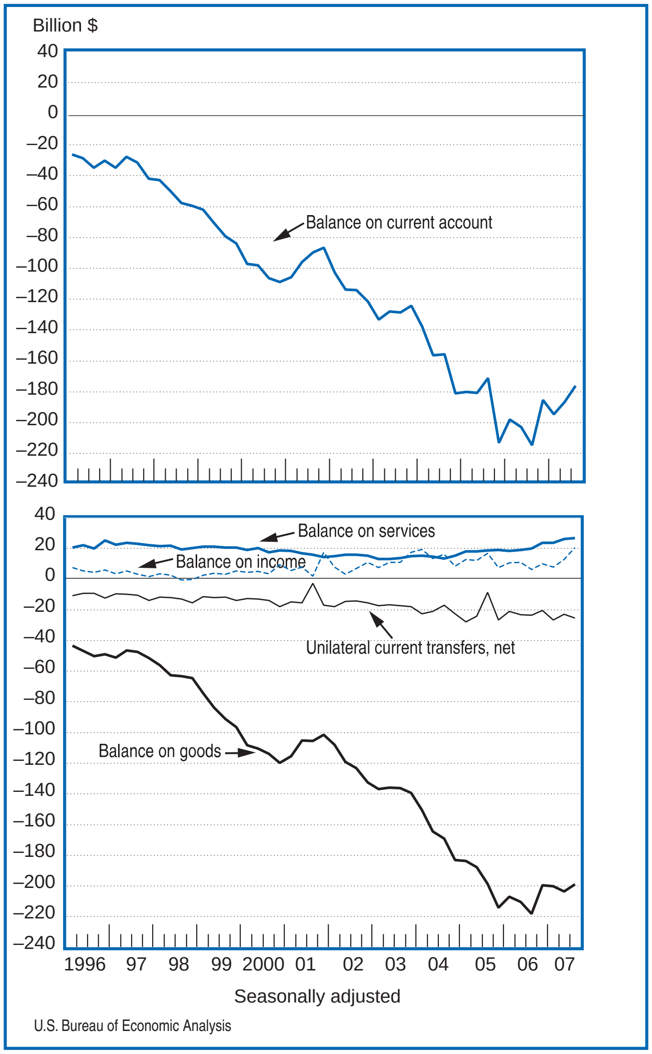
Table A. Summary of U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 11 are indicated in ( ) (Credits +; debits –)	2006	2006				2007			Change: 2007:II–III	January–September		
			I	II	III	IV	I	II r	III p		2006	2007	Change: 2006–2007
	Current account												
1	**Exports of goods and services and income receipts (1)**	**2,096,165**	**494,027**	**518,595**	**532,894**	**550,649**	**558,369**	**591,985**	**623,360**	**31,375**	**1,545,516**	**1,773,714**	**228,198**
2	Goods, balance of payments basis (3)	1,023,109	243,880	252,458	260,285	266,486	270,116	279,339	297,946	18,607	756,623	847,401	90,778
3	Services (4)	422,594	101,756	104,117	105,583	111,137	112,040	117,186	119,790	2,604	311,456	349,016	37,560
4	Income receipts (12)	650,462	148,391	162,020	167,026	173,025	176,213	195,460	205,624	10,164	477,437	577,297	99,860
5	**Imports of goods and services and income payments (18)**	**–2,818,047**	**–673,277**	**–700,504**	**–726,352**	**–717,914**	**–728,472**	**–757,747**	**–776,056**	**–18,309**	**–2,100,133**	**–2,262,275**	**–162,142**
6	Goods, balance of payments basis (20)	–1,861,380	–451,637	–463,734	–479,184	–466,825	–470,983	–483,552	–497,646	–14,094	–1,394,555	–1,452,181	–57,626
7	Services (21)	–342,845	–83,711	–85,419	–85,991	–87,724	–88,754	–91,404	–93,242	–1,838	–255,121	–273,400	–18,279
8	Income payments (29)	–613,823	–137,929	–151,352	–161,177	–163,365	–168,735	–182,791	–185,168	–2,377	–450,458	–536,694	–86,236
9	**Unilateral current transfers, net (35)**	**–89,595**	**–21,360**	**–23,686**	**–23,877**	**–20,673**	**–26,994**	**–23,157**	**–25,760**	**–2,603**	**–68,923**	**–75,911**	**–6,988**
	Capital account												
10	**Capital account transactions, net (39)**	**–3,913**	**–1,724**	**–1,008**	**–545**	**–637**	**–559**	**–598**	**–554**	**44**	**–3,277**	**–1,711**	**1,566**
	Financial account												
11	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–)) (40)**	**–1,055,176**	**–344,032**	**–212,218**	**–209,898**	**–289,028**	**–449,454**	**–465,466**	**–155,739**	**309,727**	**–766,148**	**–1,070,659**	**–304,511**
12	U.S. official reserve assets (41)	2,374	513	–560	1,006	1,415	–72	26	–54	–80	959	–100	–1,059
13	U.S. government assets, other than official reserve assets (46)	5,346	1,049	1,765	1,570	962	445	–369	422	791	4,384	498	–3,886
14	U.S. private assets (50)	–1,062,896	–345,594	–213,423	–212,474	–291,405	–449,827	–465,123	–156,107	309,016	–771,491	–1,071,057	–299,566
15	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55)**	**1,859,597**	**538,140**	**355,442**	**449,987**	**516,029**	**616,602**	**619,272**	**249,126**	**–370,146**	**1,343,569**	**1,485,000**	**141,431**
16	Foreign official assets in the United States (56)	440,264	125,257	120,861	108,799	85,347	152,193	70,464	39,016	–31,448	354,917	261,673	–93,244
17	Other foreign assets in the United States (63)	1,419,333	412,883	234,581	341,188	430,682	464,409	548,808	210,110	–338,698	988,652	1,223,327	234,675
18	**Financial derivatives, net (70)**	**28,762**	**1,633**	**14,001**	**14,911**	**–1,783**	**14,800**	**–1,007**	**n.a.**	**1,007**	**30,545**	**13,793**	**–16,752**
19	**Statistical discrepancy (sum of above items with sign reversed) (71)**	**–17,794**	**6,593**	**49,378**	**–37,121**	**–36,643**	**15,708**	**36,718**	**85,622**	**48,904**	**18,850**	**138,048**	**119,198**
	Memoranda:												
20	Balance on current account (77)	–811,477	–200,611	–205,595	–217,334	–187,938	–197,097	–188,919	–178,456	10,463	–623,540	–564,472	59,068
21	Net financial flows (40, 55, and 70)	833,183	195,741	157,225	255,000	225,218	181,948	152,799	93,387	–59,412	607,966	428,134	–179,832

p Preliminary
r Revised
n.a. Not available

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



$36.7 billion in the second quarter.

The following are highlights for the third quarter of 2007:

- Goods exports increased strongly, and goods imports increased moderately.
- Income receipts increased much more than income payments.
- Net private foreign transactions in U.S. securities other than U.S. Treasury securities shifted by a very sizable amount to record net foreign sales. In contrast, net private foreign purchases of U.S. Treasury securities increased.
- Both U.S. claims and liabilities reported by U.S. banks increased much less in the third quarter than in the second quarter.

Current Account

Goods and services

The deficit on goods and services decreased to $173.2 billion in the third quarter from $178.4 billion in the second quarter. The deficit on goods decreased $4.5 billion, and the surplus on services increased $0.8 billion.

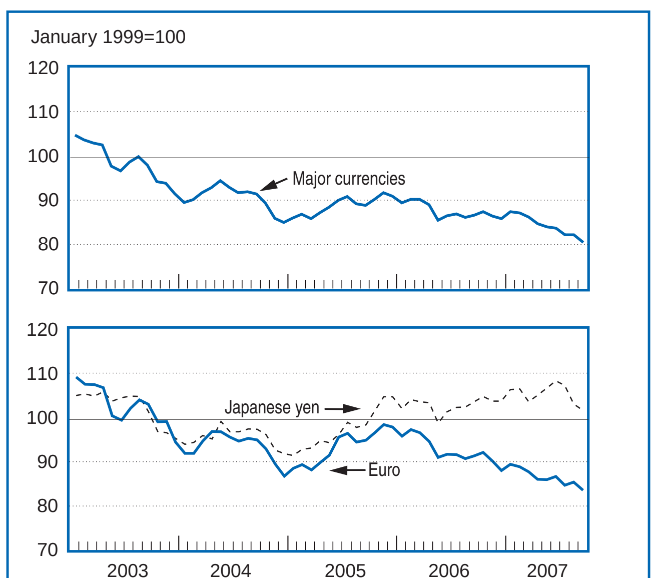
Goods

The deficit on goods decreased to $199.7 billion in the third quarter from $204.2 billion in the second quarter, as exports increased more than imports.

After peaking in the third quarter of 2006, the goods deficit has been lower over the last four quarters as a result of much stronger growth in exports than in imports. In particular, nonpetroleum exports have increased $37.0 billion, or 15 percent, while nonpetroleum imports have increased only $19.4 billion, or 5 percent. Petroleum exports and imports have changed relatively little over the last year.

On a price-adjusted, or real, basis, exports have also grown much more strongly than imports, and real net goods exports have made an unusually large contribution to real growth in gross domestic product in three of the last four quarters. Real export growth, which has generally been strong since mid-2003, has been supported by strengthening economic activity in many foreign countries and by the substantial depreciation of the U.S. dollar against many foreign currencies since early 2002 (table B, chart 2). In contrast, real import growth has generally weakened from its pre-2005 pace, responding to the relatively slower growth in U.S. gross domestic purchases as well as higher import prices arising from the depreciation of the dollar.

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



NOTE. See table B for the definitions of the indexes. Monthly average rates.
Data: Federal Reserve Board. Indexes rebased by BEA.
U.S. Bureau of Economic Analysis

Exports. In the third quarter, current-dollar exports of goods increased $18.6 billion, or 6.7 percent, to $297.9 billion (table C, chart 3). Real exports increased 5.8 percent, and export prices increased 0.8 percent (chart 4).[2] The exceptionally large increase in current-dollar exports resulted from strong increases in nearly all major commodity categories.

Capital goods increased $6.9 billion. More than half of the increase was accounted for by a surge in civilian aircraft, mainly reflecting deliveries of completed aircraft to several countries in Asia. Capital goods other than civilian aircraft also increased substantially. Among high-technology products, a very strong increase in telecommunications equipment more than offset a continued decline in semiconductors. Several other categories of machinery also increased; among the largest were increases in oil drilling, mining, and construction machinery and in industrial engines,

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.

Table B. Indexes of Foreign Currency Price of the U.S. Dollar

[January 1999=100]

	2006		2007			2006				2007								
	III	IV	I	II	III	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.
Nominal: [1]																		
Broad [2]	94.4	93.9	93.7	91.5	89.8	94.4	94.6	93.9	93.2	94.1	93.8	93.3	92.1	91.3	91.0	89.9	90.4	89.1
Major currencies [3]	86.3	86.3	86.7	83.9	81.4	86.4	87.2	86.2	85.6	87.2	86.9	86.0	84.5	83.8	83.5	82.0	82.0	80.3
Other important trading partners [4]	105.0	103.7	102.9	101.2	100.6	104.8	104.4	103.8	103.0	103.1	102.8	102.8	101.9	101.0	100.8	100.1	101.2	100.6
Real: [1]																		
Broad [2]	98.1	96.0	95.9	95.0	92.8	97.6	97.1	95.8	95.0	96.1	95.7	96.0	95.3	95.0	94.7	93.2	93.2	91.9
Major currencies [3]	94.7	93.7	94.6	92.8	90.1	94.5	94.9	93.5	92.8	94.7	94.7	94.3	93.1	92.7	92.5	90.8	90.6	88.8
Other important trading partners [4]	101.9	98.5	97.5	97.5	95.8	101.1	99.6	98.4	97.4	97.7	96.9	97.9	97.8	97.5	97.3	95.8	96.2	95.4
Selected currencies: (nominal) [5]																		
Canada	73.8	75.0	77.1	72.3	68.8	73.5	74.3	74.8	75.9	77.4	77.1	76.9	74.7	72.1	70.1	69.1	69.6	67.6
European currencies:																		
Euro area [6]	91.0	89.9	88.4	86.0	84.3	91.1	91.9	89.9	87.8	89.2	88.6	87.5	85.8	85.7	86.4	84.4	85.1	83.3
United Kingdom	88.0	86.1	84.4	83.1	81.6	87.6	87.9	86.3	84.0	84.2	84.2	84.7	83.0	83.1	83.0	81.1	82.0	81.7
Switzerland	89.4	89.1	89.0	88.2	86.5	89.9	90.9	89.2	87.3	89.7	89.4	87.9	87.5	88.1	89.0	87.1	86.8	85.5
Japan	102.7	104.0	105.4	106.6	103.9	103.5	104.7	103.6	103.6	106.3	106.4	103.5	105.0	106.6	108.3	107.2	103.0	101.5
Mexico	108.1	107.5	108.8	107.4	108.2	108.5	107.5	107.8	107.2	108.2	108.6	109.7	108.4	106.9	107.0	106.8	109.0	108.9
Brazil	143.5	142.2	139.3	131.1	126.7	143.4	141.9	142.6	142.0	141.4	138.5	138.1	134.3	131.2	127.8	124.4	129.8	125.8

1. For more information on the nominal and real indexes of the foreign exchange value of the U.S. dollar, see Federal Reserve Bulletin, vol. 84 (October 1998): 811–18.
2. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of U.S. trading partners, including the currencies of the euro area countries, Australia, Canada, Japan, Sweden, Switzerland, United Kingdom, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
3. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that circulate widely outside the country of issue, including the currencies of the euro area countries, Australia, Canada, Japan, Sweden, Switzerland, and the United Kingdom. The weight for each currency is its broad-index weight divided by the sum of the broad-index weights for all of the currencies included in the major currency index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
4. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that do not circulate widely outside the country of issue, including the currencies of Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. The weight for each currency is its broad-index weight divided by the sum of the broad-index weights for all of the currencies included in the other important trading partners index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
5. Data: Federal Reserve Board. Monthly and quarterly average rates. Indexes prepared by BEA.
6. The euro area includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain; beginning with the first quarter of 2007, it also includes Slovenia.

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]								
	2005	2006	2006				2007			2005	2006	2006				2007		
			I	II	III	IV	I	II	III p			I	II	III	IV	I	II	III p
Exports	**894,631**	**1,023,109**	**243,880**	**252,458**	**260,285**	**266,486**	**270,116**	**279,339**	**297,946**	**831,967**	**920,741**	**223,434**	**227,805**	**231,902**	**237,389**	**238,576**	**243,700**	**257,888**
Agricultural products	64,887	72,869	17,309	18,028	18,689	18,843	19,826	21,781	25,760	53,553	58,085	14,234	14,732	14,802	14,320	14,171	15,290	17,097
Nonagricultural products	829,744	950,240	226,571	234,430	241,596	247,643	250,290	257,558	272,186	779,871	864,444	209,617	213,471	217,529	223,642	225,026	228,833	240,962
Imports	**1,681,780**	**1,861,380**	**451,637**	**463,734**	**479,184**	**466,825**	**470,983**	**483,552**	**497,646**	**1,535,115**	**1,630,244**	**402,956**	**403,626**	**411,681**	**411,877**	**414,780**	**413,066**	**417,292**
Petroleum and products	251,856	302,430	73,362	78,713	82,768	67,587	70,852	78,139	81,880	141,012	138,180	36,554	33,892	34,169	33,566	35,815	33,627	31,975
Nonpetroleum products	1,429,924	1,558,950	378,275	385,021	396,416	399,238	400,131	405,413	415,766	1,396,656	1,504,894	367,051	373,187	381,477	383,058	381,928	384,427	392,914

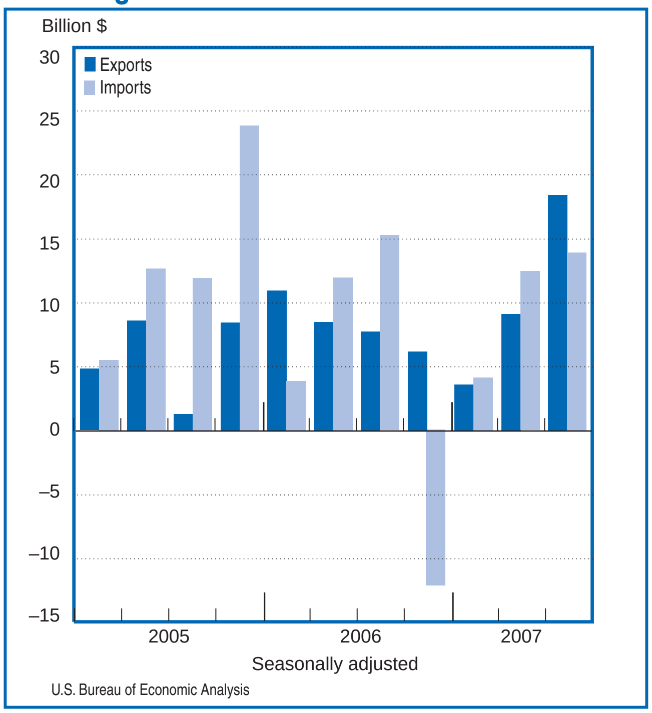
	Percent change from previous period (current dollars)									Percent change from previous period (chained (2000) dollars)								
	2005	2006	2006				2007			2005	2006	2006				2007		
			I	II	III	IV	I	II	III p			I	II	III	IV	I	II	III p
Exports	**10.8**	**14.4**	**4.7**	**3.5**	**3.1**	**2.4**	**1.4**	**3.4**	**6.7**	**7.5**	**10.7**	**4.0**	**2.0**	**1.8**	**2.4**	**0.5**	**2.1**	**5.8**
Agricultural products	3.1	12.3	4.5	4.2	3.7	0.8	5.2	9.9	18.3	5.2	8.5	4.6	3.5	0.5	–3.3	–1.0	7.9	11.8
Nonagricultural products	11.4	14.5	4.8	3.5	3.1	2.5	1.1	2.9	5.7	7.7	10.8	3.9	1.8	1.9	2.8	0.6	1.7	5.3
Imports	**13.9**	**10.7**	**0.9**	**2.7**	**3.3**	**–2.6**	**0.9**	**2.7**	**2.9**	**7.0**	**6.2**	**1.4**	**0.2**	**2.0**	**0.0**	**0.7**	**–0.4**	**1.0**
Petroleum and products	39.6	20.1	–1.1	7.3	5.2	–18.3	4.8	10.3	4.8	2.3	–2.0	–0.9	–7.3	0.8	–1.8	6.7	–6.1	–4.9
Nonpetroleum products	10.3	9.0	1.3	1.8	3.0	0.7	0.2	1.3	2.6	7.6	7.7	1.8	1.7	2.2	0.4	–0.3	0.7	2.2

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.

pumps, and compressors.

Agricultural products increased $4.0 billion, by far the largest quarterly increase on record. The increase was broad based, but increases in wheat, raw cotton, and corn were especially strong. A severe shortage in the world supply of wheat, largely resulting from low yields and poor crop quality in several countries, boosted the volume and price of U.S. wheat exports. Raw cotton increased very strongly for the second consecutive quarter; the increases, which were mostly to China and a few other countries, resulted from rising volume and prices. Corn resumed its strong growth, which has been underpinned by a shortage of world supply and rising prices; the third-quarter increase resulted from rising volume. Several other agricultural commodities also increased strongly.

Chart 3. U.S. Trade in Goods: Change in Value From Preceding Quarter



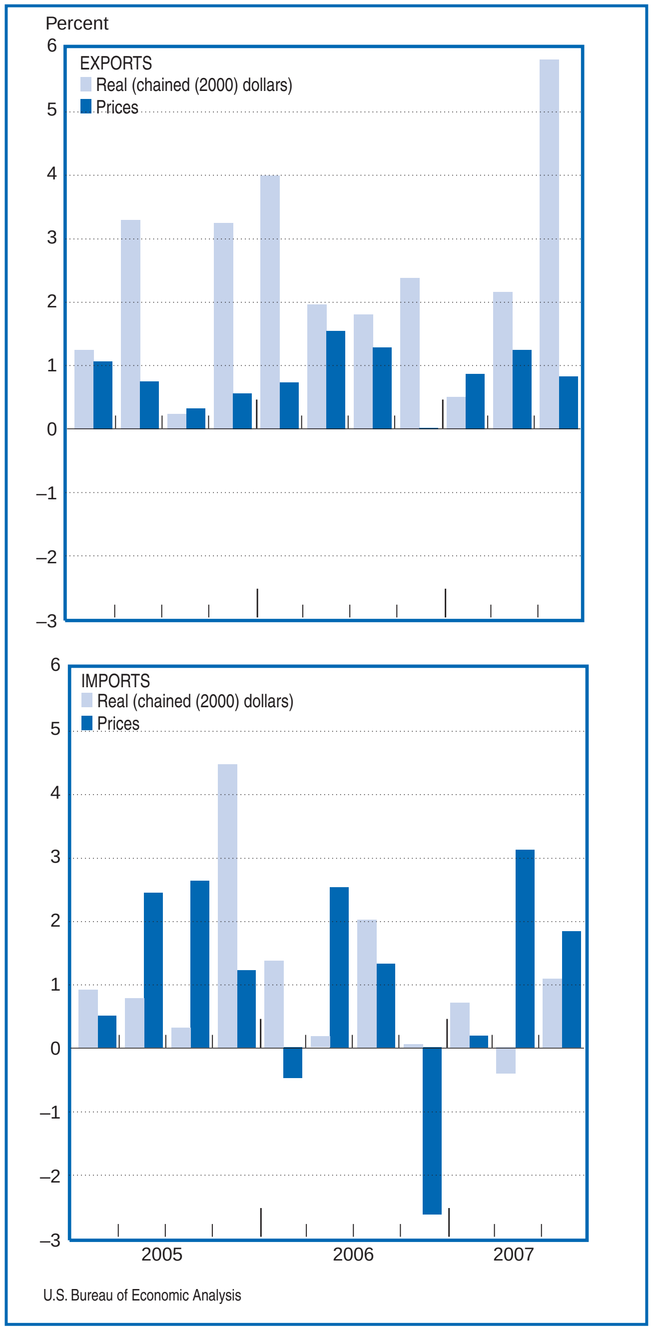
Data Availability

The estimates that are presented in tables 1–11 of the U.S. international transactions accounts are available interactively on the BEA Web site at <www.bea.gov>. Users may view and download the most recent quarterly estimates for an entire table, or they may select the period, frequency, and lines that they wish to view. The estimates are available in an HTML table, in a spreadsheet file (.xls format), or as comma-separated values.

Nonagricultural industrial supplies and materials increased $2.8 billion. The rise was largely accounted for by increases in chemicals and in petroleum and products. Chemicals, which are by far the largest major commodity export in this category, have grown strongly in most recent quarters. Petroleum and products were boosted by an increase in petroleum prices.

Automotive vehicles, parts, and engines increased $2.7 billion. The increase mostly resulted from a very large increase in exports to Canada, mostly of

Chart 4. U.S. Trade in Goods: Change in Real Exports and Imports and in Prices From Preceding Quarter



passenger cars and parts and accessories. Exports to areas other than Canada increased strongly for the second consecutive quarter, largely as a result of continued strong growth in passenger cars, particularly to Germany.

Consumer goods increased $1.9 billion as a result of substantial increases in both durable and nondurable goods. The largest increases in durable goods were in toys, shooting, and sporting goods, mostly to Mexico and Hong Kong, and in home entertainment equipment. Nondurable goods were boosted by a rise in medical, dental, and pharmaceutical products, mainly to Europe.

Imports. Imports of goods increased $14.1 billion, or 2.9 percent, to $497.6 billion (table C, chart 3). Real imports increased 1.0 percent, and import prices increased 1.9 percent (chart 4). In value, growth in nonpetroleum products picked up, and growth in petroleum and products slowed.

Automotive vehicles, parts, and engines increased $4.0 billion. The unusually large increase was mostly accounted for by a sharp rise in passenger cars, particularly from Germany, Japan, and Canada, despite continued weak U.S. domestic sales of motor vehicles.

Petroleum and products increased $3.7 billion as a result of a rise in petroleum prices. The average price per barrel rose 10 percent, to $70.31 in the third quarter from $63.84 in the second quarter. In contrast, the average number of barrels imported daily decreased to 12.75 million from 13.41 million. In the second and third quarters, petroleum prices increased sharply, and the number of barrels imported decreased. In the third quarter, the largest increases in imports were from members of OPEC, particularly Nigeria, Saudi Arabia, Iraq, and Algeria.

Capital goods increased $3.3 billion. One-third of the increase was accounted for by a strong rise in “other” industrial, agricultural, and service industry machinery. Substantial increases also occurred in electric generating machinery, mainly from China and Denmark, in telecommunications equipment, mainly from China and Malaysia, and in industrial engines, pumps, and compressors.

Consumer goods increased $1.2 billion. Growth in consumer goods has been considerably weaker in 2007 (annualized) than in 2006. In the third quarter, an increase in durable goods was partly offset by a decrease in nondurable goods. Among durable goods, the largest increases were in household and kitchen appliances and other household goods, mostly from China and Mexico, and in television and video receivers. These increases were partly offset by a decrease in toys, shooting, and sporting goods, mostly from China. The decrease in nondurable goods resulted from a decline in medical, dental, and pharmaceutical products.

Foods, feeds, and beverages increased $0.8 billion. More than half of the increase was accounted for by an unusually large rise in “other” agricultural foods, feeds, and beverages. Imports of green coffee and of wine, beer, and related products also contributed to the increase.

Nonpetroleum industrial supplies and materials increased $0.2 billion. The largest increase was in nonferrous metals, mostly imports of bauxite and aluminum from Canada and nonmonetary gold from Canada and Switzerland. In contrast, imports of natural gas from Canada decreased substantially as a result of a sizable drop in import prices.

Balances by area. The goods deficit decreased $4.5 billion in the third quarter to $199.7 billion, the lowest level in 2 years. The decrease largely resulted from a sizable decline in the deficit with Canada. The goods deficits with Latin America and Other Western Hemisphere, mainly with Mexico and Brazil, and with Europe also decreased. In contrast, the large deficit with Asia and Pacific increased, mostly as a result of a surge in imports from China.

Services

The surplus on services increased to $26.5 billion in the third quarter from $25.8 billion in the second quarter, as services receipts increased more than services payments.

Travel receipts increased $1.7 billion to $25.3 billion. The rise was mostly accounted for by an increase in receipts from overseas visitors to the United States. The number of overseas visitors has increased substantially in the last four quarters, partly in response to the appreciation of many foreign currencies against the U.S. dollar. Travel payments increased $0.6 billion to $19.4 billion. The rise was mostly accounted for by an increase in payments by U.S. travelers to countries overseas.

Passenger fare receipts increased $0.3 billion to $6.3 billion, and passenger fare payments increased $0.3 billion to $7.2 billion.

“Other” transportation receipts increased $0.3 billion to $13.0 billion. The increase resulted from increases in receipts for freight services, mostly for air freight, and for port services. “Other” transportation payments increased $0.3 billion to $17.0 billion. The increase resulted from increases in payments for freight services, mostly for ocean freight, and for port services.

“Other” private services receipts edged up less than $0.1 billion to $53.1 billion. Increases in most services categories were offset by a large decrease in financial services, mostly resulting from a drop in receipts for financial management and advisory services. Severe turbulence in financial markets contributed to reductions in performance-based fees for financial management and in fees for advisory services for mergers and acquisitions, which slowed sharply. “Other” private services payments increased $0.4 billion to $33.4 billion. The increase was mostly accounted for by an increase in payments for affiliated services. Among unaffiliated services, increases in payments for business, professional, and technical services and for insurance services were largely offset by a decrease in payments for financial services.

Income

The surplus on income increased to $20.5 billion in the third quarter from $12.7 billion in the second quarter, as income receipts increased much more than income payments.

Receipts of income on U.S. direct investment abroad increased $4.0 billion to $91.2 billion. The increase mostly resulted from higher earnings of foreign affiliates in holding companies and in manufacturing. Holding companies’ earnings increased most in the Caribbean Islands, Ireland, and Spain.

Payments of income on foreign direct investment in the United States decreased $0.9 billion to $35.9 billion. The decrease was more than accounted for by decreases in earnings of U.S. wholesale trade affiliates, particularly petroleum wholesale trade affiliates, and of manufacturing affiliates. The decrease in manufacturing was partly due to a fall in earnings of petroleum manufacturing affiliates.

Both receipts and payments of income on other financial assets increased, largely as a result of higher average holdings. Receipts of “other” private income increased $6.1 billion to $113.1 billion. The increase was accounted for by increases in income receipts on U.S. holdings of foreign securities and on U.S. bank and nonbank claims. U.S. government income receipts were virtually unchanged at $0.6 billion.

Payments of “other” private income increased $3.0 billion to $107.1 billion. The increase was mostly accounted for by increases in income payments on U.S. nonbanking concerns’ liabilities and on foreign holdings of U.S. securities other than U.S. Treasury securities. U.S. government income payments increased $0.2 billion to $39.7 billion; an increase in interest paid on long-term securities was largely offset by a decrease in interest paid on short-term securities.

Unilateral current transfers

Net unilateral current transfers to foreigners were $25.8 billion in the third quarter, up from $23.2 billion in the second quarter. The increase resulted from increases in U.S. government grants and in private remittances and other transfers.

Capital Account

Net capital account payments (outflows) were virtually unchanged, at $0.6 billion, in the third quarter.

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—were $93.4 billion in the third quarter, down from $152.8 billion in the second quarter.[3] Net foreign acquisitions of assets in the United States and net U.S. acquisitions of assets abroad both slowed sharply, although net foreign acquisitions slowed more than net U.S. acquisitions.

The sizable slowdowns in financial inflows and outflows resulted from turbulence in U.S. and some foreign financial markets, which was initially caused by rising delinquencies on U.S. subprime mortgages.[4] The turbulence was partly reflected by (1) substantial increases in volatility and risk premiums in debt markets (charts 5 and 6); (2) substantial decreases in new issues of certain debt instruments (charts 7 and 8); (3) a sharp increase in volatility in equity markets (chart 9); and (4) injections of liquidity into interbank markets by central banks around the world to facilitate the functioning of financial markets.

The disruptions in financial markets had a widespread and, in some cases, very substantial effect on U.S. financial-account transactions. In the U.S. securities accounts, transactions in U.S. securities other than

3. In the third quarter, net financial inflows exclude transactions in financial derivatives because data are not yet available. In the second quarter, net financial inflows excluding transactions in financial derivatives were $153.8 billion.

4. Subprime mortgages are mortgages to borrowers with impaired or limited credit histories or reduced repayment capacities.

Revisions to Estimates

The preliminary estimates of U.S. international transactions for the second quarter that were published in the October 2007 SURVEY OF CURRENT BUSINESS have been revised.

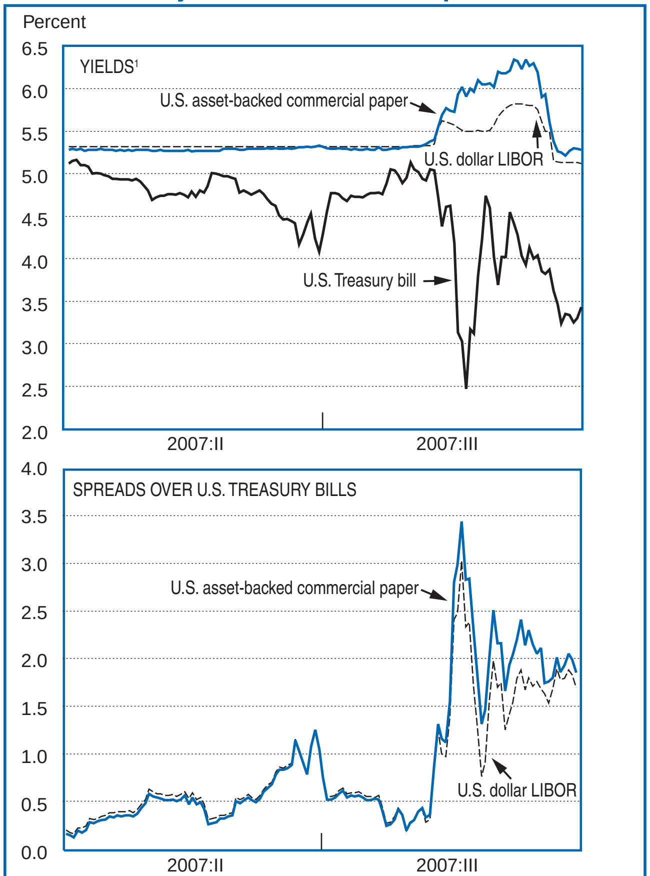
The current-account deficit was revised to $188.9 billion from $190.8 billion. The goods deficit was unrevised at $204.2 billion; the services surplus was revised to $25.8 billion from $26.5 billion; the income surplus was revised to $12.7 billion from $9.4 billion; and net unilateral current transfers to foreigners were revised to $23.2 billion from $22.5 billion. Net financial inflows were revised to $152.8 billion from $150.9 billion.

U.S. Treasury securities shifted an unprecedented $287.1 billion to record net foreign sales, reflecting shifts to net foreign sales of U.S. stocks, corporate bonds, and agency bonds. In contrast, net foreign purchases of U.S. Treasury securities surged. In the foreign securities account, net U.S. purchases of foreign stocks and bonds changed little in the aggregate but changed by substantial, mostly offsetting amounts by area. In the banking accounts, there were notable slowdowns of $99.7 billion in overall U.S. lending and $74.1 billion in overall U.S. borrowing and a substantial pickup in net lending to Europe. In the nonbanking accounts, U.S. claims shifted $184.3 billion to a record decrease.

U.S.-owned assets abroad

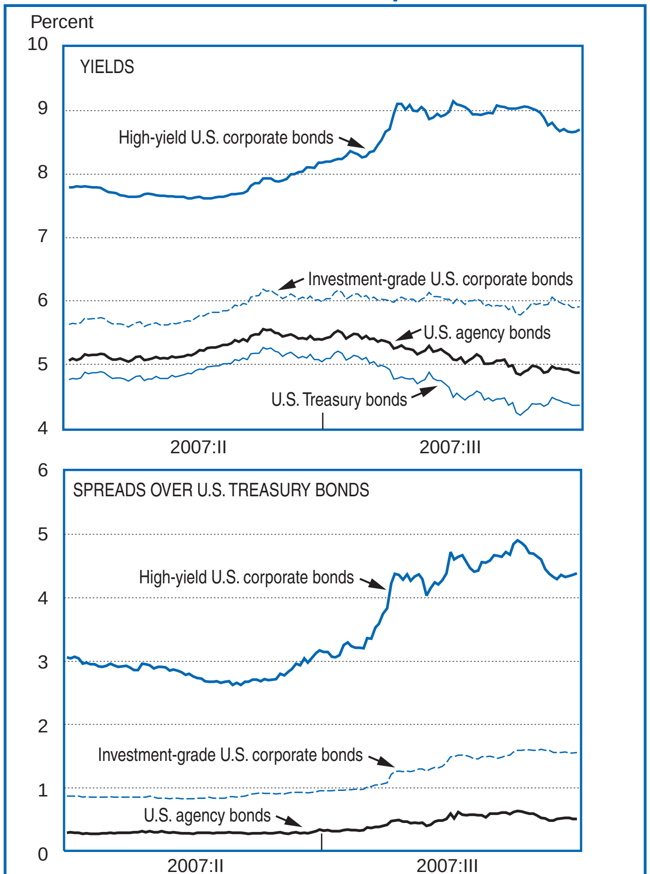
Net U.S.-owned assets abroad increased $155.7 billion in the third quarter after an increase of $465.5 billion in the second quarter. The slowdown was largely accounted for by a decrease in claims reported by U.S. nonbanking concerns in the third quarter after an increase in the second quarter and by a smaller increase

Chart 5. Money Market Yields and Spreads



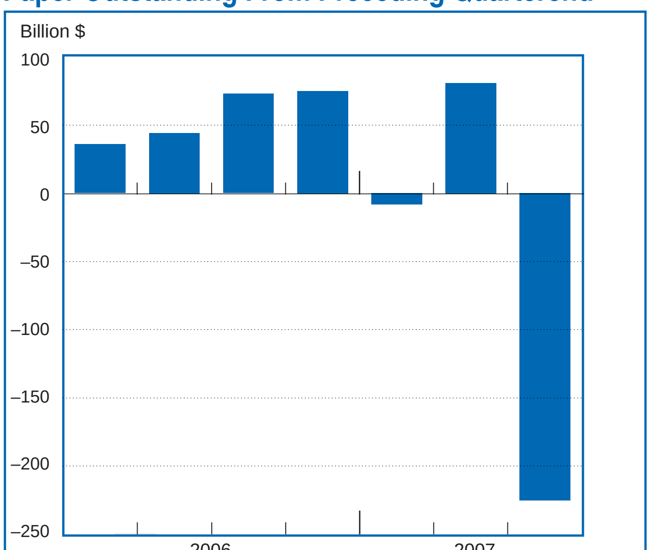
1. 30-day yields.
LIBOR London Interbank Offered Rate
Data: British Bankers' Association, Federal Reserve Board.
U.S. Bureau of Economic Analysis

Chart 6. U.S. Bond Yields and Spreads



Source: Merrill Lynch.
U.S. Bureau of Economic Analysis

Chart 7. Change in U.S. Asset-Backed Commercial Paper Outstanding From Preceding Quarterend

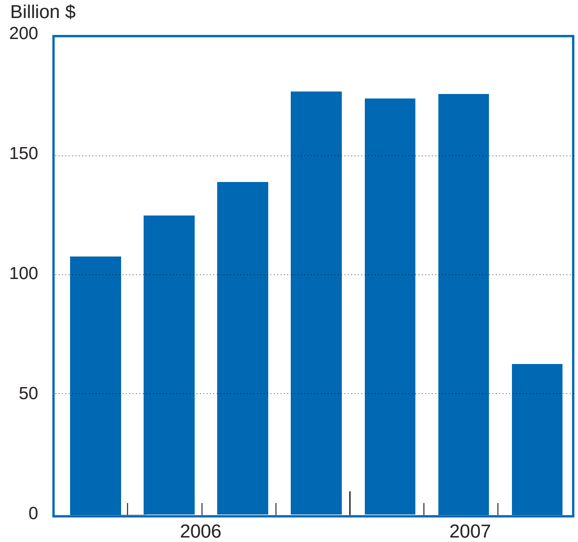


Source: Federal Reserve Board
U.S. Bureau of Economic Analysis

in claims reported by U.S. banks in the third quarter than in the second quarter.

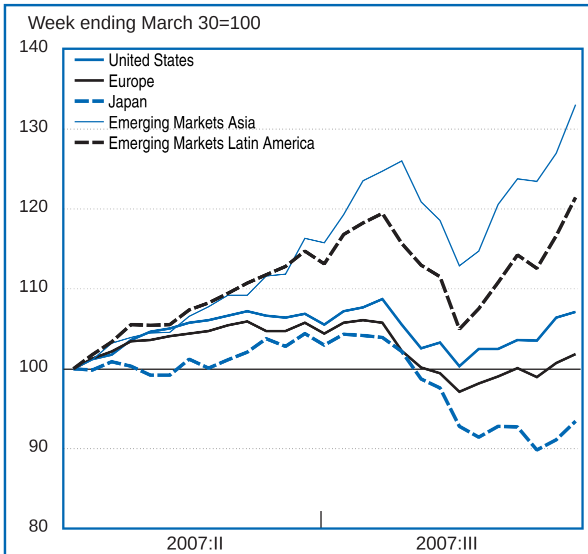
U.S. official reserve assets. U.S. official reserve assets increased $0.1 billion in the third quarter after a decrease of less than $0.1 billion in the second quarter. In the third quarter, an increase in U.S. official holdings of foreign currencies was largely offset by a decrease in the U.S. reserve position in the International Monetary Fund.

Chart 8. New Issues of Global Collateralized Debt Obligations



Source: Thomson Financial
U.S. Bureau of Economic Analysis

Chart 9. Selected Stock Price Indexes in Local Currencies



NOTE. Emerging Markets Latin America consists of Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. Emerging Markets Asia consists of China, India, Indonesia, Malaysia, Pakistan, the Philippines, South Korea, Sri Lanka, Taiwan, and Thailand. Weekly average rates.
Source: Morgan Stanley Capital International
Indexes rebased by BEA.
U.S. Bureau of Economic Analysis

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers increased $111.3 billion in the third quarter after an increase of $211.0 billion in the second quarter. Severe disruptions in interbank lending markets had a substantial impact on U.S. claims.

Banks' own claims denominated in dollars increased $80.0 billion after an increase of $109.9 billion. The third-quarter increase resulted from substantial lending by foreign-owned financial institutions in the United States to banks in Europe, where liquidity in the interbank market had tightened considerably and ultimately led to the injection of funds by the European Central Bank. In Europe, interbank funding became more difficult to obtain and its cost increased substantially as a result of some banks' desire to maintain liquidity to cover their own subprime-related exposures and their hesitancy to lend to other banks with potential exposures. Several European banks revealed exposures arising from both their holdings of subprime-related securities and their contingent funding commitments to European asset-backed commercial paper (ABCP) conduits and structured investment vehicles that held subprime-related assets and that were experiencing problems obtaining funding in the ABCP market.

In contrast, lending by U.S.-owned financial institutions to foreigners contracted. The contraction partly resulted from a cutback in lending to highly leveraged foreign investment funds and weakened demand for funds to support mergers and acquisitions abroad, which slowed considerably. In addition, some U.S.-owned financial institutions may have sought to maintain additional liquidity in their U.S. home offices to cover exposures related to their holdings of collateralized debt obligations and assets that were unable to be securitized and to their contingent funding commitments. Liquidity in the U.S. interbank market tightened considerably, prompting U.S. monetary authorities to take steps to facilitate its orderly functioning.

Banks' domestic customers' claims denominated in dollars increased $37.9 billion after an increase of $83.0 billion. The third-quarter increase mostly resulted from a large increase in deposits and brokerage balances, mainly in Caribbean financial centers, and from an increase in negotiable certificates of deposit. In contrast, customers' holdings of foreign commercial paper issued directly in the United States and of "other" short-term instruments decreased.

Claims reported by U.S. nonbanking concerns decreased $90.3 billion in the third quarter after an increase of $94.0 billion in the second quarter. The decrease reflected a substantial decrease in financial intermediaries' claims, resulting from transfers of funds to U.S. financial intermediaries that were unable to roll over maturing ABCP.

Foreign securities. Net U.S. purchases of foreign securities were $78.8 billion in the third quarter, down slightly from $82.2 billion in the second quarter. A decrease in net U.S. purchases of foreign stocks was partly offset by an increase in net U.S. purchases of foreign bonds.

Net U.S. purchases of foreign stocks were $35.7 billion, down from $40.4 billion. The small decrease resulted from large, mostly offsetting changes in net U.S. purchases by area. World stock markets fell sharply in the last half of July and the first half of August but rebounded in September (chart 9). Transactions in foreign stocks from Europe and Asia shifted by a substantial amount to net U.S. sales. Net U.S. sales of stocks from Europe were large in August, but transactions shifted back to net U.S. purchases in September. In contrast, third-quarter transactions with Caribbean financial centers shifted to record net U.S. purchases, mostly as a result of exceptionally large net U.S. purchases in August from the Cayman Islands, where hedge funds sold some of their holdings of non-U.S. stocks.

Net U.S. purchases of foreign bonds were $43.2 billion, up slightly from $41.8 billion. Net U.S. sales in July, the first month of net sales since October 2005, were more than offset by substantial net U.S. purchases in August and September. For the quarter, a pickup in net U.S. purchases from Europe, mostly from the United Kingdom, was partly offset by a shift to net U.S. sales to Latin America. U.S. investors sought the relative safety of government and highly rated corporate bonds from developed countries, which are traded mainly in Europe, in the midst of growing concern about the effects of subprime-related problems on riskier financial assets. Net U.S. purchases from the Cayman Islands were unusually large in August; 67 percent of U.S. holdings from the Cayman Islands were of asset-backed securities including collateralized debt obligations at the end of 2006. Transactions shifted to sizable net U.S. sales to the Cayman Islands in September.

Direct investment. Net financial outflows for U.S. direct investment abroad were $56.3 billion in the third quarter, down from $78.0 billion in the second quarter. The slowdown resulted from a substantial falloff in net equity capital investment abroad, mostly due to a decrease in the value of U.S. acquisitions of foreign companies after a high value of acquisitions in the second quarter. In addition, net intercompany debt investment abroad decreased slightly more in the third quarter than in the second quarter. In contrast, reinvested earnings picked up.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased $249.1 billion in the third quarter after an increase of $619.3 billion in the second quarter. The slowdown mostly resulted from a very large shift to net foreign sales of U.S. securities other than U.S. Treasury securities. In addition, liabilities reported by U.S. banks and nonbanking concerns increased much less in the third quarter than in the second quarter.

Foreign official assets. Foreign official assets in the United States increased $39.0 billion in the third quarter after an increase of $70.5 billion in the second quarter. The slowdown mostly reflected a slowdown in the accumulation of assets by countries in Asia and in Latin America and the Caribbean.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased $69.8 billion in the third quarter after an increase of $144.0 billion in the second quarter.

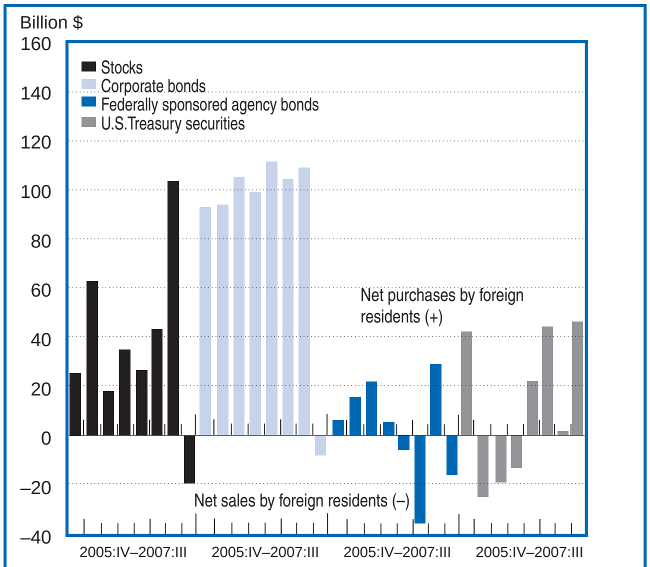
Banks' own liabilities denominated in dollars increased $46.3 billion after an increase of $113.1 billion. The third-quarter increase resulted from interbank borrowing from abroad by foreign-owned banks in the United States and, to a lesser extent, by U.S.-owned banks. In contrast, securities brokers and dealers shifted funds to banks and nonbanks in Europe, where liquidity had tightened considerably, by repaying funds previously borrowed through repurchase agreements. The repayments were mostly by foreign-owned brokers and dealers in the United States.

Banks' customers' liabilities denominated in dollars increased $27.1 billion after an increase of $0.6 billion. The third-quarter increase was accounted for by increases in negotiable certificates of deposits and other short-term instruments and in "other" liabilities.

U.S. liabilities reported by U.S. nonbanking concerns increased $51.8 billion after an increase of $110.2 billion. The third-quarter increase largely reflected borrowing by U.S. financial intermediaries from affiliated offices in Europe.

U.S. Treasury securities. Net foreign purchases of U.S. Treasury securities were $46.7 billion in the third quarter, up strongly from $1.8 billion in the second quarter (chart 10). U.S. Treasury securities are considered safe, and investors flocked to them amid the broad-based increase in risk premiums in the third quarter. Demand for short-term Treasury securities was exceptionally strong. The yield on 30-day Treasury bills fluctuated sharply, but by the end of the quarter, it

Chart 10. Transactions in U.S. Securities, 2005:IV–2007:III



NOTE. Excludes transactions in foreign official assets.
U.S. Bureau of Economic Analysis

had declined to less than 3.5 percent (chart 5). Investor demand for long-term Treasury securities was also substantial, pushing yields to their lowest levels since the beginning of 2006.

Other U.S. securities. Transactions in U.S. securities other than U.S. Treasury securities shifted an unprecedented amount to record net foreign sales of $44.2 billion in the third quarter from exceptionally strong net foreign purchases of $243.0 billion in the second quarter (chart 10). The large swing resulted from shifts to net foreign sales of U.S. stocks, of U.S. corporate bonds, and of U.S. federally sponsored agency bonds amid the severe turmoil in U.S. financial markets.

Transactions in U.S. stocks shifted to record net foreign sales of $19.7 billion, the first net sales in 4 years, from very strong net foreign purchases of $104.1 billion. U.S. stock prices fell sharply in the last half of July and the first half of August, when concerns about the repercussions of subprime-related problems intensified, but rebounded in September (chart 9). Stock prices were buffeted partly by concerns about the potential for higher borrowing costs and tightened access to credit that would negatively impact many of the factors that had boosted U.S. economic growth and stock prices in recent years. At times, stock prices were also pushed lower by sales of stocks by hedge funds and other investment entities. Net foreign sales of U.S. stocks were particularly strong in August, and transactions shifted back to only weak net foreign purchases in September. Net sales by Caribbean financial centers were substantial as a result of very large net sales in August. Net sales by investors in Europe were also substantial, mainly because of net sales in August and, to a lesser extent, in September.

Transactions in U.S. corporate bonds shifted to net foreign sales of $8.2 billion, the first net sales in many years, from net foreign purchases of $109.7 billion. Spreads on corporate bonds rose across the credit spectrum, as the sharp decline in prices of subprime-related securities led to a general repricing of risk throughout the U.S. credit market (chart 6). Spreads on non-investment-grade bonds increased 122 basis points, and spreads on investment-grade bonds increased 49 basis points. The very large shift to net foreign sales of U.S. corporate bonds was mostly accounted for by a shift to net sales by investors in Europe. Within Europe, net purchases by the United Kingdom—the location of many international investors, such as hedge funds and other investment entities—slowed sharply. In addition, transactions by the Channel Islands, which are the legal residence of many European ABCP conduits and structured investment vehicles, shifted to substantial net sales. A significant part of these net sales were probably of mortgage-backed securities, which accounted for about 55 percent of the total holdings of U.S. corporate bonds by the Channel Islands at the end of June 2006. Transactions by Luxembourg, which is another favored location for special purpose vehicles, also shifted to substantial net sales. Outside of Europe, transactions by Caribbean financial centers shifted to net sales as a result of a shift to net sales by the Cayman Islands, which are a favored location for hedge funds and special purpose vehicles set up by U.S.-based investment managers. The Cayman Islands were the largest foreign holder of U.S. corporate mortgage-backed securities at the end of June 2006.

Transactions in U.S. federally sponsored agency bonds shifted to net foreign sales of $16.2 billion from net purchases of $29.1 billion. The shift may have partly reflected foreign investors' increased reluctance to hold the bonds of issuers with any connection to the residential mortgage market because of the possibility that problems in the subprime market might also affect other types of mortgages. Transactions in agency bonds by Asia shifted to net sales, largely as a result of shifts to net sales by Japan and China. Net sales by Caribbean financial centers increased more than fivefold, mostly as a result of an increase in net sales by Bermuda. Net purchases by Europe slowed, largely as a result of a slowdown in net purchases by the United Kingdom.

Direct investment. Net financial inflows for foreign direct investment in the United States were $81.2 billion in the third quarter, up from $46.6 billion in the second quarter. The substantial increase was accounted for by increases in net equity capital investment in the United States and in reinvested earnings and by a shift from a decrease to an increase in net intercompany debt investment in the United States. The increase in net equity capital investment, to the highest level since the fourth quarter of 2000, resulted mostly from several large foreign acquisitions of U.S. companies, mostly in "other" industries and in finance and insurance. Reinvested earnings were boosted by a decrease in the share of earnings that were distributed.

Tables 1 through 11 follow.