

U.S. International Transactions, Fourth Quarter 2003

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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 \$127.5 billion (preliminary) in the fourth quarter of 2003 from \$135.3 billion (revised) in the third quarter (table A, chart 1).¹ The decrease was more than accounted for by a large increase in the surplus on income and by an increase in the surplus on services. These increases were partly offset by increases in the deficit on goods and in net outflows for unilateral current transfers.

In the financial account, net recorded financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were \$180.9 billion in the fourth quarter, up from \$105.9 billion in the third quarter. Financial inflows for foreign-owned assets in the United States increased much more than financial outflows for

U.S.-owned assets abroad.

The statistical discrepancy—errors and omissions in recorded transactions—was a negative \$53.1 billion in the fourth quarter, compared with a positive \$30.2 billion in the third quarter.

The following are highlights for the fourth quarter:

- The surplus on income increased substantially as a result of sharply higher receipts of income on U.S. direct investment abroad; the increase was attributable to both improved economic conditions abroad and appreciations of foreign currencies against the U.S. dollar.
- The goods deficit increased as imports increased more than exports; increases were sizable for both imports and exports.
- Net foreign purchases of U.S. securities other than U.S. Treasury securities increased sharply after only a small increase in the third quarter. Net U.S. purchases of foreign securities decreased.
- U.S. claims reported by U.S. banks decreased by a sizable amount for the second successive quarter, while U.S. liabilities reported by U.S. banks increased sharply. As a result, net inflows to banks

1. Quarterly estimates of U.S. current- and financial-account components are seasonally adjusted when the series demonstrate statistically significant patterns. The accompanying tables present both adjusted and unadjusted estimates. See also tables 1–11 that follow the article “U.S. International Transactions, 2003.”

Table A. Summary of U.S. International Transactions

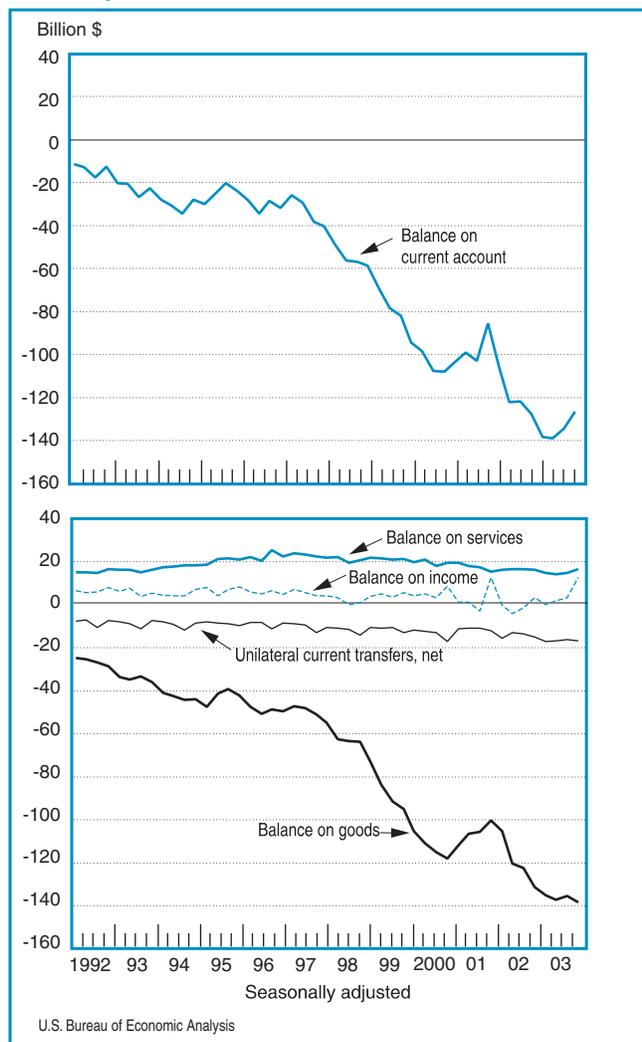
(Millions of dollars, quarters seasonally adjusted)

Line	Lines in tables 1 and 11 in which transactions are included are indicated in () (Credits +; debits -)	2002	2003 ^a	Change: 2002–2003	2002				2003				Change: 2003: III–IV
					I	II	III	IV	I ^r	II ^r	III ^r	IV ^p	
Current account													
1	Exports of goods and services and income receipts (1)	1,229,649	1,294,236	64,587	297,074	307,616	313,939	311,015	309,869	311,387	323,463	349,517	26,054
2	Goods, balance of payments basis (3)	681,874	713,761	31,887	165,298	171,421	174,315	170,840	173,385	174,287	177,777	188,312	10,535
3	Services (4)	292,233	304,932	12,699	71,144	72,275	73,500	75,311	74,003	73,210	77,071	80,646	3,575
4	Income receipts (12)	255,542	275,543	20,001	60,632	63,920	66,124	64,864	62,481	63,890	68,615	80,559	11,944
5	Imports of goods and services and income payments (18)	-1,651,657	-1,767,775	-116,118	-387,864	-416,962	-422,666	-424,165	-431,634	-434,165	-442,104	-459,870	-17,766
6	Goods, balance of payments basis (20)	-1,164,746	-1,263,170	-98,424	-271,331	-292,707	-297,627	-303,081	-309,328	-312,299	-314,025	-327,518	-13,493
7	Services (21)	-227,399	-245,687	-18,288	-55,168	-55,877	-57,168	-59,186	-59,608	-59,298	-62,469	-64,310	-1,841
8	Income payments (29)	-259,512	-258,918	594	-61,365	-68,378	-67,871	-61,898	-62,698	-62,568	-65,610	-68,042	-2,432
9	Unilateral current transfers, net (35)	-58,853	-68,291	-9,438	-15,938	-13,481	-13,997	-15,436	-17,391	-17,062	-16,651	-17,188	-537
Capital account													
10	Capital account transactions, net (39)	-1,285	-3,050	-1,765	-277	-286	-364	-358	-388	-1,553	-818	-291	527
Financial account													
11	U.S.-owned assets abroad, net (increase/financial outflow (-)) (40)	-178,985	-277,704	-98,719	-35,227	-128,567	29,712	-44,902	-100,710	-112,197	-13,696	-51,105	-37,409
12	U.S. official reserve assets, net (41)	-3,681	1,523	5,204	390	-1,843	-1,416	-812	83	-170	-611	2,221	2,832
13	U.S. Government assets, other than official reserve assets, net (46)	-32	700	732	133	42	-27	-180	-70	427	483	-140	-623
14	U.S. private assets, net (50)	-175,272	-279,927	-104,655	-35,750	-126,766	31,155	-43,910	-100,723	-112,454	-13,568	-53,186	-39,618
15	Foreign-owned assets in the United States, net (increase/financial inflow (+)) (55)	706,983	856,660	149,677	146,813	221,242	141,478	197,448	242,096	262,911	119,626	232,031	112,405
16	Foreign official assets in the United States, net (56)	94,860	207,665	112,805	6,106	47,552	8,992	32,210	40,978	57,000	45,289	64,398	19,109
17	Other foreign assets in the United States, net (63)	612,123	648,995	36,872	140,707	173,690	132,486	165,238	201,118	205,911	74,337	167,633	93,296
18	Statistical discrepancy (sum of above items with sign reversed) (70)	-45,852	-34,076	11,776	-4,581	30,438	-48,102	-23,602	-1,842	-9,321	30,180	-53,094	-83,274
Memoranda:													
19	Balance on current account (76)	-480,861	-541,830	-60,969	-106,728	-122,827	-122,724	-128,586	-139,156	-139,840	-135,292	-127,541	7,751
20	Net financial flows (40 and 55)	527,998	578,956	50,958	111,586	92,675	171,190	152,546	141,386	150,714	105,930	180,926	74,996

^a Revised.

^p Preliminary.

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



were substantially larger in the fourth quarter than in the third.

U.S. dollar in exchange markets

The U.S. dollar declined against major currencies in the fourth quarter, falling 5 percent against the euro and 7 percent against the yen (table B, chart 2). The

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

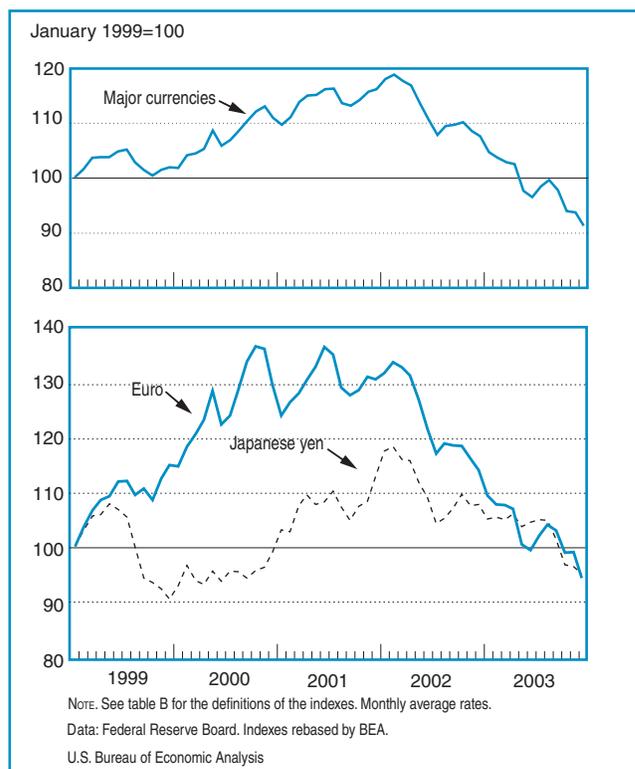


Table B. Indexes of Foreign Currency Price of the U.S. Dollar

[January 1999=100]

	2002					2003					2002					2003				
	IV ^r	I ^r	II ^r	III ^r	IV	Dec. ^r	Jan. ^r	Feb. ^r	Mar. ^r	Apr. ^r	May ^r	June ^r	July ^r	Aug. ^r	Sep. ^r	Oct.	Nov.	Dec.		
Nominal: ¹																				
Broad ²	110.2	107.9	104.2	104.1	101.1	109.4	108.1	108.0	107.6	106.7	103.2	102.6	103.7	104.9	103.7	101.6	101.5	100.1		
Major currencies ³	108.6	103.6	98.8	98.6	93.0	107.4	104.6	103.5	102.7	102.4	97.6	96.5	98.4	99.6	97.7	94.0	93.7	91.3		
Other important trading partners ⁴	111.7	113.1	110.7	110.8	111.6	111.5	112.3	113.5	113.5	111.9	110.0	110.3	110.1	111.3	111.1	111.4	111.6	111.8		
Real: ¹																				
Broad ²	111.0	108.8	105.2	105.6	101.7	109.9	108.7	108.9	108.8	107.7	104.1	103.8	105.1	106.4	105.2	102.7	102.0	100.4		
Major currencies ³	112.7	107.8	103.0	103.1	97.1	111.2	108.5	107.8	107.2	106.8	101.7	100.6	102.8	104.3	102.3	98.4	97.7	95.1		
Other important trading partners ⁴	108.4	109.3	107.4	107.9	107.0	107.8	108.3	109.5	110.0	108.2	106.6	107.3	107.2	108.5	108.1	107.7	106.7	106.6		
Selected currencies: (nominal) ⁵																				
Canada	103.3	99.4	92.0	90.9	86.6	102.6	101.4	99.5	97.2	96.0	91.1	89.0	91.0	91.9	89.7	87.0	86.4	86.4		
European currencies:																				
Euro area ⁶	115.9	108.0	102.1	102.9	97.4	113.7	109.1	107.5	107.4	106.7	100.3	99.3	102.0	103.9	102.9	98.9	99.0	94.3		
United Kingdom	105.0	103.0	101.9	102.4	96.7	104.0	102.0	102.6	104.3	104.8	101.7	99.3	101.7	103.5	102.1	98.2	97.6	94.2		
Switzerland	105.8	98.6	96.4	99.0	94.2	103.9	99.3	98.2	98.3	99.5	94.6	95.2	98.2	99.7	99.2	95.4	96.1	91.2		
Japan	108.1	105.0	104.6	103.6	96.1	107.6	104.9	105.3	104.8	105.8	103.6	104.4	104.8	104.7	101.3	96.7	96.4	95.1		
Mexico	100.5	106.9	103.2	105.9	110.5	101.0	104.9	108.1	107.7	104.6	101.2	103.7	103.3	106.5	107.8	110.4	110.1	111.1		
Brazil	242.9	231.2	197.3	194.2	191.9	239.9	227.3	237.8	228.6	205.6	195.2	191.1	190.7	198.8	193.1	189.3	192.8	193.5		

^r Revised.
 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.

decline occurred despite economic data releases showing strength in some sectors of the economy. The manufacturing reports for September and October and the employment reports for September, October, and November all pointed to stronger growth. The Federal Reserve announced that monetary policy would remain accommodative for a considerable period of time, interest rates remained low, and inflation remained subdued. Current-account and Federal Government budget deficits increased.

The dollar depreciated to its lowest level against the euro since the euro's introduction in 1999. During the fourth quarter, economic data releases indicated a pickup in growth in a few countries. However, growth in Europe remained considerably slower than in the United States, as it had been in the previous three quarters, and short-term interest rates remained above those in the United States.

The dollar's depreciation against the Japanese yen partly reflected a pickup in Japanese economic growth. However, appreciation of the yen was limited by substantial intervention purchases of dollars for yen in exchange markets on several occasions. The Bank of Japan entered into yen-denominated repurchase agreements with the Ministry of Finance in anticipation that additional funds for intervention would likely be needed in the future.

Current Account

Goods and services

The deficit on goods and services increased to \$122.9 billion in the fourth quarter from \$121.6 billion in the third quarter. The deficit on goods increased \$3.0 billion, and the surplus on services increased \$1.7 billion.

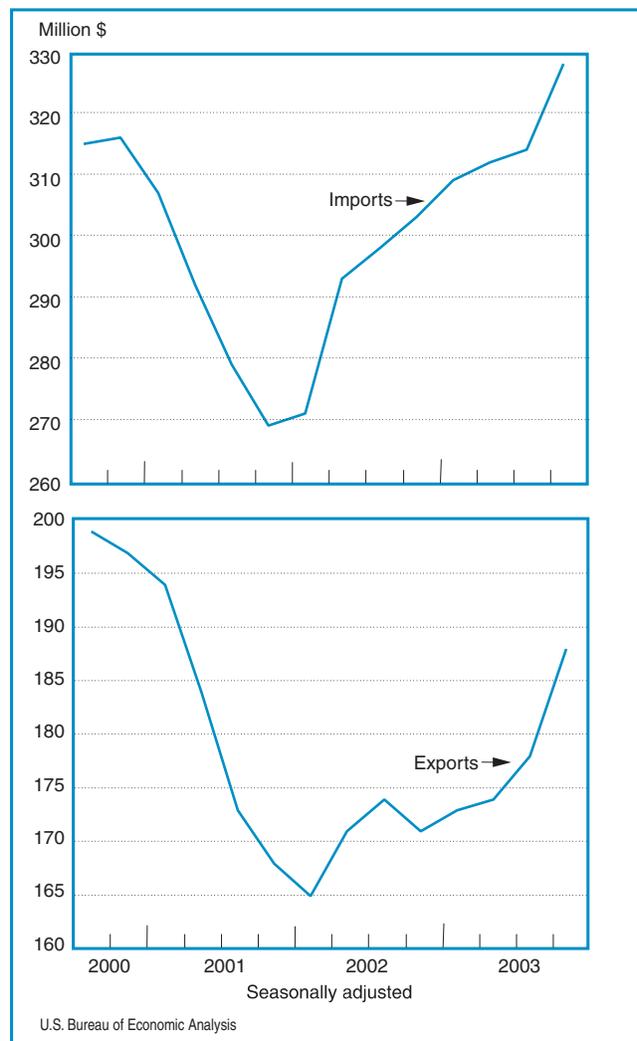
Goods

The deficit on goods increased to \$139.2 billion in the fourth quarter from \$136.2 billion in the third quarter, as imports increased more than exports (table A). The increases in both exports and imports were large. From troughs at the end of 2001, quarterly exports have now risen to close to their peak at the end of 2000, and quarterly imports have risen to exceed their peak at the end of 2000 (chart 3).

Exports. Goods exports increased \$10.5 billion, or 6 percent, in the fourth quarter; real exports increased 5 percent, and export prices increased 1 percent (table C).² In value, over half of the increase was in capital goods.

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 3. U.S. Trade in Goods



Revisions to the Estimates for the Third Quarter of 2003

The international transactions accounts estimates for the third quarter of 2003 have been revised from the preliminary estimates that were published in the January 2004 SURVEY OF CURRENT BUSINESS. In addition, the estimates for the first through third quarters have been revised to ensure that the seasonally adjusted estimates sum to the same annual totals as the unadjusted estimates.

The current-account deficit for the third quarter was revised to \$135.3 billion from \$135.0 billion. The goods deficit was virtually unrevised at \$136.2 billion; the services surplus was revised to \$14.6 billion from \$14.9 billion; the income surplus was revised to \$3.0 billion from \$2.6 billion; and unilateral current transfers were revised to net outflows of \$16.7 billion from net outflows of \$16.3 billion. Revisions to these estimates for the first and second quarters were small. Net recorded financial inflows were revised to \$105.9 billion from \$123.3 billion.

Capital goods increased \$5.5 billion, nearly double the increase in the third quarter. The two large quarterly increases partly reflected the global recovery in demand and production of computers, semiconductors, and telecommunications equipment. Computers, peripherals, and parts increased \$0.6 billion, mainly to Mexico, after increasing \$0.9 billion. Semiconductors increased \$0.7 billion, the fourth consecutive quarterly increase, mainly to Taiwan. Telecommunications equipment increased \$0.5 billion, the third consecutive quarterly increase, following 10 quarters of decline. Many types of machinery also rose in the fourth quarter. "Other" industrial, agricultural, and service machinery increased \$0.8 billion, a marked increase compared with little change over the past year. Electric generating equipment also increased. Civilian aircraft, engines, and parts increased \$1.2 billion, slightly more than in the previous quarter.

Nonagricultural industrial supplies and materials increased \$1.8 billion; more than half of the increase was attributable to an especially large increase in chemicals.

Agricultural products increased \$1.2 billion. Soybeans increased a record \$1.1 billion to a record \$2.7 billion. A sharp increase in demand by China and diminished world supplies contributed to a 25-percent increase in prices, which further raised the dollar value of soybeans exports. Cotton and corn also increased.

Automotive vehicles, engines, and parts increased \$0.9 billion, and consumer goods increased \$0.9 billion.

Imports. Goods imports increased \$13.5 billion, or 4 percent, in the fourth quarter; real imports increased

4 percent, and import prices were unchanged (table C). In value, large increases occurred in several categories, partly reflecting strong consumer spending and a pickup in business investment in the United States.

Consumer goods increased a record \$5.2 billion. Imports of durable goods jumped, both of home entertainment equipment from China, Mexico, and Japan and of household and kitchen appliances, largely from Asia. Imports of nondurable goods were also substantially higher, largely the result of pharmaceuticals from Western Europe.

Automotive vehicles, engines, and parts increased \$4.3 billion. Much of the increase was in complete passenger cars from Germany.

Capital goods increased \$4.2 billion. Among high-technology products, computers, peripherals, and parts, largely from China, and telecommunications equipment were up strongly; semiconductors were unchanged. "Other" industrial, agricultural, and service machinery, largely from Western Europe and China, increased significantly for the second consecutive quarter. Civilian aircraft, engines, and parts increased substantially.

Nonpetroleum industrial supplies and materials increased \$0.5 billion. Natural gas from Canada and chemicals from Western Europe dropped sharply. However, building materials, half of which were from Canada, increased 14 percent in the fourth quarter after an 11-percent increase. The fourth-quarter increase was the largest quarter-on-quarter percentage jump in 7 years. Iron and steel products increased 4 percent. Tariffs put in place on steel products in March 2002 were lifted in December 2003.

Table C. U.S. Trade in Goods, 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								
	2002	2003	2002			2003				2002	2003	2002			2003			
			II	III	IV	I ^r	II ^r	III ^r	IV ^p			II	III	IV	I ^r	II ^r	III ^r	IV ^p
Exports	681,874	713,761	171,421	174,315	170,840	173,385	174,287	177,777	188,312	691,079	708,940	174,286	175,786	172,025	173,110	173,266	176,842	185,633
Agricultural products.....	54,513	60,961	13,506	13,557	13,727	14,435	14,578	15,364	16,584	53,141	53,894	13,554	12,885	12,849	13,395	13,260	13,712	13,516
Nonagricultural products	627,361	652,800	157,915	160,758	157,113	158,950	159,709	162,413	171,728	637,821	654,817	160,718	162,907	159,160	159,660	159,959	163,049	172,146
Imports	1,164,746	1,263,170	292,707	297,627	303,081	309,328	312,299	314,025	327,518	1,221,612	1,287,464	306,192	309,274	314,517	312,181	320,790	320,525	334,059
Petroleum and products	103,491	133,305	27,052	27,913	29,386	33,969	32,613	34,266	32,457	120,899	129,538	30,889	30,014	31,341	30,294	33,825	33,570	32,132
Nonpetroleum products	1,061,255	1,129,865	265,655	269,714	273,695	275,359	279,686	279,759	295,061	1,100,579	1,157,625	275,410	279,302	283,258	281,916	286,893	286,856	301,942

	Percent change from previous period (current dollars)									Percent change from previous period (chained (2000) dollars)								
	2002	2003 ^p	2002			2003				2002	2003 ^p	2002			2003			
			II	III	IV	I ^r	II ^r	III ^r	IV ^p			II	III	IV	I ^r	II ^r	III ^r	IV ^p
Exports	-5.1	4.7	3.7	1.7	-2.0	1.5	0.5	2.0	5.9	-4.5	2.6	3.2	0.9	-2.1	0.6	0.1	2.1	5.0
Agricultural products.....	-0.7	11.8	-1.6	0.4	1.3	5.2	1.0	5.4	7.9	-2.5	1.4	-2.6	-4.9	-0.3	4.3	-1.0	3.4	-1.4
Nonagricultural products	-5.5	4.1	4.2	1.8	-2.3	1.2	0.5	1.7	5.7	-4.7	2.7	3.7	1.4	-2.3	0.3	0.2	1.9	5.6
Imports	1.6	8.5	7.9	1.7	1.8	2.1	1.0	0.6	4.3	3.4	5.4	5.2	1.0	1.7	-0.7	2.8	-0.1	4.2
Petroleum and products	-0.1	28.8	41.3	3.2	5.3	15.6	-4.0	5.1	-5.3	-2.8	7.2	7.8	-2.8	4.4	-3.3	11.7	-0.8	-4.3
Nonpetroleum products	1.8	6.5	5.3	1.5	1.5	0.6	1.6	0.0	5.5	4.1	5.2	4.9	1.4	1.4	-0.5	1.8	0.0	5.3

^r Revised.

^p Preliminary.

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

Petroleum and petroleum products decreased \$1.8 billion. The average number of barrels imported daily decreased to 12.82 million from 13.40 million. The average price per barrel decreased 1 percent, to \$27.74 from \$28.04. With Iraq's improved production capabilities, OPEC members voted on September 24th to cut their production 3.5 percent (excluding Iraqi production), effective November 1st, and to maintain this level of production into 2004.

Balances by area. The goods deficit increased \$3.0 billion in the fourth quarter to a record high \$139.2 billion after decreasing \$1.8 billion in the third quarter.³ The deficit with Western Europe increased \$2.6 billion; increases in imports of passenger cars from Germany and of capital goods and consumer goods from many countries more than offset a moderate increase in exports.

The deficit with Japan increased \$2.5 billion. Exports were flat, while imports, largely of capital goods and consumer goods, rose.

The deficit with Latin America increased \$0.7 billion. Increases in imports of consumer goods from Mexico and of petroleum from Mexico and Venezuela more than offset a small increase in exports.

The deficit with OPEC members increased \$0.6 billion. A \$1.3 billion increase in imports from Iraq more than accounted for the higher deficit. Iraq had returned to export markets late in the third quarter.

The deficit with Asia excluding Japan decreased \$1.5 billion; higher exports, particularly soybeans to China, more than accounted for the decrease. However, imports, mostly from China and the Republic of Korea, also rose strongly.

Services

The surplus on services increased to \$16.3 billion in the fourth quarter from \$14.6 billion in the third quarter (table A).

Travel receipts increased to \$18.1 billion from \$16.4 billion, and travel payments increased to \$15.0 billion from \$14.3 billion. Sizable increases in both the third and fourth quarters indicated a significant recovery from the drop caused by concerns about the severe acute respiratory syndrome in the second quarter and by tensions about the war in Iraq in the first and second quarters. The recovery has been stronger for re-

ceipts than for payments. Steep increases in the value of foreign currencies during 2003 may have contributed to the stronger growth in receipts than in payments.

Passenger fare receipts increased to \$4.4 billion from \$4.0 billion, and passenger fare payments decreased to \$5.4 billion from \$5.5 billion.

"Other" transportation receipts increased to \$8.4 billion from \$7.8 billion, and "other" transportation payments increased to \$11.6 billion from \$11.3 billion. Strong goods exports and goods imports in the quarter pushed freight and port receipts and payments higher.

"Other" private services exports increased to \$33.8 billion from \$33.2 billion, largely the result of an increase in business, professional, and technical services. "Other" private services imports increased to \$20.4 billion from \$19.5 billion as a result of increases in affiliated services, in business, professional, and technical services, and in insurance.

Transfers under U.S. military agency sales contracts increased to \$3.5 billion from \$3.4 billion. Direct defense expenditures abroad were unchanged at \$5.9 billion, indicating a sustained high level of expenditures related to ongoing hostilities in Iraq.

Income

The surplus on income increased to \$12.5 billion in the fourth quarter from \$3.0 billion in the third quarter (table A). The increase was attributable to a substantial rise in receipts of income on U.S. direct investment abroad.

Receipts of income on U.S. direct investment abroad were \$55.5 billion, up from \$43.7 billion. Earnings grew especially strongly, to \$54.0 billion from \$42.2 billion. Growth occurred in all major industries; there were especially large gains in finance, in manufacturing (mainly in Europe), in "other" (mainly in information in the United Kingdom and Japan, and in mining), and in wholesale trade (mainly in Europe). The rise reflected the pickup in operating earnings abroad, which increased because of improved foreign economic conditions and appreciations of foreign currencies against the dollar of 5 to 10 percent. Improved foreign economic conditions and appreciations of foreign currencies against the dollar had also raised earnings significantly in the third quarter. Interest receipts, at \$1.5 billion, were virtually unchanged.

Payments of income on foreign direct investment in the United States were \$19.7 billion, up from \$19.0 billion. Earnings increased to \$14.9 billion from \$14.5 billion, and interest payments increased to \$4.7 billion from \$4.5 billion. Manufacturing more than accounted for the rise in earnings.

Receipts of "other" private income increased \$0.3

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

billion to \$23.0 billion. The increase was attributable to an increase in dividends, which resulted from an increase in average holdings, and to an increase in interest on bonds, which resulted from a 22-basis-point increase in yields. A decrease in interest receipts on bank and nonbank claims was due to a decrease in average holdings.

Payments of "other" private income increased \$1.1 billion to \$29.3 billion. The rise was more than accounted for by an increase in interest payments on bonds that was due both to an increase in average holdings and to an increase in yields. Dividend payments on stocks were virtually unchanged, and interest payments on bank and nonbank liabilities decreased.

Receipts of income on U.S. Government assets decreased slightly to \$1.2 billion. Payments of income on U.S. Government liabilities increased to \$16.9 billion from \$16.3 billion because of an increase in average holdings of U.S. Treasury securities and an increase in agency bond yields.

Unilateral current transfers

Net outflows for unilateral current transfers increased to \$17.2 billion in the fourth quarter from \$16.7 billion in the third quarter (table A).

U.S. Government grants decreased because fewer congressionally appropriated funds were disbursed to support reconstruction efforts in Iraq than in the third quarter. Disbursements were \$0.7 billion, down from \$1.7 billion in the third.

The U.S. Government did not disburse most of the funds often appropriated annually in the fourth quarter for Israel and Egypt under the credit waiver program to finance military purchases and for general economic support. Instead, these funds were disbursed in the first quarter of 2004.

Private remittances to foreigners increased. Third-quarter net outflows had been held down by the receipt of funds from Libya for the partial settlement of claims resulting from the bombing of Pan Am flight 103 over Lockerbie, Scotland, in 1988.

Capital Account

Capital account transactions were net outflows of \$0.3 billion in the fourth quarter, down from net outflows of \$0.8 billion in the third quarter (table A).

Financial Account

Net recorded financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were \$180.9 billion in the fourth quarter, compared with net inflows of \$105.9 billion in the third quarter. Financial

inflows for foreign-owned assets in the United States increased much more than financial outflows for U.S.-owned assets abroad (table A).

U.S.-owned assets abroad

Net U.S.-owned assets abroad increased \$51.1 billion in the fourth quarter, following an increase of \$13.7 billion in the third quarter (table A). U.S. claims on foreigners reported by U.S. banks decreased by a sizable amount for the second consecutive quarter, and net U.S. purchases of foreign securities slowed. In contrast, claims of U.S. nonbanking concerns shifted by a sizable amount to an outflow, and outflows for U.S. direct investment abroad increased.

U.S. official reserve assets. U.S. official reserve assets decreased \$2.2 billion in the fourth quarter, following an increase of \$0.6 billion in the third. The decrease in the fourth quarter was in the reserve position with the International Monetary Fund (IMF) as a result of the repayment in December of some of the dollar funds lent by the IMF to Brazil.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks decreased \$39.5 billion in the fourth quarter, following a decrease of \$36.4 billion in the third.

Banks' own claims denominated in dollars decreased \$30.2 billion in the fourth quarter, following a \$6.6 billion decrease in the third. The decrease in the fourth quarter was largest for foreign-owned banks, and it marked the second successive quarter of large declines. Claims of U.S.-owned banks decreased slightly in the fourth quarter. Securities brokers who had extended an unusually large amount of credit in the third quarter through resale agreements extended a much smaller amount of credit in the fourth.

Banks' customers' claims decreased \$5.3 billion in the fourth quarter, following a \$19.3 billion decrease in the third. Most major categories decreased with the exception of foreign commercial paper issued in the United States, which increased \$9.0 billion, in contrast to a decrease of \$13.2 billion in the third quarter.

Nonbank claims on foreigners increased \$26.1 billion in the fourth quarter, following a decrease of \$20.8 billion in the third; large amounts of credit were extended in the fourth quarter to offices in the Caribbean.

Foreign securities. Net U.S. purchases of foreign securities were \$17.0 billion in the fourth quarter, down from \$28.6 billion in the third.

Net U.S. purchases of foreign stocks dropped to \$10.0 billion from \$30.0 billion. Net U.S. transactions in European stocks shifted to net sales of \$10.3 billion from net purchases of \$4.2 billion; stock prices had strengthened considerably over the year, and the

expansion was less robust than in the United States. European stock prices increased 11 percent in local currencies. Net U.S. purchases of Asian stocks except Japanese stocks fell to \$1.5 billion from \$9.8 billion. In the fourth quarter, emerging market stock prices appreciated 17 percent in local currencies. Net U.S. purchases of Japanese stocks fell by only a small amount, to \$14.4 billion in the fourth quarter from \$17.0 billion in the third; during the quarter, Japanese real GDP growth, exports, and business confidence all increased. Japanese stock prices appreciated 4 percent in local currency.

Net U.S. purchases of foreign bonds were \$7.0 billion, a shift from net sales of \$1.4 billion. The shift was more than accounted for by the shift to net purchases from net sales of Asian bonds, particularly Japanese bonds. Japanese bonds outperformed most bonds included in global government indexes during the quarter. Transactions in Canadian bonds also shifted to net purchases from net sales; Canadian bonds also outperformed most bonds included in global indexes. Foreign new issues in the United States edged higher, mostly from Latin America and Canada.

Direct investment. Net financial outflows for U.S. direct investment abroad were \$49.6 billion in the fourth quarter, up from \$42.2 billion in the third. Increases in reinvested earnings and in net equity capital outflows more than offset a shift in intercompany debt to net inflows from net outflows.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased \$232.0 billion in the fourth quarter, compared with an increase of \$119.6 billion in the third quarter (table A). Net foreign purchases of U.S. securities other than U.S. Treasury securities increased sharply, U.S. liabilities to foreigners reported by U.S. banks increased more in the fourth quarter than in the third, and net financial inflows for foreign direct investment in the United States strengthened. In contrast, net foreign purchases of U.S. Treasury securities slowed, and U.S. liabilities to foreigners reported by U.S. nonbanking concerns decreased in the fourth quarter after they had increased in the third.

Foreign official assets. Foreign official assets in the United States increased \$64.4 billion in the fourth quarter, compared with an increase of \$45.3 billion in the third. Assets of industrial countries increased \$38.8 billion; dollar assets of Japan increased, and dollar assets of several other industrial countries decreased. Assets of other countries increased \$25.6 billion, largely from Russia and OPEC countries.

Liabilities reported by banks and nonbanks. U.S. liabilities reported by U.S. banks, excluding U.S. Treas-

ury securities, increased \$36.2 billion in the fourth quarter, following an increase of \$4.8 billion in the third.

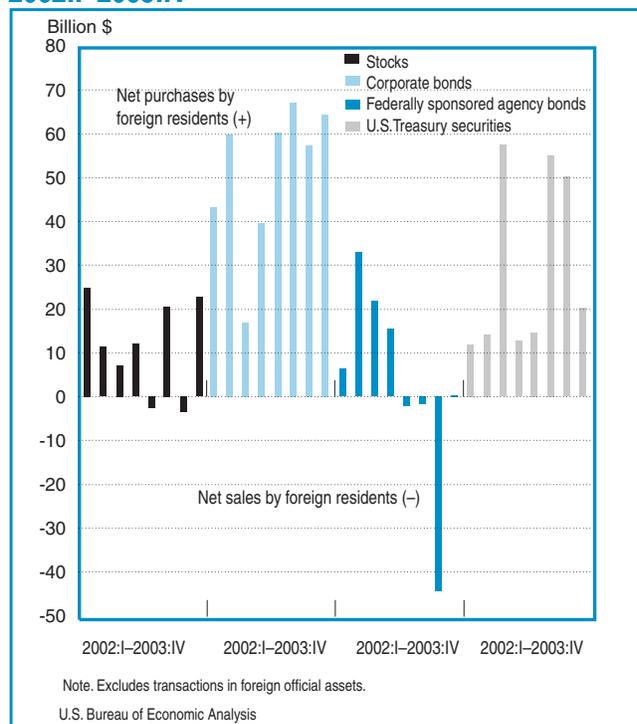
Banks' own liabilities denominated in dollars increased \$30.7 billion in the fourth quarter, following a \$42.7 billion increase in the third. U.S.-owned banks were the recipients of large inflows of funds in the fourth quarter, especially from offices in the Caribbean and Western Europe. Foreign-owned banks paid down intercompany positions during the fourth quarter. U.S. securities brokers borrowed a significant amount of funds through repurchase agreements, though not as much as in the strong third quarter.

Banks' customers' liabilities increased \$15.5 billion in the fourth quarter, in contrast to a decrease of \$31.3 billion in the third. U.S. liabilities to foreigners reported by U.S. nonbanking concerns decreased \$6.8 billion, following an increase of \$5.1 billion.

U.S. Treasury securities. Net purchases of U.S. Treasury securities by private foreigners slowed substantially to \$20.1 billion in the fourth quarter from \$50.2 billion in the third (chart 4). Long-term U.S. Treasury securities more than accounted for the slowdown; about two-thirds of this slowdown was in Western Europe, which shifted to net sales of \$2.6 billion from net purchases of \$17.7 billion.

Other U.S. securities. Net foreign purchases of U.S. securities other than U.S. Treasury securities were \$87.5 billion in the fourth quarter, a sharp increase

Chart 4. Transactions in U.S. Securities, 2002:I-2003:IV



from net purchases of \$9.6 billion in the third. Stock transactions shifted from small net sales to net purchases, and bond purchases recovered from a large sell-off of agency issues in the third quarter due to smaller prepayments of agency issues (chart 4).

Net foreign purchases of U.S. stocks were \$22.7 billion, a shift from net sales of \$3.4 billion; Western Europe and Canada accounted for nearly all the shift. Net purchases from Caribbean financial centers changed little, and net sales from Asia decreased slightly. Low U.S. interest rates, strong stock price increases, solid economic growth, and the rise in corporate earnings all contributed to net purchases. Both the S&P 500 Index and the NASDAQ Composite Index gained 12 percent, while the Dow Jones Industrial Average Index gained 13 percent.

Foreign demand for U.S. corporate bonds remained strong as investors acquired \$64.4 billion, up from \$57.5 billion in the third. During the fourth quarter, the spread of investment-grade bond yields over Treasury bond yields dropped 17 basis points, and the spread of high-yield bonds dropped 125 basis points (chart 5). New bond issues sold abroad decreased to \$14.3 billion from \$21.0 billion.

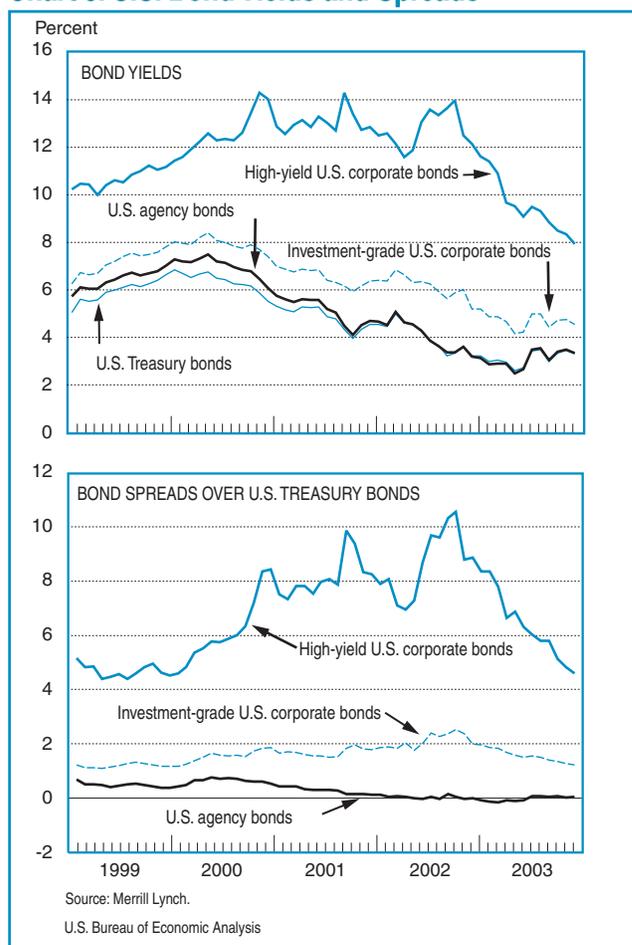
Net foreign purchases of agency bonds were \$0.4

billion, a sizable shift from record net sales of \$44.5 billion in the third. Prepayments of mortgage-backed securities, which had led to large net sales in the third quarter, were much smaller in the fourth quarter.

U.S. currency flows. Net U.S. currency flows to foreigners were \$7.5 billion in the fourth quarter, up from \$2.8 billion in the third, as shipments to several areas were higher.

Direct investment. Net financial inflows for foreign direct investment in the United States were \$23.2 billion in the fourth quarter, up from \$1.8 billion in the third. The increase was nearly all accounted for by a shift in intercompany debt to net inflows from net outflows. Net equity capital inflows increased slightly, and reinvested earnings decreased.

Chart 5. U.S. Bond Yields and Spreads



Data Availability

Tables 1–11 follow the article “U.S. International Transactions, 2003.” Interactive access to the estimates that are presented in tables 1–12 of the U.S. international transactions accounts (table 12 is presented annually in the July SURVEY OF CURRENT BUSINESS) is available on BEA’s Web site at <www.bea.gov>. You may view the most recent quarterly estimates (annual estimates for table 12) for an entire table with one mouse click, or you may select the period, frequency, and lines that you wish to view. The estimates are available in an HTML table or as comma-separated values that can be downloaded and imported into a spreadsheet or a database.

The current and historical estimates in tables 1–12 are also available as compressed files on BEA’s Web site; click on “Publications,” and look under “Catalog of Products,” “International Accounts Products,”