U.S. International Transactions

Second 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 $190.8 billion (preliminary) in the second quarter of 2007 from $197.1 billion (revised) in the first quarter (table A, chart 1). The decrease resulted from a decrease in net unilateral current transfers to foreigners and increases in the surpluses on services and on income. In contrast, the deficit on goods 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 $150.9 billion in the second quarter, down from $181.9 billion in the first quarter. Net U.S. acquisitions of assets abroad picked up more than net foreign acquisitions of assets in the United States.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive $40.4 billion in the second quarter, compared with a positive $15.7 billion in the first quarter.

The following are highlights for the second quarter of 2007:

- Goods exports increased at the strongest rate in a year. Goods imports also picked up as a result of strong increases in petroleum and products and in other industrial supplies and materials.
- Net U.S. purchases of foreign securities remained strong.
- Net private foreign transactions in U.S. Treasury securities shifted to net sales from net purchases, and net private foreign purchases of other U.S. securities surged.
- Both U.S. claims and U.S. liabilities reported by U.S. banks increased less strongly in the second quarter than in the first quarter.

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	2006	2006				2007		Change: 2007:I–II
				I	II	III	IV	I r	II p	
	Current account									
1	**Exports of goods and services and income receipts (1)**	**1,788,557**	**2,096,165**	**494,027**	**518,595**	**532,894**	**550,649**	**558,369**	**586,698**	**28,329**
2	Goods, balance of payments basis (3)	894,631	1,023,109	243,880	252,458	260,285	266,486	270,116	279,339	9,223
3	Services (4)	388,439	422,594	101,756	104,117	105,583	111,137	112,040	116,350	4,310
4	Income receipts (12)	505,488	650,462	148,391	162,020	167,026	173,025	176,213	191,009	14,796
5	**Imports of goods and services and income payments (18)**	**–2,454,871**	**–2,818,047**	**–673,277**	**–700,504**	**–726,352**	**–717,914**	**–728,472**	**–755,031**	**–26,559**
6	Goods, balance of payments basis (20)	–1,681,780	–1,861,380	–451,637	–463,734	–479,184	–466,825	–470,983	–483,552	–12,569
7	Services (21)	–315,661	–342,845	–83,711	–85,419	–85,991	–87,724	–88,754	–89,825	–1,071
8	Income payments (29)	–457,430	–613,823	–137,929	–151,352	–161,177	–163,365	–168,735	–181,654	–12,919
9	**Unilateral current transfers, net (35)**	**–88,535**	**–89,595**	**–21,360**	**–23,686**	**–23,877**	**–20,673**	**–26,994**	**–22,457**	**4,537**
	Capital account									
10	**Capital account transactions, net (39)**	**–4,054**	**–3,913**	**–1,724**	**–1,008**	**–545**	**–637**	**–559**	**–589**	**–30**
	Financial account									
11	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–)) (40)**	**–426,875**	**–1,055,176**	**–344,032**	**–212,218**	**–209,898**	**–289,028**	**–449,454**	**–469,470**	**–20,016**
12	U.S. official reserve assets (41)	14,096	2,374	513	–560	1,006	1,415	–72	26	98
13	U.S. Government assets, other than official reserve assets (46)	5,539	5,346	1,049	1,765	1,570	962	445	–493	–938
14	U.S. private assets (50)	–446,510	–1,062,896	–345,594	–213,423	–212,474	–291,405	–449,827	–469,003	–19,176
15	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55)**	**1,204,231**	**1,859,597**	**538,140**	**355,442**	**449,987**	**516,029**	**616,602**	**620,405**	**3,803**
16	Foreign official assets in the United States (56)	259,268	440,264	125,257	120,861	108,799	85,347	152,193	70,098	–82,095
17	Other foreign assets in the United States (63)	944,963	1,419,333	412,883	234,581	341,188	430,682	464,409	550,307	85,898
18	**Financial derivatives, net (70)**	**n.a.**	**28,762**	**1,633**	**14,001**	**14,911**	**–1,783**	**14,800**	**n.a.**	**–14,800**
19	**Statistical discrepancy (sum of above items with sign reversed) (71)**	**–18,454**	**–17,794**	**6,593**	**49,378**	**–37,121**	**–36,643**	**15,708**	**40,444**	**24,736**
	Memoranda:									
20	Balance on current account (77)	–754,848	–811,477	–200,611	–205,595	–217,334	–187,938	–197,097	–190,790	6,307
21	Net financial flows (40, 55, and 70)	777,356	833,183	195,741	157,225	255,000	225,218	181,948	150,935	–31,013

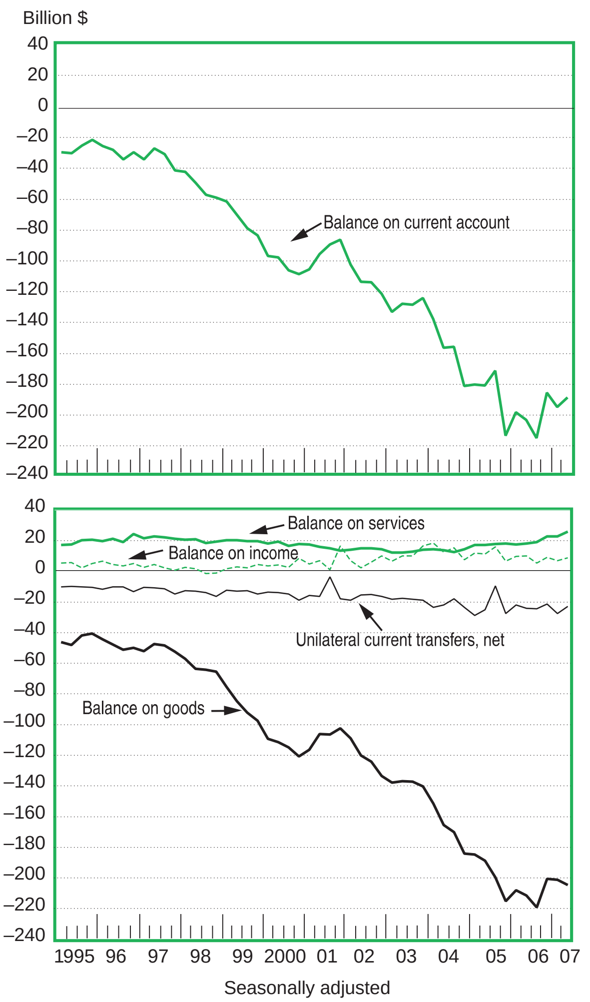
p Preliminary
r Revised
n.a. Not available

Selected economic and financial market developments

In the second quarter, the U.S. dollar depreciated 3 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 6 percent against the Canadian dollar and 3 percent against the euro, and it appreciated 1 percent against the Japanese yen.

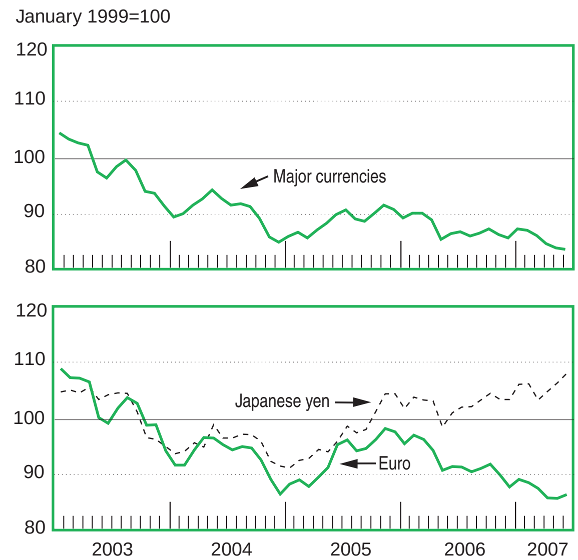
In the United States, data releases in the second quarter indicated that U.S. economic growth in the first quarter slowed. Releases indicated that the U.S. deficit on trade in goods and services on a 3-month moving-average basis widened somewhat. U.S. monetary authorities left the target level for the Federal funds rate at 5.25 percent, and other U.S. short-term interest rates changed little (chart 3). U.S. and foreign long-term interest rates increased strongly, partly as a result of rising concerns about inflation. U.S. and

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



U.S. Bureau of Economic Analysis

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

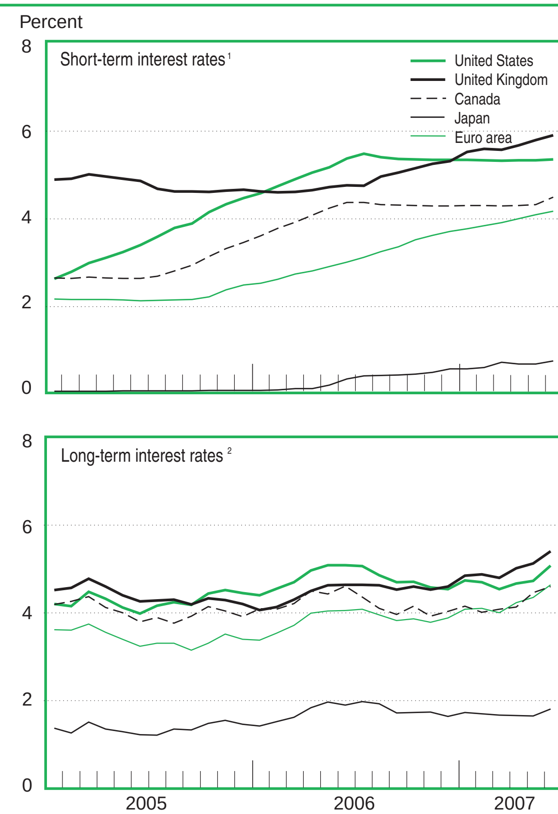


NOTE. See table B for the definitions of the indexes. Monthly average rates.

Data: Federal Reserve Board. Indexes rebased by BEA.

U.S. Bureau of Economic Analysis

Chart 3. U.S. and Foreign Interest Rates



1. Three-month interest rates.
2. Long-term government bonds, 10-year maturities.
Data: Federal Reserve Board, British Bankers' Association, and foreign monetary authorities.

U.S. Bureau of Economic Analysis

foreign stock prices also increased strongly. In the last weeks of June, credit spreads began to increase as deteriorating conditions in the market for subprime mortgages led to downgrades of some securities backed by those mortgages.

In Europe, data releases indicated that euro area economic growth in the first quarter weakened somewhat. Among selected countries, growth in Germany and Italy slowed, and growth in France and Spain was nearly the same as in the fourth quarter. Euro area monetary authorities raised the minimum bid rate on main refinancing operations, a key policy-controlled interest rate, to 4.00 percent from 3.75 percent. Euro area short-term interest rates have increased roughly 200 basis points in the last year and a half, reducing the large gap that had existed between U.S. and euro area short-term rates. In the second quarter, the Bank of England also increased its key monetary policy interest rate to 5.50 percent from 5.25 percent.

In Japan, reports showed that economic growth in the first quarter weakened after very strong growth in the fourth quarter. Japanese monetary authorities left the key overnight lending rate at 0.50 percent.

In Canada, reported economic growth in the first quarter accelerated, as the Canadian economy continued to benefit from buoyant global markets for its abundant natural resources, such as oil and metals. The Canadian dollar surged to a near-30-year high against the U.S. dollar. Canadian monetary authorities left the target level for the overnight rate at 4.25 percent.

Revisions to Estimates

The preliminary estimates of U.S. international transactions for the first quarter that were published in the July 2007 Survey of Current Business have been revised.

The current-account deficit was revised to $197.1 billion from $192.6 billion. The goods deficit was unrevised at $200.9 billion; the services surplus was revised to $23.3 billion from $24.1 billion; the income surplus was revised to $7.5 billion from $10.4 billion; and net unilateral current transfers to foreigners were revised to $27.0 billion from $26.1 billion. Net financial inflows were revised to $181.9 billion from $202.8 billion.

Current Account

Goods and services

The deficit on goods and services increased slightly to $177.7 billion in the second quarter from $177.6 billion in the first quarter. A $3.3 billion increase in the deficit on goods was nearly offset by a $3.2 billion increase in the surplus on services.

Goods

The deficit on goods increased to $204.2 billion in the second quarter from $200.9 billion in the first quarter, as imports increased more than exports. Despite the increase, the goods deficit was smaller in each of the last three quarters than in each of the preceding four quarters.

On a price-adjusted, or real, basis, exports have grown at a considerably stronger rate than imports

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

[January 1999=100]

	2006			2007		2006							2007					
	II	III	IV	I	II	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
Nominal: [1]																		
Broad [2]	94.9	94.4	93.9	93.7	91.5	95.0	94.8	94.1	94.4	94.6	93.9	93.2	94.1	93.8	93.3	92.1	91.3	91.0
Major currencies [3]	86.8	86.3	86.3	86.7	83.9	86.3	86.7	85.9	86.4	87.2	86.2	85.6	87.2	86.9	86.0	84.5	83.8	83.5
Other important trading partners [4]	105.5	105.0	103.7	102.9	101.2	106.4	105.3	104.8	104.8	104.4	103.8	103.0	103.1	102.8	102.8	101.9	101.0	100.8
Real: [1]																		
Broad [2]	98.4	98.1	96.0	95.9	95.0	98.7	98.6	98.0	97.6	97.1	95.8	95.0	96.1	95.7	96.0	95.3	95.0	94.7
Major currencies [3]	94.9	94.7	93.8	94.6	92.8	94.5	95.2	94.4	94.5	94.9	93.6	92.8	94.7	94.7	94.3	93.1	92.7	92.5
Other important trading partners [4]	102.3	101.9	98.5	97.5	97.5	103.5	102.5	102.1	101.1	99.6	98.4	97.4	97.7	96.9	97.9	97.8	97.5	97.3
Selected currencies: (nominal) [5]																		
Canada	73.9	73.8	75.0	77.1	72.3	73.3	74.3	73.6	73.5	74.3	74.8	75.9	77.4	77.1	76.9	74.7	72.1	70.1
European currencies:																		
Euro area [6]	92.2	91.0	89.9	88.4	86.0	91.5	91.4	90.5	91.1	91.9	89.9	87.8	89.2	88.6	87.5	85.8	85.7	86.4
United Kingdom	90.4	88.0	86.1	84.4	83.1	89.5	89.5	87.1	87.6	87.9	86.3	84.0	84.2	84.2	84.7	83.0	83.1	83.0
Switzerland	89.8	89.4	89.1	89.0	88.2	88.9	89.3	88.9	89.9	90.9	89.2	87.3	89.7	89.4	87.9	87.5	88.1	89.0
Japan	101.0	102.7	104.0	105.4	106.6	101.2	102.2	102.3	103.5	104.7	103.6	103.6	106.3	106.4	103.5	105.0	106.6	108.3
Mexico	110.4	108.1	107.5	108.8	107.4	112.5	108.4	107.4	108.5	107.5	107.8	107.2	108.2	108.6	109.7	108.4	106.9	107.0
Brazil	144.3	143.5	142.2	139.3	131.1	148.8	144.7	142.5	143.4	141.9	142.6	142.0	141.4	138.5	138.1	134.3	131.2	127.8

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, also includes Slovenia.

over the last 2 ½ years. Real export growth, which has been generally strong since mid-2003, has been supported by strengthening economic growth in many foreign countries and by the substantial depreciation of the U.S. dollar against many foreign currencies since early 2002. Real import growth has generally weakened from its pre-2005 pace.

The stronger growth in exports than in imports has made a positive contribution to real GDP growth in most recent quarters.

Exports. In the second quarter, current-dollar exports of goods increased $9.2 billion, or 3.4 percent, to $279.3 billion (chart 4). The percentage increase was the strongest in a year. Real exports increased 2.1 percent, and export prices increased 1.3 percent (chart 5).[2]

After slowing in recent quarters, nonagricultural industrial supplies and materials increased $5.0 billion in the second quarter. The increase was largely accounted for by increases in nonferrous metals, mostly nonmonetary gold to Switzerland, and in energy products. Energy products were boosted by exports of petroleum and products, mostly fuel oil to Latin America, and of natural gas to Canada. Increases in chemicals and in iron and steel products also contributed to the increase in nonagricultural industrial supplies and materials.

Agricultural products increased $2.0 billion in the second quarter after increasing substantially in recent quarters. The second-quarter increase was mostly accounted for by large increases in soybeans and raw cotton. Soybeans surged, mostly to Mexico and Japan. Raw cotton was boosted by shipments to China and other Asian countries. These increases were partly offset by the first decrease in corn in nine quarters.

Automotive vehicles, parts, and engines increased $1.6 billion as a result of a step-up in exports to areas except Canada. Passenger cars, mainly to Europe, increased strongly for the third time in four quarters.

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

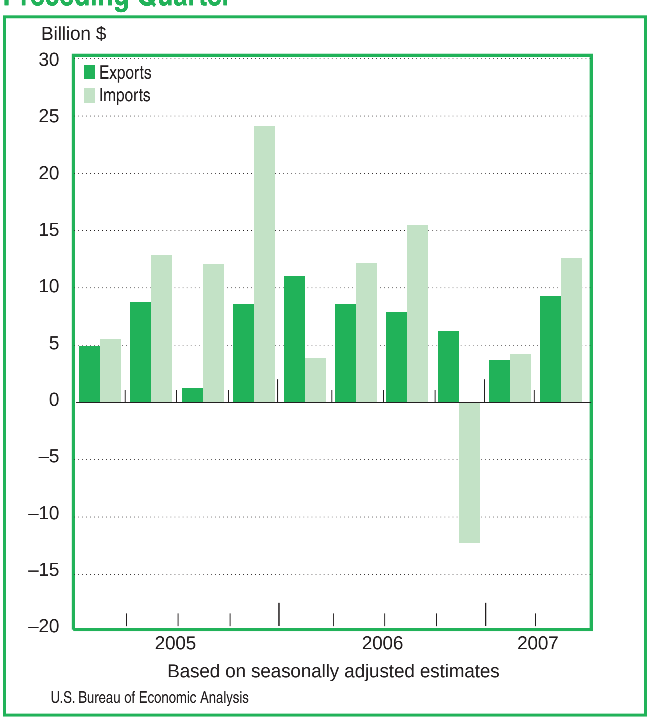
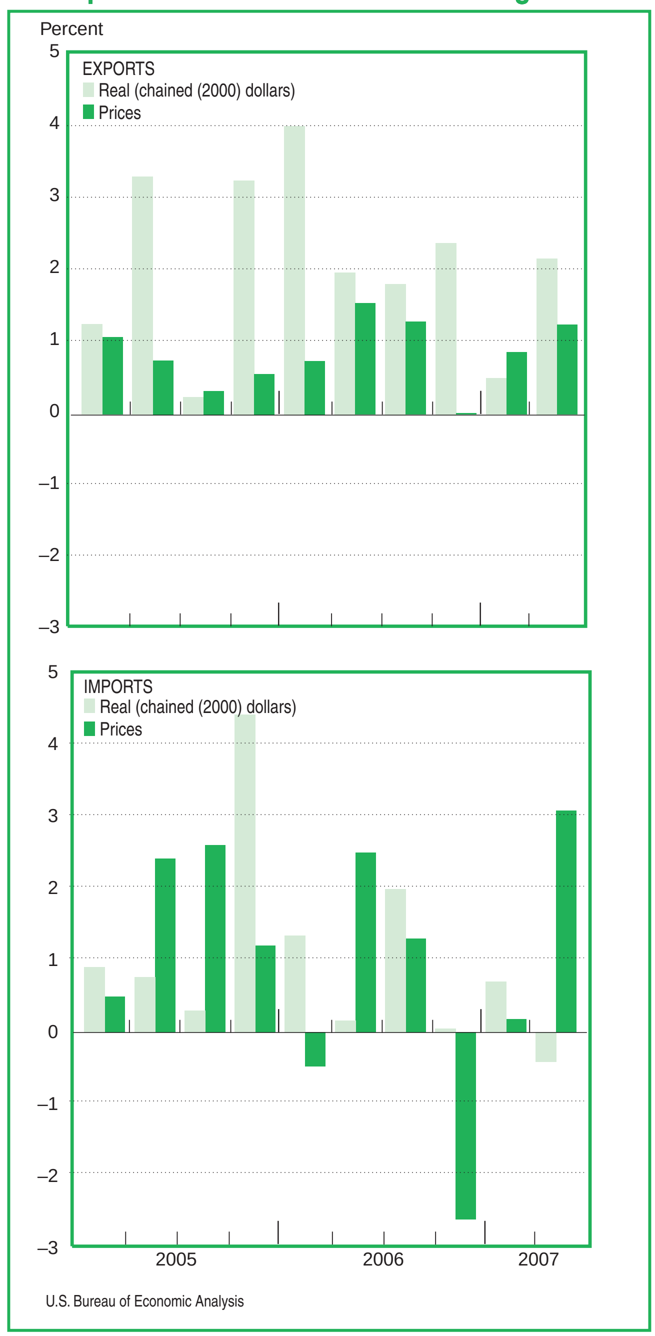


Chart 5. U.S. Trade in Goods: Change in Real Exports and Imports and in Prices From Preceding Quarter



Engines, parts, and accessories to Mexico and Asian countries increased strongly, but these increases were largely offset by decreases in these products to Canada.

Capital goods increased $0.8 billion. The largest increases were in “other” industrial machinery (mostly for manufacturing semiconductors), in measuring, testing, and control instruments, and in scientific, hospital, and medical equipment. These increases were largely offset by decreases in computers, peripherals, and parts, in oil drilling, mining, and construction machinery, in civilian aircraft, and in semiconductors.

Consumer goods increased $0.7 billion, reflecting continued growth in durable goods. In the second quarter, the largest increase was in toys, shooting, and sporting goods, mainly to Canada.

Imports. Imports of goods increased $12.6 billion, or 2.7 percent, to $483.6 billion. Real imports decreased 0.4 percent, and import prices increased 3.1 percent (chart 5). The increase in value resulted from increases in petroleum and products and in nonpetroleum industrial supplies and materials.

Petroleum and products increased $7.3 billion, as a result of a rise in petroleum prices (chart 6). After falling for two consecutive quarters, the average price per barrel jumped 17 percent, to $63.84, in the second quarter. In contrast, the average number of barrels imported daily decreased, to 13.41 million from 14.28 million. Petroleum imports from Europe increased $4.2 billion, largely from the United Kingdom and Russia, and imports from members of OPEC increased $2.0 billion, mostly from Saudi Arabia and Venezuela. U.S. domestic petroleum production increased, and domestic petroleum consumption decreased slightly.

Nonpetroleum industrial supplies and materials increased $6.5 billion. More than 40 percent of the rise was accounted for by natural gas, mostly from Canada. Nonferrous metals also increased strongly, mostly nonmonetary gold and “other” nonferrous metals, such as nickel and copper. In addition, chemicals, iron and steel products, and steelmaking materials all rebounded after falling in the first quarter.

Capital goods increased $0.1 billion, a marked slowdown from growth in the first quarter. Computers,

Chart 6. Imports of Petroleum and Products: Indexes of Value, Price per Barrel, and Barrels Imported per Day

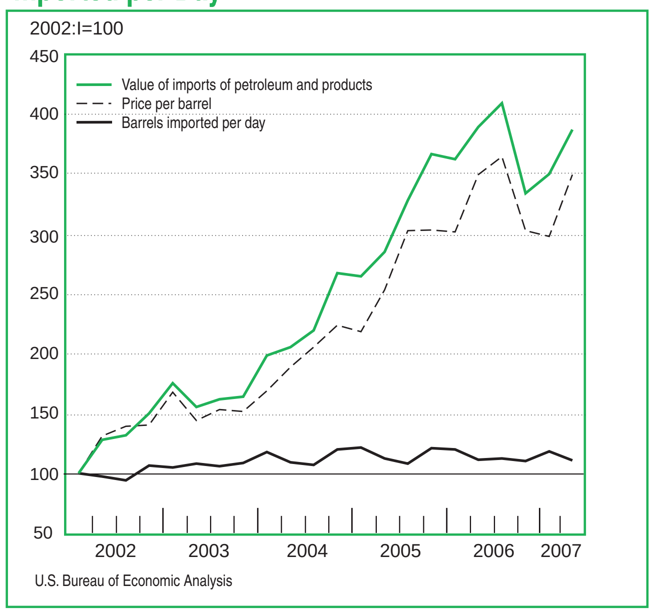


Table C. U.S. Trade in Goods in Current and Chained (2000) Dollars and Percent Changes From Previous Period

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

	Current dollars								Chained (2000) dollars [1]							
	2005	2006	2006				2007		2005 r	2006 r	2006				2007	
			I	II	III	IV	I	II p			I r	II r	III r	IV r	I r	II p
Exports	**894,631**	**1,023,109**	**243,880**	**252,458**	**260,285**	**266,486**	**270,116**	**279,339**	**831,967**	**920,741**	**223,434**	**227,805**	**231,902**	**237,389**	**238,576**	**243,700**
Agricultural products	64,887	72,869	17,309	18,028	18,689	18,843	19,826	21,781	53,553	58,085	14,234	14,732	14,802	14,320	14,171	15,290
Nonagricultural products	829,744	950,240	226,571	234,430	241,596	247,643	250,290	257,558	779,871	864,444	209,617	213,471	217,529	223,642	225,026	228,833
Imports	**1,681,780**	**1,861,380**	**451,637**	**463,734**	**479,184**	**466,825**	**470,983**	**483,552**	**1,535,115**	**1,630,244**	**402,956**	**403,626**	**411,681**	**411,877**	**414,780**	**413,066**
Petroleum and products	251,856	302,430	73,362	78,713	82,768	67,587	70,852	78,139	141,012	138,180	36,554	33,892	34,169	33,566	35,815	33,627
Nonpetroleum products	1,429,924	1,558,950	378,275	385,021	396,416	399,238	400,131	405,413	1,396,656	1,504,894	367,051	373,187	381,477	383,058	381,928	384,427

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

r Revised
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.

peripherals, and parts fell substantially after rising substantially in the first quarter, and telecommunications equipment and semiconductors also decreased. These decreases were offset by increases in most other commodity categories, including electric generating machinery, "other" industrial, agricultural, and service industry machinery, and civilian aircraft, engines, and parts.

Foods, feeds, and beverages increased $0.1 billion. Increases in vegetables, fruits, nuts, and preparations, mostly from Canada, and in green coffee were mostly offset by decreases in other commodities.

Consumer goods decreased $1.0 billion after sizable increases in the last six consecutive quarters. The decrease resulted from declines in both nondurable and durable goods Nondurable goods fell largely as a result of a drop in medical, dental, and pharmaceutical products from Ireland. Among durable goods, a large decrease in television and video receivers, mainly from Mexico, was partly offset by an increase in toys, shooting, and sporting goods, mainly from China.

Automotive vehicles, parts, and engines decreased $0.3 billion. The decrease resulted from a second consecutive large quarterly decline in passenger cars, partly reflecting weak U.S. domestic sales of motor vehicles. In contrast, imports of parts and accessories and of engines increased.

Balances by area. The goods deficit increased $3.3 billion to $204.2 billion. Despite the increase, the goods deficit was smaller in each of the last three quarters than in each of the preceding four quarters, partly as a result of smaller deficits with Europe.

In the second quarter, the deficit increased as a result of increases in the deficits with Europe (mostly the Netherlands, the United Kingdom, and Russia), the Middle East (mostly Saudi Arabia), and Africa. In contrast, the large goods deficit with Asia and Pacific decreased, as decreases in the deficits with Japan, Taiwan, Korea, and Malaysia more than offset an increase in the deficit with China. The goods deficits with Canada and with Latin America and Other Western Hemisphere also decreased.

Data Availability

The estimates that are presented in tables 1–11 of the U.S. international transactions accounts are available interactively on BEA's 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.

Services

The surplus on services increased to $26.5 billion in the second quarter from $23.3 billion in the first quarter, as services receipts increased much more than services payments. The surplus on services has increased strongly in recent quarters.

Travel receipts increased $1.3 billion to $23.6 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 three quarters, partly as a result of the rise in the value of many foreign currencies against the U.S. dollar. Travel payments increased $0.1 billion to $18.7 billion. The number of U.S. travelers overseas has increased only slightly over the last four quarters, as the weakness of the U.S. dollar has increased the cost of travel abroad.

Passenger fare receipts increased $0.4 billion to $6.1 billion, and passenger fare payments decreased $0.1 billion to $6.7 billion.

"Other" transportation receipts increased $0.6 billion to $12.8 billion. The increase resulted from a substantial rise in receipts for freight services, mostly for air freight, and an increase in receipts for port services. "Other" transportation payments increased $0.1 billion to $16.6 billion.

"Other" private services receipts increased $1.8 billion to $52.5 billion. The largest increases were in receipts for financial services and for business, professional, and technical services. "Other" private services payments increased $0.7 billion to $31.9 billion. The largest increases were in payments for business, professional, and technical services, for financial services, and for insurance services.

Income

The surplus on income increased to $9.4 billion in the second quarter from $7.5 billion in the first quarter.

Receipts of income on U.S. direct investment abroad increased $6.3 billion to $85.8 billion. The increase mostly resulted from higher earnings of foreign affiliates in holding companies and in "other" industries, particularly mining. The increase in mining reflected higher earnings of affiliates engaged in the extraction of oil, natural gas, and metal ores. By area, earnings of affiliates in Europe accounted for the majority of the total increase.

Payments of income on foreign direct investment in the United States increased $4.5 billion to $36.2 billion after decreasing for two consecutive quarters. The increase largely resulted from a rise in the earnings of

U.S. wholesale trade affiliates, particularly in petroleum wholesale trade. Earnings of U.S. affiliates in all other major industries also increased. The increase in manufacturing was partly due to a rise in earnings of petroleum manufacturing affiliates.

Both receipts and payments of "other" private income and U.S. Government income increased, largely as a result of higher average holdings. Receipts of "other" private income increased $8.4 billion to $103.8 billion. The increase was mostly accounted for by increases in interest receipts on bank claims and in dividend and interest receipts on U.S. holdings of foreign securities. Government income receipts increased $0.1 billion to $0.6 billion.

Payments of "other" private income increased $6.6 billion to $103.6 billion. The increase was mostly accounted for by increases in interest payments on bank liabilities and in interest and dividend payments on foreign holdings of U.S. securities. Payments of income on U.S. Government liabilities increased $1.8 billion to $39.4 billion.

Unilateral current transfers

Net unilateral current transfers to foreigners were $22.5 billion in the second quarter, down from $27.0 billion in the first quarter. The decrease resulted from a drop in U.S. Government grants, which were boosted in the first quarter by disbursements of grants to Israel and Egypt.

Capital Account

Net capital account payments (outflows) were virtually unchanged, at $0.6 billion, in the second 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 $150.9 billion in the second quarter, down from $181.9 billion in the first quarter.[3] Net acquisitions by U.S. residents picked up more than net acquisitions by foreign residents.

U.S.-owned assets abroad

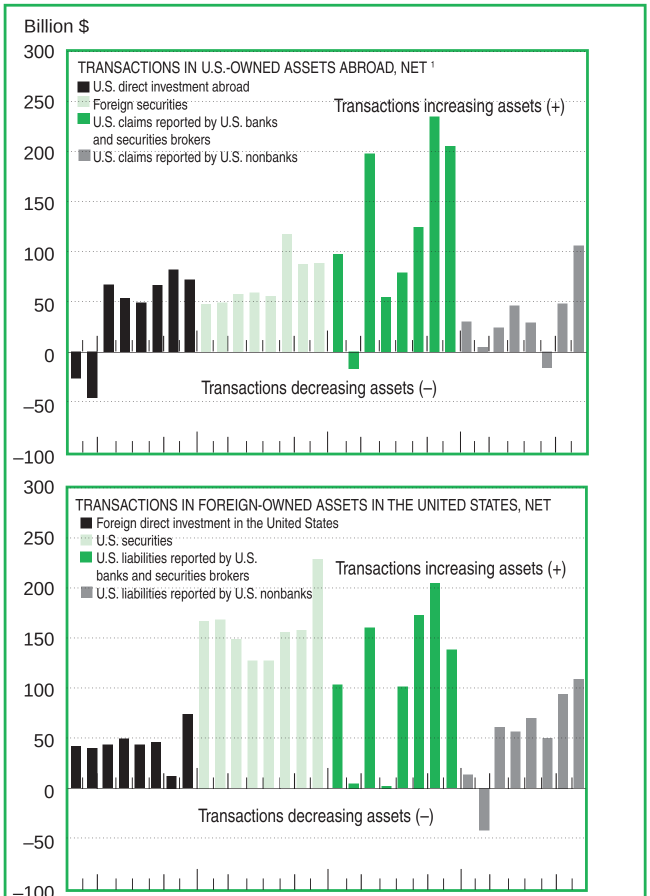
Net U.S.-owned assets abroad increased $469.5 billion in the second quarter after an increase of $449.5 billion in the first quarter. The pickup was attributable to a larger increase in claims reported by U.S. nonbanking concerns in the second quarter than in the first quarter. In contrast, U.S. claims on foreigners reported by U.S. banks increased less in the second quarter than in the first quarter, and direct investment slowed.

U.S. official reserve assets. U.S. official reserve assets decreased less than $0.1 billion in the second quarter after an increase of $0.1 billion in the first quarter. The small decrease mostly resulted from a decrease in the U.S. reserve position in the International Monetary Fund (IMF), reflecting the repayment of U.S. dollars to the IMF by foreign countries.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers increased $203.9 billion in the second quarter after an increase of $233.4 billion in the first quarter (chart 7).

Banks' own claims denominated in dollars increased $102.8 billion after an increase of $219.6 billion. The slowdown mostly reflected a sharp slowdown in lending by foreign-owned banks in the United States to banks abroad. Lending by U.S. brokers and dealers

Chart 7. Selected Financial-Account Transactions, 2005:III–2007:II



1. Under balance-of-payments concepts, transactions that increase U.S.-owned assets abroad are shown as negative amounts in tables 1–11, and transactions that decrease U.S.-owned assets abroad are shown as positive amounts.

NOTE. Excludes financial-account transactions in U.S. official reserve assets, in other U.S. Government assets, in foreign official assets in the United States, and in U.S. currency.

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3. In the second quarter, net financial inflows exclude transactions in financial derivatives because data are not yet available. In the first quarter, net financial inflows excluding transactions in financial derivatives were $167.1 billion.

slowed somewhat but remained substantial; second-quarter lending was mostly in the form of resale agreements to banks and nonbanks in Europe, where credit demand had been strengthened by elevated merger and acquisition activity and robust economic growth. In addition, U.S.-owned banks lent funds to foreign nonbanks in Europe. Banks' own claims decreased substantially in June, but they rebounded by a similar amount in July.

Banks' domestic customers' claims denominated in dollars increased $83.0 billion after an increase of $1.7 billion. The second-quarter increase mostly resulted from a very large increase in customers' holdings of foreign short-term debt, particularly negotiable certificates of deposit and "other" short-term instruments.

Claims reported by U.S. nonbanking concerns increased $105.6 billion in the second quarter after an increase of $47.8 billion in the first quarter. The second-quarter increase was largely attributable to increased deposits in Caribbean financial centers.

Foreign securities. Net U.S. purchases of foreign securities were $88.1 billion in the second quarter, up slightly from $87.2 billion in the first quarter. An increase in net U.S. purchases of foreign bonds was largely offset by a decrease in net U.S. purchases of foreign stocks.

Net U.S. purchases of foreign stocks were $40.3 billion, down from $43.5 billion (chart 8). Net U.S. purchases have been substantial in the last three quarters, partly in response to the consistently stronger performance of foreign stock markets than of the U.S. stock market, particularly in U.S. dollar terms. In the second quarter, net U.S. purchases of stocks from Europe decreased but remained strong, and net U.S. sales to Caribbean financial centers increased. In contrast, net U.S. purchases from Latin America and Asia increased.

Net U.S. purchases of foreign bonds were $47.8 billion, up from $43.7 billion (chart 8). Net U.S. purchases were strong for the fifth consecutive quarter. In the second quarter, foreign bond prices turned down amid concerns about rising inflation. The increase in net U.S. purchases of foreign bonds largely reflected a shift to net U.S. purchases of bonds from Latin America. In contrast, net U.S. sales to Asia increased, and net U.S. purchases from Europe decreased slightly but remained very strong. Early in the third quarter, transactions in foreign bonds shifted substantially to net U.S. sales, as credit spreads on riskier assets increased sharply.

Direct investment. Net financial flows for U.S. direct investment abroad were $71.5 billion in the second quarter, down from $81.4 billion in the first quarter. The slowdown was largely accounted for by a shift from an increase to a decrease in net U.S. intercompany debt investment abroad that resulted from shifts to decreases in debt investment in finance and holding company affiliates. In addition, net equity capital investment abroad slowed, mostly as a result of a rise in U.S. parents' sales of existing affiliates. Acquisitions of new affiliates were substantial as a result of acquisitions of holding company and finance affiliates. Reinvested earnings increased, mostly as a result of higher earnings by affiliates in Europe.

Foreign-owned assets in the United States

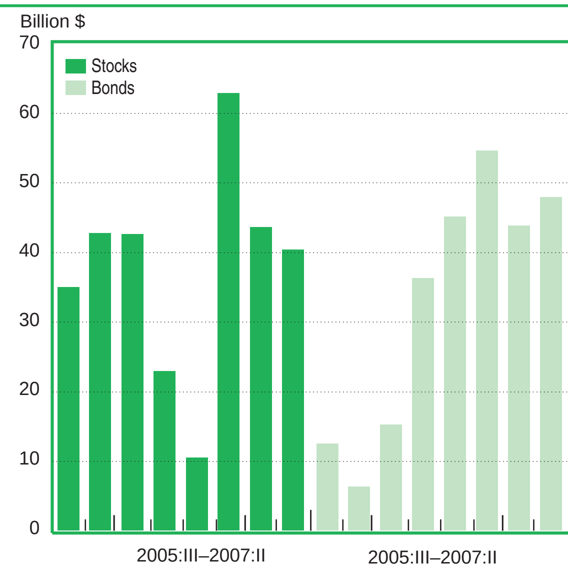
Net foreign-owned assets in the United States increased $620.4 billion in the second quarter after an increase of $616.6 billion in the first quarter. The slight pickup was the result of large, mostly offsetting changes in several categories of foreign-owned assets.

Foreign official assets. Foreign official assets in the United States increased $70.1 billion in the second quarter after an increase of $152.2 billion in the first quarter. The considerable slowdown reflected a slowdown in the accumulation of assets by Asian countries and a decrease in assets of European countries after a first-quarter increase.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased $137.8 billion in the second quarter after an increase of $203.6 billion in the first quarter.

Banks' own liabilities denominated in dollars increased $109.3 billion after an increase of $166.0 billion. The slowdown reflected a sharp slowdown in

Chart 8. Net U.S. Purchases of Foreign Securities, 2005:III–2007:II [1]



1. Net U.S. purchases of foreign securities are shown as positive amounts in this chart, but as negative amounts in tables 1–11 under balance-of-payments concepts.

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borrowing by U.S. brokers and dealers through repurchase agreements. In contrast, borrowing by U.S. banks picked up substantially, mostly in the form of deposits from banks in Caribbean financial centers. Banks' own liabilities decreased strongly in June, but they rebounded by a similar amount in July.

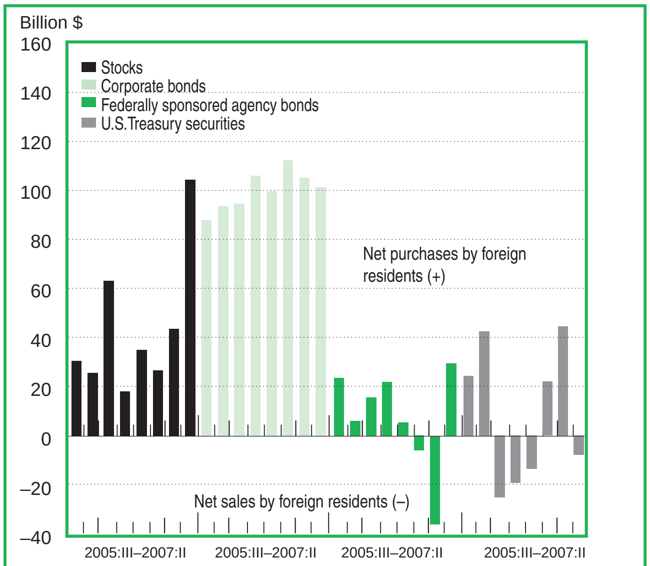
Banks' customers' liabilities denominated in dollars decreased $1.8 billion after an increase of $30.8 billion. The decrease was more than accounted for by a decrease in "other" liabilities, mostly as a result of loan repayments.

U.S. liabilities reported by U.S. nonbanking concerns increased $108.1 billion after an increase of $93.6 billion. The second-quarter increase mostly reflected an increase in borrowing from the United Kingdom and Caribbean financial centers.

U.S. Treasury securities. Transactions in U.S. Treasury securities shifted to net foreign sales of $7.6 billion in the second quarter from net foreign purchases of $44.6 billion in the first quarter (chart 9). Prices of long-term U.S. Treasury securities decreased through most of the quarter, and yields on 10-year securities rose to the highest levels since mid-2002. Net foreign purchases of long-term U.S. Treasury securities slowed sharply, and transactions in short-term securities shifted to net foreign sales.

Other U.S. securities. Net foreign purchases of U.S. securities other than U.S. Treasury securities were a record $235.1 billion in the second quarter, up from $112.3 billion in the first quarter. The sharp increase resulted from a surge in net foreign purchases of U.S. stocks and a shift to net foreign purchases of federally sponsored agency bonds. Net foreign purchases of U.S. corporate bonds slowed but remained strong.

Chart 9. Transactions in U.S. Securities, 2005:III–2007:II



NOTE. Excludes transactions in foreign official assets.
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Net foreign purchases of U.S. stocks were a record $104.2 billion, up sharply from $43.5 billion (chart 9). Net foreign purchases were fueled by a strong rise in U.S. stock prices, largely resulting from continued growth in U.S. corporate profits, robust merger and acquisition activity, and an accelerating stream of stock buybacks. Net purchases from Europe, primarily the United Kingdom, and from Caribbean financial centers increased strongly.

Net foreign purchases of U.S. corporate bonds fell slightly to $101.3 billion from $104.9 billion but remained strong (chart 9). Net foreign purchases continued to be supported by robust U.S. corporate profits, low U.S. bond default rates, and the higher yields available on U.S. corporate bonds than on bonds in most major foreign markets. Net purchases were especially strong in May but slowed sharply in June, when credit spreads began to increase as deteriorating conditions in the market for subprime mortgages led to downgrades of some securities backed by those mortgages. Early in the third quarter, net foreign purchases of U.S. corporate bonds slowed further, as additional downgrades of mortgage-related securities caused spreads to increase in other parts of the U.S. credit market.

Transactions in U.S. federally sponsored agency bonds shifted to net foreign purchases of $29.6 billion from net foreign sales of $36.1 billion. Transactions by investors in Europe and Asia shifted to net purchases from net sales.

U.S. currency. Transactions in U.S. currency shifted to the more typical net U.S. shipments to foreign countries of $3.3 billion in the second quarter from net foreign shipments to the United States of $1.6 billion in the first quarter.

Direct investment. Net financial flows for foreign direct investment in the United States were $73.6 billion in the second quarter, up from $11.9 billion in the first quarter. The substantial pickup was mostly accounted for by a rise in net equity capital investment in the United States and a shift from a decrease to an increase in net intercompany debt investment in the United States. The rise in net equity capital investment, to the highest level since the fourth quarter of 2001, resulted from a few large acquisitions of affiliates and capital injections to existing affiliates, mostly in manufacturing and in finance and insurance. The shift in net intercompany debt investment largely reflected shifts to increases in investment in finance and "other" industries. Reinvested earnings also increased, as earnings increased and distributed earnings decreased.

Tables 1 through 11 follow.