
The Bureau of Economic Analysis (BEA) annually updates its supplemental, ownership-based framework of the current-account portion of the U.S. international transactions accounts. This report presents new summary statistics of the major current-account aggregates for 2006, more detailed statistics for 2005, and revised statistics for 1997–2004.1 A technical note that presents information on the conceptual basis of the ownership-based framework follows the highlights of this presentation.2

The following are highlights of the updated statistics:

- Net receipts by U.S. parents of direct investment income from the sales by their foreign affiliates were $310.2 billion in 2006, up from $269.3 billion in 2005 (table 1). Net payments to foreign parents of direct investment income from the sales by their U.S. affiliates were $136.0 billion in 2006, up from $116.8 billion in 2005.
- In 2005 (the latest year for which the detailed statistics are available), the net receipts of $269.3 billion consisted of $269.1 billion from nonbank foreign affiliates and $0.2 billion from bank foreign affiliates. For the parents of nonbank affiliates, the net receipts resulted from sales by foreign affiliates of $4,224.7 billion less deductions of $3,955.6 billion (such as for labor, capital, and purchased inputs).3 The net payments of $116.8 billion consisted of $112.4 billion by nonbank U.S. affiliates and $4.4 billion by bank U.S. affiliates. For nonbank U.S. affiliates, the net payments resulted from sales of $2,755.9 billion less deductions of $2,643.5 billion.
- In 2006, receipts from exports of goods and services or sales by foreign affiliates were $1,755.9 billion, which consisted of U.S. exports of goods and services of $1,445.7 billion and net income receipts of U.S. parents from the sales by their foreign affiliates of $310.2 billion. Payments from imports of goods and services or sales by U.S. affiliates were $2,340.2 billion, which consisted of U.S. imports of goods and services of $2,204.2 billion and net income payments to foreign parents from the sales by their U.S. affiliates of $136.0 billion.
- The resulting U.S. deficit on goods, services, and net receipts from sales by affiliates was $584.3 billion in 2006 ($1,755.9 billion minus $2,340.2 billion). This deficit was $174.2 billion less than the $758.5 billion deficit on trade in goods and services in the conventional international accounts framework. The ownership-based deficit was smaller because the receipts of income by U.S. parents from sales by their foreign affiliates exceeded the payments of income to foreign parents from sales by their U.S. affiliates.
- The $584.3 billion deficit on goods, services, and net receipts from sales by affiliates in 2006 was $22.4 billion more than the deficit in 2005. The increase was more than accounted for by a $44.2 billion increase in the deficit on trade in goods and services.

The updated statistics incorporate the results of the 2007 annual revision of the U.S. international transactions accounts that features improved estimating methodologies, the incorporation of newly available source data, and the expansion of detail presented in the tables.4 As part of the annual revision, a new methodology was introduced for estimating interest received and paid on long-term debt securities for 2001–2006. In addition, the 2005–2006 statistics on foreign holdings of, and transactions in, U.S. securities and on U.S. holdings of, and transactions in, foreign securities and related dividend and interest payments and receipts were improved as a result of the incorporation of the results of the U.S. Treasury Department’s most recent annual surveys of securities liabilities and securities claims. The statistics also incorporate the preliminary results from the 2005 annual surveys of U.S. direct investment abroad and foreign direct investment in the United States and the final results from the 2004 benchmark survey of U.S. direct investment abroad and the 2004 annual survey of foreign direct investment in the United States. Finally, the statistical adjustment for revaluing some goods imports of computer software was updated for 1997–2006.

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3. These detailed estimates can only be provided for nonbank affiliates.
Ownership-Based U.S. Current Account

Technical Note

The ownership-based framework was developed in the early 1990s in response to interest in examining international transactions in a way that would reflect the increasing importance of multinational companies in world economies and, particularly, the growing tendency of these companies to use locally established affiliates to deliver goods and services to international markets.5

In the conventionally constructed current account, the trade balance reflects only the goods and services that are delivered to international markets through cross-border exports and imports. This balance is an important indicator of U.S. performance in foreign markets; it reflects the net value of the transactions in goods and services between U.S. residents (including companies) and foreign residents. Because in the international accounts, affiliates are treated as resident in their countries of location rather than in the countries of their owners, the sales of goods and services by foreign affiliates of U.S. companies to other foreign residents and by U.S. affiliates of foreign companies to other U.S. residents are not regarded as exports and imports and are therefore excluded from the trade balance.

In the ownership-based framework, a balance is introduced in which net receipts resulting from sales by affiliates are combined with cross-border exports and imports. Specifically, the net receipts that accrue to U.S. parent companies from the sales by their foreign affiliates are combined with cross-border sales to foreigners by U.S. companies (U.S. exports of goods and services), and the net payments that accrue to foreign parent companies from the sales by their U.S. affiliates are combined with cross-border sales to the United States by foreign companies (U.S. imports of goods and services). The difference between these receipts and payments is an indicator of the net effect of United States–foreign commerce on the U.S. economy, and it reflects the perspective that both cross-border trade and sales through affiliates represent methods of active participation in the international markets for goods and services.

Only the net receipts that accrue to the U.S. parent companies, not the gross value of sales by their foreign affiliates, are included in these calculations, because only for sales originating in the United States are most of the costs—such as for labor, capital, and purchased inputs—incurred domestically and accrued to the benefit of the U.S. economy. Similarly, only the net payments that accrue to foreign parent companies, not the gross value of sales by their U.S. affiliates, are included, because only for sales originating abroad are most of the costs incurred abroad and accrued to the benefit of foreign economies. This methodology also eliminates the double-counting that would occur if both the total value of the sales by parents to their affiliates and the subsequent sales by the affiliates to others were included.

Conceptually, the ownership-based framework is fully consistent with the current account in the conventional international transactions accounts, and it can be viewed as a “satellite” of those accounts.6 (The current-account balance is the same in both sets of accounts.) The grouping of the income from affiliates with cross-border trade in goods and services recognizes the active role of parent companies in managing and coordinating their affiliates’ operations. This direct investment income from affiliates differs fundamentally from income on other types of investments. For example, for U.S. direct investment abroad, direct investment income represents U.S. companies’ returns on sales that for reasons such as efficiency, transportation costs, or the avoidance of trade barriers are made by affiliates in foreign countries rather than by U.S. parent companies; other investment income represents returns on passive investments, such as on foreign stocks and bonds.7 Indeed, in many cases, a portion of the income from affiliates may be regarded as a kind of implicit management fee that compensates parent companies for undertaking active roles in the operations of their affiliates.

In addition, the most detailed presentation of the framework provides information on ownership relationships by disaggregating the trade in goods and services into trade between affiliated parties (that is, trade within multinational corporations) and trade between unaffiliated parties. It also shows how receipts and payments of direct investment income are derived from the production and sales by affiliates. To highlight the links between the income and the activities that produce it, the income is designated as “resulting from sales by affiliates.” In the addenda to table 1, the framework also provides information on the U.S. content and the foreign content of affiliates’ sales and on the extent to which such content results from the affiliates’ own value added.

6. According to the international System of National Accounts, satellite accounts augment the central national accounts by “expanding the analytical capacity of national accounting for selected areas. . .in a flexible manner, without overburdening or disrupting the central system”; they may introduce additional information, alternative accounting frameworks, or “complementary or alternative concepts,” while maintaining links to the central accounts. See Commission of the European Communities, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, and World Bank, System of National Accounts, 1993 (Brussels/Luxembourg, New York, Paris, and Washington, DC, 1993): 489.

7. Direct investment income consists of net receipts of earnings and of interest by parents from their affiliates.

Table 1 follows.
<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Receipts from sales of goods and services (ITA table 1, line 1)</td>
<td>1,191.3</td>
<td>1,195.0</td>
<td>1,259.8</td>
<td>1,241.5</td>
<td>1,296.7</td>
</tr>
<tr>
<td>2. Exports of goods and services and income receipts (ITA table 1, line 2)</td>
<td>1,106.1</td>
<td>1,071.1</td>
<td>1,097.5</td>
<td>1,222.4</td>
<td>1,133.6</td>
</tr>
<tr>
<td>3. Goods, balance-of-payments basis (ITA table 1, line 3)</td>
<td>678.4</td>
<td>704.0</td>
<td>684.0</td>
<td>712.0</td>
<td>718.7</td>
</tr>
<tr>
<td>4. Services (ITA table 1, line 4)</td>
<td>256.1</td>
<td>258.9</td>
<td>281.9</td>
<td>298.6</td>
<td>286.2</td>
</tr>
<tr>
<td>5. To unaffiliated foreigners</td>
<td>433.5</td>
<td>465.1</td>
<td>675.6</td>
<td>786.2</td>
<td>786.2</td>
</tr>
<tr>
<td>6. To affiliated foreigners</td>
<td>204.7</td>
<td>208.6</td>
<td>220.4</td>
<td>233.2</td>
<td>220.0</td>
</tr>
<tr>
<td>7. Goods</td>
<td>302.9</td>
<td>309.3</td>
<td>320.3</td>
<td>314.4</td>
<td>314.4</td>
</tr>
<tr>
<td>8. Goods</td>
<td>249.6</td>
<td>233.9</td>
<td>228.8</td>
<td>218.6</td>
<td>216.9</td>
</tr>
<tr>
<td>9. Services</td>
<td>51.4</td>
<td>54.2</td>
<td>61.5</td>
<td>65.4</td>
<td>66.2</td>
</tr>
<tr>
<td>10. Goods and services</td>
<td>228.9</td>
<td>218.9</td>
<td>218.7</td>
<td>218.4</td>
<td>218.4</td>
</tr>
<tr>
<td>11. Goods</td>
<td>185.6</td>
<td>175.3</td>
<td>168.9</td>
<td>182.7</td>
<td>170.2</td>
</tr>
<tr>
<td>12. Goods</td>
<td>42.9</td>
<td>45.8</td>
<td>45.8</td>
<td>51.4</td>
<td>51.4</td>
</tr>
<tr>
<td>13. To foreign parent groups of U.S. affiliates</td>
<td>74.0</td>
<td>69.2</td>
<td>71.6</td>
<td>80.3</td>
<td>80.6</td>
</tr>
<tr>
<td>14. Goods</td>
<td>63.0</td>
<td>57.8</td>
<td>60.9</td>
<td>62.9</td>
<td>62.9</td>
</tr>
<tr>
<td>15. To foreign parent groups of U.S. affiliates</td>
<td>11.0</td>
<td>11.7</td>
<td>11.7</td>
<td>14.1</td>
<td>14.7</td>
</tr>
</tbody>
</table>

Addenda:

1. Balance on current account (line 1 minus line 2 plus line 4 and ITA table 1, line 77) | -45.1 | -53.2 | -50.8 | -58.6 | -51.3 | -63.6 | -70.6 | -84.4 | -88.6 | -96.7 |

Memoranda:

42. Goods and services sold and services rendered | 108.3 | -166.1 | -265.1 | -379.8 | -365.1 | -423.7 | -496.9 | -612.1 | -714.4 | -856.2 |

Addenda:

1. Source of the content of foreign nonbank affiliates' sales and change in inventories |

Sales to nonaffiliates and change in inventories, total (line 10 minus line 15 plus the change in inventories) | 1,933.4 | 1,959.2 | 2,160.6 | 2,426.8 | 2,424.0 | 2,425.9 | 2,683.2 | 3,092.4 | 3,440.8 |

Foreign content | 1,672.5 | 1,710.3 | 1,914.1 | 2,146.1 | 2,174.5 | 2,193.1 | 2,449.7 | 2,832.2 | 3,135.0 |

Addenda:

1. Source of the content of U.S. nonbank affiliates' sales and change in inventories |

Sales to nonaffiliates and change in inventories, total (line 10 minus line 15 plus the change in inventories) | 1,738.0 | 1,887.2 | 2,056.1 | 2,319.3 | 2,318.9 | 2,314.3 | 2,526.9 | 2,543.4 | 2,771.3 |

Foreign content | 1,421.1 | 1,500.1 | 1,713.4 | 1,956.9 | 1,927.6 | 1,925.9 | 2,156.8 | 2,359.0 | 2,601.9 |

Addenda:

Value added by foreign affiliates of U.S. parent companies | 389.4 | 419.8 | 457.7 | 516.7 | 547.0 | 502.7 | 519.9 | 580.5 | 598.2 |

Other foreign content | 1,030.0 | 1,190.3 | 1,255.7 | 1,410.2 | 1,542.4 | 1,733.5 | 1,905.3 | 2,018.6 | 2,163.8 |

Foreign content | 278.4 | 307.1 | 342.7 | 391.6 | 391.6 | 396.7 | 395.3 | 437.5 | 501.8 |