U.S. International Transactions

Fourth 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 $172.9 billion (preliminary) in the fourth quarter of 2007 from $177.4 billion (revised) in the third quarter (table A, chart 1).[1] The decrease resulted from increases in the surpluses on income and on services. In contrast, both the deficit on goods and net unilateral current transfers to foreigners increased.

In the financial account, net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were $230.1 billion in the fourth quarter, up from $111.1 billion in the third quarter. Net acquisitions by foreign residents picked up, and net acquisitions by U.S. residents slowed.

The statistical discrepancy—errors and omissions in recorded transactions—was a negative $56.6 billion in the fourth quarter, compared with a positive $67.0 billion in the third quarter.

The following are highlights for the fourth quarter of 2007:

- The deficit on goods and services increased as a result of an increase in the deficit on goods.
- Imports of petroleum and products increased very strongly, and imports of nonpetroleum products decreased. Exports of goods increased much more moderately in the fourth quarter than in the third quarter.
- Income payments decreased substantially, mostly as a result of a sharp decline in income payments on foreign direct investment in the United States.

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

Table A. Summary of U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 11 are indicated in ( ) (Credits +; debits –)	2006	2007 p	Change: 2006–2007	2006 I	2006 II	2006 III	2006 IV	2007 I r	2007 II r	2007 III r	2007 IV p	Change: 2007:III–IV
	Current account												
1	**Exports of goods and services and income receipts (1)**	**2,096,165**	**2,410,587**	**314,422**	**494,027**	**518,595**	**532,894**	**550,649**	**557,146**	**590,756**	**626,130**	**636,554**	**10,424**
2	Goods, balance of payments basis (3)	1,023,109	1,149,208	126,099	243,880	252,458	260,285	266,486	269,289	278,511	297,118	304,290	7,172
3	Services (4)	422,594	479,150	56,556	101,756	104,117	105,583	111,137	111,706	116,851	122,583	128,009	5,426
4	Income receipts (12)	650,462	782,229	131,767	148,391	162,020	167,026	173,025	176,151	195,394	206,428	204,256	–2,172
5	**Imports of goods and services and income payments (18)**	**–2,818,047**	**–3,044,786**	**–226,739**	**–673,277**	**–700,504**	**–726,352**	**–717,914**	**–728,338**	**–757,645**	**–777,362**	**–781,438**	**–4,076**
6	Goods, balance of payments basis (20)	–1,861,380	–1,964,577	–103,197	–451,637	–463,734	–479,184	–466,825	–471,001	–483,570	–497,665	–512,341	–14,676
7	Services (21)	–342,845	–372,296	–29,451	–83,711	–85,419	–85,991	–87,724	–88,614	–91,264	–94,606	–97,811	–3,205
8	Income payments (29)	–613,823	–707,913	–94,090	–137,929	–151,352	–161,177	–163,365	–168,723	–182,811	–185,091	–171,287	13,804
9	**Unilateral current transfers, net (35)**	**–89,595**	**–104,438**	**–14,843**	**–21,360**	**–23,686**	**–23,877**	**–20,673**	**–27,009**	**–23,169**	**–26,211**	**–28,052**	**–1,841**
	Capital account												
10	**Capital account transactions, net (39)**	**–3,913**	**–2,317**	**1,596**	**–1,724**	**–1,008**	**–545**	**–637**	**–559**	**–598**	**–609**	**–552**	**57**
	Financial account												
11	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–)) (40)**	**–1,055,176**	**–1,206,332**	**–151,156**	**–344,032**	**–212,218**	**–209,898**	**–289,028**	**–449,933**	**–465,907**	**–174,027**	**–116,464**	**57,563**
12	U.S. official reserve assets (41)	2,374	–122	–2,496	513	–560	1,006	1,415	–72	26	–54	–22	32
13	U.S. government assets, other than official reserve assets (46)	5,346	–22,931	–28,277	1,049	1,765	1,570	962	445	–369	623	–23,630	–24,253
14	U.S. private assets (50)	–1,062,896	–1,183,278	–120,382	–345,594	–213,423	–212,474	–291,405	–450,306	–465,565	–174,596	–92,812	81,784
15	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55)**	**1,859,597**	**1,863,697**	**4,100**	**538,140**	**355,442**	**449,987**	**516,029**	**617,724**	**622,851**	**276,555**	**346,567**	**70,012**
16	Foreign official assets in the United States (56)	440,264	412,698	–27,566	125,257	120,861	108,799	85,347	152,193	70,464	38,857	151,184	112,327
17	Other foreign assets in the United States (63)	1,419,333	1,450,999	31,666	412,883	234,581	341,188	430,682	465,531	552,387	237,698	195,383	–42,315
18	**Financial derivatives, net (70)**	**28,762**	**n.a.**	**–28,762**	**1,633**	**14,001**	**14,911**	**–1,783**	**14,800**	**–1,007**	**8,552**	**n.a.**	**–8,552**
19	**Statistical discrepancy (sum of above items with sign reversed) (71)**	**–17,794**	**83,590**	**101,384**	**6,593**	**49,378**	**–37,121**	**–36,643**	**16,170**	**34,719**	**66,972**	**–56,615**	**–123,587**
	Memoranda:												
20	Balance on current account (77)	–811,477	–738,638	72,839	–200,611	–205,595	–217,334	–187,938	–198,201	–190,058	–177,444	–172,936	4,508
21	Net financial flows (40, 55, and 70)	833,183	657,365	–175,818	195,741	157,225	255,000	225,218	182,591	155,937	111,080	230,103	119,023

p Preliminary
r Revised
n.a. Not available

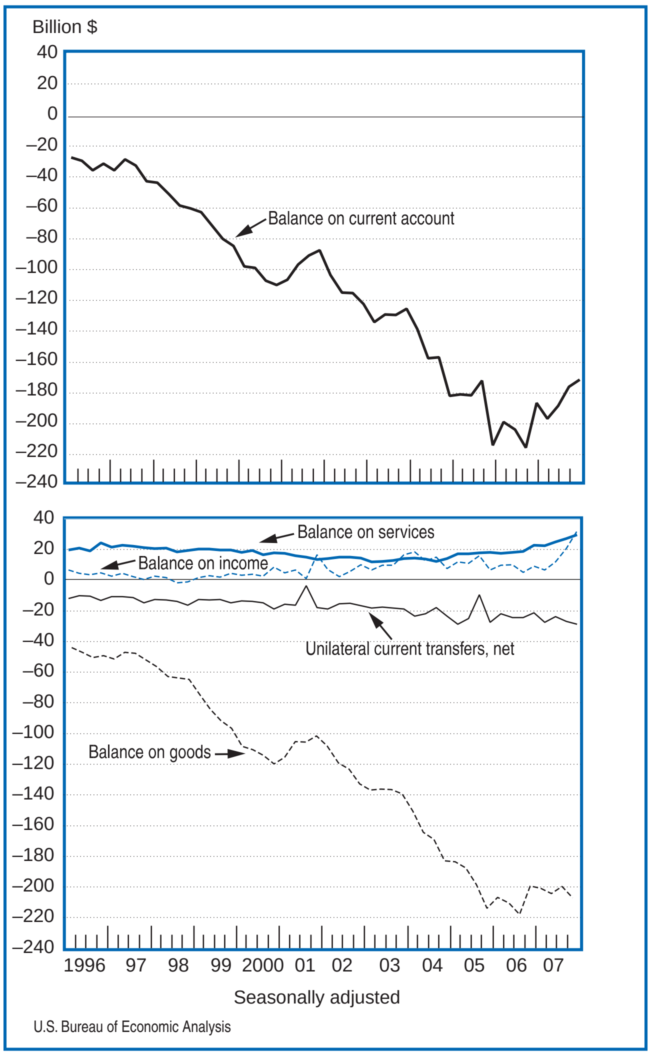
- Net private foreign transactions in U.S. securities other than U.S. Treasury securities shifted to net purchases from net sales. In contrast, net U.S. purchases of foreign securities fell sharply.
- U.S. direct investment abroad picked up considerably, and foreign direct investment in the United States slowed considerably.
- Foreign official assets in the United States increased much more in the fourth quarter than in the third quarter.

Current Account

Goods and services

The deficit on goods and services increased to $177.9 billion in the fourth quarter from $172.6 billion in the third quarter. A $7.5 billion increase in the deficit on goods was partly offset by a $2.2 billion increase in the surplus on services.

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



Goods

The deficit on goods increased to $208.1 billion in the fourth quarter from $200.5 billion in the third quarter, as imports increased more than exports (chart 2). The deficit on petroleum and products increased strongly as a result of a much larger increase in petroleum imports than in exports (chart 3). In contrast, the deficit on nonpetroleum products decreased for the fifth consecutive quarter.

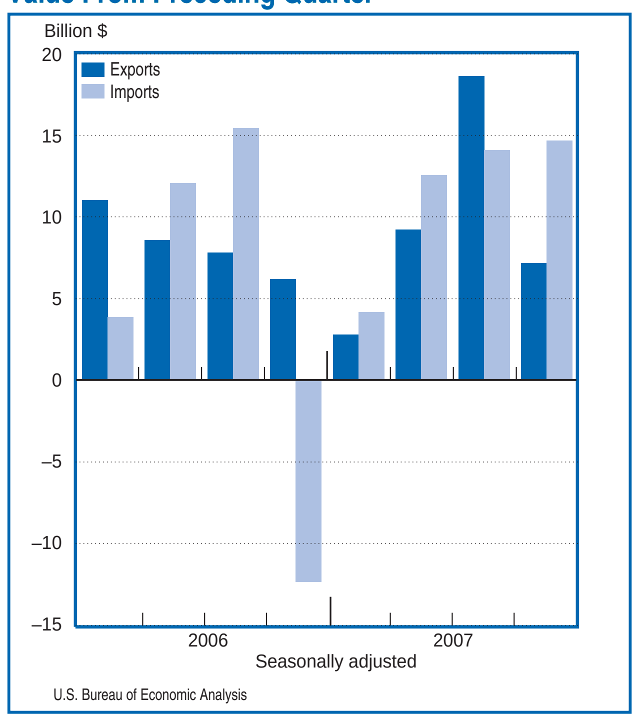
On a price-adjusted, or real, basis, total exports increased and total imports decreased in the fourth quarter. As a result, real net goods exports contributed substantially to real gross domestic product growth for the fourth time in the last five quarters.

Exports. In the fourth quarter, current-dollar exports of goods increased $7.2 billion, or 2.4 percent, to $304.3 billion (table B, chart 2). Real exports increased 0.9 percent, and export prices increased 1.5 percent.[2] The increase in value was largely accounted for by increases in nonagricultural industrial supplies and materials and in capital goods.

Nonagricultural industrial supplies and materials increased $3.9 billion. Two-thirds of the increase was accounted for by petroleum and products, particularly fuel oil, whose price increased 16 percent. Chemicals

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.

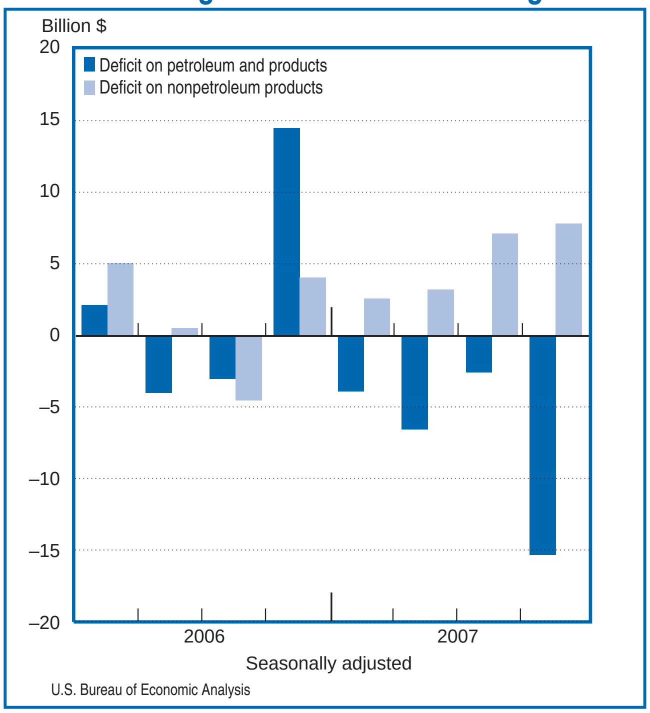
Chart 2. Goods Exports and Imports: Change in Value From Preceding Quarter



continued to rise, but the fourth-quarter increase was smaller than the increases in recent quarters. Steelmaking materials and paper and related stocks also increased.

Capital goods increased $3.0 billion. More than half of the increase was accounted for by civilian aircraft, engines, and parts. Among other capital goods, exports of industrial engines, pumps, and compressors surged, mainly to Saudi Arabia, and semiconductors rebounded after decreasing for five consecutive quarters. In contrast, computers, peripherals, and parts decreased for the third time in the last four quarters. Most other commodity categories either decreased or increased much less than in the third quarter.

Chart 3. Deficit on Petroleum and Nonpetroleum Products: Change in Value From Preceding Quarter



Agricultural products increased $0.2 billion after much larger increases in the previous two quarters. In the fourth quarter, increases in grains and preparations and in “other” agricultural foods, feeds, and beverages were largely offset by decreases in raw cotton and soybeans. Among grains and preparations, exports of wheat and corn continued to be supported by shortages in the world supply of these commodities.

Automotive vehicles, parts, and engines decreased $0.7 billion. The decrease was more than accounted for by a decline in parts and engines. In contrast, exports of passenger cars, mainly to Saudi Arabia and Mexico, and of trucks, buses, and special purpose vehicles, mainly to Canada, increased.

Consumer goods decreased $0.1 billion. A large drop in nondurable goods—mostly medicinal, dental, and pharmaceutical preparations to Europe—was almost completely offset by increases in durable goods and in unmanufactured goods, such as gemstones.

Imports. Imports of goods increased $14.7 billion, or 2.9 percent, to $512.3 billion (table B, chart 2). Real imports decreased 0.4 percent, and import prices increased 3.3 percent. The increase in value was more than accounted for by a surge in petroleum and products. In contrast, nonpetroleum

Table B. 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]								
	2006	2007 p	2006			2007				2006	2007 p	2006			2007			
			II	III	IV	I r	II r	III r	IV p			II	III	IV	I r	II r	III r	IV p
Exports	**1,023,109**	**1,149,208**	**252,458**	**260,285**	**266,486**	**269,289**	**278,511**	**297,118**	**304,290**	**920,741**	**997,828**	**227,805**	**231,902**	**237,389**	**237,846**	**242,978**	**257,172**	**259,398**
Agricultural products	72,869	92,079	18,028	18,689	18,843	19,511	21,466	25,446	25,656	58,085	61,762	14,732	14,802	14,320	13,946	15,069	16,889	15,709
Nonagricultural products	950,240	1,057,129	234,430	241,596	247,643	249,778	257,045	271,672	278,634	864,444	938,161	213,471	217,529	223,642	224,566	228,377	240,507	244,450
Imports	**1,861,380**	**1,964,577**	**463,734**	**479,184**	**466,825**	**471,001**	**483,570**	**497,665**	**512,341**	**1,630,244**	**1,660,983**	**403,626**	**411,681**	**411,877**	**414,796**	**413,082**	**417,308**	**415,716**
Petroleum and products	302,430	331,019	78,713	82,768	67,587	70,940	78,228	81,968	99,883	138,180	135,161	33,892	34,169	33,566	35,859	33,666	32,010	34,048
Nonpetroleum products	1,558,950	1,633,558	385,021	396,416	399,238	400,061	405,342	415,697	412,458	1,504,894	1,544,809	373,187	381,477	383,058	381,861	384,360	392,849	385,695

	Percent change from previous period (current dollars)									Percent change from previous period (chained (2000) dollars)								
	2006	2007 p	2006			2007				2006	2007 p	2006			2007			
			II	III	IV	I r	II r	III r	IV p			II	III	IV	I r	II r	III r	IV p
Exports	**14.4**	**12.3**	**3.5**	**3.1**	**2.4**	**1.1**	**3.4**	**6.7**	**2.4**	**10.7**	**8.4**	**2.0**	**1.8**	**2.4**	**0.2**	**2.2**	**5.8**	**0.9**
Agricultural products	12.3	26.4	4.2	3.7	0.8	3.5	10.0	18.5	0.8	8.5	6.3	3.5	0.5	–3.3	–2.6	8.1	12.1	–7.0
Nonagricultural products	14.5	11.2	3.5	3.1	2.5	0.9	2.9	5.7	2.6	10.8	8.5	1.8	1.9	2.8	0.4	1.7	5.3	1.6
Imports	**10.7**	**5.5**	**2.7**	**3.3**	**–2.6**	**0.9**	**2.7**	**2.9**	**2.9**	**6.2**	**1.9**	**0.2**	**2.0**	**0.0**	**0.7**	**–0.4**	**1.0**	**–0.4**
Petroleum and products	20.1	9.5	7.3	5.2	–18.3	5.0	10.3	4.8	21.9	–2.0	–2.2	–7.3	0.8	–1.8	6.8	–6.1	–4.9	6.4
Nonpetroleum products	9.0	4.8	1.8	3.0	0.7	0.2	1.3	2.6	–0.8	7.7	2.7	1.7	2.2	0.4	–0.3	0.7	2.2	–1.8

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.

products decreased for the first time since the fourth quarter of 2001.

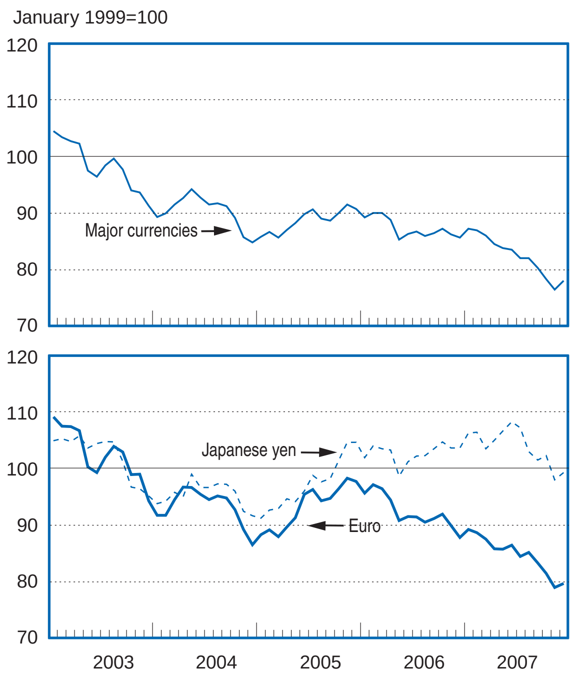
Petroleum and products increased $17.9 billion, or 22 percent, as a result of increases in petroleum prices and in the average number of barrels imported daily. The average price per barrel rose 14 percent, to $80.34 in the fourth quarter from $70.31 in the third quarter. The average number of barrels imported daily increased to 13.55 million from 12.73 million. The largest increases in imports were from members of OPEC, particularly Nigeria, Venezuela, and Saudi Arabia.

Consumer goods increased $2.7 billion. The largest increase was in durable goods, which resulted from strong increases in televisions and video receivers and in toys, shooting, and sporting goods. Nondurable goods rebounded after declining for two quarters. Among nondurable goods, a sharp increase in medical, dental, and pharmaceutical products more than offset decreases in textile apparel and household goods and in footwear. Unmanufactured consumer goods, such as gemstones, also increased strongly.

Capital goods increased $0.5 billion. Telecommunications equipment increased strongly for the third time in the last four quarters. Computers, peripherals, and parts rebounded after decreasing for two consecutive quarters. In contrast, both electric generating machinery and oil drilling, mining, and construction machinery decreased substantially.

Nonpetroleum industrial supplies and materials decreased $4.7 billion. The decrease largely reflected declines in natural gas, in metals and nonmetallic products, and in building materials. Natural gas fell as a result of a decrease in import volume; natural gas prices increased 16 percent. Among metals and nonmetallic products, all types of nonferrous metals

Chart 4. Nominal Indexes of Foreign Currency Price of the U.S. Dollar



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

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

[January 1999=100]

	2006	2007				2006	2007											
	IV	I	II	III	IV	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Nominal: [1]																		
Broad [2]	93.9	93.7	91.5	89.8	86.7	93.2	94.1	93.8	93.3	92.1	91.3	91.0	89.9	90.4	89.1	87.3	86.0	86.8
Major currencies [3]	86.3	86.7	83.9	81.4	77.6	85.6	87.2	86.9	86.0	84.5	83.8	83.5	82.0	82.0	80.3	78.3	76.4	78.0
Other important trading partners [4]	103.7	102.9	101.2	100.6	98.7	103.0	103.1	102.8	102.8	101.9	101.0	100.8	100.1	101.2	100.6	99.1	98.7	98.3
Real: [1]																		
Broad [2]	96.0	95.9	95.0	92.7	89.0	95.0	96.1	95.7	96.0	95.3	95.0	94.7	93.1	93.2	91.9	89.7	88.3	88.9
Major currencies [3]	93.8	94.5	92.8	90.1	85.6	92.8	94.7	94.6	94.3	93.1	92.8	92.5	90.8	90.6	88.8	86.4	84.5	86.0
Other important trading partners [4]	98.5	97.5	97.5	95.8	92.7	97.4	97.7	96.9	97.9	97.8	97.5	97.2	95.8	96.2	95.4	93.3	92.6	92.1
Selected currencies: (nominal) [5]																		
Canada	75.0	77.1	72.3	68.8	64.6	75.9	77.4	77.1	76.9	74.7	72.1	70.1	69.1	69.6	67.6	64.2	63.7	66.0
European currencies:																		
Euro area [6]	89.9	88.4	86.0	84.3	80.0	87.8	89.2	88.6	87.5	85.8	85.7	86.4	84.4	85.1	83.3	81.4	78.9	79.6
United Kingdom	86.1	84.4	83.1	81.6	80.7	84.0	84.2	84.2	84.7	83.0	83.1	83.0	81.1	82.0	81.7	80.7	79.7	81.8
Switzerland	89.1	89.0	88.2	86.5	82.7	87.3	89.7	89.4	87.9	87.5	88.1	89.0	87.1	86.8	85.5	84.7	81.1	82.3
Japan	104.0	105.4	106.6	103.9	99.9	103.6	106.3	106.4	103.5	105.0	106.6	108.3	107.2	103.0	101.5	102.3	98.0	99.3
Mexico	107.5	108.8	107.4	108.2	107.1	107.2	108.2	108.6	109.7	108.4	106.9	107.0	106.8	109.0	108.9	106.8	107.4	107.1
Brazil	142.2	139.3	131.1	126.7	118.0	142.0	141.4	138.5	138.1	134.3	131.2	127.8	124.4	129.8	125.8	119.0	116.9	118.1

1. For more information on the nominal and real indexes of the foreign exchange value of the U.S. dollar, see *Federal Reserve Bulletin* 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.

decreased, but nonmonetary gold declined the most by far. Iron and steel products also decreased substantially. Building products have decreased over the last year and a half as the U.S. residential construction industry has weakened.

Automotive vehicles, parts, and engines decreased $1.7 billion. The decrease largely resulted from declines in imports of trucks, buses, and special purpose vehicles, mostly from Mexico, and of “other” parts and accessories, mostly from Mexico, China, and the Republic of Korea.

Foods, feeds, and beverages decreased $0.2 billion. The decrease mostly reflected a decline in imports of fish and shellfish from Canada.

Balances by area. The goods deficit increased $7.5 billion in the fourth quarter to $208.1 billion. The deficit with Latin America and Other Western Hemisphere increased $4.7 billion as a result of increases in the deficits with Mexico and Venezuela. The deficit with Africa increased $3.5 billion because of a rise in the deficit with Nigeria. The deficit with Europe increased $2.2 billion. In contrast, the deficit with Asia and Pacific decreased $4.0 billion, largely because of a decrease in the deficit with China.

Services

The surplus on services increased to $30.2 billion in the fourth quarter from $28.0 billion in the third quarter. Services receipts increased $5.4 billion to $128.0 billion, and services payments increased $3.2 billion to $97.8 billion.

Travel receipts increased $1.6 billion to $26.8 billion. The rise was accounted for by increases in receipts from visitors to the United States from overseas, Canada, and Mexico. The number of foreign visitors has increased in recent quarters, partly in response to the appreciation of many foreign currencies against the U.S. dollar. Travel payments increased $0.3 billion to $19.7 billion. The rise was mostly accounted for by an increase in payments by U.S. travelers to countries overseas.

Passenger fare receipts increased $0.3 billion to $6.9 billion, and passenger fare payments increased $0.3 billion to $7.6 billion.

“Other” transportation receipts increased $0.9 billion to $13.9 billion. The increase was the largest in several quarters and resulted from increases in receipts for port and freight services. The rise in port services partly reflected foreign carriers’ increased fuel expenditures in U.S. ports. “Other” transportation payments increased $0.4 billion to $17.3 billion. The increase resulted from a rise in payments for port services, partly reflecting U.S. air carriers’ increased fuel expenditures in foreign air ports.

“Other” private services receipts increased $2.4 billion to $57.6 billion. The largest increases were in receipts for business, professional, and technical services and for financial services. “Other” private services payments increased $1.5 billion to $36.3 billion. The largest increases were in payments for affiliated services, for insurance services, for business, professional, and technical services, and for financial services.

Income

The surplus on income increased to $33.0 billion in the fourth quarter from $21.3 billion in the third quarter. Income receipts decreased $2.2 billion to $204.3 billion, and income payments decreased $13.8 billion to $171.3 billion.

Receipts of income on U.S. direct investment abroad increased $2.3 billion to $94.2 billion. The increase mostly resulted from higher earnings of foreign affiliates in “other” industries and in holding companies. The increase in “other” industries was largely due to higher earnings of oil and gas extraction affiliates. Holding companies’ earnings increased the most in Europe.

Payments of income on foreign direct investment in the United States decreased $11.1 billion to $24.7 billion. The sharp drop was largely accounted for by a shift from profits to losses by U.S. finance and insurance affiliates, mostly depository institutions. Many depository institutions experienced earnings declines or losses, mainly as a result of unsettled credit market conditions. Earnings of U.S. affiliates in wholesale

Revisions to Estimates

The preliminary estimates of U.S. international transactions for the third quarter that were published in the January 2008 Survey of Current Business have been revised. In addition, the estimates for the first, second, and third quarters have been revised to ensure that the seasonally adjusted estimates sum to the same annual totals as the unadjusted estimates. The revisions to the estimates for the first and second quarters were small.

For the third quarter, the current-account deficit was revised to $177.4 billion from $178.5 billion. The goods deficit was revised to $200.5 billion from $199.7 billion; the services surplus was revised to $28.0 billion from $26.5 billion; the surplus on income was revised to $21.3 billion from $20.5 billion; and net unilateral current transfers to foreigners were revised to $26.2 billion from $25.8 billion. Net financial inflows were revised to $111.1 billion from $93.4 billion.

trade and in “other” industries also decreased.

Both receipts and payments of income on other financial assets decreased, largely as a result of lower yields. Receipts of “other” private income decreased $4.5 billion to $108.8 billion. The decline was attributable to decreases in income receipts on U.S. bank and nonbank claims; income receipts on U.S. holdings of foreign securities increased. U.S. government income receipts were virtually unchanged at $0.5 billion.

Payments of “other” private income decreased $3.4 billion to $103.6 billion. The decrease was attributable to decreases in income payments on U.S. bank and nonbank liabilities; income payments on foreign holdings of U.S. securities other than U.S. Treasury securities increased. U.S. government income payments increased $0.7 billion to $40.4 billion.

Unilateral current transfers

Net unilateral current transfers to foreigners were $28.1 billion in the fourth quarter, up from $26.2 billion in the third quarter. An increase in U.S. government grants was partly offset by a decrease in private remittances and other transfers.

Capital Account

Net capital account payments (outflows) were virtually unchanged at $0.6 billion in the fourth quarter.[3]

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 $230.1 billion in the fourth quarter, up from $111.1 billion in the third quarter.[4] Net foreign acquisitions of assets in the United States picked up, and net U.S. acquisitions of assets abroad slowed.

U.S.-owned assets abroad

Net U.S.-owned assets abroad increased $116.5 billion in the fourth quarter after an increase of $174.0 billion in the third quarter. The slowdown resulted from a sharp drop in net U.S. purchases of foreign securities and a smaller increase in claims reported by U.S. banks in the fourth quarter than in the third quarter.

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

U.S. government assets other than official reserve assets. U.S. government assets other than official reserve assets increased $23.6 billion in the fourth quarter after a decrease of $0.6 billion in the third quarter. The increase resulted from reciprocal currency arrangements between the U.S. Federal Reserve System and foreign central banks that do not meet the strict definition of U.S. reserve assets.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers increased $43.0 billion in the fourth quarter after an increase of $102.5 billion in the third quarter.

Banks’ own claims denominated in dollars increased $92.2 billion after an increase of $75.2 billion. The fourth-quarter increase resulted from substantial lending by U.S. banks to affiliated and unaffiliated banks in Europe, where pressures in the interbank funding market remained somewhat elevated after liquidity had tightened considerably in the third quarter. In Europe, interbank funding remained difficult to obtain, and its cost relative to underlying reference rates remained high, but not as high as in the third quarter. In December, central banks in the United States and Europe implemented measures to provide additional U.S. dollar funds to banks in Europe.

In contrast, lending by securities brokers and dealers to foreigners contracted, largely through a reduction in resale agreements. The contraction partly reflected a cutback in lending to some highly leveraged foreign investors. In addition, some of the funds lent by foreign-owned brokers and dealers to banks in Europe in the third quarter were repaid in the fourth quarter.

Banks’ domestic customers’ claims denominated in dollars decreased $61.3 billion after an increase of $34.4 billion. The fourth-quarter decrease mostly resulted from large decreases in negotiable certificates of deposit, mainly in the United Kingdom, and in “other” short-term instruments. These decreases were partly offset by a substantial increase in deposits and brokerage balances, mainly in Caribbean financial centers.

Claims reported by U.S. nonbanking concerns decreased $70.8 billion in the fourth quarter after a decrease of $86.8 billion in the third quarter. The decreases in both quarters mostly reflected substantial decreases in financial intermediaries’ claims, resulting

3. Capital account transactions largely consist of changes in financial assets of migrants as they enter or leave the United States and U.S. government debt forgiveness.

4. In the fourth quarter, net financial inflows exclude transactions in financial derivatives because data are not yet available. In the third quarter, net financial inflows excluding transactions in financial derivatives were $102.5 billion.

from foreigners' repayment of funds to U.S. financial intermediaries that were unable to roll over maturing U.S. asset-backed commercial paper.

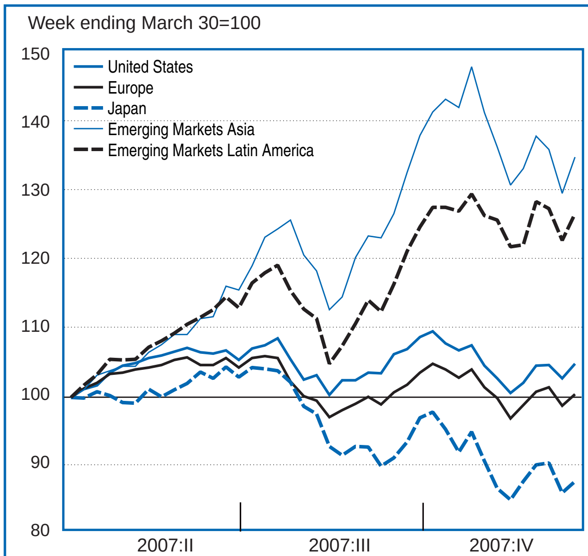
Foreign securities. Net U.S. purchases of foreign securities were $4.2 billion in the fourth quarter, down sharply from $100.2 billion in the third quarter. The decrease resulted from a shift to net U.S sales of foreign stocks and a decrease in net U.S. purchases of foreign bonds.

Transactions in foreign stocks shifted to net U.S. sales of $9.8 billion from net U.S. purchases of $56.9 billion. The net U.S. sales, the first in more than 5 years, coincided with a broad-based decline in foreign stock prices during most of the quarter (chart 5). Net U.S. sales were largest in November, when a broad index of foreign stock prices declined nearly 5 percent. In the quarter, transactions with Caribbean financial centers shifted back to more typical net U.S. sales from substantial net U.S. purchases. Transactions with Asia shifted to record net U.S. sales, mostly as a result of shifts to net sales to Hong Kong and Japan. After slowing in the third quarter, net U.S. purchases from Europe fell further in the fourth quarter.

Net U.S. purchases of foreign bonds were $14.0 billion, down from $43.3 billion. Turbulent conditions in many world financial markets contributed to a substantial slowdown in global bond issuance and to a significant decline in gross U.S. trading volume in foreign bonds. In November, risk premiums on foreign bonds spiked higher, and U.S. transactions in foreign bonds shifted to sizable net sales. For the quarter, net U.S. purchases from Europe, mostly from the United Kingdom, slowed sharply after six consecutive quarters of strong net purchases. In contrast, transactions with Caribbean financial centers shifted to large net U.S. purchases from net sales. Moderately large net U.S. sales to Latin America continued for the second consecutive quarter.

Direct investment. Net financial outflows for U.S. direct investment abroad were $116.4 billion in the fourth quarter, up from $58.7 billion in the third quarter. The pickup was largely accounted for by a shift in net equity capital investment abroad from a small decrease to a sizable increase. The fourth-quarter increase was the largest in 3 years, mostly as a result of several large and medium-sized U.S. acquisitions of foreign companies. In addition, net intercompany debt investment abroad decreased less in the fourth quarter than in the third quarter, and reinvested earnings picked up.

Chart 5. Selected Stock Price Indexes in Local Currencies



NOTE. Emerging Markets Latin America consists of Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. Emerging Markets Asia consists of China, India, Indonesia, Malaysia, Pakistan, the Philippines, South Korea, Sri Lanka, Taiwan, and Thailand. Weekly average rates.

Source: Morgan Stanley Capital International.
Indexes rebased by BEA.

U.S. Bureau of Economic Analysis

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased $346.6 billion in the fourth quarter after an increase of $276.6 billion in the third quarter. The pickup was mostly attributable to a shift to net foreign purchases of U.S. securities other than U.S. Treasury securities and to a much larger increase in foreign official assets in the United States in the fourth quarter than in the third quarter. In contrast, liabilities reported by U.S. nonbanking concerns decreased in the fourth quarter after increasing in the third quarter, and foreign direct investment in the United States slowed.

Foreign official assets. Foreign official assets in the United States increased $151.2 billion in the fourth quarter after an unusually small increase of $38.9 billion in the third quarter. The fourth-quarter increase was mostly accounted for by an increase in the assets of Asian countries.

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.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased $94.9 billion in the fourth quarter after an increase of $68.4 billion in the third quarter.

Banks' own liabilities denominated in dollars increased $29.2 billion after an increase of $46.6 billion. The fourth-quarter increase resulted from very strong borrowing by U.S.-owned banks from banks abroad. The strong borrowing may have been related to the substantial difficulties faced by some U.S.-owned banks, including large asset write-downs and reported losses, and to continued pressures in the U.S. interbank funding market. U.S. monetary authorities attempted to alleviate these pressures through various means, including the establishment of a temporary Term Auction Facility in December.

In contrast, foreign-owned banks in the United States and securities brokers and dealers shifted funds abroad. Most of the funds shifted by foreign-owned banks went to banks in Europe where pressures in the interbank market remained elevated. For the second consecutive quarter, securities brokers and dealers repaid funds previously borrowed through repurchase agreements.

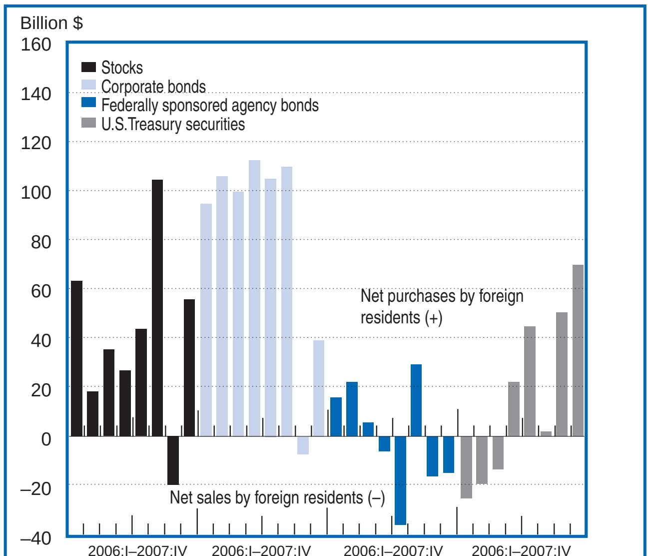
Banks' customers' liabilities denominated in dollars increased $23.1 billion after an increase of $25.4 billion. The fourth-quarter increase was largely accounted for by an increase in "other" liabilities, mostly to Caribbean financial centers.

U.S. liabilities reported by U.S. nonbanking concerns decreased $93.3 billion after an increase of $56.1 billion. The fourth-quarter decrease partly reflected repayments of funds previously borrowed by U.S. financial intermediaries from affiliated offices in Europe.

U.S. Treasury securities. Net foreign purchases of U.S. Treasury securities were $69.6 billion in the fourth quarter, up from $50.3 billion in the third quarter (chart 6). The fourth-quarter net purchases were the largest in nearly 3 years, and the cumulative net purchases in the last two quarters were the largest ever over a two-quarter period. In the fourth quarter, foreign demand for both short-term and long-term Treasury securities was strong. Yields on short-term securities fell sharply, partly reflecting the easing of U.S. monetary policy and investors' apparent shift in preferences toward low risk and highly liquid assets (chart 7). Yields on long-term securities also decreased substantially.

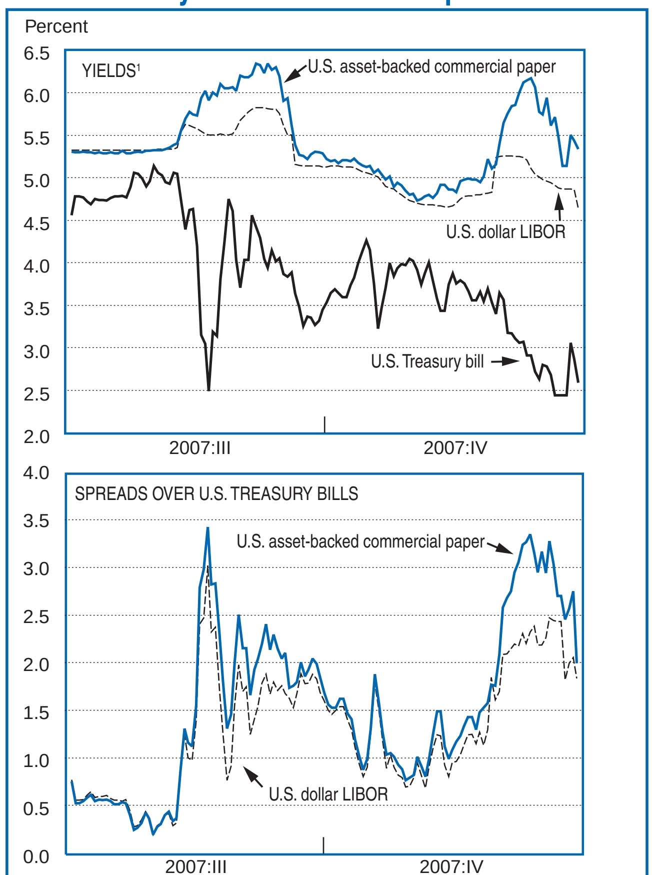
Other U.S. securities. Transactions in U.S. securities other than U.S. Treasury securities shifted to net

Chart 6. Transactions in U.S. Securities, 2006:I–2007:IV



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

Chart 7. Money Market Yields and Spreads



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

foreign purchases of $79.8 billion in the fourth quarter from net foreign sales of $43.1 billion in the third quarter. The large swing resulted from shifts to net foreign purchases of U.S. stocks and of U.S. corporate bonds (chart 6). Net foreign sales of U.S. federally sponsored agency bonds decreased slightly.

Transactions in U.S. stocks shifted to net foreign purchases of $55.6 billion from net foreign sales of $19.9 billion. Net foreign purchases were strong in October when the Standard and Poor's 500 Index reached a record high early in the month. Net purchases weakened considerably in November when stock prices fell substantially and strengthened in December amid continued price volatility. In the fourth quarter, transactions in U.S. stocks by investors from Europe and Caribbean financial centers shifted to net purchases from net sales, and net purchases by investors from Asia, particularly Hong Kong, and Canada strengthened.

Transactions in U.S. corporate bonds shifted to net foreign purchases of $39.1 billion from net foreign sales of $7.0 billion. However, the net purchases were considerably below the level of net purchases recorded in earlier quarters. In the fourth quarter, spreads between yields on corporate bonds and yields on U.S. Treasury bonds increased substantially (chart 8). Net foreign purchases were strongest in December when spreads stabilized at a higher level. Net sales of corporate bonds by investors in Europe eased in the quarter; prior to the third quarter, transactions by these investors were typically substantial net purchases. Transactions by Caribbean financial centers shifted to net purchases from net sales, and net purchases from Asia, mainly Japan, strengthened.

Net foreign sales of U.S. federally sponsored agency bonds were $15.0 billion, down from $16.3 billion. Spreads on agency bonds increased substantially, partly as a result of investors' reluctance to hold the bonds of issuers with connections to the U.S. residential mortgage market. Fourth-quarter net foreign sales also reflected agencies' redemption of a large amount of callable debt that was partly owned by foreigners. Very strong net sales from Asia, mainly China and Hong Kong, were partly offset by substantial net purchases from Europe, mainly the United Kingdom.

Direct investment. Net financial inflows for foreign direct investment in the United States were $39.9 billion in the fourth quarter, down from $101.3 billion in the third quarter. The slowdown resulted from a falloff in net equity capital investment in the United States and, to a lesser extent, a drop in reinvested earnings. The falloff in net equity capital investment mostly resulted from a decrease in the value of foreign acquisitions of U.S. companies after an unusually strong third quarter. Reinvested earnings fell mostly because of a large drop in earnings. In contrast, net intercompany debt investment in the United States picked up.

Chart 8. U.S. Bond Yields and Spreads