U.S. International Transactions

Second Quarter of 2006

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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—increased to $218.4 billion (preliminary) in the second quarter of 2006 from $213.2 billion (revised) in the first quarter (table A, chart 1).[1] The increase was mostly accounted for by increases in the deficits on goods and on income. Net unilateral current transfers to foreigners also increased, and the surplus on services was virtually unchanged.

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—decreased to $154.1 billion in the second quarter from $171.5 billion in the first quarter. Net acquisitions by foreign residents slowed more than net acquisitions by U.S. residents.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive $65.2 billion in the second quarter, compared with a positive $43.4 billion in the first quarter.

The following are highlights for the second quarter:

- Goods exports slowed but remained moderately strong. Goods imports picked up as a result of a sharp upturn in petroleum and products.
- Both receipts and payments of "other" private income (which consist of interest and dividends) and U.S. Government income continued to increase strongly as a result of increases in interest rates.
- Net foreign purchases of U.S. securities other than U.S. Treasury securities slowed after exceptionally strong net foreign purchases 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

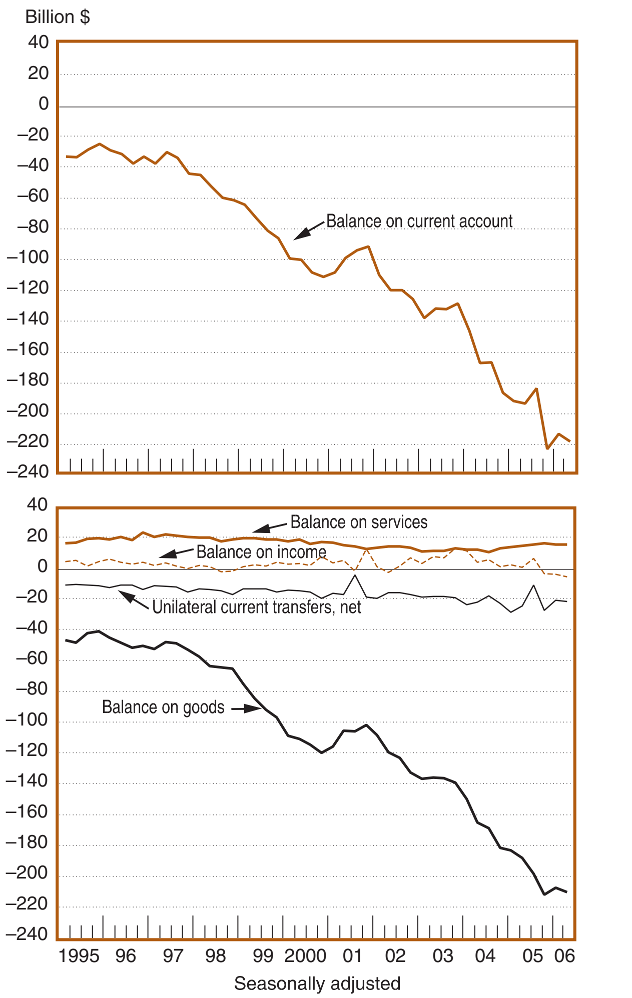
[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 11 are indicated in ( ) (Credits +; debits –)	2004	2005	2005				2006		Change: 2006:I–II
				I	II	III	IV	I r	II p	
	Current account									
1	**Exports of goods and services and income receipts (1)**	**1,526,855**	**1,749,892**	**415,277**	**429,326**	**442,935**	**462,357**	**484,396**	**510,062**	**25,666**
2	Goods, balance of payments basis (3)	807,516	894,631	214,189	222,591	224,947	232,904	244,512	252,843	8,331
3	Services (4)	344,426	380,614	92,391	94,054	95,906	98,261	99,918	103,036	3,118
4	Income receipts (12)	374,913	474,647	108,697	112,681	122,081	131,192	139,966	154,183	14,217
5	**Imports of goods and services and income payments** (18)	**–2,110,559**	**–2,455,328**	**–579,764**	**–599,390**	**–616,886**	**–659,290**	**–678,052**	**–708,028**	**–29,976**
6	Goods, balance of payments basis (20)	–1,472,926	–1,677,371	–397,457	–410,811	–423,693	–445,410	–452,481	–463,441	–10,960
7	Services (21)	–290,312	–314,604	–77,231	–77,892	–78,952	–80,529	–83,089	–86,255	–3,166
8	Income payments (29)	–347,321	–463,353	–105,076	–110,687	–114,240	–133,351	–142,482	–158,332	–15,850
9	**Unilateral current transfers, net (35)**	**–81,582**	**–86,072**	**–27,237**	**–23,194**	**–9,464**	**–26,176**	**–19,542**	**–20,444**	**–902**
	Capital account									
10	**Capital account transactions, net (39)**	**–2,261**	**–4,351**	**–2,691**	**–589**	**–557**	**–514**	**–1,756**	**–882**	**874**
	Financial account									
11	**U.S.-owned assets abroad, net (increase/financial outflow (–)) (40)**	**–867,802**	**–426,801**	**–87,391**	**–196,376**	**–132,380**	**–10,656**	**–355,978**	**–212,339**	**143,639**
12	U.S. official reserve assets, net (41)	2,805	14,096	5,331	–797	4,766	4,796	513	–560	–1,073
13	U.S. Government assets, other than official reserve assets, net (46)	1,710	5,539	2,591	989	1,501	459	1,049	1,479	430
14	U.S. private assets, net (50)	–872,317	–446,436	–95,313	–196,568	–138,647	–15,911	–357,540	–213,258	144,282
15	**Foreign-owned assets in the United States, net (increase/financial inflow (+)) (55)**	**1,450,221**	**1,212,250**	**224,128**	**346,179**	**388,592**	**253,350**	**527,498**	**366,397**	**–161,101**
16	Foreign official assets in the United States, net (56)	387,809	199,495	18,965	74,613	33,983	71,934	75,697	74,874	–823
17	Other foreign assets in the United States, net (63)	1,062,412	1,012,755	205,163	271,566	354,609	181,416	451,801	291,523	–160,278
18	**Statistical discrepancy (sum of above items with sign reversed) (70)**	**85,128**	**10,410**	**57,678**	**44,044**	**–72,240**	**–19,071**	**43,434**	**65,234**	**21,800**
	Memoranda:									
19	Balance on current account (76)	–665,286	–791,508	–191,724	–193,258	–183,415	–223,109	–213,198	–218,410	–5,212
20	Net financial flows (40 and 55)	582,419	785,449	136,737	149,803	256,212	242,694	171,520	154,058	–17,462

r Revised
p Preliminary

- Both U.S. claims and U.S. liabilities reported by banks increased much less in the second quarter than in the first quarter, when they increased by especially large amounts.

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



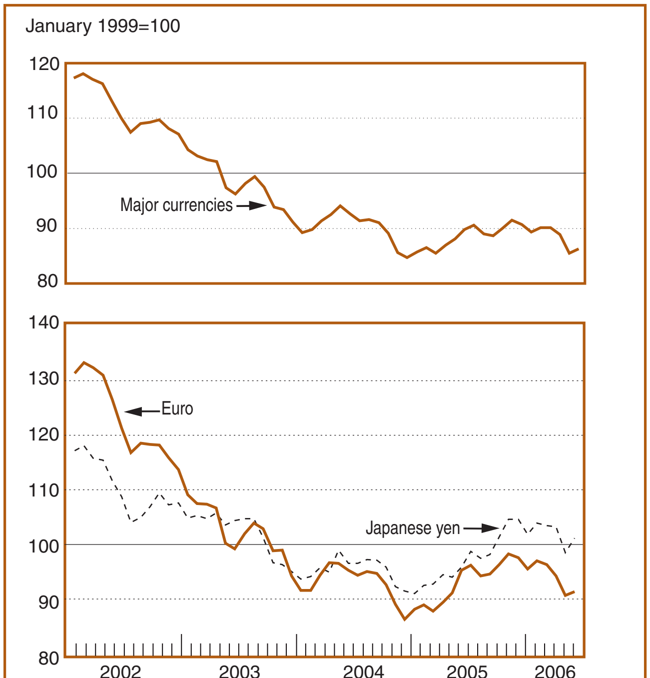
U.S. Bureau of Economic Analysis

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 4 percent against the euro, 3 percent against the Canadian dollar, and 2 percent against the Japanese yen.

In the United States, data releases in the second quarter indicated that U.S. economic growth picked up considerably in the first quarter. Releases indicated that the U.S. deficit on trade in goods and services on a

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

Revisions to the Estimates

The preliminary estimates of U.S. international transactions for the first quarter that were published in the July 2006 SURVEY OF CURRENT BUSINESS have been revised.

The current-account deficit was revised to $213.2 billion from $208.7 billion. The goods deficit was unrevised at $208.0 billion; the services surplus was revised to $16.8 billion from $17.2 billion; the balance on income was revised to a deficit of $2.5 billion from a surplus of $1.9 billion; and unilateral current transfers were revised to net outflows of $19.5 billion from $19.9 billion. Net financial inflows were revised to $171.5 billion from $157.6 billion.

3-month moving-average basis fell slightly. U.S. monetary authorities raised the target level for the Federal funds rate by 50 basis points in two steps, to 5.25 percent. The target level has now increased 425 basis points in the last 2 years. After an extended period of growth, major U.S. and foreign stock market indexes decreased in the second quarter. U.S. long-term interest rates continued to increase and reached their highest levels in several years.

In Europe, data releases indicated that euro area economic growth in the first quarter picked up. Among countries with the largest economies, economic activity in Germany, France, and Italy strengthened, and activity in Spain remained relatively strong. Euro area monetary authorities raised the minimum bid rate on main refinancing operations, a key policy-controlled interest rate, to 2.75 percent.

In Japan, reports showed that economic growth in the first quarter remained moderately strong. Japanese monetary policy was unchanged, and the key overnight lending rate remained zero.

In Canada, reported economic growth in the first quarter strengthened. Canadian monetary authorities raised the target for the overnight rate to 4.25 percent.

Current Account

Goods and services

The deficit on goods and services increased $2.7 billion to $193.8 billion in the second quarter from $191.1 billion in the first quarter. The deficit on goods increased $2.6 billion, and the surplus on services was virtually unchanged.

Goods

The deficit on goods increased to $210.6 billion in the second quarter from $208.0 billion in the first quarter, as exports slowed and imports picked up (chart 3). The deficit on petroleum and products, which is sizable

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

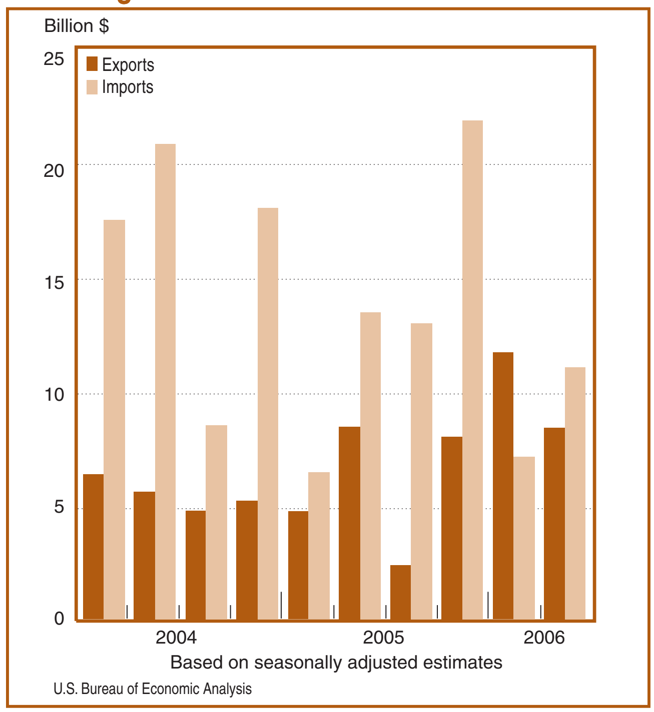


Table B. Indexes of Foreign Currency Price of the U.S. Dollar

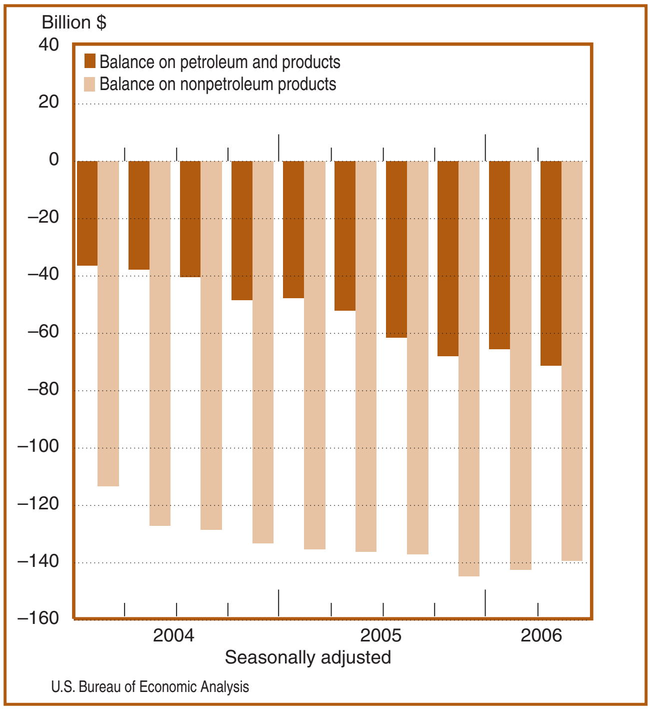
[January 1999=100]

	2005			2006		2005							2006					
	II	III	IV	I	II	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
Nominal: [1]																		
Broad [2]	96.8	97.2	98.0	96.5	95.0	97.6	98.0	96.8	96.7	97.7	98.4	97.8	96.3	96.6	96.7	96.0	94.0	95.1
Major currencies [3]	88.4	89.5	90.8	89.9	87.0	89.9	90.7	89.1	88.7	90.1	91.6	90.8	89.4	90.2	90.2	89.0	85.5	86.4
Other important trading partners [4]	107.8	107.1	107.1	105.1	105.5	107.6	107.5	106.7	107.1	107.5	107.1	106.6	105.3	104.8	105.2	105.2	105.0	106.4
Real: [1]																		
Broad [2]	98.8	99.8	100.4	98.9	98.4	99.6	100.3	99.3	99.9	100.8	100.7	99.6	98.7	98.8	99.3	99.1	97.3	98.7
Major currencies [3]	94.6	96.6	98.2	97.5	94.9	96.2	97.5	96.0	96.2	97.9	99.0	97.7	96.8	97.9	97.9	96.9	93.3	94.6
Other important trading partners [4]	103.5	103.4	102.6	100.3	102.2	103.5	103.3	102.9	104.1	103.9	102.4	101.5	100.6	99.6	100.7	101.4	101.7	103.4
Selected currencies: (nominal) [5]																		
Canada	81.8	79.1	77.2	76.0	73.9	81.6	80.5	79.3	77.5	77.5	77.8	76.4	76.2	75.6	76.2	75.3	73.1	73.3
European currencies:																		
Euro area [6]	92.1	95.1	97.5	96.4	92.2	95.4	96.3	94.3	94.7	96.4	98.3	97.7	95.6	97.1	96.4	94.4	90.8	91.5
United Kingdom	88.9	92.5	94.4	94.1	90.4	90.8	94.2	91.9	91.3	93.5	95.1	94.5	93.3	94.4	94.6	93.3	88.3	89.5
Switzerland	88.5	92.0	93.9	93.5	89.8	91.4	93.4	91.1	91.4	93.0	94.6	94.2	92.2	94.2	94.2	92.6	88.0	88.9
Japan	94.9	98.2	103.5	103.1	101.0	96.0	98.8	97.6	98.2	101.4	104.6	104.6	101.9	104.0	103.5	103.3	98.6	101.2
Mexico	108.3	105.8	105.8	104.6	110.4	106.8	105.4	105.5	106.5	107.0	105.4	104.9	104.1	103.5	106.1	109.1	109.5	112.5
Brazil	164.2	154.9	148.7	145.0	144.3	159.7	156.8	156.1	151.8	149.0	146.2	150.9	149.9	142.8	142.4	140.7	143.5	148.8

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.

because of a large imbalance between exports and imports, increased as a result of a sharp upturn in imports (chart 4). Petroleum imports account for 17 percent of total imports.

Chart 4. U.S. Trade in Goods: Balances on Petroleum and Products and on Nonpetroleum Products



Exports. Exports increased $8.3 billion, or 3.4 percent, to $252.8 billion (table C). Real exports increased 1.9 percent, and export prices increased 1.5 percent.[2]

Current-dollar exports have increased solidly in the last three quarters. In the last two quarters, nonagricultural industrial supplies and materials have increased strongly (chart 5).

In the second quarter, nonagricultural industrial supplies and materials increased $4.9 billion. The increase was accounted for by increases in metals and nonmetallic products (mostly nonferrous metals), in chemicals, and in energy products (mostly petroleum and products). The increases in nonferrous metals and in petroleum and products were largely due to higher prices, and the increase in chemicals resulted from a rise in volume. Prices of nonferrous metals have increased strongly in recent quarters.

Capital goods increased $2.2 billion. The increase was considerably smaller than the increases in the last two quarters because of a downturn in civilian aircraft, engines, and parts. In the second quarter, increases were strong in semiconductors, in oil drilling, mining, and construction machinery, and in telecommunications equipment. The increase in semiconductors was the largest in nearly 6 years.

Agricultural products increased $0.9 billion, the second consecutive quarter of elevated growth. More than

2. Quantity (real) estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters. Real estimates are expressed as chained (2000) dollars. Price indexes (2000 = 100) are also calculated using a chain-type Fisher formula.

Table 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]							
	2004	2005	2005				2006		2004 r	2005 r	2005				2006	
			I	II	III	IV	I	II p			I r	II r	III r	IV r	I r	II p
Exports	**807,516**	**894,631**	**214,189**	**222,591**	**224,947**	**232,904**	**244,512**	**252,843**	**773,542**	**831,225**	**200,713**	**207,059**	**208,582**	**214,757**	**223,928**	**228,091**
Agricultural products	62,939	64,883	15,610	16,511	16,291	16,471	17,385	18,275	50,891	53,533	13,196	13,495	13,315	13,521	14,261	14,899
Nonagricultural products	744,577	829,748	198,579	206,080	208,656	216,433	227,127	234,568	723,776	779,150	187,826	193,899	195,651	201,665	210,095	213,583
Imports	**1,472,926**	**1,677,371**	**397,457**	**410,811**	**423,693**	**445,410**	**452,481**	**463,441**	**1,430,553**	**1,530,141**	**375,402**	**378,834**	**380,393**	**394,902**	**402,810**	**402,303**
Petroleum and products	180,459	251,856	53,157	58,261	67,284	73,154	72,129	79,292	137,841	140,986	36,658	34,543	33,409	36,377	35,931	34,163
Nonpetroleum products	1,292,467	1,425,515	344,300	352,550	356,409	372,256	380,352	384,149	1,292,713	1,391,615	338,458	345,238	348,849	358,867	368,330	371,331

	Percent change from previous period (current dollars)								Percent change from previous period (chained (2000) dollars)							
	2004	2005	2005				2006		2004 r	2005 r	2005				2006	
			I	II	III	IV	I	II p			I r	II r	III r	IV r	I r	II p
Exports	**13.2**	**10.8**	**2.2**	**3.9**	**1.1**	**3.5**	**5.0**	**3.4**	**9.1**	**7.5**	**1.1**	**3.2**	**0.7**	**3.0**	**4.3**	**1.9**
Agricultural products	3.4	3.1	–1.9	5.8	–1.3	1.1	5.4	5.1	–5.5	5.2	–3.7	2.3	–1.3	1.5	5.5	4.5
Nonagricultural products	14.1	11.4	2.6	3.8	1.3	3.7	4.9	3.3	10.5	7.7	1.5	3.2	0.9	3.1	4.2	1.7
Imports	**16.8**	**13.9**	**1.6**	**3.4**	**3.1**	**5.1**	**1.6**	**2.4**	**11.3**	**7.0**	**1.2**	**0.9**	**0.4**	**3.8**	**2.0**	**–0.1**
Petroleum and products	35.6	39.6	–0.7	9.6	15.5	8.7	–1.4	9.9	6.6	2.3	1.7	–5.8	–3.3	8.9	–1.2	–4.9
Nonpetroleum products	14.6	10.3	2.0	2.4	1.1	4.4	2.2	1.0	11.8	7.7	1.1	2.0	1.0	2.9	2.6	0.8

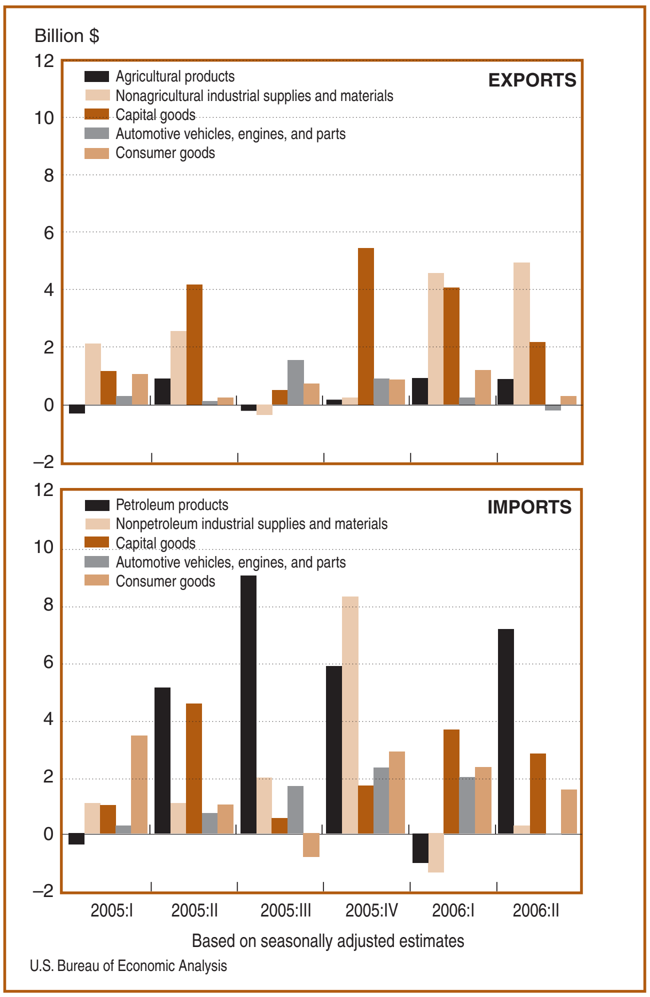
r Revised
p Preliminary
1. Because chain indexes use weights of more than one period, the corresponding chained dollar estimates are usually not additive.
Note. Percent changes in quarterly estimates are not annualized and are expressed at quarterly rates.

half of the second-quarter increase was accounted for by a surge in exports of corn, mostly to Mexico, the Republic of Korea, and Indonesia; corn exports were the highest since the fourth quarter of 1996. Exports of vegetables, fruits, nuts, and preparations, mainly to Canada, also increased.

Consumer goods slowed after three quarters of accelerating growth. The slowdown was attributable to a decline in nondurable goods, mostly medical, dental, and pharmaceutical preparations to France and the United Kingdom. In contrast, durable goods continued to grow robustly.

Automotive vehicles, parts, and engines decreased $0.2 billion, the first decline in almost 3 years. The decrease resulted from decreases in passenger cars—mostly to Mexico, Canada, and the Middle East—and in other vehicles to Mexico.

Chart 5. U.S. Trade in Goods by Selected End-Use Categories: Change From Preceding Quarter

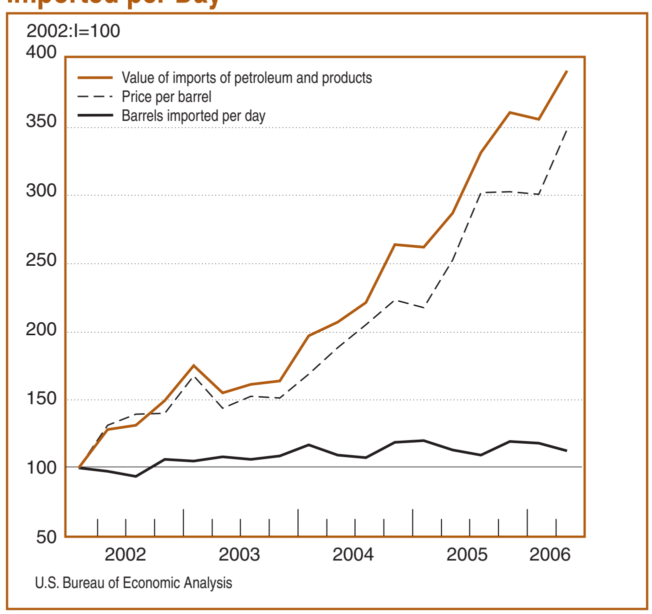


Imports. Imports increased $11.0 billion, or 2.4 percent, to $463.4 billion in the second quarter (table C). Real imports decreased 0.1 percent, and import prices increased 2.6 percent. The increase in value was mostly accounted for by increases in petroleum and products and in capital goods.

After a first-quarter downturn, petroleum and products increased $7.2 billion in the second quarter, resuming their sharp climb of recent years (chart 6). In the second quarter, imports from all principal suppliers increased, but the largest increases were from members of OPEC, the European Union, and Russia. Among OPEC members, increases from Algeria and Saudi Arabia were partly offset by decreases from Venezuela and Nigeria. Following two quarters of little change, the average price per barrel rose 16 percent, to $63.75, in the second quarter, largely as a result of concerns about potential disruptions in world oil supplies. In contrast, the average number of barrels imported daily decreased 5 percent, to 13.63 million. U.S. domestic petroleum production continued to recover from the hurricane-related disruptions in the second half of 2005, rising 2 percent after an increase of 7 percent in the first quarter.

Capital goods increased $2.8 billion. Growth in these products was moderately strong despite the first decline in U.S. domestic investment in equipment and software in more than 3 years. In the second quarter,

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



imports of "other" industrial, agricultural, and service industry machinery and of electric generating machinery each increased $0.7 billion. Among high-technology products, computers, peripherals, and parts increased $0.5 billion, and semiconductors changed little; telecommunications equipment changed little for the third consecutive quarter after earlier strong growth. In the second quarter, civilian aircraft, engines, and parts decreased after increasing in the previous two quarters.

Consumer goods increased $1.5 billion. A rise in nondurable goods was partly offset by a fall in durable goods. Among nondurable goods, textile apparel and household goods increased strongly, mostly because of a 23-percent surge in imports of textile apparel products from China. In contrast, durable goods decreased after three quarters of growth. The drop was more than accounted for by a large decline in household and kitchen appliances, mostly from China, the Republic of Korea, and Mexico.

Nonpetroleum industrial supplies and materials increased $0.3 billion. A large increase in nonferrous metals was mostly offset by a large decrease in natural gas. Nonferrous metals rose strongly for the third consecutive quarter, mainly as a result of an increase in prices. In contrast, natural gas dropped for the second consecutive quarter, mainly as a result of a decrease in its price.

Automotive vehicles, parts, and engines decreased slightly after increasing substantially for three quarters. The decrease resulted from a decline in passenger cars, mostly from Canada. Other automotive imports increased.

Foods, feeds, and beverages decreased $0.2 billion after increasing for six consecutive quarters. The decrease resulted from a substantial decline in meat products and poultry—mostly from Canada—and from a drop in vegetables, fruits, nuts, and preparations—mostly from Chile and Mexico.

Balances by area. Increases in the goods deficits with Asia and Pacific, the Middle East, Europe, and Africa were partly offset by decreases in the deficits with Canada and Latin America and Other Western Hemisphere.[3] The increase in the deficit with Asia and Pacific resulted from a rebound in the deficit with China, which had decreased in the previous two quarters. The deficits with the Middle East, Africa, and Europe were boosted by higher petroleum imports from members of OPEC and from Russia.

Services

The surplus on services was virtually unchanged, at $16.8 billion, in the second quarter. Both services receipts and services payments increased similar amounts.

After changing little for three quarters, travel receipts increased $1.0 billion to $21.7 billion in the second quarter. The increase was mostly attributable to a rise in receipts from overseas visitors to the United States. Travel payments also increased $1.0 billion to $18.7 billion. The rise mostly reflected increases in U.S. travelers' payments to countries overseas and to Canada as a result of a rise in the number of U.S. travelers. Passenger fare receipts decreased $0.2 billion to $5.4 billion, and passenger fare payments increased $0.5 billion to $7.3 billion.

"Other" transportation receipts increased $0.5 billion to $12.1 billion. The increase was mostly attributable to increases in ocean and air port services, reflecting higher expenditures for bunker fuel and jet fuel by foreign vessels and air carriers. "Other" transportation payments increased $0.2 billion to $16.4 billion. An increase in payments for air port services, mostly reflecting higher expenditures for jet fuel by U.S. air carriers, was largely offset by a decrease in payments for ocean freight services.

"Other" private services receipts increased $1.4 billion to $43.7 billion. The rise was attributable to increases in receipts for unaffiliated services—mostly for financial services and business, professional and technical services—and for affiliated services. "Other" private services payments increased $1.3 billion to $28.3 billion as a result of increases in payments for unaffiliated and affiliated services.

Income

The deficit on income increased to $4.1 billion in the second quarter from $2.5 billion in the first quarter. For the third consecutive quarter, the balance on income was a deficit. In the second quarter, both income receipts and income payments increased strongly, but payments increased more than receipts.

Receipts of income on U.S. direct investment abroad increased $4.2 billion to $72.9 billion. Foreign affiliates' earnings increased in all major industries except finance and insurance. A substantial rise in crude oil prices contributed to higher earnings of petroleum-related affiliates in "other" industries and, to a lesser

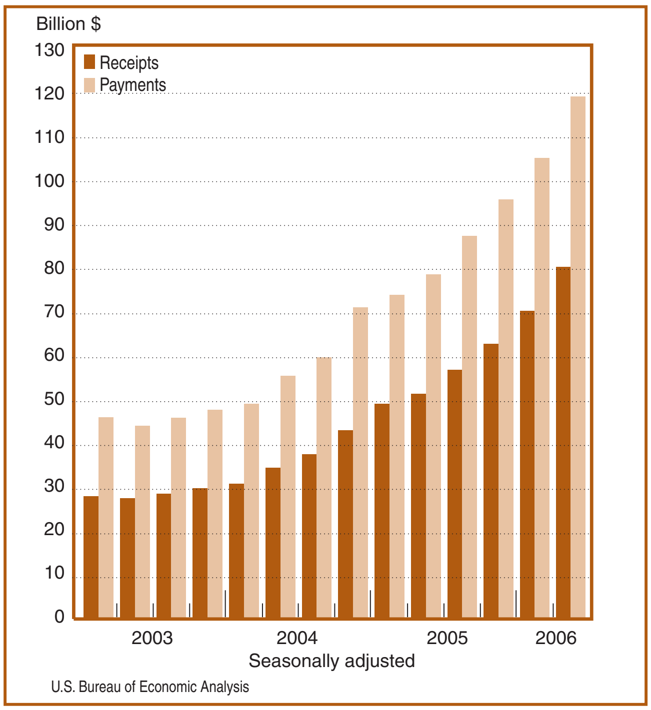
3. Seasonally adjusted estimates of exports for areas and countries are derived by applying seasonal factors for total U.S. agricultural and nonagricultural exports to the unadjusted agricultural and nonagricultural exports for areas and countries and then summing the seasonally adjusted estimates. Seasonally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

extent, in holding companies and in manufacturing. Holding companies' earnings were also boosted by higher earnings of nonpetroleum affiliates in Europe.

Payments of income on foreign direct investment in the United States increased $2.4 billion to $36.9 billion. The increase was attributable to increases in U.S. affiliates' earnings in finance and insurance, mostly nondepository financial affiliates, and in wholesale trade, mostly petroleum-related affiliates.

Both receipts and payments of "other" private and U.S. Government income continued to rise strongly, largely because of increases in interest rates (chart 7). Receipts of "other" private income increased $9.9 billion to $79.8 billion. The increase reflected increases in interest receipts on bank and nonbank claims and in dividends and interest earned on U.S. holdings of foreign stocks and bonds. Receipts of income on U.S. Government assets increased $0.1 billion, to $0.7 billion.

Chart 7. Other Private and U.S. Government Income



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 an Excel file, or as comma-separated values.

Payments of "other" private income increased $10.0 billion to $82.8 billion. The rise resulted from increases in interest payments on bank and nonbank liabilities and in dividends and interest paid on foreign holdings of U.S. stocks and bonds. Payments of income on U.S. Government liabilities increased $3.4 billion to $36.3 billion, as a result of an increase in payments on U.S. Treasury and agency securities.

Unilateral current transfers

Net unilateral current transfers to foreigners were $20.4 billion in the second quarter, up from $19.5 billion in the first quarter. The increase was accounted for by increases in private remittances and other transfers and in U.S. Government grants.

Capital Account

Net capital account payments (outflows) were $0.9 billion in the second quarter, down from $1.8 billion in the first 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 $154.1 billion in the second quarter, down from $171.5 billion in the first quarter. Net acquisitions by foreign residents slowed more than net acquisitions by U.S. residents.

U.S.-owned assets abroad

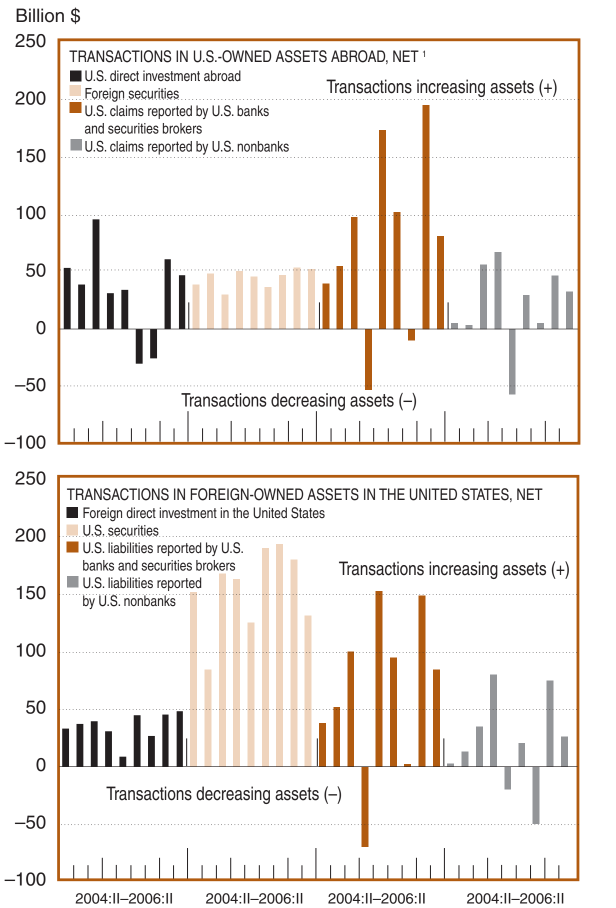
Net U.S.-owned assets abroad increased $212.3 billion in the second quarter after a record increase of $356.0 billion in the first quarter. The slowdown mostly reflected a much smaller increase in U.S. claims on foreigners reported by U.S. banks in the second quarter than in the first quarter.

U.S. official reserve assets. U.S. official reserve assets increased $0.6 billion in the second quarter after decreasing $0.5 billion in the first quarter. The second-quarter increase was largely accounted for by an increase in the U.S. reserve position in the International Monetary Fund (IMF), which resulted from the IMF's establishment of a new investment account.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers increased $81.5 billion in the second quarter, following a record $196.4 billion increase in the first quarter (chart 8).

Banks' own claims denominated in dollars increased $28.8 billion, following an increase of $144.7 billion in the first quarter. The second-quarter increase was largely attributable to a rise in deposits and brokerage balances, as U.S.-owned banks lent funds to their own offshore offices. In contrast, resale agreements decreased, mostly as a result of a cutback in lending by securities brokers and dealers.

Chart 8. Selected Financial-Account Transactions, 2004:II–2006: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.

U.S. Bureau of Economic Analysis

Banks' domestic customers' claims denominated in dollars increased $36.7 billion after an increase of $30.5 billion. In the second quarter, both deposits and negotiable certificates of deposit increased substantially.

Claims reported by U.S. nonbanking concerns increased $32.4 billion after an increase of $46.2 billion. The second-quarter increase was more than accounted for by an increase in deposits, mostly in the United Kingdom.

Foreign securities. Net U.S. purchases of foreign securities were $52.2 billion in the second quarter, down from $53.7 billion in the first quarter. A substantial decrease in net U.S. purchases of foreign stocks was nearly offset by a substantial increase in net U.S. purchases of foreign bonds.

Net U.S. purchases of foreign stocks were $17.4 billion, down from $41.1 billion. U.S. investors' demand for foreign stocks was dampened by the first decline in foreign stock markets in local currency terms in seven quarters. In the second quarter, transactions in stocks in Asia shifted to net U.S. sales after three quarters of strong net U.S. purchases, partly because of a shift to net sales to Japan. In contrast, net U.S. purchases from the United Kingdom increased.

Net U.S. purchases of foreign bonds were a record $34.8 billion, up from $12.6 billion. The step-up may have partly reflected some U.S. investors' shift of funds into foreign bond markets in response to the poor performance of foreign stock markets. A strong increase in net U.S. purchases from Europe was partly offset by a shift to net U.S. sales to Latin America and an increase in net U.S. sales to Asia.

Direct investment. U.S. direct investment abroad increased $47.1 billion in the second quarter after increasing $61.3 billion in the first quarter. The slowdown was partly attributable to a shift from an increase to a decrease in intercompany debt investment abroad. In addition, net equity capital investment abroad slowed, mostly as a result of a drop in U.S. acquisitions of foreign companies. In contrast, reinvested earnings increased.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased $366.4 billion in the second quarter after a record increase of $527.5 billion in the first quarter. The slowdown was attributable to smaller increases in U.S. liabilities reported by U.S. banks and by nonbanking concerns in the second quarter than in the first quarter and to a slowdown in net foreign purchases of U.S. securities other than U.S. Treasury securities.

Foreign official assets. Foreign official assets in the United States increased $74.9 billion in the second quarter after an increase of $75.7 billion in the first quarter. Assets of European countries increased less in the second quarter than in the first quarter, and assets of most other areas of the world increased more in the second quarter than in the first quarter.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased $84.2 billion in the second quarter after a very large increase of $148.9 billion in the first quarter.

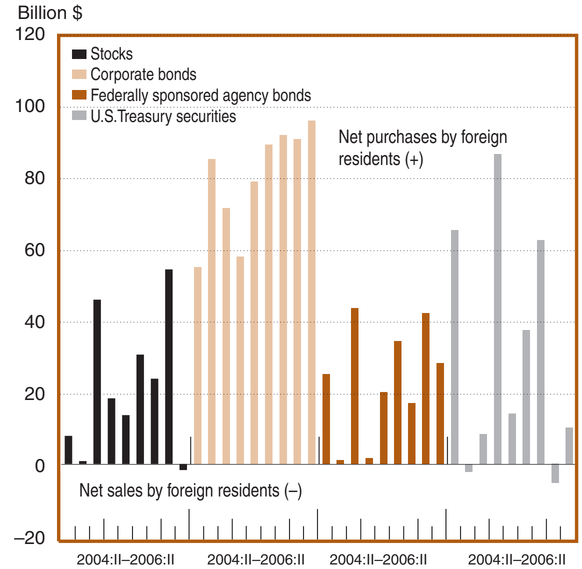
Banks' own liabilities denominated in dollars decreased $5.0 billion, in contrast to an increase of $131.3 billion in the first quarter. The decrease resulted from the repayment of previously borrowed funds by foreign-owned banks in the United States and by U.S. securities brokers and dealers, which reduced their repurchase agreements. In contrast, borrowing by U.S.-owned banks picked up.

Banks' customers' liabilities denominated in dollars increased a very substantial $91.2 billion after an increase of $9.9 billion.

U.S. liabilities reported by U.S. nonbanking concerns increased $26.1 billion after an increase of $75.0 billion. The second-quarter increase was mostly accounted for by an increase in liabilities to Europe.

U.S. Treasury securities. Transactions in U.S. Treasury securities shifted to net foreign purchases of $10.1 billion in the second quarter from net foreign sales of $5.2 billion in the first quarter (chart 9). Although total returns on U.S. Treasury securities were negative, some foreign investors may have shifted funds into the safety of U.S. Treasury securities in response to downturns in U.S. and foreign stock markets. Transactions in U.S. Treasury securities by Asia shifted to substantial net purchases from net sales, and net sales by Caribbean financial centers decreased.

Chart 9. Transactions in U.S. Securities, 2004:II–2006:II



NOTE. Excludes transactions in foreign official assets.

U.S. Bureau of Economic Analysis

Other U.S. securities. Net foreign purchases of U.S. securities other than U.S. Treasury securities were $121.6 billion in the second quarter, down from a record $186.0 billion in the first quarter. The decrease resulted from a shift to net foreign sales of U.S. stocks from net foreign purchases and a decrease in net foreign purchases of federally sponsored agency bonds. In contrast, net foreign purchases of U.S. corporate bonds were a record $95.2 billion.

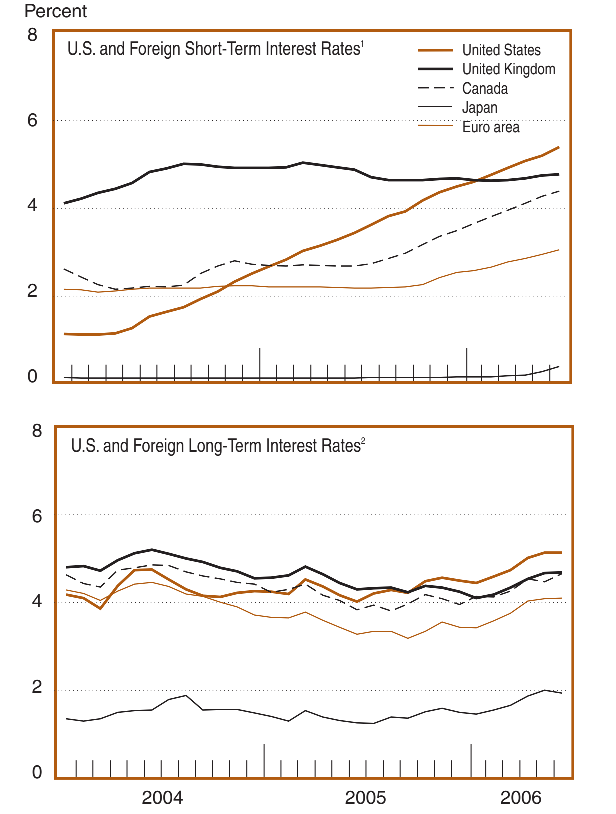
Transactions in U.S. stocks shifted to net foreign sales of $1.6 billion from net foreign purchases of $54.0 billion. The U.S. stock market weakened in the second quarter, but it weakened less than most major foreign stock markets (in local currency terms). The shift to net foreign sales was mostly attributable to a large drop in net purchases from Europe and a shift to net sales by Caribbean financial centers.

Net foreign purchases of U.S. federally sponsored agency bonds decreased to $28.0 billion from a near-record $41.9 billion. The decrease was mostly attributable to a shift to net sales by Caribbean financial centers. Net purchases by Asia fell slightly but remained sizable.

Net foreign purchases of U.S. corporate bonds were a record $95.2 billion, up from $90.1 billion. Net foreign purchases have been especially strong in recent quarters, as the yields available on U.S. corporate bonds have increased and become more attractive to investors than the yields available on foreign bonds (chart 10). In addition, U.S. economic growth and corporate profits have remained robust and bond default rates have remained low. In the second quarter, net purchases of U.S. corporate bonds by investors in Caribbean financial centers, in Europe, and in Asia all increased.

Direct investment. Foreign direct investment in the United States increased $48.4 billion in the second quarter after increasing $45.3 billion in the first quarter. The pickup resulted from a shift from a decrease to an increase in net intercompany debt investment in the United States and, to a lesser extent, from an increase in reinvested earnings. In contrast, net equity capital investment in the United States slowed despite a few moderately large acquisitions of U.S. companies by foreign companies.

Chart 10. 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.

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Tables 1 through 11 follow.