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INTERNATIONAL TRADE DEVELOPMENTS

Mexican Farmers Demand Protection Against Imports of U.S. Agricultural Products

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In response to impassioned demonstrations by Mexican farmers, who deplore the elimination of the agricultural tariffs and quotas that took place on January 1, 2003 under the North American Free Trade Agreement, the Government of Mexico has applied new, protective measures against agricultural imports from its NAFTA partners. The government has also granted more financial support on behalf of Mexican farmers.

Background

Although agriculture represents only 4 to 5 percent of Mexico's gross domestic product,[2] it supports about a quarter of the country's population.[3] Most Mexican agricultural workers are subsistence farmers who plant grains and oilseeds in small plots (five or fewer hectares), which have supported them for generations. These small farmers, as well as some mid-sized farmers of certain products including beef, pork, and poultry, claim that they have been devastated by U.S. competition in the Mexican market resulting from the North American Free Trade Agreement (NAFTA).

The status of Mexican agriculture and the Mexican rural poor has been a major political, social, and economic concern for quite some time. In Mexican farming circles this concern had sharpened as January 1 of 2003 approached, the date designated by NAFTA for the elimination of tariffs and tariff rate quotas (TRQs) on farm products (except for corn, sugar, dry edible beans, and powdered milk).[4] In the second half of 2002, and continuing into 2003, hundreds of thousands of Mexican farmers and their supporters were staging protests, blocking highways and border crossings. Angry farmers crashed through the windows of the nation's Capitol in Mexico City, thundering through the halls of Congress on horseback, waving Mexican flags.

The farmers claimed that cheaper U.S. farm products were flooding the Mexican market, that they were unable to compete against imports from the United States, where easy credit, better transportation, better technology, and major subsidies give U.S. farmers an unfair advantage. The U.S. farm bill of 2002 in particular, which includes provisions of new support for U.S. farmers, triggered the revival of the Mexican farmers' long smoldering dissatisfaction, and prompted them to demand remedial action from their government.

Last December, the National Association of Commercial Farm Producers (ANEC), along with

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[2] United States Department of State (USDOS) telegram, "Northern Mexico's Views on NAFTA Provisions," prepared by the American Embassy, Mexico City, message reference No. 1355, Dec. 26, 2002.

[3] Sergio Sarmiento, "NAFTA and Mexico's Agriculture," *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

[4] United States Department of Agriculture (USDA), Foreign Agricultural Service (FAS), "Mexico's NAFTA Tariff Schedule for 2003," *Gain Report* #MX3011, Jan. 23, 2003.

several other farmers' associations in Mexico, presented a proposal to limit purchases of food products from the United States and Canada.[5] Farmers have grown increasingly vocal in calling for the renegotiation of NAFTA, insofar as the accord involves agriculture.[6] A position paper authored by Mexican Congressman Ramon Leon Morales was presented on January 9, 2003 before the Mexican Congress, arguing in favor of renegotiating NAFTA's agricultural chapter.[7]

From the beginning of the farmers' recent crusade, Mexican President Vicente Fox has repeatedly rejected the idea to renegotiate NAFTA,[8] proposing instead alternative approaches that would not involve a return to discredited Mexican policies of protection and economic isolation.

The "Armor" Package

On November 18, 2002, the Fox Administration officially published its "agricultural armor" package.[9] The principal stated goal of the program was "... to ensure the feasibility and competitiveness of the Mexican Agricultural Sector in an open economy context."[10] The package contained several proposed bills, regulations, and standards, including new sanitary and phytosanitary measures; new provisions for food safety; and new standards for food quality. Notably, it called for a revision of Mexico's Foreign Trade Law to include provisions allowing domestic producers faster recourse to protection in cases of foreign commercial practices they perceived as unfair. An expanded support scheme for agriculture proposed target prices and direct payments to farmers.

Mexican officials had emphasized that the objective of the package was not to restrict trade, but to make Mexican agriculture more competitive.[11] The Government of Mexico planned to rely heavily on NAFTA safeguards, and viewed the program consistent with Mexico's obligations under international trade agreements.[12]

[5] USDA, FAS, "Agricultural Situation, Weekly Highlights and Hot Bites, *Gain Report* #MX2172, Dec. 17, 2002, and *El Financiero*, Dec. 10, 2002, p. 6.

[6] USDA, FAS, "Agricultural Situation, Weekly Highlights and Hot Bites, *Gain Report* #MX2172, Dec. 17, 2002, and *El Financiero*, *El Universal*, both of Dec. 10, 2002, p. 3.

[7] USDA, FAS, "Mexico: Weekly Highlights and Hot Bites," *Gain Report* #MX3008, Jan. 15, 2003, p. 3, and *Gaceta Parlamentaria*, Jan. 8, 2003.

[8] *El Financiero*, *La Jornada*, both of Dec. 10, 2002.

[9] USDA, FAS, "Mexico's Agricultural Armor Package 2002," *Gain Report* #MX2173, Dec. 19, 2002.

[10] Ibid., p. 4.

[11] USDOS telegram, "More Details on AG Armor Proposal," prepared by the American Embassy, Mexico City, message reference No. 10268, Dec. 10, 2002.

[12] USDA, FAS, "Mexico's Agricultural Armor Package," *Gain Report* #MX2173, Dec. 19, 2002.

National Agreement on Agriculture and Rural Development

The farmers' continued dissatisfaction prompted the Fox Administration to conclude an agreement with farming interests on rural development on April 28, 2003. This accord calls for $267 million newly budgeted funds to pay for a variety of programs, including farm credits, rural roads and housing, subsidized electricity, and educational and health services for the farmers. However, the new accord did not include a request to renegotiate NAFTA as the farmers demanded. Some farming groups remained dissatisfied for this reason, and also because they believed that more generous financial support was needed for Mexican farming than the accord provided.

Accelerated Procedures for Unfair Trade Cases

Instead, the Government of Mexico chose to protect domestic agriculture against imports from its NAFTA partners–a practice it had been engaged in already for some time. Instituting antidumping action on questionable grounds has been a form of trade protection used by the Mexican government, which now designs accelerated procedures for such cases.[13] Early June 2003, Mexico imposed antidumping duties on white, long-grain rice from the United States. This latest antidumping case instituted against a U.S. product followed earlier ones involving beef, high-fructose corn syrup, and swine. The United States had challenged these actions under NAFTA, or World Trade Organization (WTO) rules, or both.[14] The latest U.S. complaint, which the United States filed with the WTO on June 16, 2003, involves Mexico's antidumping orders on beef and the most recent one on white, long-grain rice.[15]

Challenges of the Mexican Farmers' Distorted Perception

Mexico is the third largest market for U.S. agricultural exports, hence that country's agricultural policy is of major importance for the United States. Some analysts and officials in both the United States and Mexico have strongly disputed the perception of Mexican farmers that NAFTA is a major source of

[13] USDA, FAS, "Mexico's Agricultural Armor Package," *Gain Report* #MX 2103, Dec. 19, 2002.

[14] For example, see Magdolna Kornis, "Mexican Sugar and U.S. Sweeteners," in the USITC, *International Economic Review*, March/April 2001.

[15] USTR, "U.S. Files WTO Case Against Mexico's Antidumping Restrictions on Beef and Rice Exports," press release 2003-38, June 16, 2003.

their problems. Still others, while not disputing that NAFTA may have caused problems for farmers of certain products, emphasized the net benefits of NAFTA for the Mexican economy as a whole, demanding a balanced view in considering the trade interests of all partners. Some of these arguments are summarized below:

1. *Only a few Mexican farm commodities have been adversely affected by NAFTA*. Sergio Sarmiento points out that only 38 percent of Mexico's agricultural imports–including wheat, rice, grapes, and pears–became free of duty because of NAFTA. A larger share (43 percent), which includes sorghum, soy, peanuts, corn seeds, became duty-free as a result of trade negotiations under the World Trade Organization.[16] Also a study released in July 2002 by the United States Department of Agriculture (USDA) claimed that only a small portion of the increase of overall U.S. agricultural trade with NAFTA partners can be attributed to NAFTA itself. The few U.S. products whose exports have surged because of NAFTA were the same whose imports had been most severely restricted in Mexico prior to NAFTA's implementation. Rice was such a product. The reduction of Mexican tariffs on U.S. rice has played a key role in doubling U.S. exports to Mexico since NAFTA's implementation.[17]

2. *Imports of several farm products from the United States have risen quickly, because Mexico has been lacking self sufficiency in producing them, not because of cheaper competition from the United States*. Such products include corn, sorghum, and wheat. Imports of corn, which is the staple in the Mexican diet, have consistently exceeded NAFTA's import quotas. USDA analysts comment that:

"Even when corn prices were high in 1996, Mexico's imports did not waver. Poultry producers, for example, prefer yellow corn over the domestically produced white corn, and through the access under Mexico's tariff-rate quota (TRQ), the majority of feed corn is imported. Other important end-users of yellow corn and wheat include the swine and wet-milling industries."[18]

3. *Tariffs in Mexico on most U.S. products had been already low before their dropping to zero in January 2003*. Because of the phase-out of tariffs under NAFTA for years prior to January 1, 2003, Mexican tariffs on some 90 percent of agricultural goods had been down to less than 2 percent during 2002.[19] Consequently, the drop of these already low tariffs to zero in January 2003 could not materially have worsened the competitive conditions in the Mexican market.

Nonetheless, there are exceptions. Some products had enjoyed considerable duty protection in 2002 immediately before these duties were abolished, including chicken parts, and pork meat. Chicken parts had been protected by a 49.2 percent rate of duty when imported in excess of its TRQ. These high over-quota tariffs were eliminated in one stroke on January 1, 2003. The over-quota tariffs of pork meat were 20 percent before their elimination on the same day.

4. *Not only have U.S. agricultural exports to Mexico risen fast during the NAFTA years, but Mexican agricultural exports to the United States have grown rapidly as well.*[20] Commenting in December 2002 on Mexican farmers' complaints against NAFTA, the U.S. Embassy in Mexico City pointed out that NAFTA has benefitted both parties, and that many Mexican products like tomatoes, avocados, fruits and vegetables are now highly competitive on the U.S. market. The United States is the largest market for Mexican agricultural exports, absorbing 78 percent of the total.[21]

5. *Problems of Mexican agriculture may be attributed principally to the sector's persisting structural problems, mismanagement by former Mexican officials, or by the farmers themselves.* "Mexico is not yet to reach the levels of competitiveness required in its agricultural sector" noted renowned Mexican economist Abel Perez Zamorano, last December.[22] He argued, that the implementation of NAFTA had required structural changes in Mexican agriculture that, had they been implemented, would have improved Mexico's preparation for open-market competition with the United States and Canada. Zamorano added that "The NAFTA was the perfect opportunity whereby Mexico could have developed all of its productive

[16] Sergio Sarmiento, "NAFTA and Mexico's Agriculture," *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

[17] USDA, Economic Research Service, "Effects of the North American Free Trade Agreement on Agriculture and the Rural Economy," July 2002, p. vi. Found at *http://www.ers.usda.gov/publications,* retrieved on Nov. 11, 2002.

[18] USDA, FAS, "Positive Outlook for U.S. Grain Exports," *Gain Report* #MX2123, Sept. 4, 2002, p. 1.

[19] Embassy of the United States in Mexico, "Reply to the Critics against the Agricultural Policies of the United States and NAFTA," Dec. 5, 2002. Found at *http://www.usembassy-mexico.gov,* retrieved on Feb. 4, 2003.

[20] Mexican exports of farm products to the United States rose from $3.2 billion in 1993 to $6.2 billion in 2001. Found at Internet address *http://www.sice.oas.org/trade/nafta/naftatce.asp,* retrieved on Feb. 4, 2003.

[21] Embassy of the United States in Mexico, "Reply to the Critics against the Agricultural Policies of the United States and NAFTA," Dec. 5, 2002. Found at *http://www.usembassy-mexico.gov,* retrieved on Feb. 4, 2003.

[22] USDA, FAS, "Mexico: Weekly Highlights and Hot Bites," *Gain Report* #MX3005, Jan. 8, 2003, p. 3, and *Reforma,* Dec. 30, 2002.

sectors, specifically in the area of agriculture." The U.S. Embassy in Mexico City made the same point, saying that during the transition period to free trade in agriculture, beginning in 1994, NAFTA "has offered a reasonable implementation period that has permitted both countries to adjust to the changing conditions of the market."[23] Rather than the NAFTA, the fragmentation of farm land[24] and the lack of full property rights and the latter's consequent legal ramifications are seen as the most serious structural problems of Mexican farming.[25]

On January 6, 2003, at the annual meeting of the National Farm Workers' Council (CNBC), Javier Usabiaga, the Mexican Secretary of Agriculture, made remarks that put some of the blame on the farmers themselves for failing to make Mexican agriculture more competitive (reportedly, the farmers reacted violently to this, pelting the Secretary with tomatoes and onions, and throwing him off the stage).[26]

Senior government officials of the previous Administration, such as Francisco Labastida, the Zedillo Administration's Secretary of Agriculture, are sometimes also blamed for the country's agricultural woes. Labastida in turn accuses Carlos Salinas, a still earlier President of Mexico who negotiated NAFTA in the first place, for having underestimated the potentially adverse impact of the accord upon the country's agricultural sector.[27]

6. *NAFTA has to be evaluated in its entirety.* NAFTA has been a boon to the Mexican economy as whole, a fact amply documented by a wide range of studies and data.[28] On January 6, 2003, at the annual conference of the National Farm Workers Council (CNC), President Fox noted that NAFTA as a whole is beneficial for Mexico, because it has forged an efficient and modern economy in the country. The task for agriculture is to become more competitive, he warned, also reminding his audience that NAFTA is "law, which is not subject to revision."[29]

Concluding Remarks

The eradication of rural poverty in Mexico is a huge, long-term undertaking, and weakening NAFTA to bring back protection against U.S. and Canadian imports is not an option that the Government of Mexico is currently considering. Nevertheless, agriculture will doubtlessly remain the most difficult issue in U.S.-Mexican trade relations in the foreseeable future.[30]

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[23] Embassy of the United States in Mexico, "Reply to the Critics against the Agricultural Policies of the United States and NAFTA," Dec. 5, 2002. Found at *http://www.usembassy-mexico.gov,* retrieved on Feb. 4, 2003.

[24] This fragmentation is a legacy of Mexico's "ejido" system. Ejidos are semi-collective plots of farm land, distributed by the government as part of the agrarian reform of 1917.

[25] Sergio Sarmiento, "NAFTA and Mexico's Agriculture," *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

[26] USDA, FAS, "Mexico: Weekly Highlights and Hot Bites," *Gain Report* # MX3005, Jan. 8, 2003, p. 5, and *La Jornada, Reforma*, and *El Financiero*, all of Jan. 7, 2003.

[27] USDA, FAS, "Agricultural Situation, Weekly Highlights and Hot Bites," *Gain Report* #MX2172, Dec. 17, 2002, p. 6, and *Reforma*, Dec. 13, 2002.

[28] See for example, Sergio Sarmiento, "NAFTA and Mexico's Agriculture," *Hemispheric Focus*, Center for Strategic and International Studies, Mar. 4, 2003.

[29] USDA, FAS, "Mexico: Weekly Highlights and Hot Bites," *Gain Report* # MX3005, Jan. 8, 2003, p. 5, and *La Jornada, Reforma*, *El Universal,* and *El Financiero*, all of Jan. 7, 2003.

[30] John Nagel, "2003 Key Year for NAFTA Implementation: Tensions Rise Over Agriculture," *BNA-International Trade Daily*, Jan. 22, 2003.

U.S. TRADE DEVELOPMENTS

Recent Developments

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U.S. International Transactions, First Quarter 2003

The U.S. Department of Commerce reported that seasonally adjusted exports of $81.0 billion and imports of $123.0 billion in April 2003 resulted in a goods and services deficit of $42.0 billion, $0.9 billion less than the $42.9 billion in March. April 2003 exports were $1.8 billion lower than March exports.[2] April 2003 imports were $2.7 billion lower than March imports.

April 2003 merchandise exports decreased by about $1.1 billion to $57.2 billion from March exports of $58.3 billion. Merchandise imports decreased by $2.0 billion to $103.8 billion from March imports of $105.8 billion. The merchandise trade deficit decreased by about $0.9 billion in April to $46.6 billion from $47.5 billion in March.

For services, exports decreased to $23.8 billion in April 2003 from $24.5 billion in March. Imports of services decreased by about $0.7 billion to $19.2 billion in April 2003. The services trade surplus in April remained virtually unchanged at about $4.6 billion, as in March 2003.

Changes in merchandise exports from March to April 2003 reflected decreases in industrial supplies and materials ($0.2 billion); consumer goods ($0.2 billion); capital goods ($0.6 billion); and foods, feeds, and beverages ($0.1 billion). Automotive vehicles, parts, and engines, and the statistical category "other goods"were virtually unchanged.

Changes in merchandise imports from March to April 2003 reflected decreases in industrial supplies and materials ($2.4 billion); consumer goods ($0.2 billion); automotive vehicles, parts, and engines ($0.4 billion); capital goods ($0.3 billion). Increases occurred in capital goods ($0.9 billion); and in foods, feeds, and beverages ($0.1 billion). The "other goods" statistical category remained virtually unchanged. Additional information on U.S. trade developments in agriculture and specified manufacturing sectors during January-April 2003 are highlighted in tables 1 and 2, and figures 1 and 2. Services trade developments are highlighted in table 3.

In April 2003, exports of advanced technology products were $13.9 billion and imports of the same were about $16.5 billion, resulting in a deficit of $2.6 billion, following a deficit of $0.8 billion in March. Exports of these products in April 2003 were about $2.1 billion less than the $16.0 billion recorded in March. Imports of advanced technology products of $16.4 billion in April 2003 were about $0.4 billion less than the $16.8 billion imports in March.

The April 2003 trade data showed U.S. surpluses with the following countries (preceding month in parentheses): Australia, $0.4 billion ($0.5 billion in March 2003); Hong Kong, $0.4 billion ($0.6 billion); Egypt, $0.1 billion ($0.1 billion). Deficits were recorded in April 2003 with Brazil, $0.6 billion ($0.6 billion); China, $9.5 billion ($7.7 billion); Canada, $3.8 billion ($5.1 billion); Mexico, $3.3 billion ($3.9 billion); Japan, $6.0 billion ($5.8 billion); Korea, $1.1 billion ($0.7 billion); OPEC member countries, $5.0 ($5.0 billion); Singapore, $0.2 billion (surplus of $0.3

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[1] Michael Youssef is an international economist in the USITC Office of Economics, Country and Regional Analysis Division. The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

[2] Data for this article were taken largely from the United States Department of Commerce (USDOC), Bureau of Economic Analysis (BEA), "U.S. International Trade in Goods and Services," *Commerce News*, FT-900, release of June 13, 2003, found at *http://www.census.gov/foreign-trade/www/press.html*#current, as well as at Internet address *http://www.bea.doc.gov/bea/newsrel/*.

Table 1
U.S. trade in goods and services, seasonally adjusted, March 2003 to April 2003

Item	Exports		Imports		Trade balance	
	April 2003	March 2003	April 2003	March 2003	April 2003	March 2003
	Billion dollars					
Trade in goods[1] (see note)						
Including oil	57.2	58.3	103.8	105.8	-46.6	-47.5
Excluding oil	57.2	58.0	92.3	93.0	-35.2	-35.0
Trade in services[1]	23.8	24.5	19.2	19.9	4.6	4.6
Trade in goods and services[1]	81.0	82.8	123.0	125.7	-42.0	-42.9
Trade in goods[2]	57.6	58.6	106.3	105.5	-48.6	-46.9
Advanced technology products[3]	13.9	16.0	16.4	16.8	-2.6	-0.8

[1] Current dollars (balance-of-payments basis).
[2] Constant 1996 dollars (Census Bureau basis).
[3] Not seasonally adjusted.

Note.—Data on trade in goods in current dollars are presented on a balance-of-payments (BOP) basis that reflects adjustments for timing, coverage, and valuation of data compiled by the U.S. Treasury Department, Census Bureau. The major adjustments on a BOP basis exclude military trade, but include nonmonetary gold transactions and estimates of inland freight in Canada and Mexico that are not included in the Census Bureau data. Data may not add to totals due to rounding.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 1, 9, 10, and 16, FT-900 release of June 13, 2003, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

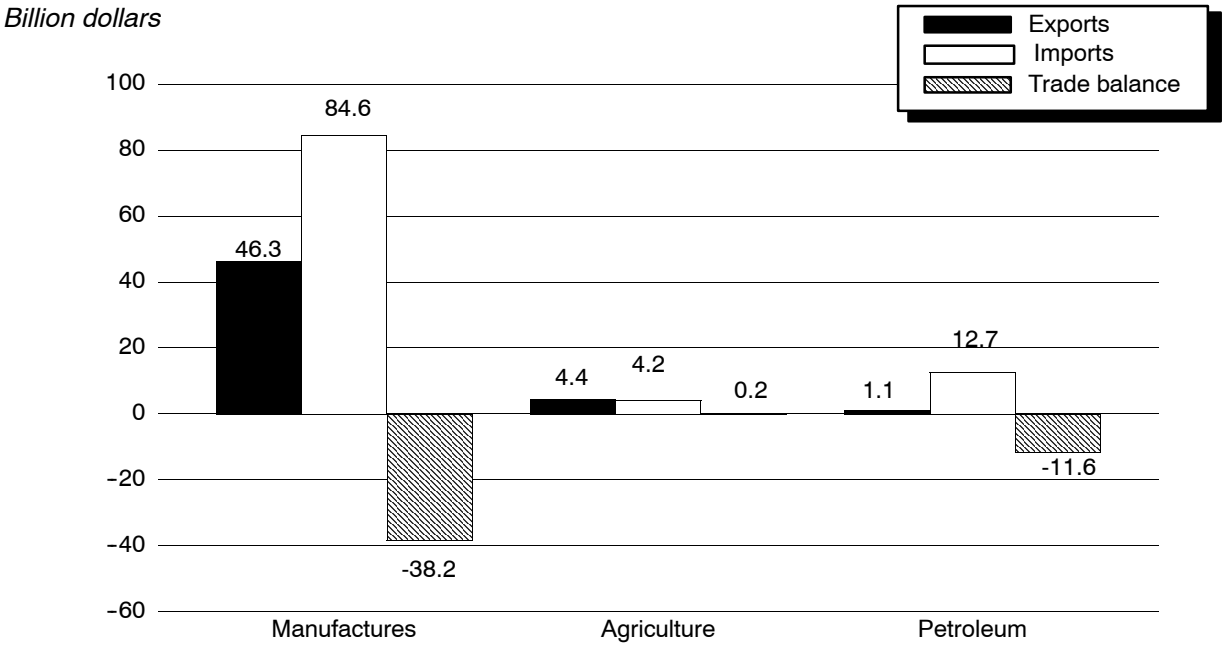
Table 2
Nominal U.S. exports, imports, and trade balances, agriculture and specified manufacturing sectors, January 2002 to April 2003

Manufacture sector	Exports			Imports			Trade balance				
	Apr. 2003	Jan.-Apr. 2003	Jan.-Apr. 2002	Apr. 2003	Jan.-Apr. 2003	Jan.-Apr. 2002	Jan.-Apr. 2003	Jan.-Apr. 2002	Change in exports, Jan.-Apr. 2003 over Jan.-Apr. 2002	Change in trade balance, Jan.-Apr. 2003 over Jan.-Apr. 2002	Share of total exports, Jan.-Apr. 2003
	Billion dollars									*Percent*	
ADP equipment & office machinery	2.2	9.4	10.1	6.4	24.5	24.2	-15.2	-14.2	-7.0	7.1	4.0
Airplane parts	1.2	4.9	4.5	0.4	1.5	1.8	3.4	2.7	8.1	24.0	2.1
Airplanes	1.8	7.4	9.0	0.9	3.7	4.8	3.7	4.2	-17.7	-12.2	3.2
Chemicals - inorganic	0.5	2.0	1.7	0.7	2.4	1.7	-0.4	-0.0	16.6	1214.7	0.8
Chemicals - organic	1.7	6.6	5.0	2.9	11.4	10.2	-4.8	-5.2	31.1	-7.3	2.8
Electrical machinery	5.7	22.2	21.7	6.7	26.1	25.1	-3.9	-3.5	2.4	11.8	9.5
General industrial machinery	2.5	9.8	9.9	3.5	13.0	11.5	-3.2	-1.6	-1.1	100.1	4.2
Iron & steel mill products	0.7	2.1	1.7	0.9	3.9	4.0	-1.7	-2.3	24.7	-23.0	0.9
Power-generating machinery	2.5	10.1	10.6	2.7	11.0	11.7	-0.8	-1.0	-4.8	-17.9	4.4
Scientific instruments	2.2	9.0	8.9	1.9	7.3	6.5	1.7	2.4	0.9	-28.2	3.9
Specialized industrial machinery	2.0	7.7	7.8	1.9	6.8	6.0	0.9	1.8	-0.5	-49.4	3.3
Televisions, VCRs, etc.	1.4	5.3	6.6	5.3	19.2	18.4	-13.9	-11.8	-19.5	17.1	2.3
Textile yarn and fabric	0.9	3.5	3.3	1.5	5.5	4.9	-2.1	-1.7	5.6	23.2	1.5
Vehicles	5.5	20.0	18.8	15.0	56.1	54.2	-36.1	-35.4	6.4	1.8	8.6
Other manufactures, not included above	15.6	60.1	57.5	33.8	131.2	117.8	-71.1	-60.2	4.4	18.1	25.8
Manufactures	46.3	180.1	177.2	84.6	323.6	302.9	-143.4	-125.7	1.7	14.1	77.4
Agriculture	4.4	18.8	17.8	4.2	15.8	13.7	3.0	4.1	5.7	-25.7	8.1
Other goods, not included above	8.3	33.9	29.6	15.0	62.0	40.2	-28.1	-10.7	14.5	163.7	14.5
Total (Census basis)	59.1	232.8	224.6	103.8	401.4	356.9	-168.5	-132.3	3.7	27.4	100.0

Note.—Data on trade in manufactures are presented on a Census Bureau basis. Data may not add to totals due to rounding.

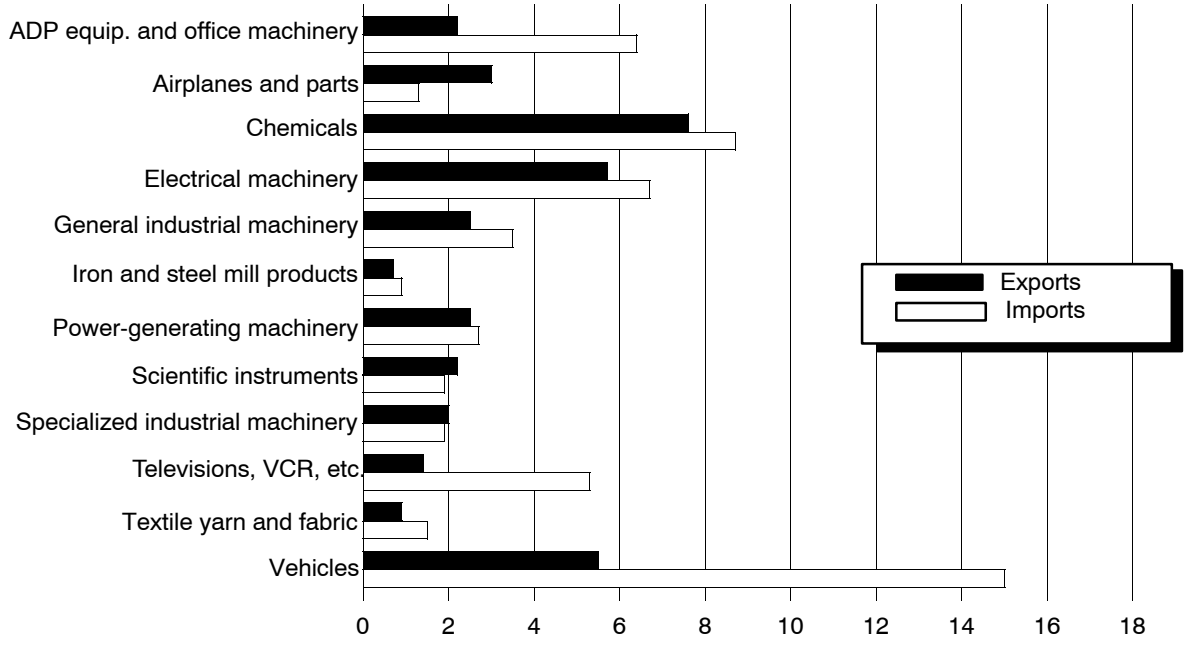
Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of June 13, 2003, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

Figure 1
U.S. trade by major commodity, April 2003



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of Feb. 20, 2003.

Figure 2
U.S. trade in principal goods, April 2003



Source: Calculated from official data of the U.S. Department of Commerce, Exhibit 15, FT-900 release of June 13, 2003.

Table 3
Nominal U.S. exports, imports, and trade balances of services, by sectors, January 2002 to April 2003, seasonally adjusted

Service sector	Exports		Imports		Trade balance		Change in exports Jan.-Apr. 2003 over Jan.-Apr. 2002	Change in imports Jan.-Apr. 2003 over Jan.-Apr. 2002
	Jan.-Apr. 2003	Jan.-Apr. 2002	Jan.-Apr. 2003	Jan.-Apr. 2002	Jan.-Apr. 2003	Jan.-Apr. 2002		
	Billion dollars						*Percent*	
Travel	20.9	21.6	18.2	19.1	2.6	2.5	-3.2	-4.3
Passenger fares	4.8	5.6	6.5	6.4	-1.7	-0.9	-14.3	1.0
Other transportation services	10.3	9.5	14.5	12.1	-4.2	-2.6	8.8	20.0
Royalties and license fees	15.5	14.1	6.6	6.2	8.9	7.8	10.4	5.9
Other private sales	42.5	40.4	24.8	22.7	17.7	17.7	5.3	9.3
Transfers under U.S. military sales contracts	4.2	3.7	7.8	5.9	-3.6	-2.3	13.3	31.0
U.S. Government miscellaneous services	0.3	0.3	1.0	1.0	-0.7	-0.7	2.7	0.3
Total	98.4	94.9	79.4	73.4	19.0	21.5	3.6	8.1

Note.—Data on trade in services are presented on a balance-of-payments basis. Data may not add to totals due to rounding and seasonal adjustments.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 3 and 4, FT-900 release of June 13, 2003, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

billion); Taiwan, $1.4 billion ($1.2 billion); and Western Europe, $8.4 billion ($7.8 billion).

In January-April 2003, exports of goods and services were $328.9 billion about $11.8 billion higher than January-April 2002 exports of $317.1 billion. Imports of goods and services were $492.6 billion, $51.2 billion higher than January-April 2002 imports of $441.4 billion. The trade deficit was $163.6 billion, $39.3 billion higher than January-April 2002 deficit of $124.3 billion.

The January-April 2003 trade data show surpluses with Belgium, $1.8 billion (for January-April 2002, $1.1 billion); the Netherlands, $3.1 billion ($3.3 billion); Hong Kong, $1.6 billion ($1.3 billion); Australia, $1.8 billion ($1.9 billion); Singapore, $0.1 billion ($0.9 billion); and Egypt, $0.3 billion ($0.9 billion). Deficits were recorded with Canada, $18.3 billion ($15.7 billion); Mexico, $14.2 billion ($11.7 billion); Western Europe, $29.8 billion ($23.0 billion); the euro area, $22.6 billion ($17.9 billion); European Union, $27.7 billion ($21.6 billion); France, $3.4 billion ($2.7 billion); Germany $12.0 billion ($10.4 billion); Italy, $4.9 billion ($4.1 billion); United Kingdom, $2.3 billion ($1.4 billion); EFTA, $1.9 billion ($1.6 billion); Pacific Rim Countries, $69.4 billion ($61.6 billion); China, $34.1 billion ($26.5 billion); Japan, $22.3 billion ($22.8 billion); Korea, $3.5 billion ($4.3 billion); Taiwan, $4.9 billion ($4.5 billion); Other Pacific Rim, $8.1billion ($7.5 billion); and OPEC, $17.1 billion ($9.8 billion). It should be noted, however, that individual European countries shown here are also included in the euro area and in the larger European Union groupings. Likewise individual Asian countries mentioned here are included in Pacific Rim Countries grouping. U.S. trade developments with major trading partners are highlighted in table 4.

Table 4
U.S. exports and imports of goods with major trading partners, January 2002-April 2003

Country/areas	Exports			Imports			Trade balance		Change in exports, Jan.-Apr. 2003 over Jan.-Apr. 2002	Change in imports, Jan.-Apr. 2003 over Jan.-Apr. 2002
	Apr. 2003	Jan.-Apr. 2003	Jan.-Apr. 2002	Apr. 2003	Jan.-Apr. 2003	Jan.-Apr. 2002	Jan.-Apr. 2003	Jan.-Apr. 2002		
	Billion dollars								*Percent*	
Total (Census basis)	59.1	232.8	224.6	103.8	401.4	356.9	-168.5	-132.3	3.7	12.5
North America	22.5	86.4	83.4	29.6	118.8	110.7	-32.4	-27.3	3.6	7.3
Canada	14.6	55.9	52.5	18.4	74.1	68.2	-18.3	-15.7	6.4	8.7
Mexico	7.8	30.6	30.9	11.2	44.7	42.5	-14.2	-11.7	-1.0	5.2
Western Europe	14.0	55.0	53.6	22.4	84.8	76.5	-29.8	-23.0	2.8	10.8
Euro Area	9.7	37.4	35.8	15.8	59.9	53.7	-22.6	-17.9	4.3	11.6
European Union (EU-15)	12.8	50.4	48.9	20.6	78.1	70.5	-27.7	-21.6	3.0	10.7
France	1.6	6.0	6.8	2.4	9.4	9.5	-3.4	-2.7	-12.2	-1.6
Germany	2.5	9.9	8.9	5.9	21.9	19.3	-12.0	-10.4	11.2	13.4
Italy	0.8	3.3	3.2	2.1	8.2	7.4	-4.9	-4.1	3.3	12.1
Netherlands	1.8	6.8	6.4	1.0	3.6	3.0	3.1	3.3	6.1	19.5
United Kingdom	2.7	11.5	11.5	3.5	13.7	12.9	-2.2	-1.4	-0.1	6.6
Other EU	1.0	3.8	3.5	2.7	10.1	8.3	-6.3	-4.8	9.4	21.7
EFTA[1]	0.8	3.1	3.1	1.4	5.1	4.7	-1.9	-1.6	1.6	8.8
Eastern Europe/ FSR[2]	0.5	2.0	2.3	1.4	5.8	3.9	-3.8	-1.7	-10.2	48.3
Russia	0.2	0.7	0.8	0.6	2.7	1.6	-2.0	-0.8	-15.2	68.7
Pacific Rim Countries	14.7	59.0	55.8	34.2	128.5	117.5	-69.4	-61.6	5.7	9.4
Australia	0.9	3.7	3.9	0.5	1.9	2.0	1.8	1.9	-3.2	-1.6
China	2.1	8.6	6.3	11.5	42.7	32.8	-34.1	-26.5	36.6	30.1
Japan	4.5	17.0	16.5	10.4	39.3	39.3	-22.3	-22.8	3.4	0.2
NICs[3]	5.4	22.4	21.9	7.6	29.1	28.6	-6.7	-6.6	2.1	2.0
Latin America	4.0	16.5	16.6	6.8	24.4	20.1	-7.9	-3.4	-0.6	21.6
Argentina	0.2	0.7	0.5	0.2	1.0	0.9	-0.4	-0.5	44.3	9.5
Brazil	0.8	3.4	4.2	1.4	5.6	4.5	-2.2	-0.3	-18.1	26.3
OPEC	1.3	5.3	5.6	6.3	22.4	15.4	-17.1	-9.8	-5.2	45.0
Other Countries	2.4	10.0	9.5	5.6	23.6	19.4	-13.6	-10.0	5.6	21.6
Egypt	0.2	0.7	1.2	0.1	0.5	0.3	0.3	0.9	-39.2	60.9
South Africa	0.2	0.8	0.7	0.3	1.3	1.2	-0.6	-0.5	3.8	11.6

[1] The European Free Trade Area (EFTA) includes Iceland, Liechtenstein, Norway, and Switzerland.
[2] Former Soviet Republics (FSR).
[3] The newly industrializing countries (NICs) include Hong Kong, Korea, Singapore, and Taiwan.

Note.—Country/area figures may not add to totals due to rounding. Exports of certain grains, oilseeds, and satellites are excluded from country/area exports but included in total export table. Also, some countries are included in more than one area. Data are presented on a Census Bureau basis.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 14 and 14a, FT-900 release of June 13, 2003, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm*.

U.S. International Transactions in 2002

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The U.S. current account deficit (the combined balances on trade in goods, services, and investment income and net unilateral transfers) increased to $503.4 billion in 2002, from $393.4 billion in 2001, or about a 28 percent increase, according to estimates of the United States Department of Commerce (USDOC), Bureau of Economic Analysis (BEA) (table 1). An increase in the deficit on goods and a decrease in the surplus on services accounted for more than two thirds of the increase. The balance on income shifted to deficit, and net outflow for unilateral current transfers increased, accounting for the remainder of the increase.[2]

The deficit on merchandise trade increased to $484.4 billion in 2002 from $427.2 billion in 2001, as goods exports decreased to $682.6 billion from $718.8 billion, and imports increased to $1,166.9 billion from $1,145.9 billion. Nonagricultural products (mainly capital goods) accounted for nearly all of the decrease in exports, while nonpetroleum products accounted for virtually all of the increase in imports. An increase in imports of consumer goods and automotive products was partly offset by a decrease in capital goods and nonpetroleum industrial supplies and materials.

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[2] U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Transactions 2002," BEA 03-07.

Table 1
Summary of U.S. international transactions, 2001 and 2002

Item	2001	2002
	Billion dollars	
Merchandise exports	718.8	682.6
Merchandise imports	1145.9	1166.9
Balance on merchandise trade	-427.2	-484.4
Services exports	279.3	289.3
Services imports	-210.4	-240.5
Balance on services	68.9	48.8
Balance on goods and services	-358.3	-435.5
Income receipts on U.S. assets abroad	283.8	244.6
Income payments on foreign assets in the United States	-269.4	-256.5
Balance on investment income	14.4	-11.9
Balance on goods, services, and income	-343.9	-447.4
Unilateral transfers	-49.5	-56.0
Balance on current account	-393.4	-503.4
U.S. assets abroad, net outflow (-)	-371.0	-156.2
Foreign assets in the United States, net inflow (+)	752.8	630.4
Net capital inflows (+), outflows (-)	381.8	474.2

Note.—Details may not add to totals due to rounding . Figures are on a balance-of-payments basis. Exports of goods are adjusted for timing, valuation, and coverage to balance-of-payments basis, excluding exports under U.S. military agency sales. Exports of services include some goods that cannot be identified separately from services.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, "U.S. International Transactions: Fourth Quarter and Year 2002," BEA 03-07 news release, found at Internet address *http://www.bea.gov/bea/newsrel/trans402.htm*, retrieved on June 17, 2003.

The U.S. surplus on services trade decreased to $48.8 billion in 2002 from $68.9 billion in 2001 as services exports increased to $289.3 billion from $279.3 billion. Increases in exports of "other private services" category (such as business, professional, technical, and financial services), and in royalties and license fees were partly offset by decreases in travel and in passenger fares. Services imports increased to $240.5 billion from $210.4 billion as an increase in "other" private services (largely insurance) accounted for four fifths of the increase.

The balance on income shifted to a deficit of $11.9 billion in 2002 from a surplus of $14.4 billion in 2001 as income receipts on U.S. owned assets abroad decreased to $244.6 billion from $283.8 billion in 2001. "Other private receipts," which consist of interest and dividends, decreased to $110.8 billion from $151.8 billion in 2001, more than accounting for the decrease. Direct investment income receipts increased to $128.1 billion from about $126.0 billion.

Income payments on foreign-owned assets in the United States decreased to $256.5 billion from $269.4 billion. "Other private receipts"and U.S. Government payments both decreased, while direct investment payments increased.

U.S.-owned assets abroad increased $156.2 billion in 2002, compared with an increase of $371.0 billion in 2001. Foreign-owned assets in the United States increased $630.4 billion in 2002 compared with an increase of $752.8 billion in 2001.

Net inflows of foreign capital to the United States increased $474.2 billion from an increase of $381.8 billion in 2001. The broad exchange value of the dollar in real terms was about 5.0 percent lower from its February 2001 level.[3]

External Imbalances

Do external imbalances really matter? Current account imbalances grew across industrial countries as well as developing countries during the 1990s. Rising surpluses in Japan, the euro area, and some emerging-markets have been counterbalanced by deficits in other countries particularly the United States. The U.S. current account deficit is 5.1 percent of GDP and, while the deficit may be good for the world economy in the short run, a larger deficit might have a greater risk. A major concern associated with global imbalances is the possibility of an abrupt and disruptive adjustment of major exchange rates, possibly leading to an extreme decline in the value of the U.S. dollar.

Exchange rates are usually highly volatile and unpredictable, although over the medium term, real exchange rates might tend to revert back to fundamental values. However, it is difficult to predict when exchange-rate adjustments will occur, the potential risks and costs that may be associated with adjustments, and whether these costs might be mitigated by policy actions. Some have suggested that current account deficits are an outmoded concern in an increasingly integrated world, where current and capital flows are driven primarily by private rather than public decisions.[4]

However, there are a number of reasons to believe that current accounts still matter. First, adjustments–even if small–could imply significant changes in tradable goods and in real exchange rates. Second, for all the recent emphasis on globalization, levels of integration between countries remain moderate, especially for major currency areas. Third, with European, Japanese, and U.S. exports making up only 10-20 percentage points of their respective GDP, an adjustment of a few percentage points of GDP in the current account requires large changes in the tradable goods sectors, and consequently significant movements in real exchange rates. Fourth, rapid changes in exchange rates can lead to disruptive changes in the global economy.

A currency depreciation puts upward pressure on prices and wages, and often requires a tightening of monetary policy. In the 1970s and 1980s, as monetary policy played an increasing role in dealing with price inflation, the "pass-through" effect of exchange-rate changes to domestic prices fell significantly. As a result, the impact of exchange-rate changes has been

[3] The real broad value of the dollar is a weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of U.S. trading partners. The weight for each currency is computed as an average of U.S. bilateral import shares from and export shares to the issuing country and of a measure of the importance to U.S. exporters of the country's trade in third country markets. Federal Reserve Board of Governors, "Monetary Policy Report to the Congress," *Federal Reserve Bulletin*, March 2003, p. 108, found at Internet address *http://www.federalreserve.gov/pubs/bulletin/2003/0303lead.pdf*, retrieved on May 17, 2003.

[4] This is known in the literature as the Lawson doctrine, first put forward by Chancellor Lawson of the United Kingdom in the late 1980s.

felt more through changes in corporate profits, investment, and asset prices.[5]

Global external imbalances rose steadily among major trading countries, particularly between Europe, east Asia and the United States. Buoyant expectations of future profits due to increased productivity in deficit countries, particularly the United States, drew large capital inflows supporting the appreciation of the dollar and the depreciation of the euro. Also, large external surpluses and deficits have led to increasing divergences in net foreign asset positions across countries, with Japan building up net assets and the United States net liabilities, probably approaching or beyond their historical records.

The U.S. deficit, financed by equity flows from the euro area, comprises both foreign direct investment and portfolio equity flows. The dominance of U.S. equity markets in global capitalization has led to rising equity prices, capital inflows into the United States, and an appreciation of the dollar mirrored until recently by a depreciation of the euro. Although much concern has been raised about the growing U.S. current account deficit, research done in this area notes that because U.S. liabilities are denominated in U.S. dollars, the U.S. economy is better protected against a dollar depreciation than other countries.[6]

[5] Existing work in this area includes Mann (1999, 2002), Cooper (2001), Hervey and Merkel (2000), McKinnon (2001), Obstfield and Rogoff (2000), and Ventura (2001). See also International Monetary Fund, *World Economic Outlook – Trade and Finance*, September 2002 (IMF:Washington DC, 2002), pp. 67-80, found at Internet address *http://www.imf.org/external/pubs/ft/weo/ 2002/ 02/ pdf/ front.pdf,* retrieved on May 17, 2003.

[6] Mann, Catherine L., *Is the U.S. Trade Deficit Sustainable?,* (Institute for International Economics: Washington DC, 1999); International Monetary Fund, *World Economic Outlook*, September 2002, pp. 67-80.

Direct Investment Positions in 2001

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Direct Investment Positions in 2001

Slower economic growth in the United States and abroad slowed down U.S. direct investment abroad (USDIA) and foreign direct investment in the United States (FDIUS) in 2001, according to recent data released by the United States Department of Commerce. The slower economic growth contributed to a drop in mergers and acquisitions in 2001 and a slowdown in cross-border economic activity, reflecting uncertainty about prospects of world growth, and difficulties of buyers and sellers to project earnings and agree on valuations for companies. Also slower economic growth depressed profits and reinvested earnings of both U.S. and foreign affiliates.

In 2001, USDIA on an historical cost basis grew by 6.8 percent, compared with 10.3 percent growth in 2000; and FDIUS grew by 8.8 percent compared with 27.1 percent growth in 2000. Historical cost is one of the three methods used by the Department of Commerce to estimate USDIA and FDIUS positions. The other two estimates are made on the basis of current cost, and market value. The three estimates differ in their valuation process. The historical cost estimates reflect price levels of earlier periods. The current cost estimates reflect valuing the U.S. and foreign parent's shares of their affiliates' investment in plant and equipment using the current cost of capital equipment; in land, using general price indexes; and in inventories, using estimates of their replacement cost. The market value estimates reflect using indexes of stock market prices to value the equity portion of direct investment. Table 1 reflects the estimated values of USDIA and FDIUS using the three alternative methods of valuation, in millions of dollars.

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U.S. Direct Investment Abroad

USDIA position valued at historical cost was $1,381.7 billion by the end of 2001, and was $1,293.4 billion at the end of 2000. These estimates represent the book value of U.S. direct investor's equity in, and net outstanding loans to, their foreign affiliates. In 2001, USDIA increased by $88.2 billion compared with an increase of $120.3 billion in 2000. This total increase comprised increases in some transactions and decreases in others. Capital outflows increased $114.0 billion in 2001, but was 31.0 percent smaller than the $165.0 billion increase in 2000, and the smallest since 1997. Reinvested earnings accounted for 58 percent, and was the largest portion, of capital outflows. Capital outflows increased $65.8 billion in 2001 down from $87.9 billion in 2000. Equity capital accounted for 44.0 percent of capital outflows, increasing by $49.8 billion in 2001, down from $66.1 billion, a decline of about 25.0 percent. About 60.0 percent of the increases were for the direct acquisition or establishment of new affiliates. The remaining 40.0 percent were capital contributions to existing affiliates. Valuation adjustments decreased in 2001, by $25.7 billion, down from a decrease of $44.7 billion; this comprised a decrease of $12.1 billion due to currency translation, down from a $17.8 billion decrease in 2000, and "other transaction" decreases of $13.7 billion, down from a $26.9 billion decrease in 2000.

Equity capital increases were largest in Europe, and in Latin America and other Western Hemisphere. In Europe, the increases were highest in chemicals and allied products; and in finance, insurance, and real estate. In the category of "Latin America and Other Western Hemisphere," the increases were partly due to the acquisitions of depository institutions.

Changes by Area and by Country

In 2001, the USDIA position grew by 8.0 percent in Canada, 7.0 percent each in Europe and in Latin America and Other Western Hemisphere, and 5.0 percent in Asia and the Pacific. In Africa and the Middle East, the USDIA position exceeded 10.0

Table 1
Direct investment positions under alternative valuation methods, 2000–2001

Valuation method	Position at year end 2000	Total	Capital flows	Valuation adjustment	Position at year end 2001
		Dollar changes from 2000 to 2001			
USDIA					
Historical cost	1,293,431	88,243	113,977	–25,734	1,381,674
Current cost	1,515,279	107,843	127,840	–19,997	1,623,122
Market value	2,674,207	–384,281	127,840	–512,127	2,289,926
FDIUS					
Historical cost	1,214,254	106,808	124,435	–17,627	1,321,063
Current cost	1,374,752	124,172	130,796	–6,624	1,498,924
Market value	2,766,042	–239,331	130,796	–370,127	2,526,711

Source: Official statistics of the U.S. Department of Commerce.

percent, but remained relatively small. Position increases were largest in the Netherlands and Germany. The next largest increases were in the United Kingdom, Switzerland, and Luxembourg. In Latin America and Other Western Hemisphere, the increase in the USDIA position was largest in Mexico and in Bermuda. In the Asia and Pacific, Japan showed the largest increase in the USDIA position. Table 2 shows a summary of USDIA positions by major area and major activity.

Foreign Direct Investment in the United States

The FDIUS position valued at historical cost–the book value of foreign direct investor's equity in, and net outstanding loans to, their affiliates–was $1,321.1 billion at the end of 2001. The largest positions remained those of the United Kingdom at $217.7 billion (16.0 percent of total FDIUS); Japan, $159.0 billion (12.0 percent); and the Netherlands, $158.0 billion (12.0 percent).

By type of capital flow and by valuation adjustment, the FDIUS total increase was $106.8 billion in 2001, or 9.0 percent, following an increase of $258.5 billion or 27.0 percent. Capital inflows were $124.4 billion in 2001, less than half the $300.9 billion recorded in 2000. The largest contributor to total capital inflows was equity capital inflows, followed by inter-company debt.

Equity capital inflows were $107.7 billion in 2001, down sharply from $245.9 billion in 2000. Equity capital increases reflected acquisitions of U.S. businesses by foreigners and contributions of equity to existing U.S. affiliates. The firms acquired were mostly in finance, petroleum, depository institutions, publishing, and broadcasting and telecommunications. Equity capital decreases of $17.8 billion reflected sell-offs of affiliates by foreign direct investors.

Inter-company debt inflows were $42.8 billion, down from $55.3 billion in 2000. A substantial portion of inter-company debt represents borrowing by U.S. affiliates from their foreign parents to finance acquisitions. Borrowing by existing U.S. affiliates decreased to $42.8 billion from $55.3 billion in 2000, as the pace of acquisitions slowed in 2001. Reinvested earnings decreased by $26.1 billion in 2001, compared with a decline of $0.3 billion in 2000 due to either incurring losses or excessive distribution of shares to their foreign parents. U.S. affiliates earnings shifted from profits of $32.4 billion to losses of $6.7 billion, primarily reflecting the economic slowdown in the United States. The industries with the largest losses were machinery and finance.

By area and country, Europe accounted for the major increase in FDIUS position in 2001.

Switzerland accounted for about half of the increase in the total position of Europe. The next largest dollar increases were for parents in Germany, France, and the Netherlands. The position of parents in the United Kingdom increased slightly, but the position of parents in Luxembourg decreased. The position of parents in Latin America and Other Western Hemisphere increased slightly while the positions of parents in Canada and in Asia and Pacific decreased. The table shows a summary of FDIUS positions by major area and major activity in 2001 and 2000 (table 3).

Table 2
U.S. direct investment position abroad, historical cost basis, billion dollars, 2000 and 2001

Reigon/country	All industries	Petroleum	Manufac-turing	Wholesale trade	Depository institutions	Financial institutions (except banks)	Services	Other industries
				2000				
All countries	1293.4	95.8	353.6	83.7	38.1	542.6	80.1	99.5
Canada	128.8	18.5	50.8	9.6	2.1	32.8	6.3	8.8
Europe	679.5	30.9	185.7	46.1	24.4	299.4	46.7	46.3
Latin America and other Western Hemisphere	251.9	10.0	48.0	8.9	D	150.1	9.7	25.4
Africa	14.4	9.0	1.8	0.3	0.4	1.2	0.6	1.1
Middle East	11.1	2.4	2.3	0.4	0.9	1.7	1.4	2.0
Asia and Pacific	205.3	22.3	65.0	18.5	10.5	57.5	15.5	16.1
International[1]	2.5	2.7	D	D	D	D	D	D
Addenda								
Eastern Europe	11.2	2.0	2.9	0.5	1.2	3.3	0.3	1.0
European Union (EU–15)	604.5	24.5	176.7	33.2	20.2	261.6	44.4	43.9
OPEC	28.7	13.5	2.1	0.6	D	2.5	1.7	D
				2001				
All countries	1381.7	102.1	376.3	92.8	49.3	572.6	86.5	102.2
Canada	139.0	23.8	53.7	10.2	2.1	33.6	6.5	9.3
Europe	725.8	28.2	204.3	51.3	25.2	320.6	50.6	45.6
Latin America and other Western Hemisphere	269.6	10.6	46.6	9.8	10.0	153.8	10.8	29.0
Africa	15.9	11.7	1.4	0.3	0.4	0.6	0.4	1.1
Middle East	12.6	2.9	3.0	0.5	0.8	1.9	1.4	2.1
Asia and Pacific	216.5	22.4	68.1	20.9	10.8	62.0	16.8	15.5
International[1]	2.3	2.6	D	D	D	D	D	–0.3
Addenda								
Eastern Europe	13.1	2.7	3.0	0.5	1.4	4.3	0.3	0.9
European Union (EU–15)	640.8	22.7	195.6	35.1	20.9	274.6	48.0	43.8
OPEC	31.4	15.0	2.3	0.7	D	1.9	1.9	D

[1] International consists of affiliates that have operations in more than one country and that are engaged in petroleum shipping, other water transportation, or offshore oil and gas drilling.

Note.—D=less than $500,000; or suppressed to avoid disclosure of data of individual countries.

Source: Official statistics of the U.S. Department of Commerce.

Table 3
Foreign direct investment in the United States, historical cost basis, billion dollars, 2000 and 2001

Region/country	All industries	Petroleum	Manufacturing	Wholesale trade	Retail trade	Depository institutions	Financial institutions (except banks)	Insurance	Real estate	Services	Other industries
						2000					
All countries	1214.3	87.1	479.9	110.3	29.7	68.1	84.4	112.5	42.7	109.5	90.2
Canada	114.6	3.4	56.6	7.5	1.0	3.1	12.6	8.8	6.4	5.8	9.3
Europe	835.1	78.7	358.5	46.4	24.5	50.5	44.0	91.1	16.0	77.8	47.8
Latin America and other Western Hemisphere	54.5	2.4	5.7	3.4	1.7	2.6	6.0	11.2	5.1	1.6	14.8
Africa	2.8	0.2	0.2	0.4	D	D	D	D	0.2	0.4	0.3
Middle East	6.2	0.9	0.9	0.2	D	D	D	D	0.9	0.2	0.2
Asia and Pacific	201.1	0.1	57.9	52.4	2.5	10.7	20.2	1.4	14.1	23.7	18.1
Addenda											
European Union (EU-15)	760.0	76.3	321.7	43.3	23.9	45.8	33.8	78.1	15.2	74.8	47.2
OPEC	4.4	D	D	D	D	0.8	0.2	0.5	0.9	0.8	0.6
						2001					
All countries	1321.1	95.9	508.5	113.0	35.8	78.1	86.0	120.4	44.2	125.7	113.5
Canada	108.6	3.7	39.9	7.5	0.7	6.0	17.4	8.9	6.3	5.9	12.3
Europe	946.8	80.0	396.6	49.0	30.5	56.6	43.1	96.4	16.1	91.5	87.0
Latin America and other Western Hemisphere	58.9	9.4	4.9	4.0	1.9	2.9	5.4	14.1	6.8	1.4	8.2
Africa	3.3	D	0.2	0.3	D	D	D	D	0.2	D	0.3
Middle East	6.0	D	0.9	0.2	D	D	D	D	1.0	D	D
Asia and Pacific	197.5	0.8	66.0	52.0	2.6	11.1	18.5	1.0	13.9	25.7	5.7
Addenda											
European Union (EU-15)	808.3	72.9	304.3	45.3	29.8	51.7	34.8	81.0	14.8	87.8	85.9
OPEC	8.0	D	D	0.9	D	0.8	0.2	0.5	0.9	0.1	0.1

Note.—D=less than $500,000; or suppressed to avoid disclosure of data of individual countries.

Source: Official statistics of the U.S. Department of Commerce.

Key Terms and Definitions

Direct investment is an investment in which a resident of one country has an interest in, and a degree of influence over the management of, a business in another country.

U.S. direct investment abroad (USDIA) is an ownership or control, directly or indirectly, by one U.S. resident of 10 percent or more of a foreign business enterprise.

Foreign direct investment in the United States (FDIUS) is an ownership or control, directly or indirectly, by a foreign resident of 10 percent or more of an incorporated U.S. business enterprise.

Foreign affiliate is a foreign business enterprise in which a single U.S. investor or U.S. parent owns at least 10 percent of the voting securities.

U.S. affiliate is a U.S. business in which a single foreign investor or a foreign parent owns at least 10 percent of the voting securities.

Capital flows are funds that parent companies provide to their affiliates.

Valuation adjustments to the historical cost position are adjustments made to account for the differences between changes in the historical cost position, which are measured at book value, and direct investment capital flows, which are measured at transaction value.

Currency translation adjustments are made to account for changes in exchange rates that are used to translate affiliates' foreign currency-denominated assets and liabilities into U.S. dollars. A depreciation of a foreign currency usually results in a negative translation adjustment because it tends to lower the dollar value of foreign currency-denominated assets. Likewise, an appreciation of a foreign currency usually results in positive adjustments because it tends to raise the dollar value of foreign currency-denominated assets.

INTERNATIONAL ECONOMIC COMPARISONS

U.S. Economic Performance Relative to Other Group of Seven (G-7) Members

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Economic Growth

The real gross domestic product (GDP) of the United States–the output of goods and services produced in the United States measured in 1996 prices–increased at an annual rate of 1.4 percent in the first quarter of 2003, compared to 1.4 percent growth in the fourth quarter of 2002, according to estimates by the U.S. Department of Commerce, Bureau of Economic Analysis.[2] For the year 2002, real GDP grew by 2.4 percent; up from 0.3 percent growth in the previous year. The major contributors to the increase in real GDP in the first quarter of 2003 were personal consumption expenditures, and residential fixed investment. However, the contributions of these components were partly offset by a decrease in private inventory investment, and nonresidential investment. Imports, which are a subtraction in the calculation of GDP, decreased in the first quarter of 2003.

The price index for gross domestic purchases, which measures prices paid by U.S. residents, increased 3.4 percent in the first quarter, compared with an increase of 1.8 percent in the fourth quarter.

In other G-7 economies, the annualized rates of real GDP growth were as follows: in the United Kingdom the economy grew by 0.3 percent in the first quarter of 2003, and it grew by 2.1 percent in the year to the first quarter of 2003. In France, the economy grew by 0.3 percent in the first quarter of 2003, and grew by 1.0 percent in the year to the first quarter of 2003. In Germany, the economy declined by 0.9 percent in the first quarter of 2003, but grew by 0.2 percent in the year to the first quarter of 2003. In Italy, the economy declined by 0.4 percent, but grew by 0.8 percent in the year to the first quarter of 2003. In Japan, the economy grew by 0.6 percent the first quarter of 2003, but grew by 2.6 percent in the year to the first quarter of 2003. In Canada, the economy grew by 2.4 percent in the fourth quarter of 2002, and grew by 2.6 percent in the year to the fourth quarter of 2002. For EU members linked by the euro currency, the euro area (EU-12) GDP growth rate was nil in the first quarter of 2003, but grew by 0.8 percent in the year to the first quarter of 2003.

U.S. Gross Domestic Product by Industry 2002

Private services-producing industries led economic rebound in 2002, according to the Bureau of Economic Analysis of the U.S. Department of Commerce. Real GDP for private services-producing industries increased by 2.8 percent, compared with growth of 1.7 percent in 2001, and 5.4 percent in 2000. This

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[2] Data for this article were taken largely from the following sources: U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product," BEA News Release, found at Internet address *http://www.bea.doc.gov/bea/newsrel/gdp.htm;* Federal Reserve Board, "Industrial Production and Capacity Utilization," G.17 (419) Release, found at Internet address *http://www.federalreserve.gov/releases/G17/Current/*; U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Price Index," USDL-01, found at Internet address *http://www.bls.gov/news.release/cpi.nr0.htm;* U.S. Department of Labor, Bureau of Labor Statistics, "The Employment Situation," USDL-01, found at Internet address *http://www.bls.gov/news.release/empsit.nr0.htm*; and the Conference Board, Consumer Research Center, "Forecasters' Forecasts," facsimile transmission, used with permission.

industries group recorded average annual growth of 5.3 percent over the period 1995-2000. Within this group, transportation and public utilities, wholesale and retail trades recorded highest rates of GDP growth, while finance, insurance and real estate recorded relatively slower growth.

Private goods-producing industries GDP increased in 2002 by 1.3 percent. Within this group mining and manufacturing recorded relatively higher growth rates, while agriculture, forestry, and fishing, construction and durable goods recorded relatively slower growth rates. The following table shows percent changes in real gross domestic by industry group for specified periods (table 1).

Industrial Production

The Federal Reserve Board reported that U.S. industrial production edged up 0.1 percent in May after having fallen by 0.6 percent in both March and April 2003. In May 2003 industrial production was 0.8 percent lower than its level in May 2002. Manufacturing output increased 0.2 percent in May after decreasing by 0.7 percent in April. Output at utilities fell by 0.9 percent in May, but mining output moved up 0.8 percent and was 0..2 percent above the level of May 2002. The rate of capacity utilization for total industry was unchanged at decreased to 74.3 percent, 0.7 percentage point below the rate a year earlier.

By market group, the output of consumer goods fell in May by 0.1 percent, and was driven by a drop in the production of durable goods of 0.5 percent, which in turn was driven by a drop in the production of automotive products. The production of consumer nondurable goods was unchanged. The output of business equipment was unchanged in May and was 2.8 percent below its level in May 2002.

For the first quarter as a whole, manufacturing output fell at an annual rate of 0.7 percent, its second consecutive quarterly decline. The overall factory operating rates edged down 0.2 percentage point to 72.9. A decline of 0.4 percent in the production of durable goods in March was mostly due to declines in the output of machinery, metals, and motor vehicles and parts. The output of computers and electronic products posted a 0.8 percent increase and was 5.1 percent above its earlier year level. Within non-durables, increases in the output of chemicals, paper, and petroleum and coal products were offset by declines in plastics and rubber products and other material.

Other G-7 member countries reported the following growth rates of industrial production. For the year ending April 2003, the United Kingdom reported a decrease of 1.8percent; Canada reported a decrease of 1.0 percent, France reported a decrease of 0.5 percent; Germany reported a decrease of 0.5 percent; Italy reported a decrease of 1.7 percent, and Japan reported an increase of 1.6 percent for the year ending May 2003. The euro area reported an increase of 0.8 for the year ending April 2003.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) was unchanged in May 2003 following a 0.3 percent decline in April, according to the U.S. Department of Labor. For the year ended May 2003, consumer prices increased 2.1 percent higher than in May 2002.

During the year ended in May 2003, prices increased 1.0 percent in Germany, 2.6 percent in Italy, 1.8 percent in France, and by 3.0 percent in the United Kingdom, 2.9 percent in Canada; however, prices declined by 0.2 percent in Japan. Prices increased by 2.0 percent in the euro area in the year ending June 2003.

Employment

The U.S. Department of Labor, Bureau of Labor Statistics reported that the U.S. unemployment rate rose to 6.4 percent in April 2003. Job losses continued in manufacturing, but were partly offset by increases in some other industries. In other G-7 countries, the latest unemployment rates were reported to be 7.8 percent in Canada, 9.3 percent in France, 10.7 percent in Germany, 8.8 percent in Italy, 5.4 percent in Japan, and 5.1 percent in the United Kingdom. The unemployment rate in the euro area was 8.8 percent.

Productivity and Costs

Productivity growth has held down business costs and inflation. The U.S. Bureau of Labor Statistics reported that U.S. labor productivity–as measured by output per hour of all persons- rose in the first quarter of 2003 by 2.2 percent in the business sector and by 1.6 percent in the non-farm business sector. In the manufacturing sector productivity rose in the first quarter by 2.1 percent. In the durable goods manufacturing, productivity rose by 2.4 percent, but in the nondurable goods manufacturing, productivity decreased by 1.7 percent.

Productivity growth in manufacturing in the first quarter of 2003 reflected decreases in both output and

Table 1
Gross domestic product by industry for 2002, with services-producing sector leading the economic rebound and manufacturing beginning the recovery

Sector/industry	2000	2001	2002	1995 to 2000
		Average annual rate of change		
Gross domestic product	3.8	0.3	2.4	4.0
Private industries	3.9	0.4	2.5	4.6
Private goods-producing industries	3.6	-4.2	1.3	4.1
Agriculture, forestry, and fishing	7.9	-1.7	0.1	6.2
Mining	-11.2	4.8	1.4	-2.0
Construction	2.8	-1.6	0.1	4.8
Manufacturing	4.7	-6.0	1.8	4.3
Durable goods	10.0	-5.2	-0.1	7.9
Nondurable goods	-2.2	-7.1	4.3	-0.4
Private services-producing industries	5.4	1.7	2.8	5.3
Transportation and public utilities	6.8	-0.2	3.9	4.3
Transportation	5.2	-4.3	3.3	4.6
Communications	12.3	12.3	3.2	7.2
Electric, gas, and sanitary services	2.4	-9.1	5.6	0.6
Wholesale trade	5.9	-0.2	5.0	9.2
Retail trade	7.5	4.6	5.9	7.2
Finance, insurance, and real estate	6.2	2.8	1.6	5.2
Services	3.3	0.9	1.6	3.9
Government	2.6	1.7	1.9	1.4

Source: United States Department of Commerce, Bureau of Economic Analysis, “Gross Domestic Product (GDP) by Industry for 2002: Services-Producing Sector Leads Economic Rebound; Manufacturing Begins Recovery,” BEA News Release, BEA 03-11, Apr. 17, 2003, found at Internet address *http://www.bea.gov/bea/newsrel/gdpindy2002.htm*, retrieved on May 17, 2003.

hours; output declined by 0.6 percent, and hours of all persons fell 2.6 percent (seasonally adjusted annual rates). Output and hours in manufacturing, which includes about 15 percent of U.S. business sector employment, tend to vary more from quarter to quarter than data for the aggregate business and non-farm business sectors.

The data sources and methods used in the preparation of the manufacturing series differ from those used in preparing the business and non-farm business series, and these measure are not directly comparable. Output measures for business and non-farm business series are based on measures of gross domestic product prepared by the Bureau of Economic Analysis of the U.S. Department of Commerce. Quarterly output measure for manufacturing reflect indexes of industrial production prepared by the Board of Governors of the Federal Reserve System. See productivity and costs measures in table 2.

Fourth Quarter and Annual Measures for Nonfinancial Corporations

The nonfinancial corporate sector includes all corporations doing business in the United States, except those classified as depository institutions, nondepository institutions, security and commodity brokers, insurance carriers, regulated investment offices, small business investment offices and real estate investment trusts.

Fourth quarter productivity for nonfinancial corporations released by BLS show productivity (output per-all employee hour) grew by 5.0 percent from the third quarter to the fourth quarter of 2002 as output grew by 4.5 percent and employee hours fell 0.5 percent. Hourly compensation increased 4.9 percent in the fourth quarter, and real hourly compensation rose 2.8 percent. Unit labor costs fell 0.1 percent in the fourth quarter of 2002, the seventh consecutive drop in these costs. In the fourth quarter, unit profits increased at 20.8 percent annual rate after falling by 11.2 percent in the previous quarter.

In the calendar year 2002 productivity grew by 5.5 percent in the calendar year 2002 for non-financial corporations, following an increase of 1.4 percent in the previous year. Nonfinancial corporate output grew by 3.2 percent in 2002, and employee hours decreased 2.2 percent. This was the second consecutive decline in employee hours.

Hourly compensation grew 3.3 percent in 2002, and real hourly compensation increased 1.7 percent. Total unit costs fell 1.3 percent, reflecting a 2.1 decrease in unit labor costs and a 0.9 percent rise in unit non-labor costs. Unit profits rose 9.0 percent in 2002, which reflects both the unit costs and the unit profits measures, dropped 0.5 percent in 2002. Annual 2002 measure of productivity and costs for the nonfinancial corporate sector are shown in table 3.

Forecasts

The U.S. economy has continued to grow at a remarkable rate despite the forces burdening it, according to the Federal Reserve Board, IMF, OECD and other major private forecasts. Despite such forces as the lengthy adjustment of capital spending following several years of decline in equity values, economic retrenchment triggered by revelations of corporate malfeasance, and the heightened political risks in areas such as the Middle East, U.S. real GDP grew by 2.4 percent in 2002, a very respectable pace compared to the sluggish growth in other major world economies.

Federal Reserve Board Forecasts[3]

Despite the unusual degree of uncertainty attending the economic outlook, the Federal Reserve Board believes the most probable outcome for 2003 to be a pick up in the pace of economic expansion.

The central tendency of real GDP forecasts made by the members of the Board of Governors and the Federal Reserve Bank presidents is 31/4 percent to 31/2 percent measured from the final quarter of 2002 to the final quarter of 2003. The civilian unemployment rate is expected to be in the 51/4 percent to 6.0 percent range. Consumer prices will increase less in 2003 than in 2002 if energy prices reverse last year's sharp rise, and if resource utilization remains sufficiently slack to slow down inflation forces.

Monetary policy remains stimulative to domestic demand, and activity abroad is expected to strengthen foreign demand for U.S. exports. Furthermore robust gains in U.S. labor productivity ought to promote business and household spending in 2003.

OECD Forecasts[4]

Forecasts by the Organization of Economic Co-operation and Development (OECD) in its April

[3] Federal Reserve Board of Governors, "Monetary Policy Report to the Congress," *Federal Reserve Bulletin*, March 2003, p. 108, found at Internet address *http://www.federalreserve.gov/pubs/bulletin/2003/0303lead.pdf,* retrieved on May 17, 2003.

[4] OECD, *Economic Outlook No. 72*, December 2002, found at Internet address *http://www.oecd.org/*, retrieved on Jan. 15, 2003.

Table 2
Productivity and costs: Preliminary first quarter 2003 measures, at seasonally adjusted annual rates

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
			Percent change from preceding quarter			
Business	2.2	1.7	-0.5	3.9	0.1	1.7
Nonfarm business	1.6	1.4	-0.1	3.5	-0.3	1.9
Manufacturing	2.1	-0.6	-2.6	4.8	1.0	2.7
Durable	2.4	0.3	-2.0	4.5	0.7	2.1
Nondurable . . .	1.7	-1.7	-3.3	5.2	1.3	3.4
			Percent change from same quarter a year ago			
Business	2.5	2.3	-0.2	3.5	0.6	1.0
Nonfarm business	2.3	2.3	0.0	3.3	0.4	0.9
Manufacturing . .	2.8	0.5	-2.2	4.1	1.2	1.3
Durable	4.5	1.5	-2.9	4.7	1.7	0.2
Nondurable . . .	0.7	-0.6	-1.2	3.4	0.5	2.7

Source: U.S. Bureau of Labor Statistics, USDL 03-202, found at Internet address *http://www.bls.gov/lpc/*, retrieved May 7, 2003.

Table 3
Nonfinancial corporations: Annual changes in productivity and related measures, 1993-2002

Measure	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
					Percent change from previous year					
Productivity	0.7	2.4	1.0	3.2	0.9	3.0	2.7	3.5	1.4	5.5
Output	3.0	6.4	4.2	5.0	5.9	5.8	5.2	5.0	-0.1	3.2
Hours	2.3	3.9	3.1	1.8	5.0	2.6	2.4	1.5	-1.5	-2.2
Hourly compensation	2.0	2.1	1.9	2.7	1.3	5.1	4.4	6.7	2.5	3.3
Real hourly compensation	-0.4	0.0	-0.5	0.0	-0.9	3.6	2.3	3.2	-0.3	1.7
Unit labor costs	1.3	-0.3	0.8	-0.5	0.4	2.0	1.7	3.1	1.0	-2.1
Unit nonlabor costs . .	0.2	1.0	0.9	-1.5	0.3	1.2	1.2	3.3	6.5	0.9
Total unit cost	1.0	0.1	0.8	-0.8	0.4	1.8	1.5	3.1	2.5	-1.3
Unit profit	13.2	16.3	5.5	9.5	3.1	-9.7	-7.2	-15.2	-11.7	9.0
Implicit price deflator .	2.1	1.6	1.4	0.4	0.7	0.3	0.6	1.2	1.2	-0.5

Source: United States Department of Labor, Bureau of Labor Statistics, “Productivity jump for nonfinancial corporations in 2002,” May 13, 2003, USDL 03-202, found at Internet address *http://www.bls.gov/opub/ted/2003/may/wk2/art02.htm*, retrieved on May 17, 2003.

2003 *Economic Outlook* show fragile and weaker than expected growth rates for the United States, but rather disappointing growth in the euro area and Japan. Geopolitical and psychological factors and their role in weakening investors and consumer confidence caused the world economy to undershoot economic expectations by wide margins. However, the forecast sees a progressive if unspectacular world recovery. U.S. real GDP is projected to grow by 2.5 percent in 2003, and by 4.0 percent in 2004. In contrast, Japan's real GDP is projected to grow by 1.0 percent in 2003, and then grow by 1.1 percent in 2004. In the euro area (EU-12), real GDP is projected to grow by 1.0 percent in 2003, and by 2.4 percent in 2004. In the larger area of the European Union (EU-15), real GDP is projected to grow by 1.2 percent in 2003, and by 2.40 percent in 2004. Real GDP for the whole OECD area–the world's industrialized economies as a group–is projected to grow by 1.9 percent in 2003, by 3.0 percent in 2004.

Inflation is projected to remain subdued in the United States, rising by 1.6 percent in 2003 and by 1.3 percent in 2004. In Japan, deflationary price pressures are expected to remain throughout the 2-year period as prices are projected to decline by 2.2 percent in 2003, and by 1.8 percent in 2004. In the euro area, inflation is projected to slow from 1.9 percent in 2003 to 1.8 percent in 2004. In the somewhat larger area of the European Union, inflation is projected to slow from 1.9 percent in 2003 to 1.8 percent in 2004. In the overall OECD area, inflation is projected to slow from 1.7 percent in 2003 to 1.4 percent in 2004.

Unemployment is projected to remain at 6.0 percent in the United States in 2003, then decline slightly to 5.8 percent in 2004. In Japan, unemployment is projected to stay at 5.7 percent in 2003, and 2004. In the euro area, unemployment is projected to remain high at 8.8 percent in 2003, and decline slightly to 8.7 percent in 2004. In the European Union, unemployment is projected to slow from 8.0 percent in 2003 to 7.9 percent in 2004. In total OECD area, unemployment is projected to remain around 7.2 to 7.0 percent during the 2-year period.

The U.S. current account deficit, as a percent of GDP, is projected to remain high in the two years, growing from 5.4 percent in 2003 to 5.5 percent of GDP in 2004. In Japan, the current account surplus is projected to grow from 3.1 percent of GDP in 2003 to 3.9 percent in 2004. In the euro area, the current account surplus is projected to stay at 1.4 percent in 2003, and in 2004. The overall OECD current account deficit, as a percent of GDP, is projected to remain at 1.2 percent over the two years.

World trade volume–the average of world merchandise imports plus exports–is projected to increase by 5.9 percent in 2003, and by 8.8 percent in 2004, up from the much lower growth rate of 3.6 percent in 2002.

IMF Forecasts

The International Monetary Fund (IMF) in their April 2003 World Economic Outlook, expects the world recovery to continue at a moderate pace. World output is projected to grow by 3.2 percent in 2003 and by 4.1 percent in 2004. U.S. real GDP is projected to grow by 2.2 percent in 2003, and by 3.6 percent in 2004. Japan's real GDP is expected to grow by 0.8 percent in 2003 and by 1.0 percent in 2003. In the euro area real GDP is expected to grow by 1.1 percent in 2003 and by 2.3 percent in 2004. In the European Union real GDP is expected to grow by 1.3 percent in 2003, and by 2.4 percent in 2004.

U.S. inflation rate as measured by consumer prices is estimated to rise to 2.3 percent in both 2003 and 2004. In the euro area inflation is expected to slow from 2.0 percent in 2003 to 1.5 percent in 2004. In Japan deflationary pressures are expected to continue causing prices to decline by 0.7 percent in 2003 and by 0.6 percent in 2004. In the larger European Union, consumer prices are expected to rise by 2.2 percent in 2003, and slow to 1.8 percent in 2004.

U.S. unemployment rate is expected to reach 6.2 percent in 2003, and then decline to 5.9 percent in 2004. In the euro area, unemployment is to reach 8.8 percent in 2003, and then decline slightly to 8.7 percent. In Japan, the unemployment rate is to reach 5.5 percent in 2003, and 5.4 percent in 2004. In the European Union, unemployment is to reach 8.0 percent in both 2003, and 2004.

U.S. current account deficit is expected to increase to 5.3 percent of GDP in 2003, and decline slightly to 5.1 percent. Japan's current account surplus is expected to reach 2.7 percent of GDP in 2003, and to 3.0 percent in 2004. The euro area current account surplus is expected to remain at 1.1 percent of GDP in both 2003 and 2004. For the European Union the current account surplus is expected to reach 0.9 percent in both 2003 and 2004.

Private Economic Forecasts

Economic prospects also improved, according to private forecasters. Seven major U.S. forecasters expect real GDP growth in the United States during the second quarter of 2003, to reach an average annualized rate of 1.9 percent and then keeps rising to reach 3.9

percent by the end of the year. The overall growth rate for the year 2003 is expected to average 2.4 percent. Following the 1.9 percent increase in the second quarter, real GDP is projected to grow in the third, and fourth quarters of 2003, at 3.4 percent, and 3.9 percent, respectively. Table 4 shows macroeconomic projections for the U.S. economy from June 2003 to June 2004, and the simple average of these forecasts. Forecasts of all the economic indicators, except unemployment, are presented as percentage changes from the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter. The average of the forecasts points to an unemployment rate of about 6.0 percent for the year 2003. Inflation, as measured by the GDP deflator, is expected to remain subdued, reaching an average of about 1.6 percent in the second quarter of 2003, and then rise thereafter. For the year 2003, inflation is projected to remain at 1.7 percent.

Table 4
Projected economic forecasts by quarter and year, April 2003-June 2004

Item		Conference Board	Macro-economic Advisers	E.I. Dupont	UCLA	Regional Forecasting Associates	Merrill Lynch Capital Markets	WEFA	Mean of forecasts
					Percent (see note)				
GDP constant dollars									
2003	Q:I (actual)	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
	Q:II	2.3	1.8	1.5	2.5	2.0	1.8	1.6	1.9
	Q:III	4.1	4.1	3.0	2.5	3.4	3.0	4.0	3.4
	Q:IV	4.7	4.2	4.5	3.8	3.6	2.5	4.2	3.9
2004	Q:I	4.9	4.1	4.5	3.9	3.8	3.3	5.1	4.2
	Q:II	3.4	3.7	4.0	3.8	4.1	3.8	4.2	3.9
	Annual 2003	2.5	2.4	2.2	2.4	2.7	2.1	2.3	2.4
	Annual 2004	4.0	3.8	3.8	3.5	3.5	3.3	4.2	3.7
Unemployment, average rate									
2003	Q:I (actual)	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
	Q:II	6.1	6.0	6.1	6.0	6.0	6.0	6.1	6.0
	Q:III	6.0	6.0	6.1	6.0	6.2	6.3	6.2	6.1
	Q:IV	5.8	5.9	6.0	5.9	6.2	6.3	6.1	6.0
2004	Q:I	5.6	5.7	5.8	6.0	6.1	6.2	6.0	5.9
	Q:II	5.6	5.6	5.7	5.9	6.0	6.0	5.9	5.8
	Annual 2003	5.9	5.9	6.0	5.9	6.0	6.1	6.1	6.0
	Annual 2004	5.5	5.6	5.7	5.8	5.9	6.0	5.9	5.8
GDP price deflator									
2003	Q:I (actual)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
	Q:II	2.0	1.3	1.8	1.3	1.8	1.6	1.4	1.6
	Q:III	2.5	1.3	1.8	1.8	1.4	0.9	1.4	1.6
	Q:IV	1.5	1.5	1.8	2.3	1.4	1.2	1.4	1.6
2004	Q:I	2.0	1.9	1.8	2.8	1.8	1.2	2.1	1.9
	Q:II	1.7	1.6	1.8	3.0	1.8	1.1	1.8	1.8
	Annual 2003	1.9	1.6	1.9	1.5	1.8	1.6	1.8	1.7
	Annual 2004	1.9	1.6	1.8	2.8	1.9	1.2	1.8	1.9

Note.—Projected changes in percent represent annualized percentage rates of change from the preceding period, except for the unemployment rate which represents a simple percentage rate of the U.S. labor force. Quarterly data are seasonally adjusted.

Source: Calculated from data supplied by the Conference Board. Used with permission. Forecast date, April 2003.

STATISTICAL TABLES

Table 1
Unemployment rates in G-7 countries, by specified periods, 2002 to April 2003[1]

Country	2002				2003				
	Q:I	Q:II	Q:III	Q:IV	Q:I	Jan.	Feb.	Mar.	Apr.
	Percent								
United States . . .	5.6	5.9	5.8	5.9	5.8	5.7	5.8	5.8	6.0
Canada	7.1	6.9	7.0	6.9	6.7	6.7	6.7	6.7	7.2
Japan	5.3	5.4	5.5	5.4	5.4	5.6	5.3	5.4	5.5
France	8.7	8.7	8.9	8.9	9.1	9.0	9.1	9.1	9.2
Germany	8.2	8.3	8.5	8.6	9.0	8.9	9.1	9.2	9.3
Italy	9.2	9.1	9.1	9.0	9.1	9.1			
United Kingdom .	5.1	5.2	5.3	5.1		5.1	5.1		

[1] Rates presented on a civilian labor force basis, seasonally adjusted. Rates for foreign countries adjusted to be comparable to the U.S. rate.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Unemployment Rates in Nine Countries, Civilian Labor Force Basis, Approximating U.S. Concepts, Seasonally Adjusted, 1990-2002," release of June 6, 2003, found at Internet address *ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flsjec.txt.*

Table 2
Consumer prices of G-7 countries, by specified periods, 2002 to April 2003

Country	2002				2003				
	Q:I	Q:II	Q:III	Q:IV	Q:I	Jan.	Feb.	Mar.	Apr.
	Percent, change from same period of previous year								
United States . . .	1.3	1.3	1.6	2.2	2.9	2.6	3.0	3.0	2.2
Canada	1.5	1.3	2.3	3.8	4.5	4.5	4.6	4.3	3.0
Japan	-1.4	-0.9	-0.8	-0.5	-0.2	-0.4	-0.2	-0.1	-0.1
France	2.1	1.6	1.8	2.1	2.4	2.0	2.6	2.6	2.0
Germany	1.9	1.2	1.1	1.2	1.2	1.1	1.3	1.2	1.0
Italy	2.4	2.3	2.4	2.8	2.7	2.8	2.6	2.7	2.7
United Kingdom .	1.2	1.2	1.5	2.6	3.1	2.9	3.2	3.1	3.1

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Consumer Prices in Nine Countries, Percent Change from Same Period of Previous Year, 1990-2002," release of June 6, 2003, found at Internet address *ftp://ftp.bls.gov/pub/special.requests/ForeignLabor/flscpim.txt.*

Table 3
U.S. trade balances by major commodity categories and by specified periods, April 2002 to April 2003[1]

Sector	2002									2003			
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
	Billion dollars												
Manufactures	-34.3	-33.4	-33.1	-40.8	37.2	-38.7	-39.8	-40.0	-40.5	-37.7	-32.6	-35.0	-38.2
Agriculture	0.3	0.5	0.7	0.6	-0.9	0.7	1.1	1.5	1.2	1.0	1.2	0.7	0.2
Petroleum[2]	-9.2	-9.4	-8.9	-9.3	9.0	-9.1	-10.7	-9.8	-10.0	-10.9	-11.1	-14.2	-11.6
Dollar unit price of U.S. petroleum imports[2]	22.5	23.8	23.4	23.7	24.6	25.5	26.2	24.2	24.2	27.7	30.5	30.3	26.0

[1] Exports, f.a.s. value, not seasonally adjusted. Imports, customs value, not seasonally adjusted.
[2] Petroleum and selected products, not seasonally adjusted.

Source: Calculated from official data of the U.S. Department of Commerce, Exhibits 15 and 17, FT-900 release of June 13, 2003, found at Internet address *http://www.bea.doc.gov/bea/newsrel/tradnewsrelease.htm.*