

# U.S. International Transactions

## Fourth Quarter of 2005

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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 \$224.9 billion (preliminary) in the fourth quarter of 2005 from \$185.4 billion (revised) in the third quarter (table A, chart 1).<sup>1</sup> The increase was mostly attributable to an increase in net outflows for unilateral current transfers, which were reduced in the third quarter by receipts of claims resulting from the catastrophic damage caused by Hurricanes Katrina and Rita, and to an increase in the deficit on goods. In addition, the balance on income shifted to a deficit from a surplus, and the surplus on services decreased.

In the financial account, net recorded financial in-

flows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—decreased to \$235.0 billion in the fourth quarter from \$253.8 billion in the third quarter. Financial inflows for foreign-owned assets in the United States slowed more than financial outflows for U.S.-owned assets abroad.

The statistical discrepancy—errors and omissions in recorded transactions—was a negative \$9.7 billion in the fourth quarter, compared with a negative \$68.0 billion in the third quarter.

The following are highlights for the fourth quarter of 2005:

- Goods imports accelerated, mainly as a result of a substantial pickup in nonpetroleum products.
- Both income receipts and income payments increased strongly, but the rise in payments was especially large.

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                     | Lines in tables 1 and 11 in which transactions are included are indicated in ( )<br>(Credits +; debits -) | 2004       | 2005 <sup>p</sup> | Change:<br>2004-2005 | 2004     |          |          |          | 2005           |                 |                  |                 | Change:<br>2005:III-IV |
|--------------------------|---|------------|-------------------|----------------------|----------|----------|----------|----------|----------------|-----------------|------------------|-----------------|------------------------|
|                          |   |            |                   |                      | I        | II       | III      | IV       | I <sup>r</sup> | II <sup>r</sup> | III <sup>r</sup> | IV <sup>p</sup> |                        |
| <b>Current account</b>   |   |            |                   |                      |          |          |          |          |                |                 |                  |                 |                        |
| 1                        | Exports of goods and services and income receipts (1).....  | 1,530,975  | 1,740,897         | 209,922              | 363,494  | 376,564  | 385,874  | 405,041  | 413,076        | 428,058         | 441,821          | 457,939         | 16,118                 |
| 2                        | Goods, balance of payments basis (3).....   | 807,536    | 892,619           | 85,083               | 193,789  | 200,072  | 204,801  | 208,874  | 213,407        | 223,106         | 224,793          | 231,313         | 6,520                  |
| 3                        | Services (4).....   | 343,912    | 379,604           | 35,692               | 83,304   | 85,027   | 85,569   | 90,013   | 92,745         | 93,832          | 96,220           | 96,806          | 586                    |
| 4                        | Income receipts (12).....   | 379,527    | 468,674           | 89,147               | 86,401   | 91,465   | 95,504   | 106,154  | 106,924        | 111,120         | 120,808          | 129,820         | 9,012                  |
| 5                        | Imports of goods and services and income payments (18).....   | -2,118,119 | -2,462,946        | -344,827             | -487,324 | -522,684 | -537,085 | -571,026 | -584,567       | -602,326        | -618,310         | -657,746        | -39,436                |
| 6                        | Goods, balance of payments basis (20).....  | -1,472,926 | -1,674,261        | -201,335             | -345,241 | -364,059 | -372,576 | -391,050 | -399,079       | -409,378        | -422,061         | -443,743        | -21,682                |
| 7                        | Services (21).....  | -296,105   | -321,578          | -25,473              | -70,704  | -73,082  | -75,259  | -77,058  | -79,198        | -80,278         | -80,352          | -81,749         | -1,397                 |
| 8                        | Income payments (29).....   | -349,088   | -467,107          | -118,019             | -71,379  | -85,543  | -89,250  | -102,918 | -106,290       | -112,670        | -115,897         | -132,254        | -16,357                |
| 9                        | Unilateral current transfers, net (35).....   | -80,930    | -82,896           | -1,966               | -22,271  | -20,515  | -15,771  | -22,374  | -26,252        | -22,633         | -8,940           | -25,069         | -16,129                |
| <b>Capital account</b>   |   |            |                   |                      |          |          |          |          |                |                 |                  |                 |                        |
| 10                       | Capital account transactions, net (39).....   | -1,648     | -5,647            | -3,999               | -428     | -372     | -393     | -455     | -4,466         | -315            | -435             | -431            | 4                      |
| <b>Financial account</b> |   |            |                   |                      |          |          |          |          |                |                 |                  |                 |                        |
| 11                       | U.S.-owned assets abroad, net (increase/financial outflow (-)) (40).....                                  | -855,509   | -491,729          | 363,780              | -295,140 | -133,886 | -137,525 | -288,957 | -81,803        | -225,422        | -141,429         | -43,077         | 98,352                 |
| 12                       | U.S. official reserve assets, net (41).....   | 2,805      | 14,096            | 11,291               | 557      | 1,122    | 429      | 697      | 5,331          | -797            | 4,766            | 4,796           | 30                     |
| 13                       | U.S. Government assets, other than official reserve assets, net (46).....                                 | 1,215      | 7,580             | 6,365                | 727      | -2       | -11      | 501      | 4,487          | 971             | 1,516            | 606             | -910                   |
| 14                       | U.S. private assets, net (50).....  | -859,529   | -513,405          | 346,124              | -296,424 | -135,006 | -137,943 | -290,155 | -91,621        | -225,596        | -147,711         | -48,479         | 99,232                 |
| 15                       | Foreign-owned assets in the United States, net (increase/financial inflow (+)) (55).....                  | 1,440,105  | 1,292,695         | -147,410             | 423,023  | 304,937  | 254,228  | 457,915  | 243,311        | 376,085         | 395,264          | 278,037         | -117,227               |
| 16                       | Foreign official assets in the United States, net (56).....   | 394,710    | 220,676           | -174,034             | 147,401  | 77,039   | 75,792   | 94,478   | 25,277         | 82,646          | 38,176           | 74,577          | 36,401                 |
| 17                       | Other foreign assets in the United States, net (63).....  | 1,045,395  | 1,072,019         | 26,624               | 275,622  | 227,898  | 178,436  | 363,437  | 218,034        | 293,439         | 357,088          | 203,460         | -153,628               |
| 18                       | Statistical discrepancy (sum of above items with sign reversed) (70).....                                 | 85,126     | 9,626             | -75,500              | 18,646   | -4,044   | 50,672   | 19,856   | 40,701         | 46,553          | -67,971          | -9,653          | 58,318                 |
| <b>Memoranda:</b>        |   |            |                   |                      |          |          |          |          |                |                 |                  |                 |                        |
| 19                       | Balance on current account (76).....  | -668,074   | -804,945          | -136,871             | -146,101 | -166,635 | -166,982 | -188,359 | -197,743       | -196,901        | -185,429         | -224,876        | -39,447                |
| 20                       | Net financial flows (40 and 55).....  | 584,596    | 800,966           | 216,370              | 127,883  | 171,051  | 116,703  | 168,958  | 161,508        | 150,663         | 253,835          | 234,960         | -18,875                |

<sup>r</sup> Revised  
<sup>p</sup> Preliminary

- Net outflows for unilateral current transfers returned to a more typical level.
- Net foreign private purchases of U.S. securities remained exceptionally strong.
- Financial flows for U.S. direct investment abroad continued to be significantly affected by the tax incentives created by the American Jobs Creation Act of 2004.

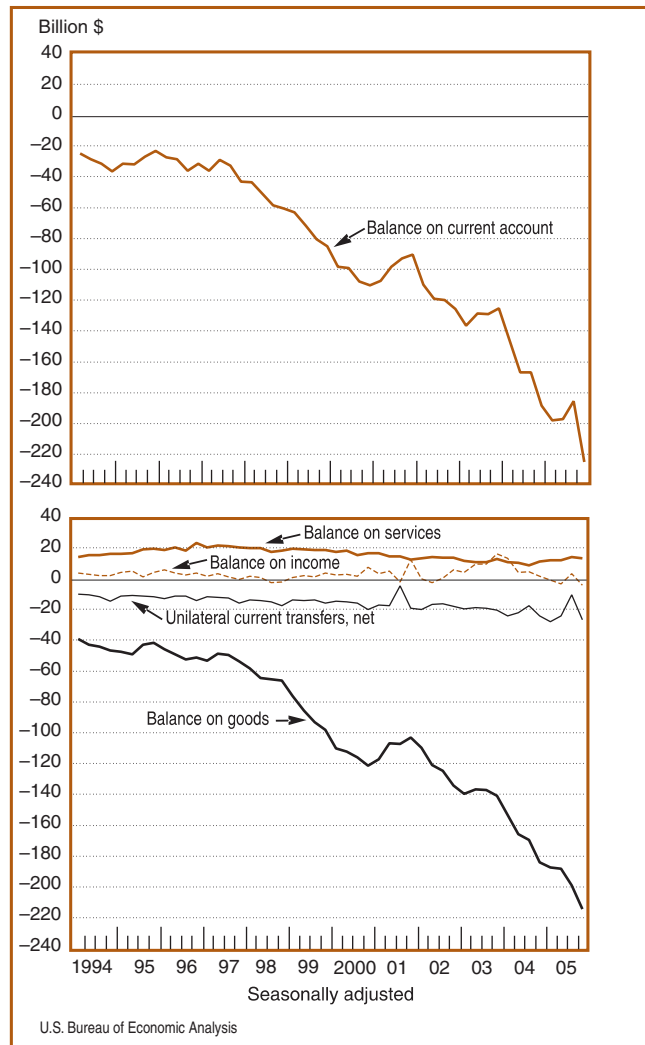
**Selected economic and financial market developments**

In the fourth quarter, the U.S. dollar appreciated 1 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 appreciated against both the euro

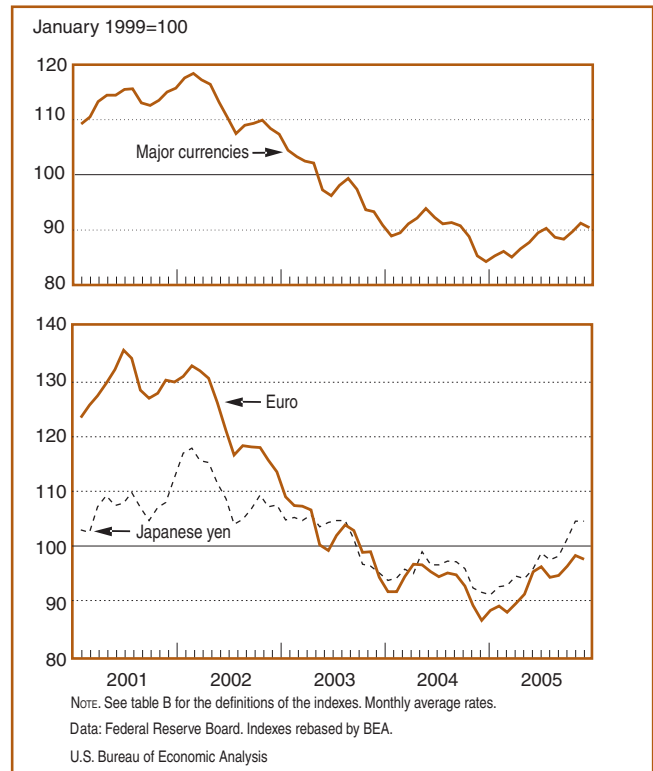
and the Japanese yen, and it depreciated against the Canadian dollar.

In the United States, data releases in the fourth quarter indicated that the U.S. economy in the third quarter continued to expand in the 3- to 4-percent range. Releases indicated that the deficit on U.S. trade in goods and services on a 3-month moving average

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



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



**Special Factors in the Accounts**

The U.S. international transactions accounts for the fourth quarter were significantly affected by two special factors. First, the extensive damage caused by Hurricanes Katrina and Rita in the third quarter continued to affect trade in goods in the fourth quarter. Unilateral current transfers returned to a more typical level in the fourth quarter after substantial hurricane-related transfers in the third quarter. Second, the American Jobs Creation Act of 2004 affected the composition of income receipts and the level of financial flows for U.S. direct investment abroad.

For details about the effects of these factors on the accounts, see the relevant sections of this article. It is not possible for BEA to separately quantify the effects.

basis was increasing more rapidly. U.S. monetary authorities raised the target level for the Federal funds rate by 50 basis points in two steps, to 4.25 percent. U.S. long-term interest rates and U.S. stock prices increased. The extensive damage to the U.S. Gulf Coast caused by Hurricanes Katrina and Rita in the third quarter continued to affect petroleum and petroleum-related production and the value of energy products

traded internationally by the United States in the fourth quarter.

In Europe, data releases indicated that economic growth in the euro area had picked up in the third quarter. Among countries with larger economies, economic activity in Germany and France strengthened, activity in Spain remained relatively strong, and activity in Italy weakened. Euro area monetary authorities altered monetary policy for the first time in more than 2 years, increasing the minimum bid rate on main refinancing operations, a key policy-controlled interest rate, to 2.25 percent.

In Japan, reports showed that economic growth slowed in the third quarter after strong growth in the first and second quarters. Japanese monetary policy was unchanged, and short-term interest rates remained very close to zero.

In Canada, reported economic growth remained relatively strong at about 3.5 percent. Canadian monetary authorities raised the target for the overnight rate by 50 basis points, to 3.25 percent.

### Revisions to the Third-Quarter Estimates

The international transactions accounts estimates for the third quarter of 2005 have been revised from the preliminary estimates that were published in the January 2006 SURVEY OF CURRENT BUSINESS. In addition, the estimates for the first, second, and third quarters have been revised to ensure that the seasonally adjusted estimates sum to the same annual totals as the unadjusted estimates. The revisions to the estimates for the first and second quarters were small.

For the third quarter, the current-account deficit was revised to \$185.4 billion from \$195.8 billion. The goods deficit was revised to \$197.3 billion from \$197.9 billion; the services surplus was revised to \$15.9 billion from \$15.1 billion; the income surplus was revised to \$4.9 billion from \$0.5 billion; and unilateral current transfers were revised to net outflows of \$8.9 billion from net outflows of \$13.5 billion. Net recorded financial inflows were revised to \$253.8 billion from \$272.9 billion.

## Current Account

### Goods and services

The deficit on goods and services increased \$16.0 billion, to \$197.4 billion in the fourth quarter from \$181.4 billion in the third quarter. The increase was attributable to a \$15.2 billion increase in the deficit on goods and a \$0.8 billion decrease in the surplus on services.

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

[January 1999=100]

|   | 2004            |                | 2005            |                  |                 |                   | 2005              |                   |                    |                    |                  |                   |                   |                   |                    |                   |                   |                   |
|---|-----------------|----------------|-----------------|------------------|-----------------|-------------------|-------------------|-------------------|--------------------|--------------------|------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
|   | IV <sup>r</sup> | I <sup>r</sup> | II <sup>r</sup> | III <sup>r</sup> | IV <sup>p</sup> | Dec. <sup>r</sup> | Jan. <sup>r</sup> | Feb. <sup>r</sup> | March <sup>r</sup> | April <sup>r</sup> | May <sup>r</sup> | June <sup>r</sup> | July <sup>r</sup> | Aug. <sup>r</sup> | Sept. <sup>r</sup> | Oct. <sup>p</sup> | Nov. <sup>p</sup> | Dec. <sup>p</sup> |
| <b>Nominal:<sup>1</sup></b>                         |                 |                |                 |                  |                 |                   |                   |                   |                    |                    |                  |                   |                   |                   |                    |                   |                   |                   |
| Broad <sup>2</sup> .....                            | 96.7            | 95.7           | 96.8            | 97.2             | 98.0            | 95.2              | 95.7              | 95.9              | 95.4               | 96.2               | 96.6             | 97.6              | 98.0              | 96.8              | 96.7               | 97.7              | 98.4              | 97.8              |
| Major currencies <sup>3</sup> .....                 | 86.6            | 86.0           | 88.4            | 89.5             | 90.8            | 84.8              | 85.8              | 86.6              | 85.6               | 87.0               | 88.2             | 89.9              | 90.7              | 89.1              | 88.7               | 90.1              | 91.6              | 90.8              |
| Other important trading partners <sup>4</sup> ..... | 110.1           | 108.4          | 107.8           | 107.1            | 107.1           | 108.9             | 108.8             | 108.1             | 108.2              | 108.2              | 107.5            | 107.6             | 107.5             | 106.7             | 107.1              | 107.5             | 107.1             | 106.6             |
| <b>Real:<sup>1</sup></b>                            |                 |                |                 |                  |                 |                   |                   |                   |                    |                    |                  |                   |                   |                   |                    |                   |                   |                   |
| Broad <sup>2</sup> .....                            | 97.9            | 96.9           | 98.8            | 99.9             | 100.4           | 96.1              | 96.9              | 97.0              | 96.9               | 98.3               | 98.5             | 99.7              | 100.3             | 99.3              | 100.0              | 100.9             | 100.7             | 99.6              |
| Major currencies <sup>3</sup> .....                 | 91.6            | 91.6           | 94.6            | 96.6             | 98.2            | 89.5              | 91.1              | 92.3              | 91.5               | 93.3               | 94.3             | 96.2              | 97.5              | 96.0              | 96.3               | 98.0              | 99.0              | 97.7              |
| Other important trading partners <sup>4</sup> ..... | 105.2           | 103.0          | 103.6           | 103.5            | 102.7           | 103.8             | 103.6             | 102.3             | 103.2              | 104.0              | 103.3            | 103.6             | 103.4             | 103.0             | 104.2              | 104.0             | 102.4             | 101.6             |
| <b>Selected currencies: (nominal)<sup>5</sup></b>   |                 |                |                 |                  |                 |                   |                   |                   |                    |                    |                  |                   |                   |                   |                    |                   |                   |                   |
| Canada.....   | 80.4            | 80.7           | 81.8            | 79.1             | 77.2            | 80.2              | 80.6              | 81.6              | 80.0               | 81.3               | 82.6             | 81.6              | 80.5              | 79.3              | 77.5               | 77.5              | 77.8              | 76.4              |
| European currencies:                                |                 |                |                 |                  |                 |                   |                   |                   |                    |                    |                  |                   |                   |                   |                    |                   |                   |                   |
| Euro area <sup>6</sup> .....                        | 89.5            | 88.4           | 92.1            | 95.1             | 97.5            | 86.5              | 88.3              | 89.1              | 87.9               | 89.6               | 91.3             | 95.4              | 96.3              | 94.3              | 94.7               | 96.4              | 98.3              | 97.7              |
| United Kingdom.....                                 | 88.5            | 87.3           | 88.9            | 92.5             | 94.4            | 85.5              | 87.8              | 87.4              | 86.6               | 87.0               | 88.9             | 90.8              | 94.2              | 91.9              | 91.3               | 93.5              | 95.1              | 94.5              |
| Switzerland.....                                    | 85.4            | 85.3           | 88.5            | 92.0             | 93.9            | 82.7              | 85.1              | 86.0              | 84.8               | 86.3               | 87.8             | 91.4              | 93.4              | 91.1              | 91.4               | 93.0              | 94.6              | 94.2              |
| Japan.....  | 93.3            | 92.2           | 94.9            | 98.2             | 103.5           | 91.6              | 91.2              | 92.6              | 92.9               | 94.6               | 94.1             | 96.0              | 98.8              | 97.6              | 98.2               | 101.4             | 104.6             | 104.6             |
| Mexico.....   | 111.8           | 110.4          | 108.3           | 105.8            | 105.8           | 110.6             | 111.2             | 110.0             | 110.1              | 109.7              | 108.4            | 106.8             | 105.4             | 105.5             | 106.5              | 107.0             | 105.4             | 104.9             |
| Brazil.....   | 184.2           | 176.2          | 164.2           | 154.9            | 148.7           | 179.6             | 177.9             | 171.8             | 179.0              | 170.4              | 162.4            | 159.7             | 156.8             | 156.1             | 151.8              | 149.0             | 146.2             | 150.9             |

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1. For more information on the nominal and real indexes of the foreign exchange value of the U.S. dollar, see *Federal Reserve Bulletin*, 84 (October 1998): 811-18.

2. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of U.S. trading partners, including the currencies of the euro area countries, Australia, Canada, Japan, Sweden, Switzerland, United Kingdom, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.

3. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that circulate widely outside the country of issue, including the currencies of the euro area countries, Australia, Canada, Japan, Sweden, Switzerland, and the United Kingdom. The weight for each currency is its broad-index

weight divided by the sum of the broad-index weights for all of the currencies included in the major currency index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.

4. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that do not circulate widely outside the country of issue, including the currencies of Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. The weight for each currency is its broad-index weight divided by the sum of the broad-index weights for all of the currencies included in the other important trading partners index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.

5. Data: Federal Reserve Board. Monthly and quarterly average rates. Indexes prepared by BEA.

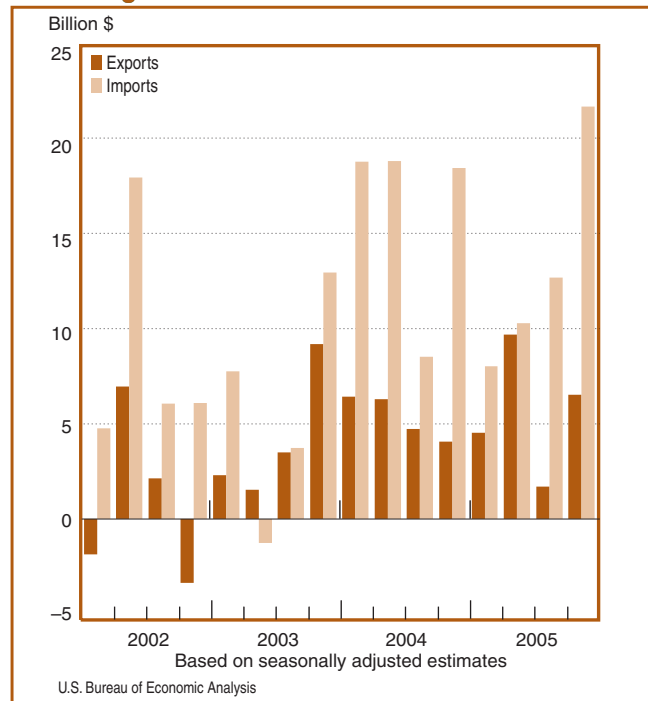
6. The euro area includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

## Goods

The deficit on goods increased to \$212.4 billion in the fourth quarter from \$197.3 billion in the third quarter. Imports increased more than three times as much as exports (chart 3).

**Exports.** Exports increased \$6.5 billion, or 2.9 per-

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



cent, to \$231.3 billion in the fourth quarter (table C). Real exports increased 2.3 percent, and export prices increased 0.6 percent.<sup>2</sup> Capital goods accounted for more than two-thirds of the increase in value. Automotive vehicles, engines, and parts and consumer goods also increased. By area, exports to Europe and Canada rebounded.

Capital goods increased \$4.4 billion after a much smaller increase in the third quarter. Civilian aircraft, engines, and parts rebounded, as production and deliveries of aircraft by Boeing resumed in October after a machinists' strike had shut down the company's plants and delayed deliveries in September. Fourth-quarter deliveries were primarily to Europe and the United Arab Emirates. Other capital goods also picked up. "Other industrial, agricultural, and service industry machinery" increased sharply, and electric generating machinery and parts and semiconductors also increased. These increases were partly offset by computers, peripherals, and parts, which decreased after six consecutive quarters of growth.

Automotive vehicles, engines, and parts increased \$1.6 billion. Most of the increase was attributable to an increase in exports of engines and parts to Canada and Mexico. Exports of passenger cars, mainly to Saudi Arabia and Mexico, also boosted automotive exports.

Consumer goods increased \$0.9 billion. Most of the rise was accounted for by consumer nondurable goods,

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, 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 <sup>1</sup> |                |                |                |                |                 |                  |                 |
|-------------------------------|------------------|-------------------|----------------|----------------|----------------|----------------|-----------------|------------------|-----------------|------------------|-------------------------------------|----------------|----------------|----------------|----------------|-----------------|------------------|-----------------|
|                               | 2004             | 2005 <sup>p</sup> | 2004           |                |                | 2005           |                 |                  |                 | 2004             | 2005 <sup>p</sup>                   | 2004           |                |                | 2005           |                 |                  |                 |
|                               |                  |                   | II             | III            | IV             | I <sup>r</sup> | II <sup>r</sup> | III <sup>r</sup> | IV <sup>p</sup> |                  |                                     | II             | III            | IV             | I <sup>r</sup> | II <sup>r</sup> | III <sup>r</sup> | IV <sup>p</sup> |
| <b>Exports</b> .....          | <b>807,536</b>   | <b>892,619</b>    | <b>200,072</b> | <b>204,801</b> | <b>208,874</b> | <b>213,407</b> | <b>223,106</b>  | <b>224,793</b>   | <b>231,313</b>  | <b>773,450</b>   | <b>828,948</b>                      | <b>191,711</b> | <b>195,740</b> | <b>197,779</b> | <b>199,866</b> | <b>207,454</b>  | <b>208,327</b>   | <b>213,190</b>  |
| Agricultural products.....    | 62,940           | 64,829            | 15,996         | 15,410         | 15,642         | 15,328         | 16,894          | 16,567           | 16,040          | 50,844           | 53,866                              | 12,115         | 12,837         | 13,484         | 13,037         | 13,902          | 13,636           | 13,276          |
| Nonagricultural products..... | 744,596          | 827,790           | 184,076        | 189,391        | 193,232        | 198,079        | 206,212         | 208,226          | 215,273         | 723,745          | 776,364                             | 179,999        | 183,206        | 184,526        | 187,126        | 193,816         | 195,001          | 200,319         |
| <b>Imports</b> .....          | <b>1,472,926</b> | <b>1,674,261</b>  | <b>364,059</b> | <b>372,576</b> | <b>391,050</b> | <b>399,079</b> | <b>409,378</b>  | <b>422,061</b>   | <b>443,743</b>  | <b>1,430,442</b> | <b>1,528,349</b>                    | <b>355,745</b> | <b>359,310</b> | <b>370,874</b> | <b>376,714</b> | <b>377,401</b>  | <b>379,456</b>   | <b>394,266</b>  |
| Petroleum and products.....   | 180,459          | 251,619           | 41,522         | 45,129         | 53,769         | 52,953         | 57,418          | 67,538           | 73,710          | 137,795          | 141,066                             | 33,020         | 32,981         | 36,193         | 36,514         | 34,040          | 33,769           | 36,895          |
| Nonpetroleum products.....    | 1,292,467        | 1,422,642         | 322,537        | 327,447        | 337,281        | 346,126        | 351,960         | 354,523          | 370,033         | 1,292,622        | 1,388,282                           | 323,196        | 326,891        | 334,312        | 339,966        | 344,350         | 346,874          | 356,920         |

|                               | Percent change from previous period (current dollars) |                   |            |            |            |                |                 |                  |                 |             | Percent change from previous period (chained (2000) dollars) |            |            |            |                |                 |                  |                 |
|-------------------------------|---|-------------------|------------|------------|------------|----------------|-----------------|------------------|-----------------|-------------|--|------------|------------|------------|----------------|-----------------|------------------|-----------------|
|                               | 2004  | 2005 <sup>p</sup> | 2004       |            |            | 2005           |                 |                  |                 | 2004        | 2005 <sup>p</sup>  | 2004       |            |            | 2005           |                 |                  |                 |
|                               |   |                   | II         | III        | IV         | I <sup>r</sup> | II <sup>r</sup> | III <sup>r</sup> | IV <sup>p</sup> |             |  | II         | III        | IV         | I <sup>r</sup> | II <sup>r</sup> | III <sup>r</sup> | IV <sup>p</sup> |
| <b>Exports</b> .....          | <b>13.2</b>   | <b>10.5</b>       | <b>3.2</b> | <b>2.4</b> | <b>2.0</b> | <b>2.2</b>     | <b>4.5</b>      | <b>0.8</b>       | <b>2.9</b>      | <b>9.1</b>  | <b>7.2</b>   | <b>1.9</b> | <b>2.1</b> | <b>1.0</b> | <b>1.1</b>     | <b>3.8</b>      | <b>0.4</b>       | <b>2.3</b>      |
| Agricultural products.....    | 3.4   | 3.0               | 0.7        | -3.7       | 1.5        | -2.0           | 10.2            | -1.9             | -3.2            | -5.6        | 5.9  | -3.1       | 6.0        | 5.0        | -3.3           | 6.6             | -1.9             | -2.6            |
| Nonagricultural products..... | 14.1  | 11.2              | 3.5        | 2.9        | 2.0        | 2.5            | 4.1             | 1.0              | 3.4             | 10.5        | 7.3  | 2.4        | 1.8        | 0.7        | 1.4            | 3.6             | 0.6              | 2.7             |
| <b>Imports</b> .....          | <b>16.8</b>   | <b>13.7</b>       | <b>5.5</b> | <b>2.3</b> | <b>5.0</b> | <b>2.1</b>     | <b>2.6</b>      | <b>3.1</b>       | <b>5.1</b>      | <b>11.3</b> | <b>6.8</b>   | <b>3.5</b> | <b>1.0</b> | <b>3.2</b> | <b>1.6</b>     | <b>0.2</b>      | <b>0.5</b>       | <b>3.9</b>      |
| Petroleum and products.....   | 35.6  | 39.4              | 3.7        | 8.7        | 19.1       | -1.5           | 8.4             | 17.6             | 9.1             | 6.5         | 2.4  | -7.2       | -0.1       | 9.7        | 0.9            | -6.8            | -0.8             | 9.3             |
| Nonpetroleum products.....    | 14.6  | 10.1              | 5.7        | 1.5        | 3.0        | 2.6            | 1.7             | 0.7              | 4.4             | 11.8        | 7.4  | 4.9        | 1.1        | 2.3        | 1.7            | 1.3             | 0.7              | 2.9             |

<sup>r</sup> Revised

<sup>p</sup> 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.

mainly medical, dental, and pharmaceutical preparations. Consumer durable goods—mostly artwork, antiques, and stamps—also contributed.

Nonagricultural industrial supplies and materials were unchanged. Petroleum and products and chemicals decreased, as the aftereffects of the damage caused by Hurricanes Katrina and Rita continued to hamper the production and distribution of petroleum and chemicals in the Gulf Coast region. These decreases were largely offset by an increase in metals and nonmetallic products, which mostly resulted from increases in nonferrous metals and in iron and steel products. Export prices of nonagricultural industrial supplies and materials increased more strongly than in recent quarters as a result of increases in the prices of nonferrous metals, iron and steel products, chemicals, and petroleum and products.

Agricultural products decreased \$0.5 billion. Raw cotton fell sharply after increasing sharply in the third quarter when demand from China was particularly strong. Soybeans continued to decline after unusually large exports in the second quarter.

**Imports.** Imports increased \$21.7 billion, or 5.1 percent, to \$443.7 billion in the fourth quarter (table C). Real imports increased 3.9 percent, and import prices increased 1.2 percent. The substantial increase in value was mostly attributable to increases in nonpetroleum industrial supplies and materials and in petroleum and products. By area, imports from Canada, Europe, and Mexico increased strongly.

After two quarters of little change, nonpetroleum industrial supplies and materials increased a record \$8.7 billion, partly as a result of a strong rise in prices. Over a fourth of the increase in value was accounted for by a record increase in imports of chemicals, mostly from Europe and Asia excluding Japan. Metals and nonmetallic products also increased substantially, mostly as a result of increases in nonferrous metals and in iron and steel products. Prices of nonferrous metals and of chemicals increased, while prices of iron and steel products decreased. Imports of natural gas, mainly from Canada, increased strongly for the second consecutive quarter. These increases resulted from the severe disruption to U.S. natural gas production in the Gulf Coast region caused by Hurricanes Katrina and Rita, including a reduction in U.S. domestic natural gas supply and a jump in prices in September and October.

Petroleum and products increased \$6.2 billion after a record increase of \$10.1 billion in the third quarter. In the fourth quarter, the average price per barrel was virtually unchanged at \$55.40 after two quarters of strong increases, and the average number of barrels

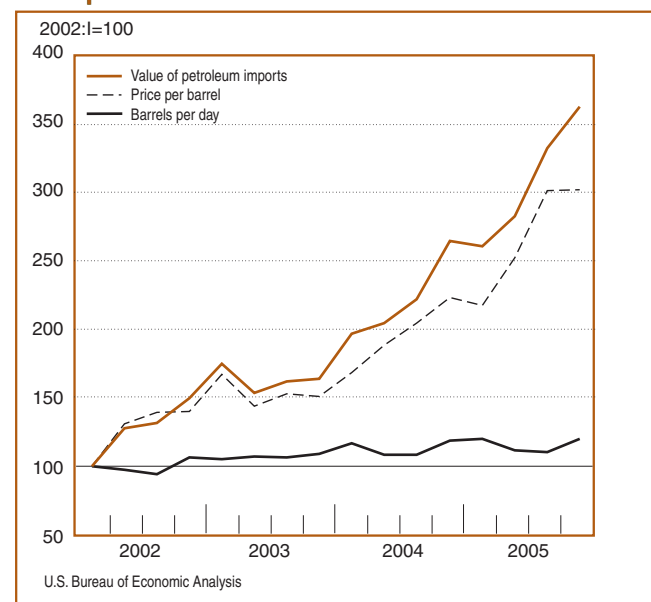
imported daily increased 9 percent, to 14.56 million after two quarters of decline (chart 4). U.S. domestic petroleum production decreased 4 percent in the fourth quarter after a drop of 12 percent in the third quarter. Petroleum production in the Gulf Coast region continued to be hampered by the aftereffects of the hurricanes. Two-thirds of the increase in petroleum imports was attributable to higher imports from Canada, Europe, and Mexico. Imports from members of OPEC increased only \$0.5 billion; imports from Venezuela, Saudi Arabia, and Algeria were all lower.

Automotive vehicles, engines, and parts increased \$2.7 billion in the fourth quarter, the second consecutive quarter of substantial increase. The fourth-quarter increase was almost entirely the result of a rise in imports of passenger cars, mostly from Canada.

Consumer goods increased \$2.4 billion. The rise was nearly evenly divided between durable goods and nondurable goods. The largest increases in durable goods were in televisions and video receivers and in household and kitchen appliances. Nondurable goods were boosted by rebounds in textile, apparel, and household goods and in medical, dental, and pharmaceutical products. Textile, apparel, and household goods increased despite a second consecutive quarterly drop in imports from China. The decreases from China came after sharp increases in the first and second quarters and the imposition of quotas on several categories of textile imports from China in late May.

Capital goods increased \$1.3 billion. The largest increases were in civilian aircraft, engines, and parts, in

**Chart 4. Growth in U.S. Petroleum Imports and Price per Barrel**



machine tools and metalworking machinery, and in oil drilling, mining, and construction machinery. Among high-technology products, semiconductors increased, while telecommunications equipment and computers, peripherals, and parts decreased. Computers, peripherals, and parts decreased for the first time in 3 years, but growth in these products has been weak in most recent quarters.

**Balances by area.** The deficits on goods with most areas and major countries increased, largely as a result of higher imports.<sup>3</sup> The deficits with Canada, Latin America (mostly Mexico), Japan, and Europe (mostly the United Kingdom and Germany) all increased. In contrast, the deficit with Asia excluding Japan decreased as a result of decreases in the deficits with members of OPEC and with China.

### Services

The surplus on services decreased to \$15.1 billion in the fourth quarter from \$15.9 billion in the third quarter, as services payments increased more than services receipts. The increases in both services receipts and services payments were mostly attributable to increases in “other” private services and “other” transportation.

Both travel receipts and travel payments decreased for the second consecutive quarter. Travel receipts edged down \$0.1 billion, to \$20.5 billion, as a result of a decline in the number of overseas visitors to the United States. Travel payments decreased \$0.3 billion, to \$16.8 billion; the decrease was attributable to a decline in payments to Mexico and to Canada, partly as a result of a decline in the number of U.S. travelers. Passenger fare receipts fell \$0.2 billion, to \$5.4 billion, and passenger fare payments increased \$0.3 billion, to \$6.9 billion.

“Other” transportation receipts increased \$0.6 billion, to \$11.0 billion. The increase was mostly accounted for by a rise in port services, reflecting increases in trade volume and in fuel prices. “Other” transportation payments increased \$0.9 billion, to \$16.0 billion, mostly reflecting higher payments for ocean freight services due to increases in trade volume and in freight rates.

“Other” private services receipts increased \$1.3 billion, to \$40.9 billion. The increase was mostly attribut-

able to increases in receipts for financial services and for business, professional, and technical services.

“Other” private services payments increased \$0.9 billion, to \$27.5 billion. The rise was mainly attributable to increases in payments for insurance services, for financial services, and for business, professional, and technical services. Insurance services payments were only minimally affected by the occurrence of Hurricanes Katrina and Rita, because insurance services performed are mostly based on premiums, and the premiums on most policies were set before the hurricanes occurred.

### Income

The balance on income shifted to a deficit of \$2.4 billion in the fourth quarter from a surplus of \$4.9 billion in the third quarter. Income payments increased more than income receipts, mostly as a result of a larger increase in direct investment payments than in direct investment receipts.

Receipts of income on U.S. direct investment abroad increased \$3.4 billion, to \$67.2 billion. The increase was mostly attributable to higher earnings by foreign affiliates in “other” industries, partly reflecting continued growth in the earnings of petroleum affiliates. Earnings of foreign holding-company affiliates also increased substantially. The total amount of earnings in the fourth quarter was not affected by the American Jobs Creation Act of 2004, which reduced the rate of taxation on U.S. multinational companies’ qualifying dividends from abroad for a period of 1 year (calendar year 2004 or 2005 at taxpayers’ option, for calendar year taxpayers). However, the composition of earnings was significantly affected by the act because the amount of earnings retained by affiliates abroad was drawn down to support an elevated distribution of earnings to parents in the United States.

Payments of income on foreign direct investment in the United States increased \$8.1 billion, to \$33.1 billion, after a substantial decrease in the third quarter. The rebound mainly resulted from a substantial shift from losses back to profits by U.S. affiliates in finance and insurance, particularly depository institutions. Earnings of U.S. affiliates in wholesale trade, mostly in petroleum and petroleum products, and in “other” industries also increased.

Both receipts and payments of “other” private income increased strongly, mostly as a result of an increase in interest rates. Receipts of “other” private income increased \$5.5 billion, to \$61.1 billion. The rise was mostly attributable to increases in interest receipts on bank and nonbank claims and in dividends on U.S. holdings of foreign stocks. Payments of “other” private

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.)

income increased \$6.1 billion, to \$64.8 billion. The increase was mostly attributable to increases in interest payments on foreign holdings of U.S. bonds and on bank liabilities.

Receipts of income on U.S. Government assets increased \$0.1 billion, to \$0.7 billion. Payments of income on U.S. Government liabilities increased \$2.2 billion, to \$32.1 billion. The increase was attributable to increases in foreign holdings of U.S. Treasury and agency securities and in yields on these holdings.

### Unilateral current transfers

Unilateral current transfers were net outflows (payments) of \$25.1 billion in the fourth quarter, up from net outflows of \$8.9 billion in the third quarter. The increase was largely accounted for by an increase in net outflows for “private remittances and other transfers,” which were sharply reduced in the third quarter by transfers resulting from the catastrophic damage caused by Hurricanes Katrina and Rita. In the third quarter, hurricane-related transfers included inflows (receipts) for claims received by U.S. companies from foreign insurance companies that substantially exceeded “expected” claims.<sup>4</sup> In addition, donations from abroad for hurricane relief resulted in additional inflows. As a result of these hurricane-related increases in U.S. receipts, “private remittances and other transfers” became much less negative and reduced the current-account deficit in the third quarter. In the fourth quarter, hurricane-related receipts decreased, and net outflows for “private remittances and other transfers” returned to a more typical level.

In the fourth quarter, net outflows for unilateral current transfers were also boosted by a rise in U.S. Government grants, which resulted from grants to Israel and Egypt under the credit waiver program and under economic assistance programs.

### Capital Account

Capital account transactions were net outflows of \$0.4 billion in the fourth quarter, virtually unchanged from the third quarter.

### Financial Account

Net recorded financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were \$235.0 billion in the fourth quarter, down from \$253.8 billion in the third quarter. Financial inflows for foreign-owned assets in the United States slowed more than financial outflows for U.S.-owned assets abroad.

4. “Expected” claims are calculated as premiums multiplied by the historical average of claims as a percentage of premiums.

### U.S.-owned assets abroad

Net U.S.-owned assets abroad increased \$43.1 billion in the fourth quarter after an increase of \$141.4 billion in the third quarter. The slowdown mostly reflected a decrease in U.S. claims on foreigners reported by U.S. banks after an increase in the third quarter. In contrast, net financial inflows for U.S. direct investment abroad were smaller in the fourth quarter than in the third quarter, and net U.S. purchases of foreign securities picked up.

**U.S. official reserve assets.** U.S. official reserve assets decreased \$4.8 billion in the fourth quarter after a decrease of \$4.8 billion in the third quarter. The fourth-quarter decrease was more than accounted for by a decrease in the U.S. reserve position in the International Monetary Fund (IMF), reflecting the net repayment of U.S. dollars to the IMF, mostly by Brazil and Argentina. In the fourth quarter, Brazil repaid all of its outstanding debts to the IMF 2 years earlier than scheduled, and Argentina repaid nearly all of its IMF debts 3 years earlier than scheduled.

**Claims reported by banks and by nonbanks.** U.S. claims on foreigners reported by U.S. banks and securities brokers decreased \$11.5 billion in the fourth quarter, in contrast to an increase of \$108.0 billion in the third quarter (chart 5).

Banks’ own claims decreased \$36.2 billion in the fourth quarter, in contrast to an increase of \$80.2 billion in the third quarter. The reduction in lending followed substantial lending to foreigners in the previous two quarters. In the fourth quarter, securities brokers and dealers sharply reduced their lending to nonbank foreigners in Europe and Caribbean financial centers. The reduction, largely in the form of a decrease in resale agreements, was partly attributable to a fall in demand for credit by international investment funds. In addition, foreign-owned banks in the United States substantially slowed their lending to offices abroad. In contrast, U.S.-owned banks stepped up their lending to foreign banks.

Banks’ domestic customers’ claims increased \$24.7 billion after an increase of \$27.8 billion. In the fourth quarter, claims denominated both in dollars and in foreign currencies increased. The largest increases in dollar-denominated claims were in “other” short-term instruments and in deposits and brokerage balances.

Claims reported by U.S. nonbanking concerns increased \$22.1 billion after an increase of \$30.4 billion. The fourth-quarter increase was more than accounted for by an increase in deposits, mainly in Caribbean financial centers and Europe.

**Foreign securities.** Net U.S. purchases of foreign securities were \$40.0 billion in the fourth quarter, up

from \$34.6 billion in the third quarter. The increase was largely accounted for by a pickup in net U.S. purchases of foreign stocks. Net U.S. purchases of foreign bonds also increased.

Net U.S. purchases of foreign stocks were \$39.0 billion, up from \$33.9 billion. The increase, together with substantial net purchases in the first three quarters of the year, resulted in record net U.S. purchases for 2005. In both local currency and U.S.-dollar terms, foreign stock markets have outperformed the U.S. stock market for five of the last six quarters. In the fourth quarter, transactions in Canadian stocks shifted to net U.S. purchases, and net U.S. purchases of stocks from Europe and Latin America increased. In contrast, net U.S. purchases of stocks from Asia decreased, but they were substantial for the second consecutive quarter as a result of continued strong net U.S. purchases from Japan. There were no merger-related exchanges of stock in the fourth quarter.

Net U.S. purchases of foreign bonds were \$1.0 bil-

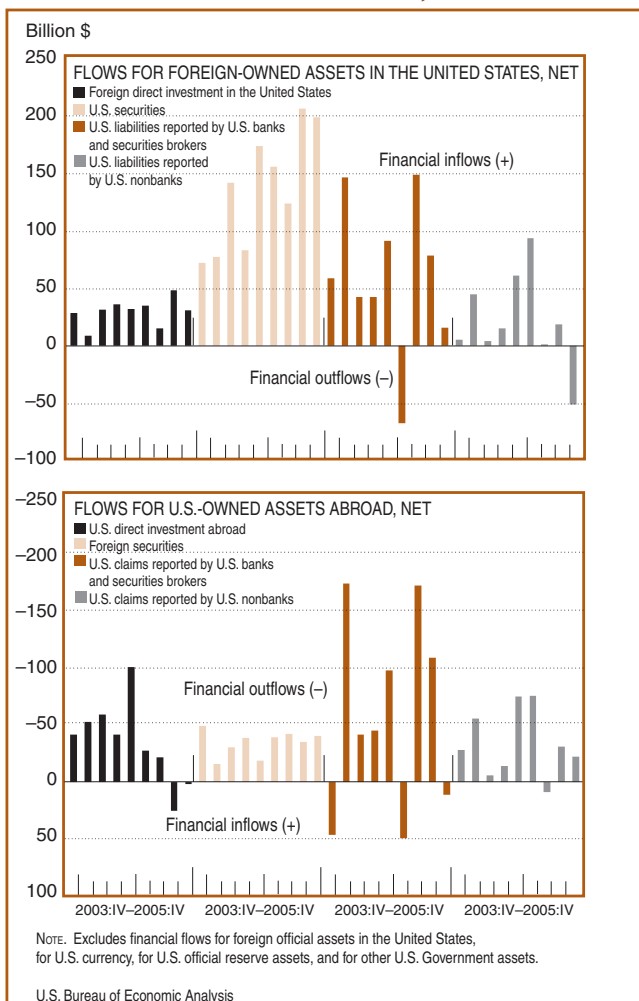
lion, up slightly from \$0.7 billion. Returns in most foreign bond markets strengthened in the fourth quarter after mixed returns in the third quarter. A slowdown in net U.S. sales of bonds from Europe and Asia was largely offset by a slowdown in net U.S. purchases of bonds from Latin America.

**Direct investment.** Net financial flows for U.S. direct investment abroad were net inflows of \$2.1 billion in the fourth quarter, down from net inflows of \$25.3 billion in the third quarter (chart 6). The reduction in net inflows was attributable to an increase in net equity capital outflows and a decrease in net inflows for reinvested earnings. Net equity capital outflows were the strongest since the fourth quarter of 2004, as U.S. companies completed a few moderate-sized acquisitions of companies in Canada and Europe. The decrease in net inflows for reinvested earnings largely resulted from a decrease in distributions of earnings to parent companies in the United States. However, for the second consecutive quarter, distributed earnings were exceptionally strong and reinvested earnings were exceptionally weak, as U.S. parent companies took advantage of incentives associated with the American Jobs Creation Act of 2004. The act allows U.S. parent companies to repatriate affiliates' earnings at reduced rates of taxation for a period of 1 year, which for most companies, terminated in the fourth quarter of 2005.

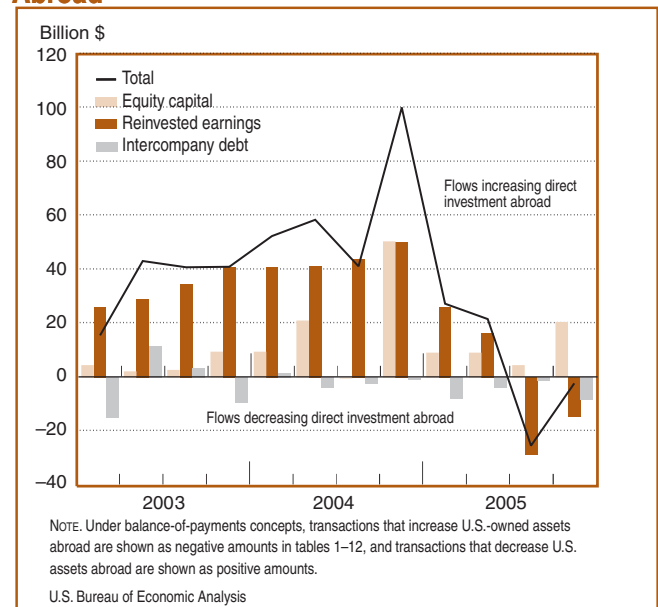
**Foreign-owned assets in the United States**

Net foreign-owned assets in the United States increased \$278.0 billion in the fourth quarter after an

**Chart 5. Selected Financial Flows, 2003:IV–2005:IV**



**Chart 6. Financial Flows for U.S. Direct Investment Abroad**





increase of \$395.3 billion in the third quarter. The slowdown largely reflected a decrease in U.S. liabilities reported by U.S. nonbanks in the fourth quarter after an increase in the third quarter and a much smaller increase in U.S. liabilities reported by U.S. banks in the fourth quarter than in the third quarter. In addition, both net foreign purchases of U.S. securities other than U.S. Treasury securities and net inflows for foreign direct investment in the United States slowed.

**Foreign official assets.** Foreign official assets in the United States increased \$74.6 billion in the fourth quarter after an increase of \$38.2 billion in the third quarter. In the fourth quarter, assets of Asian countries continued to increase substantially. Assets of European countries also increased.

**Liabilities reported by banks and by nonbanks.** U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased \$15.7 billion in the fourth quarter after an increase of \$78.7 billion in the third quarter.

Banks' own liabilities increased \$13.4 billion after an increase of \$87.7 billion. Dollar-denominated borrowing slowed in the fourth quarter after sizable borrowing in the previous two quarters. The slowdown was partly attributable to a reduction in borrowing by securities brokers and dealers, mainly in the form of a decrease in repurchase agreements with foreign nonbanks in Europe and Caribbean financial centers. In addition, borrowing by foreign-owned banks in the United States slowed, partly as a result of their curtailed lending abroad. In contrast, borrowing by U.S.-owned banks picked up.

Banks' customers' liabilities increased \$2.3 billion, in contrast to a decrease of \$9.0 billion in the third quarter. In the fourth quarter, dollar-denominated liabilities increased as a substantial increase in negotiable certificates of deposits and other short-term instruments more than offset a decrease in "other" liabilities.

Liabilities reported by U.S. nonbanking concerns decreased \$51.5 billion, in contrast to an increase of \$18.6 billion in the third quarter. The large decrease, the first decrease in 4 years, was attributable to U.S. nonbanks' repayment of funds to the United Kingdom.

**U.S. Treasury securities.** Net foreign purchases of U.S. Treasury securities were \$70.1 billion in the fourth quarter, up from \$40.8 billion in the third quarter (chart 7). The fourth-quarter net foreign purchases were the second largest on record, only a little lower than the record net purchases in the first quarter of 2005. In the fourth quarter, the U.S. Treasury bond market outperformed both the U.S. corporate bond market and the U.S. agency bond market. The pickup in net purchases by foreigners was mainly accounted

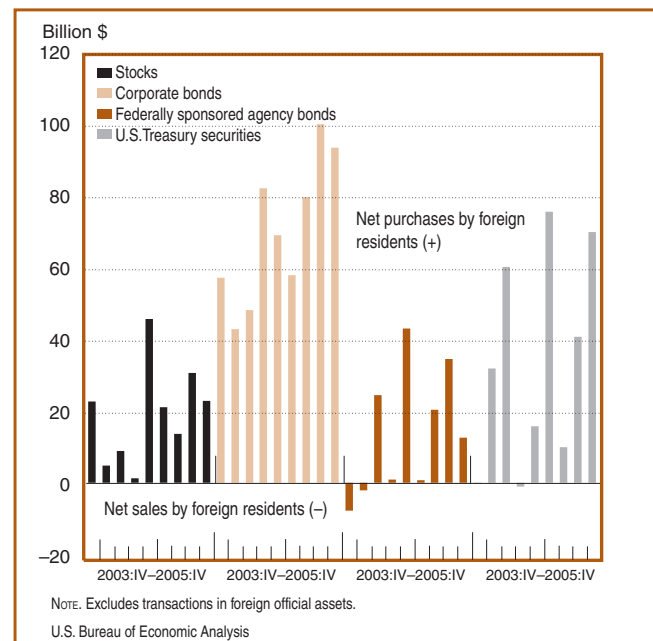
for by investors in the United Kingdom and Caribbean financial centers.

**Other U.S. securities.** Net foreign purchases of U.S. securities other than U.S. Treasury securities were \$129.3 billion, down from a record \$165.9 billion. The decrease was mainly due to a slowdown in net foreign purchases of U.S. agency bonds. Net foreign purchases of U.S. corporate stocks and bonds also slowed, but remained relatively strong.

Net foreign purchases of U.S. corporate bonds were \$93.9 billion, down from a record \$100.4 billion. Global interest-rate differentials continued to favor the purchase of U.S. fixed-income securities. U.S. shorter term interest rates continued to rise, and U.S. longer term rates also increased. Spreads on both investment-grade and high-yield corporate bonds over U.S. Treasury bonds widened. A decline in net purchases of U.S. corporate bonds by investors in the United Kingdom and Caribbean financial centers more than offset an increase in net purchases by investors in Japan.

Net foreign purchases of U.S. stocks were \$22.9 billion, down from \$30.8 billion. Foreign demand for U.S. stocks remained relatively strong though the U.S. stock market underperformed most foreign stock markets for the fourth consecutive quarter. Net foreign purchases by investors in Canada decreased, but remained elevated after restrictions that limited Canadian pension fund holdings of foreign securities were removed in the third quarter. In the fourth quarter, net purchases by investors in Caribbean financial centers

**Chart 7. Transactions in U.S. Securities, 2003:IV–2005:IV**



also decreased, but transactions by investors in Asia shifted to net purchases from net sales. There were no merger-related exchanges of stock in the fourth quarter.

Net foreign purchases of U.S. federally sponsored agency bonds were \$12.5 billion, down from \$34.7 billion. Agency bond prices decreased, and spreads over U.S. Treasury bonds widened. After recent accounting irregularities at two government-sponsored enterprises, the U.S. House of Representatives passed legislation in the fourth quarter that if enacted, would tighten regulatory controls over these enterprises.

**U.S. currency flows.** Net U.S. currency shipments to foreigners were \$9.2 billion in the fourth quarter, up from \$4.7 billion in the third quarter.

**Direct investment.** Net financial inflows for foreign direct investment in the United States were \$30.6 billion in the fourth quarter, down from \$48.4 billion in the third quarter. The decrease was more than accounted for by a shift to small net outflows on inter-

company debt from large net inflows, mostly reflecting shifts to net outflows by U.S. wholesale trade and manufacturing affiliates. In contrast, reinvested earnings increased as a result of an increase in earnings, and net equity capital inflows edged up.

#### Data Availability

The estimates that are presented in tables 1-12 of the U.S. international transactions accounts (table 12 is presented annually in the July SURVEY OF CURRENT BUSINESS) are available interactively on BEA's Web site at <[www.bea.gov](http://www.bea.gov)>. Users may view and download the most recent quarterly estimates (annual estimates for table 12) 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.