

U.S. International Transactions

Fourth Quarter 2004

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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 \$187.9 billion in the fourth quarter of 2004 from \$165.9 billion (revised) in the third quarter (table A, chart 1).¹ The increase was largely accounted for by an increase in the deficit on goods. In addition, net outflows for unilateral current transfers increased, and the surplus on income decreased. In contrast, the surplus on services increased.

In the 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—increased to \$183.8 billion in the fourth quarter from \$128.7 billion in the third quarter. Both financial outflows for U.S.-owned assets abroad

and financial inflows for foreign-owned assets in the United States increased strongly, but inflows increased more than outflows.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive \$4.5 billion in the fourth quarter, compared with a positive \$37.5 billion in the third quarter.

The following are highlights for the fourth quarter of 2004:

- Goods imports picked up substantially, and goods exports slowed.
- Income payments increased more than income receipts.
- Net foreign private purchases of U.S. securities other than U.S. Treasury securities increased sharply to a quarterly record. Net foreign purchases of U.S. federally sponsored agency bonds surged, net foreign purchases of U.S. stocks picked up, and net foreign purchases of U.S. corporate bonds slowed but remained strong.

1. Quarterly estimates of U.S. current-account and financial-account components are seasonally adjusted when series demonstrate statistically significant 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 () (Credits +; debits -)	2003	2004 ^o	Change: 2003-2004	2003				2004				Change: 2004: III-IV
					I	II	III	IV	I ^r	II ^r	III ^r	IV ^p	
Current account													
1	Exports of goods and services and income receipts (1)	1,314,888	1,516,169	201,281	315,676	317,367	329,508	352,336	360,045	372,895	382,867	400,363	17,496
2	Goods, balance of payments basis (3).....	713,122	807,610	94,488	173,459	174,554	178,251	186,858	194,322	199,717	205,013	208,558	3,545
3	Services (4).....	307,381	339,571	32,190	74,540	73,920	77,472	81,448	82,298	84,870	85,076	87,327	2,251
4	Income receipts (12).....	294,385	368,988	74,603	67,677	68,893	73,785	84,030	83,425	88,308	92,778	104,478	11,700
5	Imports of goods and services and income payments (18)	-1,778,117	-2,109,181	-331,064	-437,067	-434,873	-444,497	-461,679	-486,803	-519,271	-533,828	-569,278	-35,450
6	Goods, balance of payments basis (20).....	-1,260,674	-1,473,087	-212,413	-311,402	-310,087	-312,886	-326,299	-345,376	-363,583	-372,028	-392,100	-20,072
7	Services (21).....	-256,337	-291,169	-34,832	-61,983	-61,767	-65,087	-67,501	-70,083	-72,326	-73,925	-74,836	-911
8	Income payments (29).....	-261,106	-344,925	-83,819	-63,682	-63,019	-66,524	-67,879	-71,344	-83,362	-87,875	-102,342	-14,467
9	Unilateral current transfers, net (35)	-67,439	-72,928	-5,489	-16,815	-16,369	-16,639	-17,617	-20,720	-18,332	-14,897	-18,983	-4,086
Capital account													
10	Capital account transactions, net (39)	-3,079	-1,477	1,602	-406	-1,552	-821	-300	-396	-324	-374	-383	-9
Financial account													
11	U.S.-owned assets abroad, net (increase/financial outflow (-)) (40)	-283,414	-817,676	-534,262	-102,665	-110,962	-8,138	-61,647	-307,170	-106,472	-127,581	-276,453	-148,872
12	U.S. official reserve assets, net (41).....	1,523	2,805	1,282	83	-170	-611	2,221	557	1,122	429	697	268
13	U.S. Government assets, other than official reserve assets, net (46)	537	1,269	732	53	310	483	-309	727	-2	-10	554	564
14	U.S. private assets, net (50).....	-285,474	-821,750	-536,276	-102,801	-111,102	-8,010	-63,559	-308,454	-107,592	-128,000	-277,704	-149,704
15	Foreign-owned assets in the United States, net (increase/financial inflow (+)) (55)	829,173	1,433,171	603,998	246,105	218,553	134,202	230,311	445,608	271,031	256,283	460,246	203,963
16	Foreign official assets in the United States, net (56).....	248,573	355,252	106,679	48,986	65,245	50,663	83,679	127,864	73,349	72,004	82,035	10,031
17	Other foreign assets in the United States, net (63).....	580,600	1,077,919	497,319	197,119	153,308	83,539	146,632	317,744	197,682	184,279	378,211	193,932
18	Statistical discrepancy (sum of above items with sign reversed) (70)	-12,012	51,922	63,934	-4,828	27,836	6,385	-41,404	9,436	473	37,530	4,488	-33,042
Memoranda:													
19	Balance on current account (76).....	-530,668	-665,940	-135,272	-138,206	-133,875	-131,628	-126,960	-147,478	-164,708	-165,858	-187,898	-22,040
20	Net financial flows (40 and 55).....	545,759	615,495	69,736	143,440	107,591	126,064	168,664	138,438	164,559	128,702	183,793	55,091

^r Revised.

^o Preliminary.

- U.S. liabilities reported by U.S. banks increased much more in the fourth quarter than in the third quarter.

Selected economic and financial market developments

In the fourth quarter, the U.S. dollar depreciated 5 percent on a nominal, trade-weighted, quarterly average basis against a group of seven major currencies that are widely traded in international markets (table B, chart 2). The U.S. dollar depreciated 6 percent against the euro, 4 percent against the Japanese yen, and 7 percent against the Canadian dollar.

In the United States, data releases in the fourth quarter indicated that economic growth picked up in the third quarter and that the U.S. deficit on goods and services continued to widen. U.S. long-term interest rates changed little in the fourth quarter, and U.S.

stock prices increased strongly. U.S. monetary authorities raised the target level for the Federal funds rate by 50 basis points, to 2.25 percent.

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

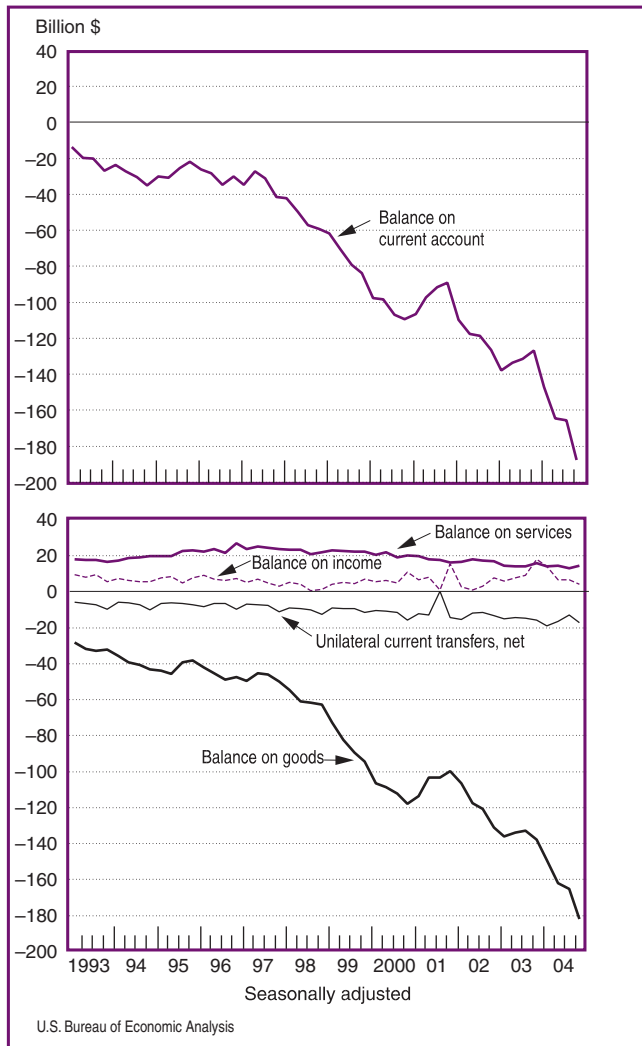
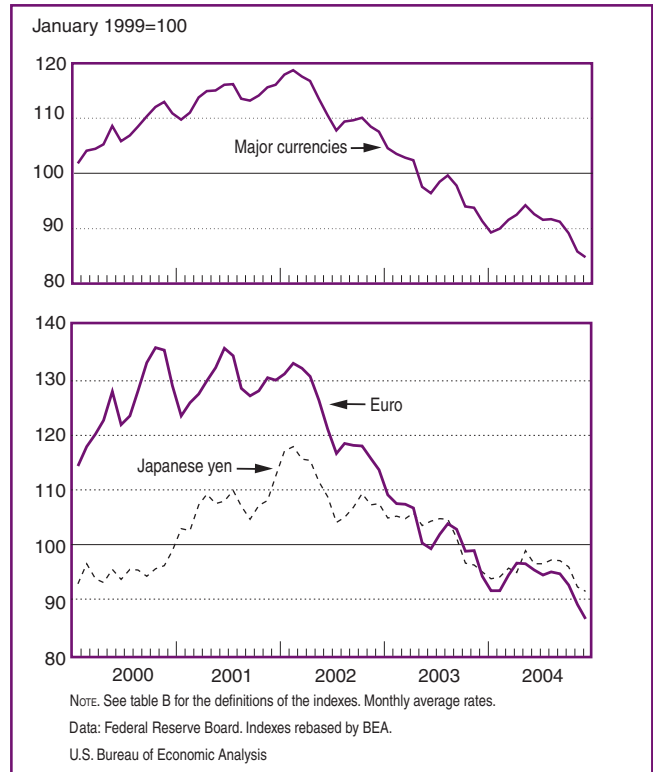


Chart 2. Nominal Indexes of Foreign Currency Price of the U.S. Dollar



Revisions to the Estimates for the Third Quarter of 2004

The international transactions accounts estimates for the third quarter of 2004 have been revised from the preliminary estimates that were published in the January 2005 SURVEY OF CURRENT BUSINESS. In addition, the estimates for the first through third quarters have been revised to ensure that the seasonally adjusted estimates sum to the same annual totals as the unadjusted estimates.

The current-account deficit for the third quarter was revised to \$165.9 billion from \$164.7 billion. The goods deficit was revised to \$167.0 billion from \$166.7 billion; the services surplus was revised to \$11.2 billion from \$11.4 billion; the income surplus was revised to \$4.9 billion from \$5.3 billion; and unilateral current transfers were revised to net outflows of \$14.9 billion from net outflows of \$14.6 billion. Net recorded financial inflows were revised to \$128.7 billion from \$153.2 billion. Revisions to the estimates for the first and second quarters were small.

In Europe, data releases indicated that euro area economic growth weakened, and the gap between growth in the euro area and in the United States widened further. Euro area monetary policy was unchanged; the minimum bid rate on main refinancing operations remained at 2 percent. In Japan, reports showed that economic output was virtually unchanged in the third quarter after slowing sharply in the second. In Canada, reported economic growth slowed, and Canadian monetary authorities raised the target for the overnight rate 25 basis points to 2.5 percent.

Current Account

Goods and services

The deficit on goods and services increased to \$171.1 billion in the fourth quarter from \$155.9 billion in the third quarter. The deficit on goods increased \$16.5 billion, and the surplus on services increased \$1.3 billion.

Goods

The deficit on goods surged in the fourth quarter, to \$183.5 billion from \$167.0 billion. Exports slowed, and imports picked up substantially (table A, chart 3).

Exports. Exports increased \$3.5 billion, or 2 percent, to \$208.6 billion. The fourth-quarter increase was much smaller than the increases in recent quarters. In the fourth quarter, both real exports and export prices increased 1 percent (table C).²

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.

Nonagricultural industrial supplies and materials increased \$2.4 billion, the largest increase among major end-use commodity categories for the fourth consecutive quarter (chart 4). As in recent quarters, the increase was mostly attributable to increases in prices (chart 5, page 18). In value, nearly half of the increase

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

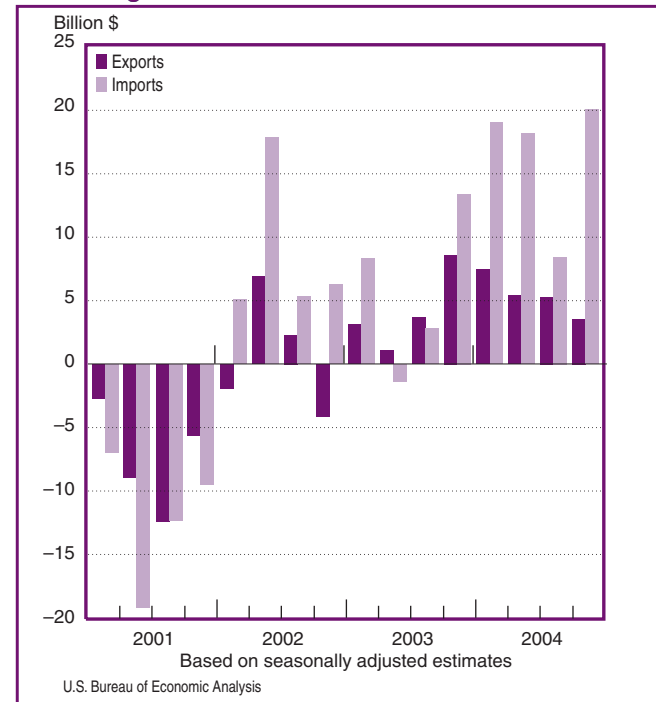


Table B. Indexes of Foreign Currency Price of the U.S. Dollar

(January 1999=100)

	2003	2004				2003	2004												
	IV ^r	I ^r	II ^r	III ^r	IV ^p	Dec. ^r	Jan. ^r	Feb. ^r	March ^r	April ^r	May ^r	June ^r	July ^r	Aug. ^r	Sept. ^r	Oct. ^p	Nov. ^p	Dec. ^p	
Nominal: ¹																			
Broad ²	100.9	98.9	101.2	100.4	96.7	100.0	98.3	98.7	99.7	100.5	102.1	101.1	100.4	100.6	100.2	98.7	96.2	95.1	
Major currencies ³	93.0	90.2	93.1	91.5	86.6	91.3	89.3	89.9	91.5	92.5	94.2	92.6	91.5	91.7	91.2	89.2	85.8	84.8	
Other important trading partners ⁴	111.1	110.2	111.7	112.0	110.1	111.2	110.0	110.3	110.4	110.7	112.3	112.1	112.1	112.1	111.8	111.3	110.1	108.9	
Real: ¹																			
Broad ²	101.5	99.7	102.8	101.9	97.9	100.2	98.8	99.5	100.8	101.7	103.7	103.0	102.0	102.0	101.6	100.2	97.4	96.0	
Major currencies ³	97.0	94.7	98.3	96.8	91.7	94.9	93.4	94.4	96.3	97.5	99.3	98.0	96.8	97.1	96.6	94.6	90.9	89.6	
Other important trading partners ⁴	106.8	105.5	107.9	107.7	105.3	106.4	105.1	105.4	105.9	106.3	108.6	108.7	108.1	107.8	107.3	106.7	105.3	103.8	
Selected currencies: (nominal) ⁵																			
Canada	86.6	86.7	89.5	86.1	80.4	86.4	85.3	87.5	87.4	88.3	90.8	89.4	87.0	86.4	84.8	82.1	78.8	80.2	
European currencies:																			
Euro area ⁶	97.4	92.6	96.2	94.8	89.5	94.3	91.7	91.7	94.5	96.7	96.6	95.4	94.5	95.1	94.8	92.7	89.2	86.5	
United Kingdom	96.7	89.7	91.4	90.7	88.5	94.2	90.4	88.4	90.3	91.5	92.4	90.3	89.5	90.6	92.0	91.3	88.7	85.5	
Switzerland	94.2	90.5	92.2	90.7	85.4	91.2	89.4	89.8	92.2	93.6	92.7	90.2	89.9	91.1	91.1	89.0	84.5	82.7	
Japan	96.1	94.6	96.9	97.0	93.3	95.1	93.8	94.2	95.8	95.0	99.0	96.6	96.6	97.3	97.2	96.0	92.4	91.6	
Mexico	110.5	108.5	112.5	113.0	111.8	111.1	107.8	108.9	108.8	111.3	113.7	112.5	113.2	112.5	113.4	112.6	112.3	110.6	
Brazil	191.9	191.7	201.5	196.9	184.2	193.5	188.7	194.1	192.2	192.3	205.2	207.0	201.0	198.5	191.2	188.6	184.4	179.6	

^r Revised.

^p Preliminary.

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

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

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

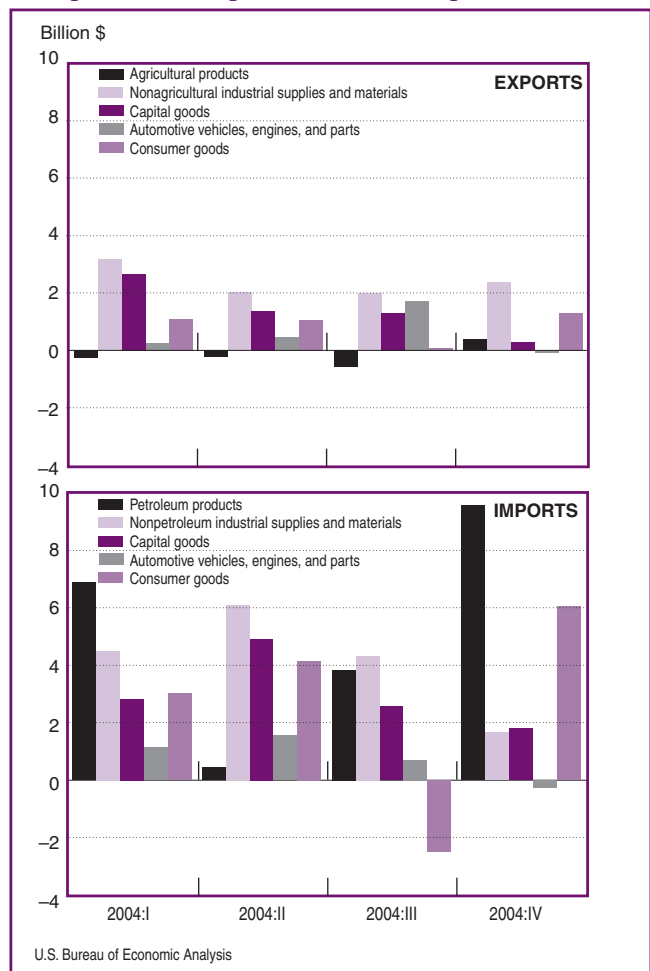
weight divided by the sum of the broad-index weights for all of the currencies included in the major currency index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.

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

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

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

Chart 4. Trade in Goods by Selected End-Use Categories: Change From Preceding Quarter



was attributable to a rise in chemicals. Metals and non-metallic products were boosted by increases in nonferrous metals, in iron and steel products, and in steelmaking materials. An increase in petroleum and petroleum products also contributed.

Consumer goods increased \$1.3 billion. The rise was nearly evenly divided between increases in nondurable goods and durable goods. The increase in nondurable goods mostly reflected a rebound in medical, dental, and pharmaceutical preparations. Among durable goods, there were small increases in coins, gems, jewelry, and collectibles, in household and kitchen appliances, and in recreational equipment.

After decreasing for three consecutive quarters, agricultural products increased \$0.4 billion. The increase was largely attributable to a rise in soybean exports,

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>. 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.

The current and historical estimates in tables 1–12 are also available as compressed files at <www.bea.gov/bea/uguide.htm#_1_22>.

Table C. U.S. Trade in Goods in Current and Chained Dollars and Percent Changes From Previous Period
[Balance of payments basis, millions of dollars, quarters seasonally adjusted]

	Current dollars									Chained (2000) dollars ¹								
	2003	2004 ^P	2003			2004				2003	2004 ^P	2003			2004			
			II	III	IV	I ^r	II ^r	III ^r	IV ^P			II	III	IV	I ^r	II ^r	III ^r	IV ^P
Exports	713,122	807,610	174,554	178,251	186,858	194,322	199,717	205,013	208,558	708,587	773,343	173,580	177,528	184,209	188,620	191,380	195,875	197,345
Agricultural products.....	60,883	62,864	14,607	15,651	16,303	16,052	15,841	15,280	15,691	53,844	50,302	13,282	14,006	13,279	12,549	11,905	12,581	13,358
Nonagricultural products	652,239	744,746	159,947	162,600	170,555	178,270	183,876	189,733	192,867	654,582	724,905	160,258	163,429	171,029	176,425	180,059	183,830	184,436
Imports	1,260,674	1,473,087	310,087	312,886	326,299	345,376	363,583	372,028	392,100	1,285,510	1,431,724	318,610	319,562	332,921	344,154	355,523	359,239	372,107
Petroleum and products	133,088	180,491	30,807	32,642	33,599	40,480	40,928	44,761	54,322	129,287	137,839	31,930	31,981	33,229	35,982	32,538	32,707	36,549
Nonpetroleum products	1,127,586	1,292,596	279,280	280,244	292,700	304,896	322,655	327,267	337,778	1,155,764	1,293,786	286,603	287,459	299,569	307,861	323,545	327,120	335,011
	Percent change from previous period (current dollars)									Percent change from previous period (chained (2000) dollars)								
	2003	2004 ^P	2003			2004				2003	2004 ^P	2003			2004			
II			III	IV	I ^r	II ^r	III ^r	IV ^P	II			III	IV	I ^r	II ^r	III ^r	IV ^P	
Exports	4.6	13.2	0.6	2.1	4.8	4.0	2.8	2.7	1.7	2.5	9.1	0.2	2.3	3.8	2.4	1.5	2.3	0.8
Agricultural products.....	11.7	3.3	2.0	7.1	4.2	-1.5	-1.3	-3.5	2.7	1.3	-6.6	0.0	5.5	-5.2	-5.1	5.7	6.2	
Nonagricultural products	4.0	14.2	0.5	1.7	4.9	4.5	3.1	3.2	1.7	2.6	10.7	0.2	2.0	4.7	3.2	2.1	2.1	0.3
Imports	8.2	16.8	-0.4	0.9	4.3	5.8	5.3	2.3	5.4	5.2	11.4	1.3	0.3	4.2	3.4	3.3	1.0	3.6
Petroleum and products	28.6	35.6	-14.5	6.0	2.9	20.5	1.1	9.4	21.4	6.4	6.6	-0.7	0.2	3.9	8.3	-9.6	0.5	11.7
Nonpetroleum products	6.3	14.6	1.4	0.3	4.4	4.2	5.8	1.4	3.2	5.0	11.9	1.6	0.3	4.2	2.8	5.1	1.1	2.4

^r Revised.

^P Preliminary.

1. Because chain indexes use weights of more than one period, the corresponding chained-dollar estimates are usually

not additive.

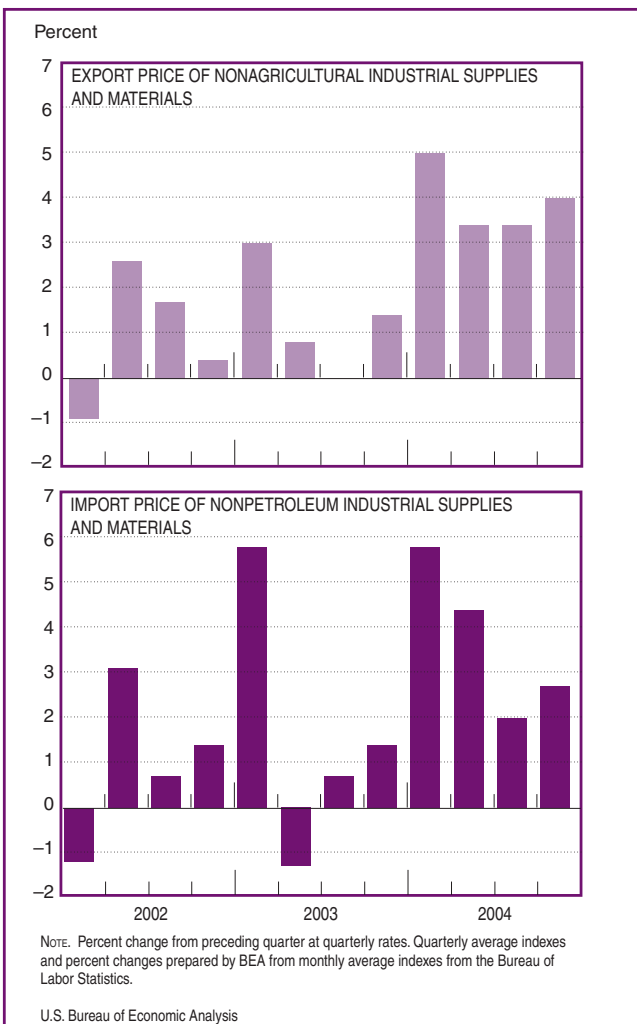
NOTE: Percent changes in quarterly estimates are not annualized and are expressed at quarterly rates.

mostly to China and Europe; soybean prices fell sharply for the second consecutive quarter. Fruits, vegetables, nuts, and preparations also increased. In contrast, both grains and raw cotton decreased for the second consecutive quarter.

Capital goods increased \$0.3 billion, the smallest increase since the second quarter of 2003. Machinery increased weakly for the second consecutive quarter. Computers, peripherals, and parts and other high technology products changed little. Civilian aircraft, engines, and parts were unchanged in the fourth quarter after a large increase in the third quarter.

Automotive vehicles, engines, and parts were nearly flat after a large third-quarter increase. Decreases in passenger cars and trucks, buses, and special purpose vehicles to Canada were offset by increases in engines and other parts to Canada and in passenger cars to "other" areas, mostly Mexico and the Middle East.

Chart 5. Percent Change in Export and Import Prices of Selected Industrial Supplies and Materials

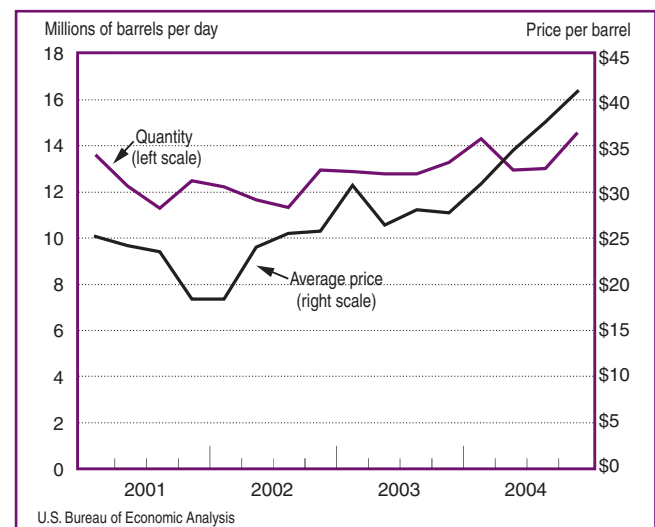


Imports. Imports increased \$20.1 billion, or 5 percent, to \$392.1 billion in the fourth quarter. Real imports increased 4 percent, and import prices increased 2 percent (table C). The large increase in the value of imports reflected a surge in petroleum and petroleum products and a moderate increase in nonpetroleum products.

Petroleum and petroleum products increased \$9.6 billion, or 21 percent, the largest dollar increase on record and the largest percentage increase since the second quarter of 2002. A third of the dollar increase was attributable to members of OPEC, mainly Venezuela, Saudi Arabia, and Nigeria. Imports from Canada, Mexico, the United Kingdom, and Russia also increased. The average number of barrels imported daily increased 12 percent, to 14.56 million. The average price per barrel increased 9 percent, to \$40.91, the fourth consecutive strong quarterly increase (chart 6). The fourth-quarter rise in prices mainly reflected an increase in October, amid uncertainty about the extent of the damage done to the oil infrastructure in the Gulf of Mexico by Hurricane Ivan and fears about supply disruptions in the major world oil-producing countries. Prices fell in the last half of the quarter. OPEC increased its official production by 1 million barrels per day on November 1. In the fourth quarter, U.S. domestic consumption increased 1 percent, and domestic production increased 2 percent.

Consumer goods increased \$6.1 billion, rebounding strongly after a third-quarter decrease. Two-thirds of the increase was attributable to a rise in consumer durable goods. Among durable goods, the largest increases were in home entertainment equipment from China and Japan and in household and kitchen appliances from China and Europe. Consumer nondurable

Chart 6. U.S. Petroleum Imports and Price per Barrel



goods also increased because of a rise in textile apparel and household goods, mostly from Latin America.

Capital goods increased \$1.8 billion after larger increases in the previous four quarters. Civilian aircraft, engines, and parts increased \$0.9 billion. "Other" industrial, agricultural, and service industry machinery increased \$0.6 billion, mainly from Europe. Among high-technology products, telecommunications equipment increased \$0.5 billion after a third-quarter decrease. Computers, peripherals, and parts changed little after increasing for several quarters. Computer shipments from China increased 9 percent in the 4th quarter, the 14th consecutive quarter of growth; the increase was mostly offset by decreases in shipments from Singapore, Malaysia, and Taiwan. After slowing in the previous two quarters, semiconductors decreased \$0.5 billion; the decrease was the largest since the third quarter of 2001.

Nonpetroleum industrial supplies and materials increased \$1.7 billion after much larger increases in the previous three quarters. Prices rose more strongly than in the previous quarter, though less strongly than in the first two quarters of 2004 (chart 5). In value, the largest increases were in chemicals and in nonferrous metals. Steelmaking materials climbed for the fourth consecutive quarter. In contrast, iron and steel products slowed sharply after three quarters of especially strong growth.

Foods, feeds, and beverages increased a record \$1.0 billion, or 7 percent, the largest percentage increase since the second quarter of 1992. Most of the fourth-quarter increase was attributable to increases in vegetables, fruits, nuts, and preparations from Mexico and in fish and shellfish from Thailand, Mexico, and China.

Automotive vehicles, engines, and parts decreased \$0.3 billion. A drop in passenger cars—mostly from Japan, Mexico, and Canada—was almost entirely offset by increases in engines, parts, and other accessories and in trucks, buses, and special purpose vehicles, mostly from Canada and Mexico.

Balances by area. The goods deficits with all major areas increased in the fourth quarter.³ The deficit with Europe increased \$4.7 billion, mostly as a result of increases in the deficits with the United Kingdom, Germany, and Russia. The deficit with Latin America increased \$3.5 billion, largely as a result of increases in

the deficits with Mexico and Venezuela. The deficit with Asia excluding Japan increased \$3.1 billion after much larger increases in the previous two quarters.

Services

The surplus on services increased to \$12.5 billion in the fourth quarter from \$11.2 billion in the third quarter as a result of a larger increase in services receipts than in services payments (table A).

Travel receipts increased \$0.9 billion, to \$19.5 billion. Receipts from visitors to the United States from Canada, Mexico, and countries overseas all increased. Travel payments decreased \$0.1 billion, to \$16.3 billion; decreases in U.S. travelers' payments to Canada and to countries overseas were mostly offset by an increase in U.S. travelers' payments to Mexico. Passenger fare receipts increased \$0.2 billion, to \$4.9 billion, and passenger fare payments edged up \$0.1 billion, to \$6.0 billion.

"Other" transportation receipts increased \$0.5 billion, to \$9.6 billion. The rise was accounted for by increases in ocean freight receipts and in ocean port services receipts, mostly as a result of a rise in U.S. import and export volumes. "Other" transportation payments increased \$1.3 billion, to \$14.7 billion. The increase was mainly attributable to an increase in ocean freight payments, which were boosted by increases in freight rates and U.S. import volume, and to an increase in payments for air port services.

"Other" private services receipts increased \$0.3 billion, to \$36.5 billion. The increase was attributable to a rise in unaffiliated services receipts, mostly in financial services and in business, professional, and technical services. "Other" private services payments increased \$0.5 billion, to \$24.3 billion. Payments for both affiliated services and for unaffiliated services, mostly insurance services, increased.

Income

The surplus on income decreased to \$2.1 billion in the fourth quarter from \$4.9 billion in the third quarter (table A). A large increase in income receipts was more than offset by a larger increase in income payments.

Receipts of income on U.S. direct investment abroad increased \$6.9 billion, to \$65.6 billion. Earnings increased the most since the fourth quarter of 2003. By area, the largest increase in earnings was in Europe, partly reflecting the appreciation of the euro against the U.S. dollar.

Payments of income on foreign direct investment in the United States increased \$3.2 billion, to \$30.5 billion. Earnings strengthened in the fourth quarter after increasing only slightly in the third quarter. The fourth-quarter increase largely resulted from a rise in

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.)

earnings of manufacturing affiliates, particularly in transportation equipment, petroleum, other manufacturing, and machinery.

Receipts of “other” private income increased \$4.8 billion, to \$37.3 billion. The strong rise was mostly attributable to an increase in interest receipts on bank and nonbank claims that largely resulted from an increase in short-term interest rates. In addition, dividends and interest receipts earned on U.S. holdings of foreign securities increased as a result of a rise in average holdings.

Payments of “other” private income increased \$9.9 billion, to \$46.7 billion. The jump was mostly attributable to an exceptionally large rise in income paid on foreign holdings of U.S. securities as a result of an increase in average foreign holdings of U.S. bonds and a large special dividend paid by Microsoft Corporation. In addition, interest payments on bank and nonbank liabilities increased substantially as a result of a rise in short-term interest rates.

Receipts of income on U.S. Government assets were virtually unchanged at \$0.8 billion. Payments of income on U.S. Government liabilities increased \$1.3 billion, to \$23.0 billion, mostly as a result of a rise in average foreign holdings of U.S. Treasury bonds.

Unilateral current transfers

Unilateral current transfers were net outflows of \$19.0 billion in the fourth quarter, up from net outflows of \$14.9 billion in the third quarter (table A). The increase was mostly attributable to “private remittances and other transfers,” which increased \$3.3 billion, to \$11.7 billion. In the third quarter, “private remittances and other transfers” decreased as a result of large inflows to U.S. insurance companies from foreign reinsurance companies as compensation for catastrophic damage caused by major hurricanes.⁴ Because of the absence of these inflows in the fourth quarter, “private remittances and other transfers” rebounded.

U.S. Government grants increased \$0.8 billion, to \$5.7 billion. The increase was largely accounted for by grants to Israel and Egypt under the credit waiver program and under economic assistance programs. Additional funds for Israel and Egypt under these programs were disbursed in the first quarter of 2005.

Capital Account

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

4. For more information on the measurement of insurance services in the international accounts, see Christopher L. Bach, “Annual Revision of the U.S. International Accounts, 1992–2002” *SURVEY OF CURRENT BUSINESS* 83 (July 2003): 35–37, and Christopher L. Bach, “Annual Revision of the U.S. International Accounts, 1989–2003” *SURVEY* 84 (July 2004): 60–62.

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 \$183.8 billion in the fourth quarter, up from \$128.7 billion in the third quarter. Both financial outflows for U.S.-owned assets abroad and financial inflows for foreign-owned assets in the United States increased substantially, but inflows increased more than outflows.

U.S.-owned assets abroad

Net U.S.-owned assets abroad increased \$276.5 billion in the fourth quarter after an increase of \$127.6 billion in the third quarter. Net financial outflows for U.S. direct investment abroad were exceptionally large. In addition, U.S. claims on foreigners reported by U.S. banks increased more in the fourth quarter than in the third quarter, and net U.S. purchases of foreign securities strengthened.

U.S. official reserve assets. U.S. official reserve assets decreased \$0.7 billion in the fourth quarter after a decrease of \$0.4 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 by foreign countries.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers increased \$74.7 billion in the fourth quarter after an increase of \$55.0 billion in the third quarter (chart 7).

Banks’ own claims denominated in dollars increased \$86.8 billion in the fourth quarter after an increase of \$66.2 billion in the third quarter. In the fourth quarter, a strong increase in deposits and brokerage balances largely reflected an increase in lending by foreign-owned banks in the United States to their branches in Caribbean financial centers. In addition, brokers in the United States lent substantial funds through resale agreements, mainly to foreign nonbanks in Europe and Japan. As has been the situation for most of the year, much of the lending by banks and brokers was to the securities markets through resale agreements and to the syndicated loan market for mergers and corporate refinancings.

Banks’ domestic customers’ claims denominated in dollars decreased \$12.2 billion after a decrease of \$13.6 billion. In the fourth quarter, most types of claims decreased, but the largest decrease was in deposits and brokerage balances.

Claims reported by U.S. nonbanking concerns increased \$74.5 billion after an increase of \$9.4 billion. The fourth-quarter increase was largely attributable to

an increase in deposits in Caribbean financial centers and in the United Kingdom.

Foreign securities. Net U.S. purchases of foreign securities were \$27.2 billion in the fourth quarter, up from \$20.3 billion in the third quarter. In the fourth quarter, net U.S. purchases of foreign bonds picked up, and net U.S. purchases of foreign stocks slowed.

Net U.S. purchases of foreign bonds were \$13.1 billion, up from \$3.2 billion. Prices in most foreign bond markets continued to increase in the fourth quarter after rising strongly in the third quarter. The increase in net U.S. purchases was more than accounted for by a pickup in net U.S. purchases from Europe, mainly the United Kingdom, and by a shift to net U.S. purchases from Caribbean financial centers. In contrast, net U.S. sales to Asia increased, mostly as a result of a shift to net U.S. sales to Japan. Foreign new issues in the United States fell moderately.

Net U.S. purchases of foreign stocks were \$14.1 billion, down from \$17.1 billion. The slowdown was

attributable to a decrease in U.S. holdings of foreign stocks associated with the restructuring of a large foreign media company's worldwide operations, which was accomplished via stock swaps. Transactions unrelated to the restructuring indicated a sizable step-up in net U.S. purchases, as foreign stock prices increased strongly. In local currency terms, foreign stock prices increased 7 percent in the fourth quarter after much smaller gains over the previous three quarters. In addition, U.S. investors also benefited from the depreciation of the U.S. dollar against many foreign currencies. Net U.S. purchases of stocks from Asia and from Europe, mainly the United Kingdom, increased by the largest amounts.

Direct investment. Net financial outflows for U.S. direct investment abroad were \$101.3 billion in the fourth quarter, up from \$43.3 billion in the third quarter. The large increase was mostly attributable to a shift to net equity capital outflows from net inflows. The shift mostly resulted from the restructuring of the large foreign media company as a U.S. company, which was accomplished via stock swaps. The restructuring resulted in large outflows for U.S. direct investment abroad and offsetting inflows for foreign portfolio investment in the United States and for U.S. portfolio investment abroad. Reinvested earnings also increased substantially, mostly as a result of an increase in foreign affiliates' earnings. In contrast, net intercompany debt inflows increased.

Foreign-owned assets in the United States

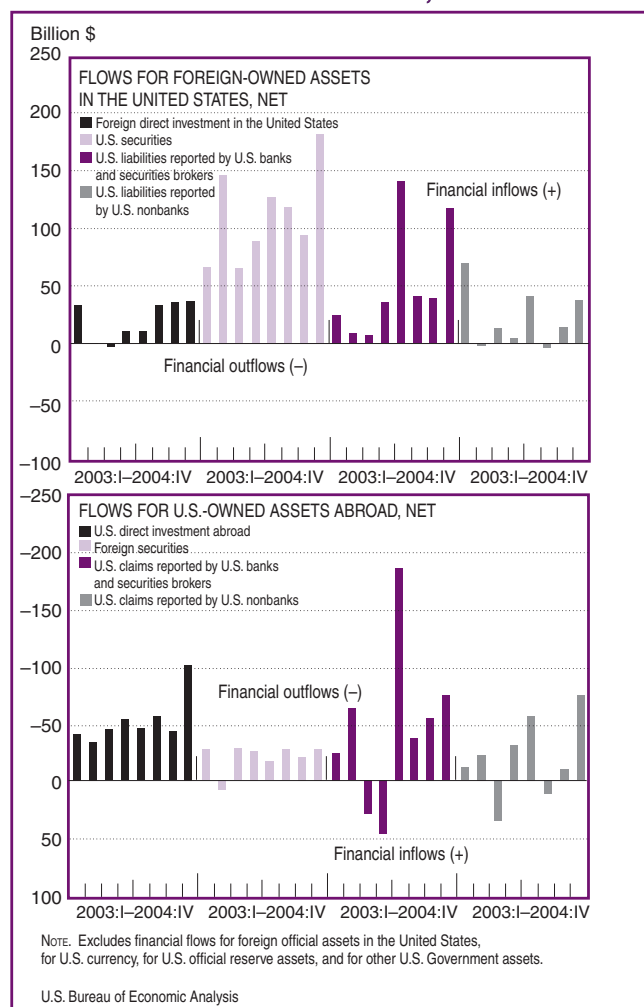
Net foreign-owned assets in the United States increased \$460.2 billion in the fourth quarter after an increase of \$256.3 billion in the third quarter. The pickup was mostly attributable to a much larger increase in U.S. liabilities reported by U.S. banks in the fourth quarter than in the third quarter and to a large pickup in net foreign purchases of U.S. securities other than U.S. Treasury securities.

Foreign official assets. Foreign official assets in the United States increased \$82.0 billion in the fourth quarter after an increase of \$72.0 billion in the third quarter. The pickup was accounted for by a larger increase in assets of developing countries in the fourth quarter than in the third quarter.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased \$117.6 billion in the fourth quarter after an increase of \$38.7 billion in the third quarter.

Banks' own liabilities denominated in dollars increased \$131.8 billion after an increase of \$39.2 billion. The fourth-quarter increase was the second largest ever and only slightly below the record increase in the

Chart 7. Selected Financial Flows, 2003:I–2004:IV



first quarter of 2004. The large fourth-quarter increase partly funded an increase in U.S. bank lending to foreigners. Borrowing by U.S.-owned banks and by foreign-owned banks in the United States from affiliated offices abroad was substantial. In addition, borrowing by brokers in the United States from foreign nonbanks in the form of repurchase agreements was very strong.

Banks' customers' liabilities denominated in dollars decreased \$14.8 billion, mostly to Caribbean financial centers, after a decrease of \$1.4 billion. U.S. liabilities reported by U.S. nonbanking concerns increased \$36.7 billion after an increase of \$13.3 billion. The fourth-quarter increase was mainly accounted for by increased borrowing from the United Kingdom.

U.S. Treasury securities. Net foreign purchases of U.S. Treasury securities were \$12.1 billion in the fourth quarter, up from \$0.9 billion in the third quarter. U.S. Treasury bond prices changed little. Transactions in long-term U.S. Treasury securities shifted to net foreign purchases from net foreign sales. The shift was more than accounted for by a large shift to net purchases by investors in Europe. In contrast, transactions by investors in Caribbean financial centers shifted to large net sales.

Other U.S. securities. Net foreign purchases of U.S. securities other than U.S. Treasury securities were a record \$170.2 billion, up sharply from \$93.0 billion. The large rise was more than accounted for by a strong rebound in net foreign purchases of U.S. federally sponsored agency bonds and by a pickup in net foreign purchases of U.S. stocks. In contrast, net foreign purchases of U.S. corporate bonds slowed, but remained at a high level.

Net foreign purchases of U.S. federally sponsored agency bonds rebounded to a record \$55.3 billion in the fourth quarter after dropping to \$5.7 billion in the

third quarter. Demand for agency bonds by investors in Japan was particularly strong, and demand by investors in Europe and Caribbean financial centers was also substantial. The rebound followed a third-quarter drop in net foreign purchases that may have been partly related to revelations of possible accounting irregularities at one of the major issuers.

Net foreign purchases of U.S. stocks increased to \$45.5 billion from \$4.8 billion. The pickup was partly attributable to a sizable increase in foreign holdings of U.S. stocks associated with the previously discussed restructuring of a foreign media company. Net foreign purchases unrelated to the restructuring were more substantial than in the previous three quarters. U.S. stock prices rallied 9 percent in the fourth quarter after changing little through the first three quarters of the year.

Net foreign purchases of U.S. corporate bonds remained strong at \$69.4 billion, down from a record \$82.5 billion in the third quarter. Bond prices increased less in the fourth quarter than in the third quarter. Spreads on both investment-grade and high-yield corporate bonds over U.S. Treasury bonds continued to narrow, as investors remained attracted to the higher yields available on corporate bonds. New U.S. corporate issues sold abroad decreased.

U.S. currency flows. Net U.S. currency shipments to foreigners were \$5.3 billion in the fourth quarter, up from \$2.6 billion in the third quarter.

Direct investment. Net financial inflows for foreign direct investment in the United States were \$36.3 billion in the fourth quarter, up slightly from \$35.9 billion in the third quarter. The increase resulted from an increase in reinvested earnings and a shift to net inter-company debt inflows from net outflows. In contrast, net equity capital inflows decreased, as foreign acquisitions of U.S. companies fell in the fourth quarter.