U.S. International Transactions

Second Quarter of 2008

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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 $183.1 billion (preliminary) in the second quarter of 2008 from $175.6 billion (revised) in the first quarter (table A, chart 1).[1] The increase was more than accounted for by a decrease in the surplus on income and an increase in the deficit on goods. In contrast, the surplus on services increased, and net unilateral current transfers to foreigners decreased.

In the financial account, net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were $136.7 billion in the second quarter, down from $190.4 billion in the first quarter. Net acquisitions by foreign residents slowed sharply, and transactions by U.S. residents resulted in a decrease in U.S.-owned assets abroad in the second quarter, following an increase in the first quarter.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive $47.1 billion in the second quarter, compared with a negative $14.1 billion in the first quarter.

The following are highlights for the second quarter of 2008:

- Both exports and imports of goods increased strongly.
- Both receipts and payments of "other" private income decreased strongly, largely as a result of substantial declines in short-term interest rates.
- Both claims and liabilities reported by U.S. banks and securities brokers decreased sharply, reflecting a cutback in international lending and borrowing

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

Table A. Summary of U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 12 are indicated in ( ) (Credits +; debits –)	2006	2007	2007				2008		Change: 2008:I–II
				I	II	III	IV	I r	II p	
	Current account									
1	**Exports of goods and services and income receipts (1)**	**2,142,164**	**2,463,505**	**572,182**	**602,122**	**638,393**	**650,808**	**651,473**	**669,691**	**18,218**
2	Goods, balance of payments basis (3)	1,023,109	1,148,481	270,318	279,488	295,494	303,180	317,813	337,312	19,499
3	Services (4)	433,905	497,245	115,118	120,463	129,378	132,285	133,833	137,506	3,673
4	Income receipts (12)	685,150	817,779	186,746	202,171	213,520	215,343	199,827	194,873	–4,954
5	**Imports of goods and services and income payments (18)**	**–2,838,254**	**–3,082,014**	**–738,938**	**–771,262**	**–783,548**	**–788,264**	**–795,371**	**–822,898**	**–27,527**
6	Goods, balance of payments basis (20)	–1,861,380	–1,967,853	–473,681	–485,375	–496,698	–512,099	–528,845	–553,641	–24,796
7	Services (21)	–348,918	–378,130	–91,298	–93,395	–96,288	–97,149	–99,910	–101,729	–1,819
8	Income payments (29)	–627,956	–736,030	–173,959	–192,492	–190,562	–179,016	–166,615	–167,529	–914
9	**Unilateral current transfers, net (35)**	**–92,027**	**–112,705**	**–30,174**	**–24,953**	**–27,796**	**–29,784**	**–31,742**	**–29,941**	**1,801**
	Capital account									
10	**Capital account transactions, net (39)**	**–3,880**	**–1,843**	**–543**	**–112**	**–617**	**–571**	**–600**	**–652**	**–52**
	Financial account									
11	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–)) (40)**	**–1,251,749**	**–1,289,854**	**–442,065**	**–523,556**	**–170,476**	**–153,757**	**–260,644**	**110,431**	**371,075**
12	U.S. official reserve assets (41)	2,374	–122	–72	26	–54	–22	–276	–1,267	–991
13	U.S. government assets, other than official reserve assets (46)	5,346	–22,273	445	–596	623	–22,744	3,265	–41,265	–44,530
14	U.S. private assets (50)	–1,259,469	–1,267,459	–442,438	–522,985	–171,045	–130,990	–263,634	152,963	416,597
15	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55)**	**2,061,113**	**2,057,703**	**692,713**	**718,112**	**266,476**	**380,402**	**459,017**	**26,301**	**–432,716**
16	Foreign official assets in the United States (56)	487,939	411,058	163,270	88,822	13,469	145,497	173,533	144,417	–29,116
17	Other foreign assets in the United States (63)	1,573,174	1,646,645	529,443	629,290	253,007	234,905	285,484	–118,116	–403,600
18	**Financial derivatives, net (70)**	**29,710**	**6,496**	**14,795**	**–1,007**	**5,942**	**–13,234**	**–8,001**	**n.a.**	**8,001**
19	**Statistical discrepancy (sum of above items with sign reversed) (71)**	**–47,078**	**–41,287**	**–67,970**	**656**	**71,627**	**–45,600**	**–14,131**	**47,067**	**61,198**
	Memoranda:									
20	Balance on current account (77)	–788,116	–731,214	–196,930	–194,093	–172,952	–167,241	–175,640	–183,147	–7,507
21	Net financial flows (40, 55, and 70)	839,074	774,345	265,443	193,549	101,942	213,411	190,372	136,732	–53,640

p Preliminary
r Revised
n.a. Not available

by these institutions.

- Net private foreign purchases of U.S. Treasury securities were strong for the fourth consecutive quarter, as foreign investors responded to uncertainty in financial markets by purchasing U.S. Treasury securities.

Current Account

Goods and services

The deficit on goods and services increased $3.4 billion to $180.6 billion in the second quarter from $177.1 billion in the first quarter. A $5.3 billion increase in the deficit on goods was partly offset by a $1.9 billion increase in the surplus on services.

Goods

The deficit on goods increased to $216.3 billion in the second quarter from $211.0 billion in the first quarter, as imports increased more than exports. The deficit on petroleum and products continued to rise, and the deficit on nonpetroleum products continued to fall (chart 2).

On a price-adjusted, or real, basis, total exports increased and total imports decreased in the second quarter. As a result, real net goods exports contributed substantially to real gross domestic product for the fifth consecutive quarter.

Exports. Exports increased $19.5 billion, or 6.1 percent, to $337.3 billion in the second quarter (table B,

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

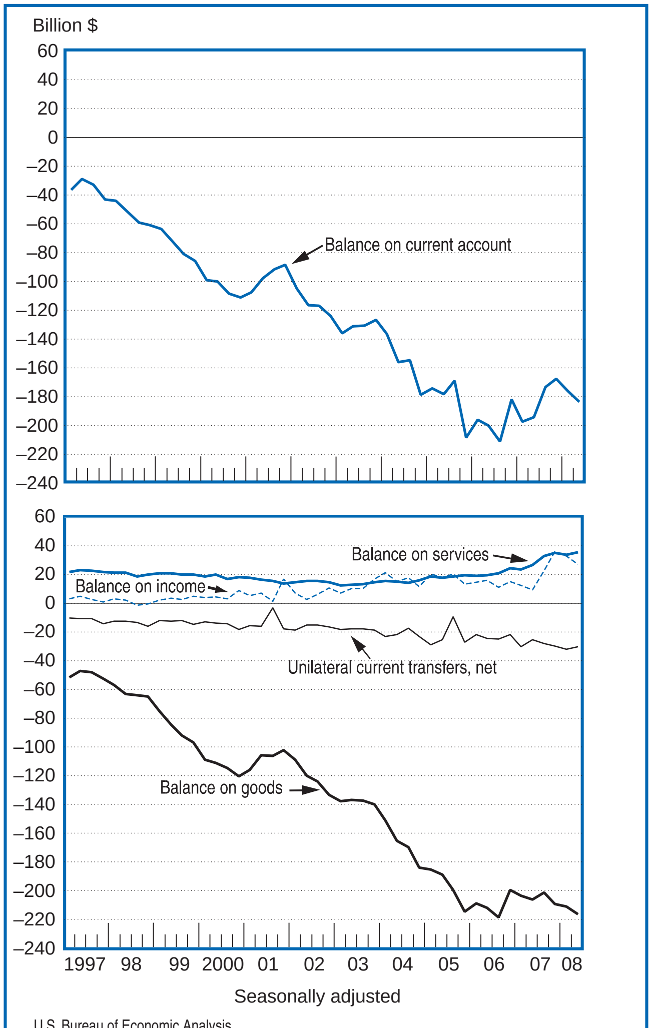
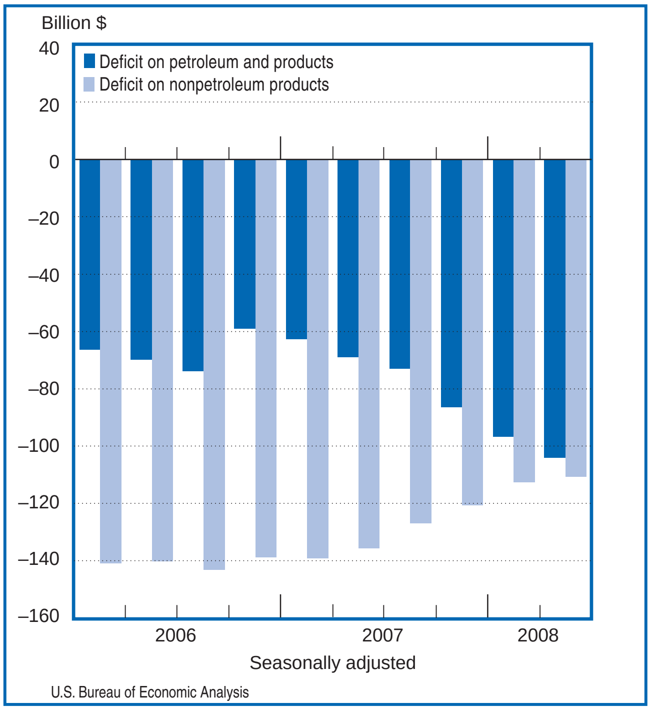


Chart 2. Deficits on Petroleum and Nonpetroleum Products



Revisions to Estimates

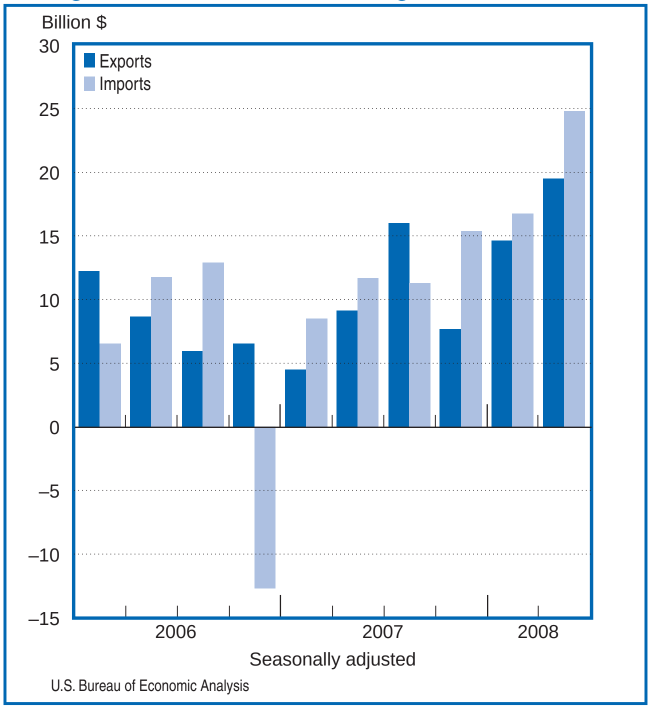
The preliminary estimates of U.S. international transactions for the first quarter that were published in the July 2008 SURVEY OF CURRENT BUSINESS have been revised.

The current-account deficit was revised to $175.6 billion from $176.4 billion. The goods deficit was unrevised at $211.0 billion; the services surplus was revised to $33.9 billion from $36.1 billion; the income surplus was revised to $33.2 billion from $29.8 billion; and unilateral current transfers were revised to net outflows of $31.7 billion from $31.2 billion. Net financial inflows were revised to $190.4 billion from $124.3 billion.

chart 3). Real exports increased 3.1 percent, and export prices increased 3.0 percent.[2] Nonagricultural industrial supplies and materials accounted for more than half of the increase in value. Capital goods, agricultural products, and consumer goods also contributed to the rise. Exports to most areas increased, but the largest increase was to Canada.

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

Chart 3. Goods Exports and Imports: Change in Value From Preceding Quarter



Nonagricultural industrial supplies and materials increased $10.2 billion, the second consecutive strong quarterly increase. The largest increases were in petroleum and products, in chemicals, and in steelmaking materials. Petroleum and products have accelerated in recent quarters. The $4.1 billion, or 28 percent, increase in the second quarter mostly resulted from fuel oil exports to South and Central America and to Europe; fuel oil prices rose 25 percent. Chemicals increased $2.2 billion, or 8 percent, mostly to India but also to Canada and China. Steelmaking materials increased $1.4 billion, or 48 percent; the dollar and percentage increases were the largest on record. In contrast, exports of nonmonetary gold decreased in the second quarter, mostly to Switzerland, after increasing very strongly in the first quarter. Gold prices increased 5 percent in the second quarter after larger increases in the preceding two quarters.

Capital goods increased $3.6 billion after a small first-quarter decrease. The rebound mostly resulted from upturns in computers, peripherals, and parts (mainly to South and Central America), in electric generating machinery, electric apparatus, and parts (mainly to Asia and Pacific and to South and Central America), and in industrial engines, pumps, and compressors. There were also sizable increases in oil drilling, mining, and construction machinery and in scientific, hospital, and medical equipment.

Agricultural products increased $3.0 billion. Nearly

Table B. U.S. Trade in Goods in Current and Chained (2000) Dollars and Percent Changes From Previous Period

[Balance of payments basis, millions of dollars, quarters seasonally adjusted]

	Current dollars								Chained (2000) dollars [1]							
	2006	2007	2007				2008		2006 r	2007 r	2007				2008	
			I	II	III	IV	I	II p			I r	II r	III r	IV r	I r	II p
Exports	**1,023,109**	**1,148,481**	**270,318**	**279,488**	**295,494**	**303,180**	**317,813**	**337,312**	**920,633**	**998,141**	**238,822**	**243,900**	**256,101**	**258,940**	**265,030**	**273,224**
Agricultural products	72,869	92,115	19,933	21,517	24,960	25,705	29,455	32,457	58,085	62,194	14,305	15,176	16,711	15,873	16,320	16,732
Nonagricultural products	950,240	1,056,366	250,385	257,971	270,534	277,475	288,358	304,855	864,334	938,016	225,126	229,210	239,684	243,767	249,404	257,309
Imports	**1,861,380**	**1,967,853**	**473,681**	**485,375**	**496,698**	**512,099**	**528,845**	**553,641**	**1,630,344**	**1,663,077**	**417,120**	**414,528**	**416,434**	**415,065**	**415,018**	**405,934**
Petroleum and products	302,430	330,978	70,797	78,131	83,019	99,031	112,172	123,619	138,163	135,413	35,773	33,589	32,395	33,655	35,046	31,088
Nonpetroleum products	1,558,950	1,636,875	402,884	407,244	413,679	413,068	416,673	430,022	1,504,865	1,547,009	384,442	385,940	390,753	385,854	381,827	383,719

	Percent change from previous period (current dollars)								Percent change from previous period (chained (2000) dollars)							
	2006	2007	2007				2008		2006 r	2007 r	2007				2008	
			I	II	III	IV	I	II p			I r	II r	III r	IV r	I r	II p
Exports	**14.4**	**12.3**	**1.7**	**3.4**	**5.7**	**2.6**	**4.8**	**6.1**	**10.7**	**8.4**	**0.9**	**2.1**	**5.0**	**1.1**	**2.4**	**3.1**
Agricultural products	12.3	26.4	6.1	7.9	16.0	3.0	14.6	10.2	8.5	7.1	0.1	6.1	10.1	–5.0	2.8	2.5
Nonagricultural products	14.5	11.2	1.4	3.0	4.9	2.6	3.9	5.7	10.8	8.5	0.9	1.8	4.6	1.7	2.3	3.2
Imports	**10.7**	**5.7**	**1.8**	**2.5**	**2.3**	**3.1**	**3.3**	**4.7**	**6.2**	**2.0**	**1.6**	**–0.6**	**0.5**	**–0.3**	**0.0**	**–2.2**
Petroleum and products	20.1	9.4	5.0	10.4	6.3	19.3	13.3	10.2	–1.9	–2.0	7.0	–6.1	–3.6	3.9	4.1	–11.3
Nonpetroleum products	9.0	5.0	1.3	1.1	1.6	–0.1	0.9	3.2	7.8	2.8	0.7	0.4	1.2	–1.3	–1.0	0.5

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

half of the increase resulted from a second consecutive strong quarterly increase in soybeans. Export prices of soybeans fell 2 percent in the second quarter after rising 20 percent or more in each of the preceding two quarters. Meat products and poultry also increased substantially. Grains and preparations, such as wheat and corn, increased much less in the second quarter than in the first quarter, mostly as a result of a slowdown in corn. Export prices of corn increased much less in the second quarter than in the first quarter, and prices of wheat fell substantially after rising strongly for three consecutive quarters.

Consumer goods increased $1.8 billion as a result of increases in both nondurable and durable goods. The rise in nondurable goods mostly reflected exports of medicinal, dental, and pharmaceutical products to Germany and several other European countries. Durable goods were boosted by increases in household and kitchen appliances and other household goods, particularly to Canada, and in toys and sporting goods, also to Canada.

Automotive vehicles, parts, and engines increased $0.5 billion. The increase was largely attributable to a rise in automotive exports to countries other than Canada. Automotive exports to Canada increased slightly, in contrast to a large decrease in the first quarter when there were planned production cuts at several automotive plants in Canada and a strike at a major U.S. auto parts supplier.

Imports. Imports increased $24.8 billion, or 4.7 percent, to $553.6 billion in the second quarter (table B, chart 3). Real imports decreased 2.2 percent, and import prices increased 7.0 percent. Petroleum and products accounted for nearly half of the increase in value. Nonpetroleum industrial supplies and materials, capital goods, and consumer goods also increased substantially. By area, imports from China, Canada, Mexico, and Europe increased the most.

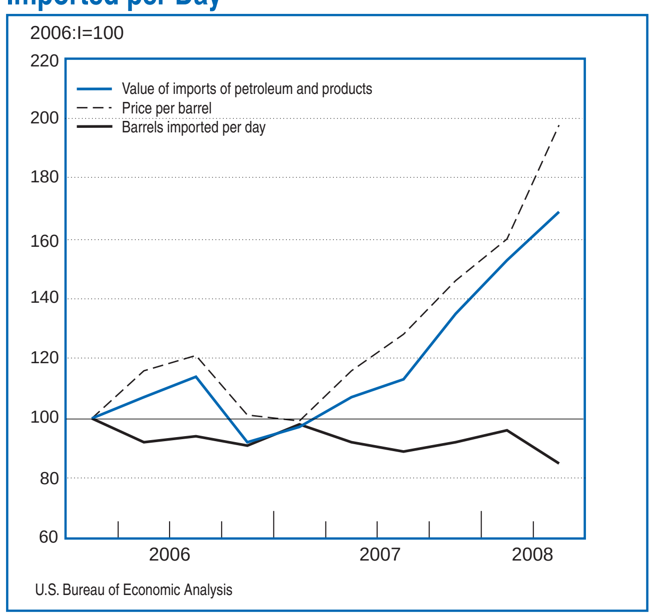
Petroleum and products increased $11.4 billion, the third consecutive strong quarterly increase (chart 4). In the second quarter, a surge in petroleum prices was partly offset by a decline in import volume. The average price per barrel of petroleum increased 24 percent, to $108.51; the percentage increase was the largest in 6 years. Petroleum prices have risen strongly in recent quarters, largely in response to strong demand from China and other rapidly growing countries and to tight world supplies of crude oil. In the second quarter, the average number of barrels of petroleum imported daily decreased a record 12 percent, to 12.42 million. Both U.S. domestic consumption and production of petroleum increased less than 1 percent. In contrast to recent quarters, most of the increase in petroleum imports in the second quarter was from non-OPEC members.

Nonpetroleum industrial supplies and materials increased $5.5 billion. Natural gas, mainly from Canada, accounted for more than a third of the increase. Import prices of natural gas increased 26 percent, following a 17 percent rise in the first quarter. Chemicals increased strongly for the second consecutive quarter; the second-quarter increase was mostly from Canada and China. Iron and steel products also rose substantially for the second straight quarter, and steelmaking materials surged. Import prices of steel-related products increased substantially, particularly prices of steelmaking materials, which jumped 48 percent. Global steel prices have been boosted by tight supplies and strong demand from China and other rapidly growing countries.

After increasing weakly for two quarters, capital goods increased a stronger $3.7 billion in the second quarter. Nearly half of the increase was accounted for by a substantial rise in computers, peripherals, and parts and by an increase in telecommunications equipment. Among other capital goods, the largest increases were in scientific, hospital, and medical equipment, in industrial engines, pumps, compressors, and generators, and in electric generating machinery, electric apparatus, and parts. China was the major source for the increased imports of these products.

Consumer goods increased $3.7 billion, the largest

Chart 4. Imports of Petroleum and Products: Indexes of Value, Price per Barrel, and Barrels Imported per Day



increase in several quarters. The pickup was attributable to a strong rebound in durable goods, particularly in household and kitchen appliances and other household goods and in televisions, video receivers, and other video equipment. Nondurable goods changed little, as an increase in apparel, footwear, and household goods was offset by a decrease in medicinal, dental, and pharmaceutical products.

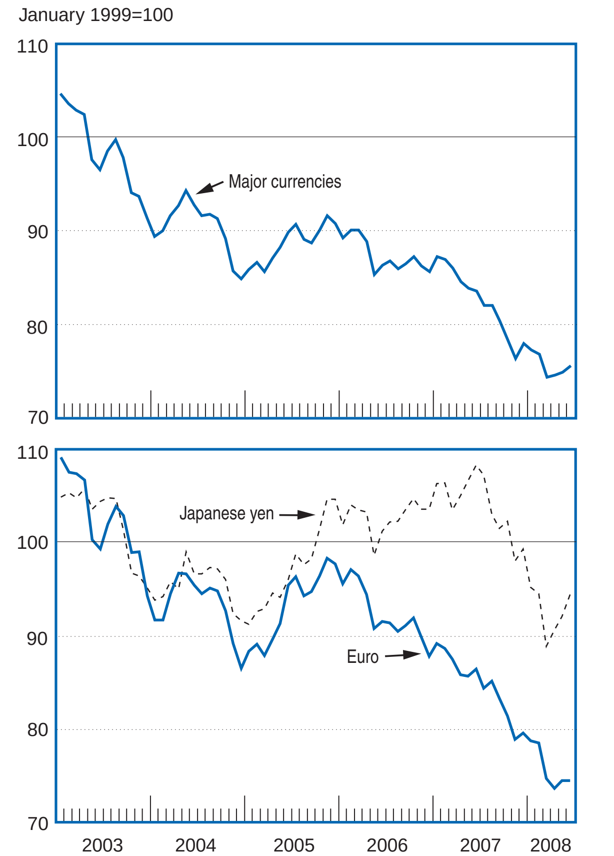
Automotive vehicles, parts, and engines decreased $1.8 billion, the third consecutive quarterly decline. Most of the second-quarter decrease was attributable to a drop in imports of parts and engines, particularly from Canada, Mexico, and Japan. Trucks and buses, mostly from Mexico and Canada, also decreased.

Balances by area. The deficit on goods increased $5.3 billion to $216.3 billion. The deficit with Europe increased $4.2 billion, and the deficit with Africa increased $2.5 billion. The deficit with Asia and Pacific increased a slight $0.2 billion; a $6.4 billion increase in the deficit with China was mostly offset by a $3.2 billion decrease in the deficit with Japan and increases in the surpluses with Hong Kong and Singapore. In contrast, the deficit with Canada decreased $1.1 billion, and the deficit with Latin America and Other Western Hemisphere decreased $0.6 billion.

Services

The surplus on services increased to $35.8 billion in the second quarter from $33.9 billion in the first quarter. Services receipts increased $3.7 billion to $137.5 billion, and services payments increased $1.8 billion to $101.7 billion.

Chart 5. Nominal Indexes of Foreign Currency Price of the U.S. Dollar



NOTE. See table C for the definitions of the indexes. Monthly average rates.

Data: Federal Reserve Board. Indexes rebased by BEA.

U.S. Bureau of Economic Analysis

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

[January 1999=100]

	2007			2008		2007							2008					
	II	III	IV	I	II	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June
Nominal: [1]																		
Broad [2]	91.5	89.8	86.7	85.1	83.8	91.0	89.9	90.4	89.1	87.3	86.0	86.8	86.1	85.4	83.7	83.5	83.8	84.0
Major currencies [3]	83.9	81.4	77.6	76.2	75.0	83.5	82.0	82.0	80.3	78.3	76.4	78.0	77.3	76.8	74.4	74.6	74.9	75.6
Other important trading partners [4]	101.2	100.6	98.7	96.8	95.3	100.8	100.1	101.2	100.6	99.1	98.7	98.3	97.6	96.7	96.0	95.2	95.5	95.1
Real: [1]																		
Broad [2]	95.0	92.8	89.0	87.1	86.7	94.7	93.2	93.2	91.9	89.7	88.4	88.9	88.3	87.0	85.9	86.0	86.8	87.4
Major currencies [3]	92.8	90.1	85.7	84.5	84.2	92.5	90.8	90.6	88.8	86.5	84.6	86.0	85.6	85.1	82.9	83.5	84.0	85.1
Other important trading partners [4]	97.5	95.8	92.6	89.9	89.5	97.2	95.8	96.1	95.4	93.3	92.6	92.0	91.3	89.1	89.2	88.9	89.8	89.9
Selected currencies: (nominal) [5]																		
Canada	72.3	68.8	64.6	66.1	66.5	70.1	69.1	69.6	67.6	64.2	63.7	66.0	66.5	65.7	66.0	66.7	65.8	66.9
European currencies:																		
Euro area [6]	86.0	84.3	80.0	77.3	74.2	86.4	84.4	85.1	83.3	81.4	78.9	79.6	78.7	78.5	74.7	73.6	74.5	74.5
United Kingdom	83.1	81.6	80.7	83.4	83.7	83.0	81.1	82.0	81.7	80.7	79.7	81.8	83.7	84.0	82.4	83.3	84.0	83.9
Switzerland	88.2	86.5	82.7	77.0	74.5	89.0	87.1	86.8	85.5	84.7	81.1	82.3	79.4	78.6	73.1	73.2	75.4	74.8
Japan	106.6	103.9	99.9	92.9	92.4	108.3	107.2	103.0	101.5	102.3	98.0	99.3	95.2	94.5	88.9	90.6	92.1	94.4
Mexico	107.4	108.2	107.1	106.7	103.0	107.0	106.8	109.0	108.9	106.8	107.4	107.1	107.7	106.3	106.0	103.8	103.1	102.0
Brazil	131.1	126.7	118.0	114.8	109.4	127.8	124.4	129.8	125.8	119.0	116.9	118.1	117.1	114.4	113.0	111.5	109.7	107.0

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, Slovenia, and Spain; beginning with the first quarter of 2008, also includes Cyprus and Malta.

Travel receipts increased $1.2 billion to $28.2 billion. Travel receipts have increased nearly 30 percent over the last five quarters, as the appreciation of many foreign currencies against the U.S. dollar has boosted the number of foreign visitors to the United States and their expenditures. Travel payments increased $0.2 billion to $20.6 billion. Travel payments have increased much less than travel receipts, as the depreciation of the dollar has restrained U.S. travel abroad. In the second quarter, passenger fare receipts increased $0.3 billion to $7.9 billion, and passenger fare payments increased $0.2 billion to $8.1 billion.

"Other" transportation receipts increased $0.9 billion to $15.6 billion, the third consecutive strong quarterly increase. In the last two quarters, receipts for port services increased especially strongly, partly as a result of foreign air carriers' increased fuel expenditures in U.S. ports. "Other" transportation payments increased $0.7 billion to $18.6 billion. Payments for port services increased strongly for the second straight quarter, partly as a result of U.S. air carriers' increased fuel expenditures in foreign ports.

"Other" private services receipts increased $1.4 billion to $59.7 billion. The increase was mostly attributable to increases in receipts for financial services, for business, professional, and technical services, and for "other" services. "Other" private services payments increased $0.5 billion to $37.7 billion, largely as a result of an increase in payments for business, professional, and technical services.

Income

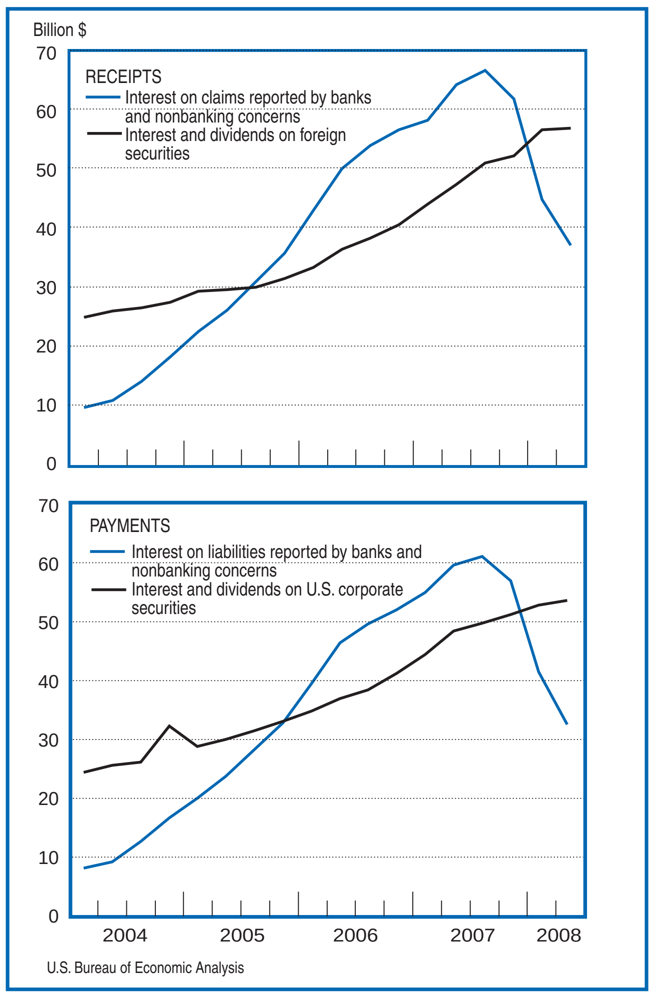
The surplus on income decreased to $27.3 billion in the second quarter from $33.2 billion in the first quarter. Income receipts decreased $5.0 billion to $194.9 billion, as a large decrease in "other" private receipts was partly offset by an increase in direct investment receipts. Income payments increased $0.9 billion to $167.5 billion, as a large decrease in "other" private payments was more than offset by a larger increase in direct investment payments.

Receipts of income on U.S. direct investment abroad increased $2.4 billion to $99.6 billion. The increase largely resulted from an increase in the earnings of foreign holding company affiliates, mostly in "Other" Western Hemisphere and a few countries in Europe. Higher earnings of foreign affiliates in "other" industries also contributed to the rise.

Payments of income on foreign direct investment in the United States increased $8.7 billion to $35.8 billion. The increase mostly resulted from a rise in the earnings of U.S. affiliates in finance and insurance, particularly depository institutions. Earnings of finance and insurance affiliates have rebounded in the last two quarters after large losses in the fourth quarter of 2007. In the second quarter, earnings of affiliates in manufacturing and in "other" industries also increased substantially. By area, earnings of affiliates with parent companies in a few European countries increased strongly.

Both receipts and payments of "other" private income decreased substantially for the second consecutive quarter as a result of sharp declines in short-term interest rates. In the second quarter, receipts of "other" private income decreased $7.4 billion to $93.7 billion. The decline was attributable to decreases in interest receipts on U.S. bank and nonbank claims (chart 6). Payments of "other" private income decreased $8.0 billion to $86.3 billion as a result of decreases in interest payments on U.S. bank and nonbank liabilities. U.S. government income receipts increased $0.1 billion to $0.8 billion, and U.S. government income payments increased $0.2 billion to $43.0 billion.

Chart 6. Other Private Income



Unilateral current transfers

Net unilateral current transfers to foreigners were $29.9 billion in the second quarter, down from $31.7 billion in the first quarter. The decrease was more than accounted for by a decline in U.S. government grants. In contrast, private remittances and other transfers increased.

Capital Account

Net capital account payments (outflows) were $0.7 billion in the second quarter, up slightly from $0.6 billion in the first quarter.[3]

Financial Account

Net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were $136.7 billion in the second quarter, down from $190.4 billion in the first quarter.[4] Net acquisitions by foreign residents slowed sharply, and transactions by U.S. residents resulted in a decrease in U.S.-owned assets abroad in the second quarter, following an increase in the first quarter.

In the second quarter, claims and liabilities reported by U.S. banks and securities brokers each decreased over $200.0 billion, as a result of a sharp retrenchment in international lending and borrowing by these institutions (chart 7). However, the decreases were largely offsetting and resulted in only a small net financial outflow. U.S. banks and securities brokers shifted funds to home markets as interbank and some other short-term funding markets remained under pressure; U.S. and foreign central banks attempted to ease these pressures by expanding the availability of funds. Foreign-owned banks and brokers in the United States shifted $90.8 billion to banks abroad, and U.S.-owned banks and brokers shifted $32.0 billion to offices in the United States. Banks' U.S. customers shifted funds to the United States, resulting in a net inflow of $50.9 billion on customers' accounts.

In securities transactions, net U.S. purchases of foreign securities and net foreign purchases of U.S. securities other than U.S. Treasury securities remained weak, compared with net purchases before financial markets became unsettled in the third quarter of 2007. In contrast, net foreign purchases of U.S. Treasury securities were strong for the fourth consecutive quarter.

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

4. In the second quarter, net financial inflows exclude transactions in financial derivatives because data are not yet available. In the first quarter, net financial inflows excluding transactions in financial derivatives were $198.4 billion.

U.S.-owned assets abroad

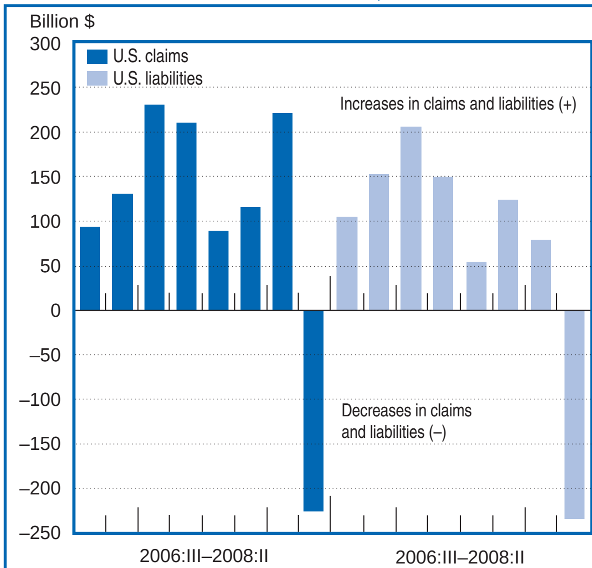
Net U.S.-owned assets abroad decreased $110.4 billion in the second quarter after an increase of $260.6 billion in the first quarter. The decrease was unusual because net U.S.-owned assets abroad normally increase, and the decrease in the second quarter was by far the largest ever. The decrease as well as the substantial shift to a decrease from an increase resulted from a large decrease in claims reported by U.S. banks in the second quarter after a large increase in the first quarter.

U.S. official reserve assets. U.S. official reserve assets increased $1.3 billion in the second quarter after an increase of $0.3 billion in the first quarter. The second-quarter increase mostly resulted from an increase in the U.S. reserve position in the International Monetary Fund.

U.S. government assets other than official reserve assets. U.S. government assets other than official reserve assets increased $41.3 billion in the second quarter after a decrease of $3.3 billion in the first quarter. The increase resulted from temporary reciprocal currency arrangements between the U.S. Federal Reserve System and foreign central banks that do not meet the strict definition of U.S. reserve assets.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers decreased $225.7 billion in the second quarter, in sharp contrast to an increase of $221.3 billion in the first quarter. The shift was the largest on record, and the decrease was more than three times the

Chart 7. U.S. Claims and Liabilities Reported by U.S. Banks and Securities Brokers, 2006:III–2008:II [1]



1. Under balance-of-payments concepts, increases in U.S. claims are shown with a negative sign in tables 1–12, and decreases in U.S. claims are shown with a positive sign.

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size of the next largest decrease.

Some short-term funding markets, including interbank markets, remained under pressure in the second quarter. U.S. monetary authorities attempted to ease liquidity pressures by increasing the funds available under the Term Auction Facility and expanding the types of collateral that could be pledged in the Term Securities Lending Facility. U.S. and foreign monetary authorities also increased the funds available under temporary reciprocal currency arrangements to provide additional dollar liquidity to foreign banking markets. U.S. banks and securities brokers sought to deleverage their balance sheets, as they continued to experience large losses and difficulty funding themselves from traditional, short-term sources. Funding pressures, in turn, caused banks to curtail their lending to an increasingly wide array of customers. In addition, demand for bank credit weakened considerably as a result of substantial declines in mergers and acquisitions and syndicated lending and a slowdown in economic activity in major foreign countries.

Banks' own claims denominated in dollars decreased $153.6 billion after an increase of $217.0 billion. The decrease resulted from decreases in claims of securities brokers and dealers and of banks. Securities brokers' and dealers' claims, mostly resale agreements, decreased especially sharply. Brokers and dealers, which are highly leveraged and rely on short-term wholesale funding markets, sought to improve their liquidity and to lower their risk by reducing their lending to foreign investment funds, which can also be highly leveraged. In addition, some foreign-owned brokers and dealers reduced their lending to parent offices abroad. Among banks, U.S.-owned banks reduced their lending to branches in the United Kingdom and Caribbean financial centers after lending large amounts to branches and other banks abroad in the previous two quarters. Foreign-owned banks in the United States also reduced their lending in the second quarter after lending large amounts to parent offices abroad in the previous two quarters.

Banks' domestic customers' claims denominated in dollars decreased $57.4 billion after a decrease of $22.7 billion. The second-quarter decrease resulted from a substantial drop in deposits and brokerage balances and a decline in negotiable certificates of deposit.

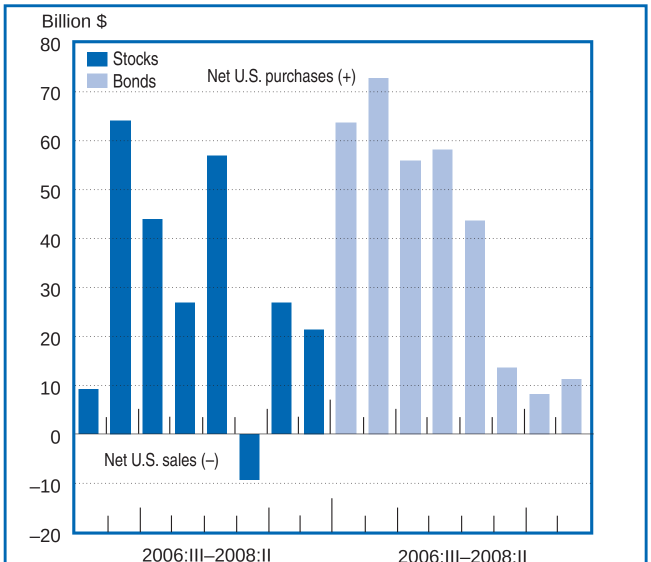
Claims reported by U.S. nonbanking concerns decreased $25.2 billion in the second quarter after a decrease of $81.8 billion in the first quarter. The second-quarter decrease resulted from a decline in deposits in the United Kingdom.

Foreign securities. Net U.S. purchases of foreign securities were $32.5 billion in the second quarter, down slightly from $35.1 billion in the first quarter. A slowdown in net U.S. purchases of foreign stocks was partly offset by a pickup in net U.S. purchases of foreign bonds.

Net U.S. purchases of foreign stocks were $21.3 billion, down from $26.9 billion. Foreign stock markets rallied in the first half of the quarter, contributing to very strong net U.S. purchases of foreign stocks in May. In the quarter, net purchases from Caribbean financial centers and from Europe slowed, and net sales to Asia picked up. In contrast, net purchases from Canada picked up, as Canadian stock prices increased in both local currency and U.S. dollar terms.

Net U.S. purchases of foreign bonds were $11.1 billion, up from $8.2 billion. Net U.S. purchases were weak for the third consecutive quarter, compared with net purchases in earlier quarters (chart 8). Foreign bond prices decreased in the second quarter, amid indications that inflationary pressures might be rising.

Chart 8. Transactions in Foreign Securities, 2006:III–2008:II [1]



1. Under balance-of-payments concepts, net U.S. purchases are shown with a negative sign in tables 1–12, and net U.S. sales are shown with a positive sign.

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Spreads on foreign corporate bonds fell sharply through most of the quarter but rose at the end of the quarter amid growing concerns about economic and financial market conditions. Net U.S. sales of foreign bonds to Latin America slowed considerably, and transactions with Canada shifted to net U.S. purchases from net U.S. sales. In contrast, net U.S. purchases from Europe slowed, and net U.S. sales to Asia were a record.

Direct investment. Net financial outflows for U.S. direct investment abroad were $65.5 billion in the second quarter, down from $89.1 billion in the first quarter. The slowdown resulted from a shift from an increase to a decrease in net intercompany debt investment abroad and a slowdown in net equity capital investment abroad; in contrast, reinvested earnings increased. The shift in net intercompany debt investment reflected a slowdown in U.S. parents' lending to their foreign affiliates and a pickup in their borrowing from affiliates. Net equity capital investment abroad eased mostly as a result of a reduction in equity investment in new and existing foreign affiliates.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased $26.3 billion in the second quarter after an increase of $459.0 billion in the first quarter. The sharp slowdown mainly resulted from a very large decrease in liabilities reported by U.S. banks in the second quarter after an increase in the first quarter. Liabilities reported by U.S. nonbanking concerns also decreased in the second quarter after increasing in the first quarter.

Foreign official assets. Foreign official assets in the United States increased $144.4 billion in the second quarter after an increase of $173.5 billion in the first quarter. Foreign official assets have increased substantially in the last three quarters. The second-quarter increase was mostly accounted by an increase in the assets of Asian countries.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, decreased $233.6 billion in the second quarter, in sharp contrast to an increase of $79.1 billion in the first quarter.

Banks' own liabilities denominated in dollars decreased $215.9 billion after an increase of $46.9 billion. The decrease resulted from decreases in the liabilities of securities brokers and dealers and of banks, particularly of foreign-owned institutions in the United States. Brokers' and dealers' liabilities, mostly repurchase agreements, decreased especially sharply. The decrease coincided with a decrease in brokers' and dealers' claims, as these highly leveraged institutions sought to reduce their international borrowing and lending. Foreign-owned brokers' liabilities decreased much more than their claims, resulting in a net transfer of funds abroad by these institutions, mostly to the United Kingdom and Caribbean financial centers. U.S.-owned brokers' liabilities also decreased significantly.

Among banks, foreign-owned banks' liabilities decreased substantially. The decrease was much larger than the decrease in their claims, resulting in a net transfer of funds abroad by foreign-owned banks for the third consecutive quarter. U.S.-owned banks' liabilities also decreased, but the decrease was much smaller than the decrease in their claims, resulting in a net transfer of funds to the United States by these institutions.

Banks' customers' liabilities denominated in dollars decreased $5.3 billion after an increase of $32.2 billion. The decrease was mostly accounted for by a decrease in customers' "other" liabilities, including loans.

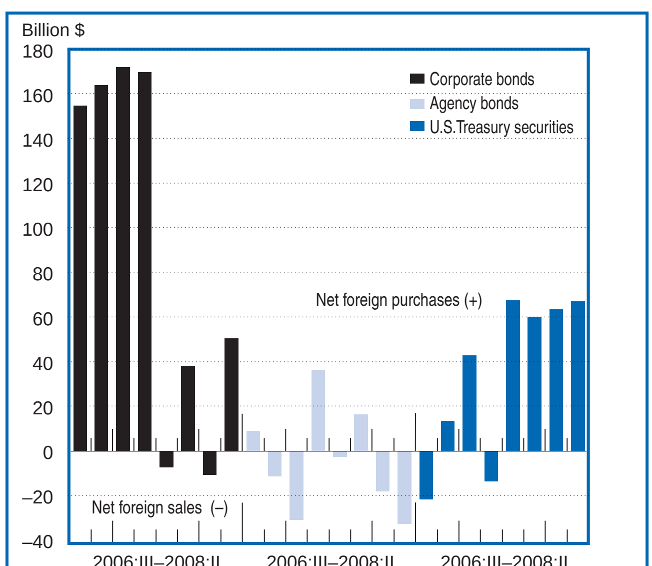
Liabilities reported by U.S. nonbanking concerns decreased $62.0 billion in the second quarter after an increase of $84.1 billion in the first quarter. The decrease mostly reflected a cutback in borrowing from the United Kingdom, Germany, and Caribbean financial centers.

U.S. Treasury securities. Net foreign purchases of U.S. Treasury securities were $67.0 billion in the second quarter, up from $63.3 billion in the first quarter. Net foreign purchases have been strong for four consecutive quarters, as foreign investors responded to uncertainty in world financial markets by purchasing U.S. Treasury securities (chart 9). In the second quarter, net

Data Availability

The estimates that are presented in tables 1–12 of the U.S. international transactions accounts are available interactively on BEA's Web site at <www.bea.gov>. Users may view and download the most recent quarterly estimates for an entire table, or they may select the period, frequency, and lines that they wish to view. The estimates are available in an HTML table, in a spreadsheet file (.xls format), or as comma-separated values.

Chart 9. Transactions in U.S. Debt Securities, 2006:III–2008:II



NOTE. Excludes transactions in foreign official assets.
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foreign purchases of long-term U.S. Treasury securities increased strongly. In contrast, transactions in short-term U.S. Treasury securities shifted to net foreign sales from substantial net foreign purchases.

Other U.S. securities. Net foreign purchases of U.S. securities other than U.S. Treasury securities were $16.5 billion in the second quarter, a shift from net foreign sales of $20.5 billion in the first quarter. The shift was more than accounted for by a shift to net foreign purchases of U.S. corporate bonds from net foreign sales. In contrast, transactions in U.S. stocks shifted to net foreign sales from net foreign purchases, and net foreign sales of U.S. federally sponsored agency bonds picked up.

Net foreign sales of U.S. stocks were $1.1 billion, a shift from net foreign purchases of $8.3 billion. The shift resulted from an increase in net sales from Caribbean financial centers and a decrease in net purchases from Asia. Transactions by Caribbean financial centers, where many hedge funds are located, have been net sales in three of the last four quarters. In contrast, transactions by investors from Europe shifted to net purchases from net sales. Within Europe, a shift to net purchases by investors from the United Kingdom was partly offset by a large increase in net sales by investors from Germany.

Net foreign purchases of U.S. corporate bonds were $50.5 billion, a shift from net foreign sales of $10.7 billion. The net foreign purchases were the largest in the last four quarters but were still low compared with net purchases in earlier quarters (chart 9). Conditions in U.S. credit markets improved through most of the second quarter, and net foreign purchases of U.S. corporate bonds were strongest in May. During this time, market liquidity improved, credit spreads fell sharply, and corporate debt issuance strengthened. However, credit market conditions worsened significantly in June, and net foreign purchases of U.S. corporate bonds were weak. In the quarter, transactions with Europe and with Caribbean financial centers shifted to net purchases from net sales, and net purchases from Asia increased.

Net foreign sales of U.S. federally sponsored agency bonds were $32.8 billion, up from $18.0 billion. The total net sales in the last two quarters were the largest ever over a two-quarter period. In the second quarter, transactions by investors from Europe shifted to net sales, largely reflecting an increase in net sales from Luxembourg and a decrease in net purchases from the United Kingdom. In contrast, net sales from Caribbean financial centers slowed after very large net sales in the first quarter. Net sales from Asia eased slightly but were substantial for the fourth consecutive quarter.

Direct investment. Net financial inflows for foreign direct investment in the United States were $93.8 billion in the second quarter, up from $80.4 billion in the first quarter. The pickup was mostly accounted for by an increase in reinvested earnings that largely reflected higher earnings, particularly by U.S. affiliates in the finance and insurance industry. Net equity capital investment in the United States and net intercompany debt investment also picked up.

Tables 1 through 12 follow.