# U.S. International Transactions

## Third Quarter of 2008

*By Douglas B. Weinberg and Renee M. Sauers*

THE U.S. current-account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—decreased to $174.1 billion (preliminary) in the third quarter of 2008 from $180.9 billion (revised) in the second quarter (table A, chart 1).[1] All of the major current-account components contributed to the reduction in the deficit, as the surpluses on income and on services increased and both the deficit on goods 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 $135.2 billion in the third quarter, up from $122.9 billion in the second quarter. Net acquisitions by foreign residents of assets in the United States picked up, and transactions by U.S. residents resulted in a smaller decrease in U.S.-owned assets abroad in the third quarter than in the second quarter. Financial-account transactions continued to be affected by the unsettled financial market conditions that began in the third quarter of 2007.

The statistical discrepancy—errors and omissions in recorded transactions—was $39.5 billion in the third quarter, compared with $58.7 billion in the

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.

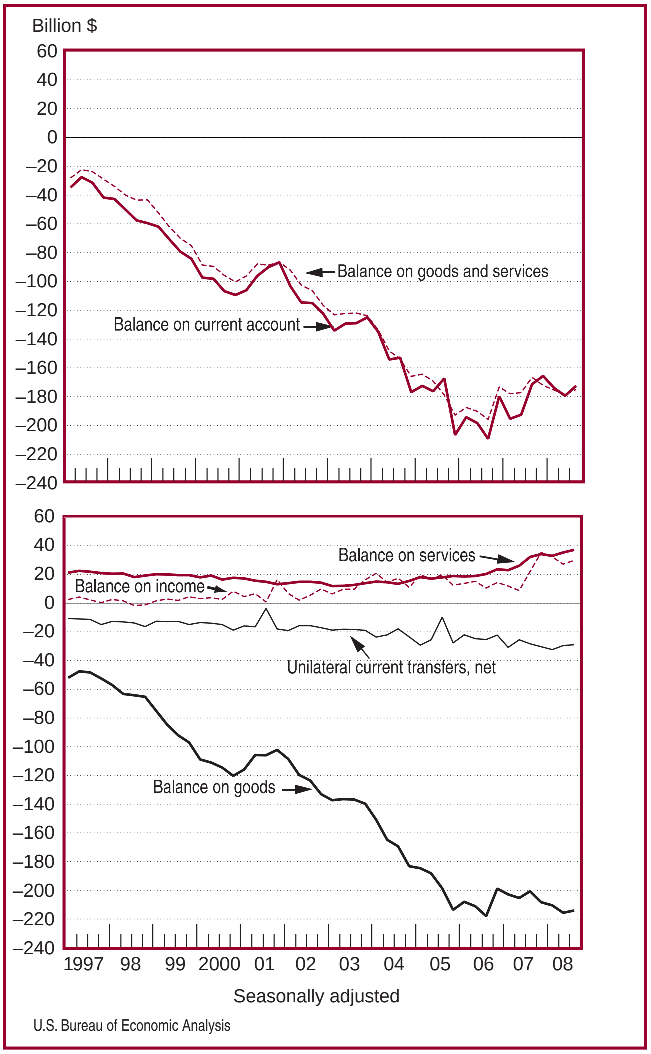
**Table A. Summary of U.S. International Transactions**

[Millions of dollars, quarters seasonally adjusted]

| Line | Corresponding lines in tables 1 and 12 are indicated in ( ) (Credits +; debits –) | 2007 | 2007 | | | | 2008 | | | Change: 2008:II–III | January–September | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | I | II | III | IV | I | II r | III p | | 2007 | 2008 | Change: 2007–2008 |
| | **Current account** | | | | | | | | | | | | |
| 1 | **Exports of goods and services and income receipts (1)** | **2,463,505** | **572,182** | **602,122** | **638,393** | **650,808** | **651,473** | **671,944** | **683,708** | **11,764** | **1,812,697** | **2,007,125** | **194,428** |
| 2 | Goods, balance of payments basis (3) | 1,148,481 | 270,318 | 279,488 | 295,494 | 303,180 | 317,813 | 337,312 | 346,536 | 9,224 | 845,300 | 1,001,661 | 156,361 |
| 3 | Services (4) | 497,245 | 115,118 | 120,463 | 129,378 | 132,285 | 133,833 | 138,186 | 142,518 | 4,332 | 364,959 | 414,537 | 49,578 |
| 4 | Income receipts (12) | 817,779 | 186,746 | 202,171 | 213,520 | 215,343 | 199,827 | 196,446 | 194,655 | –1,791 | 602,437 | 590,928 | –11,509 |
| 5 | **Imports of goods and services and income payments (18)** | **–3,082,014** | **–738,938** | **–771,262** | **–783,548** | **–788,264** | **–795,371** | **–823,859** | **–829,408** | **–5,549** | **–2,293,748** | **–2,448,638** | **–154,890** |
| 6 | Goods, balance of payments basis (20) | –1,967,853 | –473,681 | –485,375 | –496,698 | –512,099 | –528,845 | –553,641 | –561,246 | –7,605 | –1,455,754 | –1,643,732 | –187,978 |
| 7 | Services (21) | –378,130 | –91,298 | –93,395 | –96,288 | –97,149 | –99,910 | –101,937 | –104,343 | –2,406 | –280,981 | –306,190 | –25,209 |
| 8 | Income payments (29) | –736,030 | –173,959 | –192,492 | –190,562 | –179,016 | –166,615 | –168,282 | –163,819 | 4,463 | –557,013 | –498,716 | 58,297 |
| 9 | **Unilateral current transfers, net (35)** | **–112,705** | **–30,174** | **–24,953** | **–27,796** | **–29,784** | **–31,742** | **–29,028** | **–28,390** | **638** | **–82,923** | **–89,160** | **–6,237** |
| | **Capital account** | | | | | | | | | | | | |
| 10 | **Capital account transactions, net (39)** | **–1,843** | **–543** | **–112** | **–617** | **–571** | **–600** | **–631** | **–593** | **38** | **–1,272** | **–1,824** | **–552** |
| | **Financial account** | | | | | | | | | | | | |
| 11 | **U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–)) (40)** | **–1,289,854** | **–442,065** | **–523,556** | **–170,476** | **–153,757** | **–260,644** | **102,698** | **9,505** | **–93,193** | **–1,136,097** | **–148,441** | **987,656** |
| 12 | U.S. official reserve assets (41) | –122 | –72 | 26 | –54 | –22 | –276 | –1,267 | –179 | 1,088 | –100 | –1,722 | –1,622 |
| 13 | U.S. government assets, other than official reserve assets (46) | –22,273 | 445 | –596 | 623 | –22,744 | 3,265 | –41,592 | –225,994 | –184,402 | 472 | –264,321 | –264,793 |
| 14 | U.S. private assets (50) | –1,267,459 | –442,438 | –522,985 | –171,045 | –130,990 | –263,634 | 145,558 | 235,678 | 90,120 | –1,136,468 | 117,602 | 1,254,070 |
| 15 | **Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55)** | **2,057,703** | **692,713** | **718,112** | **266,476** | **380,402** | **459,017** | **22,719** | **125,692** | **102,973** | **1,677,301** | **607,428** | **–1,069,873** |
| 16 | Foreign official assets in the United States (56) | 411,058 | 163,270 | 88,822 | 13,469 | 145,497 | 173,533 | 145,391 | 117,663 | –27,728 | 265,561 | 436,587 | 171,026 |
| 17 | Other foreign assets in the United States (63) | 1,646,645 | 529,443 | 629,290 | 253,007 | 234,905 | 285,484 | –122,672 | 8,029 | 130,701 | 1,411,740 | 170,841 | –1,240,899 |
| 18 | **Financial derivatives, net (70)** | **6,496** | **14,795** | **–1,007** | **5,942** | **–13,234** | **–8,001** | **–2,519** | **n.a.** | **2,519** | **19,730** | **n.a** | **–19,730** |
| 19 | **Statistical discrepancy (sum of above items with sign reversed) (71)** | **–41,287** | **–67,970** | **656** | **71,627** | **–45,600** | **–14,131** | **58,677** | **39,487** | **–19,190** | **4,313** | **–73,510** | **–77,823** |
| | **Memoranda:** | | | | | | | | | | | | |
| 20 | Balance on current account (77) | –731,214 | –196,930 | –194,093 | –172,952 | –167,241 | –175,640 | –180,944 | –174,091 | 6,853 | –563,975 | –530,675 | 33,300 |
| 21 | Net financial flows (40, 55, and 70) | 774,345 | 265,443 | 193,549 | 101,942 | 213,411 | 190,372 | 122,898 | 135,197 | 12,299 | 560,934 | 458,987 | –101,947 |

p Preliminary
r Revised
n.a. Not available

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




second quarter.

The following are highlights for the third quarter of 2008:

- Both exports and imports of goods increased much less in the third quarter than in the second quarter.
- Both receipts and payments of income on direct investment decreased, partly as a result of declines in earnings of finance affiliates. Both receipts and payments of "other" private income increased slightly after decreasing substantially in previous quarters.
- U.S. government assets other than official reserve assets increased strongly as a result of drawings on central bank reciprocal currency arrangements.
- Both net U.S. sales of foreign securities and net foreign sales of U.S. securities other than U.S. Treasury securities were very large.
- Net foreign purchases of U.S. Treasury securities increased strongly.
- Both claims and liabilities reported by U.S. banks and securities brokers decreased substantially for the second consecutive quarter as a result of cutbacks in international lending and borrowing by these institutions.

## Current Account

### Goods and services

The deficit on goods and services decreased to $176.5 billion in the third quarter from $180.1 billion in the second quarter. The deficit on goods decreased $1.6 billion, and the surplus on services increased $1.9 billion.

After increasing sharply from 2002 to 2005 and peaking in the third quarter of 2006, the deficit on goods and services has been lower in recent quarters, and the third-quarter deficit was 11 percent lower than its peak level (chart 1). Exports of goods and services have increased substantially in the last 5 years as a result of strong economic growth abroad and the cumulative effect of the depreciation of the dollar against major foreign currencies. Imports of goods and services have increased at a much lower rate than exports since late 2006, partly as a result of weak U.S. domestic demand (chart 2). In the third quarter of 2008, goods exports and imports increased at much lower rates than in the preceding two quarters, as goods trade contracted in August and September. Services exports and imports increased at nearly the same rates in the third quarter as in the second quarter.

The third-quarter goods deficit was $3.9 billion lower than the peak deficit in the third quarter of 2006. Over this 2-year period, goods exports increased $87.3 billion, or 34 percent, and goods imports

**Revisions to Estimates**

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

The current-account deficit was revised to $180.9 billion from $183.1 billion. The goods deficit was unrevised at $216.3 billion; the services surplus was revised to $36.2 billion from $35.8 billion; the income surplus was revised to $28.2 billion from $27.3 billion; and unilateral current transfers were revised to net outflows of $29.0 billion from $29.9 billion. Net financial inflows were revised to $122.9 billion from $136.7 billion.

increased $83.3 billion, or 17 percent. Much of the increase in imports resulted from petroleum and products, which increased $48.1 billion, or 58 percent. Nonpetroleum imports increased only $35.2 billion, or 9 percent, while nonpetroleum exports increased $75.3 billion, or 30 percent. As a result, the deficit on petroleum and products increased $36.1 billion in the last 2 years, but the deficit on nonpetroleum products decreased $40.1 billion (chart 3). The services surplus

**Chart 2. Exports and Imports of Goods and Services: Percent Change From Preceding Quarter**

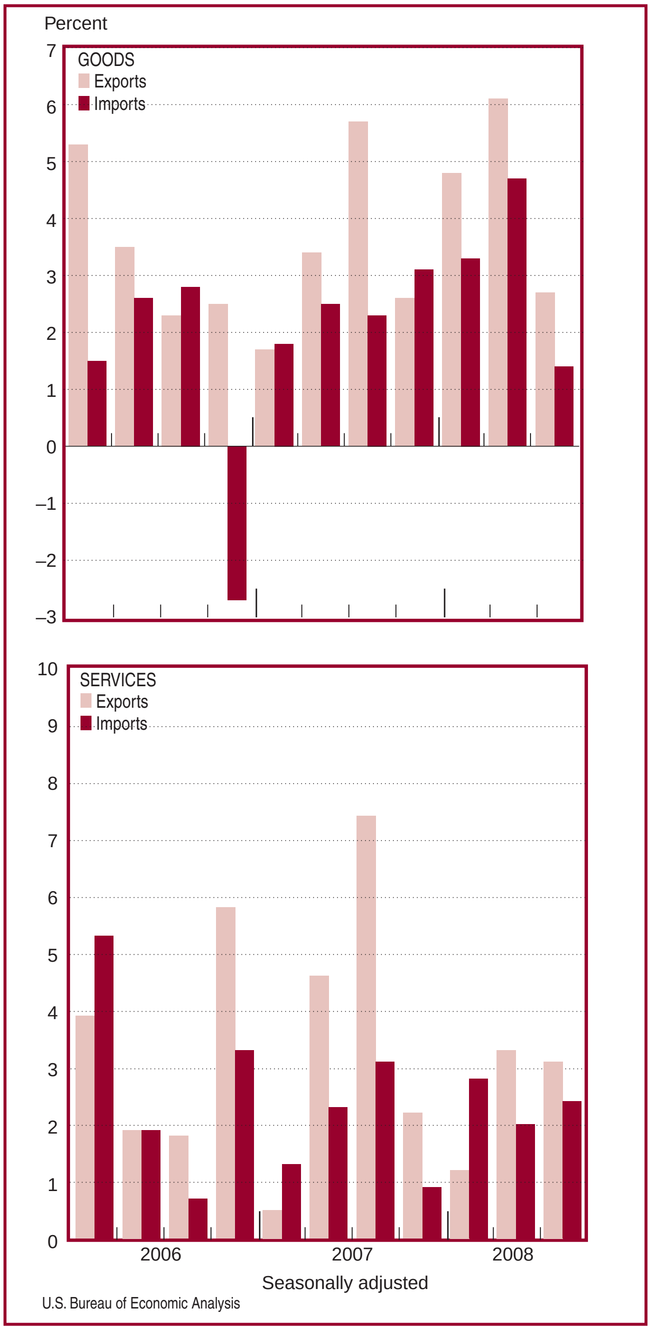
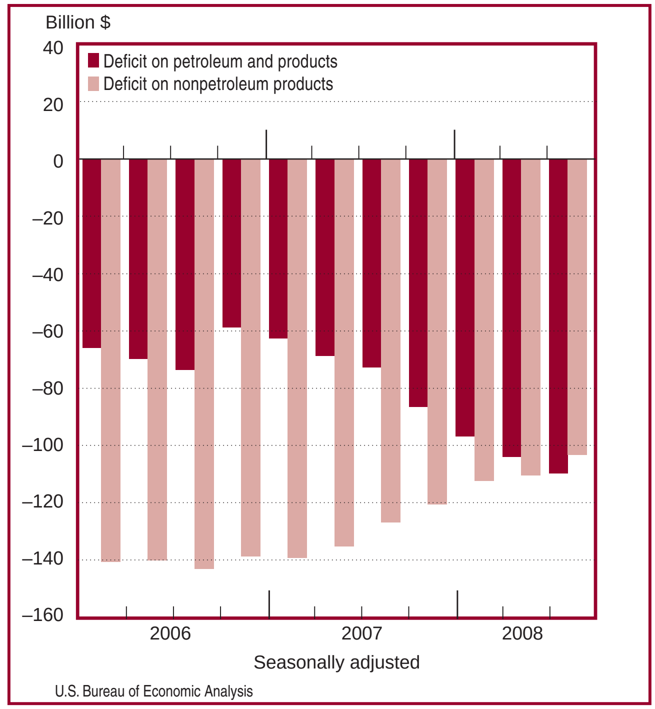



**Chart 3. Deficits on Petroleum and Nonpetroleum Products**




increased $17.0 over the last 2 years. Services exports increased $34.2 billion, or 32 percent, and services imports increased $17.1 billion, or 20 percent.

Exports of goods and services also increased at a much higher rate than imports of goods and services on a price-adjusted, or real, basis. Over the last 2 years, real goods exports increased 18 percent. In contrast, real goods imports decreased 3 percent, as the increase in current-dollar goods imports resulted from higher prices, particularly for petroleum imports. Real services exports also increased at a much higher rate than real services imports. Real net exports of goods and services, or exports less imports, made a substantial positive contribution to the percent change in real gross domestic product in the last six quarters.

## Goods

The deficit on goods decreased to $214.7 billion in the third quarter from $216.3 billion in the second quarter. Exports increased more than imports, but both increased much less in the third quarter than in the second quarter.

**Exports.** Exports of goods increased $9.2 billion, or 2.7 percent, to $346.5 billion (table B). Both real exports and export prices increased 1.4 percent.[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 are also calculated using a chain-type Fisher formula.

On a monthly basis, exports peaked in July after an extended period of strong growth. Exports decreased in August but remained strong and then fell sharply in September as a result of substantial declines in all major commodity categories.

Nonagricultural industrial supplies and materials increased $4.5 billion in the third quarter. These commodities were the largest contributor to growth in total exports for the third consecutive quarter, largely as a result of strong growth in petroleum and products and in chemicals. However, both petroleum and products and chemicals fell sharply in September, partly as a result of delays caused by storms in the Gulf of Mexico.

Automotive vehicles, parts, and engines increased $1.9 billion. Exports of passenger cars and other vehicles increased strongly, both to Canada and to “other” areas, such as the Middle East and Europe.

Capital goods increased $1.8 billion. The largest increase was in oil drilling, mining, and construction machinery despite a sharp drop in this machinery in September. In addition, semiconductors rebounded, and scientific, hospital, and medical equipment continued to increase moderately. In contrast, many other types of capital goods decreased or increased less in the third quarter than in the second quarter. Civilian aircraft increased slightly despite a large strike-related drop in deliveries of completed aircraft in September.

Consumer goods increased $1.4 billion. Exports of many consumer goods peaked in July. For the quarter, nondurable goods increased strongly, mostly because of continued strong growth in medical, dental, and pharmaceutical products. In contrast, durable goods increased much less than in recent quarters. Downturns in “other” durable goods and in toys and sporting goods and a slowdown in “other” household goods were partly offset by a surge in gems, jewelry, and collectibles.

Agricultural products were virtually unchanged after rising substantially in recent quarters. Soybeans fell sharply, mostly as a result of a decrease in shipments due to a late harvest. In contrast, raw cotton picked up, and meat products and poultry were strong for the third consecutive quarter. Corn and wheat increased moderately. Prices of many agricultural commodities rose sharply in July and then turned down.

**Imports.** Imports of goods increased $7.6 billion, or 1.4 percent, to $561.2 billion (table B). Real imports decreased 1.0 percent, and import prices increased 2.4 percent. The increase in value resulted from a rise in petroleum and products. Nonpetroleum products decreased slightly.

On a monthly basis, imports peaked in July. Petroleum and products decreased substantially in August and September, and nonpetroleum products turned down in September.

Petroleum and products increased $7.8 billion in the third quarter. The average price per barrel rose 8 percent to $117.49, and the average number of barrels imported daily fell 2 percent to 12.27 million (chart 4). After rising strongly since early 2007, petroleum prices peaked in July and then began to decline. The increase in petroleum imports was about evenly divided between members of OPEC, mostly Saudi Arabia and Venezuela, and non-OPEC members.

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

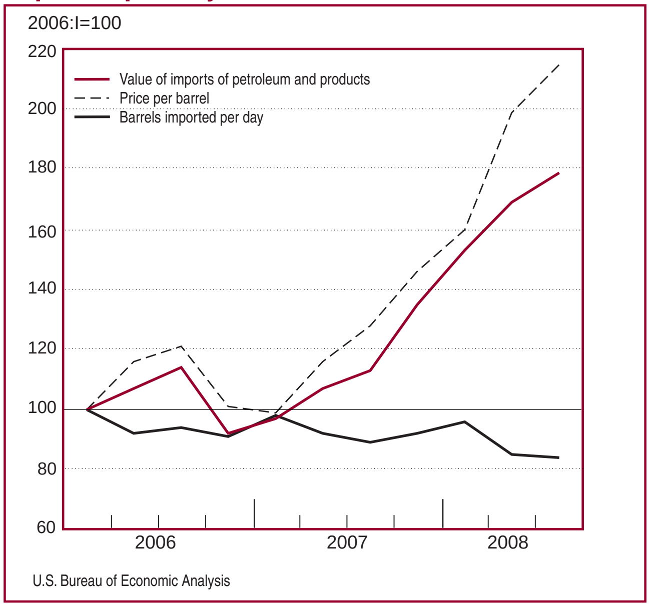
[Balance of payments basis, millions of dollars, quarters seasonally adjusted]

| | Current dollars | | | | | | | | | Chained (2000) dollars [1] | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2007 | | | | 2008 | | | 2006 | 2007 | 2007 | | | | 2008 | | |
| | | | I | II | III | IV | I | II | III p | | | I | II | III | IV | I | II | III p |
| **Exports** | **1,023,109** | **1,148,481** | **270,318** | **279,488** | **295,494** | **303,180** | **317,813** | **337,312** | **346,536** | **920,633** | **998,141** | **238,822** | **243,900** | **256,101** | **258,940** | **265,030** | **273,224** | **276,925** |
| Agricultural products | 72,869 | 92,115 | 19,933 | 21,517 | 24,960 | 25,705 | 29,455 | 32,457 | 32,463 | 58,085 | 62,194 | 14,305 | 15,176 | 16,711 | 15,873 | 16,320 | 16,732 | 16,433 |
| Nonagricultural products | 950,240 | 1,056,366 | 250,385 | 257,971 | 270,534 | 277,475 | 288,358 | 304,855 | 314,073 | 864,334 | 938,016 | 225,126 | 229,210 | 239,684 | 243,767 | 249,404 | 257,309 | 261,660 |
| **Imports** | **1,861,380** | **1,967,853** | **473,681** | **485,375** | **496,698** | **512,099** | **528,845** | **553,641** | **561,246** | **1,630,344** | **1,663,077** | **417,120** | **414,528** | **416,434** | **415,065** | **415,018** | **405,934** | **402,019** |
| Petroleum and products | 302,430 | 330,978 | 70,797 | 78,131 | 83,019 | 99,031 | 112,172 | 123,619 | 131,436 | 138,163 | 135,413 | 35,773 | 33,589 | 32,395 | 33,655 | 35,046 | 31,088 | 30,566 |
| Nonpetroleum products | 1,558,950 | 1,636,875 | 402,884 | 407,244 | 413,679 | 413,068 | 416,673 | 430,022 | 429,810 | 1,504,865 | 1,547,009 | 384,442 | 385,940 | 390,753 | 385,854 | 381,827 | 383,719 | 380,811 |

| | Current dollars | | | | | | | | | Chained (2000) dollars [1] | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2007 | | | | 2008 | | | 2006 | 2007 | 2007 | | | | 2008 | | |
| | | | I | II | III | IV | I | II | III p | | | I | II | III | IV | I | II | III p |
| **Exports** | **14.4** | **12.3** | **1.7** | **3.4** | **5.7** | **2.6** | **4.8** | **6.1** | **2.7** | **10.7** | **8.4** | **0.9** | **2.1** | **5.0** | **1.1** | **2.4** | **3.1** | **1.4** |
| Agricultural products | 12.3 | 26.4 | 6.1 | 7.9 | 16.0 | 3.0 | 14.6 | 10.2 | 0.0 | 8.5 | 7.1 | 0.1 | 6.1 | 10.1 | –5.0 | 2.8 | 2.5 | –1.8 |
| Nonagricultural products | 14.5 | 11.2 | 1.4 | 3.0 | 4.9 | 2.6 | 3.9 | 5.7 | 3.0 | 10.8 | 8.5 | 0.9 | 1.8 | 4.6 | 1.7 | 2.3 | 3.2 | 1.7 |
| **Imports** | **10.7** | **5.7** | **1.8** | **2.5** | **2.3** | **3.1** | **3.3** | **4.7** | **1.4** | **6.2** | **2.0** | **1.6** | **–0.6** | **0.5** | **–0.3** | **0.0** | **–2.2** | **–1.0** |
| Petroleum and products | 20.1 | 9.4 | 5.0 | 10.4 | 6.3 | 19.3 | 13.3 | 10.2 | 6.3 | –1.9 | –2.0 | 7.0 | –6.1 | –3.6 | 3.9 | 4.1 | –11.3 | –1.7 |
| Nonpetroleum products | 9.0 | 5.0 | 1.3 | 1.1 | 1.6 | –0.1 | 0.9 | 3.2 | 0.0 | 7.8 | 2.8 | 0.7 | 0.4 | 1.2 | –1.3 | –1.0 | 0.5 | –0.8 |

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.

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




Nonpetroleum industrial supplies and materials increased $3.2 billion. These commodities were the largest contributors to growth in nonpetroleum imports for the third consecutive quarter, largely as a result of strong growth in chemicals, in iron and steel products, and in steelmaking materials. The growth in these products partly reflected substantial increases in their prices, but prices for most of the products began to ease in the third quarter. Imports of natural gas decreased sharply in the third quarter, partly as a result of a substantial fall in natural gas prices.

Consumer goods increased $1.7 billion. The increase was largely accounted for by nondurable goods, mostly medicinal, dental, and pharmaceutical products. Durable goods increased much less in the third quarter than in the second quarter. Downturns in televisions, video receivers, and other video equipment, in gems, jewelry, and collectibles, and in “other” durable goods were partly offset by a surge in toys, shooting, and sporting goods.

Capital goods decreased for the first time in nearly 6 years. The $1.3 billion decline was partly attributable to a sharp drop in computers, peripherals, and parts—mainly peripherals and parts. Civilian aircraft also decreased substantially as a result of declines in complete aircraft and in aircraft engines and parts. Many other types of capital goods increased less in the third quarter than in the second quarter or decreased. In contrast, oil drilling, mining, and construction machinery increased strongly.

Automotive vehicles, parts, and engines decreased $4.3 billion. The record decline mostly resulted from a drop in imports of passenger cars, particularly from Japan, Germany, the Republic of Korea, and Sweden. Trucks and buses from Mexico and parts and engines—mostly from Mexico, Canada, and Germany—also decreased. U.S. domestic sales of imported automobiles fell sharply in the third quarter, and domestic sales of all motor vehicles decreased very substantially for the third consecutive quarter.

**Balances by area.** The goods deficit decreased $1.6 billion to $214.7 billion in the third quarter. The deficit with Latin America and Other Western Hemisphere decreased as a result of a large decline in the deficit with Mexico and a shift to a surplus with Brazil. The deficit with Europe also fell; decreases in the deficits with Germany and several other countries and increases in the surpluses with the Netherlands and Belgium were partly offset by an increase in the deficit with the United Kingdom. The deficits with Africa and with Canada also decreased. In contrast, the large deficit with Asia and Pacific increased, as a surge in the deficit with China was only partly offset by decreases in the deficits with Japan and India.

### Services

The surplus on services increased to $38.2 billion in the third quarter from $36.2 billion in the second quarter. Services receipts increased $4.3 billion to $142.5 billion, and services payments increased $2.4 billion to $104.3 billion.

Travel receipts increased $1.4 billion to $29.5 billion as a result of an increase in receipts from overseas visitors to the United States. Travel payments edged down $0.1 billion to $20.2 billion. Over the last six quarters, the surplus on travel has nearly tripled, as receipts increased $7.7 billion, or 35 percent, and payments increased only $1.6 billion, or 9 percent. The appreciation of many foreign currencies against the U.S. dollar through most of the period boosted the number of foreign visitors to the United States and their expenditures and discouraged U.S. travel abroad

**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 5).

Passenger fare receipts increased $0.8 billion to $8.5 billion, and passenger fare payments increased $0.2 billion to $8.2 billion.

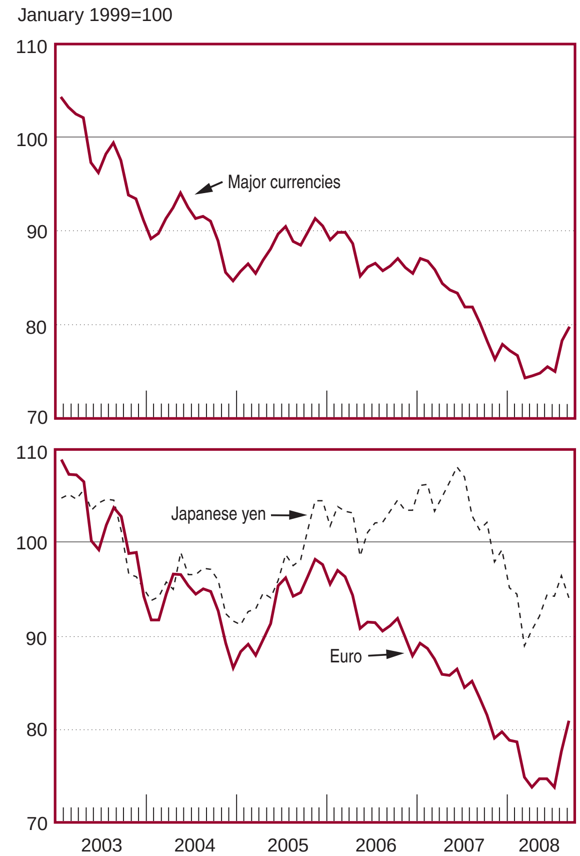
"Other" transportation receipts were virtually unchanged at $15.8 billion. Receipts had increased strongly in the previous three quarters, partly as a result of foreign air carriers' increased fuel expenditures in U.S. ports. "Other" transportation payments increased $0.3 billion to $18.8 billion. Payments for port services increased much less than in the previous two quarters, partly as a result of a smaller rise in U.S. air carriers' expenditures in foreign ports.

"Other" private services receipts increased $1.4 billion to $61.6 billion. The increase was largely accounted for by a rise in receipts for business, professional, and technical services, but receipts for most other major types of services also increased. In contrast, financial services receipts decreased, as a downturn in securities issuance resulted in reduced underwriting fees. "Other" private services payments increased $0.8 billion to $39.1 billion. The increase was largely accounted for by a rise in payments for business, professional, and technical services.

## Income

The surplus on income increased to $30.8 billion in the third quarter from $28.2 billion in the second quarter. Income receipts decreased $1.8 billion to $194.7 billion, and income payments decreased $4.5 billion to $163.8 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 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | III | IV | I | II | III | Sept. | Oct. | Nov. | Dec. | Jan. | Feb. | March | April | May | June | July | Aug. | Sept. |
| **Nominal:** [1] | | | | | | | | | | | | | | | | | | |
| Broad [2] | 89.8 | 86.7 | 85.1 | 83.8 | 85.6 | 89.1 | 87.3 | 86.0 | 86.8 | 86.1 | 85.4 | 83.7 | 83.5 | 83.8 | 84.0 | 83.4 | 85.6 | 87.7 |
| Major currencies [3] | 81.4 | 77.6 | 76.2 | 75.0 | 77.8 | 80.3 | 78.3 | 76.4 | 78.0 | 77.3 | 76.8 | 74.4 | 74.6 | 74.9 | 75.6 | 75.1 | 78.4 | 79.9 |
| Other important trading partners [4] | 100.6 | 98.7 | 96.8 | 95.3 | 95.9 | 100.6 | 99.1 | 98.7 | 98.3 | 97.6 | 96.7 | 96.0 | 95.2 | 95.5 | 95.1 | 94.4 | 95.2 | 98.0 |
| **Real:** [1] | | | | | | | | | | | | | | | | | | |
| Broad [2] | 92.8 | 89.0 | 87.1 | 86.7 | 88.8 | 91.9 | 89.7 | 88.4 | 88.9 | 88.3 | 87.0 | 85.9 | 86.0 | 86.8 | 87.4 | 86.8 | 88.7 | 90.9 |
| Major currencies [3] | 90.1 | 85.7 | 84.5 | 84.2 | 87.6 | 88.8 | 86.5 | 84.6 | 86.0 | 85.6 | 85.1 | 82.9 | 83.5 | 84.0 | 85.1 | 84.7 | 88.1 | 89.9 |
| Other important trading partners [4] | 95.8 | 92.6 | 89.9 | 89.5 | 90.3 | 95.4 | 93.3 | 92.6 | 92.0 | 91.3 | 89.1 | 89.2 | 88.9 | 89.8 | 89.9 | 89.2 | 89.6 | 92.0 |
| **Selected currencies: (nominal)** [5] | | | | | | | | | | | | | | | | | | |
| Canada | 68.8 | 64.6 | 66.1 | 66.5 | 68.5 | 67.6 | 64.2 | 63.7 | 66.0 | 66.5 | 65.7 | 66.0 | 66.7 | 65.8 | 66.9 | 66.7 | 69.3 | 69.6 |
| European currencies: | | | | | | | | | | | | | | | | | | |
| Euro area [6] | 84.3 | 80.0 | 77.3 | 74.2 | 77.3 | 83.3 | 81.4 | 78.9 | 79.6 | 78.7 | 78.5 | 74.7 | 73.6 | 74.5 | 74.5 | 73.6 | 77.5 | 80.8 |
| United Kingdom | 81.6 | 80.7 | 83.4 | 83.7 | 87.4 | 81.7 | 80.7 | 79.7 | 81.8 | 83.7 | 84.0 | 82.4 | 83.3 | 84.0 | 83.9 | 83.0 | 87.5 | 91.8 |
| Switzerland | 86.5 | 82.7 | 77.0 | 74.5 | 77.5 | 85.5 | 84.7 | 81.1 | 82.3 | 79.4 | 78.6 | 73.1 | 73.2 | 75.4 | 74.8 | 74.2 | 78.2 | 80.1 |
| Japan | 103.9 | 99.9 | 92.9 | 92.4 | 95.0 | 101.5 | 102.3 | 98.0 | 99.3 | 95.2 | 94.5 | 88.9 | 90.6 | 92.1 | 94.4 | 94.3 | 96.5 | 94.1 |
| Mexico | 108.2 | 107.1 | 106.7 | 103.0 | 102.0 | 108.9 | 106.8 | 107.4 | 107.1 | 107.7 | 106.3 | 106.0 | 103.8 | 103.1 | 102.0 | 100.8 | 99.9 | 105.3 |
| Brazil | 126.7 | 118.0 | 114.8 | 109.4 | 110.4 | 125.8 | 119.0 | 116.9 | 118.1 | 117.1 | 114.4 | 113.0 | 111.5 | 109.7 | 107.0 | 105.2 | 106.7 | 119.3 |

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.

Receipts of income on U.S. direct investment abroad decreased $3.5 billion to $98.1 billion. Earnings of foreign affiliates decreased amid slowing economic activity in major foreign countries, depreciation of major foreign currencies against the U.S. dollar, and turmoil in global financial markets. Earnings of foreign affiliates in finance and insurance decreased substantially, mostly as a result of a decline in earnings of nondepository institutions in Asia and Europe. Earnings of holding company affiliates also fell, mostly because of lower earnings of affiliates in Europe.

Payments of income on foreign direct investment in the United States decreased $3.9 billion to $32.8 billion. The decrease resulted from a sharp decline in earnings of U.S. affiliates in finance and insurance, which have fluctuated substantially in recent quarters. The third-quarter decrease was mostly by depository institutions.

Receipts of "other" private income increased $1.3 billion to $94.8 billion as a result of increases in receipts on U.S. nonbank claims and on U.S. holdings of foreign securities. U.S. government income receipts increased $0.3 billion to $1.1 billion.

Payments of "other" private income increased $0.9 billion to $87.0 billion. An increase in income payments on foreign holdings of U.S. securities other than U.S. Treasury securities was partly offset by decreases in income payments on U.S. bank and nonbank liabilities. U.S. government income payments decreased $1.4 billion to $41.5 billion.

### Unilateral current transfers

Net unilateral current transfers to foreigners were $28.4 billion in the third quarter, down from $29.0 billion in the second quarter. The decrease was largely accounted for by a decline in private remittances and other transfers.

## Capital Account

Net capital account payments (outflows) were virtually unchanged at $0.6 billion in the third 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 $135.2 billion in the third quarter, up from $122.9 billion in the second quarter.[4] Net acquisitions by foreign residents of assets in the United States picked up, and transactions by U.S. residents resulted in a smaller decrease in U.S.-owned assets abroad in the third quarter than in the second quarter.

Financial-account transactions continued to be affected by the unsettled financial market conditions that began in the third quarter of 2007. In the third quarter of 2008, financial markets responded to indications that major world economies were slowing and to the deteriorating financial condition of two U.S. government-sponsored housing finance agencies, which were placed into conservatorship on September 7. The bankruptcy of a large U.S. investment bank on September 15 marked the beginning of a period of additional significant strain in global financial markets. After the investment bank bankruptcy, many short-term funding markets, including interbank markets and markets for commercial paper and other short-term instruments, ceased to function normally, leading to liquidity problems for some large global financial institutions. Stock and corporate bond prices fell sharply, and U.S. Treasury security prices surged, as investors became extremely risk averse. Credit spreads rose sharply. The heightened strains prompted U.S. and foreign governments to provide large-scale support to markets.

The strains in short-term funding markets and the government responses substantially affected transactions in the U.S. government and U.S. banking and nonbanking accounts. In the U.S. government accounts, U.S. government assets other than official reserve assets increased sharply as a result of drawings on temporary reciprocal currency arrangements between the U.S. Federal Reserve System and foreign central banks to address elevated pressures in U.S. dollar short-term funding markets worldwide. In the banking accounts, both claims and liabilities reported by U.S. banks and securities brokers decreased substantially. The decreases represented a cutback in international lending and borrowing by these institutions and their customers, reflecting the elevated pressures in interbank markets and in markets for short-term instruments, which are important sources of funds for some large financial institutions. In the nonbanking accounts, claims of U.S. nonbanking concerns decreased for the fifth consecutive quarter, partly as a result of transfers of funds to U.S. financial intermediaries that were unable to roll over maturing asset-backed commercial paper.

The strains in long-term capital markets substantially affected securities transactions. Both net U.S. transactions in foreign securities and net foreign transactions in U.S. securities other than U.S. Treasury securities shifted to very large net sales, mostly as a result

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. Third-quarter net financial inflows exclude transactions in financial derivatives because data are not yet available. Second-quarter net financial inflows excluding transactions in financial derivatives were $125.4 billion.

of net sales of bonds. In contrast, net foreign purchases of U.S. Treasury securities by foreign official institutions and by private foreigners increased strongly.

## U.S.-owned assets abroad

Net U.S.-owned assets abroad decreased $9.5 billion in the third quarter after a decrease of $102.7 billion in the second quarter. The smaller decrease resulted from a much larger increase in U.S. government assets other than official reserve assets in the third quarter than in the second quarter and a smaller decrease in claims reported by U.S. banks in the third quarter than in the second quarter. These changes were partly offset by a substantial shift to net U.S. sales of foreign securities from net U.S. purchases.

**U.S. official reserve assets.** U.S. official reserve assets increased $0.2 billion in the third quarter after an increase of $1.3 billion in the second quarter. The third-quarter increase resulted from an increase in U.S. official holdings of foreign currencies that was partly offset by a decrease in the U.S. reserve position in the International Monetary Fund.

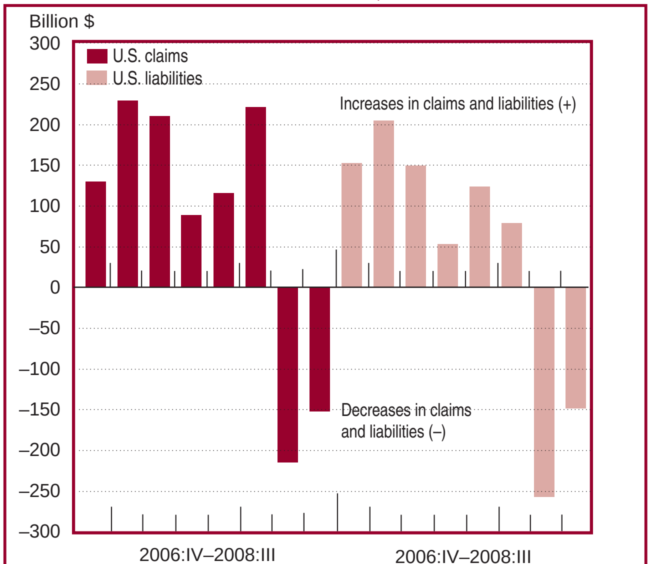
**U.S. government assets other than official reserve assets.** U.S. government assets other than official reserve assets increased $226.0 billion in the third quarter after an increase of $41.6 billion in the second quarter. The exceptionally large third-quarter increase resulted from drawings on temporary reciprocal currency arrangements (swap lines) between the U.S. Federal Reserve System and foreign central banks that do not meet the strict definition of U.S. reserve assets. The swap lines allow foreign central banks to obtain U.S. dollars, for a limited period of use, directly from the Federal Reserve in exchange for foreign currencies. These swap lines were established in the fourth quarter of 2007 to address elevated pressures in short-term U.S. dollar funding markets in Europe during the early stages of the ongoing financial market turmoil. They were expanded substantially in the last 2 weeks of September 2008 to an authorized limit of $620 billion between the Federal Reserve and nine foreign central banks, as short-term U.S. dollar funding pressures worldwide became more acute. At quarter end, dollar drawings were about half of the authorized limit and were mostly by the European Central Bank and, to a lesser extent, the Bank of England, the Bank of Japan, and the Swiss National Bank. Early in the fourth quarter, limits on swap lines between the Federal Reserve and these foreign central banks were removed in order to accommodate whatever quantity of U.S. dollar funding was demanded, and additional swap lines were established between the Federal Reserve and several other foreign central banks.

**Claims reported by banks and by nonbanks.** U.S. claims on foreigners reported by U.S. banks and securities brokers decreased $152.0 billion in the third quarter, following a decrease of $213.9 billion in the second quarter (chart 6). The two consecutive large quarterly decreases, in conjunction with two consecutive large decreases in U.S. liabilities to foreigners reported by U.S. banks and brokers, represented a significant cutback in international lending and borrowing by these institutions. The cutback largely reflected the elevated pressures in interbank funding markets and concerted efforts by financial institutions to reduce risk. Banks and securities brokers sought to deleverage their balance sheets and maintain liquidity by transferring funds between their home and foreign offices. Banks' customers reduced their dollar deposits abroad and their holdings of foreign short-term instruments.

Banks' own claims denominated in dollars decreased $71.6 billion after a decrease of $141.7 billion. The third-quarter decrease resulted from a substantial drop in claims of foreign-owned banks in the United States, reflecting a cutback in lending to their own offices abroad. In contrast, claims of U.S.-owned banks increased. Claims of securities brokers and dealers increased as a result of substantial lending by foreign-owned brokers early in the quarter.

Claims of all major types of U.S. reporting institutions, including U.S.-owned banks and securities

**Chart 6. U.S. Claims and Liabilities Reported by U.S. Banks and Securities Brokers, 2006:IV–2008:III [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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brokers and foreign-owned banks and securities brokers, decreased in September. In the last half of September, financial institutions became very reluctant to lend to each other, and several U.S. and foreign financial institutions experienced liquidity difficulties. Spreads on interbank lending rose sharply, and lending moved to a predominantly overnight basis (chart 7). In response, U.S. and foreign governmental authorities provided large-scale support to financial markets through injections of liquidity, direct financial support of several troubled financial institutions, and facilitation of the sale of other troubled financial institutions. In liquidity operations, U.S. monetary authorities expanded the types of collateral that could be pledged under the Term Securities Lending Facility and the Primary Dealer Credit Facility and increased the credit available under the Term Auction Facility. In addition, U.S. and foreign central banks substantially increased the U.S. dollar funds available to foreign markets under swap lines.

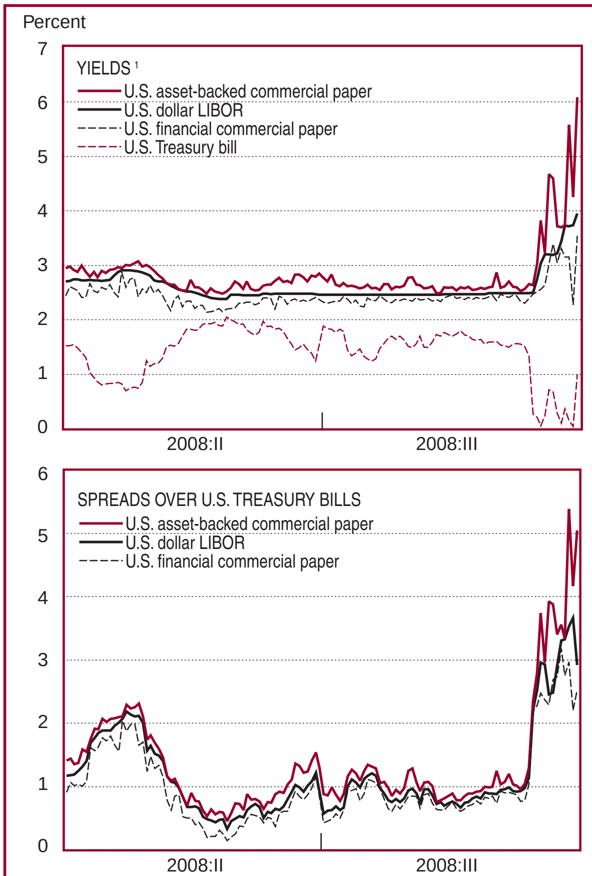
Banks' domestic customers' claims denominated in dollars decreased $50.9 billion after a decrease of $57.4 billion. The two consecutive decreases mostly resulted from decreases in customers' dollar deposits and brokerage balances at banks abroad. In the third quarter, customers' holdings of foreign commercial paper also fell substantially, as the commercial paper market experienced severe difficulties in the last half of September.

Claims reported by U.S. nonbanking concerns decreased $53.8 billion in the third quarter after a decrease of $49.3 billion in the second quarter. These claims have decreased in every quarter since the third quarter of 2007. The decreases over the period resulted from declines in deposits abroad and in financial intermediaries' claims, largely reflecting transfers of funds to U.S. financial intermediaries that were unable to roll over maturing asset-backed commercial paper.

**Foreign securities.** Transactions in foreign securities shifted to net U.S. sales of $86.8 billion in the third quarter from net U.S. purchases of $33.6 billion in the second quarter. Both the shift and the net sales were the largest on record.

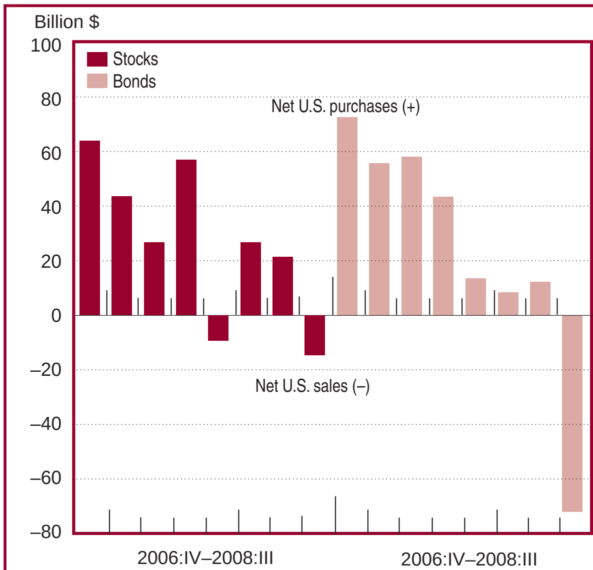
Net U.S. sales of foreign bonds were $72.0 billion, a shift from net U.S. purchases of $12.2 billion (chart 8). In the five quarters preceding the third quarter of 2007, U.S. investors had net purchases of foreign bonds in excess of $50 billion per quarter. After the third quarter of 2007, net U.S. purchases have been much smaller, and net U.S. sales in the third quarter were by far the largest net sales ever. Net sales occurred in every month of the third quarter, but they were largest in

## Chart 7. Money Market Yields and Spreads




1. 30-day yields.
LIBOR London Interbank Offered Rate
Data: British Bankers' Association, Federal Reserve Board.
U.S. Bureau of Economic Analysis

## Chart 8. Transactions in Foreign Securities, 2006:IV–2008:III [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.

U.S. Bureau of Economic Analysis

September. Global bond prices edged higher in the first 2 months of the quarter, as concerns about inflationary pressures eased and as it became increasingly evident that global economic activity was slowing. In September, global corporate bond prices fell sharply, and credit spreads rose considerably, as several large U.S. and European financial institutions experienced severe difficulties. Global bond issuance plummeted in the third quarter. Transactions in foreign bonds with Europe shifted to substantial net U.S. sales, largely reflecting net sales to France, Spain, and the United Kingdom. Transactions with "other" areas (mainly Australia), with Canada, and with Caribbean financial centers also shifted to net U.S. sales. These shifts were partly offset by a substantial decrease in net U.S. sales to Asia.

Net U.S. sales of foreign stocks were $14.8 billion, a shift from net U.S. purchases of $21.4 billion. The net sales mostly resulted from large net sales in July, when foreign stock prices fell moderately. For the quarter, foreign stock markets declined nearly 16 percent in local currency terms, mostly as a result of sharp declines in September. Transactions in foreign stocks with the United Kingdom and Canada shifted to net U.S. sales, and net U.S. sales to Hong Kong and Japan increased. These changes were partly offset by a substantial increase in net U.S. purchases from Caribbean financial centers.

**Direct investment.** Net financial outflows for U.S. direct investment abroad were $56.9 billion in the third quarter, down from $84.0 billion in the second quarter. The slowdown largely resulted from a shift from an increase to a decrease in net intercompany debt investment abroad, reflecting foreign affiliates' repayments of previously borrowed funds to their U.S. parents. In addition, reinvested earnings fell partly as a result of a decrease in U.S. parents' earnings. In contrast, net equity capital investment abroad picked up.

## Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased $125.7 billion in the third quarter after an increase of $22.7 billion in the second quarter. The pickup largely resulted from an increase in liabilities reported by U.S. nonbanking concerns in the third quarter after a decrease in the second quarter and a smaller decrease in liabilities reported by U.S. banks. These changes were partly offset by a shift to net foreign sales of U.S. securities other than U.S. Treasury securities from net foreign purchases.

**Foreign official assets.** Foreign official assets in the United States increased $117.7 billion in the third quarter after an increase of $145.4 billion in the second quarter. By area, the third-quarter increase was more than accounted for by a strong rise in the assets of Asian countries. By instrument, the increase was almost entirely accounted for by a strong rise in net purchases of U.S. Treasury securities. Net foreign official purchases of long-term U.S. Treasury bonds and notes were substantial, and net purchases of short-term U.S. Treasury bills and certificates were unusually large. In contrast, net foreign official transactions in other U.S. securities, mainly federally sponsored agency securities, shifted to net sales from large net purchases.

**Liabilities reported by banks and by nonbanks.** U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, decreased $147.9 billion in the third quarter after a very large decrease of $256.6 billion in the second quarter (chart 6). The two consecutive large decreases, in conjunction with two consecutive large decreases in U.S. claims on foreigners reported by U.S. banks and brokers, represented a significant cutback in international lending and borrowing by these institutions.

Banks' own liabilities denominated in dollars decreased $64.8 billion after a decrease of $237.3 billion. The third-quarter decrease resulted from a decrease in liabilities of securities brokers, as an exceptionally large drop in U.S.-owned brokers' liabilities was only partly offset by a rise in foreign-owned brokers' liabilities. Liabilities of banks increased, mostly as a result of an increase in foreign-owned banks' liabilities.

As with banks' own claims, there were substantial changes in banks' own liabilities in September. U.S.-owned brokers' liabilities fell sharply, mostly reflecting brokers' repayments of funds at the maturity of repurchase agreements, which are an important short-term borrowing instrument for brokers. New borrowing was limited by the bankruptcy of a major U.S. investment bank and funding difficulties at other U.S. investment banks. In contrast, liabilities of foreign-owned banks and brokers in the United Sates increased strongly in September. The increases coincided with foreign central bank auctions of U.S. dollar funds to banks in Europe, which initially deposited the funds with their own offices in the United States.

Banks' customers' liabilities denominated in dollars decreased $65.2 billion after a decrease of $6.9 billion. The large third-quarter decrease was accounted for by decreases in negotiable certificates of deposit and other short-term instruments and in "other" liabilities.

U.S. liabilities reported by U.S. nonbanking concerns increased $83.6 billion in the third quarter after a decrease of $54.4 billion in the second quarter. The increase mostly reflected an increase in borrowing from the United Kingdom.

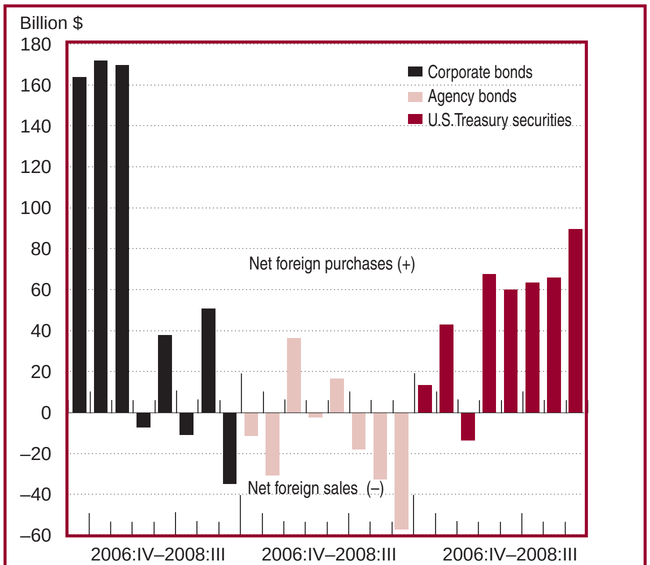
**U.S. Treasury securities.** Net foreign purchases of U.S. Treasury securities were $89.5 billion in the third quarter, up from $65.7 billion in the second quarter (chart 9). Net foreign purchases of U.S. Treasury securities have been strong since the third quarter of 2007. In the third quarter of 2008, investors became extremely risk averse near the end of the quarter when financial market turmoil intensified. Demand for short-term U.S. Treasury securities was exceptionally strong, and yields on 3-month Treasury bills fell to the lowest level in more than 50 years. Net foreign purchases of short-term U.S. Treasury securities were $75.4 billion, the strongest quarterly net purchases on record by far. The next largest net foreign purchases were $47.9 billion in the first quarter of 2008, which were much larger than in any previous quarter.

**Other U.S. securities.** Transactions in U.S. securities other than U.S. Treasury securities shifted to net foreign sales of $89.2 billion in the third quarter from net foreign purchases of $17.1 billion in the second quarter. The size of the net sales was unprecedented, reflecting net foreign sales of U.S. corporate bonds and of U.S. federally sponsored agency bonds.

Net foreign sales of U.S. corporate bonds were $34.7 billion, a shift from net foreign purchases of $50.6 billion. In the four quarters preceding the third quarter of 2007, foreign investors had very large net purchases of U.S. corporate bonds. Since the third quarter of 2007, foreign investors had net sales in three out of five quarters, and the net sales in the third quarter of 2008 were the largest ever by far. Net foreign sales of U.S. corporate bonds occurred in every month of the third quarter. Conditions in U.S. corporate bond markets deteriorated steadily through most of the quarter, amid indications that the U.S. economy was slowing and that financial institutions were experiencing additional significant losses. Spreads on corporate bonds widened, and new issue volume fell substantially. In late September, corporate bond prices fell sharply, and spreads rose to record levels (chart 10).

Net foreign sales of U.S. federally sponsored agency bonds were $57.0 billion, up from $32.8 billion. Net sales of agency bonds by investors in Europe and in Asia, particularly Japan, increased substantially. In contrast, transactions by investors in Caribbean financial centers shifted to net purchases from net sales. The third-quarter net foreign sales were exceptionally large. Concerns about the financial soundness of two large government-sponsored housing agencies increased in July, prompting the U.S. government to temporarily increase the lines of credit available to the agencies and authorize U.S. government equity investment in the agencies. Concerns intensified in August, and spreads on agency debt securities rose substantially. The U.S. government placed both agencies into conservatorship on September 7.

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




NOTE. Excludes transactions in foreign official assets.
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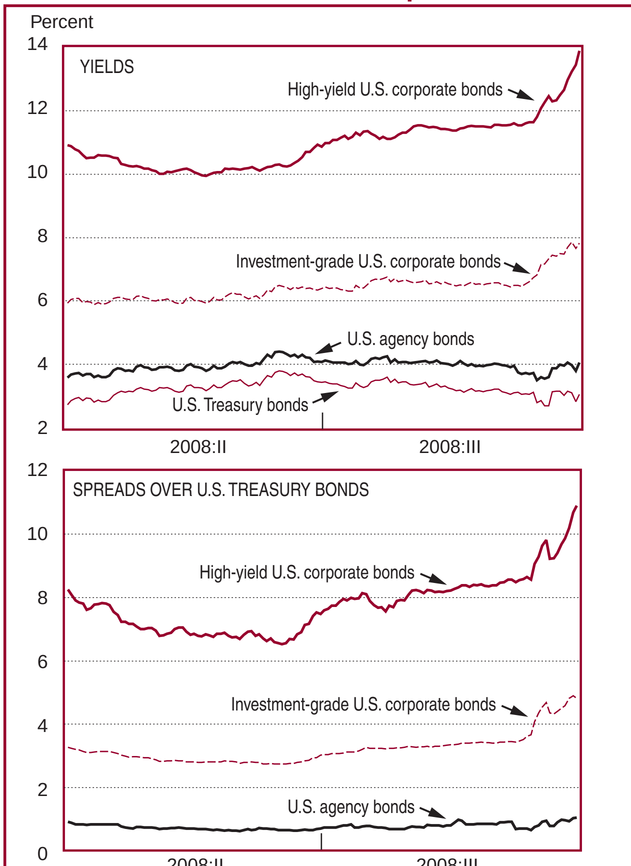
**Chart 10. U.S. Bond Yields and Spreads**




Source: Merrill Lynch.
U.S. Bureau of Economic Analysis

Net foreign purchases of U.S. stocks were $2.5 billion, a shift from net foreign sales of $0.7 billion. In the last three quarters, foreign transactions have been small net purchases or net sales. Net purchases by investors in Europe have weakened considerably, and transactions by investors in Caribbean financial centers have been large net sales or small net purchases. In the third quarter, transactions by investors in Caribbean financial centers shifted to net purchases from large net sales. In contrast, transactions by investors from Asia shifted to net sales from net purchases.

**U.S. currency.** Net U.S. currency shipments to foreigners were $5.8 billion in the third quarter, up from $0.2 billion in the second quarter.

**Direct investment.** Net financial inflows for foreign direct investment in the United States were $66.1 billion in the third quarter, down from $105.3 billion in the second quarter. The slowdown almost entirely resulted from a slowdown in net intercompany debt investment in the United States. Borrowing by U.S. affiliates from their foreign parents was minimal in the third quarter after very strong borrowing in the second quarter. In addition, reinvested earnings fell as a result of a decrease in U.S. affiliates' earnings. In contrast, net equity capital investment edged up, mostly as a result of equity capital investment in finance and insurance affiliates.

*Tables 1 through 12 follow.*