U.S. International Transactions

Fourth Quarter and Year 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—decreased to $132.8 billion (preliminary) in the fourth quarter of 2008, the smallest deficit since the fourth quarter of 2003, from $181.3 billion (revised) in the third quarter of 2008 (table A, chart 1) (see page 13).[1] The decrease mainly resulted from a decrease in the deficit on goods, but an increase in the surplus on income and a decrease in net unilateral current transfers to foreigners also contributed. In contrast, the surplus on services decreased. For the year 2008, the current-account deficit fell $57.9 billion to $673.3 billion, the smallest deficit since 2004 (see page 23).

In the financial account, net financial inflows to the United States were $76.8 billion in the fourth quarter, down from $147.3 billion in the third quarter (see page 18).[2] The slowdown resulted from a shift from financial inflows to financial outflows for foreign-owned assets in the United States (a shift from an increase to a decrease in foreign-owned assets) that was only partly offset by a pickup in financial inflows for U.S.-owned assets abroad (a larger decrease in U.S.-owned assets). Financial-account transactions continued to be affected by the unsettled financial market conditions that began in the third quarter of 2007. For the year 2008, net financial inflows to the United States fell $227.8 billion to $546.6 billion (see page 25).

The statistical discrepancy—errors and omissions in recorded transactions—was $56.6 billion in the fourth quarter, compared with $34.7 billion in the third quarter.

The following are highlights for the fourth-quarter current account:

- Exports of goods decreased 16 percent, and imports of goods decreased 17 percent.
- Both exports and imports of services fell 5 percent.
- Income receipts declined 13 percent, and income payments declined 20 percent.

Financial-account highlights include the following:

- U.S. government assets other than official reserve assets increased strongly as a result of drawings on central bank reciprocal currency arrangements.

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.

2. Fourth-quarter net financial inflows exclude transactions in financial derivatives because data are not yet available. Third-quarter net financial inflows excluding transactions in financial derivatives were $151.4 billion.

Table A. Selected U.S. International Transactions

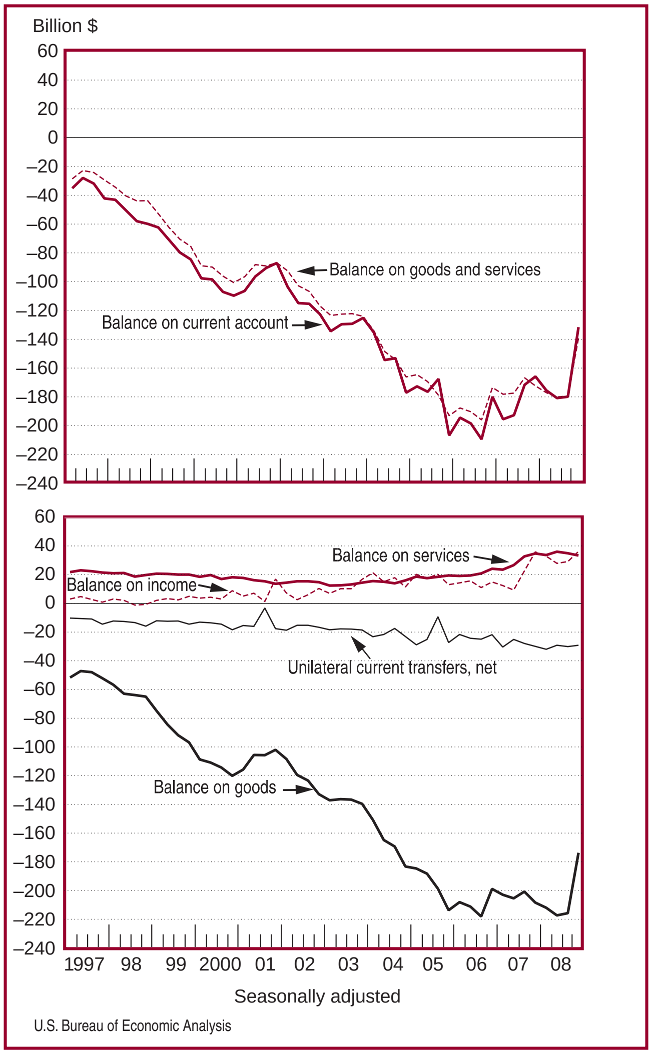
[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 12 are indicated in ( ) (Credits +; debits –)	2007	2008 p	Change: 2007–2008	2007				2008				Change: 2008: III–IV
					I	II	III	IV	I r	II r	III r	IV p	
	Current account												
1	**Exports of goods and services and income receipts (1)**	**2,463,505**	**2,591,254**	**127,749**	**572,182**	**602,122**	**638,393**	**650,808**	**651,416**	**671,888**	**678,258**	**589,692**	**–88,566**
2	Goods, balance of payments basis (3)	1,148,481	1,291,371	142,890	270,318	279,488	295,494	303,180	317,548	337,048	346,272	290,505	–55,767
3	Services (4)	497,245	544,414	47,169	115,118	120,463	129,378	132,285	133,969	138,318	139,639	132,489	–7,150
4	Income receipts (12)	817,779	755,468	–62,311	186,746	202,171	213,520	215,343	199,900	196,523	192,347	166,699	–25,648
5	**Imports of goods and services and income payments (18)**	**–3,082,014**	**–3,144,807**	**–62,793**	**–738,938**	**–771,262**	**–783,548**	**–788,264**	**–796,593**	**–825,091**	**–829,558**	**–693,564**	**135,994**
6	Goods, balance of payments basis (20)	–1,967,853	–2,112,196	–144,343	–473,681	–485,375	–496,698	–512,099	–530,126	–554,922	–562,526	–464,624	97,902
7	Services (21)	–378,130	–404,719	–26,589	–91,298	–93,395	–96,288	–97,149	–99,834	–101,862	–104,267	–98,756	5,511
8	Income payments (29)	–736,030	–627,891	108,139	–173,959	–192,492	–190,562	–179,016	–166,633	–168,307	–162,766	–130,185	32,581
9	**Unilateral current transfers, net (35)**	**–112,705**	**–119,713**	**–7,008**	**–30,174**	**–24,953**	**–27,796**	**–29,784**	**–31,731**	**–29,034**	**–29,998**	**–28,949**	**1,049**
	Financial account												
10	**U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (–)) (40)**	**–1,289,854**	**–52,459**	**1,237,395**	**–442,065**	**–523,556**	**–170,476**	**–153,757**	**–264,866**	**99,910**	**28,056**	**84,441**	**56,385**
11	**Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55)**	**2,057,703**	**599,049**	**–1,458,654**	**692,713**	**718,112**	**266,476**	**380,402**	**460,105**	**23,208**	**123,346**	**–7,611**	**–130,957**
12	**Financial derivatives, net (70)**	**6,496**	**n.a.**	**–6,496**	**14,795**	**–1,007**	**5,942**	**–13,234**	**–8,001**	**–2,519**	**–4,075**	**n.a.**	**4,075**
13	**Statistical discrepancy (71)**	**–41,287**	**129,275**	**170,562**	**–67,970**	**656**	**71,627**	**–45,600**	**–9,729**	**62,269**	**34,706**	**56,625**	**21,919**
	Memoranda:												
14	Balance on goods (72)	–819,373	–820,825	–1,452	–203,363	–205,887	–201,204	–208,919	–212,578	–217,874	–216,254	–174,119	42,135
15	Balance on services (73)	119,115	139,695	20,580	23,820	27,068	33,090	35,136	34,135	36,455	35,372	33,733	–1,639
16	Balance on income (75)	81,749	127,577	45,828	12,787	9,679	22,958	36,327	33,266	28,216	29,581	36,513	6,932
17	Balance on current account (77)	–731,214	–673,265	57,949	–196,930	–194,093	–172,952	–167,241	–176,909	–182,237	–181,299	–132,822	48,477
18	Net financial flows (40, 55, and 70)	774,345	546,590	–227,755	265,443	193,549	101,942	213,411	187,238	120,599	147,327	76,830	–70,497

p Preliminary
r Revised
n.a. Not available

- Net U.S. sales of foreign securities were very large for the second consecutive quarter. Net foreign sales of U.S. securities other than U.S. Treasury securities decreased but remained substantial.
- Net foreign purchases of U.S. Treasury securities by official institutions and private entities, which were strong in the third quarter, were even stronger in the fourth quarter.
- Claims reported by U.S. banks and securities brokers decreased substantially as a result of a cutback in international lending by these institutions.
- Liabilities reported by U.S. banks and securities brokers decreased a small amount, as a large decrease in securities brokers' liabilities was almost completely offset by a large increase in banks' liabilities.
- Foreign official assets in the United States decreased for the first time since the second quarter of 2001, as some foreign governments sold foreign exchange reserves to stabilize the value of their currencies.

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



Current Account, Fourth Quarter

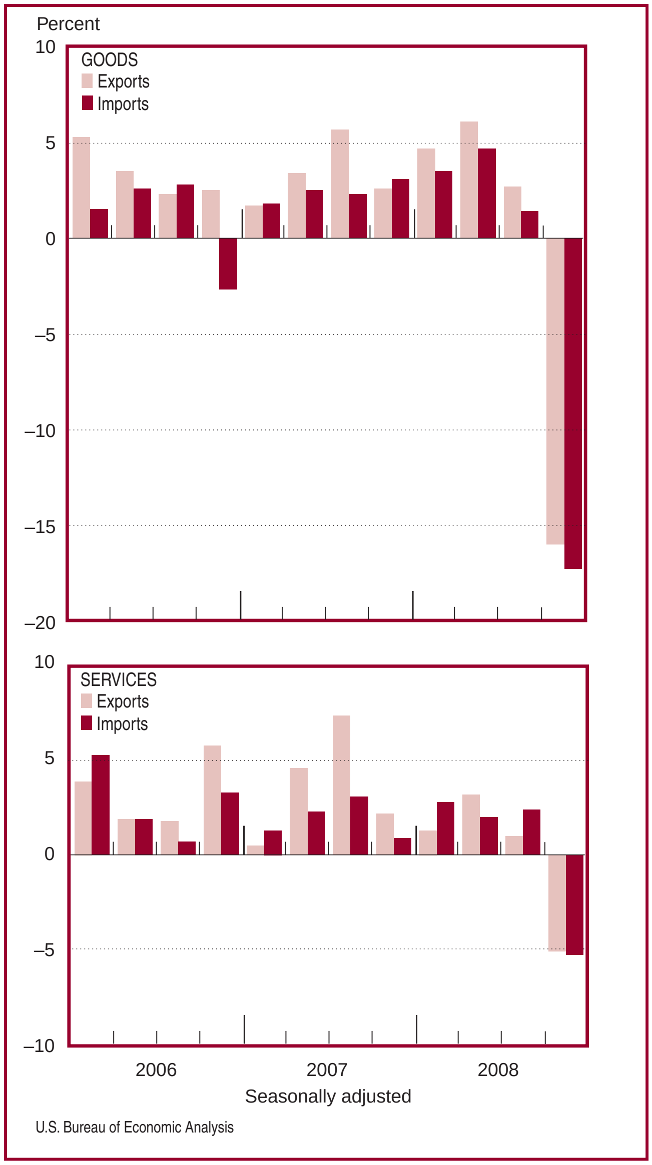
Goods and services

The deficit on goods and services decreased to $140.4 billion in the fourth quarter, the smallest deficit since the first quarter of 2004, from $180.9 billion in the third quarter (chart 1). The deficit on goods decreased $42.1 billion, and the surplus on services decreased $1.6 billion.

Goods

The deficit on goods decreased to $174.1 billion in the fourth quarter from $216.3 billion in the third quarter. Both exports and imports of goods fell sharply in percentage terms, but in dollar terms, imports fell much more than exports (chart 2).

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



The decreases in exports and imports largely reflected the substantial weakening in global economic activity in the fourth quarter. Both real, or price-adjusted, exports and imports of goods fell substantially, but exports declined at a much higher rate than imports. Export and import prices also fell substantially, but import prices declined much more than export prices.

Current-dollar imports of petroleum and products fell sharply as a result of a decline in petroleum prices. As a result, the deficit on petroleum and products decreased $40.3 billion, the first decrease in eight quarters (chart 3). The deficit on nonpetroleum products decreased $1.8 billion, the seventh consecutive quarterly decrease.

Exports. Exports of goods decreased $55.8 billion, or 16.1 percent, to $290.5 billion (table B). Real exports decreased 9.6 percent, and export prices

Revisions to Estimates

The preliminary estimates of U.S. international transactions for the third quarter that were published in the January 2009 Survey of Current Business have been revised. In addition, the estimates for the first, second, and third quarters have been revised to ensure that the seasonally adjusted estimates sum to the same annual totals as the unadjusted estimates. The revisions to the estimates for the first and second quarters were small.

For the third quarter, the current-account deficit was revised to $181.3 billion from $174.1 billion. The goods deficit was revised to $216.3 billion from $214.7 billion; the services surplus was revised to $35.4 billion from $38.2 billion; the income surplus was revised to $29.6 billion from $30.8 billion; and net unilateral current transfers to foreigners were revised to $30.0 billion from $28.4 billion. Net financial inflows were revised to $147.3 billion from $135.2 billion.

Chart 3. Deficits on Petroleum and Nonpetroleum Products

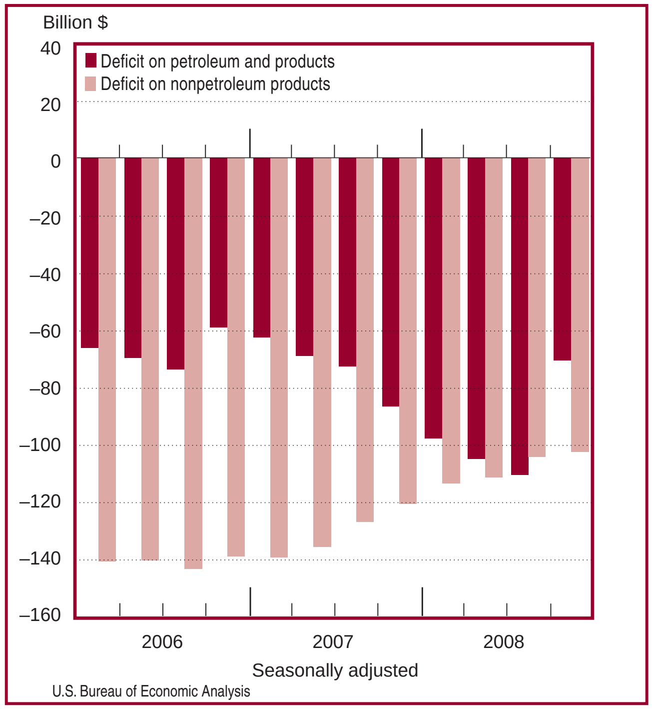


Table B. U.S. Trade in Goods in Current and Chained (2000) Dollars and Percent Changes From Previous Period

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

	Current dollars								Chained (2000) dollars [1]							
	2007	2008 p	2007		2008				2007	2008 p	2007		2008			
			III	IV	I r	II r	III r	IV p			III	IV	I r	II r	III r	IV p
Exports	**1,148,481**	**1,291,371**	**295,494**	**303,180**	**317,548**	**337,048**	**346,272**	**290,505**	**998,141**	**1,065,954**	**256,101**	**258,940**	**264,809**	**273,011**	**276,714**	**250,258**
Agricultural products	92,115	118,097	24,960	25,705	29,023	32,025	32,030	25,019	62,194	64,409	16,711	15,873	16,081	16,509	16,214	15,501
Nonagricultural products	1,056,366	1,173,274	270,534	277,475	288,525	305,023	314,242	265,486	938,016	1,005,152	239,684	243,767	249,548	257,451	261,801	235,410
Imports	**1,967,853**	**2,112,196**	**496,698**	**512,099**	**530,126**	**554,922**	**562,526**	**464,624**	**1,663,077**	**1,607,357**	**416,434**	**415,065**	**416,023**	**406,873**	**402,935**	**380,188**
Petroleum and products	330,978	453,319	83,019	99,031	112,965	124,412	132,228	83,714	135,413	129,816	32,395	33,655	35,294	31,288	30,750	33,609
Nonpetroleum products	1,636,875	1,658,878	413,679	413,068	417,161	430,510	430,298	380,910	1,547,009	1,494,431	390,753	385,854	382,275	384,154	381,243	346,420

	Percent change from previous period (current dollars)								Percent change from previous period (chained (2000) dollars)							
	2007	2008 p	2007		2008				2007	2008 p	2007		2008			
			III	IV	I r	II r	III r	IV p			III	IV	I r	II r	III r	IV p
Exports	**12.3**	**12.4**	**5.7**	**2.6**	**4.7**	**6.1**	**2.7**	**–16.1**	**8.4**	**6.8**	**5.0**	**1.1**	**2.3**	**3.1**	**1.4**	**–9.6**
Agricultural products	26.4	28.2	16.0	3.0	12.9	10.3	0.0	–21.9	7.1	3.6	10.1	–5.0	1.3	2.7	–1.8	–4.4
Nonagricultural products	11.2	11.1	4.9	2.6	4.0	5.7	3.0	–15.5	8.5	7.2	4.6	1.7	2.4	3.2	1.7	–10.1
Imports	**5.7**	**7.3**	**2.3**	**3.1**	**3.5**	**4.7**	**1.4**	**–17.4**	**2.0**	**–3.4**	**0.5**	**–0.3**	**0.2**	**–2.2**	**–1.0**	**–5.6**
Petroleum and products	9.4	37.0	6.3	19.3	14.1	10.1	6.3	–36.7	–2.0	–4.1	–3.6	3.9	4.9	–11.4	–1.7	9.3
Nonpetroleum products	5.0	1.3	1.6	–0.1	1.0	3.2	0.0	–11.5	2.8	–3.4	1.2	–1.3	–0.9	0.5	–0.8	–9.1

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.

decreased 7.2 percent.[3] All major commodity categories of exports fell substantially.

On a monthly basis, current-dollar exports, which had peaked in July and decreased in August and September, decreased at monthly rates of 3 percent in October, 7 percent in November, and 9 percent in December.

Nonagricultural industrial supplies and materials decreased $26.7 billion, or 26 percent, in the fourth quarter. These commodities, which were the largest contributor to growth in total exports in the first three quarters of 2008, were the largest contributor to the drop in total exports in the fourth quarter as a result of substantial decreases in export prices and volume. Exports of petroleum and products, of chemicals, and of metals and nonmetallic products all fell sharply.

Capital goods decreased $11.4 billion, or 9 percent. Civilian aircraft, engines, and parts fell sharply, partly as a result of a strike. There were also very large declines in semiconductors, in computers, parts, and peripherals, and in “other” industrial, agricultural, and service industry machinery.

Agricultural products decreased $7.0 billion, or 22 percent. The decrease largely reflected substantial declines in the prices of many agricultural commodities. Exports of corn, wheat, soybeans, and meat products and poultry were all much lower.

Automotive vehicles, parts, and engines decreased $6.1 billion, or 19 percent. Two-thirds of the decrease was accounted for by a large decline in automotive exports to Canada. Exports of passenger cars and automotive parts to Europe also fell sharply.

Consumer goods decreased $3.7 billion, or 9 percent. Nearly the entire decrease was accounted for by durable goods. All major categories of durable goods declined, but the largest decreases were in “other” durable goods, in gems, jewelry, and collectibles, and in household and kitchen appliances.

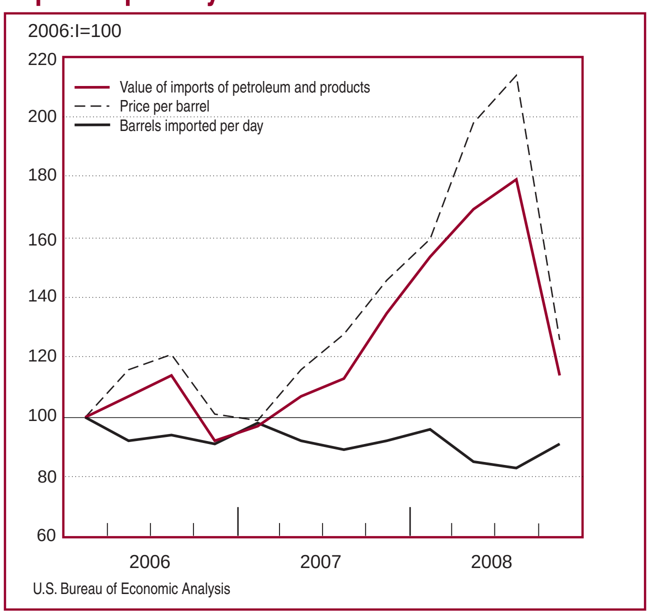
Imports. Imports of goods decreased $97.9 billion, or 17.4 percent, to $464.6 billion (table B). Real imports decreased 5.6 percent, and import prices decreased 12.5 percent, mostly as a result of a 41 percent drop in prices of petroleum imports. Half of the decrease in current-dollar imports resulted from a decline in petroleum and products.

On a monthly basis, imports, which had peaked in July and decreased in August and September, decreased at monthly rates of 2 percent in October, 14 percent in November, and 7 percent in December.

Petroleum and products decreased $48.5 billion, or 37 percent, in the fourth quarter, the first decrease since the fourth quarter of 2006 (chart 4). The average price per barrel of petroleum fell 41 percent to $68.74 as a result of large declines in every month of the quarter. In contrast, the average number of barrels imported daily increased 9 percent to 13.34 million. More than half of the decrease in current-dollar petroleum imports was accounted for by a drop in imports from members of OPEC, mainly Saudi Arabia, Venezuela, and Nigeria.

Nonpetroleum industrial supplies and materials decreased $16.0 billion, or 18 percent. These commodities, which were the largest contributors to growth in nonpetroleum imports in the first three quarters of 2008, were the largest contributors to the drop in these imports in the fourth quarter. Nonferrous metals, natural gas, and steel-related products all fell substantially, partly as a result of sharp declines in their prices.

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



3. 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.

Data Availability

The estimates that are presented in tables 1–12 of the U.S. international transactions accounts are available interactively on the BEA Web site at www.bea.gov. Users may view and download the 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.

Chemicals also decreased significantly.

Consumer goods decreased $11.8 billion, or 9 percent. Three-fourths of the decrease was accounted for by durable goods, which fell partly in response to a decline in U.S. personal consumption expenditures for durable goods. Imports of household and kitchen appliances, of televisions, video receivers, and other video equipment, and of "other" durable goods all fell by large amounts. Nondurable goods also decreased, mostly as a result of a drop in medicinal, dental, and pharmaceutical products.

Capital goods decreased $9.9 billion, or 9 percent. More than 40 percent of the decrease was accounted for by a sharp drop in computers, peripherals, and parts, which partly resulted from a decline in U.S. private domestic investment in equipment and software. Telecommunications equipment, electric generating machinery and electric apparatus, and semiconductors also decreased substantially. Nearly all other major categories of capital goods also declined.

Automotive vehicles, parts, and engines decreased $9.3 billion, or 16 percent. The decrease followed a $4.3 billion decline in the third quarter. The decreases were concentrated in imports of passenger cars, as U.S. domestic sales of motor vehicles fell substantially in the previous three quarters and dropped even more sharply in the fourth quarter.

Balances by area. The goods deficit decreased $42.1 billion to $174.1 billion in the fourth quarter. Half of the decrease was accounted for by declines in the deficits with the Middle East and with Africa, mostly reflecting drops in petroleum imports from OPEC members in those areas. The deficit with Latin America and Other Western Hemisphere decreased $7.8 billion, as the deficit with Venezuela fell sharply. The deficit with Europe decreased $4.1 billion; decreases in the deficits with Russia, Germany, Italy, and the United Kingdom were partly offset by a decrease in the surplus with Turkey and an increase in the deficit with Ireland. The large deficit with Asia and Pacific decreased only slightly. A substantial drop in the deficit with China was mostly offset by increases in the deficits with India, Taiwan, and the Republic of Korea and a decrease in the surplus with Hong Kong.

Services

The surplus on services decreased to $33.7 billion in the fourth quarter from $35.4 billion in the third quarter. Services receipts decreased $7.2 billion, or 5 percent, to $132.5 billion. Services payments decreased $5.5 billion, or 5 percent, to $98.8 billion (chart 2).

Travel receipts, which include purchases of goods and services by foreign visitors to the United States, decreased $2.7 billion, the first decrease in seven quarters, to $26.2 billion. Receipts from overseas and Canadian visitors to the United States fell substantially, as the appreciation of the dollar against many foreign currencies in recent months and the slowdown in global economic activity contributed to a drop in the number of foreign visitors (table C, chart 5). Travel payments, which include purchases of goods and services by U.S. travelers abroad, edged down $0.3 billion to $19.5 billion, as the number of U.S. visitors abroad decreased slightly.

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

[January 1999=100]

	2007	2008				2007	2008											
	IV	I	II	III	IV	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Nominal: [1]																		
Broad [2]	86.7	85.1	83.8	85.6	94.8	86.8	86.1	85.4	83.7	83.5	83.8	84.0	83.4	85.6	87.7	93.5	95.9	94.9
Major currencies [3]	77.6	76.2	75.0	77.8	86.0	78.0	77.3	76.8	74.4	74.6	74.9	75.6	75.1	78.4	79.9	85.1	87.6	85.4
Other important trading partners [4]	98.7	96.8	95.3	95.9	106.2	98.3	97.6	96.7	96.0	95.2	95.5	95.1	94.4	95.2	98.0	104.6	106.8	107.3
Real: [1]																		
Broad [2]	89.0	87.1	86.7	88.7	95.4	88.9	88.3	87.0	85.9	86.0	86.8	87.4	86.8	88.8	90.6	95.5	96.1	94.5
Major currencies [3]	85.7	84.4	84.2	87.5	94.5	86.0	85.5	85.0	82.8	83.5	84.0	85.2	84.8	88.2	89.6	94.7	95.9	92.9
Other important trading partners [4]	92.6	89.9	89.5	90.2	96.5	92.0	91.4	89.1	89.2	88.9	89.8	89.9	89.1	89.6	91.8	96.6	96.5	96.4
Selected currencies: (nominal) [5]																		
Canada	64.6	66.1	66.5	68.5	79.8	66.0	66.5	65.7	66.0	66.7	65.8	66.9	66.7	69.3	69.6	78.0	80.1	81.2
European currencies:																		
Euro area [6]	80.0	77.3	74.2	77.3	88.1	79.6	78.7	78.5	74.7	73.6	74.5	74.5	73.6	77.5	80.8	87.4	91.0	85.8
United Kingdom	80.7	83.4	83.7	87.4	105.5	81.8	83.7	84.0	82.4	83.3	84.0	83.9	83.0	87.5	91.8	97.8	107.6	111.1
Switzerland	82.7	77.0	74.5	77.5	83.6	82.3	79.4	78.6	73.1	73.2	75.4	74.8	74.2	78.2	80.1	82.5	86.0	82.3
Japan	99.9	92.9	92.4	95.0	84.8	99.3	95.2	94.5	88.9	90.6	92.1	94.4	94.3	96.5	94.1	88.2	85.6	80.6
Mexico	107.1	106.7	103.0	102.0	129.0	107.1	107.7	106.3	106.0	103.8	103.1	102.0	100.8	99.9	105.3	125.0	129.5	132.5
Brazil	118.0	114.8	109.4	110.4	150.9	118.1	117.1	114.4	113.0	111.5	109.7	107.0	105.2	106.7	119.3	144.2	150.2	158.4

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.

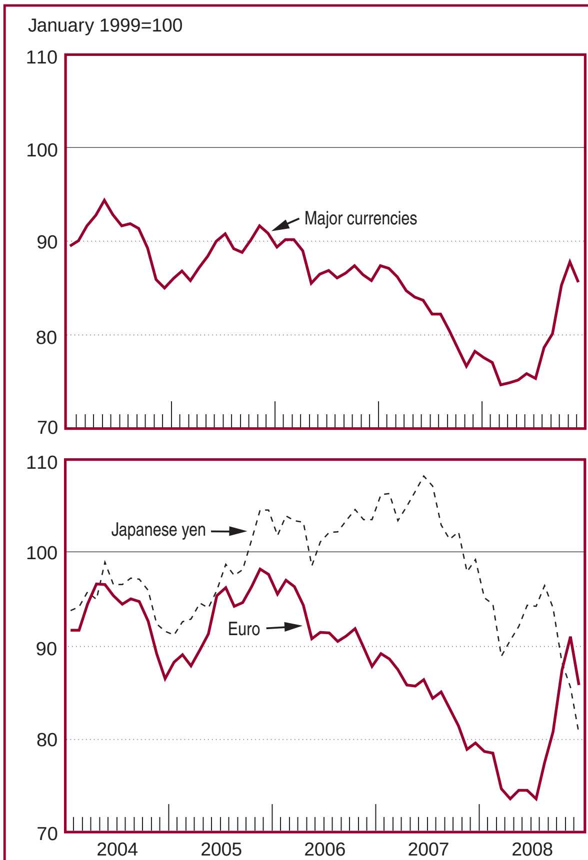
6. The euro area includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Slovenia, and Spain; beginning with the first quarter of 2008, also includes Cyprus and Malta.

Passenger fare receipts decreased $1.1 billion to $7.6 billion, largely reflecting a drop in the number of foreign visitors to the United States. Passenger fare payments edged down $0.2 billion to $8.2 billion.

"Other" transportation receipts decreased $2.4 billion to $13.3 billion. Port services receipts fell sharply, partly as a result of decreases in foreign air and ocean carriers' expenditures for fuel in U.S. ports. Freight receipts also tumbled, as the weakening global economy reduced the volume of U.S. goods exports and put downward pressure on freight rates. "Other" transportation payments decreased $2.4 billion to $16.5 billion. Port services payments fell sharply, partly as a result of a drop in U.S. air carriers' expenditures for fuel in foreign ports. Freight payments also decreased substantially as a result of a drop in the volume of U.S. goods imports and lower freight rates.

"Other" private services receipts decreased $1.0 billion to $59.4 billion. The decrease largely resulted from a second consecutive quarterly decline in receipts for financial services. "Other" private services payments decreased $0.6 billion to $38.4 billion. The decrease resulted from declines in payments for business, professional, and technical services and for financial services.

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

Income

The surplus on income increased to $36.5 billion in the fourth quarter from $29.6 billion in the third quarter. Income receipts decreased $25.6 billion, or 13 percent, to $166.7 billion. Income payments decreased $32.6 billion, or 20 percent, to $130.2 billion.

Receipts of income on U.S. direct investment abroad decreased $19.1 billion to $76.6 billion. Earnings of foreign affiliates fell sharply amid the slowdown in foreign economic activity, the appreciation of the U.S. dollar against most major foreign currencies, and the unsettled conditions in financial markets. Earnings in nearly all major industry categories and in all major geographic areas decreased substantially.

Payments of income on foreign direct investment in the United States decreased $23.6 billion to $8.0 billion, the lowest since the fourth quarter of 2002. Earnings of U.S. affiliates fell sharply, reflecting lower earnings in nearly all major industry categories. Earnings of manufacturing affiliates fell substantially, and earnings of finance and insurance affiliates were negative in the fourth quarter after having been positive in the third quarter. Petroleum-related affiliates contributed to the fall in manufacturing earnings as well as to the declines in earnings in wholesale trade and in "other" industries. The shift to losses by finance and insurance affiliates was more than accounted for by a shift to losses by depository institutions, such as commercial banks.

Receipts of "other" private income decreased $7.4 billion to $87.2 billion, and payments of "other" private income decreased $7.7 billion to $79.4 billion. The decreases mostly resulted from declines in interest receipts on banks' claims and interest payments on banks' liabilities. These claims and liabilities are mostly dollar-denominated, short-term instruments, and the interest rates on them fell as a result of the easing of U.S. monetary policy in the fourth quarter.

U.S. government income receipts increased $0.8 billion to $2.2 billion, mostly as a result of income earned on temporary reciprocal currency swaps between the U.S. Federal Reserve and foreign central banks. U.S. government income payments decreased $1.4 billion to $40.1 billion. The decrease mostly resulted from a decline in payments on agency bonds.

Receipts for compensation of U.S. workers abroad edged up to $0.8 billion from $0.7 billion, and payments for compensation of foreign workers in the United States edged up to $2.6 billion from $2.5 billion.

Unilateral current transfers

Net unilateral current transfers to foreigners were $28.9 billion in the fourth quarter, down from $30.0 billion in the third quarter. The decrease was more than accounted for by a decrease in private remittances and other transfers.

Capital Account, Fourth Quarter

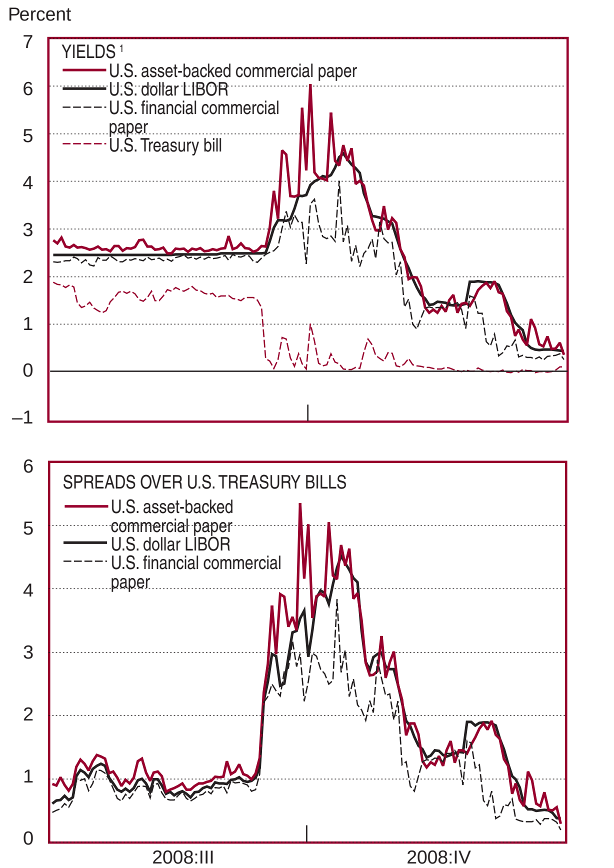
Net capital account payments (outflows) edged down to $0.6 billion in the fourth quarter from $0.7 billion in the third quarter.[4]

Financial Account, Fourth Quarter

Financial-account transactions continued to be affected by the unsettled financial market conditions that began in the third quarter of 2007. Additional strains in global financial markets emerged in the last half of September 2008 and continued throughout the fourth quarter. During this time, many large financial institutions came under pressure, as their housing-related assets continued to fall in value and as their other assets became increasingly impaired because of the global slowdown in economic activity. Banks and other institutions sought to maintain liquidity by limiting their lending. Many short-term funding markets ceased to function normally—including interbank markets and markets for commercial paper, repurchase agreements, and other short-term instruments—leading to liquidity problems for some large financial institutions. Stock and corporate bond prices fell sharply, and U.S. Treasury security prices surged, as investors became exceptionally risk averse. Spreads between yields on a wide variety of credit instruments and yields on U.S. Treasury securities rose sharply (charts 6 and 7). U.S. and foreign governments responded by further easing monetary policies and by developing and implementing additional measures to support the liquidity of financial institutions and foster improved conditions in financial markets.

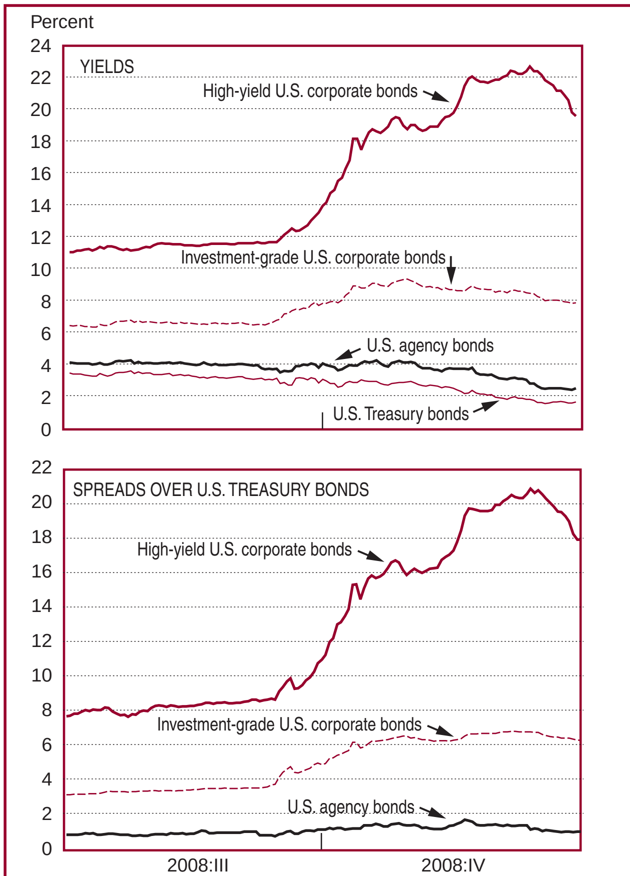
4. Capital-account transactions consist largely of changes in the financial assets of migrants as they enter or leave the United States and U.S. government debt forgiveness.

Chart 6. 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 7. U.S. Bond Yields and Spreads



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

U.S.-owned assets abroad

Net U.S.-owned assets abroad decreased $84.4 billion in the fourth quarter after a decrease of $28.1 billion in the third quarter. The larger decrease resulted from a much larger decrease in claims reported by U.S. banks and securities brokers. The larger decline in bank claims was partly offset by a larger increase in U.S. government assets other than official reserve assets, a pickup in net financial outflows for U.S. direct investment abroad, and a smaller decrease in claims reported by U.S. nonbanking concerns.

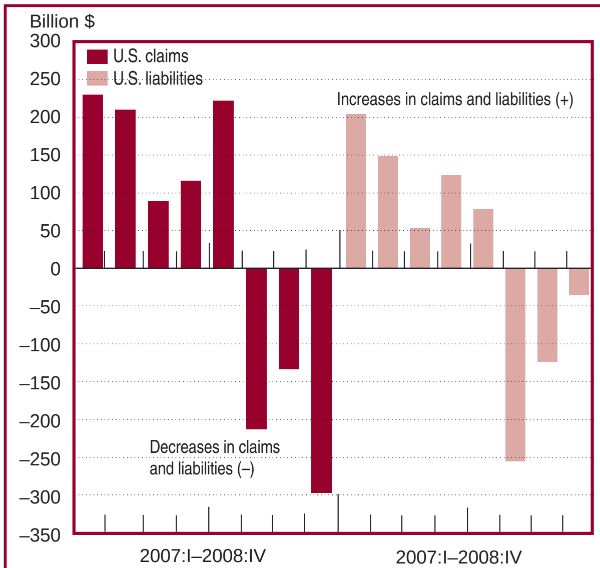
U.S. official reserve assets. U.S. official reserve assets increased $3.1 billion in the fourth quarter after an increase of $0.2 billion in the third quarter. The fourth-quarter increase largely resulted from an increase in the U.S. reserve position in the International Monetary Fund (IMF), as the IMF extended loans to a few countries that were experiencing financial difficulties.

U.S. government assets other than official reserve assets. U.S. government assets other than official reserve assets increased $265.2 billion in the fourth quarter after an increase of $226.0 billion in the third quarter. The large increases in both quarters resulted from drawings on temporary reciprocal currency arrangements (swap lines) between the U.S. Federal Reserve 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. The lines were expanded substantially in the last 2 weeks of September 2008, as short-term U.S.-dollar funding pressures worldwide became more acute. In the fourth quarter, limits on swap lines between the Federal Reserve and four major foreign central banks were removed, and additional lines were established between the Federal Reserve and several other foreign central banks. Nearly 80 percent of the net drawings in the fourth quarter were by the European Central Bank and the Bank of Japan.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers decreased $298.0 billion in the fourth quarter after a decrease of $134.4 billion in the third quarter (chart 8). (Examples of these claims are deposits of U.S. residents placed at foreign banks, U.S. bank loans to foreigners, and resale agreements, which are collateralized short-term loans.) Claims have decreased for three consecutive quarters, representing a significant cutback in international lending by U.S. banks and brokers, and the decrease in the fourth quarter was exceptionally large. In the fourth quarter, banks and other institutions became very cautious in lending to each other and to nonfinancial businesses and consumers. Some large financial institutions experienced liquidity problems. Spreads on short-term credit instruments surged (chart 6).

Banks' own claims denominated in dollars decreased $358.1 billion, the largest decrease on record by far, after a decrease of $71.1 billion. The fourth-quarter decrease mostly resulted from an exceptionally large decrease in securities brokers' claims that coincided with an even larger decrease in brokers' liabilities to foreigners. The decreases mostly resulted from reductions in claims and liabilities of foreign-owned brokers in the United States, but claims and liabilities of U.S.-owned brokers also fell substantially. The decreases mainly reflected decreases in claims for resale agreements and in liabilities for repurchase agreements, which are short-term instruments that became difficult to initiate or rollover beginning in the last half of September. The bankruptcy of a large U.S. investment bank, continued deleveraging of financial institutions' balance sheets, and further reductions in lending to leveraged investors as stock and corporate bond prices fell sharply all contributed to the strains in markets for repurchase agreements and other short-term instruments.

Chart 8. U.S. Claims and Liabilities Reported by U.S. Banks and Securities Brokers, 2007:I–2008:IV [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.

U.S. Bureau of Economic Analysis

Claims of foreign-owned banks in the United States also decreased substantially. The decrease coincided with a large increase in foreign-owned banks' liabilities to foreigners, resulting in a very large net flow of funds to these banks from banks abroad, mainly from parent and other affiliated offices. Some of the funds were used to bolster the balance sheets of foreign-owned banks in the United States that were suffering increased losses on their loan and securities holdings.

In contrast, claims of U.S.-owned banks in the United States increased substantially. The increase coincided with an even larger increase in U.S.-owned banks' liabilities to foreigners, resulting in a net flow of funds to these banks from banks abroad, mainly from affiliated offices.

Banks' domestic customers' claims denominated in dollars increased $46.5 billion after a decrease of $50.9 billion. The increase was more than accounted for by a very large increase in customers' dollar deposits and brokerage balances at banks abroad after three consecutive quarters of decreases.

Claims reported by U.S. nonbanking concerns decreased $63.1 billion in the fourth quarter after a decrease of $89.5 billion in the third quarter. (Examples of these claims are deposits of nonbanking concerns placed at foreign banks and intercompany debt claims of U.S. nonbank financial intermediaries on foreign affiliated financial companies.) These claims have decreased in every quarter since the third quarter of 2007. The decrease in the fourth quarter was more than accounted for by a large decline in deposits abroad.

Foreign securities. Net U.S. sales of foreign securities were $77.0 billion in the fourth quarter, down from $82.6 billion in the third quarter. The size of the net sales in both quarters was unprecedented.

Net U.S. sales of foreign bonds were $37.3 billion, down from $67.8 billion (chart 9). The net sales in the last two quarters followed three quarters of reduced net U.S. purchases after financial markets became unsettled in the third quarter of 2007. Net U.S. sales of foreign bonds were very large in September of 2008, when strains in global financial markets heightened. Net U.S. sales eased in October though strains increased further and spreads on virtually all types of credit instruments increased sharply. Net U.S. sales continued in November and December. Global bond issuance remained low in the fourth quarter. Net U.S. sales of foreign bonds to Europe decreased substantially despite a pickup in net sales to the United Kingdom. Net U.S. sales to "other" areas (mainly Australia) also decreased, and transactions with Asia shifted from net sales to net purchases. In contrast, net U.S. sales to Caribbean financial centers, to Latin America, and to Canada increased.

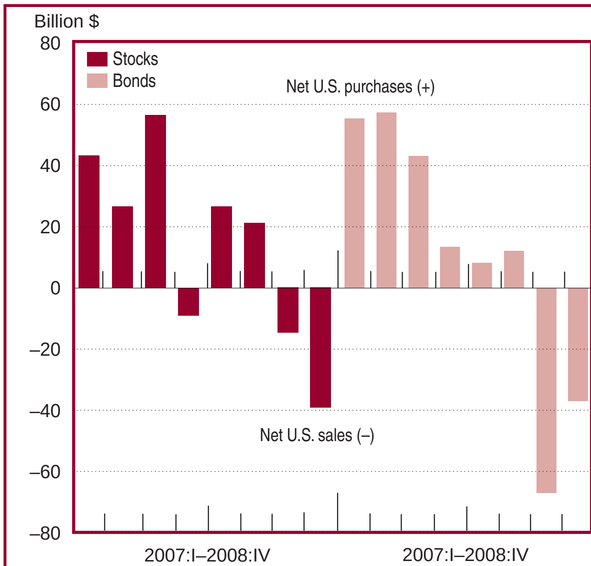
Net U.S. sales of foreign stocks were $39.7 billion, the largest on record, up from $14.8 billion. Net sales were strongest in October and November, when global stock markets fell sharply, amid heightened concerns about the stability of financial markets and indications that several industrialized nations had slipped into recession. For the quarter, a broad index of foreign stock market prices decreased nearly 20 percent in local currency terms, the largest quarterly decline in 18 years. The increase in net U.S. sales of foreign stocks largely resulted from a decrease in net U.S. purchases from Caribbean financial centers and an increase in net U.S. sales to Europe.

Direct investment. Net financial outflows for U.S. direct investment abroad were $85.3 billion in the fourth quarter, up from $52.4 billion in the third quarter. The pickup resulted from a larger increase in net equity capital investment abroad in the fourth quarter than in the third quarter and a smaller decrease in net intercompany debt investment abroad. In contrast, reinvested earnings slowed. The pickup in net equity capital investment largely reflected equity capital investment in finance and insurance affiliates abroad.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States decreased $7.6 billion in the fourth quarter, the first decrease since the first quarter of 1990, after an increase

Chart 9. Transactions in Foreign Securities, 2007:I–2008:IV[1]



1. Under balance-of-payments concepts, net U.S. purchases of foreign securities 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

of $123.3 billion in the third quarter. The shift resulted from shifts from increases to decreases in U.S. liabilities reported by U.S. nonbanking concerns and in foreign official assets in the United States. These shifts were partly offset by a much smaller decrease in U.S. liabilities reported by U.S. banks in the fourth quarter than in the third quarter and by a slowdown in net foreign sales of U.S. securities other than U.S. Treasury securities.

Foreign official assets. Foreign official assets in the United States decreased $13.6 billion in the fourth quarter, the first decrease since the second quarter of 2001, after an increase of $116.1 billion in the third quarter. The decrease occurred as some foreign governments sold foreign exchange reserves to stabilize the value of their currencies during the financial crisis. By area, the assets of European countries decreased substantially after a small increase, and the assets of Asian countries increased less in the fourth quarter than in the third quarter. By instrument, foreign official assets reported as liabilities by U.S. banks decreased sharply, and net sales of “other” U.S. government securities, mainly federally sponsored agency securities, surged. These changes were partly offset by a strong rise in net purchases by foreign official institutions of U.S. Treasury securities.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, decreased $35.1 billion in the fourth quarter after a decrease of $124.7 billion in the third quarter (chart 8). (Examples of these liabilities are deposits of foreign residents placed at banks in the United States, loans made by banks abroad to banks in the United States, and repurchase agreements, which are collateralized short-term loans made by foreign residents to U.S. residents.)

Banks’ own liabilities denominated in dollars decreased $7.9 billion after a decrease of $67.9 billion. The small fourth-quarter decrease resulted from an exceptionally large decrease in securities brokers’ liabilities that was almost completely offset by an exceptionally large increase in banks’ liabilities. (See the section “Claims reported by banks and by nonbanks” for a discussion of changes in liabilities in conjunction with changes in claims.) The decrease in brokers’ liabilities was largely accounted for by foreign-owned brokers in the United States, but U.S.-owned brokers’ liabilities also decreased substantially. The increase in banks’ liabilities was mostly accounted for by U.S.-owned banks, but foreign-owned banks’ liabilities also increased substantially.

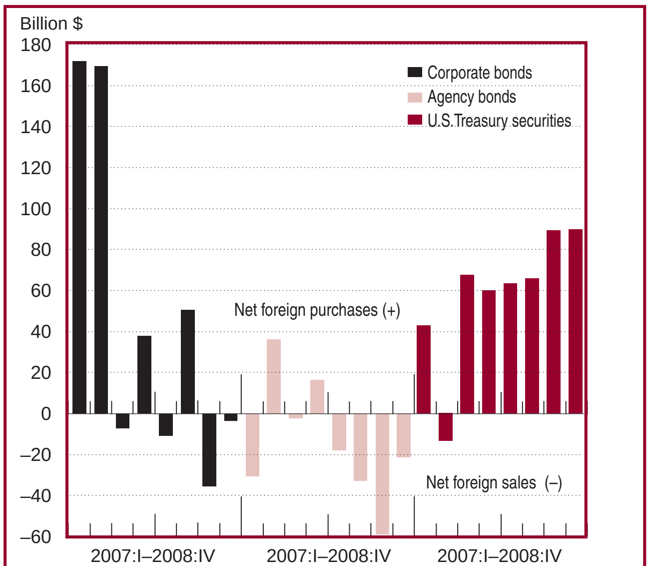
Banks’ customers’ liabilities denominated in dollars decreased $29.6 billion, the third consecutive quarterly decrease, after a decrease of $56.9 billion. The fourth-quarter decrease was accounted for by declines in negotiable certificates of deposit and other short-term instruments and in “other” liabilities.

U.S. liabilities reported by U.S. nonbanking concerns decreased $130.1 billion in the fourth quarter, in sharp contrast to an increase of $71.1 billion in the third quarter. The very large decrease largely resulted from a decline in “other” liabilities—such as loans, advances, and other borrowings by nonbanking concerns—to the United Kingdom.

U.S. Treasury securities. Net foreign purchases of U.S. Treasury securities were $89.5 billion in the fourth quarter, up slightly from $89.1 billion in the third quarter (chart 10). Net foreign purchases of U.S. Treasury securities have been very strong since the third quarter of 2007. As in the previous quarter, investor demand for short-term U.S. Treasury securities was exceptionally strong, as yields on 3-month Treasury bills became negative on several occasions in December. Net foreign purchases of short-term U.S. Treasury securities were $60.6 billion in the fourth quarter, down from $77.1 billion in the third quarter, but the net purchases in both quarters were much higher than net purchases of short-term securities in any previous quarter.

Other U.S. securities. Net foreign sales of U.S. securities other than U.S. Treasury securities were $28.8 billion in the fourth quarter, down from $91.4 billion in the third quarter. Before the third quarter of 2007, foreign investors typically had large net purchases of these securities. In sharp contrast, foreign investors had net sales in four of the last six quarters.

Chart 10. Transactions in U.S. Debt Securities, 2007:I–2008:IV



NOTE. Excludes transactions in foreign official assets.
U.S. Bureau of Economic Analysis

Net foreign sales of U.S. corporate bonds were $3.7 billion, down from $35.5 billion (chart 10). Net foreign sales were substantial in October and November, when corporate bond prices, particularly of structured and high-yield instruments, fell sharply, and spreads rose sharply (chart 7). However, the net foreign sales in those 2 months were largely offset by very strong net foreign purchases in December, when new issues of investment-grade corporate bonds surged, mostly as a result of new issues by banks and other financial institutions under the Federal Deposit Insurance Corporation's Temporary Liquidity Guarantee Program. New issues of structured and high-yield corporate bonds remained virtually nonexistent in the fourth quarter.

Net foreign sales of U.S. federally sponsored agency bonds were $21.4 billion, down from $58.8 billion. It was the fourth consecutive quarter of net foreign sales of agency bonds. The U.S. government had placed two large housing-related federally sponsored agencies into conservatorship in September in an attempt to stabilize their financial condition. However, spreads on agency securities increased in October and November, and foreigners had net sales of agency securities in both months. In late November, the Federal Reserve announced plans to purchase direct obligations of housing-related agencies and mortgage-backed securities guaranteed by the agencies. Prices of agency securities increased substantially after the announcement, but net foreign sales of the securities continued in December. For the quarter, transactions with investors in Europe shifted to net purchases from net sales, and net sales from Asia decreased. In contrast, transactions with investors in Caribbean financial centers shifted to large net sales.

Net foreign sales of U.S. stocks were $3.6 billion, a shift from net foreign purchases of $2.9 billion. In the last four quarters, foreign transactions have been net sales or small net purchases. The Standard and Poor's 500 stock price index fell 22 percent in the fourth quarter, as a result of sharp declines in October and November. Transactions in U.S. stocks by investors in Caribbean financial centers, which have been net sales or small net purchases since the third quarter of 2007, shifted to net sales in the fourth quarter. Transactions by investors in Europe, which were net sales or small net purchases in the previous three quarters, also shifted to net sales in the fourth quarter. In contrast, transactions by investors in Asia shifted to large net purchases from net sales.

U.S. currency. Net U.S. currency shipments to foreigners were $29.9 billion in the fourth quarter, up from $5.8 billion in the third quarter. The high level of shipments in the fourth quarter likely reflected increased foreign demand for U.S. dollars as the financial crisis intensified.

Direct investment. Net financial inflows for foreign direct investment in the United States were $80.6 billion in the fourth quarter, up from $57.3 billion in the third quarter. The pickup was more than accounted for by a substantial increase in net equity capital investment in the United States, arising from foreign acquisitions of U.S. manufacturing companies. In addition, net intercompany debt investment in the United States decreased less in the fourth quarter than in the third quarter. In contrast, reinvested earnings were negative for the first time since the fourth quarter of 2006 as a result of a sharp decline in foreign affiliates' earnings.

The Year 2008

The U.S. current-account deficit decreased to $673.3 billion (preliminary) in 2008, the smallest deficit since 2004, from $731.2 billion in 2007 (table D). The decrease resulted from increases in the surpluses on income and on services. These increases were partly offset by increases in net unilateral current transfers to foreigners and in the deficit on goods.

Net financial inflows to the United States were $546.6 billion in 2008, down from $774.3 billion in 2007. Both net acquisitions by foreign residents of assets in the United States and net acquisitions by U.S. residents of assets abroad slowed sharply, but net acquisitions by foreign residents slowed more than net acquisitions by U.S. residents. The statistical discrepancy was $129.3 billion in 2008, compared with a negative $41.3 billion in 2007.

Table D. Selected U.S. International Transactions

[Billions of dollars]

Corresponding lines in tables 1 and 12 are indicated in ( ) (Credits +; debits –)	2006	2007	2008 p	Change from preceding year	
				2007	2008 p
Current account					
Exports of goods and services and income receipts (1)	**2,142.2**	**2,463.5**	**2,591.3**	**321.3**	**127.7**
Goods, balance of payments basis (3)	1,023.1	1,148.5	1,291.4	125.4	142.9
Services (4)	433.9	497.2	544.4	63.3	47.2
Income receipts (12)	685.2	817.8	755.5	132.6	–62.3
Imports of goods and services and income payments (18)	**–2,838.3**	**–3,082.0**	**–3,144.8**	**–243.8**	**–62.8**
Goods, balance of payments basis (20)	–1,861.4	–1,967.9	–2,112.2	–106.5	–144.3
Services (21)	–348.9	–378.1	–404.7	–29.2	–26.6
Income payments (29)	–628.0	–736.0	–627.9	–108.1	108.1
Unilateral current transfers, net (35)	**–92.0**	**–112.7**	**–119.7**	**–20.7**	**–7.0**
Financial account					
U.S.-owned assets abroad, excluding financial derivatives (increase (–)) (40)	**–1,251.7**	**–1,289.9**	**–52.5**	**–38.1**	**1,237.4**
Foreign-owned assets in the United States, excluding financial derivatives (increase (+)) (55)	**2,061.1**	**2,057.7**	**599.0**	**–3.4**	**–1,458.7**
Financial derivatives, net (70)	**29.7**	**6.5**	**n.a.**	**–23.2**	**–6.5**
Statistical discrepancy (71)	**–47.1**	**–41.3**	**129.3**	**5.8**	**170.6**
Memoranda:					
Balance on goods (72)	–838.3	–819.4	–820.8	18.9	–1.5
Balance on services (73)	85.0	119.1	139.7	34.1	20.6
Balance on income (75)	57.2	81.7	127.6	24.6	45.8
Balance on current account (77)	–788.1	–731.2	–673.3	56.9	57.9
Net financial flows (40, 55, and 70)	839.1	774.3	546.6	–64.7	–227.8

p Preliminary
n.a. Not available

Current Account, 2008

Goods

The deficit on goods increased to $820.8 billion in 2008 from $819.4 billion in 2007 (table D). The slight increase followed a decrease in 2007 and very large increases from 2002 to 2006. Export growth was considerably higher than import growth for the second consecutive year, as nonpetroleum imports have slowed sharply. In the last 2 years, the deficit on nonpetroleum products decreased $132.9 billion, but the deficit on petroleum and products increased $115.4 billion.

Exports. Goods exports increased $142.9 billion, or 12.4 percent, in 2008 after an increase of $125.4 billion, or 12.3 percent, in 2007 (tables B and D). Real exports increased 6.8 percent, and export prices increased 5.3 percent. Growth in current-dollar exports, which had picked up in 2004, remained strong through the first half of 2008 as a result of strong economic growth abroad, the cumulative effect of the depreciation of the dollar against many foreign currencies, and rising prices for commodity exports. However, export growth slowed considerably in the third quarter, and exports decreased sharply in the fourth quarter.

Industrial supplies and materials increased $70.9 billion, or 22 percent, after an increase of $40.3 billion, or 15 percent. The increase in 2008 reflected substantial increases both in export prices and in volume. Energy products surged 71 percent, and chemicals continued to increase strongly.

Foods, feeds, and beverages increased $24.2 billion, or 29 percent, after an increase of $18.3 billion, or 28 percent. The large increases in both years mostly resulted from increases in prices, although export volume also grew strongly in 2007 and the first half of 2008.

Capital goods increased $22.0 billion, or 5 percent, after an increase of $32.4 billion, or 8 percent. The slowdown resulted from a decrease in civilian aircraft and parts in 2008 after a strong increase in 2007. Capital goods excluding civilian aircraft and parts increased at the same rate in 2008 as in 2007, and the growth in both years stemmed from many of the same commodity categories.

Consumer goods increased $15.1 billion, or 10 percent, after an increase of $17.0 billion, or 13 percent. The slowdown resulted from a smaller increase in durable goods in 2008 than in 2007.

Automotive vehicles, parts, and engines decreased $0.1 billion, or less than 1 percent, after an increase of $14.1 billion, or 13 percent. The decrease, which was the first decrease since 2001, resulted from a substantial drop in automotive exports to Canada.

Imports. Goods imports increased $144.3 billion, or 7.3 percent, in 2008 after an increase of $106.5 billion, or 5.7 percent, in 2007 (tables B and D). Real imports decreased 3.4 percent, and import prices increased 11.1 percent. Import growth had slowed in 2007, as growth in nonpetroleum products eased in response to weaker U.S. domestic demand and as growth in petroleum and products also moderated. The pickup in import growth in 2008 mostly reflected very strong growth in petroleum and products in the first three quarters of the year. In the fourth quarter, both petroleum and nonpetroleum products fell sharply, as petroleum prices plunged and U.S. domestic demand declined considerably.

Petroleum and products increased $122.3 billion, or 37 percent, after an increase of $28.5 billion, or 9 percent. The surge in 2008 was attributable to a 43 percent increase in the annual average price per barrel of petroleum, to $95.54. The average number of barrels imported daily decreased for the third consecutive year.

Nonpetroleum industrial supplies and materials increased $20.6 billion, or 7 percent, after an increase of $8.3 billion, or 3 percent. The pickup largely resulted from a much stronger increase in chemicals in 2008 than in 2007, and to a lesser extent, an upturn in iron and steel products and a pickup in steelmaking materials. The increases in these products partly reflected increases in their prices.

Capital goods increased $9.4 billion, or 2 percent, after an increase of $26.2 billion, or 6 percent. After

Annual Revision of the U.S. International Accounts

The annual revision of the U.S. international accounts to be released in June 2009 will introduce several improvements. BEA will incorporate results from the U.S. Treasury Department's annual survey of Foreign Portfolio Investment in the United States for June 2008 and its annual survey of U.S. Portfolio Investment Abroad for December 2008.

BEA will also introduce a new treatment of disaster-related insurance transactions that is consistent with the new treatment that will be introduced in the forthcoming comprehensive revision of the national income and product accounts. The treatment of disasters will be changed to better reflect the distinctions among current transactions, capital transactions, and events that directly affect balance sheets and to bring both the national and international accounts into alignment with recent changes in international standards. As part of this new treatment, BEA will record certain international insurance transactions in the capital account rather than as a component of unilateral transfers in the current account.

growing strongly from 2004 to 2006, capital goods grew less strongly in 2007 and slowed further in 2008. Computers, peripherals, and parts decreased $4.3 billion in 2008, the first decrease in 7 years. Civilian aircraft, engines, and parts increased much less strongly in 2008 after a surge in 2007.

Foods, feeds, and beverages increased $7.3 billion, or 9 percent, after an increase of $6.7 billion, or 9 percent. Import prices of food products increased 12 percent after an increase of 8 percent.

Consumer goods increased $6.7 billion, or 1 percent, after an increase of $32.4 billion, or 7 percent. The marked deceleration, following 6 years of strong growth, was largely attributable to a slowdown in durable goods.

Automotive vehicles, parts, and engines decreased $25.4 billion, or 10 percent, after an increase of $2.3 billion, or 1 percent. After slowing substantially in 2007 as U.S. domestic sales of motor vehicles weakened, imports of automotive products fell sharply in 2008 as U.S. motor vehicles sales plummeted.

Balances by area. The deficit with Asia and Pacific except China decreased $23.8 billion, to $129.9 billion, in 2008 after a decrease of $23.0 billion in 2007 (table E). The deficit with Latin America and Other Western Hemisphere decreased $15.7 billion, to $89.6 billion, after a decrease of $7.3 billion. The deficit with Europe decreased $13.6 billion, to $116.7 billion, after a decrease of $12.2 billion. In contrast to these decreases, the deficit with the Middle East increased $22.2 billion, to $56.0 billion, after a decrease of $2.4 billion. The deficit with Africa increased $16.2 billion, to $85.3 billion, after an increase of $6.8 billion. The deficit with China increased $10.1 billion, to $266.7 billion, after an increase of $23.5 billion.

Services

The surplus on services increased to $139.7 billion in 2008 from $119.1 billion in 2007 (table D). The surplus has increased strongly since falling to a low of

Table E. U.S. Trade in Goods by Major End-Use Category for Selected Areas and Countries

[Balance of payments basis, millions of dollars]

	Europe			United Kingdom			Germany			Latin America and Other Western Hemisphere			Mexico		
	2006	2007	2008 p	2006	2007	2008 p	2006	2007	2008 p	2006	2007	2008 p	2006	2007	2008 p
Exports	**241,274**	**280,845**	**324,405**	**44,215**	**48,733**	**52,815**	**40,743**	**49,025**	**54,303**	**222,298**	**243,063**	**289,000**	**133,892**	**135,962**	**151,424**
Agricultural products	9,890	12,458	14,773	1,289	1,385	1,409	1,078	1,417	1,917	17,353	21,295	28,350	10,942	12,793	16,220
Nonagricultural products	231,384	268,387	309,632	42,926	47,348	51,406	39,665	47,608	52,386	204,945	221,768	260,650	122,950	123,169	135,204
Foods, feeds, and beverages	8,575	10,778	13,115	1,248	1,383	1,407	1,000	1,349	1,821	15,657	19,303	25,714	9,947	11,622	14,629
Industrial supplies and materials	62,417	73,858	95,549	11,632	12,978	14,997	7,625	8,780	9,868	75,831	84,710	106,228	45,038	46,890	54,710
Capital goods, except automotive	101,987	113,266	120,597	17,985	19,034	19,543	19,188	21,563	21,804	80,205	84,231	97,484	46,761	43,331	46,406
Automotive vehicles, parts, and engines	15,461	20,294	22,474	1,952	2,403	2,172	6,780	8,800	10,306	21,040	23,594	24,068	16,956	18,563	18,752
Consumer goods (nonfood), except automotive	45,739	54,077	61,430	9,831	11,101	11,903	4,965	7,236	8,847	21,296	22,070	24,634	10,600	10,760	11,749
Exports, n.e.c.	7,095	8,572	11,240	1,567	1,834	2,793	1,185	1,297	1,657	8,269	9,155	10,872	4,590	4,796	5,178
Imports	**383,812**	**411,179**	**441,111**	**53,187**	**56,367**	**57,920**	**89,237**	**94,280**	**97,666**	**334,876**	**348,378**	**378,636**	**201,195**	**213,552**	**218,678**
Petroleum and products	40,991	43,997	58,540	6,872	7,753	8,494	1,852	2,202	2,069	91,585	94,914	123,815	33,502	33,726	41,746
Nonpetroleum products	342,821	367,182	382,571	46,315	48,614	49,426	87,385	92,078	95,597	243,291	253,464	254,821	167,693	179,826	176,932
Foods, feeds, and beverages	18,535	20,190	20,351	1,673	1,883	1,891	1,056	1,153	1,245	22,676	24,509	26,121	10,297	11,166	11,848
Industrial supplies and materials	107,310	114,108	133,687	14,440	15,847	16,709	15,416	16,372	17,065	141,772	144,531	177,117	50,858	51,949	60,977
Capital goods, except automotive	100,180	107,458	114,002	14,753	14,851	14,738	29,991	32,422	34,967	50,745	54,949	55,216	43,553	47,028	46,328
Automotive vehicles, parts, and engines	45,494	46,448	42,617	6,258	5,378	5,159	26,706	26,071	25,978	54,454	55,510	50,962	50,890	52,553	48,231
Consumer goods (nonfood), except automotive	95,539	104,657	110,063	12,643	14,530	15,742	12,447	14,413	14,745	54,124	57,631	57,240	37,438	42,189	42,691
Imports, n.e.c., and U.S. goods returned	16,754	18,318	20,391	3,420	3,878	3,681	3,621	3,849	3,666	11,105	11,248	11,980	8,159	8,667	8,603
Balance	**–142,538**	**–130,334**	**–116,706**	**–8,971**	**–7,634**	**–5,105**	**–48,494**	**–45,255**	**–43,363**	**–112,579**	**–105,316**	**–89,636**	**–67,302**	**–77,589**	**–67,254**

	Canada			Asia and Pacific, excluding China			China			Japan			Hong Kong, Republic of Korea, Singapore, Taiwan		
	2006	2007	2008 p	2006	2007	2008 p	2006	2007	2008 p	2006	2007	2008 p	2006	2007	2008 p
Exports	**230,983**	**249,712**	**261,837**	**219,494**	**243,175**	**261,408**	**55,038**	**65,073**	**71,289**	**57,593**	**60,898**	**65,348**	**96,067**	**105,568**	**109,518**
Agricultural products	13,599	16,231	18,507	19,908	25,154	33,494	6,714	8,310	12,173	8,509	10,255	13,381	6,635	8,189	11,216
Nonagricultural products	217,384	233,481	243,330	199,586	218,021	227,914	48,324	56,763	59,116	49,084	50,643	51,967	89,432	97,379	98,302
Foods, feeds, and beverages	13,722	16,270	18,386	18,738	23,270	31,193	4,098	6,321	9,875	8,994	10,569	13,703	5,835	7,281	10,290
Industrial supplies and materials	61,248	66,940	77,348	48,206	56,886	68,341	21,278	24,644	26,940	13,425	15,141	16,898	22,354	25,938	28,952
Capital goods, except automotive	64,726	66,725	69,308	117,660	124,893	119,488	25,710	29,198	29,158	23,929	24,001	22,544	54,725	58,067	54,770
Automotive vehicles, parts, and engines	56,756	60,095	52,880	5,697	6,707	6,859	1,439	1,990	2,037	2,259	2,292	2,165	1,363	1,517	1,630
Consumer goods (nonfood), except automotive	29,404	33,185	34,835	22,484	24,857	26,520	2,160	2,508	2,777	7,819	7,684	7,739	8,463	9,747	10,395
Exports, n.e.c	5,127	6,497	9,080	6,709	6,562	9,007	353	412	502	1,167	1,211	2,299	3,327	3,018	3,481
Imports	**306,066**	**320,323**	**338,544**	**396,172**	**396,877**	**391,293**	**288,126**	**321,685**	**337,970**	**148,560**	**146,037**	**139,677**	**110,097**	**111,549**	**106,977**
Petroleum and products	46,954	54,462	82,109	8,246	10,465	8,064	927	1,230	841	927	1,230	537	3,944	5,505	3,232
Nonpetroleum products	259,112	265,861	256,435	387,926	386,412	383,229	287,199	320,455	337,129	147,633	144,807	139,140	106,153	106,044	103,745
Foods, feeds, and beverages	15,034	16,644	19,080	13,431	14,411	16,497	3,752	4,426	5,134	539	573	667	731	763	881
Industrial supplies and materials	147,293	157,382	188,486	53,395	54,326	55,657	28,412	29,552	35,193	15,013	15,182	14,876	19,349	19,674	18,049
Capital goods, except automotive	35,338	38,100	37,145	137,794	135,174	132,138	89,168	103,271	109,992	51,659	49,927	49,824	40,977	41,213	39,745
Automotive vehicles, parts, and engines	70,281	69,129	54,488	78,164	77,720	73,796	7,342	9,040	9,166	60,145	59,253	55,421	14,817	14,819	13,847
Consumer goods (nonfood), except automotive	20,386	21,488	21,516	101,554	103,780	101,730	156,043	171,552	174,450	16,662	16,832	15,232	29,807	30,660	29,484
Imports, n.e.c., and U.S. goods returned	17,734	17,580	17,829	11,834	11,466	11,475	3,409	3,844	4,035	4,542	4,270	3,657	4,416	4,420	4,971
Balance	**–75,083**	**–70,611**	**–76,707**	**–176,679**	**–153,703**	**–129,884**	**–233,087**	**–256,611**	**–266,681**	**–90,967**	**–85,139**	**–74,330**	**–14,030**	**–5,981**	**2,541**

p Preliminary
n.e.c. Not elsewhere classified

$54.0 billion in 2003. Services receipts increased $47.2 billion, or 9 percent, to $544.4 billion, after an increase of $63.3 billion, or 15 percent, in 2007. Services payments increased $26.6 billion, or 7 percent, to $404.7 billion after an increase of $29.2 billion, or 8 percent.

Travel receipts increased $13.8 billion, or 14 percent, after an increase of $11.0 billion, or 13 percent. Receipts increased strongly for the second consecutive year, as the number of foreign visitors to the United States and their expenditures were boosted by the depreciation of the dollar against many foreign currencies and the growth in global economic activity through the first half of 2008. However, the dollar appreciated and economic activity slowed towards the end of 2008, and travel receipts fell sharply in the fourth quarter. Travel payments increased $3.8 billion, or 5 percent, after an increase of $4.1 billion, or 6 percent.

Passenger fare receipts increased $6.1 billion, or 24 percent, after an increase of $3.6 billion, or 16 percent. The strong increases partly reflected the higher number of foreign visitors to the United States. Passenger fare payments increased $3.9 billion, or 14 percent, after an increase of $1.0 billion, or 4 percent.

"Other" transportation receipts increased $7.8 billion, or 15 percent, after an increase of $5.3 billion, or 11 percent. The increase in 2008 mostly resulted from a strong rise in port services receipts, which were boosted by increases in foreign air and ocean carriers' expenditures for fuel in U.S. ports. Freight receipts also rose substantially, partly reflecting the strong growth in U.S. goods exports in the first half of the year. "Other" transportation payments increased $4.8 billion, or 7 percent, after an increase of $1.8 billion, or 3 percent. The increase in 2008 was more than accounted for by a strong rise in port services payments, which were boosted by an increase in U.S. air carriers' expenditures for fuel in foreign ports.

"Other" private services receipts increased $14.9 billion, or 7 percent, after an increase of $34.4 billion, or 18 percent. The slowdown mostly resulted from a slight decrease in receipts for financial services after a very strong increase and a much smaller increase in receipts for business, professional, and technical services. "Other" private services payments increased $8.7 billion, or 6 percent, after an increase of $19.2 billion, or 15 percent. The slowdown was mostly attributable to a slight decrease in payments for financial services after a very strong increase and a much smaller increase in payments for insurance services.

Income

The surplus on income increased to $127.6 billion in 2008 from $81.7 billion in 2007 (table D). Income receipts decreased $62.3 billion, or 8 percent, to $755.5 billion, in contrast to an increase of $132.6 billion, or 19 percent. Income payments decreased $108.1 billion, or 15 percent, to $627.9 billion, in contrast to an increase of $108.1 billion, or 17 percent.

Receipts of income on U.S. direct investment abroad increased $3.0 billion, or 1 percent, after an increase of $39.7 billion, or 12 percent. The slowdown largely resulted from a sharp drop in earnings in the fourth quarter.

Payments of income on foreign direct investment in the United States decreased $31.0 billion, or 23 percent, after a decrease of $10.0 billion, or 7 percent. Earnings fell 29 percent after a decrease of 13 percent.

Both receipts and payments of "other" private income decreased substantially in 2008, in contrast to substantial increases in 2007. The decreases mostly resulted from very large decreases in interest receipts and payments on bank- and nonbank-reported claims and liabilities as a result of a sharp decline in short-term interest rates. "Other" private income receipts decreased $68.1 billion, or 15 percent, after an increase of $93.0 billion, or 26 percent. "Other" private income payments decreased $79.6 billion, or 19 percent, after an increase of $87.4 billion, or 26 percent.

Receipts of income on U.S. government assets increased $2.7 billion, or 120 percent, mostly as a result of income earned on temporary reciprocal currency swaps between the U.S. Federal Reserve and foreign central banks. Payments of income on U.S. government liabilities increased $2.2 billion, or 1 percent.

Unilateral current transfers

Net unilateral current transfers to foreigners were $119.7 billion in 2008, up from $112.7 billion in 2007. Private remittances and other transfers to foreigners increased $5.1 billion to $77.3 billion, and U.S. government grants increased $1.4 billion to $34.6 billion.

Financial Account, 2008

U.S.-owned assets abroad

U.S. official reserve assets. U.S. official reserve assets increased $4.8 billion in 2008 after a $0.1 billion increase in 2007 (table F). The increase in 2008 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 $529.5 billion after an increase of $22.3 billion. The unprecedented size of the increase in 2008 resulted from drawings on temporary reciprocal currency arrangements between the U.S. Federal Reserve and foreign central banks.

Claims reported by banks and by nonbanks. U.S. claims reported by U.S. banks and securities brokers decreased $425.0 billion, in sharp contrast to an increase of $644.8 billion. Claims had increased strongly from 2004 to mid-2007 as a result of lending to support expanding foreign economic activity, syndicated lending, mergers and acquisitions, and investments in capital markets by leveraged investors. Starting in the third quarter of 2007, lending became increasingly driven by heightened pressures in short-term funding markets worldwide and the deleveraging of balance sheets by financial institutions and investors. Claims decreased in each of the last three quarters of 2008, and the decrease in the fourth quarter was particularly large. The decreases in claims in the last three quarters mostly resulted from large reductions in claims of foreign-owned banks and securities brokers in the United States. Claims of U.S.-owned brokers also fell sharply in the fourth quarter.

U.S. claims reported by U.S. nonbanking concerns decreased $283.8 billion after an increase of $0.7 billion. The decrease reflected a very large decline in nonbanking concerns' dollar deposits in banks abroad.

Foreign securities. Net U.S. sales of foreign bonds were $84.7 billion, a shift from net U.S. purchases of $170.7 billion. Weak net purchases in the first two quarters of 2008 were followed by very large net sales in the third quarter and considerable net sales in the fourth quarter, as foreign corporate bond prices fell sharply from mid-September to late November and spreads rose sharply.

Net U.S. sales of foreign stocks were $6.3 billion, a shift from net U.S. purchases of $118.0 billion. Moderate net purchases in the first two quarters of 2008 were followed by net sales in the third quarter and strong net sales in the fourth quarter, when foreign stock prices fell sharply.

Direct investment. U.S. direct investment abroad was $317.8 billion, down from $333.3 billion. The decline partly resulted from a decrease in reinvested earnings, reflecting a much larger increase in distributed earnings than in total earnings. In addition, net equity capital investment abroad slowed but remained strong. These changes were partly offset by a smaller decrease in net intercompany debt investment abroad in 2008 than in 2007.

Foreign-owned assets in the United States

Foreign official assets. Foreign official assets in the United States increased $421.4 billion in 2008 after an increase of $411.1 billion in 2007 (table G). Foreign official assets increased strongly in the first two quarters of 2008. However, they increased a smaller amount in the third quarter, and they decreased in the fourth quarter for the first time in 7½ years.

Liabilities reported by banks and nonbanks. U.S. liabilities reported by U.S. banks and securities brokers decreased $337.3 billion in sharp contrast to an increase of $532.8 billion. The heightened pressures in short-term funding markets worldwide and the deleveraging of balance sheets noted in the discussion of U.S. claims reported by banks and brokers contributed substantially to the decrease in the U.S. liabilities.

Table F. U.S.-Owned Assets Abroad, Excluding Financial Derivatives

[Billions of dollars]

(Increase in U.S.-owned assets (–), decrease in U.S.-owned assets (+))	2006	2007	2008 p	Change from preceding year	
				2007	2008 p
U.S.-owned assets, total	**–1,251.7**	**–1,289.9**	**–52.5**	**–38.1**	**1,237.4**
U.S. official reserve assets	**2.4**	**–0.1**	**–4.8**	**–2.5**	**–4.7**
U.S. government assets, other than official reserve assets	**5.3**	**–22.3**	**–529.5**	**–27.6**	**–507.2**
U.S. private assets	**–1,259.5**	**–1,267.5**	**481.9**	**–8.0**	**1,749.4**
Direct investment	**–241.2**	**–333.3**	**–317.8**	**–92.0**	**15.4**
Equity capital	–32.3	–88.0	–81.4	–55.7	6.6
Reinvested earnings	–231.6	–263.3	–246.2	–31.7	17.1
Intercompany debt	22.6	18.0	9.8	–4.6	–8.2
Foreign securities	**–365.2**	**–288.7**	**91.0**	**76.5**	**379.7**
Stocks	–137.4	–118.0	6.3	19.4	124.3
Bonds	–227.8	–170.7	84.7	57.1	255.4
U.S. nonbank-reported claims	**–164.6**	**–0.7**	**283.8**	**163.9**	**284.5**
U.S. bank-reported claims	**–488.4**	**–644.8**	**425.0**	**–156.3**	**1,069.8**
For own accounts	–335.1	–523.3	337.8	–188.2	861.1
Denominated in dollars	–312.0	–496.8	354.0	–184.7	850.8
For customers' accounts	–153.3	–121.5	87.2	31.9	208.7
Denominated in dollars	–151.6	–118.1	84.5	33.4	202.6

p Preliminary

Table G. Foreign-Owned Assets in the United States, Excluding Financial Derivatives

[Billions of dollars]

(Increase in foreign-owned assets (+), decrease in foreign-owned assets (–))	2006	2007	2008 p	Change from preceding year	
				2007	2008 p
Foreign-owned assets, total	**2,061.1**	**2,057.7**	**599.0**	**–3.4**	**–1,458.7**
Foreign official assets	**487.9**	**411.1**	**421.4**	**–76.9**	**10.3**
U.S. government securities	428.4	230.3	508.1	–198.1	277.7
U.S. Treasury securities	208.6	58.9	442.2	–149.7	383.4
Other	219.8	171.5	65.8	–48.4	–105.6
Other U.S. government liabilities	2.8	5.3	8.6	2.5	3.3
U.S. bank-reported liabilities	22.4	108.7	–153.7	86.3	–262.4
Other foreign official assets	34.4	66.7	58.3	32.3	–8.4
Other foreign assets	**1,573.2**	**1,646.6**	**177.7**	**73.5**	**–1,469.0**
Direct investment	**242.0**	**237.5**	**325.3**	**–4.4**	**87.7**
Equity capital	117.8	147.4	233.6	29.7	86.2
Reinvested earnings	68.8	68.5	42.2	–0.3	–26.3
Intercompany debt	55.3	21.6	49.4	–33.8	27.9
U.S. Treasury securities	**–58.2**	**156.8**	**307.6**	**215.0**	**150.8**
U.S. securities other than U.S. Treasury securities	**683.4**	**573.9**	**–123.6**	**–109.5**	**–697.4**
Stocks	139.8	182.4	6.9	42.6	–175.5
Corporate bonds	517.8	372.1	0.6	–145.7	–371.5
Federally sponsored agency bonds	25.8	19.4	–131.0	–6.4	–150.4
U.S. currency	**2.2**	**–10.7**	**35.0**	**–12.9**	**45.7**
U.S. nonbank-reported liabilities	**242.7**	**156.3**	**–29.3**	**–86.4**	**–185.6**
U.S. bank-reported liabilities	**461.1**	**532.8**	**–337.3**	**71.7**	**–870.2**
For own accounts	301.2	444.0	–267.0	142.8	–711.0
Denominated in dollars	259.7	370.4	–266.2	110.7	–636.6
For customers' accounts	159.9	88.8	–70.3	–71.1	–159.1
Denominated in dollars	157.4	89.8	–61.1	–67.6	–150.8

p Preliminary

U.S. liabilities reported by U.S. nonbanking concerns decreased $29.3 billion after an increase of $156.3 billion.

U.S. Treasury securities. Net private foreign purchases of U.S. Treasury securities were $307.6 billion, up from $156.8 billion. The strong pickup resulted from substantial net foreign purchases in every quarter, but net purchases in the last two quarters of 2008 were particularly strong. Net foreign purchases of short-term U.S. Treasury securities, which are among the lowest risk assets, were $182.1 billion in 2008, more than six times the next largest net purchases of $28.9 billion in 2007.

Other U.S. securities. Net foreign purchases of U.S. corporate bonds were $0.6 billion, down sharply from $372.1 billion. In recent years through the first half of 2007, foreign investors had large net purchases of corporate bonds. In sharp contrast, foreign investors had net sales in three of the four quarters in 2008. Corporate bond markets remained under pressure in the first half of 2008, and conditions worsened considerably starting in mid-September, as spreads on most credit instruments rose sharply to record levels.

Net foreign purchases of U.S. stocks were $6.9 billion, down sharply from $182.4 billion. Foreign investors had net sales or small net purchases in the four quarters of 2008. The Standard and Poor's 500 stock price index declined 38 percent in 2008, mostly as a result of a sharp drop from mid-September to late November.

Net foreign sales of U.S. federally sponsored agency bonds were $131.0 billion, a shift from net foreign purchases of $19.4 billion. Foreign investors had net sales in all four quarters of 2008, but net sales were largest in the third quarter, when concerns about the financial soundness of two large government-sponsored housing agencies prompted the U.S. government to place the two agencies into conservatorship.

Direct investment. Foreign direct investment in the United States was $325.3 billion, up from $237.5 billion. The pickup mostly resulted from a substantial strengthening in net equity capital investment in the United States, mainly as a result of foreign acquisitions of U.S. companies. Net intercompany debt investment in the United States also picked up. The pickups were partly offset by a slowdown in reinvested earnings.

Tables 1 through 12 follow.