An Ownership-Based Framework of the U.S. Current Account, 1997–2006

The Bureau of Economic Analysis (BEA) annually updates its supplemental, ownership-based framework of the current-account portion of the U.S. international transactions accounts. This report presents new summary statistics of the major current-account aggregates for 2006, more detailed statistics for 2005, and revised statistics for 1997–2004.[1] A technical note that presents information on the conceptual basis of the ownership-based framework follows the highlights of this presentation.[2]

The following are highlights of the updated statistics:

- Net receipts by U.S. parents of direct investment income from the sales by their foreign affiliates were $310.2 billion in 2006, up from $269.3 billion in 2005 (table 1). Net payments to foreign parents of direct investment income from the sales by their U.S. affiliates were $136.0 billion in 2006, up from $116.8 billion in 2005.
- In 2005 (the latest year for which the detailed statistics are available), the net receipts of $269.3 billion consisted of $269.1 billion from nonbank foreign affiliates and $0.2 billion from bank foreign affiliates. For the parents of nonbank affiliates, the net receipts resulted from sales by foreign affiliates of $4,224.7 billion less deductions of $3,955.6 billion (such as for labor, capital, and purchased inputs).[3] The net payments of $116.8 billion consisted of $112.4 billion by nonbank U.S. affiliates and $4.4 billion by bank U.S. affiliates. For nonbank U.S. affiliates, the net payments resulted from sales of $2,755.9 billion less deductions of $2,643.5 billion.
- In 2006, receipts from exports of goods and services or sales by foreign affiliates were $1,755.9 billion, which consisted of U.S. exports of goods and services of $1,445.7 billion and net income receipts of U.S. parents from the sales by their foreign affiliates of $310.2 billion. Payments from imports of goods and services or sales by U.S. affiliates were $2,340.2 billion, which consisted of U.S. imports of goods and services of $2,204.2 billion and net income payments to foreign parents from the sales by their U.S. affiliates of $136.0 billion.
- The resulting U.S. deficit on goods, services, and net receipts from sales by affiliates was $584.3 billion in 2006 ($1,755.9 billion minus $2,340.2 billion). This deficit was $174.2 billion less than the $758.5 billion deficit on trade in goods and services in the conventional international accounts framework. The ownership-based deficit was smaller because the receipts of income by U.S. parents from sales by their foreign affiliates exceeded the payments of income to foreign parents from sales by their U.S. affiliates.
- The $584.3 billion deficit on goods, services, and net receipts from sales by affiliates in 2006 was $22.4 billion more than the deficit in 2005. The increase was more than accounted for by a $44.2 billion increase in the deficit on trade in goods and services.

The updated statistics incorporate the results of the 2007 annual revision of the U.S. international transactions accounts that features improved estimating methodologies, the incorporation of newly available source data, and the expansion of detail presented in the tables.[4] As part of the annual revision, a new methodology was introduced for estimating interest received and paid on long-term debt securities for 2001–2006. In addition, the 2005–2006 statistics on foreign holdings of, and transactions in, U.S. securities and on U.S. holdings of, and transactions in, foreign securities and related dividend and interest payments and receipts were improved as a result of the incorporation of the results of the U.S. Treasury Department's most recent annual surveys of securities liabilities and securities claims. The statistics also incorporate the preliminary results from the 2005 annual surveys of U.S. direct investment abroad and foreign direct investment in the United States and the final results from the 2004 benchmark survey of U.S. direct investment abroad and the 2004 annual survey of foreign direct investment in the United States. Finally, the statistical adjustment for revaluing some goods imports of computer software was updated for 1997–2006.

1. The estimates for 1982–2006 are available on BEA's Web site at <www.bea.gov>. Under "International," click on "Operations of Multinational Companies," and then look under "Supplemental Estimates" for "Ownership-Based Framework of the U.S. Current Account."

2. For additional information on the sources and methods used to prepare the supplemental estimates, see Obie G. Whichard and Jeffrey H. Lowe, "An Ownership-Based Disaggregation of the U.S. Current Account, 1982–93," Survey of Current Business 75 (October 1995): 52–61. For a general review of the issues relating to ownership relationships in international transactions, see J. Steven Landefeld, Obie G. Whichard, and Jeffrey H. Lowe, "Alternative Frameworks for U.S. International Transactions," Survey 73 (December 1993): 50–61.

3. These detailed estimates can only be provided for nonbank affiliates.

4. For more information on these changes and other revisions to the U.S. international accounts, see Christopher L. Bach, "Annual Revision of the U.S. International Accounts, 1997–2006," Survey 87 (July 2007): 37–53.

Jeffrey H. Lowe prepared this report.

Technical Note

The ownership-based framework was developed in the early 1990s in response to interest in examining international transactions in a way that would reflect the increasing importance of multinational companies in world economies and, particularly, the growing tendency of these companies to use locally established affiliates to deliver goods and services to international markets.[5]

In the conventionally constructed current account, the trade balance reflects only the goods and services that are delivered to international markets through cross-border exports and imports. This balance is an important indicator of U.S. performance in foreign markets; it reflects the net value of the transactions in goods and services between U.S. residents (including companies) and foreign residents. Because in the international accounts, affiliates are treated as resident in their countries of location rather than in the countries of their owners, the sales of goods and services by foreign affiliates of U.S. companies to other foreign residents and by U.S. affiliates of foreign companies to other U.S. residents are not regarded as exports and imports and are therefore excluded from the trade balance.

In the ownership-based framework, a balance is introduced in which net receipts resulting from sales by affiliates are combined with cross-border exports and imports. Specifically, the net receipts that accrue to U.S. parent companies from the sales by their foreign affiliates are combined with cross-border sales to foreigners by U.S. companies (U.S. exports of goods and services), and the net payments that accrue to foreign parent companies from the sales by their U.S. affiliates are combined with cross-border sales to the United States by foreign companies (U.S. imports of goods and services). The difference between these receipts and payments is an indicator of the net effect of United States–foreign commerce on the U.S. economy, and it reflects the perspective that both cross-border trade and sales through affiliates represent methods of active participation in the international markets for goods and services.

Only the net receipts that accrue to the U.S. parent companies, not the gross value of sales by their foreign affiliates, are included in these calculations, because only for sales originating in the United States are most of the costs—such as for labor, capital, and purchased inputs—incurred domestically and accrued to the benefit of the U.S. economy. Similarly, only the net payments that accrue to foreign parent companies, not the gross value of sales by their U.S. affiliates, are included, because only for sales originating abroad are most of the costs incurred abroad and accrued to the benefit of foreign economies. This methodology also eliminates the double-counting that would occur if both the total value of the sales by parents to their affiliates and the subsequent sales by the affiliates to others were included.

Conceptually, the ownership-based framework is fully consistent with the current account in the conventional international transactions accounts, and it can be viewed as a "satellite" of those accounts.[6] (The current-account balance is the same in both sets of accounts.) The grouping of the income from affiliates with cross-border trade in goods and services recognizes the active role of parent companies in managing and coordinating their affiliates' operations. This direct investment income from affiliates differs fundamentally from income on other types of investments. For example, for U.S. direct investment abroad, direct investment income represents U.S. companies' returns on sales that for reasons such as efficiency, transportation costs, or the avoidance of trade barriers are made by affiliates in foreign countries rather than by U.S. parent companies; other investment income represents returns on passive investments, such as on foreign stocks and bonds.[7] Indeed, in many cases, a portion of the income from affiliates may be regarded as a kind of implicit management fee that compensates parent companies for undertaking active roles in the operations of their affiliates.

In addition, the most detailed presentation of the framework provides information on ownership relationships by disaggregating the trade in goods and services into trade between affiliated parties (that is, trade within multinational corporations) and trade between unaffiliated parties. It also shows how receipts and payments of direct investment income are derived from the production and sales by affiliates. To highlight the links between the income and the activities that produce it, the income is designated as "resulting from sales by affiliates." In the addenda to table 1, the framework also provides information on the U.S. content and the foreign content of affiliates' sales and on the extent to which such content results from the affiliates' own value added.

5. Among those calling for more information on ownership was a National Academy of Sciences study panel. See Anne Y. Kester, ed., *Behind the Numbers: U.S. Trade in the World Economy*, National Research Council, Panel on Foreign Trade Statistics (Washington, DC: National Academy Press, 1992).

6. According to the international *System of National Accounts*, satellite accounts augment the central national accounts by "expanding the analytical capacity of national accounting for selected areas. . .in a flexible manner, without overburdening or disrupting the central system"; they may introduce additional information, alternative accounting frameworks, or "complementary or alternative concepts," while maintaining links to the central accounts. See Commission of the European Communities, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations, and World Bank, *System of National Accounts, 1993* (Brussels/Luxembourg, New York, Paris, and Washington, DC, 1993): 489.

7. Direct investment income consists of net receipts of earnings and of interest by parents from their affiliates.

Table 1 follows.

Table 1. Ownership-Based Framework of the U.S. Current Account, 1997–2006

[Billions of dollars]

Line		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 [1]
1	**Exports of goods and services and income receipts (ITA table 1, line 1)**	**1,191.3**	**1,195.0**	**1,259.8**	**1,421.5**	**1,295.7**	**1,255.9**	**1,338.3**	**1,559.2**	**1,788.6**	**2,096.2**
2	**Receipts resulting from exports of goods and services or sales by foreign affiliates**	**1,049.8**	**1,037.1**	**1,097.5**	**1,222.4**	**1,133.6**	**1,120.3**	**1,204.2**	**1,396.3**	**1,552.4**	**1,755.9**
3	**Exports of goods and services, total (ITA table 1, line 2)**	**934.5**	**933.2**	**965.9**	**1,070.6**	**1,004.9**	**974.7**	**1,017.8**	**1,157.3**	**1,283.1**	**1,445.7**
3a	Goods, balance-of-payments basis (ITA table 1, line 3)	678.4	670.4	684.0	772.0	718.7	682.4	713.4	807.5	894.6	1,023.1
3b	Services (ITA table 1, line 4)	256.1	262.8	281.9	298.6	286.2	292.3	304.3	349.7	388.4	422.6
4	To unaffiliated foreigners	633.5	645.1	675.6	756.2	702.6	681.8	707.3	820.7	916.4	....
4a	Goods	428.8	436.5	455.2	523.0	482.6	462.8	481.5	556.8	621.9	....
4b	Services	204.7	208.6	220.4	233.2	220.0	219.0	225.8	263.9	294.4	....
5	To affiliated foreigners	300.9	288.1	290.3	314.4	302.3	292.9	310.5	336.5	366.7	....
5a	Goods	249.6	233.9	228.8	248.9	236.1	219.6	232.0	250.7	272.7	....
5b	Services	51.4	54.2	61.5	65.4	66.2	73.3	78.5	85.8	94.0	....
6	To foreign affiliates of U.S. parents	226.9	218.8	218.7	234.1	221.7	204.9	215.3	235.1	258.2	....
6a	Goods	186.5	176.3	168.9	182.7	170.2	150.6	156.6	170.6	188.6	....
6b	Services	40.4	42.5	49.8	51.4	51.5	54.3	58.6	64.5	69.6	....
7	To foreign parent groups of U.S. affiliates	74.0	69.2	71.6	80.3	80.6	88.0	95.2	101.4	108.6	....
7a	Goods	63.0	57.6	59.9	66.2	65.9	69.0	75.3	80.1	84.2	....
7b	Services	11.0	11.7	11.7	14.1	14.7	19.0	19.9	21.3	24.4	....
8	**Net receipts by U.S. parents of direct investment income resulting from sales by their foreign affiliates (ITA table 1, line 14)**	**115.3**	**104.0**	**131.6**	**151.8**	**128.7**	**145.6**	**186.4**	**239.0**	**269.3**	**310.2**
9	Nonbank affiliates	112.0	103.2	130.7	149.6	126.3	144.2	184.1	238.2	269.1	311.1
10	Sales by foreign affiliates	2,350.9	2,370.0	2,611.8	2,905.5	2,945.9	2,945.7	3,319.5	3,841.4	4,224.7	....
11	*Less*: Foreign affiliates' purchases of goods and services directly from the United States	260.9	248.9	246.3	260.7	249.5	232.8	242.6	260.2	287.8	....
12	*Less*: Costs and profits accruing to foreign persons	1,556.0	1,601.2	1,787.3	1,989.1	2,055.2	2,038.7	2,246.3	2,563.0	2,800.5	....
13	Compensation of employees of foreign affiliates	261.4	263.6	295.3	310.8	309.7	311.4	338.1	378.6	391.8	....
14	Other	1,294.6	1,337.6	1,492.0	1,678.4	1,745.6	1,727.3	1,908.2	2,184.4	2,408.7	....
15	*Less*: Sales by foreign affiliates to other foreign affiliates of the same parent	422.0	416.6	447.5	506.1	514.8	530.0	646.4	780.0	867.2	....
16	Bank affiliates	3.3	0.7	1.0	2.2	2.3	1.3	2.3	0.8	0.2	–0.8
17	**Other income receipts**	**141.5**	**157.9**	**162.3**	**199.1**	**162.1**	**135.6**	**134.2**	**162.9**	**236.1**	**340.2**
18	Other private receipts on U.S.-owned assets abroad (ITA table 1, line 15)	135.7	151.8	156.4	192.4	155.7	129.5	126.6	157.1	230.5	335.0
19	U.S. government receipts (ITA table 1, line 16)	3.6	3.6	3.2	3.8	3.6	3.3	4.7	3.0	2.7	2.4
20	Compensation of employees (ITA table 1, line 17)	2.3	2.4	2.7	2.8	2.9	2.8	2.8	2.8	2.9	2.9
21	**Imports of goods and services and income payments (ITA table 1, line 18)**	**1,286.9**	**1,356.9**	**1,511.0**	**1,780.3**	**1,629.1**	**1,652.0**	**1,789.8**	**2,114.9**	**2,454.9**	**2,818.0**
22	**Payments resulting from imports of goods and services or sales by U.S. affiliates**	**1,085.7**	**1,137.7**	**1,284.4**	**1,507.3**	**1,382.8**	**1,441.7**	**1,588.4**	**1,868.9**	**2,114.3**	**2,340.2**
23	**Imports of goods and services, total (ITA table 1, line 19)**	**1,042.7**	**1,099.3**	**1,231.0**	**1,450.4**	**1,370.0**	**1,398.4**	**1,514.7**	**1,769.3**	**1,997.4**	**2,204.2**
23a	Goods, balance-of-payments basis (ITA table 1, line 20)	876.8	918.6	1,031.8	1,226.7	1,148.2	1,167.4	1,264.3	1,477.1	1,681.8	1,861.4
23b	Services (ITA table 1, line 21)	165.9	180.7	199.2	223.7	221.8	231.1	250.4	292.2	315.7	342.8
24	From unaffiliated foreigners	669.1	710.5	798.6	946.0	880.5	894.1	975.6	1,166.1	1,327.8	....
24a	Goods	527.0	557.1	634.9	761.9	699.6	707.6	771.9	925.6	1,072.4	....
24b	Services	142.1	153.4	163.7	184.0	180.9	186.5	203.7	240.5	255.4	....
25	From affiliated foreigners	373.6	388.8	432.3	504.5	489.5	504.3	539.1	603.3	669.6	....
25a	Goods	349.8	361.5	396.8	464.7	448.6	459.8	492.4	551.5	609.4	....
25b	Services	23.8	27.3	35.5	39.7	40.9	44.6	46.6	51.7	60.2	....
26	From foreign affiliates of U.S. parents	157.8	168.6	184.8	209.9	201.3	202.0	214.1	242.9	263.8	....
26a	Goods	147.5	156.4	167.0	191.2	182.2	182.0	192.6	218.8	237.8	....
26b	Services	10.4	12.2	17.8	18.7	19.1	19.9	21.5	24.0	26.0	....
27	From foreign parent groups of U.S. affiliates	215.8	220.2	247.6	294.6	288.3	302.4	324.9	360.4	405.8	....
27a	Goods	202.4	205.2	229.9	273.6	266.5	277.7	299.8	332.7	371.7	....
27b	Services	13.4	15.1	17.7	21.0	21.8	24.7	25.2	27.7	34.2	....
28	**Net payments to foreign parents of direct investment income resulting from sales by their U.S. affiliates (ITA table 1, line 31)**	**43.0**	**38.4**	**53.4**	**56.9**	**12.8**	**43.2**	**73.8**	**99.6**	**116.8**	**136.0**
29	Nonbank affiliates	39.3	35.8	50.5	53.3	10.8	41.7	71.6	94.9	112.4	128.2
30	Sales by U.S. affiliates	1,726.3	1,875.5	2,044.4	2,334.7	2,327.1	2,216.5	2,323.2	2,526.3	2,755.9	....
31	*Less*: U.S. affiliates' purchases of goods and services directly from abroad	278.4	307.1	342.7	393.1	369.6	372.8	393.3	437.5	501.8	....
32	*Less*: Costs and profits accruing to U.S. persons	1,408.7	1,532.5	1,651.2	1,888.2	1,946.7	1,802.1	1,858.2	1,993.9	2,141.7	....
33	Compensation of employees of U.S. affiliates	233.5	262.1	292.7	332.2	344.7	341.9	342.7	351.9	363.3	....
34	Other	1,175.2	1,270.4	1,358.5	1,556.1	1,601.9	1,460.2	1,515.5	1,642.0	1,778.4	....
35	*Less*: Sales by U.S. affiliates to other U.S. affiliates of the same parent [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
36	Bank affiliates	3.7	2.6	3.0	3.6	2.0	1.6	2.2	4.7	4.4	7.8
37	**Other income payments**	**201.2**	**219.1**	**226.6**	**273.0**	**246.3**	**210.3**	**201.4**	**246.0**	**340.6**	**477.8**
38	Other private payments on foreign-owned assets in the United States (ITA table 1, line 32)	112.9	128.0	138.1	180.9	159.8	127.0	119.1	154.5	227.4	334.6
39	U.S. government payments (ITA table 1, line 33)	81.7	84.2	80.5	84.5	78.4	74.9	73.8	82.5	103.9	133.8
40	Compensation of employees (ITA table 1, line 34)	6.7	7.0	8.0	7.5	8.1	8.4	8.5	9.0	9.3	9.4
41	**Unilateral current transfers, net (ITA table 1, line 35)**	**–45.1**	**–53.2**	**–50.4**	**–58.6**	**–51.3**	**–63.6**	**–70.6**	**–84.4**	**–88.5**	**–89.6**
	Memoranda:										
42	Balance on goods and services (line 3 minus line 23, and ITA table 1, line 74)	–108.3	–166.1	–265.1	–379.8	–365.1	–423.7	–496.9	–612.1	–714.4	–758.5
43	Balance on goods, services, and net receipts from sales by affiliates (line 2 minus line 22)	–35.9	–100.6	–186.9	–284.9	–249.2	–321.4	–384.2	–472.7	–561.9	–584.3
44	Balance on current account (line 1 minus line 21 plus line 41, and ITA table 1, line 77)	–140.7	–215.1	–301.6	–417.4	–384.7	–459.6	–522.1	–640.1	–754.8	–811.5
	Addenda:										
	Source of the content of foreign nonbank affiliates' sales and change in inventories:										
45	Sales to nonaffiliates and change in inventories, total (line 10 minus line 15 plus the change in inventories)	1,933.4	1,959.2	2,160.6	2,406.8	2,424.0	2,425.9	2,692.3	3,092.4	3,440.8	....
46	Foreign content	1,672.5	1,710.3	1,914.3	2,146.1	2,174.5	2,193.1	2,449.7	2,832.2	3,153.0	....
47	Value added by foreign affiliates of U.S. parents	620.8	608.5	666.7	702.9	683.4	704.5	808.4	948.9	1,008.9	....
48	Other foreign content [3]	1,051.7	1,101.8	1,247.7	1,443.1	1,491.1	1,488.6	1,641.3	1,883.3	2,144.1	....
49	U.S. content	260.9	248.9	246.3	260.7	249.5	232.8	242.6	260.2	287.8	....
	Source of the content of U.S. nonbank affiliates' sales and change in inventories: [4]										
50	Sales to nonaffiliates and change in inventories, total (line 30 minus line 35 plus the change in inventories)	1,730.8	1,887.2	2,056.1	2,349.9	2,318.9	2,214.5	2,326.1	2,543.4	2,771.3	....
51	U.S. content	1,452.4	1,580.1	1,713.4	1,956.7	1,949.3	1,841.7	1,932.7	2,105.9	2,269.5	....
52	Value added by U.S. affiliates of foreign parents	389.4	419.8	457.7	516.7	477.0	502.7	519.9	563.5	596.2	....
53	Other U.S. content [5]	1,063.0	1,160.3	1,255.7	1,440.1	1,472.3	1,339.0	1,412.8	1,542.4	1,673.3	....
54	Foreign content	278.4	307.1	342.7	393.1	369.6	372.8	393.3	437.5	501.8	....

n.a. Not available

1. The estimates in this column are from the international transactions accounts, which are published quarterly. Estimates are not yet available for the items from BEA's 2006 annual surveys of U.S. direct investment abroad and of foreign direct investment in the United States. The detailed preliminary estimates for 2006 will be published in the second half of 2008.

2. Conceptually, sales by U.S. affiliates to other U.S. affiliates of the same foreign parent should be subtracted, but data on these sales are unavailable. However, because U.S. affiliates are generally required to report to BEA on a fully consolidated basis, most of these sales are eliminated through consolidation, and the remaining amount is thought to be immaterial.

3. Line 48, other foreign content—which equals purchases from foreign persons by foreign affiliates—is overstated to the extent that it includes U.S. exports that are embodied in goods and services purchased by foreign affiliates from foreign suppliers.

4. In principle, the sales exclude the affiliates' sales to other affiliates of their parent. For U.S. affiliates, data on sales to other affiliates are unavailable, but these sales are thought to be immaterial. (See footnote 2.)

5. Line 53, other U.S. content—which equals purchases from U.S. persons by U.S. affiliates—is overstated to the extent that it includes U.S. imports that are embodied in goods and services purchased by U.S. affiliates from U.S. suppliers.

NOTE. Details may not add to totals because of rounding.

ITA International transactions accounts