

U.S. International Transactions in 2007

By Christopher L. Bach

THE U.S. current-account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—decreased to \$738.6 billion in 2007 from \$811.5 billion in 2006. The decrease—the first since 2001—was more than accounted for by increases in the surpluses on income and on services and a decrease in the deficit on goods. An increase in net unilateral current transfers to foreigners was partly offsetting (table A, chart 1).

Net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were \$657.4 billion in 2007, down from \$833.2 billion in 2006. Net acquisitions by U.S. residents increased much more than net acquisitions by foreign residents.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive \$83.6 billion in 2007, compared with a negative \$17.8 billion in 2006.

The following are highlights for 2007:

- The deficit on goods decreased slightly. Export growth remained high in response to relatively

strong real GDP growth in most advanced and developing economies and to the cumulative impact of dollar depreciation over the past 2 years. Import growth slowed substantially, largely because of a reduction in U.S. real GDP growth to 2.2 percent from 2.9 percent; the slowdown in imports was reflected in the smaller increases in both nonpetroleum and petroleum imports.

- The surplus on services increased a sizable amount. Services receipts accelerated, while services payments increased at the same pace as in 2006.
- The surplus on income doubled. The surplus on direct investment income increased substantially and the surplus on portfolio income increased moderately. The combined surpluses more than offset the increase in the deficit on U.S. government income.
- U.S.-owned assets abroad increased much more in 2007 than in 2006. Both U.S. claims reported by U.S. banks and U.S. direct investment abroad increased by much larger amounts than in 2006.

Table A. Summary of U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 11 are indicated in () (Credits +; debits -)	2006	2007 ^p	Change: 2006-2007	2006				2007				Change: 2007: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)	2,096,165	2,410,587	314,422	494,027	518,595	532,894	550,649	557,146	590,756	626,130	636,554	10,424
2	Goods, balance of payments basis (3).....	1,023,109	1,149,208	126,099	243,880	252,458	260,285	266,486	262,289	278,511	297,118	304,290	7,172
3	Services (4).....	422,594	479,150	56,556	101,756	104,117	105,583	111,137	111,706	116,851	122,583	128,009	5,426
4	Income receipts (12).....	650,462	782,229	131,767	148,391	162,020	167,026	173,025	176,151	195,394	206,428	204,256	-2,172
5	Imports of goods and services and income payments (18)	-2,818,047	-3,044,786	-226,739	-673,277	-700,504	-726,352	-717,914	-728,338	-757,645	-777,362	-781,438	-4,076
6	Goods, balance of payments basis (20).....	-1,861,380	-1,964,577	-103,197	-451,637	-463,734	-479,184	-466,825	-471,001	-483,570	-497,665	-512,341	-14,676
7	Services (21).....	-342,845	-372,296	-29,451	-83,711	-85,419	-85,991	-87,724	-88,614	-91,264	-94,606	-97,811	-3,205
8	Income payments (29).....	-613,823	-707,913	-94,090	-137,929	-151,352	-161,177	-163,365	-168,723	-182,811	-185,091	-171,287	13,804
9	Unilateral current transfers, net (35)	-89,595	-104,438	-14,843	-21,360	-23,686	-23,877	-20,673	-27,009	-23,169	-26,211	-28,052	-1,841
Capital account													
10	Capital account transactions, net (39)	-3,913	-2,317	1,596	-1,724	-1,008	-545	-637	-559	-598	-609	-552	57
Financial account													
11	U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (-)) (40)	-1,055,176	-1,206,332	-151,156	-344,032	-212,218	-209,898	-289,028	-449,933	-465,907	-174,027	-116,464	57,563
12	U.S. official reserve assets (41).....	2,374	-122	-2,496	513	-560	1,006	1,415	-72	26	-54	-22	32
13	U.S. government assets, other than official reserve assets (46).....	5,346	-22,931	-28,277	1,049	1,765	1,570	962	445	-369	623	-23,630	-24,253
14	U.S. private assets (50).....	-1,062,896	-1,183,278	-120,382	-345,594	-213,423	-212,474	-291,405	-450,306	-465,565	-174,596	-92,812	81,784
15	Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55)	1,859,597	1,863,697	4,100	538,140	355,442	449,987	516,029	617,724	622,851	276,555	346,567	70,012
16	Foreign official assets in the United States (56).....	440,264	412,698	-27,566	125,257	120,861	108,799	85,347	152,193	70,464	38,857	151,184	112,327
17	Other foreign assets in the United States (63).....	1,419,333	1,450,999	31,666	412,883	234,581	341,188	430,682	465,531	552,387	237,698	195,383	-42,315
18	Financial derivatives, net (70)	28,762	n.a.	-28,762	1,633	14,001	14,911	-1,783	14,800	-1,007	8,552	n.a.	-8,552
19	Statistical discrepancy (sum of above items with sign reversed) (71)	-17,794	83,590	101,384	6,593	49,378	-37,121	-36,643	16,170	34,719	66,972	-56,615	-123,587
Memoranda:													
20	Balance on current account (77).....	-811,477	-738,638	72,839	-200,611	-205,595	-217,334	-187,938	-198,201	-190,058	-177,444	-172,936	4,508
21	Net financial flows (40, 55, and 70).....	833,183	657,365	-175,818	195,741	157,225	255,000	225,218	182,591	155,937	111,080	230,103	119,023

^p Preliminary
^r Revised
n.a. Not available

These increases were partly offset by a small slow-down in net U.S. purchases of foreign securities and a sizable shift to a reduction in U.S. claims reported by U.S. nonbanking concerns.

- Foreign-owned assets in the United States increased slightly more in 2007 than in 2006. U.S. liabilities reported by U.S. banks and foreign direct investment in the United States increased by much larger amounts than in 2006. Net foreign purchases of U.S. securities other than U.S. Treasury securities slowed sharply, while net foreign transactions in U.S. Treas-

surey securities shifted to sizable net purchases. U.S. liabilities reported by U.S. nonbanks also slowed.

- In 2007, the U.S. dollar depreciated 6 percent on a trade-weighted yearly average basis against a group of seven major countries (table B, chart 2).

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

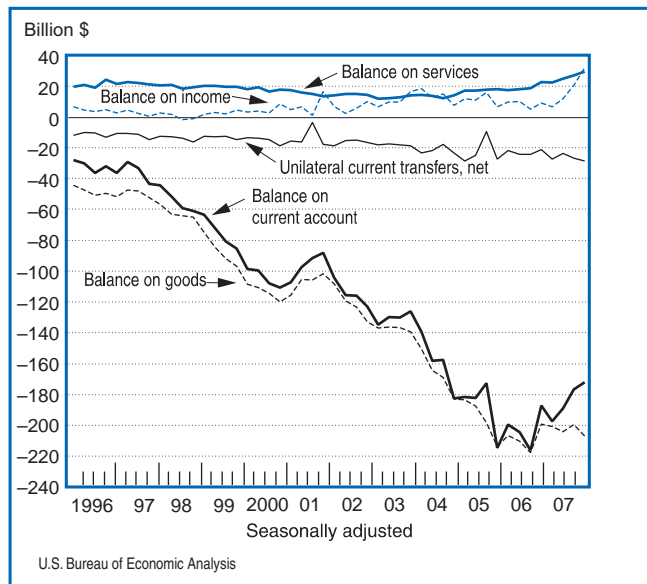


Chart 2. Nominal Indexes of Foreign Currency Price of the U.S. Dollar

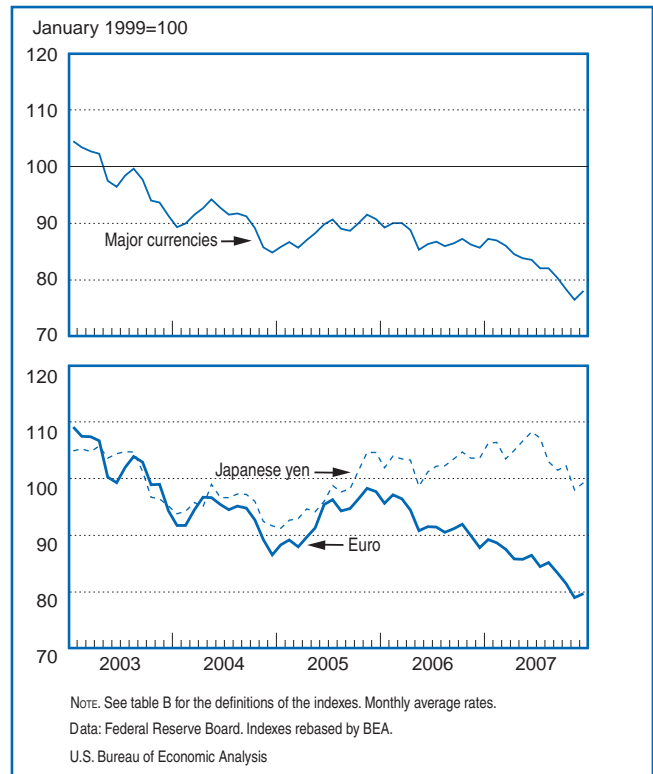


Table B. Indexes of Foreign Currency Price of the U.S. Dollar
[January 1999=100]

	2006					2007												
	IV	I	II	III	IV	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Nominal:¹																		
Broad ²	93.9	93.7	91.5	89.8	86.7	93.2	94.1	93.8	93.3	92.1	91.3	91.0	89.9	90.4	89.1	87.3	86.0	86.8
Major currencies ³	86.3	86.7	83.9	81.4	77.6	85.6	87.2	86.9	86.0	84.5	83.8	83.5	82.0	82.0	80.3	78.3	76.4	78.0
Other important trading partners ⁴	103.7	102.9	101.2	100.6	98.7	103.0	103.1	102.8	102.8	101.9	101.0	100.8	100.1	101.2	100.6	99.1	98.7	98.3
Real:¹																		
Broad ²	96.0	95.9	95.0	92.7	89.0	95.0	96.1	95.7	96.0	95.3	95.0	94.7	93.1	93.2	91.9	89.7	88.3	88.9
Major currencies ³	93.8	94.5	92.8	90.1	85.6	92.8	94.7	94.6	94.3	93.1	92.8	92.5	90.8	90.6	88.8	86.4	84.5	86.0
Other important trading partners ⁴	98.5	97.5	97.5	95.8	92.7	97.4	97.7	96.9	97.9	97.8	97.5	97.2	95.8	96.2	95.4	93.3	92.6	92.1
Selected currencies: (nominal)⁵																		
Canada.....	75.0	77.1	72.3	68.8	64.6	75.9	77.4	77.1	76.9	74.7	72.1	70.1	69.1	69.6	67.6	64.2	63.7	66.0
European currencies:																		
Euro area ⁶	89.9	88.4	86.0	84.3	80.0	87.8	89.2	88.6	87.5	85.8	85.7	86.4	84.4	85.1	83.3	81.4	78.9	79.6
United Kingdom.....	86.1	84.4	83.1	81.6	80.7	84.0	84.2	84.2	84.7	83.0	83.1	83.0	81.1	82.0	81.7	80.7	79.7	81.8
Switzerland.....	89.1	89.0	88.2	86.5	82.7	87.3	89.7	89.4	87.9	87.5	88.1	89.0	87.1	86.8	85.5	84.7	81.1	82.3
Japan.....	104.0	105.4	106.6	103.9	99.9	103.6	106.3	106.4	103.5	105.0	106.6	108.3	107.2	103.0	101.5	102.3	98.0	99.3
Mexico.....	107.5	108.8	107.4	108.2	107.1	107.2	108.2	108.6	109.7	108.4	106.9	107.0	106.8	109.0	108.9	106.8	107.4	107.1
Brazil.....	142.2	139.3	131.1	126.7	118.0	142.0	141.4	138.5	138.1	134.3	131.2	127.8	124.4	129.8	125.8	119.0	116.9	118.1

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

index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
 4. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that do not circulate widely outside the country of issue, including the currencies of Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. The weight for each currency is its broad-index weight divided by the sum of the broad-index weights for all of the currencies included in the other important trading partners index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
 5. Data: Federal Reserve Board. Monthly and quarterly average rates. Indexes prepared by BEA.
 6. The euro area includes Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain; beginning with the first quarter of 2007, also includes Slovenia.

Current Account

Goods and services

The deficit on goods and services decreased to \$708.5 billion in 2007 from \$758.5 billion in 2006. The deficit on goods decreased for the first time in 6 years, and the surplus on services increased (table C).

Goods

The deficit on goods decreased to \$815.4 billion in 2007 from \$838.3 billion in 2006. Goods exports grew strongly, continuing the strong growth that has been evident since mid-2003. Goods imports slowed substantially as a result of sizable slowdowns in both non-

petroleum and petroleum imports (charts 3 and 4).

Goods exports increased \$126.1 billion, or 12 percent, to \$1,149.2 billion in 2007, following an increase of \$128.5 billion, or 14 percent, in 2006. Capital goods and industrial supplies and materials led the increase and accounted for just over half of the increase in 2007; smaller increases occurred in foods, feeds, and beverages, in consumer goods, and in autos (tables D and E).

Goods imports increased \$103.2 billion, or 6 percent, to \$1,964.6 billion in 2007, following an increase of \$179.6 billion, or 11 percent, in 2006. Industrial supplies and materials and consumer goods led the increase and accounted for nearly two-thirds of the increase in 2007; a sizable increase also occurred in

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

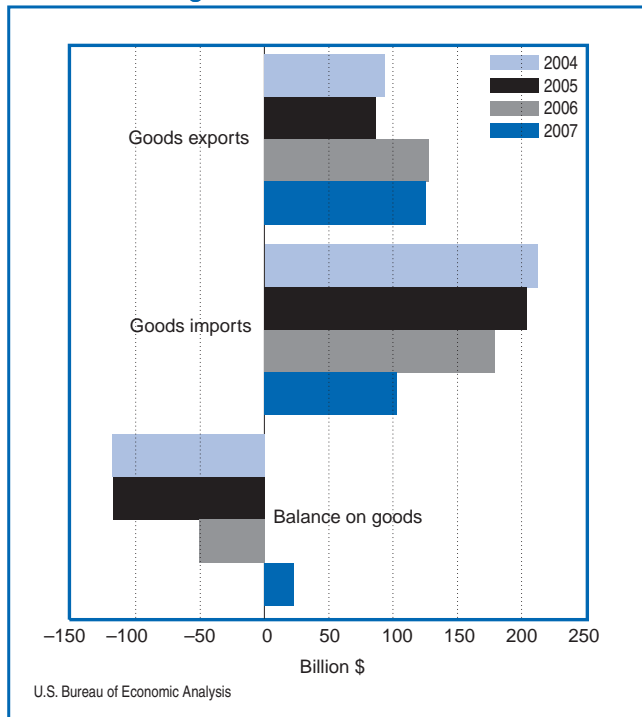


Chart 4. Imports of Petroleum and Nonpetroleum Products: Change in Value From Preceding Year

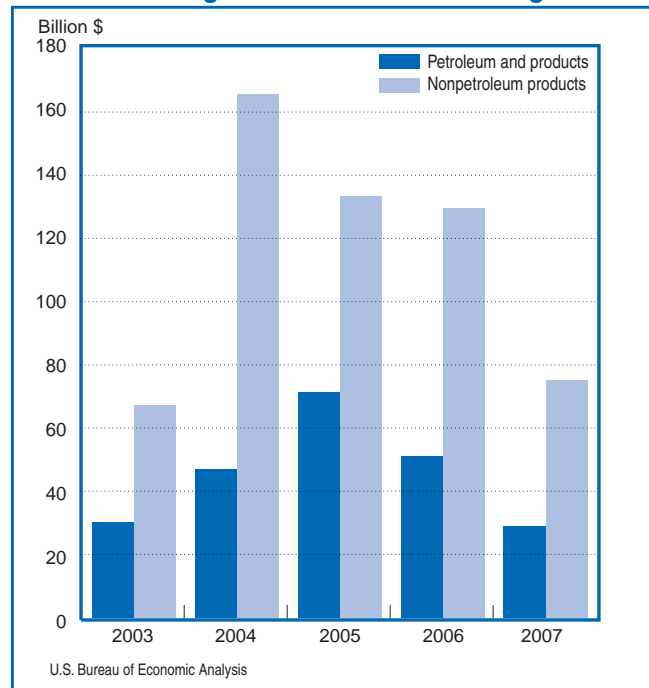


Table C. Selected Balances on U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

(Credits +; debits -)	2005	2006	2007 ^p	2007			
				I ^r	II ^r	III ^r	IV ^p
Balance on goods	-787,149	-838,271	-815,370	-201,712	-205,059	-200,547	-208,051
Balance on services	72,778	79,749	106,854	23,092	25,588	27,977	30,198
Balance on income	48,058	36,640	74,316	7,428	12,583	21,337	32,970
Investment income	54,459	43,172	81,065	9,017	14,269	23,037	34,742
Direct investment	152,512	174,214	223,602	47,721	50,309	56,082	69,490
Other private	3,106	313	12,509	-1,599	2,835	6,156	5,117
U.S. Government	-101,159	-131,355	-155,046	-37,105	-38,875	-39,201	-39,865
Compensation of employees	-6,400	-6,532	-6,749	-1,589	-1,686	-1,700	-1,773
Unilateral current transfers, net	-88,535	-89,595	-104,438	-27,009	-23,169	-26,211	-28,052
Balance on current account	-754,848	-811,477	-738,638	-198,201	-190,058	-177,444	-172,936

^p Preliminary
^r Revised

capital goods (tables D and E).

U.S. exports remained strong in 2007, slowing only slightly, largely in response to small slowdowns in real GDP growth abroad. Real GDP growth in the euro area slowed to 2.5 percent from 2.8 percent in 2006. Growth also slowed in Canada to 2.5 percent from 2.8 percent, and in Japan, to 2.0 percent from 2.2 percent. Growth in the newly industrialized countries in Asia slowed to 4.9 percent from 5.3 percent, and in Latin America slowed to 5.0 percent from 5.5 percent (table F). A sizable decline in the dollar against the currencies of many of the industrial and developing countries over the past 2 years partly offset the negative impact on exports of slower real GDP growth abroad.

U.S. imports slowed in 2007 largely in response to U.S. real GDP growth, which dropped to 2.2 percent in

2007 from 2.9 percent in 2006 (table F). The slowing in imports was evident in the sizable slowdowns in the increases in both nonpetroleum and petroleum imports. Real GDP growth in both 2007 and 2006 trailed that of 3.1 percent in 2005 and 3.6 percent in 2004. The slowing in real GDP growth since 2004 has resulted in successively smaller import growth each year since then.

Dollar prices of total exports increased slightly more rapidly in 2007 than in 2006. Price increases of foods, feeds, and beverages were sharply higher. Price increases of industrial supplies and materials (which

Table E. Percent Change in U.S. Trade in Goods, Current and Chained (2000) Dollars
[Balance of payments basis]

	Current dollars			Chained (2000) dollars		
	2005	2006	2007 ^p	2005	2006	2007 ^p
Exports	10.8	14.4	12.3	7.5	10.7	8.4
Agricultural products.....	3.1	12.3	26.4	5.2	8.5	6.3
Nonagricultural products.....	11.4	14.5	11.2	7.7	10.8	8.5
Foods, feeds, and beverages.....	4.2	11.9	27.7	5.6	8.0	8.2
Industrial supplies and materials.....	14.3	18.5	14.3	2.9	8.4	6.3
Capital goods, except automotive.....	9.3	14.2	7.7	9.1	13.3	7.8
Automotive vehicles, parts, and engines.....	10.5	8.7	12.9	9.3	7.4	11.6
Consumer goods (nonfood), except automotive.....	12.5	12.0	12.6	11.2	10.5	10.3
Exports, n.e.c.....	10.7	17.3	20.4	6.4	12.9	15.1
Imports	13.9	10.7	5.5	7.0	6.2	1.9
Petroleum and products.....	39.6	20.1	9.5	2.3	-2.0	-2.2
Nonpetroleum products.....	10.3	9.0	4.8	7.6	7.7	2.7
Foods, feeds, and beverages.....	9.6	10.0	9.0	3.7	6.1	1.2
Industrial supplies and materials.....	27.0	14.9	5.5	4.4	1.2	-2.9
Capital goods, except automotive.....	10.4	10.3	6.3	11.1	11.2	5.9
Automotive vehicles, parts, and engines.....	5.0	7.2	0.9	3.9	6.8	-0.1
Consumer goods (nonfood), except automotive.....	9.1	8.4	7.3	8.2	8.0	5.8
Imports, n.e.c., and U.S. goods returned.....	10.8	6.8	3.8	7.1	4.3	0.7

p Preliminary
n.e.c. Not elsewhere classified

Table F. Growth Rates in Real Gross Domestic Product
[Percent change]

	2001	2002	2003	2004	2005	2006	2007 ¹
World	2.5	3.1	4.0	5.3	4.8	5.4	5.2
Advanced economies	1.2	1.6	1.9	3.2	2.5	2.9	2.5
United States.....	0.8	1.6	2.5	3.6	3.1	2.9	2.2
European Union.....	2.1	1.4	1.5	2.7	2.0	3.2	3.0
Euro area.....	1.9	0.9	0.8	2.0	1.5	2.8	2.5
Of which:							
France.....	1.9	1.0	1.1	2.5	1.7	2.0	1.9
Germany.....	1.2	(*)	-0.3	1.1	0.8	2.9	2.4
Italy.....	1.8	0.3	(*)	1.2	0.1	1.9	1.7
Spain.....	3.6	2.7	3.1	3.3	3.6	3.9	3.7
United Kingdom.....	2.4	2.1	2.8	3.3	1.8	2.8	3.1
Canada.....	1.8	2.9	1.9	3.1	3.1	2.8	2.5
Japan.....	0.2	0.3	1.4	2.7	1.9	2.2	2.0
Memoranda:							
Major advanced economies ²	1.0	1.2	1.8	2.9	2.3	2.6	2.1
Newly industrialized Asian economies ³	1.2	5.5	3.2	5.9	4.7	5.3	4.9
Emerging market and developing countries	4.3	5.1	6.7	7.7	7.5	8.1	8.1
Latin America and Other Western Hemisphere.....	0.5	0.3	2.4	6.0	4.6	5.5	5.0
Brazil.....	1.3	2.7	1.1	5.7	2.9	3.7	4.4
Mexico.....	(*)	0.8	1.4	4.2	2.8	4.8	2.9
Developing Asia.....	6.0	7.0	8.3	8.8	9.2	9.8	9.8
China.....	8.3	9.1	10.0	10.1	10.4	11.1	11.5
India.....	3.9	4.5	6.9	7.9	9.0	9.7	8.9
Middle East.....	3.0	4.0	6.6	5.6	5.4	5.6	5.9
Africa.....	4.3	3.6	4.7	5.8	5.6	5.6	5.7

1. Percent change for the United States is from the U.S. Bureau of Economic Analysis. All other figures are forecasts as published by the International Monetary Fund.

2. Includes Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

3. Includes Hong Kong SAR (Special Administrative Region of China), Korea, Singapore, and Taiwan.

* Figure is zero or negligible.

Note. For details on data shown in this table, see *World Economic Outlook* published by the International Monetary Fund.

Sources: U.S. Bureau of Economic Analysis and International Monetary Fund

Table D. U.S. Trade in Goods, Current and Chained (2000) Dollars
[Balance of payments basis, millions of dollars, quarters seasonally adjusted]

	Current dollars				Chained (2000) dollars ¹									
	2005	2006	2007 ^p	2007				2005	2006	2007 ^p	2007			
				I ^r	II ^r	III ^r	IV ^p				I ^r	II ^r	III ^r	IV ^p
Exports	894,631	1,023,109	1,149,208	269,289	278,511	297,118	304,290	831,967	920,741	997,828	237,846	242,978	257,172	259,398
Agricultural products.....	64,887	72,869	92,079	19,511	21,466	25,446	25,656	53,553	58,085	61,762	13,946	15,069	16,889	15,709
Nonagricultural products.....	829,744	950,240	1,057,129	249,778	257,045	271,672	278,634	779,871	864,444	938,161	224,566	228,377	240,507	244,450
Foods, feeds, and beverages.....	58,954	65,962	84,229	18,242	19,686	22,603	23,698	48,585	52,449	56,751	13,068	13,808	15,140	14,609
Industrial supplies and materials.....	233,059	276,080	315,539	71,957	77,584	81,498	84,500	184,379	199,812	212,381	50,665	52,364	54,276	54,890
Capital goods, except automotive.....	362,341	413,894	445,944	106,892	107,461	114,385	117,406	370,852	420,355	453,186	108,020	109,386	116,433	119,370
Automotive vehicles, parts, and engines.....	98,578	107,161	120,941	27,857	29,487	32,163	31,434	95,223	102,262	114,087	26,361	27,844	30,327	29,543
Consumer goods (nonfood), except automotive.....	116,093	129,983	146,389	35,167	35,825	37,725	37,672	114,090	126,122	139,123	33,714	34,085	35,773	35,532
Exports, n.e.c.....	25,606	30,029	36,166	9,374	8,468	8,744	9,580	23,063	26,028	29,967	7,934	7,054	7,213	7,768
Imports	1,681,780	1,861,380	1,964,577	471,001	483,570	497,665	512,341	1,535,115	1,630,244	1,660,983	414,796	413,082	417,308	415,716
Petroleum and products.....	251,856	302,430	331,019	70,940	78,228	81,968	99,883	141,012	138,180	135,161	35,859	33,666	32,010	34,048
Nonpetroleum products.....	1,429,924	1,558,950	1,633,558	400,061	405,342	415,697	412,458	1,396,656	1,504,894	1,544,809	381,861	384,360	392,849	385,695
Foods, feeds, and beverages.....	68,096	74,937	81,686	20,016	20,067	20,908	20,695	59,803	63,438	64,180	16,238	15,992	16,271	15,694
Industrial supplies and materials.....	524,527	602,539	635,420	143,227	157,051	160,983	174,159	359,955	364,420	353,979	89,960	89,522	87,788	87,075
Capital goods, except automotive.....	379,334	418,271	444,732	109,308	109,417	112,743	113,264	418,409	465,211	492,811	121,498	121,886	124,647	124,754
Automotive vehicles, parts, and engines.....	239,486	256,660	258,933	63,371	63,091	67,065	65,406	231,218	246,853	246,568	60,655	60,299	63,910	61,695
Consumer goods (nonfood), except automotive.....	411,493	446,101	478,518	119,120	118,121	119,302	121,975	413,981	447,094	473,223	118,310	117,253	117,781	119,864
Imports, n.e.c., and U.S. goods returned.....	58,844	62,872	65,288	15,959	15,823	16,664	16,842	54,661	57,025	57,396	14,171	13,965	14,633	14,620

p Preliminary
r Revised
n.e.c. Not elsewhere classified

1. Because chain indexes use weights of more than one period, the corresponding chained dollar estimates are usually not additive.

includes energy products, chemicals, and metals and nonmetallic products) slowed (table G). When translated into foreign currencies, prices for most categories of U.S. exports declined because of appreciation of most foreign currencies against the dollar. However, prices of foods, feeds, and beverages increased sharply, and prices of industrial supplies and materials increased slightly (table H).

Dollar prices of total U.S. imports increased less rapidly in 2007 than in 2006. Price increases of petroleum slowed, but remained large. Price increases for most categories of nonpetroleum products were slightly larger but were significantly larger for foods, feeds, and beverages (table G).

In 2007, the U.S. dollar depreciated 6 percent on a trade-weighted yearly average basis against a group of

seven major currencies that are widely traded in international markets (table B, chart 2). The dollar depreciated 9 percent against the euro, 9 percent against the British pound, and 6 percent against the Canadian dollar. The dollar appreciated 1 percent against the Japanese yen. Against the currencies of a group of developing countries, the dollar depreciated 4 percent.

Exports. Goods exports increased \$126.1 billion, or 12 percent, to \$1,149.2 billion, in 2007, following an increase of \$128.5 billion, or 14 percent, in 2006 (table D). Export growth has remained strong for 4 consecutive years; strength in 2007 was attributable to relatively strong economic growth abroad and to the cumulative impact of dollar depreciation in the past 2 years. Real exports increased 8 percent in 2007, and export prices increased 4 percent. In value, industrial supplies and materials and capital goods led the increase, accounting for just over half of the increase in total exports in 2007 (chart 5). However, the increase in capital goods was significantly smaller than in 2006. Increases in other major categories were only slightly smaller (industrial supplies and materials) or were larger (foods, feeds, and beverages, autos, and consumer goods). By area, exports to Europe increased \$39.6 billion; to Asia and Pacific, \$33.8 billion; to

**Table G. Percent Change in U.S. Trade in Goods,
Chain-Weighted Price Indexes**

[Based on index numbers (2000=100)]

	2005 ^r	2006 ^r	2007 ^p
Exports	3.1	3.3	3.6
Agricultural products	-2.0	3.5	18.8
Nonagricultural products	3.5	3.3	2.5
Foods, feeds, and beverages	-1.3	3.6	18.0
Industrial supplies and materials	11.0	9.3	7.5
Capital goods, except automotive	0.2	0.8	-0.1
Computers, peripherals, and parts	-7.7	-4.5	-7.4
Civilian aircraft, engines, and parts	4.3	4.1	4.2
Other capital goods	0.8	0.9	0.0
Automotive vehicles, parts, and engines	1.1	1.2	1.2
Consumer goods (nonfood), except automotive	1.1	1.3	2.1
Exports, n.e.c.	4.0	3.9	4.6
Imports	6.5	4.2	3.6
Petroleum and products	36.4	22.5	11.9
Nonpetroleum products	2.5	1.2	2.1
Foods, feeds, and beverages	5.7	3.7	7.7
Industrial supplies and materials	21.7	13.5	8.6
Capital goods, except automotive	-0.7	-0.8	0.4
Computers, peripherals, and parts	-7.9	-7.4	-5.5
Civilian aircraft, engines, and parts	3.6	3.9	5.0
Other capital goods	1.7	1.2	2.0
Automotive vehicles, parts, and engines	1.1	0.4	1.0
Consumer goods (nonfood), except automotive	0.9	0.4	1.3
Imports, n.e.c., and U.S. goods returned	3.5	2.4	3.2

^p Preliminary

^r Revised

n.e.c. Not elsewhere classified

**Table H. Percent Change in Foreign Currency Cost of
U.S. Exports of Goods**

[Based on index numbers (2000=100)]

	2005 ^r	2006 ^r	2007 ^p
Exports	1.1	1.8	-2.2
Agricultural products	-3.9	2.0	12.2
Nonagricultural products	1.5	1.8	-3.2
Foods, feeds, and beverages	-3.2	2.1	11.4
Industrial supplies and materials	8.9	7.7	1.5
Capital goods, except automotive	-1.7	-0.7	-1.7
Computers, peripherals, and parts	-9.5	-5.9	-12.6
Civilian aircraft, engines, and parts	2.3	2.6	-1.6
Other capital goods	-1.2	-0.6	-5.6
Automotive vehicles, parts, and engines	-0.8	-0.3	-4.5
Consumer goods (nonfood), except automotive	-0.8	-0.2	-3.6
Exports, n.e.c.	2.0	2.4	-1.3

^p Preliminary

^r Revised

n.e.c. Not elsewhere classified

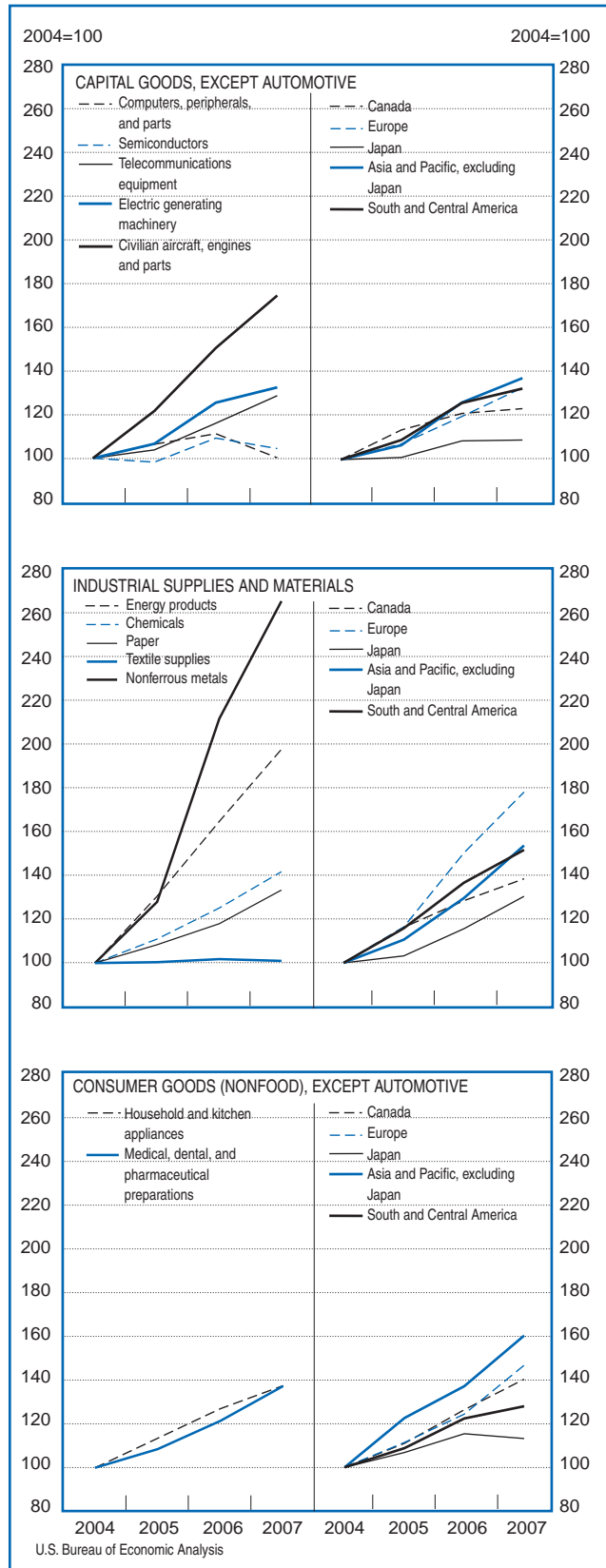
Note: Chain-weighted price indexes multiplied by the trade-weighted exchange rate index of the currencies of Australia, Austria, Belgium, Canada, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and since January 2001, Greece and since January 2007, Slovenia.

Annual Revision of the U.S. International Accounts

The annual revision of the U.S. international accounts to be released in June 2008 will incorporate a number of significant improvements. BEA will incorporate results from the U.S. Treasury Department's annual survey of Foreign Portfolio Investment in the United States for June 2007 and its annual survey of U.S. Portfolio Investment Abroad for December 2006. In addition, BEA will incorporate the results of its Benchmark Survey of U.S. Direct Investment Abroad for 2004, which will update direct investment income and financial flows.

Finally, BEA will incorporate data obtained from its recently introduced surveys of international services. A new quarterly survey was introduced for the first quarter of 2007, and a new benchmark survey, with lower exemption levels, was conducted for 2006. Unlike the previous surveys, the new survey questionnaires combined the collection of affiliated and unaffiliated transactions. In addition, they requested new detail by type of service between affiliated parties comparable with that collected for unaffiliated parties. These revised estimates will begin with the first quarter of 2006.

Chart 5. Growth in Exports by Selected Commodity Categories and Areas, 2004–2007



South and Central America, \$18.9 billion; and to Canada, \$18.7 billion.

Nonagricultural industrial supplies and materials increased \$38.2 billion, or 15 percent, following an increase of \$41.7 billion, or 19 percent. Chemicals increased \$11.1 billion, or 13 percent, following an increase of \$9.4 billion, or 13 percent; much of the increase was to South and Central America and to developing countries in Asia. In 2007, chemical prices increased 8 percent. Chemicals have increased strongly in each of the last 6 years. Steelmaking materials increased \$3.1 billion, up from \$0.8 billion, and iron and steel products increased \$2.2 billion, up from \$1.2 billion. In 2007, exports of these commodities were largely to Canada, China, Taiwan, the Republic of Korea, and Europe. Nonferrous metals increased \$8.8 billion, or 25 percent, down from an increase of \$13.6 billion, or 66 percent. Within this category, nonmonetary gold increased strongly again in 2007 as it had in 2006; nonferrous metals increased much less strongly. Energy products increased \$8.2 billion, or 20 percent, down from an increase of \$8.4 billion, or 26 percent; however, this is the fourth consecutive year of relatively strong growth in energy exports (table I).

Capital goods increased \$32.1 billion, or 8 percent, following an increase of \$51.6 billion, or 14 percent. Capital goods excluding civilian aircraft and aircraft parts slowed sharply; they increased \$20.1 billion, or 6 percent, down from an increase of \$37.2 billion, or 12 percent. Computers, peripherals, and parts, semiconductors, and machine tools and metalworking machinery all declined, following sizable increases in 2006. The increase in electric generating machinery slowed. The increase in telecommunications equipment was the same size as in 2006. In contrast, industrial engines, “other” industrial, agricultural, and service industry machinery, and oil drilling, mining, and construction machinery all increased by larger amounts than in 2006, providing some offset to the declines and the slowdown. Civilian aircraft, engines, and parts increased \$12.0 billion, or 16 percent, down somewhat from an increase of \$14.4 billion, or 24 percent, but this category remained at the high level characteristic of 2005 and 2006. In 2007, exports of complete aircraft were largely to India, China, and the United Kingdom, and exports of parts and engines were largely to France and Brazil (table J).

Foods, feeds, and beverages increased \$18.3 billion, or 28 percent, following an increase of \$7.0 billion, or 12 percent. The increase in 2007 was more than double the previous record increase of \$8.5 billion in 1988. Prices of major food commodities were sharply higher

in 2007, rising 20 percent after a 4 percent increase in 2006. Wheat increased \$4.2 billion, following a decrease of \$0.2 billion in 2006; prices increased 42 percent, following a 16 percent increase in 2006. Soybeans increased \$3.2 billion, up from an increase of \$0.7 billion; prices increased 35 percent, following a 2 percent decline in 2006. Exports of soybeans to China accounted for half of the gain, partly as a result of a poor harvest in China. Corn increased \$3.0 billion, up from an increase of \$2.4 billion; prices increased 36 percent, following a 20 percent increase in 2006, partly

reflecting increased demand by ethanol producers. Exports of corn increased strongly to Japan and Mexico.

Consumer goods increased \$16.4 billion, or 13 percent, following an increase of \$13.9 billion, or 12 percent. Nondurable goods increased \$5.0 billion, up slightly from an increase of \$4.9 billion; pharmaceutical goods accounted for over 80 percent of the increase in 2007. Durable goods increased \$9.1 billion, up from an increase of \$7.9 billion; toys, household goods, artwork and other collectibles, and records and tapes were all higher in 2007.

Table I. U.S. Trade in Nonagricultural Industrial Supplies and Materials

[Balance of payments basis, millions of dollars]

	2002	2003	2004	2005	2006	2007 ^p
Exports	147,615	162,479	192,245	221,462	263,208	301,443
Energy products.....	15,085	18,230	24,641	32,167	40,609	48,760
Chemicals, excluding medicinals.....	52,320	57,994	66,306	73,554	82,976	94,081
Paper and paper base stocks.....	12,211	12,813	13,971	15,135	16,476	18,630
Textile supplies and related materials.....	11,142	11,347	12,814	12,866	13,033	12,934
Building materials, except metals.....	7,610	7,829	8,952	9,563	10,543	11,363
Other nonmetals.....	17,030	17,953	22,314	24,467	26,843	27,207
Metals and nonmetallic products.....	32,217	36,313	43,247	53,710	72,728	88,468
Steelmaking materials and iron and steel products.....	7,851	9,688	12,859	17,261	19,245	24,553
Nonferrous metals.....	12,127	13,943	16,256	20,796	34,419	43,172
Other metals and nonmetallic products.....	12,239	12,682	14,132	15,653	19,064	20,743
Imports	262,846	308,673	406,243	517,217	594,441	626,598
Energy products.....	118,803	157,115	210,899	295,790	340,112	370,520
Chemicals, excluding medicinals.....	33,088	36,661	42,276	51,014	53,766	56,229
Paper and paper base stocks.....	11,462	11,768	13,051	13,573	14,448	14,088
Textile supplies and related materials.....	10,868	10,806	12,008	12,750	12,915	13,154
Building materials, except metals.....	22,487	24,163	32,014	34,398	34,989	29,943
Other nonmetals.....	18,432	20,140	23,254	25,877	28,220	27,014
Metals and nonmetallic products.....	47,706	48,020	72,741	83,815	109,991	115,650
Steelmaking materials and iron and steel products.....	20,183	19,154	34,496	36,930	45,011	42,818
Nonferrous metals.....	18,840	19,352	26,046	31,808	45,726	52,928
Other metals and nonmetallic products.....	8,683	9,514	12,199	15,077	19,254	19,904
Memorandum:						
Nonpetroleum industrial supplies and materials imports.....	164,587	181,420	232,475	272,671	300,109	304,401

^p Preliminary

Table J. U.S. Trade in Capital Goods, Except Automotive

[Balance of payments basis, millions of dollars]

	2002	2003	2004	2005	2006	2007 ^p
Exports	290,437	293,673	331,441	362,341	413,894	445,944
Computers, peripherals, and parts.....	38,553	39,925	42,805	45,537	47,580	42,874
Semiconductors.....	42,235	46,138	48,050	47,221	52,430	50,189
Telecommunications equipment.....	22,208	20,743	24,402	25,307	28,322	31,390
Scientific, hospital, and medical equipment and parts.....	19,305	20,861	23,975	27,038	29,988	31,969
Industrial, agricultural, and service industry machinery.....	42,831	43,467	52,889	58,786	66,086	75,864
Machine tools, metalworking equipment, and control instruments.....	18,392	19,189	24,002	24,383	28,649	27,310
Oil drilling, mining, and construction machinery.....	12,893	12,833	15,512	18,985	23,349	28,533
Industrial engines, pumps, and compressors.....	11,602	11,690	13,512	14,935	15,977	19,102
Electric generating machinery, electric apparatus, and parts.....	27,544	27,497	31,311	33,374	39,272	41,458
Civilian aircraft, engines, and parts.....	50,426	46,724	49,974	60,784	75,170	87,151
Other capital goods, n.e.c.....	4,448	4,606	5,009	5,991	7,071	10,104
Imports	283,322	295,868	343,582	379,334	418,271	444,732
Computers, peripherals, and parts.....	75,150	76,513	88,635	93,309	101,347	103,950
Semiconductors.....	26,015	24,604	26,749	25,760	27,376	26,616
Telecommunications equipment.....	23,135	24,781	29,477	37,063	40,250	44,345
Scientific, hospital, and medical equipment and parts.....	16,030	18,443	22,044	24,346	26,247	28,495
Industrial, agricultural, and service industry machinery.....	47,979	51,872	62,107	70,238	77,396	82,953
Machine tools, metalworking equipment, and control instruments.....	14,871	15,879	18,548	20,535	22,936	23,281
Oil drilling, mining, and construction machinery.....	6,573	7,823	11,619	15,635	18,960	19,275
Industrial engines, pumps, and compressors.....	9,033	9,210	11,087	12,659	14,090	15,730
Electric generating machinery, electric apparatus, and parts.....	32,879	33,325	38,533	43,070	49,838	55,033
Civilian aircraft, engines, and parts.....	25,458	24,085	24,299	25,752	28,384	34,433
Other capital goods, n.e.c.....	6,199	9,333	10,484	10,967	11,447	10,621

^p Preliminary

n.e.c. Not elsewhere classified

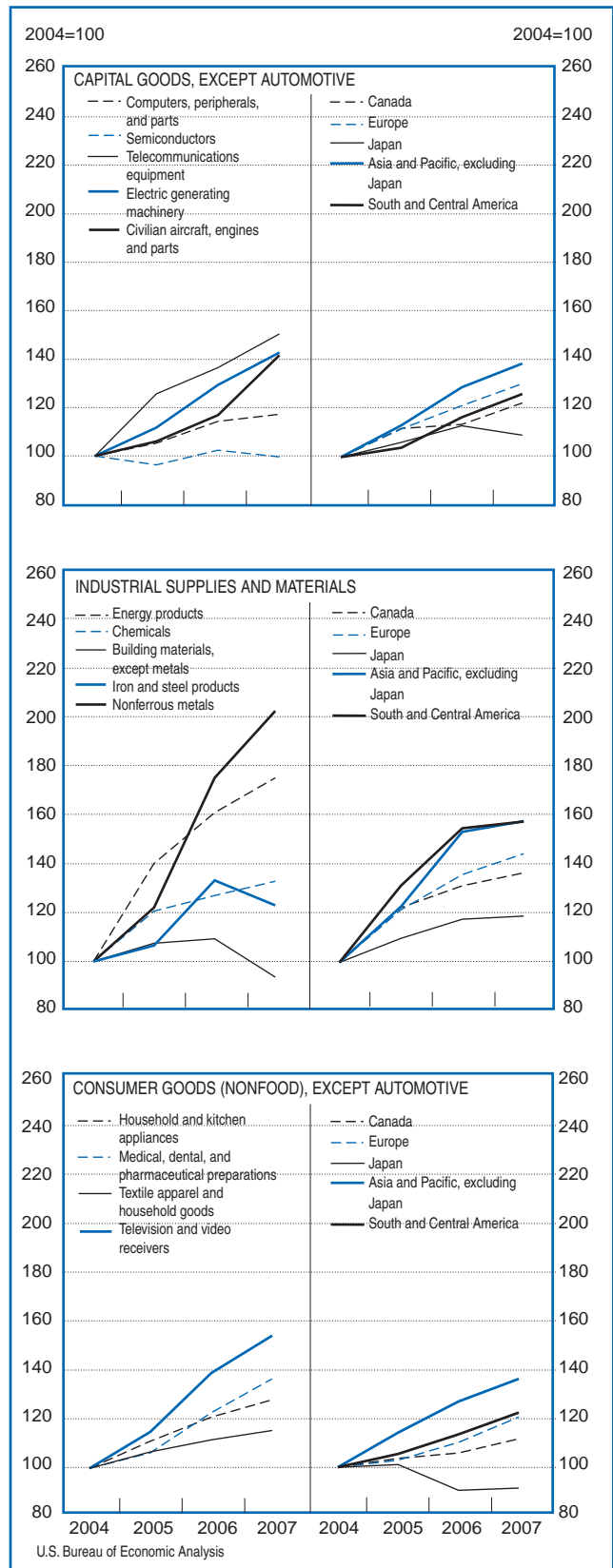
Automotive vehicles, parts, and engines increased \$13.8 billion, or 13 percent, following an increase of \$8.6 billion, or 9 percent. Passenger cars exports increased \$9.7 billion, up from an increase of \$3.5 billion, largely to Europe, particularly Germany, but also to Canada. Engines and parts increased \$2.2 billion, down from an increase of \$3.5 billion.

Imports. Goods imports increased \$103.2 billion, or 6 percent, to \$1,964.6 billion, in 2007, following an increase of \$179.6 billion, or 11 percent, in 2006 (table D). Real imports increased 2 percent, and import prices increased 4 percent. Increases in the values of both nonpetroleum and petroleum imports were substantially smaller than in any year in 2004–2006 (chart 4). Among nonpetroleum imports, increases were significantly smaller for nonpetroleum industrial supplies and materials, autos, and capital goods (chart 6). By area, imports from Asia and Pacific increased \$34.3 billion; from Europe, \$27.5 billion; from South and Central America, \$13.5 billion; and from Canada, \$10.6 billion.

Petroleum and products increased \$28.6 billion, or 9 percent, in 2007, down from an increase of \$50.6 billion, or 20 percent, in 2006. The increase in 2007 was attributable to the rise in the average price per barrel, which increased 11 percent to \$67.21 in 2007, following jumps of 23 percent in 2006 and 37 percent in 2005. The average number of barrels imported daily decreased 2 percent to 13.48 million, following a decline of 2 percent in 2006. Domestic production increased 1 percent, compared with decreases in each of the previous 4 years. U.S. consumption changed little for the third consecutive year. In volume, the number of barrels imported daily decreased from Mexico and Venezuela and increased from Canada, Saudi Arabia, and Nigeria (chart 7).

Consumer goods increased \$32.4 billion, or 7 percent, following an increase of \$34.6 billion, or 8 percent. Imports from China remained strong, accounting for nearly half of the increase in 2007. However, the share of Chinese consumer goods imports to total consumer goods imports has fallen significantly since 2005, when China accounted for over three-fourths of the annual increase. In 2007, durable goods increased \$18.1 billion, down slightly from an increase of \$18.6 billion. The increase in 2007 was widespread and included increases in household and kitchen appliances and “other” household goods from China, Mexico, and the Republic of Korea, in toys, shooting, and sporting goods from China, and in televisions and video receivers from Mexico. Nondurable goods increased \$12.4 billion, down from an increase of \$14.7 billion; the

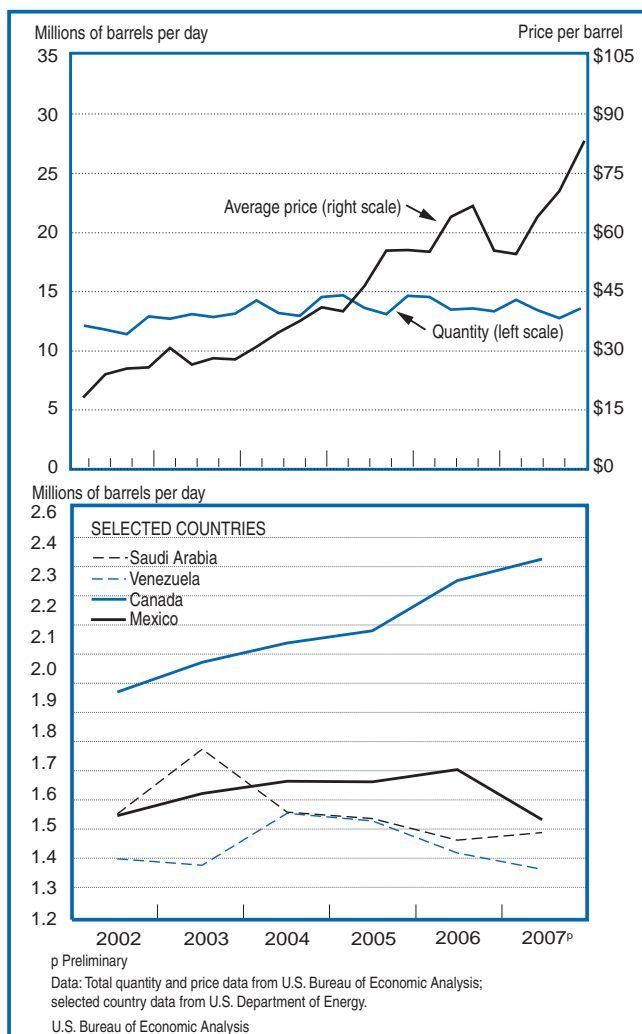
Chart 6. Growth in Imports by Selected Commodity Categories and Areas, 2004–2007



increase in 2007 was mostly attributable to increases in medical, dental, and pharmaceutical products from Ireland, Germany, Canada, and the United Kingdom and in textile products from China.

Capital goods increased \$26.5 billion, or 6 percent, following an increase of \$38.9 billion, or 10 percent. Nearly all major commodity categories increased, but increases in most categories were significantly smaller than in 2006. The increase in capital goods in 2007 was led by civilian aircraft, engines, and parts. Aircraft imports have accelerated in recent years, with the increase in 2007 more than double the increase in 2006, reflecting larger increases of complete aircraft from Canada and France and of engines and parts from Canada, Japan, Mexico, and Europe. Telecommunications equipment, largely from China, also strengthened in 2007. In contrast, the increase in industrial, agricultural, and service industry machinery, also mainly from China, weakened further in 2007 as it has every year since 2005, and the increase in computers, peripherals, and

Chart 7. U.S. Petroleum Imports and Price, Total and From Selected Countries



parts dropped sharply. Semiconductors declined as a result of decreases in imports from the Republic of Korea and Malaysia. Machine tools, metalworking equipment, and control instruments, and oil drilling, mining, and construction machinery were flat in 2007, following several years of increases (table J).

Nonpetroleum industrial supplies and materials increased of \$4.3 billion, or 1 percent, following an increase of \$27.4 billion, or 10 percent. The increase in 2007 was more than accounted for by nonferrous metals, which were up \$7.2 billion, or 16 percent; however, this increase was considerably smaller than the \$13.9 billion, or 44 percent jump, in 2006. Within nonferrous metals, nonmonetary gold from Spain and Switzerland and other precious metals from South Africa were particularly strong in 2007. Price increases of nonmonetary gold slowed to 15 percent from 35 percent, and price increases of other precious metals slowed to 25 percent from a 55 percent jump in 2006. The increase in nonferrous metals was partly offset by decreases in the values of building materials of \$5.0 billion, mainly from Canada, and of iron and steel products of \$3.0 billion, primarily from Russia. The decrease in building materials was the first in 6 years, and the decrease in iron and steel products was the first in 3 years. These decreases reflected weaknesses in the housing and automotive industries, both major users of these products (table I).

Automotive vehicles, parts, and engines increased \$2.3 billion, or 1 percent, down sharply from an increase of \$17.2 billion, or 7 percent. The falloff was mainly attributable to lower imports of passenger cars from Japan and Mexico and reflected general weakness in the U.S. automotive market. U.S. sales of autos and light trucks declined 2 percent, following a 3 percent decrease in 2006. Domestic auto production decreased 10 percent, in contrast to a 1 percent increase in 2006.

Foods, feeds, and beverages increased \$6.7 billion, or 9 percent, about the same size increase as in 2006. Import prices of foods were up sharply in 2007, rising 8 percent after an increase of 4 percent in 2006. The increase in value in 2007 was mainly attributable to a rise in agricultural goods, particularly vegetables, fruits, nuts, and preparations from Mexico, China, Brazil, and Canada.

Balances by area. The deficit on goods decreased \$22.9 billion to \$815.4 billion in 2007, the first decrease in 6 years. The decrease reflected a considerably smaller increase in the deficit with Asia, excluding Japan, and decreases in the deficits with other major areas (table K). Imports slowed to an increase of \$103.2 billion, or 6 percent, from an increase of \$179.6 billion, or 11 percent, in 2006; the slowdown was led by industrial supplies and materials, particularly petroleum

and products, building materials, and metals and non-metallic products. Exports increased \$126.1 billion, or 12 percent, down slightly from an increase of \$128.5 billion, or 14 percent, in 2006 (table K).

The deficit with Europe decreased \$12.2 billion. Exports increased strongly, with industrial supplies and materials and capital goods accounting for over half of the increase; accelerations in other major categories also contributed to the rise. Imports also increased, led by increases in consumer goods, capital goods, and industrial supplies and materials.

The deficit with Canada decreased \$8.2 billion. Exports of all major categories, led by industrial supplies and materials, continued to rise. Imports also increased, mainly as a result of an increase in petroleum and products; partly offsetting was a decrease in automotive products.

The deficit with Japan decreased \$5.9 billion after increasing for 3 years. Imports decreased for the first time in 4 years as a result of a slowdown in industrial

supplies and materials and decreases in capital goods and automotive products. Exports continued to increase, with industrial supplies and materials and foods, feeds, and beverages accounting for nearly the entire increase.

The deficit with South and Central America decreased \$5.4 billion after increasing for 9 years. Imports slowed considerably from large increases in the previous 3 years, mainly as a result of a slowdown in industrial supplies and materials, led by petroleum and products; imports of automotive products, particularly from Mexico, also slowed. Exports of all major categories increased, led by industrial supplies and materials and capital goods.

The deficit with Asia, excluding Japan, increased \$5.2 billion, considerably less than the sizable increases in the previous 5 years. The smaller increase in 2007 resulted from sizable slowdowns in imports of consumer goods, capital goods, and industrial supplies and materials, mainly from China and Taiwan. Exports

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

[Balance of payments basis, millions of dollars]

	Canada			Europe			United Kingdom			Germany			Japan		
	2005	2006	2007 ^p	2005	2006	2007 ^p	2005	2006	2007 ^p	2005	2006	2007 ^p	2005	2006	2007 ^p
Exports	212,192	230,982	249,717	207,895	241,274	280,918	37,569	44,215	48,798	33,584	40,743	49,022	53,265	57,593	60,909
Agricultural products.....	12,133	13,599	16,150	9,686	9,890	12,450	1,178	1,289	1,385	1,088	1,078	1,417	8,058	8,509	10,264
Nonagricultural products.....	200,059	217,383	233,567	198,209	231,384	268,468	36,391	42,926	47,413	32,496	39,665	47,605	45,207	49,084	50,645
Foods, feeds, and beverages.....	12,262	13,722	16,194	8,343	8,575	10,768	1,121	1,248	1,383	1,052	1,000	1,348	8,697	8,994	10,578
Industrial supplies and materials.....	55,395	61,248	65,950	48,365	62,417	73,951	8,049	11,632	13,044	5,947	7,625	8,779	11,980	13,425	15,139
Capital goods, except automotive.....	60,466	64,538	65,679	90,929	101,600	112,897	16,915	17,837	18,884	16,250	19,125	21,508	22,232	23,910	23,996
Automotive vehicles, parts, and engines.....	53,592	56,773	59,714	12,824	15,468	20,307	1,731	1,955	2,405	5,074	6,782	8,802	2,018	2,276	2,300
Consumer goods (nonfood), except automotive.....	25,962	29,575	32,821	41,260	46,119	54,418	8,452	9,976	11,249	4,317	5,027	7,286	7,241	7,821	7,683
Exports, n.e.c.....	4,515	5,126	9,359	6,174	7,095	8,577	1,301	1,567	1,833	944	1,184	1,299	1,097	1,167	1,213
Imports	294,081	306,067	316,618	355,403	383,812	411,290	50,800	53,187	56,382	84,967	89,237	94,331	138,375	148,559	145,934
Petroleum and products.....	36,895	46,954	54,571	36,605	40,991	44,031	8,493	6,872	7,753	1,917	1,852	2,196	406	927	1,230
Nonpetroleum products.....	257,186	259,113	262,047	318,798	342,821	367,259	42,307	46,315	48,629	83,050	87,385	92,135	137,969	147,632	144,704
Foods, feeds, and beverages.....	13,965	15,034	16,645	16,787	18,535	20,193	1,547	1,673	1,884	963	1,056	1,153	511	539	573
Industrial supplies and materials.....	137,116	147,293	153,225	95,852	107,310	114,147	15,160	14,440	15,828	14,247	15,416	16,369	14,004	15,013	15,185
Capital goods, except automotive.....	34,857	35,339	38,098	92,171	100,185	107,517	13,668	14,753	14,841	28,112	29,990	32,445	48,562	51,647	49,907
Automotive vehicles, parts, and engines.....	70,757	70,281	69,242	45,431	45,503	46,458	7,113	6,258	5,379	27,147	26,707	26,075	52,679	60,158	59,154
Consumer goods (nonfood), except automotive.....	19,963	20,385	21,493	89,097	95,526	104,637	10,015	12,643	14,568	11,192	12,447	14,437	18,652	16,661	16,832
Imports, n.e.c., and U.S. goods returned.....	17,423	17,735	17,915	16,065	16,753	18,338	3,297	3,420	3,882	3,306	3,621	3,852	3,967	4,541	4,283
Balance	-81,889	-75,085	-66,901	-147,508	-142,538	-130,372	-13,231	-8,972	-7,584	-51,383	-48,494	-45,309	-85,110	-90,966	-85,025
	South and Central America			Mexico			Asia, excluding Japan			Hong Kong, Republic of Korea, Singapore, Taiwan			China		
	2005	2006	2007 ^p	2005	2006	2007 ^p	2005	2006	2007 ^p	2005	2006	2007 ^p	2005	2006	2007 ^p
Exports	177,318	204,735	223,614	120,264	133,893	136,413	198,297	235,224	272,036	85,166	96,067	105,674	41,799	55,038	65,077
Agricultural products.....	13,109	15,194	18,689	9,561	10,942	12,805	16,600	19,829	25,938	5,723	6,635	8,202	5,240	6,714	8,310
Nonagricultural products.....	164,209	189,541	204,925	110,703	122,951	123,608	181,697	215,395	246,098	79,443	89,432	97,472	36,559	48,324	56,767
Foods, feeds, and beverages.....	11,623	13,606	16,825	8,547	9,947	11,631	12,927	15,378	21,532	4,958	5,835	7,296	3,465	4,098	6,322
Industrial supplies and materials.....	59,188	69,749	77,462	39,844	45,038	46,918	48,302	57,164	68,474	19,871	22,354	25,956	16,237	21,278	24,667
Capital goods, except automotive.....	65,824	75,990	80,021	41,994	46,502	43,546	104,734	126,170	140,075	49,275	54,693	58,015	18,223	25,639	29,091
Automotive vehicles, parts, and engines.....	18,754	20,515	22,985	16,129	17,076	18,711	8,312	8,828	11,091	1,307	1,367	1,598	1,098	1,446	1,993
Consumer goods (nonfood), except automotive.....	16,002	18,026	18,849	9,705	10,739	10,810	18,595	20,915	24,709	7,500	8,491	9,789	1,900	2,224	2,592
Exports, n.e.c.....	5,927	6,849	7,472	4,045	4,591	4,797	5,427	6,769	6,155	2,255	3,327	3,020	276	353	412
Imports	277,697	316,292	329,781	173,034	201,196	213,725	525,148	599,125	641,127	103,366	110,097	111,548	243,886	288,125	321,707
Petroleum and products.....	72,367	84,939	88,615	25,726	33,502	33,726	46,883	55,829	61,036	2,969	3,944	5,505	620	771	436
Nonpetroleum products.....	205,330	231,353	241,166	147,308	167,694	179,999	478,265	543,296	580,091	100,397	106,153	106,043	243,266	287,354	321,271
Foods, feeds, and beverages.....	19,860	22,083	23,914	9,131	10,297	11,167	12,590	14,252	15,730	727	731	764	2,892	3,752	4,425
Industrial supplies and materials.....	108,855	128,521	130,739	40,924	50,858	52,094	95,049	114,744	120,280	16,287	19,349	19,671	21,657	28,412	29,558
Capital goods, except automotive.....	44,399	49,693	53,831	38,343	43,553	47,045	156,790	178,754	192,404	38,780	40,991	41,250	74,060	89,178	103,274
Automotive vehicles, parts, and engines.....	47,645	54,411	55,482	44,416	50,891	52,560	21,974	25,074	27,462	13,771	14,821	14,791	5,751	7,343	9,044
Consumer goods (nonfood), except automotive.....	47,476	51,124	55,135	32,848	37,438	42,190	228,484	254,397	271,889	29,893	29,790	30,637	136,698	156,032	171,561
Imports, n.e.c., and U.S. goods returned.....	9,462	10,460	10,680	7,372	8,159	8,669	10,261	11,904	13,362	3,908	4,415	4,435	2,828	3,408	3,845
Balance	-100,379	-111,557	-106,167	-52,770	-67,303	-77,312	-326,851	-363,901	-369,091	-18,200	-14,030	-5,875	-202,087	-233,087	-256,630

^p Preliminary
n.e.c. Not elsewhere classified

continued to increase, with the increase led by capital goods and industrial supplies and materials.

The deficit with members of OPEC increased \$19.5 billion. The increase reflected an \$11.2 billion deficit with Angola, which was admitted to membership at the start of 2007. The increase also resulted from an increase in imports of petroleum and products from Nigeria, Saudi Arabia, and Venezuela. Exports also increased; capital goods to Saudi Arabia and Qatar accounted for over half of the increase.

Services

The surplus on services increased to \$106.9 billion in 2007 from \$79.7 billion in 2006 (table L, chart 8). The increase was the largest by a wide margin of any of the annual increases in the past 4 years. From a recent low in 2004, the surplus has nearly doubled, rising from \$57.5 billion in 2004 to \$106.9 billion in 2007.

A large share of the increase in services receipts in 2007 was attributable to continued strength in "other" private services, which increased by a somewhat larger amount in 2007 than in 2006. Increases in travel, as well as in royalties and license fees, were much larger in 2007 than in 2006. When these increases are combined with those of other services categories, total services receipts increased 13 percent in 2007, up from a 9 percent increase in 2006.

A large share of the increase in services payments in 2007 was also attributable to continued strength in "other" private services, which was up slightly more in 2007 than in 2006. However, unlike the situation with receipts, the increase in travel was only slightly larger than in 2006, and most other major categories of services increased less than in 2006. Consequently, the increase in total services payments remained at 9

Chart 8. Services, 1995–2007

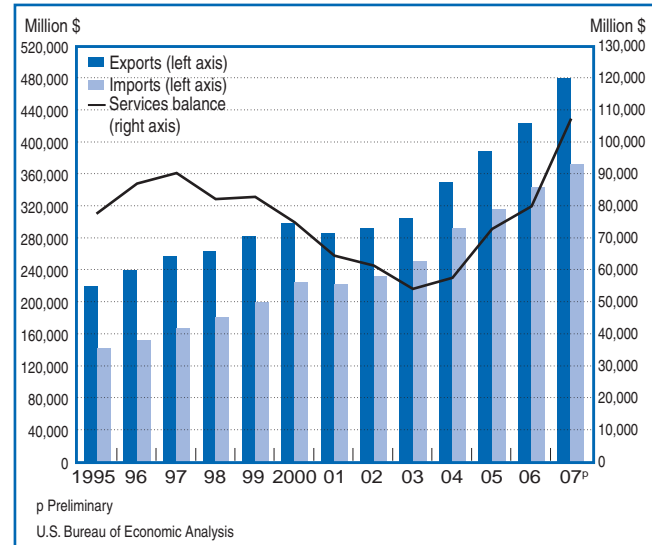


Table L. Services

[Millions of dollars, quarters seasonally adjusted]

	2005	2006	2007 ^p	2007			
				I ^r	II ^r	III ^r	IV ^p
Exports	388,439	422,594	479,150	111,706	116,851	122,583	128,009
Travel.....	81,799	85,694	97,097	21,877	23,164	25,211	26,845
Passenger fares.....	20,970	22,187	25,329	5,772	6,132	6,550	6,874
Other transportation.....	41,334	46,297	51,854	12,144	12,677	13,084	13,949
Royalties and license fees.....	59,409	62,378	71,345	16,645	17,569	18,384	18,747
Other private services.....	164,301	187,771	216,609	50,713	53,072	55,209	57,615
Affiliated services.....	50,108	57,638	63,794	15,362	15,768	16,113	16,551
Unaffiliated services.....	114,193	130,133	152,815	35,351	37,304	39,096	41,064
Education.....	14,076	14,570	14,987	3,702	3,730	3,774	3,783
Financial.....	31,039	37,114	45,309	10,191	10,986	11,702	12,430
Insurance.....	7,787	9,276	10,490	2,581	2,552	2,623	2,734
Telecommunications.....	5,231	6,257	7,110	1,700	1,788	1,809	1,813
Business, professional, and technical.....	41,874	47,400	56,122	12,739	13,699	14,469	15,216
Other.....	14,187	15,515	18,796	4,439	4,550	4,719	5,089
Military transactions ¹	19,539	17,112	15,706	4,259	3,950	3,837	3,661
U.S. government receipts.....	1,087	1,155	1,210	296	288	309	318
Imports	315,661	342,845	372,296	88,614	91,264	94,606	97,811
Travel.....	68,970	72,029	76,426	18,603	18,789	19,344	19,690
Passenger fares.....	26,149	27,503	28,574	6,769	6,921	7,298	7,586
Other transportation.....	61,929	65,282	67,094	16,381	16,572	16,874	17,267
Royalties and license fees.....	24,632	26,432	27,924	6,810	6,898	7,015	7,201
Other private services.....	99,927	116,524	135,285	31,111	32,975	34,870	36,328
Affiliated services.....	39,847	48,201	53,311	12,807	13,086	13,443	13,974
Unaffiliated services.....	60,080	68,323	81,974	18,304	19,889	21,427	22,354
Education.....	3,962	4,403	4,780	1,178	1,194	1,199	1,208
Financial.....	6,720	8,497	11,840	2,431	2,995	3,098	3,316
Insurance.....	28,540	33,582	38,030	8,680	9,061	9,970	10,319
Telecommunications.....	4,527	4,557	4,899	1,181	1,254	1,221	1,243
Business, professional, and technical.....	14,824	15,845	21,215	4,532	5,109	5,635	5,939
Other.....	1,508	1,441	1,210	302	276	304	328
Direct defense expenditures ²	30,075	31,054	32,811	7,924	8,091	8,136	8,660
U.S. government payments.....	3,979	4,021	4,182	1,016	1,018	1,069	1,079

^p Preliminary

^r Revised

1. Consists of goods and services transferred under U.S. military agency sales contracts, which cannot be separately identified.

2. Consists of imports of goods and services by U.S. defense agencies, which cannot be separately identified.

percent, unchanged from a 9 percent increase in 2006.

Travel receipts increased \$11.4 billion, or 13 percent, in 2007, following an increase of \$3.9 billion, or 5 percent, in 2006. Visitors from overseas spent \$76.8 billion in the United States in 2007, an increase of 13 percent from 2006. Spending by overseas visitors in 2007 reached a record high, exceeding the previous high in 2000. Strong appreciations in both the euro and the pound over 2006 and 2007 were major factors encouraging travel to the United States. Visitors from Europe increased 12 percent in 2007, following a decrease of 2 percent in 2006, visitors from the euro area increased 17 percent, following a decrease of 1 percent, and visitors from the United Kingdom increased 8 percent, following a decrease of 4 percent. The number of visitors from Asia was up only 4 percent, following a 1 percent decrease in 2006.

Travel payments increased \$4.4 billion, or 6 percent, in 2007, following an increase of \$3.1 billion, or 4 percent, in 2006. Depreciation of the dollar and rising prices abroad contributed to an increase in expenditures abroad and to a slowing in the increase in the number of travelers to overseas areas to 3 percent in 2007 from 5 percent in 2006. The 3 percent increase in 2007 was the lowest annual increase in the number of travelers to overseas areas since 2002. Travelers to Europe slowed to a 2 percent increase from a 3 percent increase and travelers to Asia slowed to a 7 percent increase from an 8 percent increase.

Travel receipts from Canada increased \$2.7 billion, or 26 percent, in 2007, following an increase of 14 percent in 2006. As in 2006, sizable appreciation of the Canadian dollar against the U.S. dollar in 2007 encouraged greater spending in the United States, although the increase in the number of travelers was unchanged at 6 percent. Travel receipts from Mexico increased \$0.1 billion, or 2 percent, in 2007, down from a 6 percent increase in 2006.

Travel payments to Canada decreased \$0.1 billion, or 1 percent, in 2007, following an increase of 2 percent in 2006. The sizable decline of the U.S. dollar against the Canadian dollar discouraged travel to Canada and led to an 11 percent decline in the number of travelers in 2007, following a 9 percent decline in 2006. Travel payments to Mexico increased \$0.7 billion, or 7 percent, in 2007, up from a 2 percent increase in 2006.

Passenger fare receipts increased \$3.1 billion, or 14 percent in 2007, following an increase of \$1.2 billion, or 6 percent, in 2006. The increase in 2007 reflected a 12 percent increase in the number of foreign visitors on U.S.-flag carriers. Passenger fare payments increased \$1.1 billion, or 4 percent, following an increase of \$1.4 billion, or 5 percent. The increase in 2007 reflected a less than 1 percent increase in the number of

U.S. travelers on foreign-flag carriers. Sizable price increases in airfares resulted from a 7 percent rise in jet fuel prices after an 18 percent increase in 2006 and affected both receipts and payments. These price pressures more than offset the impact of a significant expansion in airline capacity for both inbound and outbound flights and a significant improvement in average load factors.

“Other” transportation receipts increased \$5.6 billion, or 12 percent, in 2007, following an increase of \$5.0 billion, or 12 percent, in 2006. Increases in 2007 were spread among several areas; the largest increases were from Europe, Asia (mostly Korea and China), and Latin America, reflecting growth in exports to, and imports from, those regions. Increases occurred in both port and freight services. Port services receipts increased \$3.3 billion, or 11 percent, down from a 17 percent increase. The increase mostly reflected increases in air and ocean export and import volumes transported by foreign carriers and higher fuel prices. Freight receipts increased \$2.2 billion, or 13 percent, up from a 5 percent increase. Air freight receipts were higher as a result of a 13 percent increase in export volume; ocean freight receipts were also higher as a result of an increase in export volume.

“Other” transportation payments increased \$1.8 billion, or 3 percent, in 2007, following an increase of \$3.4 billion, or 5 percent, in 2006. The increase in 2007 mostly reflected a slower increase in goods imports and higher fuel prices. The largest increases were to Europe, Canada, and Latin America. Payments to Asia (mostly Japan) decreased. An increase in port services was partly offset by a decrease in freight services. Port services payments increased \$1.9 billion, or 10 percent, up from a 9 percent increase. Air port services increased \$1.8 billion, or 10 percent, following a 10 percent increase, and accounted for nearly all of the increase in 2007; most U.S. carriers reported higher overseas expenses largely the result of a 7 percent increase in the price of jet fuel. Ocean port services increased \$0.1 billion, or 6 percent, following a 1 percent decrease, mostly the result of an increase in bunker fuel prices. Freight payments decreased \$0.1 billion, or less than 1 percent, following a 4 percent increase. Ocean freight payments decreased \$0.3 billion, or 1 percent, following a 4 percent increase, mostly reflecting flat import volume from Asia. Air freight payments increased \$0.1 billion, or 2 percent, down from a 3 percent increase.

“Other” private services receipts increased \$28.8 billion, or 15 percent, in 2007, following an increase of \$23.5 billion, or 14 percent, in 2006. Receipts for business, professional, and technical services increased significantly more in 2007 than in 2006. Financial services

also increased significantly more than in 2006, partly because of higher fees received for financial management and financial advisory services, including fees for arranging mergers and acquisitions; fees from brokerage and underwriting activities were also higher. "Other" private services payments increased \$18.8 billion, or 16 percent, in 2007, following an increase of \$16.6 billion, or 17 percent, in 2006. Payments for business, professional, and technical services, for financial services, and for insurance were all sharply higher in 2007.

Transfers under U.S. military sales contracts decreased \$1.4 billion to \$15.7 billion in 2007 from \$17.1 billion in 2006. The decrease was more than accounted for by a decline in services for reconstruction in Iraq; these services have declined to \$1.6 billion in 2007 from \$3.4 billion in 2006 and \$6.0 billion in 2005. Transfers of equipment and related services under the Foreign Military Sales program were \$12.2 billion in 2007, slightly above those in 2006. Direct defense expenditures abroad increased \$1.7 billion to \$32.8 billion in 2007 from \$31.1 billion in 2006. Most of the increase was attributable to large increases in purchases of petroleum, partly due to sharp price increases, but personnel expenditures and purchases of contractual services also rose.

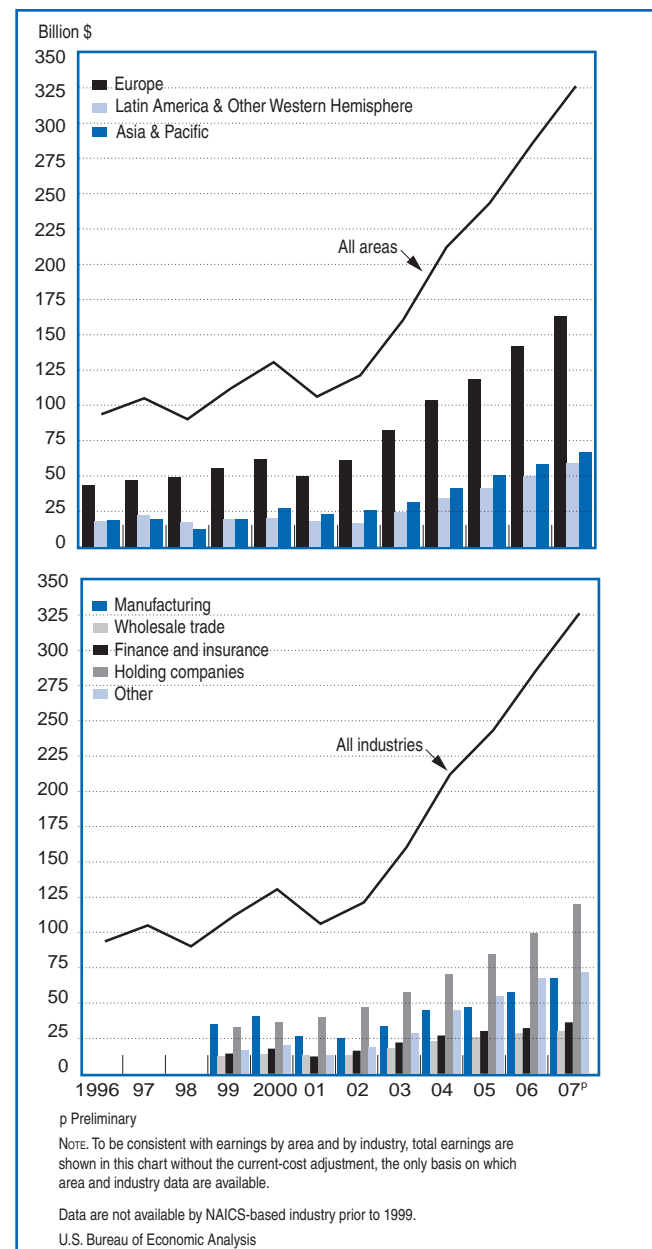
Income

The surplus on income increased to \$74.3 billion in 2007 from \$36.6 billion in 2006 (table C). Income receipts increased more than income payments. Almost all of the increases in both receipts and payments were accounted for by increases in investment income. The

surplus on direct investment income increased to \$223.6 billion from \$174.2 billion, and the surplus on other private income increased to \$12.5 billion from \$0.3 billion. In contrast, the deficit on U.S. government income increased to \$155.0 billion from \$131.4 billion.

Receipts of income on U.S. direct investment abroad were \$352.6 billion in 2007, up from \$310.2 billion in 2006 (table M, chart 9). Earnings increased 13 percent, down from a 16 percent increase. The small slowdown paralleled the small slowdown in real growth in many industrial and developing economies in 2007. Nevertheless, economic growth in those countries and earnings of affiliates abroad remained

Chart 9. Earnings on U.S. Direct Investment Abroad



strong. In addition, depreciation of the dollar contributed to the strong increase in earnings, particularly for affiliates in Europe and in Canada. The increase in earnings was largest for holding companies, led by those holding operating affiliates in computer services and pharmaceuticals; the increase in earnings for holding companies was \$20.7 billion, largely in Europe. Earnings in manufacturing increased \$10.2 billion, largely in Europe, but also in Central and South America and developing countries in Asia; the increase was led by transportation equipment, chemicals, and machinery. Earnings in “other” increased \$4.3 billion, and earnings in finance and insurance increased \$4.0 billion.

Payments of income on foreign direct investment in the United States were \$129.0 billion in 2007, down from \$136.0 billion (table M, chart 10). Earnings of U.S. affiliates of foreign companies declined 9 percent

in 2007, following a 15 percent increase in 2006. The decline paralleled the drop in domestic U.S. corporate profits, which were off 3 percent after an increase of 12 percent. The decline in earnings was largest in finance and insurance, at \$12.1 billion, as a result of reduced earnings or losses in depository institutions. Earnings in wholesale trade decreased \$5.5 billion, mostly attributable to petroleum wholesalers. Partial offsets to these decreases were increases in earnings in manufacturing, at \$5.7 billion—led by transportation equipment, petroleum, and chemicals—and in earnings in “other” at \$0.9 billion.

“Other” private income receipts and “other” private income payments rose strongly again in 2007 after a strong increase in 2006. However, in contrast to 2006, nearly all of the rise in both receipts and payments was attributable to sizable increases in outstanding claims and liabilities of banks and nonbanks and holdings of securities; both U.S. and foreign interest rates changed little for much of the year and fell significantly in the fourth quarter, whereas they had increased sharply in both 2005 and 2006.

Receipts of income on other private investment increased to \$424.4 billion in 2007 from \$335.0 billion in 2006 (table N, chart 11). Interest received on banks’ claims increased \$30.1 billion because of a 24 percent increase in average amounts outstanding and a 12-basis-point increase in interest rates. Income received on securities increased \$36.1 billion; dividends increased \$26.4 billion because of a 27 percent increase in average holdings, and interest on bonds increased \$9.6 billion because of an 18 percent increase in average amounts outstanding. Interest on “other” (largely nonbank) claims increased \$23.3 billion, mostly because of a 27 percent increase in average amounts outstanding.

Payments of income on other private investment increased to \$411.9 billion in 2007 from \$334.6 billion in 2006 (table N, chart 11). Nearly all of the increase was attributable to higher average amounts outstanding. Interest paid on banks’ liabilities increased \$25.9 billion as a result of higher average amounts outstanding

Chart 10. Earnings on Foreign Direct Investment in the United States

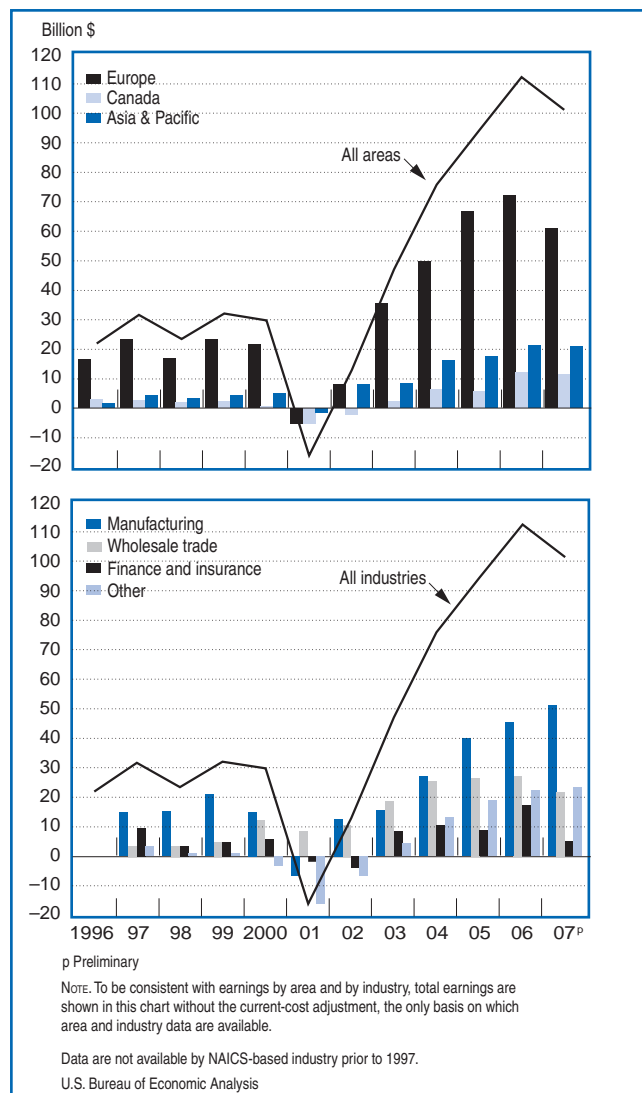


Table N. Other Private Income
[Billions of dollars]

	2005	2006	2007 ^p
Receipts	230.5	335.0	424.4
Dividends	64.7	82.9	109.3
Interest on bonds	56.1	60.9	70.5
Interest on bank claims	63.6	112.3	142.4
Interest on other claims ¹	46.2	78.9	102.2
Payments	227.4	334.6	411.9
Dividends	38.1	44.8	53.8
Interest on bonds	85.3	105.2	126.3
Interest on bank liabilities	62.3	120.2	146.1
Interest on other liabilities ¹	41.7	64.5	85.6

^p Preliminary
¹ Primarily income of financial concerns other than banks.
 NOTE: Excludes direct investment income receipts and payments.

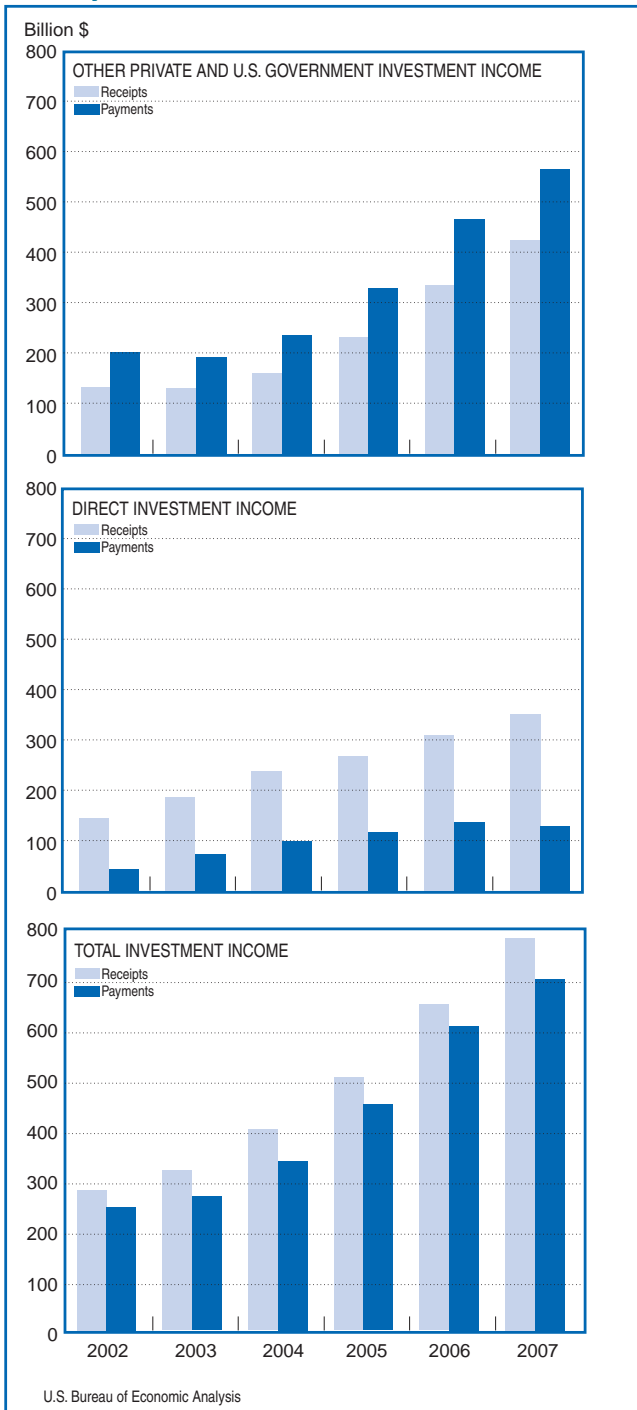
and an 8-basis-point increase in yields. Income paid on securities increased \$30.2 billion; interest on bonds increased \$21.1 billion because of a 22 percent increase in average holdings, and dividends on stocks increased \$9.0 billion because of an increase in average holdings. Interest paid on "other" (largely nonbank) liabilities increased \$21.1 billion as a result of a 29 percent in-

crease in average amounts outstanding and a 14-basis-point increase in yields.

Receipts of income on U.S. government assets were \$2.2 billion in 2007, down from \$2.4 billion in 2006 (table O).

Payments of income on U.S. government liabilities increased to \$157.2 billion in 2007 from \$133.8 billion in 2006 (table O). About 80 percent of the increase was attributable to higher average amounts outstanding. Payments on Treasury bonds increased \$10.8 billion, payments on agency bonds increased \$11.7 billion, and payments on Treasury bills increased \$1.0 billion.

Chart 11. U.S. Investment Income: Receipts and Payments



Unilateral current transfers

Net unilateral current transfers to foreigners were \$104.4 billion in 2007, up from \$89.6 billion in 2006.

U.S. government grants were \$32.7 billion, up from \$27.1 billion (table O). Grants to Israel and Egypt under the credit waiver program and under economic assistance programs totaled \$3.5 billion in 2007, up from \$0.6 billion in 2006.

U.S. government grant disbursements for reconstruction in Iraq fell to \$2.5 billion in 2007 from \$4.6 billion in 2006. However, grant disbursements for operations of Afghanistan and Iraqi security forces increased to \$9.4 billion from \$6.5 billion.

Excluding these transactions with Israel, Egypt, and Iraq, U.S. government grants to developing countries for all other purposes were \$17.3 billion in 2007, up from \$15.4 billion in 2006.

Table O. Selected U.S. Government Transactions
[Millions of dollars]

(Credits +; debits -)	2005	2006	2007 ^p	2007			
				I	II	III ^r	IV ^p
U.S. government grants	-33,039	-27,142	-32,699	-10,372	-5,439	-6,985	-9,903
U.S. government forgiveness of foreign debt	-2,342	-1,711	-96	0	-39	-57	0
U.S. government credits and other long-term assets	-2,255	-2,992	-2,441	-608	-1,348	-182	-302
For debt rescheduling.....	-420	-227	-333	-161	-67	-27	-78
Other disbursements.....	-1,834	-2,765	-2,107	-447	-1,281	-155	-224
Repayments of U.S. government credits and other long-term assets	5,604	8,329	3,450	1,091	881	780	697
From debt rescheduling.....	136	152	217	113	54	6	44
From debt forgiveness.....	249	1,669	66	0	31	35	0
Other repayments.....	5,219	6,508	3,166	978	796	739	653
U.S. government foreign currency holdings and short-term assets, net ¹	2,191	9	-23,940	-38	98	25	-24,025
From debt rescheduling.....	117	1	30	2	0	18	10
From debt forgiveness.....	2,037	3	29	0	7	22	0
Other.....	37	5	-23,999	-40	91	-15	-24,035
U.S. government receipts of income	2,715	2,400	2,198	570	542	521	565
From debt rescheduling.....	168	73	86	46	13	3	24
From debt forgiveness.....	56	39	2	0	1	1	0
Other receipts.....	2,491	2,288	2,110	524	528	517	541
U.S. government payments of income	-103,874	-133,755	-157,244	-37,638	-39,478	-39,726	-40,402

^p Preliminary

^r Revised

¹ Beginning in the fourth quarter of 2007, includes drawings and repayments under temporary reciprocal currency arrangements between the U.S. Federal Reserve System and foreign central banks that do not meet the strict definition of U.S. reserve assets.

Private remittances and other transfers to foreigners increased to \$64.9 billion in 2007 from \$55.9 billion in 2006.

Capital Account

Capital account transactions were net payments (outflows) of \$2.3 billion in 2007, down from \$3.9 billion in 2006.¹

Financial Account

Net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were \$657.4 billion in 2007, down from \$833.2 billion in 2006. Net acquisitions by U.S. residents increased much more than net acquisitions by foreign residents (chart 12).

The size of the gross flows that are combined in the net measure was markedly different between the first and second halves of the year. Gross inflows and outflows were much higher in the first half of the year than in the second half. In the first half, their size reflected a positive economic outlook for world economic growth, relatively strong corporate profits, rising equity prices, relatively stable bond prices, and robust merger and acquisition activity. In the second half, gross inflows and outflows were less than half those in the first half. As the severity of problems in the subprime mortgage and debt markets became more evident, foreign investors reassessed their tolerance for risk and sharply reduced their purchases of asset-backed debt securities. Financial institutions both in the United States and Europe suffered liquidity shortages, partly as a result of their desire to maintain liquidity to cover their own subprime-related exposures and their hesitancy to lend to other institutions with potential exposures. Central banks in the United States and abroad moved aggressively to supply additional funds to these institutions.

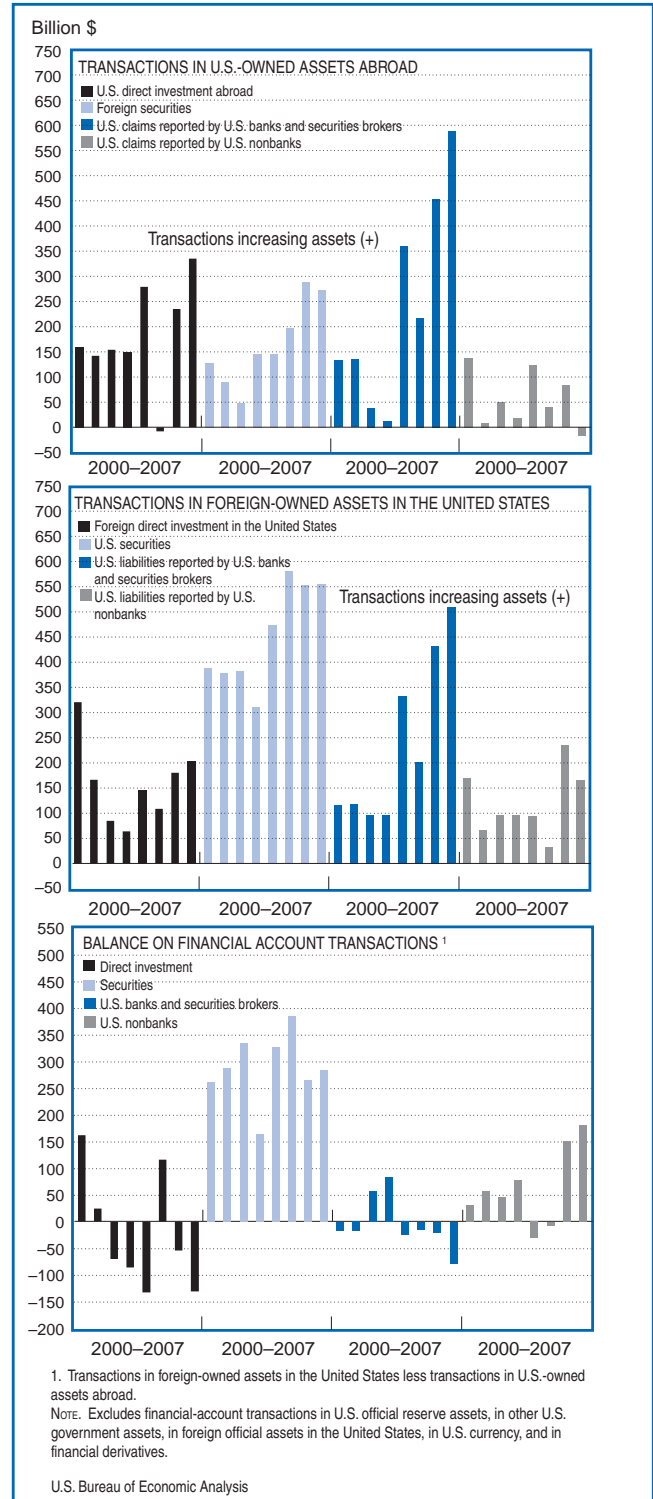
1. Capital account transactions largely consist of changes in financial assets of migrants as they enter or leave the United States and U.S. government debt forgiveness.

Data Availability

The estimates that are presented in tables 1–11 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 most recent quarterly estimates for an entire table, or they may select the period, frequency, and lines that they wish to view. The estimates are available in an HTML table, in a spreadsheet file (.xls format), or as comma-separated values.

The Federal Reserve System injected a substantial amount of funds into the interbank market and pursued a policy of aggressive rate cuts to mitigate liquidity shortages and to stimulate growth in the U.S. economy, which slowed sharply in the fourth quarter.

Chart 12. Selected Financial Account Transactions, 2000–2007



The target federal funds rate was lowered in September, October, and December for a total decline of 100 basis points (chart 13). Partly as a result of these actions, short-term and long-term interest differentials

Chart 13. Key Interest Rates for Monetary Policy

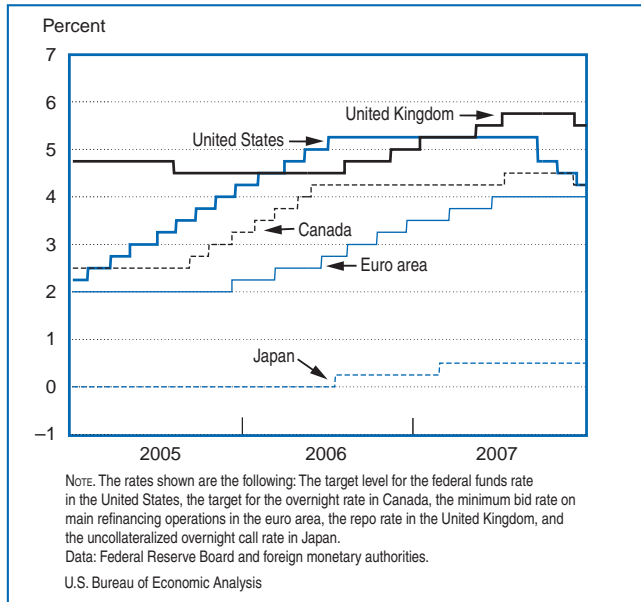
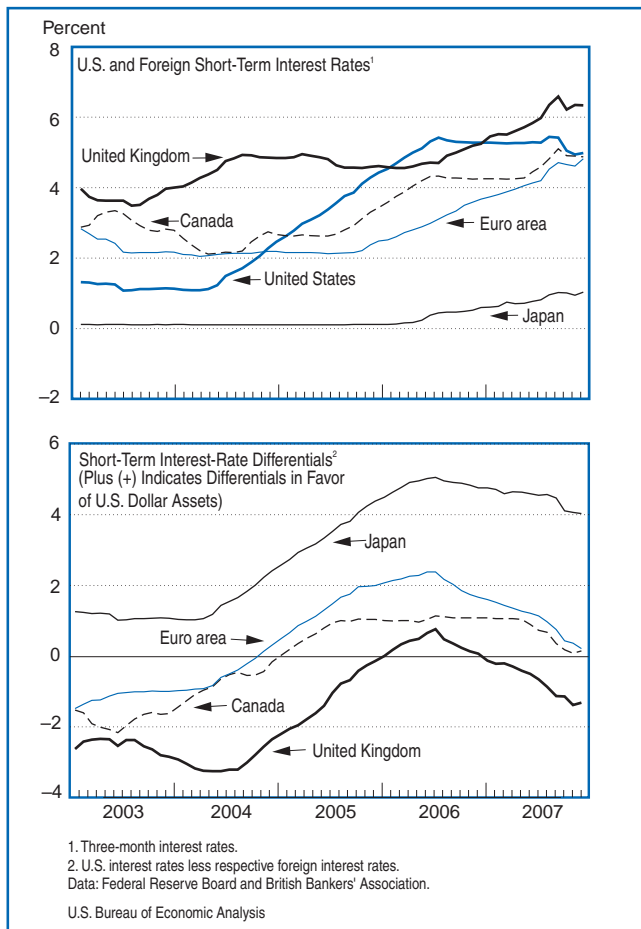


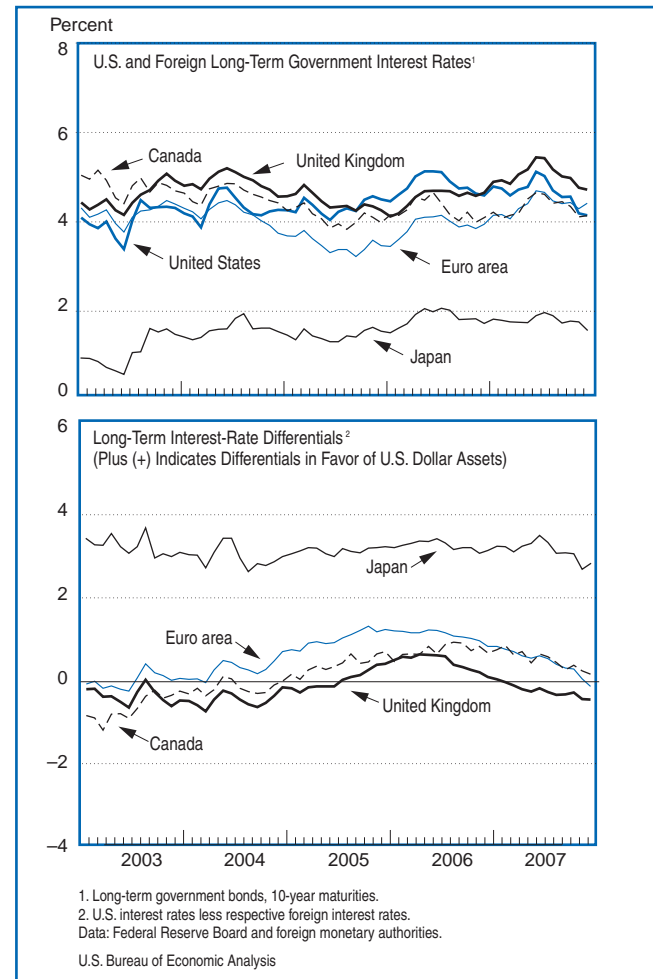
Chart 14. Short-Term Interest Rates



in favor of U.S. assets became significantly smaller (charts 14 and 15). Turbulence in financial markets was partly evident in substantial increases in volatility and risk premiums in debt markets (charts 16 and 17), in substantial decreases in new issues of certain debt instruments (charts 18 and 19), and in increased volatility in the equity markets.

The disruptions in financial markets had a widespread and, in some cases, very substantial effect on U.S. financial account transactions. In the U.S. securities accounts, net foreign purchases of U.S. securities other than U.S. Treasury securities slowed sharply (table 1, line 66), particularly net purchases of corporate bonds, and foreign transactions in U.S. Treasury securities shifted to sizable net purchases from net sales (table 1, line 65). Net U.S. purchases of foreign securities remained strong despite a substantial slowdown in the fourth quarter (table 1, line 52). U.S. claims reported by U.S. nonbanks decreased because a very substantial amount of asset-backed commercial paper issued by foreign corporations' affiliates domiciled in the United States could not be rolled over at maturity (table 1, line

Chart 15. Long-Term Interest Rates



53). U.S. banks and securities brokers engaged in a significantly greater amount of lending and borrowing in the first half of 2007 than in the second half of 2007 when lending and borrowing were sharply curtailed (table 1, lines 54, 69). Financial flows for outward and inward direct investment were relatively unaffected by the crisis in the credit markets (table 1, lines 51, 64).

U.S.-owned assets abroad

Net U.S.-owned assets abroad increased \$1,206.3 billion in 2007, following an increase of \$1,055.2 billion in 2006. U.S. claims reported by U.S. banks, U.S. direct investment abroad, and net U.S. purchases of foreign securities all increased substantially.

U.S. official reserve assets. U.S. official reserve assets increased \$0.1 billion in 2007, following a \$2.4 billion decrease in 2006. The U.S. reserve position at the International Monetary Fund decreased \$1.0 billion, foreign currency holdings increased \$1.0 billion, and special drawing rights increased \$0.2 billion.

U.S. government assets other than official reserve assets. U.S. government assets other than official reserve assets increased \$22.9 billion in 2007, following a

Chart 16. Money Market Yields and Spreads

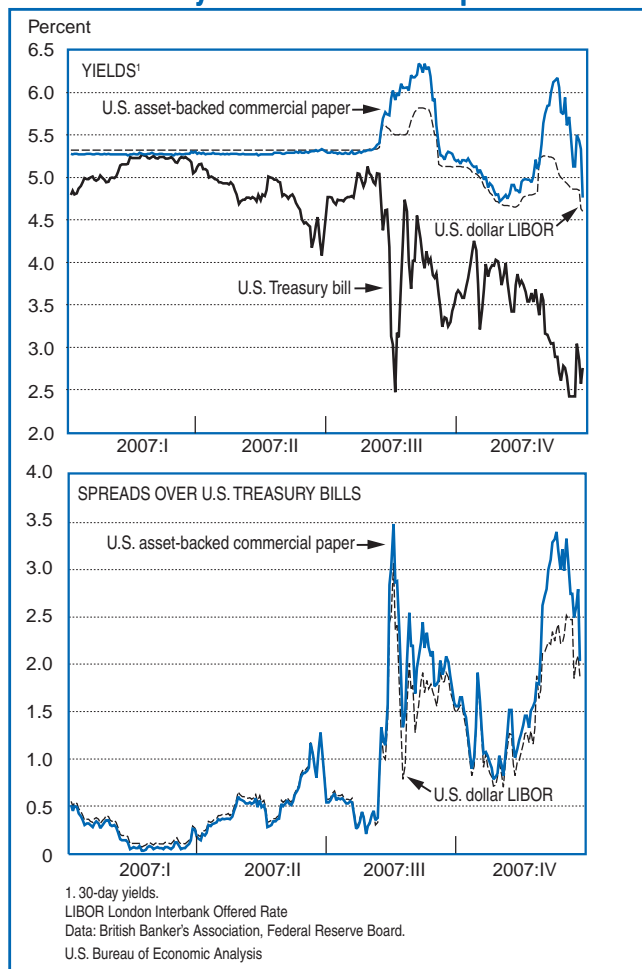


Chart 17. U.S. Bond Yields and Spreads

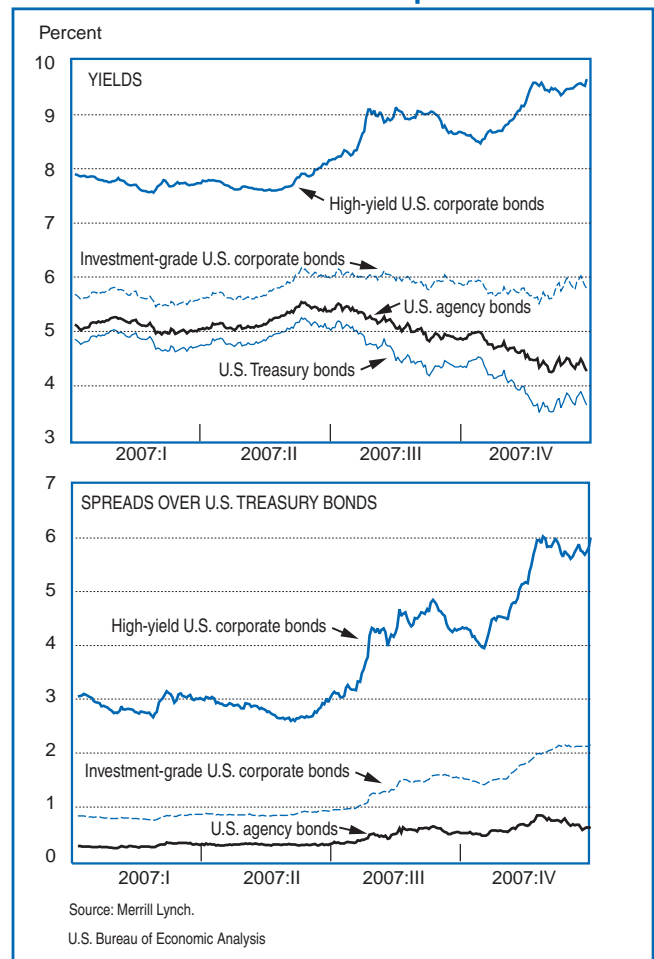
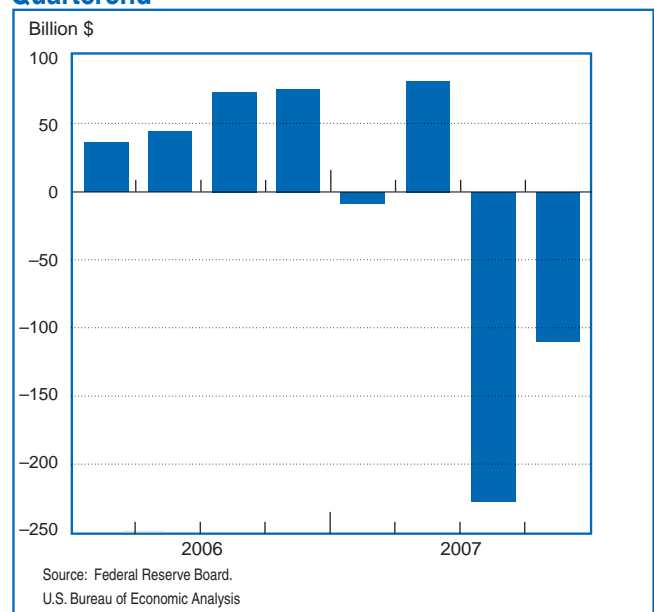


Chart 18. U.S. Asset-Backed Commercial Paper Outstanding: Change From Preceding Quarterend



\$5.3 billion decrease in 2006 (table O). The increase in 2007 resulted from drawings under temporary reciprocal currency agreements of the Federal Reserve System with foreign central banks that do not meet the strict definition of U.S. reserve assets. These agreements were established in mid-December as part of the response by U.S. and foreign monetary officials to provide liquidity to foreign central banks in order to improve the functioning of financial markets in the wake of the subprime lending crisis. The European Central Bank drew \$20 billion under these short-term credit lines and the Swiss National Bank drew \$4

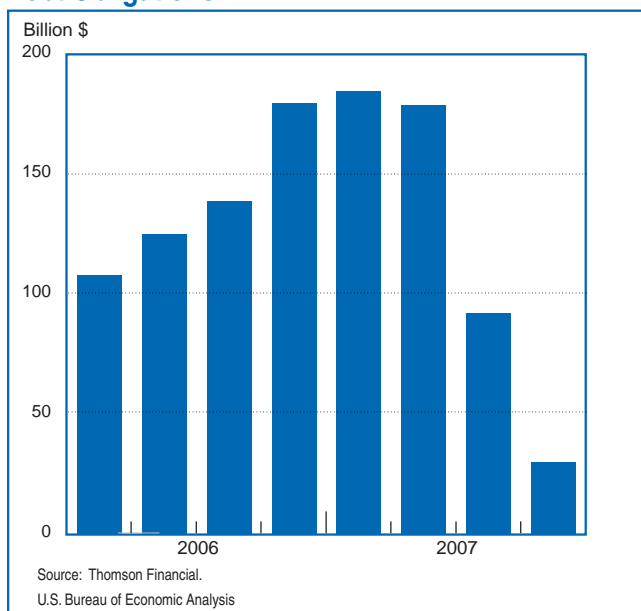
billion in exchange for euros and Swiss francs, thereby increasing U.S. government foreign currency holdings. The credit lines were increased, and the initial drawings rolled over early in 2008 when the liquidity crisis continued.

Claims reported by banks and by nonbanks. U.S. claims reported by U.S. banks and securities brokers increased \$589.8 billion in 2007, up from an increase of \$454.6 billion in 2006 (tables P and Q). The step-up was in claims for banks' own accounts; claims for customers' accounts were off sharply.

Gross lending and gross borrowing by banks and securities brokers was significantly greater in 2007 than in 2006. On a net basis, U.S. banks and brokers were net suppliers of funds to foreigners of \$78.9 billion in 2007. In 2006, U.S. banks supplied funds to foreigners of \$20.2 billion, and in 2005, U.S. banks supplied funds of \$15.0 billion (table P).

Foreign-owned banks' own claims denominated in dollars increased \$255.7 billion in 2007, up from a \$188.3 billion increase in 2006. In the first half of 2007, lending was partly related to the strong pickup in mergers and acquisitions worldwide and to the acceleration in syndicated loans. Global mergers and acquisitions strengthened to \$4.5 trillion in announced deals in 2007, a 24 percent increase over the previous record set in 2006. More than 60 percent of the mergers in 2007 involved companies outside the United States, mostly in Europe.² In addition, global syndicated

Chart 19. New Issues of Global Collateralized Debt Obligations



2. For more information, see Thomson Financial, "Global Mergers and Acquisitions Advisory Review, Fourth Quarter 2007" at <www.thomson.com/solutions/financial>, click on "Investment Banking" and then "League Tables," and look under "Mergers and Acquisitions."

Table P. Private Financial Flows, Net

[Billions of dollars]

Claims (increase/financial outflow (-)); liabilities (increase/financial inflow (+))	2005	2006	2007 ^p	2007			
				I	II	III ^r	IV ^p
Private financial flows, net (excluding financial derivatives)	498.5	356.4	267.7	15.2	86.8	63.1	102.7
Bank-reported capital, net¹	-15.0	-20.2	-78.9	-29.8	-67.0	-34.1	52.0
U.S. claims.....	-217.5	-454.6	-589.8	-233.4	-211.0	-102.5	-43.0
U.S. liabilities ¹	202.5	434.4	510.9	203.6	144.0	68.4	94.9
Securities, net	385.6	266.6	284.3	69.7	162.6	-93.1	145.2
Net U.S. purchases of foreign securities.....	-197.1	-289.4	-273.9	-82.2	-82.2	-100.2	-4.2
Stocks.....	-142.6	-138.5	-131.0	-43.5	-40.4	-56.9	9.8
Bonds.....	-54.5	-150.9	-142.9	-43.7	-41.8	-43.3	-14.0
Net foreign purchases of U.S. securities.....	582.7	556.1	558.2	156.9	244.8	7.1	149.4
U.S. Treasury securities.....	132.3	-35.9	166.3	44.6	1.8	50.3	69.6
Other than U.S. Treasury securities.....	450.4	592.0	391.9	112.3	243.0	-43.1	79.8
Stocks.....	88.3	142.8	183.4	43.5	104.1	-19.9	55.6
Bonds.....	362.1	449.2	208.5	68.8	138.8	-23.3	24.2
U.S. currency flows, net	19.0	12.6	10.9	-1.6	3.3	4.7	4.5
Direct investment, net	116.7	-54.8	-131.0	-68.9	-28.3	42.6	-76.5
U.S. direct investment abroad.....	7.7	-235.4	-335.4	-81.9	-78.4	-58.7	-116.4
Foreign direct investment in the United States.....	109.0	180.6	204.4	13.0	50.1	101.3	39.9
Nonbank-reported capital, net	-7.8	152.2	182.4	45.8	16.2	142.9	-22.5
U.S. claims.....	-39.6	-83.5	15.8	-47.8	-94.0	86.8	70.8
U.S. liabilities.....	31.8	235.8	166.6	93.6	110.2	56.1	-93.3

^p Preliminary

^r Revised

1. Liabilities exclude U.S. Treasury securities.

lending increased 13 percent, driven partly by acquisition financing.³ U.S. banks, especially foreign-owned banks, featured prominently in shifting funds abroad to meet these credit demands.

In the second half of 2007, lending by foreign-owned banks remained just below that in the first half. Much of the lending was to European banks, where liquidity in the interbank market had tightened considerably and ultimately led to the injection of funds by the European Central Bank. In Europe, interbank funding became more difficult to obtain and its cost relative to underlying reference rates increased substantially as a result of some banks' desire to maintain liquidity to cover their own subprime-related exposures and their hesitancy to lend to other banks with potential exposures (table Q). Several European banks revealed exposures arising from both their holdings of subprime-related securities as well as their contingent funding commitments to European asset-backed commercial paper conduits and structured investment vehicles that held subprime-related assets and that were experiencing problems obtaining funding in the asset-backed commercial paper market. Pressures in the European interbank market remained somewhat elevated through yearend. In mid-December, the Federal Reserve entered into temporary reciprocal currency agreements with the European Central Bank and the Swiss National Bank to provide funds for short-term lending to European banks in need of dollars.

3. For more information, see Thomson Financial, "Syndicated Loans Review, Fourth Quarter 2007" at <www.thomson.com/solutions/financial>, click on "Investment Banking" and then "League Tables" and look under "Syndicated Loans."

U.S.-owned banks' own claims denominated in dollars increased \$113.1 billion in 2007, up from \$60.5 billion in 2006. Like foreign-owned banks, U.S.-owned banks provided a significant amount of lending to support the boom in mergers and acquisitions and syndicated lending, particularly in the first half of the year, but total lending by U.S.-owned banks was not nearly as large as lending by foreign-owned banks. In the third quarter, lending by U.S.-owned banks contracted, partly as a result of a cutback in lending to highly leveraged foreign investment funds and weakened demand for funds to support mergers and acquisitions abroad, which slowed. In addition, some U.S.-owned financial institutions may have sought to maintain additional liquidity in their U.S. home offices to cover exposures related to their holdings of collateralized debt obligations and mortgage assets that were unable to be securitized and to their contingent funding commitments to asset-back commercial paper conduits abroad. Liquidity in the interbank market tightened considerably, leading the Federal Reserve to make available an unusually large amount of reserves through open market operations and to adjust procedures for discount window borrowing and securities lending. Toward the end of the year, the Federal Reserve established a Term Auction Facility to supply short-term credit to banks against a wide variety of collateral. In the fourth quarter, lending increased as U.S.-owned banks supplied liquidity to banks in Europe when the availability of funds in the interbank market was limited and the cost of interbank credit again increased (chart 16).

Claims of U.S. securities brokers increased \$128.2

Table Q. Claims and Liabilities Reported by U.S. Banks and Securities Brokers

[Billions of dollars]

	2005	2006	2007 ^p	2007			
				I	II	III ^r	IV ^p
Claims on foreigners reported by U.S. banks and securities brokers (increase/financial outflow (-))	-217.5	-454.6	-589.8	-233.4	-211.0	-102.5	-43.0
Claims for own accounts, denominated in dollars	-175.9	-294.9	-497.0	-219.6	-109.9	-75.2	-92.2
U.S.-owned banks	-77.4	-60.5	-113.1	-32.1	-31.8	1.2	-50.4
Foreign-owned banks	-105.3	-188.3	-255.7	-117.1	-22.0	-44.1	-72.5
Brokers and dealers	6.9	-46.0	-128.2	-70.4	-56.2	-32.3	30.7
Claims for domestic customers' accounts, denominated in dollars	-26.8	-142.8	-57.8	-1.7	-83.0	-34.4	61.3
Commercial paper ¹	1.2	-18.3	4.5	7.8	-5.8	6.1	-3.6
Negotiable certificates of deposit	16.3	-79.1	23.5	15.2	-32.4	-14.3	55.0
Other short-term instruments (including money market instruments)	-18.7	-28.5	18.4	-9.5	-31.8	18.5	41.2
Deposits and brokerage balances (including sweep accounts)	-20.2	-14.4	-102.5	-13.2	-12.8	-35.6	-40.9
Other claims	-5.4	-2.5	-1.7	-2.1	-0.2	-9.1	9.7
Claims denominated in foreign currencies	-14.9	-16.9	-35.0	-12.1	-18.0	-7.1	-12.0
Liabilities to foreigners reported by U.S. banks and securities brokers (excluding U.S. Treasury securities)							
(Increase/financial inflow (+))²	202.5	434.4	510.9	203.6	144.0	68.4	94.9
Liabilities for own accounts, denominated in dollars	191.6	252.2	354.9	166.0	113.1	46.6	29.2
U.S.-owned banks	96.1	128.9	177.1	-0.9	41.1	8.4	128.5
Foreign-owned banks	71.1	93.0	79.8	9.9	42.1	75.7	-47.9
Brokers and dealers	24.3	30.3	98.0	157.0	29.9	-37.5	-51.3
Liabilities for domestic customers' accounts, denominated in dollars	0.5	158.2	79.9	30.8	0.6	25.4	23.1
Negotiable certificates of deposit	9.5	65.4	49.6	15.0	15.0	14.3	5.3
Other liabilities	-9.0	92.7	30.3	15.8	-14.4	11.1	17.8
Liabilities denominated in foreign currencies	10.5	24.1	76.1	6.8	30.3	-3.6	42.6

^p Preliminary

^r Revised

1. Commercial paper issued in the U.S. market by foreign incorporated entities and held in U.S. customers'

accounts. Excludes commercial paper issued through foreign direct investment affiliates in the United States.

2. Excludes liabilities to foreign official agencies.

billion in 2007, up from an increase of \$46.0 billion in 2006. Much of the increase in 2007 occurred in the first two quarters and in part of the third quarter when activity in stock and bond markets abroad was robust. However, outstanding claims fell sharply late in the third quarter and in the fourth quarter, largely through a reduction in resale agreements, when brokers cut back on lending to some highly leveraged foreign investors. Also in the fourth quarter, foreign equity prices fell, liquidity and trading in many debt markets was severely limited, and the severity of the problems related to the U.S. subprime mortgages in Europe increased, all of which further limited the demand for credit offered by securities brokers.

Claims for banks' customers' accounts denominated in dollars increased \$57.8 billion in 2007, a sharp drop from an increase of \$142.8 billion in 2006. During the first half of the year, banks' customers invested in CDs from Europe and short-term instruments (including money market instruments) from the Cayman Islands. As market volatility increased and the severity of problems in subprime mortgage-related instruments intensified in the second half of the year, banks' customers did not renew large amounts of maturing CDs and were large sellers of short-term instruments, preferring instead to increase substantially their holdings of deposits. Banks' customers also sold off commercial paper issued directly in the United States, largely by European issuers, with paper of Irish and German issuers exhibiting the largest reductions.

Claims reported by U.S. nonbanking concerns decreased \$15.8 billion in 2007, in contrast to an increase of \$83.5 billion in 2006 (table P). The decrease was accounted for by a decrease in claims of financial intermediaries that was mostly offset by an increase in deposits. Claims of financial intermediaries fell \$135.3 billion; the decrease was mostly accounted for by an \$81.1 billion decrease in claims on Caribbean financial centers and a \$46.7 billion decrease in claims on the United Kingdom. During the last half of the year, many foreign corporations' affiliates domiciled in the United States that had issued asset-backed commercial paper were unable to roll over their maturing paper. Foreign parents transferred funds to the U.S. affiliates so that the maturing paper could be repaid. In contrast, deposits of U.S. nonbanks increased \$111.9 billion; the increase was mostly accounted for by a \$60.8 billion increase in claims on the United Kingdom and a \$20.0 billion increase in claims on Caribbean financial centers.

Foreign securities. Net U.S. purchases of foreign securities were \$273.9 billion in 2007, down from \$289.4 billion in 2006 (table P). Despite this small slowing from 2006, net U.S. purchases of foreign securities re-

mained brisk in 2007. Net U.S. purchases of foreign bonds were \$142.9 billion, down slightly from \$150.9 billion in 2006. Net U.S. purchases of foreign stocks were \$131.0 billion, down slightly from \$138.5 billion in 2006.

Bonds. Net U.S. purchases of foreign bonds were \$142.9 billion, down from a record \$150.9 billion in 2006. Net U.S. purchases of foreign bonds in both 2006 and 2007 were exceptionally strong, nearly triple the annual net purchases in either 2004 or 2005.

Net U.S. purchases were sizable in the first three quarters of 2007 but slowed sharply in the fourth quarter. In the first half of the year, net U.S. purchases largely reflected strong global bond issuance. In the second half, global bond issuance fell substantially as a result of widespread turmoil in credit markets that was initially caused by problems in the U.S. subprime mortgage market. The turmoil contributed to large price volatility and reduced liquidity in markets for emerging market bonds, lower rated corporate bonds, and global high-yield bonds. U.S. investors increasingly sought the relative safety of sovereign bonds and investment-grade corporate bonds from developed countries. Net U.S. purchases in the fourth quarter were one-third the net purchases in each of the preceding three quarters.

Returns on investment-grade sovereign and corporate bonds denominated in dollars averaged 9 percent in 2007, up from 6 percent in 2006, rivaling, and in some instances surpassing, U.S. equity market returns. Emerging market and high-yield bonds posted much lower dollar-denominated returns, about 5 percent on average, down from 10 percent in 2006, as price declines, especially in the second half, limited total gains for the year.

Net U.S. purchases of bonds from Europe were \$148.4 billion in 2007, little changed from \$147.7 billion in 2006. Among European countries, the largest net U.S. purchases were from the United Kingdom, \$96.0 billion, Belgium, \$31.1 billion, and Luxembourg, \$28.3 billion. London is the leading center for international bond trading and accounted for 60 percent of the primary and 70 percent of the secondary market trading in eurobonds in 2007.⁴

Net U.S. purchases of bonds from Caribbean financial centers increased to \$20.9 billion from \$5.7 billion, mostly as a result of a shift to net U.S. purchases from the Cayman Islands, partly reflecting purchases of asset-backed securities, including collateralized debt obligations. Much of the increase for the year occurred late in the fourth quarter despite a marked slowing in

4. International Financial Markets in the United Kingdom, *International Financial Services London* (November 2007): 9.

global new issues of collateralized debt obligations in the last half of the year (charts 18 and 19).

Net U.S. sales of bonds to Asia increased to \$31.8 billion from \$23.8 billion, mainly as a result of increases in net sales to Singapore and Japan.

Transactions in bonds from Latin America shifted to net U.S. sales of \$3.6 billion from net U.S. purchases of \$7.9 billion. A shift to net sales of \$9.5 billion in the second half of 2007 from net purchases of \$5.9 billion in the first half reflected the reassessment of risks in international financial markets in the second half, when high-yield and emerging market bond prices were extremely volatile and issuance of lower quality bonds fell sharply.

Stocks. Net U.S. purchases of foreign stocks were \$131.0 billion in 2007, down from \$138.5 billion in 2006. Net U.S. purchases remained strong for the first three quarters, but shifted by a substantial amount to net sales in the fourth quarter, as U.S. investors became concerned about the global impact of disruptions in the U.S. mortgage and credit markets and about the potential global impact of a slowing U.S. economy. The fourth quarter was the first quarter of net sales in more than 5 years and coincided with a broad-based decline in foreign stock markets in November and December.

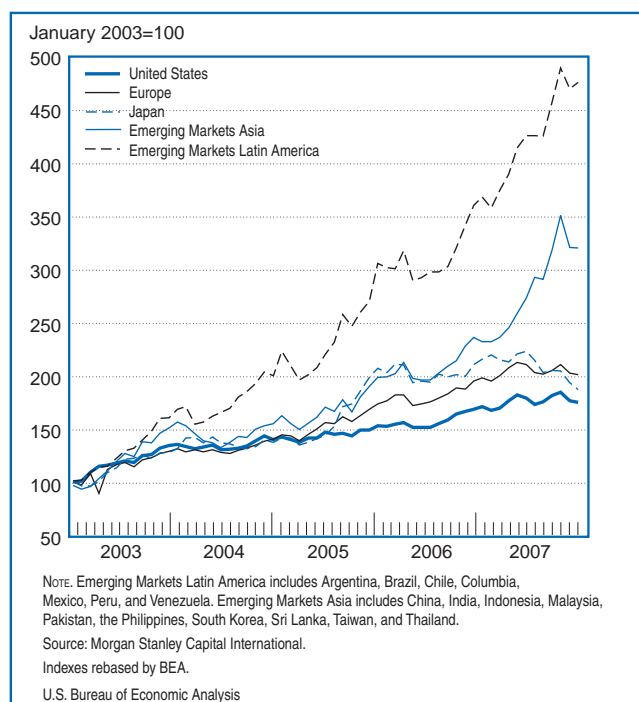
Increases in stock prices in developed countries abroad were considerably smaller in 2007 than in 2006 or 2005. The average gain in 2007 was 2 percent in local currencies, down from a gain of 14 percent in 2006 and 26 percent in 2005. However, depreciation of the dollar against most major foreign currencies boosted these gains to 10 percent in dollar terms in 2007. Increases in stock prices in emerging market countries were up from 26 percent in 2006 to 30 percent in 2007 in local currencies and were up from 30 percent to 36 percent in dollar terms; stock prices accelerated sharply in the first three quarters but fell in the fourth (chart 20).

Net U.S. purchases of European stocks fell to \$87.6 billion from \$91.0 billion. Net purchases were strong in the first half of the year but fell in the last half as concerns mounted about losses on mortgage-backed securities held by European banks and about the negative impact that slower economic growth in the United States might have on European growth.

Net U.S. purchases of Asian stocks fell to \$7.2 billion from \$44.8 billion. The decrease was largely attributable to a shift to net sales of \$7.0 billion from net purchases of \$21.2 billion for Hong Kong, where stocks of many Asian countries are widely traded. Transactions in stocks with China shifted to net sales of \$1.0 billion from net purchases of \$5.2 billion. Prices in the Hong Kong market increased 38 percent in 2007, and those in China soared 64 percent in local currencies.

In contrast to the declines in Europe and Asia, transactions in stocks with Caribbean financial centers shifted to net U.S. purchases of \$10.7 billion from net U.S. sales of \$21.5 billion. Exceptionally large net purchases occurred in the third quarter when hedge funds in the Caribbean sold some of their holdings of non-U.S. stocks. These net purchases more than offset net sales in other quarters.

Chart 20. Selected Stock Price Indexes in Local Currencies



Direct investment. U.S. direct investment abroad was \$335.4 billion in 2007, up from \$235.4 billion in 2006 (table M).

Net equity capital investment increased \$93.9 billion, up substantially from \$30.2 billion and well above increases in the \$30-\$45 billion range in 4 of the last 5 years. The increase in 2007 was part of a pickup in global mergers and acquisitions in 2006 and 2007, much of which was in Europe. In 2007, several of the largest U.S. acquisitions were in Europe, especially the Netherlands, where the largest were in holding companies, finance, and depository institutions. Other large acquisitions were in securities and brokerage in Japan and mining in Canada. Selloffs of foreign affiliates in 2007 were also higher than the annual selloffs over the past 8 years, which were in the range of \$30-\$50 billion. In 2007, selloffs were \$61.0 billion, of which the largest were to Saudi Arabia, to Japan, and to Abu Dhabi.

Reinvested earnings increased to \$254.3 billion, up

from \$220.1 billion. The largest increase was in Europe, followed by much smaller increases in Asia excluding Japan, in Other Western Hemisphere, and in Central and South America. The increase in reinvested earnings was largest in holding companies and manufacturing; reinvested earnings in finance declined slightly.

Net intercompany debt investment was a net inflow of \$12.8 billion, compared with a net inflow of \$15.0 billion. The decrease in net inflows was more than accounted for by holding companies.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased \$1,863.7 billion in 2007, following an increase of \$1,859.6 billion in 2006. U.S. liabilities reported by U.S. banks and foreign direct investment in the United States increased by large amounts in 2007. Net foreign purchases of U.S. securities other than U.S. Treasury securities slowed sharply, while transactions in U.S. Treasury securities shifted to substantial net purchases. U.S. liabilities reported by U.S. nonbanks also slowed.

Foreign official assets. Foreign official assets in the United States increased \$412.7 billion in 2007, following an increase of \$440.3 billion in 2006.

Dollar assets of industrial countries increased \$28.0 billion, down from an increase of \$107.2 billion in 2006, more than accounting for the decline in total official assets. The slowdown was attributable to only a few countries in Europe and Asia; assets of most countries increased about the same amount in 2007 as in 2006. Dollar assets of developing and OPEC countries increased \$384.7 billion in 2007, up from an increase of \$333.1 billion in 2006. China continued to accumulate foreign reserves at a rapid pace and accounted for much of the increase in 2007, as it had in 2006; increases in recent years have reflected rising Chinese trade surpluses. Dollar assets of OPEC members increased slightly less in 2007 than in 2006, despite higher oil revenues.

Liabilities reported by banks and nonbanks. Liabilities reported by U.S. banks and securities brokers increased \$510.9 billion in 2007, up from an increase of \$434.4 billion in 2006 (tables P and Q). Much of the increase resulted from borrowing in the first half of the year when U.S. securities brokers borrowed heavily through repurchase agreements. Borrowing during the second half of the year was just half that in the first half of the year, as new borrowing slowed substantially and sizable amounts of earlier borrowing were repaid, especially by securities brokers.

Banks' own liabilities denominated in dollars increased \$354.9 billion in 2007, up from an increase of

\$252.2 billion in 2006. Borrowing by banks was weak in the first quarter but strengthened in the second and third quarters. In the fourth quarter, borrowing by foreign-owned banks dropped, as earlier borrowing was repaid. In contrast, U.S.-owned banks borrowed a very large amount, which may have been partly related to substantial financial difficulties faced by some U.S.-owned banks, including large asset write-downs and reported losses, and to liquidity shortages and continued funding pressures in the U.S. interbank market.

Liabilities of U.S. securities brokers increased \$98.0 billion in 2007, up sharply from an increase of \$30.3 billion in 2006. The increase in 2007, which was all in the first half of the year, reflected borrowing to support activity in U.S. financial markets and to meet the strong demand for bridge financing for mergers and acquisitions. In the second half, brokers repaid earlier borrowing. The repayments were mostly by foreign-owned brokers, who shifted funds to Europe where liquidity had tightened considerably.

Liabilities for banks' customers' accounts denominated in dollars increased \$79.9 billion in 2007, down sharply from an increase of \$158.2 billion in 2006. Much of the decline was in "other" liabilities (including loans), which increased only \$30.3 billion, down from a \$92.7 billion increase, and in short-term securities (including negotiable CDs), which increased \$49.6 billion, down from a \$65.4 billion increase. Foreigners were unwilling to hold many types of debt instruments, even short-term instruments, unless they were of the highest quality.

Liabilities reported by U.S. nonbanking concerns increased \$166.6 billion in 2007, following an increase of \$235.8 billion in 2006 (table P). The increase in 2007 was accounted for by a \$165.6 billion increase in "other" liabilities, which includes loans, advances, and other borrowings. The increase occurred in the first three quarters; "other" liabilities fell \$84.0 billion in the fourth quarter. For the year, "other" liabilities to the United Kingdom increased \$72.2 billion; to the Netherlands, \$40.7 billion; and to Caribbean financial centers, \$21.4 billion.

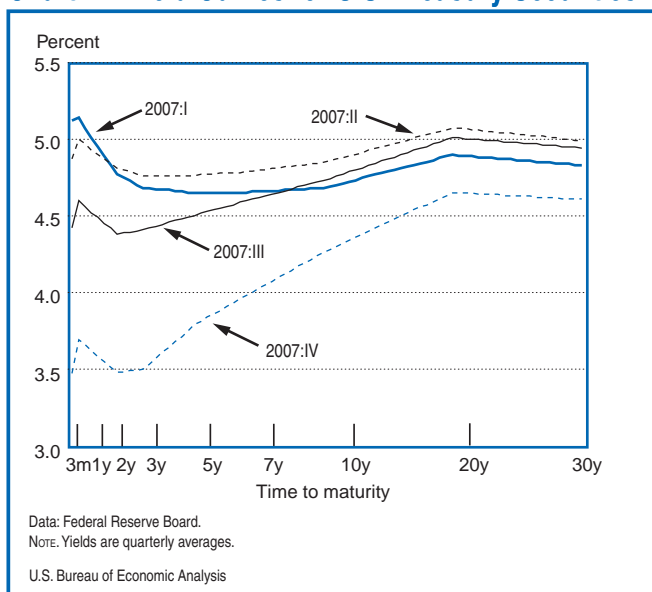
U.S. Treasury securities. Private net foreign purchases of U.S. Treasury securities were a record \$166.3 billion in 2007, a sizable reversal from net foreign sales of \$35.9 billion in 2006 (table P). The shift to net purchases was attributable to the reassessment of risks in the second half of the year when foreign investors reacted to rapidly deteriorating conditions for subprime mortgages and mortgage-related securities and to the increasingly negative economic outlook that emerged from financial market disruptions. The desire to hold relatively riskless and highly liquid U.S. Treasury securities precipitated a steep fall in short-term Treasury

yields in the second half of the year. Declines in short-term Treasury yields during the months of August and December were especially sharp (chart 16).

By area, transactions from Europe shifted to net purchases of \$174.6 billion from net sales of \$34.4 billion. Transactions by investment funds in the Caribbean shifted to net purchases of \$13.5 billion from net sales of \$8.4 billion. Net purchases from Latin America, mostly from Brazil and Mexico, increased to \$22.1 billion from \$8.3 billion. In contrast, net sales from Asia accelerated to \$39.9 billion from \$15.3 billion, as strong net sales from Japan more than offset net purchases from other countries in the region.

The Treasury yield curve steepened in 2007. The yield curve was flat in the first half of the year, reflecting market expectations of higher short-term rates amid rising inflationary pressures. In the second half of the year, the curve steepened sharply and shifted downward in response to the Federal Reserve's move to reduce short-term interest rates by 100 basis points between September and December and expectations that short-term interest rates might continue to decrease early in 2008 as the Federal Reserve acted to reign in the credit crisis and to stimulate a slowing U.S. economy (chart 21).

Chart 21. Yield Curves for U.S. Treasury Securities



Other U.S. securities. Net foreign purchases of U.S. securities other than U.S. Treasury securities were \$391.9 billion in 2007, down from a record \$592.0 billion in 2006 (table P). Net foreign purchases of corporate bonds were \$246.7 billion in 2007, down sharply from a record \$412.3 billion in 2006. Net foreign transactions in U.S. federally sponsored agency bonds

shifted to net sales of \$38.2 billion from net purchases of \$36.9 billion. Investors' willingness to accept risk diminished considerably in the last half of the year when they moved to invest more defensively in Treasury and in high-quality corporate bonds that were not tied to subprime mortgages. Net foreign purchases of stocks moved sharply higher to \$183.4 billion from \$142.8 billion, partly offsetting the decline in bonds.

Corporate bonds. Net foreign purchases of U.S. corporate bonds were \$246.7 billion in 2007, down sharply from a record \$412.3 billion in 2006. Net purchases from Europe, mainly the United Kingdom, decreased to \$111.2 billion from \$242.1 billion, and net purchases by investment funds in Caribbean financial centers dropped to \$41.4 billion from \$91.1 billion. In contrast, net purchases from Asia increased to \$71.1 billion from \$53.9 billion, as net purchases from Japan more than tripled to \$38.5 billion but were partly offset by lower net purchases from China and Hong Kong. Net purchases from Canada increased to \$12.6 billion from \$7.9 billion.

Net foreign purchases of U.S. corporate bonds were at a record pace in the first half of the year, reflecting favorable economic and credit market conditions, including strong corporate profits and low corporate default rates. Investors were generally optimistic about the outlook for the economy, interest rates rose, equity markets recorded sizable gains, and credit spreads of corporate bonds over Treasury securities remained stable and small.

Net foreign purchases of U.S. corporate bonds fell sharply in the second half of the year when credit market conditions deteriorated rapidly as the severity of problems in the subprime mortgage market became more evident. The deterioration led to greater volatility in financial markets, a loss of investor confidence in mortgage-backed securities and some high-risk corporate debt securities, and a substantial falloff in new issues of asset-backed commercial paper and of collateralized debt obligations (charts 18 and 19). The falloff in net foreign purchases was largest for the United Kingdom, the location of many international investors, such as hedge funds and other investment entities, and the legal residence of many asset-backed commercial paper conduits and structured investment vehicles. Net purchases by the United Kingdom were \$132.5 billion in the first half of the year but shifted to net sales of \$11.1 billion in the second half.

During the last half of the year, risk premiums on both subprime and investment grade debt increased sharply. Spreads on noninvestment-grade bonds over U.S. Treasury securities increased 122 basis points in the third quarter and 172 basis points in the fourth quarter as the credit crisis intensified, and spreads on

investment-grade debt increased 49 basis points in the third quarter and 54 basis points in the fourth quarter (chart 17).

In 2007, long-term interest differentials in favor of U.S. bonds were reduced for Canada and the euro area, while rates on British bonds exceeded those on U.S. bonds. U.S. corporate bonds posted total returns of 4.6 percent for investment grade bonds and 2.2 percent on noninvestment-grade bonds. By comparison, total returns in local currencies on corporate bonds abroad were 0.2 percent for the European Monetary Union, 0.7 percent for the United Kingdom, 2.2 percent for Japan, 1.3 percent for Canada, and 3.0 percent for Australia.

Agency bonds. Net foreign transactions in U.S. federally sponsored agency bonds shifted to net sales of \$38.2 billion in 2007 from net purchases of \$36.9 billion in 2006. Net foreign sales reflected the reluctance to hold debt related to U.S. residential mortgages despite the high quality of agency issues for fear that the repricing of risks in the corporate bond market might also affect high-quality mortgage-related debt. Redemptions of long-term callable debt, partly by foreigners, were also large compared with those in 2006. Some net sales may have reflected the need to raise liquidity to cover losses on investments related to U.S. subprime mortgages.

By area, net sales from Asia—especially by Japan, Hong Kong, and China—were \$73.7 billion in 2007, up from net sales of \$17.7 billion in 2006, and transactions of investment funds in Caribbean financial centers shifted to net sales of \$21.9 billion from net purchases of \$29.8 billion. In contrast, net purchases from Europe jumped to \$53.0 billion from \$11.6 billion.

In 2007, total returns on agency bonds were 9 percent, well above the 4 percent return in 2006. From the end of 2006 to the end of 2007, spreads of agency bonds over Treasury bond yields increased 24 basis points, reflecting a repricing of risk in the second half of the year that was associated with subprime mortgage problems (chart 17).

Stocks. Net foreign purchases of U.S. stocks were \$183.4 billion in 2007—the strongest since the year 2000—up from \$142.8 billion in 2006. The largest net purchases of stocks were from the United Kingdom, \$68.8 billion; from Caribbean financial centers, \$47.4 billion; and from Hong Kong, \$35.3 billion.

Net purchases were strong in the first half of the year at \$147.6 billion, especially in the second quarter, fueled by relatively strong corporate profits, robust merger and acquisition activity, and increases in dividend payouts and share buybacks amid relatively calm credit conditions. U.S. stock prices reached record

highs in July before concerns about the repercussions of subprime mortgage problems intensified in early August, and stock prices dropped sharply. Stock prices were buffeted partly by concerns about the potential for higher borrowing costs and tightened access to credit.

Net purchases slowed sharply to \$35.8 billion in the second half of the year. A rally in U.S. stock prices late in the third quarter sent the S&P 500 Index to a new record high in early October. However, from then until late November, stock prices again fell substantially amid further downgrades of mortgage-related securities, renewed concerns about strains in financial markets, and indications that U.S. economic growth was slowing.

In 2007, the S&P Index was up 4 percent, and the Dow Jones Industrial Average was up 6 percent—both well below their gains of 14 percent and 16 percent, respectively, in 2006. The NASDAQ Composite Index outperformed the other two indexes with a 10 percent gain, about the same as its return in 2006. In dollar terms, gains in all of the indexes were below those in Europe and well below those in emerging markets in Asia and in Latin America (chart 20).

U.S. currency flows. Net U.S. currency shipments to foreigners were \$10.9 billion in 2007, down from \$12.6 billion in 2006. The size of shipments in recent years has slowed considerably because of stable economic and political conditions in countries where dollars have been used for savings and transactions in the past. Residents of these countries now appear willing to shift to bank deposits and local currencies for a larger share of their savings and transactions.

Direct investment. Foreign direct investment in the United States was \$204.4 billion in 2007, up from \$180.6 billion in 2006 (table M).

Net equity capital investment in the United States increased \$142.1 billion, up from \$98.0 billion. Net equity investments had also increased strongly in 2006. The increases in both years were part of the pickup in global mergers and acquisitions in 2006 and 2007. However, the equity inflows in the United States in 2007 of \$142.1 billion remained well below inflows in 2000, when they peaked at \$259.6 billion. In 2007, the largest increases in foreign acquisitions were from Canada, mainly in finance and transportation and from the United Kingdom, mainly in utilities and manufacturing.

Reinvested earnings fell to \$64.1 billion from \$70.6 billion. The decrease reflected a decline in earnings; the share of earnings reinvested was virtually unchanged at 60 percent in both 2006 and 2007. The decrease in reinvested earnings was more than accounted for by a shift in finance to negative reinvested earnings of \$2.4

billion from positive reinvested earnings of \$9.5 billion. This swing was attributable to losses incurred by affiliates in finance, both depository institutions and other financial intermediaries.

Net intercompany debt investment decreased \$1.8 billion, following an increase of \$12.0 billion. In 2007,

there were especially large offsetting increases and decreases in U.S. affiliates' payables and receivables, reflecting heightened volatility in the financial markets and large transfers of funds. Some of these large transfers may have been related to temporary financing for mergers and acquisitions.

Table R. Selected U.S. Transactions with OPEC Members

[Millions of dollars]

(Credit +; debit -)	1993	1994	1995	1996	1997 ^r	1998 ^r	1999 ^r	2000 ^r	2001 ^r	2002 ^r	2003 ^r	2004 ^r	2005 ^r	2006 ^r	2007 ^p
Exports of goods and services and income receipts:															
Goods, balance of payments basis	18,318	16,295	17,405	19,226	23,696	22,933	18,315	17,625	19,503	17,808	16,554	21,579	31,304	39,108	48,672
Transfers under U.S. military agency sales contracts	3,675	2,936	4,471	5,638	4,039	5,179	3,982	3,030	2,056	1,984	2,598	4,848	7,323	4,875	3,438
Royalties and license fees	220	357	394	253	312	263	331	409	355	366	390	416	472	555	635
Other private services	2,752	3,096	3,372	4,138	4,195	4,637	5,586	3,396	3,820	4,028	4,609	5,340	7,001	7,524	9,909
U.S. government miscellaneous services	13	14	17	11	8	8	15	14	13	13	12	83	87	73	37
Income receipts on U.S.-owned assets abroad:															
Direct investment receipts	2,745	2,701	3,966	4,220	4,073	2,682	3,749	4,789	3,735	3,097	4,434	7,200	8,954	12,337	13,452
Other private receipts	1,015	1,426	1,436	1,241	1,522	1,824	1,810	1,988	1,116	791	693	739	1,096	1,551	2,023
U.S. government receipts	141	122	192	268	263	238	265	445	330	312	744	277	249	290	216
Imports of goods and services and income payments:															
Goods, balance of payments basis	-32,648	-31,675	-34,265	-42,675	-44,022	-33,924	-41,978	-67,094	-59,755	-53,246	-68,346	-94,109	-124,942	-145,368	-174,388
Direct defense expenditures	-455	-360	-335	-545	-944	-1,754	-1,813	-1,569	-1,688	-3,848	-6,561	-9,372	-11,044	-10,652	-11,364
Royalties and license fees	-37	-7	-2	-38	-5	-8	-10	-17	-25	-7	-7	-5	-24	-9	-13
Other private services	-430	-535	-570	-801	-821	-916	-952	-566	-585	-619	-630	-1,034	-1,226	-1,212	-1,178
U.S. government miscellaneous services	-26	-39	-34	-31	-29	-28	-46	-46	-45	-42	-53	-73	-74	-65	-48
Income payments on foreign-owned assets in the United States:															
Direct investment payments	-82	-49	-34	-136	-448	-111	-18	-169	-435	174	-582	-1,386	-1,670	-1,873	-1,794
Other private payments	-2,166	-1,979	-2,697	-2,570	-2,811	-2,738	-2,832	-3,808	-2,750	-1,802	-1,669	-2,466	-3,801	-5,795	-6,763
U.S. government payments	-2,160	-1,747	-2,080	-2,374	-3,454	-3,145	-2,460	-3,224	-2,927	-2,370	-1,616	-1,869	-3,113	-5,483	-6,788
U.S. government grants	-197	-204	-195	-152	-55	-54	-110	-118	-87	-209	-3,381	-5,304	-10,775	-9,757	-6,307
U.S. government pensions and other current transfers	-27	-28	-25	-93	-57	-40	-23	-22	-20	-20	-11	-24	-24	-27	-36
U.S.-owned assets abroad, net (increase/capital outflow (-))	-513	-2,963	262	-7,318	-9,054	-12,846	1,485	3,439	802	-4,535	4,546	-1,269	-3,919	-5,003	-15,657
U.S. government assets, other than official reserve assets, net	19	-422	-901	-458	12	-10	-316	-217	-610	15	-973	471	2,413	2,531	256
U.S. credits and other long-term assets	-85	-234	-925	-910	-412	-166	-503	-566	-1,094	-305	-1,923	-27	-74	-77	-138
Repayments on U.S. credits and other long-term assets	224	177	215	290	420	154	210	366	489	352	997	546	463	2,606	394
U.S. foreign currency holdings and U.S. short-term assets, net	-120	-365	-191	164	4	2	-23	-17	-5	-32	-47	-48	2,024	2	0
U.S. private assets, net	-532	-2,541	1,163	-6,860	-9,066	-12,836	1,801	3,656	1,412	-4,550	5,519	-1,739	-6,332	-7,534	-15,913
Direct investment	-1,597	-3,575	-2,379	-2,884	-2,411	-4,323	-113	-5,823	-2,997	-4,051	350	-1,442	-1,682	-5,392	-5,096
Foreign securities	-679	-1,933	-556	-3,122	-4,077	-965	97	1,515	2,080	981	4,660	1,930	-1,520	-4,596	2,500
U.S. claims on unaffiliated foreigners reported by U.S. nonbanking concerns	-306	-146	-25	-478	-336	369	-531	566	429	53	-60	-483	-882	239	-766
U.S. claims reported by U.S. banks, not included elsewhere	2,050	3,113	4,123	-376	-2,242	-7,917	2,348	7,398	1,900	-1,533	569	-1,744	-2,248	2,215	-12,551
Foreign-owned assets in the United States, net (increase/capital inflow(+))	-8,904	1,400	4,544	18,133	17,353	-12,162	8,933	27,247	-1,686	-2,916	6,207	25,755	26,290	44,239	52,746
Of which: Foreign official	-3,850	-1,464	4,061	14,105	12,700	-11,420	1,059	9,340	-1,693	-9,696	6,205	11,700	7,415	34,891	27,940
U.S. Treasury securities	-6,302	-1,668	1,293	16,125	8,965	-13,870	2,314	6,848	-934	-4,593	-5,351	9,564	4,758	23,355	16,778
Other U.S. securities	3,322	-820	1,276	3	3,657	3,393	2,103	14,095	4,390	2,274	5,107	13,170	3,687	19,069	21,666
Other U.S. government liabilities	730	1,797	617	-982	-348	-2,260	-1,161	-673	-271	-397	183	-441	178	1,115	284
U.S. liabilities reported by U.S. banks, not included elsewhere	-5,665	1,677	1,059	1,813	4,094	2,296	5,540	4,473	-3,893	-1,946	6,798	3,404	13,512	-955	8,520
Direct investment in the United States	-812	251	-140	623	177	-1,291	315	2,204	-650	521	182	113	2,574	2,560	1,842
U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns	-177	163	439	551	808	-430	-178	300	-328	1,225	-712	-55	1,581	-905	3,656
All other transactions with OPEC and transfers of funds between foreign areas, net	18,766	11,239	4,178	3,605	6,239	29,962	5,771	14,252	38,273	41,041	42,069	50,672	77,836	74,692	93,207
Memorandum:															
Balance on goods	-14,330	-15,380	-16,860	-23,449	-20,326	-10,991	-23,663	-49,469	-40,252	-35,438	-51,792	-72,530	-93,638	-106,260	-125,715

p Preliminary
r Revised
* Less than \$500,000 (+/-)

NOTE: OPEC members are Algeria, Angola (included beginning in 2007), Gabon (excluded beginning in 1995), Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela. Individual country information is not available for all accounts; therefore, some accounts are estimated from regional data.

Tables 1 through 11 follow.