

An Ownership-Based Framework of the U.S. Current Account, 1999–2008

The Bureau of Economic Analysis (BEA) annually updates its supplemental, ownership-based framework of the current-account portion of the U.S. international transactions accounts. This report presents new summary statistics of the major current-account aggregates for 2008, revised and more detailed statistics for 2007, and revised statistics for 2001–2006.¹ In addition, beginning with 2007, the more detailed statistics fully incorporate data for bank affiliates for the first time; both bank and nonbank affiliates are now included in the sections of table 1 that show how receipts and payments of direct investment income are derived from affiliates' production and sales. The added detail for banks begins with statistics for 2007 because for that year, BEA began to collect data on the sales, purchases, costs, and profits of foreign and U.S. bank affiliates on its annual direct investment surveys. This detail is shown in lines 9–14 for receipts and in lines 28–33 for payments. Data for bank affiliates are also included in the addenda to table 1 that show the source of the content of affiliates' sales and value added. For years before 2007, the production and sales detail and the addenda cover only nonbank affiliates.

A technical note that presents information on the conceptual basis of the ownership-based framework follows the highlights of this presentation.²

The following are highlights of the updated statistics:

- Net receipts by U.S. parents of direct investment income from the sales by their foreign affiliates were \$370.7 billion in 2008, up from \$363.2 billion in 2007 (table 1). Net payments to foreign parents of direct investment income from the sales by their U.S. affiliates were \$120.9 billion in 2008, down from \$126.5 billion in 2007.
- In 2007 (the latest year for which the detailed statistics are available), the net receipts of \$363.2 billion resulted from sales by foreign affiliates of \$5,786.1 billion less deductions of \$5,422.8 billion (such as for labor, capital, and purchased inputs). The net payments of \$126.5 billion resulted from sales of \$3,553.6 billion less deductions of \$3,427.1 billion.
- In 2008, U.S. receipts from exports of goods and services

and sales by foreign affiliates were \$2,197.3 billion, which consisted of exports of goods and services of \$1,826.6 billion and net income receipts of U.S. parents from the sales by their foreign affiliates of \$370.7 billion. U.S. payments from imports of goods and services and sales by U.S. affiliates were \$2,643.4 billion, which consisted of imports of goods and services of \$2,522.5 billion and net income payments to foreign parents from the sales by their U.S. affiliates of \$120.9 billion.

- The resulting U.S. deficit on goods, services, and net receipts from sales by affiliates was \$446.1 billion in 2008 (\$2,197.3 billion minus \$2,643.4 billion). This deficit was \$249.9 billion less than the \$695.9 billion deficit on trade in goods and services in the conventional international accounts framework. The ownership-based deficit was smaller because the receipts of income by U.S. parents from sales by their foreign affiliates exceeded the payments of income to foreign parents from sales by their U.S. affiliates.
- The \$446.1 billion deficit on goods, services, and net receipts from sales by affiliates in 2008 was \$18.7 billion less than the deficit in 2007. This was the second consecutive decline in the deficit. The 2008 decrease resulted from a \$5.5 billion decrease in the deficit on trade in goods and services and a \$13.2 billion increase in the surplus of net receipts from sales by affiliates.

The updated statistics incorporate the results of the 2009 annual revision of the U.S. international transactions accounts that features new and improved definitions, classifications, and estimation methodologies, the incorporation of newly available and more complete source data, and changes in presentation in the tables.³ The most important change was a new treatment of certain disaster-related losses recovered from international insurers. This new treatment affects statistics for 1992, 2001, 2004, 2005, and 2008. Among other significant changes introduced in this annual revision, exports and imports of goods were revised for 2001–2008. Services receipts and payments were revised for 2006–2008 to incorporate updated and revised data from BEA's quarterly and benchmark surveys of international services transactions. In addition, the 2006–2008 statistics on U.S. dividend and interest receipts were revised as a result of the incorporation of the results of the U.S. Treasury Department's recent annual survey of U.S. ownership of foreign securities. Similarly, the 2006–2008 statistics on U.S. dividend and interest payments were revised as a result of the incorporation of the results of the U.S. Treasury Department's recent annual survey of foreign residents' holdings of U.S. securities. The statistics also

1. The estimates for 1982–2008 are available on BEA's Web site at www.bea.gov. Under "International," click on "Operations of Multinational Companies," and then look under "Supplemental Estimates" for "Ownership-Based Current Account and Other Supplemental Statistics."

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

3. For more information on these changes and other revisions to the U.S. international accounts, see Anne Flatness, Erin M. Whitaker, and Robert E. Yuskavage, "Annual Revision of the U.S. International Accounts," *SURVEY* 89 (July 2009): 35–47.

incorporate the preliminary results from the 2007 annual survey of U.S. direct investment abroad and the 2007 benchmark survey of foreign direct investment in the United States and the final results from the 2006 annual surveys of U.S. direct investment abroad and of foreign direct investment in the United States.

Technical Note

The ownership-based framework was developed in the early 1990s in response to interest in examining international transactions in a way that would reflect the increasing importance of multinational companies in world economies and, particularly, the growing tendency of these companies to use locally established affiliates to deliver goods and services to international markets.⁴

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

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

Only the net receipts that accrue to the U.S. parent companies, not the gross value of sales by their foreign affiliates, are included in these calculations, because only for sales originating in the United States are most

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

Conceptually, the ownership-based framework is fully consistent with the current account in the conventional international transactions accounts, and it can be viewed as a “satellite” of those accounts.⁵ (The current-account balance is the same in both sets of accounts.) The grouping of the income from affiliates with cross-border trade in goods and services recognizes the active role of parent companies in managing and coordinating their affiliates’ operations. This direct investment income from affiliates differs fundamentally from income on other types of investments. For example, for U.S. direct investment abroad, direct investment income represents U.S. companies’ returns on sales that for reasons such as efficiency, transportation costs, or the avoidance of trade barriers are made by affiliates in foreign countries rather than by U.S. parent companies; other investment income represents returns on passive investments, such as on foreign stocks and bonds.⁶ Indeed, in many cases, a portion of the income from affiliates may be regarded as a kind of implicit management fee that compensates parent companies for undertaking active roles in the operations of their affiliates.

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

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

5. According to the sixth edition of the International Monetary Fund’s *Balance of Payments and International Investment Position Manual*, paragraph 2.43, “[satellite] presentations use the basic framework as a starting point but differ by adding detail or other information, or by rearranging information, to meet particular needs. Use of the basic framework as a starting point increases the ability to relate the topic to other aspects of the economy while maintaining international comparability.”

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

Table 1. Ownership-Based Framework of the U.S. Current Account, 1999–2008

[Billions of dollars]

Line	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 ¹
1	1,259.8	1,421.5	1,295.7	1,258.4	1,340.6	1,573.0	1,816.7	2,133.9	2,462.1	2,591.2
2	1,097.5	1,222.4	1,133.6	1,123.1	1,206.6	1,409.8	1,576.0	1,776.5	2,006.4	2,197.3
3	965.9	1,070.6	1,004.9	977.5	1,020.2	1,159.2	1,281.5	1,451.7	1,643.2	1,826.6
3a	684.0	772.0	718.7	685.2	715.8	806.2	892.3	1,015.8	1,138.4	1,277.0
3b	281.9	298.6	286.2	292.3	304.3	353.1	389.1	435.9	504.8	549.6
4	675.6	756.2	702.6	684.6	709.7	818.9	911.1	1,049.5	1,187.4	1,277.0
4a	455.2	523.0	482.6	465.6	483.9	555.4	618.5	722.8	811.9	871.9
4b	220.4	233.2	220.0	219.0	225.8	263.5	292.6	326.8	375.5	405.1
5	290.3	314.4	302.3	292.9	310.5	340.3	370.3	402.2	455.8	488.1
5a	228.8	248.9	236.1	219.6	232.0	250.7	273.8	293.1	326.5	353.1
5b	61.5	65.4	66.2	73.3	78.5	89.5	96.5	109.1	129.3	135.0
6	218.7	234.1	221.7	204.9	215.3	238.9	264.7	286.1	317.7	337.7
6a	168.9	182.7	170.2	150.6	156.6	170.6	188.8	200.2	214.4	228.1
6b	49.8	51.4	51.5	54.3	58.6	68.2	75.9	85.8	103.3	109.6
7	71.6	80.3	80.6	88.0	95.2	101.4	105.6	116.1	138.1	148.9
7a	59.9	66.2	65.9	69.0	75.3	80.1	85.1	92.8	112.1	118.1
7b	11.7	14.1	14.7	19.0	19.9	21.3	20.6	23.3	26.0	30.8
8	131.6	151.8	128.7	145.6	186.4	250.6	294.5	324.8	363.2	370.7
9	2,611.8	2,905.5	2,945.9	2,945.7	3,319.5	3,841.4	4,362.2	4,793.3	5,786.1	6,134.1
10	246.3	260.7	249.5	232.8	242.6	264.0	293.1	323.4	360.9	370.7
11	1,787.3	1,989.1	2,055.2	2,038.7	2,246.3	2,548.2	2,837.3	3,098.8	3,765.6	3,765.6
12	295.3	310.8	309.7	311.4	338.1	378.6	405.0	436.1	503.2	503.2
13	1,492.0	1,678.4	1,745.6	1,727.3	1,908.2	2,169.6	2,432.3	2,662.7	3,262.4	3,262.4
14	447.5	506.1	514.8	530.0	646.4	780.0	937.5	1,040.0	1,296.3	1,296.3
15	1.0	2.2	2.3	1.3	2.3	1.3	0.2	-6.4	.....	.....
16	162.3	199.1	162.1	135.4	134.0	163.1	240.7	357.4	455.7	393.9
17	156.4	192.4	155.7	129.2	126.5	157.3	235.1	352.1	450.5	385.9
18	3.2	3.8	3.6	3.3	4.7	3.0	2.7	2.4	2.2	4.9
19	2.7	2.8	2.9	2.8	2.8	2.8	2.9	2.9	3.0	3.0
20	1,511.0	1,780.3	1,629.5	1,652.6	1,790.4	2,115.7	2,459.6	2,846.2	3,072.7	3,168.9
21	1,284.4	1,507.3	1,383.2	1,442.3	1,589.0	1,869.0	2,118.1	2,362.8	2,471.1	2,643.4
22	1,231.0	1,450.4	1,370.4	1,399.1	1,515.2	1,799.2	1,996.7	2,212.0	2,344.6	2,522.5
22a	1,031.8	1,226.7	1,148.6	1,168.0	1,264.9	1,478.0	1,683.2	1,863.1	1,969.4	2,117.2
22b	199.2	223.7	221.8	231.1	250.4	291.2	313.5	349.0	375.2	405.3
23	798.6	946.0	880.9	894.7	976.2	1,167.0	1,323.6	1,485.0	1,558.7	1,643.4
23a	634.9	761.9	700.0	708.2	772.4	926.5	1,068.2	1,204.0	1,257.4	1,343.1
23b	163.7	184.0	180.9	186.5	203.7	240.5	255.4	281.0	301.3	300.3
24	432.3	504.5	489.5	504.3	539.1	602.3	673.1	727.0	785.8	815.1
24a	396.8	464.7	448.6	459.8	492.4	551.5	615.0	659.1	712.0	739.9
24b	35.5	39.7	40.9	44.6	46.6	50.7	58.2	68.0	73.9	75.2
25	184.8	209.9	201.3	202.0	214.1	241.8	270.7	286.1	312.6	326.6
25a	167.0	191.2	182.2	182.0	192.6	218.8	245.0	249.6	272.0	281.0
25b	17.8	18.7	19.1	19.9	21.5	23.0	25.7	36.5	40.5	45.6
26	247.6	294.6	288.3	302.4	324.9	360.4	402.4	440.9	473.3	493.9
26a	229.9	273.6	266.5	277.7	299.8	332.7	370.0	409.5	439.9	463.9
26b	17.7	21.0	21.8	24.7	25.2	27.7	32.4	31.5	33.4	30.0
27	53.4	56.9	12.8	43.2	73.8	99.8	121.3	150.8	126.5	120.9
28	2,044.4	2,334.7	2,327.1	2,216.5	2,323.2	2,526.3	2,792.5	3,114.5	3,553.6	3,553.6
29	342.7	393.1	369.6	372.8	393.3	437.5	495.0	546.0	583.2	583.2
30	1,651.2	1,888.2	1,946.7	1,802.1	1,858.2	1,993.8	2,180.5	2,425.3	2,843.9	2,843.9
31	292.7	332.2	344.7	341.9	342.7	351.9	365.5	395.9	433.1	433.1
32	1,358.5	1,556.1	1,601.9	1,460.2	1,515.5	1,641.9	1,815.0	2,029.4	2,410.8	2,410.8
33	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
34	3.0	3.6	2.0	1.6	2.2	4.7	4.4	7.5	.....	.....
35	226.6	273.0	246.3	210.3	201.4	246.8	341.6	483.4	601.6	525.5
36	138.1	180.9	159.8	127.0	119.1	155.3	228.4	338.9	427.2	349.9
37	80.5	84.5	78.4	74.9	73.8	82.5	103.9	135.0	164.3	165.3
38	8.0	7.5	8.1	8.4	8.5	9.0	9.3	9.5	10.1	10.4
39	-50.4	-58.6	-64.5	-64.9	-71.8	-88.4	-105.8	-91.3	-116.0	-128.4
40	-265.1	-379.8	-365.5	-421.6	-495.0	-610.0	-715.3	-760.4	-701.4	-695.9
41	-186.9	-284.9	-249.6	-319.3	-382.4	-459.1	-542.1	-586.3	-464.7	-446.1
42	-301.6	-417.4	-398.3	-459.2	-521.5	-631.1	-748.7	-803.5	-726.6	-706.1
43	2,160.6	2,406.8	2,424.0	2,425.9	2,692.3	3,092.4	3,544.0	3,722.6	4,567.1	.....
44	1,914.3	2,146.1	2,174.5	2,193.1	2,449.7	2,828.5	3,250.9	3,399.2	4,206.1	.....
45	666.7	702.9	683.4	704.5	808.4	948.9	1,050.0	1,151.1	1,330.0	.....
46	1,247.7	1,443.2	1,491.1	1,488.6	1,641.3	1,879.6	2,200.9	2,248.1	2,876.2	.....
47	246.3	260.7	249.5	232.8	242.6	264.0	293.1	323.4	360.9	.....
48	2,056.1	2,349.9	2,318.9	2,214.5	2,326.1	2,543.4	2,814.6	3,138.3	3,574.8	.....
49	1,713.4	1,956.7	1,949.3	1,841.7	1,932.7	2,105.9	2,319.5	2,592.3	2,991.6	.....
50	457.7	516.7	477.0	502.7	519.9	563.5	611.5	679.7	713.0	.....
51	1,255.7	1,440.1	1,472.3	1,339.0	1,412.8	1,542.4	1,708.0	1,912.6	2,278.6	.....
52	342.7	393.1	369.6	372.8	393.3	437.5	495.0	546.0	583.2	.....

n.a. Not available

1. The estimates in this column are from the international transactions accounts, which are published quarterly. Estimates are not yet available for the items from BEA's 2008 annual surveys of U.S. direct investment abroad and of foreign direct investment in the United States. The detailed preliminary estimates for 2008 will be published in the second half of 2010.

2. Before 2007, covers only nonbank foreign affiliates because annual information on sales, purchases, costs, and profits by affiliates were unavailable. Beginning with 2007, this information is available for banks and was included in the calculation for lines 9-14.

3. Before 2007, covers only U.S. nonbank affiliates because annual information on sales, purchases, costs, and profits by affiliates were unavailable. Beginning with 2007, this information is available for banks and was included in the calculation for lines 28-33.

4. Conceptually, sales by U.S. affiliates to other U.S. affiliates of the same foreign parent should be

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

5. Other foreign content (line 46), which equals purchases from foreign persons by foreign affiliates, is overstated to the extent that it includes U.S. exports that are embodied in goods and services purchased by foreign affiliates from foreign suppliers.

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

7. Other U.S. content (line 51), which equals purchases from U.S. persons by U.S. affiliates, is overstated to the extent that it includes U.S. imports that are embodied in goods and services purchased by U.S. affiliates from U.S. suppliers.

ITA International transactions accounts