

U.S. International Transactions

Fourth Quarter and Year 2008

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

In the financial account, net financial inflows to the United States were \$76.8 billion in the fourth quarter, down from \$147.3 billion in the third quarter (see page 18).² The slowdown resulted from a shift from finan-

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

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

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

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

Financial-account highlights include the following:

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

1. Quarterly estimates of U.S. current-account and financial-account components are seasonally adjusted when series demonstrate statistically significant seasonal patterns. When available, seasonally adjusted estimates are cited in this article. The accompanying tables present both adjusted and unadjusted estimates.

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

Table A. Selected U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 12 are indicated in () (Credits +; debits -)	2007	2008 ^p	Change: 2007-2008	2007				2008				Change: 2008: III-IV
					I	II	III	IV	I ^r	II ^r	III ^r	IV ^p	
Current account													
1	Exports of goods and services and income receipts (1).....	2,463,505	2,591,254	127,749	572,182	602,122	638,393	650,808	651,416	671,888	678,258	589,692	-88,566
2	Goods, balance of payments basis (3).....	1,148,481	1,291,371	142,890	270,318	279,488	295,494	303,180	317,548	337,048	346,272	290,505	-55,767
3	Services (4).....	497,245	544,414	47,169	115,118	120,463	129,378	132,285	133,969	138,318	139,639	132,489	-7,150
4	Income receipts (12).....	817,779	755,468	-62,311	186,746	202,171	213,520	215,343	199,900	196,523	192,347	166,699	-25,648
5	Imports of goods and services and income payments (18).....	-3,082,014	-3,144,807	-62,793	-738,938	-771,262	-783,548	-788,264	-796,593	-825,091	-829,558	-693,564	135,994
6	Goods, balance of payments basis (20).....	-1,967,853	-2,112,196	-144,343	-473,681	-485,375	-496,698	-512,099	-530,126	-554,922	-562,526	-464,624	97,902
7	Services (21).....	-378,130	-404,719	-26,589	-91,298	-93,395	-96,288	-97,149	-99,834	-101,862	-104,267	-98,756	5,511
8	Income payments (29).....	-736,030	-627,891	108,139	-173,959	-192,492	-190,562	-179,016	-166,633	-168,307	-162,766	-130,185	32,581
9	Unilateral current transfers, net (35).....	-112,705	-119,713	-7,008	-30,174	-24,953	-27,796	-29,784	-31,731	-29,034	-29,998	-28,949	1,049
Financial account													
10	U.S.-owned assets abroad, excluding financial derivatives (increase/financial outflow (-)) (40).....	-1,289,854	-52,459	1,237,395	-442,065	-523,556	-170,476	-153,757	-264,866	99,910	28,056	84,441	56,385
11	Foreign-owned assets in the United States, excluding financial derivatives (increase/financial inflow (+)) (55).....	2,057,703	599,049	-1,458,654	692,713	718,112	266,476	380,402	460,105	23,208	123,346	-7,611	-130,957
12	Financial derivatives, net (70).....	6,496	n.a.	-6,496	14,795	-1,007	5,942	-13,234	-8,001	-2,519	-4,075	n.a.	4,075
13	Statistical discrepancy (71).....	-41,287	129,275	170,562	-67,970	656	71,627	-45,600	-9,729	62,269	34,706	56,625	21,919
Memoranda:													
14	Balance on goods (72).....	-819,373	-820,825	-1,452	-203,363	-205,887	-201,204	-208,919	-212,578	-217,874	-216,254	-174,119	42,135
15	Balance on services (73).....	119,115	139,695	20,580	23,820	27,068	33,090	35,136	34,135	36,455	35,372	33,733	-1,639
16	Balance on income (75).....	81,749	127,577	45,828	12,787	9,679	22,958	36,327	33,266	28,216	29,581	36,513	6,932
17	Balance on current account (77).....	-731,214	-673,265	57,949	-196,930	-194,093	-172,952	-167,241	-176,909	-182,237	-181,299	-132,822	48,477
18	Net financial flows (40, 55, and 70).....	774,345	546,560	-227,755	265,443	193,549	101,942	213,411	187,238	120,599	147,327	76,830	-70,497

^p Preliminary

^r Revised

n.a. Not available

Chemicals also decreased significantly.

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

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

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

Balances by area. The goods deficit decreased \$42.1 billion to \$174.1 billion in the fourth quarter. Half of the decrease was accounted for by declines in the deficits with the Middle East and with Africa, mostly reflecting drops in petroleum imports from OPEC

members in those areas. The deficit with Latin America and Other Western Hemisphere decreased \$7.8 billion, as the deficit with Venezuela fell sharply. The deficit with Europe decreased \$4.1 billion; decreases in the deficits with Russia, Germany, Italy, and the United Kingdom were partly offset by a decrease in the surplus with Turkey and an increase in the deficit with Ireland. The large deficit with Asia and Pacific decreased only slightly. A substantial drop in the deficit with China was mostly offset by increases in the deficits with India, Taiwan, and the Republic of Korea and a decrease in the surplus with Hong Kong.

Services

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

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

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

[January 1999=100]

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

1. For more information on the nominal and real indexes of the foreign exchange value of the U.S. dollar, see *Federal Reserve Bulletin*, vol. 84 (October 1998): 811-18.

2. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of U.S. trading partners, including the currencies of the euro area countries, Australia, Canada, Japan, Sweden, Switzerland, United Kingdom, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.

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

and quarterly average rates. Index rebased by BEA.

4. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that do not circulate widely outside the country of issue, including the currencies of Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. The weight for each currency is its broad-index weight divided by the sum of the broad-index weights for all of the currencies included in the other important trading partners index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.

5. Data: Federal Reserve Board. Monthly and quarterly average rates. Indexes prepared by BEA.

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

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

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

“Other” private services receipts decreased \$1.0 billion to \$59.4 billion. The decrease largely resulted from a second consecutive quarterly decline in receipts for financial services. “Other” private services payments

decreased \$0.6 billion to \$38.4 billion. The decrease resulted from declines in payments for business, professional, and technical services and for financial services.

Income

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

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

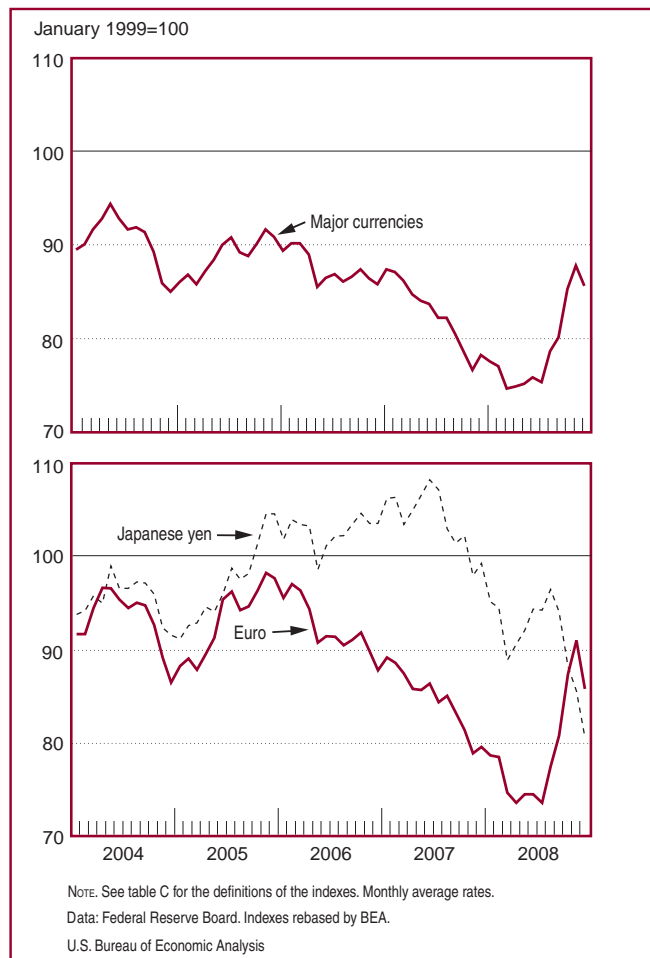
Payments of income on foreign direct investment in the United States decreased \$23.6 billion to \$8.0 billion, the lowest since the fourth quarter of 2002. Earnings of U.S. affiliates fell sharply, reflecting lower earnings in nearly all major industry categories. Earnings of manufacturing affiliates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

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

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

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

Chart 5. Nominal Indexes of Foreign Currency Price of the U.S. Dollar



Unilateral current transfers

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

Capital Account, Fourth Quarter

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

Financial Account, Fourth Quarter

Financial-account transactions continued to be affected by the unsettled financial market conditions that began in the third quarter of 2007. Additional strains in global financial markets emerged in the last half of September 2008 and continued throughout the

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

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

Chart 6. Money Market Yields and Spreads

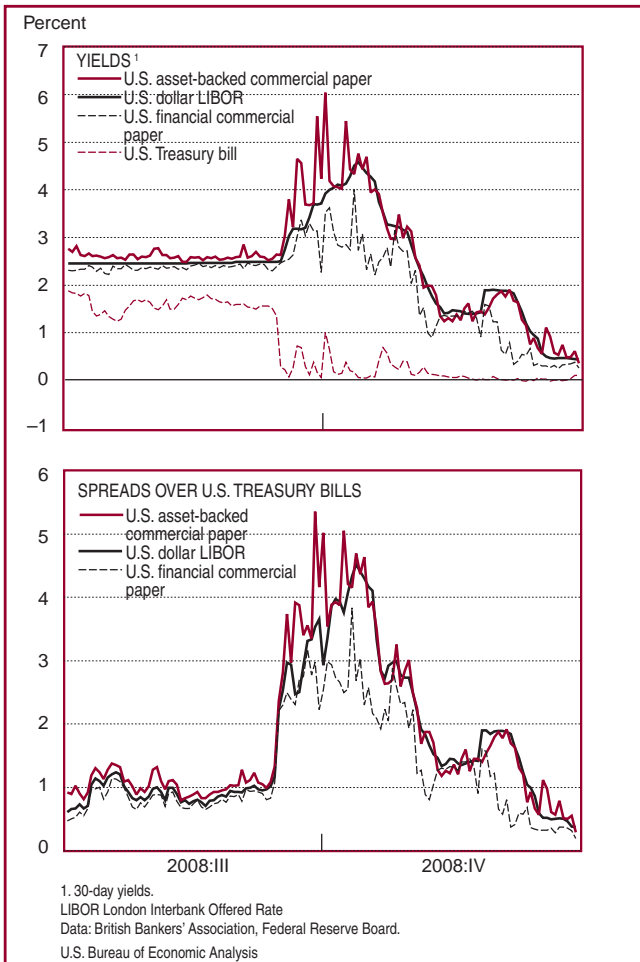
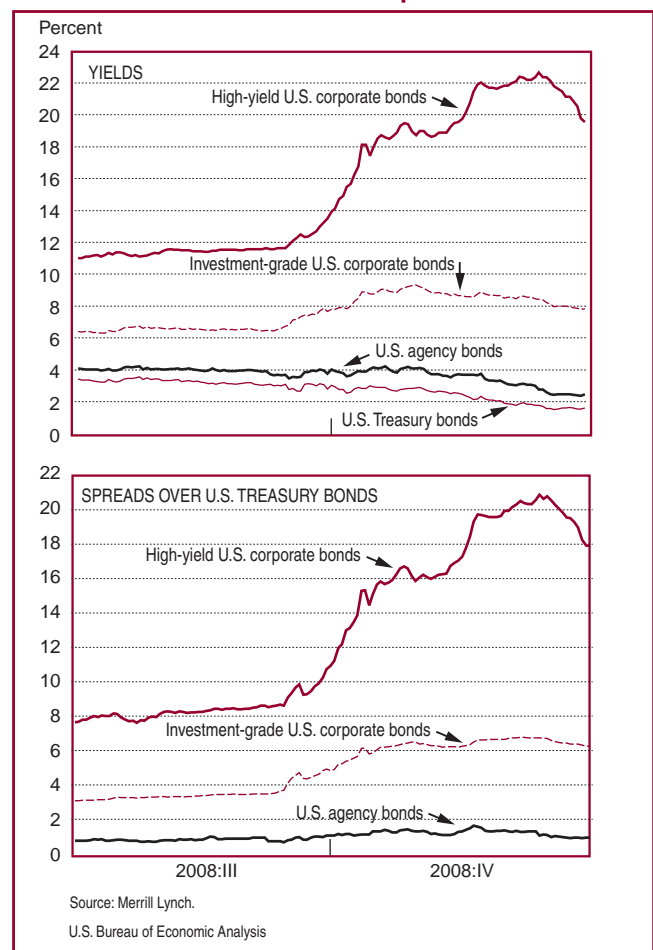


Chart 7. U.S. Bond Yields and Spreads



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

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

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

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

crisis intensified.

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

The Year 2008

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

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

Table D. Selected U.S. International Transactions

[Billions of dollars]

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

^p Preliminary
n.a. Not available

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

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

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

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

2008 as U.S. motor vehicles sales plummeted.

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

Services

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

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

[Balance of payments basis, millions of dollars]

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

	Canada			Asia and Pacific, excluding China			China			Japan			Hong Kong, Republic of Korea, Singapore, Taiwan		
	2006	2007	2008 ^p	2006	2007	2008 ^p	2006	2007	2008 ^p	2006	2007	2008 ^p	2006	2007	2008 ^p
Exports	230,983	249,712	261,837	219,494	243,175	261,408	55,038	65,073	71,289	57,593	60,898	65,348	96,067	105,568	109,518
Agricultural products.....	13,599	16,231	18,507	19,908	25,154	33,494	6,714	8,310	12,173	8,509	10,255	13,381	6,635	8,189	11,216
Nonagricultural products.....	217,384	233,481	243,330	199,586	218,021	227,914	48,324	56,763	59,116	49,084	50,643	51,967	89,432	97,379	98,302
Foods, feeds, and beverages.....	13,722	16,270	18,386	18,738	23,270	31,193	4,098	6,321	9,875	8,994	10,569	13,703	5,835	7,281	10,290
Industrial supplies and materials.....	61,248	66,940	77,348	48,206	56,886	68,341	21,278	24,644	26,940	13,425	15,141	16,898	22,354	25,938	28,952
Capital goods, except automotive.....	64,726	66,725	69,308	117,660	124,893	119,488	25,710	29,198	29,158	23,929	24,001	22,544	54,725	58,067	54,770
Automotive vehicles, parts, and engines.....	56,756	60,095	52,880	5,697	6,707	6,859	1,439	1,990	2,037	2,259	2,292	2,165	1,363	1,517	1,630
Consumer goods (nonfood), except automotive.....	29,404	33,185	34,835	22,484	24,857	26,520	2,160	2,508	2,777	7,819	7,684	7,739	8,463	9,747	10,395
Exports, n.e.c.....	5,127	6,497	9,080	6,709	6,562	9,007	353	412	502	1,167	1,211	2,299	3,327	3,018	3,481
Imports	306,066	320,323	338,544	396,172	396,877	391,293	288,126	321,685	337,970	148,560	146,037	139,677	110,097	111,549	106,977
Petroleum and products.....	46,954	54,462	82,109	8,246	10,465	8,064	927	1,230	841	927	1,230	537	3,944	5,505	3,232
Nonpetroleum products.....	259,112	265,861	256,435	387,926	386,412	383,229	287,199	320,455	337,129	147,633	144,807	139,140	106,153	106,044	103,745
Foods, feeds, and beverages.....	15,034	16,644	19,080	13,431	14,411	16,497	3,752	4,426	5,134	5,319	5,73	667	731	763	881
Industrial supplies and materials.....	147,293	157,382	188,486	53,395	54,326	55,657	28,412	29,552	35,193	15,013	15,182	14,876	19,349	19,674	18,049
Capital goods, except automotive.....	35,338	38,100	37,145	137,794	135,174	132,138	89,168	103,271	109,992	51,659	49,927	49,824	40,977	41,213	39,745
Automotive vehicles, parts, and engines.....	70,281	69,129	54,488	78,164	77,720	73,796	7,342	9,040	9,166	60,145	59,253	55,421	14,817	14,819	13,847
Consumer goods (nonfood), except automotive.....	20,386	21,488	21,516	101,554	103,780	101,730	156,043	171,552	174,450	16,662	16,832	15,232	29,807	30,660	29,484
Imports, n.e.c., and U.S. goods returned.....	17,734	17,580	17,829	11,834	11,466	11,475	3,409	3,844	4,035	4,542	4,542	3,657	4,416	4,420	4,971
Balance	-75,083	-70,611	-76,707	-176,679	-153,703	-129,884	-233,087	-256,611	-266,681	-90,967	-85,139	-74,330	-14,030	-5,981	2,541

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

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

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

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

Net U.S. sales of foreign stocks were \$6.3 billion, a shift from net U.S. purchases of \$118.0 billion. Moderate net purchases in the first two quarters of 2008 were

followed by net sales in the third quarter and strong net sales in the fourth quarter, when foreign stock prices fell sharply.

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

Foreign-owned assets in the United States

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

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

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

[Billions of dollars]

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

^p Preliminary

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

[Billions of dollars]

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

^p Preliminary

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

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

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

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

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

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

Tables 1 through 12 follow.