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MERCHANDISE TRADE IN THE FOURTH QUARTER AND YEAR 1978
-- Balance of Payments Basis --

The U.S. merchandise trade balance was in deficit by \$7.4 billion in the fourth quarter of 1978, seasonally adjusted, compared with \$8.0 billion in the third quarter, according to preliminary estimates of the Bureau of Economic Analysis, U.S. Department of Commerce. These estimates are measured on a balance of payments basis, which excludes military trade of U.S. defense agencies, and reflect adjustments for timing, coverage and valuation to the trade data reported by the Census Bureau on the f.a.s. transactions value basis.

The decline in the deficit was due to a larger increase in exports than imports; both rose to record levels. Exports increased \$2.1 billion, or 6 percent, to \$39.1 billion; volume increased 2 percent. (Prices are measured by the Census Bureau's unit value index; fourth-quarter data are incomplete.) Imports increased \$1.6 billion, or 3 percent, to \$46.5 billion; volume increased 1 percent.

The trade deficit with Japan and the developing countries declined, as did the surplus with Western Europe.

Fourth-Quarter Exports

Nonagricultural exports increased \$2.5 billion, or 9 percent, to \$31.6 billion; volume increased 5 percent. The increase was widespread among end-use categories. Machinery exports had the largest increase, \$0.7 billion. Other increases included industrial supplies, \$0.6 billion; automotive parts, \$0.2 billion; and consumer goods, \$0.2 billion.

Agricultural exports declined \$0.4 billion, or 5 percent, to \$7.5 billion; volume declined 9 percent. The decline was concentrated in grain and cotton. Soybeans and tobacco increased.

Fourth-Quarter Imports

Nonpetroleum imports increased \$1.8 billion, or 5 percent, to \$35.8 billion; volume increased 2 percent. The increase was widespread among end-use categories. Foods, automotive products, and industrial supplies had the largest increases. Consumer goods imports declined.

Petroleum imports, including imports into the Virgin Islands, declined \$0.3 billion, or 3 percent, to \$10.7 billion; volume declined 1 percent. The number of barrels imported daily declined to 8.85 million from 8.95 million. There appears to have been little anticipatory buying prior to the December increase in posted prices by members of OPEC. The cutback in Iranian production may have had a small negative impact on arrivals late in 1978. Iran supplied 10 percent of U.S. petroleum imports in 1978.

Developments in 1978

In the year 1978, the U.S. merchandise trade balance was in deficit by \$34.2 billion, compared with a deficit of \$31.1 billion in 1977. Imports increased \$24.3 billion, or 16 percent, to \$176.0 billion; volume increased 10 percent. Exports increased \$21.2 billion, or 18 percent, to \$141.8 billion; volume increased 9 percent.

The year-to-year comparison obscures significant shifts within the year. After the first quarter, exports increased more sharply than imports. In the first quarter, exports were \$122.7 billion at an annual rate and increased 27 percent to a rate of \$156.3 billion in the fourth quarter; volume increased 16 percent. Imports were \$167.2 billion at an annual rate in the first quarter and increased 11 percent to a rate of \$185.9 billion; volume increased 5 percent. These intra-year movements indicate that improved economic conditions in leading export markets and the lagged effects of the decline in the value of the U.S. dollar in exchange markets are influencing U.S. trade patterns.

The increase in nonpetroleum imports more than accounted for the increase in imports. These imports increased \$27.0 billion, or 25 percent, to \$133.7 billion; volume increased 12 percent. Industrial supplies, consumer goods, automotive products, and capital goods had large increases. Automotive imports from areas other than Canada increased 46 percent, but volume increased only 13 percent. Automotive imports, more than any other major item, reflect the depreciation of the dollar, especially against the Japanese yen and the German mark. In 1978, imported automobiles accounted for 17.7 percent of total U.S. automobile sales, compared with 18.5 percent in 1977.

Petroleum imports declined \$2.7 billion, or 6 percent, to \$42.3 billion. The number of barrels imported daily declined to 8.71 million compared with 9.27 million in 1977. Although total U.S. petroleum consumption increased 2 percent, it has been met by higher North Slope production and by drawing down of inventories; total U.S. production is estimated to have increased 6 percent, and inventories decreased 4 percent in 1978.

Both agricultural and nonagricultural exports increased. Agricultural exports increased \$5.5 billion, or 23 percent, to \$29.9 billion; volume increased 21 percent. The increases were primarily due to increased shipments of grain to Latin America and the Soviet Union, and of soybeans and cotton to Japan and the developing countries in Asia. Nonagricultural exports increased \$15.7 billion, or 16 percent, to \$112.0 billion; volume increased 6 percent. All major end-use categories increased. Civilian aircraft increased 28 percent, reflecting major programs undertaken by the world's airlines to rebuild their fleets. After sluggish performances in 1976 and 1977, machinery exports increased 15 percent in 1978.

The surplus with Western Europe declined in 1978, to about one-half of its 1977 level. The trade deficit with Japan increased substantially, and the deficit with Canada increased moderately. The deficit with the developing countries declined.

Merchandise Trade--Balance of Payments Basis
(Millions of dollars, seasonally adjusted, f.a.s. transactions value)

	Annual			Quarterly 1978				Change: III-IV
	1977	1978	Change	I	II	III	IV	
EXPORTS								
Merchandise exports, Census basis, including reexports, excluding military grant shipments-----	121,150	143,575	22,425	30,849	35,514	37,691	39,420	1,729
Adjustments:								
Gold exports, nonmonetary-----	14	37	23	29	8	-	-	-
Inland freight (to Canada) valuation adjustment-----	691	757	66	166	187	194	210	16
U.S.-Canada reconciliation adjustments, n.e.c., net-----	1,787	1,900	113	416	517	438	529	91
Exports transferred under U.S. military agency sales contracts identified in Census documents-----	-3,285	-4,656	-1,371	-971	-1,310	-1,210	-1,165	45
Other adjustments to Census exports-----	219	206	-13	200	176	-158	89	247
Equal: Merchandise exports, adjusted to balance of payments basis, excluding "military"-----	120,576	141,819	21,243	30,689	35,092	36,955	39,083	2,128
IMPORTS								
Merchandise imports, Census basis (general imports)-----	147,685	172,026	24,341	40,520	42,211	43,990	45,534	1,544
Adjustments:								
Virgin Islands imports from foreign countries-----	2,705	2,779	74	906	473	733	667	-66
Gold imports, nonmonetary-----	1,286	841	-445	195	211	292	143	-149
U.S.-Canada reconciliation adjustments, n.e.c., net-----	-206	-	206	-	-	-	-	-
Imports of U.S. military agencies identified in Census documents-----	-243	-180	63	-45	-35	-46	-54	-8
Other adjustments to Census imports-----	479	542	63	232	-48	-51	180	231
Equals: Merchandise imports, adjusted to balance of payments basis, excluding "military"-----	151,706	176,008	24,302	41,808	42,812	44,918	46,470	1,552
BALANCE (Excess of exports +)								
Merchandise trade, Census basis-----	-26,535	-28,451	-1,916	-9,671	-6,697	-6,299	-6,114	185
Merchandise trade, adjusted to balance of payments basis, excluding "military"-----	-31,130	-34,189	-3,059	-11,119	-7,720	-7,963	-7,387	576
Memoranda:								
Exports of agricultural products-----	24,336	29,864	5,528	6,485	7,974	7,902	7,503	-399
Exports of nonagricultural products-----	96,240	111,955	15,715	24,204	27,118	29,053	31,580	2,527
Imports of petroleum and products-----	44,980	42,307	-2,673	10,020	10,588	10,985	10,714	-271
Imports of nonpetroleum products-----	106,726	133,701	26,975	31,788	32,224	33,933	35,756	1,823

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis, Balance of Payments Division.