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BUREAU OF  
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Summary of U.S. International Transactions:  
Fourth Quarter and Year 1986

The U.S. current-account deficit increased to \$36.8 billion in the fourth quarter of 1986 from \$35.3 billion (revised) in the third, according to the Commerce Department's Bureau of Economic Analysis. Most of the increase was due to a rise in the merchandise trade deficit.

The merchandise trade deficit increased to \$38.4 billion in the fourth quarter from \$37.1 billion in the third. Merchandise imports increased to \$95.7 billion from \$92.9 billion; merchandise exports increased to \$57.3 billion from \$55.8 billion. Net service receipts decreased to \$5.5 billion from \$6.0 billion. The decrease was more than accounted for by an increase in private portfolio income payments. Net unilateral transfers were \$3.9 billion, compared with \$4.2 billion, reflecting a decrease in U.S. Government grants to countries in the Middle East.

Among capital transactions for U.S. assets abroad, U.S. claims on foreigners reported by U.S. banks increased \$29.9 billion in the fourth quarter, compared with \$19.3 billion in the third. Claims on Japan increased \$18.3 billion, as Japanese banks borrowed to help finance their international lending. Net U.S. sales of foreign securities were \$2.7 billion, compared with \$0.3 billion, due to a sharp selloff of foreign stocks and bonds. Partly offsetting, was an increase in foreign bonds newly issued in the United States, as U.S. interest rates declined further. Net capital outflows for U.S. direct investment abroad were \$5.7 billion, compared with \$8.0 billion; capital gains and intercompany debt outflows decreased.

Among capital transactions for foreign assets in the United States, U.S. liabilities to private foreigners reported by U.S. banks, excluding U.S. Treasury securities, increased \$35.3 billion in the fourth quarter, compared with \$30.1 billion in the third. As was the case with bank claims (outflows), inflows were boosted by the international activities of Japanese banks, and strong credit demand in the United States, partly to finance acquisitions. Net foreign sales of U.S. Treasury securities by private foreigners were \$2.7 billion, following purchases of \$0.5 billion; the shift was more than accounted for by Japan. Net foreign purchases of securities other than U.S. Treasury securities were \$11.8 billion, compared with \$17.2 billion; purchases of Eurobonds newly issued by U.S. corporations abroad were \$7.3 billion compared with \$10.3 billion, and transactions in U.S. stocks shifted to net foreign sales of \$0.3 billion from net purchases of \$4.5 billion. Foreign direct investment in the United States increased \$14.4 billion, compared with \$5.6 billion, due to a step-up in acquisitions. Foreign official assets in the United States increased \$0.8 billion, following a \$15.4 billion increase.

From September to December, the dollar depreciated 1 percent and appreciated 2 percent on a trade-weighted average basis against the currencies of 10 industrial and 22 OECD countries, respectively.

#### Year 1986

The current account was in deficit by a record \$140.6 billion in 1986, compared with a deficit of \$117.7 billion in 1985.

The increase was accounted for by the merchandise trade deficit which increased to \$147.7 in 1986 from \$124.4 billion in 1985. Merchandise imports increased to \$369.5 billion from \$338.9 billion; merchandise exports increased to \$221.8 billion from \$214.4 billion.

Net service receipts were \$22.3 billion in 1986, compared with \$21.7 billion in 1985. Net receipts of income on investment decreased to \$22.8 billion from \$25.2 billion. For income on direct investment, receipts of income for U.S. direct investment were boosted by capital gains generated by appreciation of major foreign currencies against the dollar; payments of income on foreign direct investment in the United States decreased. For other private income, receipts decreased while payments increased. Other service transactions shifted to net receipts of \$0.6 billion from payments of \$3.4 billion: the shift was mostly due to higher travel and passenger fare receipts, and to an increase in transfers under military sales contracts.

Summary of U.S. International Transactions  
(Millions of dollars, seasonally adjusted)

	1985	1986 <sup>p</sup>	Change: 1985-86	1986					Change: 1986 III-IV
				IV	I <sup>r</sup>	II <sup>r</sup>	III <sup>r</sup>	IV <sup>p</sup>	
Credits (+), debits (-)									
1 Exports of goods and services 1/.....	358,498	370,702	12,204	90,873	91,498	91,986	92,843	94,374	1,531
2 Merchandise, adjusted, excluding military 2/.....	214,424	221,753	7,329	52,727	53,588	55,075	55,764	57,326	1,562
Receipts of income on U.S. assets abroad:									
3 Direct investment.....	34,320	39,073	4,753	10,938	10,695	9,750	9,461	9,167	-294
4 Other private receipts.....	50,180	45,225	-4,955	12,214	11,934	11,501	10,896	10,893	-3
5 U.S. Government receipts.....	5,491	6,315	824	1,357	1,570	1,388	1,985	1,372	-613
6 Other goods and services.....	54,083	58,337	4,254	13,637	13,711	14,272	14,737	15,616	879
7 Imports of goods and services.....	-461,191	-496,126	-34,935	-120,324	-122,547	-122,336	-123,979	-127,266	-3,287
8 Merchandise, adjusted, excluding military 2/.....	-338,863	-369,461	-30,598	-90,079	-90,077	-90,775	-92,913	-95,696	-2,783
Payments of income on foreign assets in the United States:									
9 Direct investment.....	-8,068	-6,535	1,533	-759	-2,391	-2,164	-1,044	-935	109
10 Other private payments.....	-35,429	-38,815	-3,386	-9,126	-9,600	-9,587	-9,455	-10,174	-719
11 U.S. Government payments.....	-21,306	-22,398	-1,092	-5,369	-5,703	-5,560	-5,697	-5,433	264
12 Other goods and services.....	-57,525	-58,918	-1,393	-14,991	-14,771	-14,250	-14,870	-15,028	-158
13 Unilateral transfers (excluding military grants of goods and services), net.	-14,983	-15,145	-162	-4,244	-2,991	-4,047	-4,163	-3,945	218
14 U.S. Government grants (excluding military grants of goods and services)...	-11,196	-11,825	-629	-3,307	-2,069	-3,245	-3,419	-3,092	327
15 U.S. Government pensions, private remittances, and other transfers.....	-3,787	-3,320	467	-937	-922	-802	-744	-853	-109
16 U.S. assets abroad, net (increase/capital outflow(-)).....	-32,436	-99,815	-67,379	-23,266	-13,009	-25,661	-28,201	-32,944	-4,743
17 U.S. official reserve assets, net.....	-3,858	312	4,170	-3,148	-115	16	280	132	-148
18 U.S. Government assets, other than official reserve assets, net.....	-2,824	-1,978	846	-540	-250	-209	-1,429	-91	1,338
19 U.S. private assets, net.....	-25,754	-98,149	-72,395	-19,579	-12,644	-25,468	-27,052	-32,985	-5,933
20 Direct investment abroad.....	-18,752	-31,922	-13,170	-10,101	-10,002	-8,197	-7,987	-5,736	2,251
21 Foreign securities.....	-7,977	-4,765	3,212	-1,411	-6,133	-1,664	349	2,683	2,334
22 Claims on unaffiliated foreigners reported by U.S. nonbanking concerns..	1,665	n.a.	n.a.	418	-2,842	-1,220	-88	n.a.	n.a.
23 Claims reported by U.S. banks, not included elsewhere.....	-691	-57,312	-56,621	-8,485	6,333	-14,387	-19,326	-29,932	-10,606
24 Foreign assets in the United States, net (increase/capital inflow (+)).....	127,106	213,294	86,188	51,837	36,620	47,526	69,523	59,625	-9,898
25 Foreign official assets in the United States, net.....	-1,324	33,394	34,718	-1,322	2,469	14,704	15,448	774	-14,674
26 U.S. Government securities.....	-841	33,281	34,122	-2,147	3,079	13,894	11,917	4,391	-7,526
27 Other U.S. Government liabilities.....	483	1,067	584	263	288	679	900	-799	-1,699
28 U.S. liabilities reported by U.S. banks, not included elsewhere.....	522	-126	-648	722	-1,261	662	2,933	-2,460	-5,393
29 Other foreign official assets.....	-1,488	-828	660	-160	363	-531	-302	-358	-56
30 Other foreign assets in the United States, net.....	128,430	179,900	51,470	53,158	34,151	32,822	54,075	58,851	4,776
31 Direct investment in the United States.....	17,856	25,585	7,729	2,382	1,422	4,088	5,632	14,442	8,810
32 U.S. Treasury securities.....	20,500	9,334	-11,166	5,676	7,666	3,807	541	-2,680	-3,221
33 U.S. securities other than U.S. Treasury securities.....	50,859	70,658	19,799	22,441	18,686	23,018	17,855	11,769	-5,416
34 U.S. liabilities to unaffiliated foreigners reported by U.S. nonbanking concerns.....	-1,172	n.a.	n.a.	2,232	-2,057	-1,644	589	n.a.	n.a.
35 U.S. liabilities reported by U.S. banks, not included elsewhere.....	40,387	77,435	37,048	20,427	8,434	3,553	30,128	35,320	5,192
36 Allocations of special drawing rights.....	--	--	--	--	--	--	--	--	--
37 Statistical discrepancy (sum of above items with sign reversed).....	23,006	27,091	4,085	5,125	10,429	12,532	-6,023	10,156	16,179
Of which: seasonal adjustment discrepancy.....	--	--	--	3,771	1,329	-1,410	-3,956	4,040	7,996
MEMORANDA:									
38 Balance on merchandise trade (lines 2 and 8).....	-124,439	-147,708	-23,269	-37,352	-36,489	-35,700	-37,149	-38,370	-1,221
39 Balance on goods and services (lines 1 and 7).....	-102,694	-125,424	-22,730	-29,451	-31,049	-30,350	-31,136	-32,892	-1,756
40 Balance on goods, services, and remittances (lines 39 and 15).....	-106,481	-128,744	-22,263	-30,388	-31,971	-31,152	-31,880	-33,745	-1,865
41 Balance on current account (lines 39 and 13).....	-117,677	-140,569	-22,892	-33,695	-34,040	-34,397	-35,299	-36,837	-1,538
Transactions in U.S. official reserve assets and in foreign official assets in the United States:									
42 Increase (-) in U.S. official reserve assets, net (line 17).....	-3,858	312	4,170	-3,148	-115	16	280	132	-148
43 Increase (+) in foreign official assets in the United States (lines 26, 28, and 29).....	-1,807	32,327	34,134	-1,585	2,181	14,025	14,548	1,573	-12,975

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

- Excludes transfers of goods and services under U.S. military grant programs.
- Adjusted for timing, valuation, and coverage to balance of payments basis; excludes exports under U.S. military agency sales contracts and imports of U.S. military agencies.

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

From December 1985 to December 1986, the dollar depreciated 18 percent and 5 percent on a trade-weighted average basis against the currencies of 10 industrial and 22 OECD currencies, respectively. The largest declines were against several major European countries and Japan, which have a larger weight in the index of 10 currencies than in the index of 22 currencies.

The statistical discrepancy--errors and omissions in recorded transactions--was an inflow of \$27.1 billion in 1986.

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Additional data and analysis for the fourth quarter and year 1986 will be published in the March issue of the Survey of Current Business, a monthly journal of the Bureau of Economic Analysis. The Survey is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. First class mail (domestic only): annual subscription \$50.00. Foreign airmail delivery rates are available upon request. Second class mail: annual subscription \$25.00 domestic, \$31.25 foreign; single issue \$5.00 domestic, \$6.25 foreign.

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Future release dates: Summary of U.S. International Transactions

First Quarter 1987	June 16
Second Quarter 1987	September 15
Third Quarter 1987	December 15

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Four telephone lines carry short recorded messages providing BEA estimates immediately upon their release:

(202) 898-2450 Leading indicators  
2451 Gross national product  
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Merchandise trade, balance of payments basis, or  
Summary of U.S. international transactions, or  
Plant and equipment expenditures

Net unilateral transfers were \$15.1 billion in 1986, up slightly from 1985; U.S. Government grants to countries in the Middle East remained strong.

Among capital transactions for U.S. assets abroad, U.S. claims on foreigners reported by U.S. banks increased \$57.3 billion in 1986, compared with \$0.7 billion in 1985. Most of the step-up was in the interbank market, about one-half of which was accounted for by the international activities of Japanese banks. Net capital outflows for U.S. direct investment abroad were \$31.9 billion, compared with \$18.8 billion. The outflows in 1986 were boosted by repayment of intercompany debt owed to finance affiliates in the Netherlands Antilles, and reinvested earnings increased slightly, as capital gains from the appreciation of foreign currencies more than offset declines in operating earnings of petroleum affiliates. Net U.S. purchases of foreign securities decreased to \$4.8 billion from \$8.0 billion; U.S. purchases of foreign stocks dropped sharply, more than offsetting a step-up in new issues and redemptions of outstanding bonds.

Among capital transactions for foreign assets in the United States, U.S. liabilities to private foreigners reported by U.S. banks, excluding U.S. Treasury securities, increased \$77.4 billion in 1986, compared with \$40.4 billion in 1985. An increase in liabilities to Japan reflected the step-up in their international banking activities and funding of loan demand at agencies and branches of Japanese banks in the United States in the last half of the year. Also, there was an increase in liabilities to finance acquisitions, again mainly in the last half of the year. Net foreign purchases of securities other than U.S. Treasury securities increased to a record \$70.7 billion, surpassing the previous record of \$50.9 billion in 1985; Japanese residents were large net purchasers. Foreigners purchased \$39.4 billion in Eurobonds issued abroad by U.S. corporations, up from \$37.6 billion, and \$17.3 billion in U.S. stocks, more than triple net purchases of \$4.9 billion in 1985. Net foreign purchases of U.S. Treasury securities were \$9.3 billion, compared with \$20.5 billion; Japanese residents were large net sellers. Inflows for foreign direct investment in the United States were a record \$25.6 billion, compared with \$17.9 billion, as equity inflows, mostly to finance acquisitions, increased to \$17.7 billion from \$11.9 billion. Foreign official assets in the United States increased \$33.4 billion, compared with a \$1.9 billion decrease, as foreign monetary authorities in industrial countries intervened heavily in exchange markets, mostly in the second and third quarters when the dollar's decline was especially rapid. Dollar assets of OPEC members declined; assets of other countries increased.