INTERNATIONAL ECONOMIC REVIEW

JANUARY 1986

In This Issue:

INTERNATIONAL ECONOMIC INDICATORS

INTERNATIONAL TRADE DEVELOPMENTS:

The Pony is coming!

United States and Soviet Union reach accord on air service

United States and Japan settle leather dispute

U.S. and Japanese leaders scheduled to assess progress in sectoral negotiations

STATISTICAL TABLES

OFFICE OF ECONOMICS
U.S. INTERNATIONAL TRADE COMMISSION
WASHINGTON, DC 20436

OFFICE OF ECONOMICS
John W. Suomela, Director

The INTERNATIONAL ECONOMIC REVIEW is a monthly staff publication of the Office of Economics, U.S. International Trade Commission. The REVIEW is not an official Commission publication: the opinions and conclusions it contains are those of the authors, and do not necessarily reflect the views of the Commission or of any individual Commissioner. The REVIEW is produced as part of the Commission's international trade monitoring program. Its purpose is to keep the Commission informed about significant developments in international economics and trade, and to maintain the Commission's readiness to carry out its responsibility to provide technical information and advice on international trade matters to policymakers in the Congress and the Executive branch. The REVIEW is available to Government officials outside the Commission on a request basis. Inquiries or comment on items appearing in the REVIEW may be made directly to the author, or to:

Editor, International Economic Review
Trade Reports Division/OE, Room 323
U.S. International Trade Commission
701 E Street NW, Washington, DC 20436
Telephone (202) 523-1995

CONTENTS

Page

International Economic Indicators
(Peter Pogany, 523-1517)-- 1

International Trade Developments:

<u>The Pony is coming!</u>--Korea launches a new entry into the tough U.S. auto market.
(Constance Hamilton, 523-1179)------------------------------------ 4

<u>United States and Soviet Union reach accord on air service</u>.--An agreement on the resumption of direct air service between New York and Moscow is awaiting final approval by both governments.
(Kate Tomlinson, 523-1860)-- 4

<u>United States and Japan settle leather dispute</u>.--In the face of threatened U.S. retaliation, a longstanding U.S. complaint about Japan's leather import restraints was finally resolved bilaterally on December 20.
(Kim Skidmore, 523-1535)-- 5

<u>U.S. and Japanese leaders scheduled to assess progress in sectoral negotiations</u>.--High-level officials will meet in January to assess ambitious negotiations begun by the two countries a year ago. The talks were designed to address barriers to U.S. participation in Japan's markets for telecommunications, electronics, medical equipment and pharmaceuticals, and forest products.
(Kim Skidmore, 523-1535)-- 7

Statistical Tables-- 9

International Economic Indicators

Hopes and doubts about the effectiveness of the Gramm-Rudman-Hollings budget balancing plan to relieve the U.S. economy from the twin pressures of the fiscal and trade deficits are balanced on a knife's edge. Although many economists see a bumpy road ahead in 1986, confidence in the overall soundness of the U.S. economy and the apparent resolve of leading Western nations to coordinate macroeconomic policies have allayed fears that the 3-year old Western economic expansion could end abruptly.

According to preliminary estimates, real growth in the United States declined to 2.4 percent in 1985, down from 6.6 percent in 1984. Average growth in the 24 countries of the Organization of Economic Cooperation and Development (OECD) was 2.75 percent in 1985, down from 4.9 in 1984. There are some indications that total U.S. demand will further decelerate this year. The surge in U.S. consumer spending that has buttressed domestic and Western economic recovery is bound to weaken as are private capital and Federal Government outlays. Slower growth in world trade and the widening U.S. external deficits have revived fears of protectionism.

Industrial production

U.S. industrial production grew 0.4 percent in November following a 0.4 percent decline in October.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, 5.3 percent; France, 0.0 percent; Italy, -1.0 percent; Japan, 0.5 percent; the United Kingdom, 5.4 percent; the United States; 1.4 percent; and West Germany, 3.8 percent.

Investment

U.S. capital investment increased in real terms by 5.6 percent in 1985, according to preliminary data. Its growth was 15.3 percent in 1984. The outlook for investment remains clouded. U.S. businesses plan to spend 1 percent less in real terms for expansion and modernization in 1986 than they spent in 1985, according to recent surveys. The decline in manufacturing investment is expected to be 4 percent. Business economists generally believe that the currently pending tax reform bill would reduce incentives for capital investment. But some say that exactly this expectation could result in a panic rush to invest in 1986 before the law, if passed, became effective at the beginning of 1987.

Foreign assets in the United States increased by $24 billion more than U.S. assets abroad during the third quarter of 1985. Much of the U.S. direct investment outflow during that period represented corporate debt repayments rather than new investment in foreign production facilities.

Employment

The rate of unemployment in the United States (on a total labor force basis including military personnel) was 6.9 percent in November, slightly less than the 7.0 percent rate registered in both October and September. The national statistical offices of other countries reported the following unemployment rates for November: Canada, 10.2 percent; France, 10.7 percent; Italy, 13.5 percent; Japan, 2.9 percent; the United Kingdom, 13.1 percent; and West Germany, 9.2 percent. (For foreign unemployment rates adjusted to U.S. statistical concepts, see tables at the back of this issue.)

External balances

The deficit in U.S. merchandise trade was $13.7 billion in November, compared with $11.5 billion in October. The trade deficit during the first 11 months of 1985 totaled $131.8 billion, compared with $115.4 billion during the same period of 1984. The U.S. current account deficit increased to $30.4 billion during the third quarter from $27.7 billion during the second quarter. For the full year of 1985, it is expected to exceed 1984's revised $107.4 billion.

The United Kingdom's current account surplus for 1985 is likely to reach the Government's $4.2 billion target. In November, the country's current account registered a surplus of $372 million despite the $202-million deficit in the merchandise trade account. Banking, insurance, and tourism were the major revenue-boosting invisibles in the U.K. current account.

Lower prices for oil, rubber, copper, sugar, and other key commodities saved the industrialized countries $65 billion in 1 year, according to the British journal The Economist. This price decline worries many economists, however. A significant fall in the revenues of many debtor countries that follows in the wake of price drops of these commodities puts the world debt bomb on a shorter fuse. Moreover, a big drop in oil prices--which by virtue of limited oil reserves is expected to be temporary--might significantly increase U.S. and other Western oil imports. This endangers the commitment of Western nations to conservation programs and to expanding domestic capacity for primary energy production.

Prices

In November, the U.S. consumer price index rose 0.3 percent following a similar increase in October. The rate over the 1-year period ending in November was 4.0 percent in Canada, 4.8 percent in France, 8.6 percent in Italy, 1.9 percent in Japan, 5.5 percent in the United Kingdom, 3.6 percent in the United States, and 1.8 percent in West Germany.

Consumer prices in the industrial countries increased at an annualized rate of 4.1 percent during the third quarter of 1985. The second quarter's increase was 4.5 percent. The third quarter average was the lowest annualized 3-month rate since the first quarter of 1969.

Forecasts

The Organization for Economic Cooperation and Development (OECD) forecasts a mediocre 2.5-percent annual rate of real growth for both the United States and the combined economies of its 24 member nations over the next 18 months. In OECD's forecast for U.S. growth is significantly below the 4.0-percent growth projected for 1986 by the Reagan administration. (Of late, some economists within the administration revised downward to 3.0 percent their expectations for real growth in 1986.) The OECD sees the U.S. jobless rate remaining at 7.25 percent until the middle of 1987. It expects the U.S. inflation rate to be 3.25 percent in 1986 and 3.5 percent in 1987. The U.S. administration forecasts an inflation rate of 3.8 percent in 1986, 4.1 percent in 1987, and 3.5 percent in 1988, as measured by the gross national product's implicit price deflator.

The OECD says that West European expansion will be 2.0 to 2.5 percent over the forecast period. West German economic growth is projected to be 3.25 percent in 1986 and 2.25 percent in 1987. OECD expects Japanese growth to decline from 5.0 percent in 1985 to 3.5 percent in 1986 and slightly below that in 1987. Japanese growth is already weakening as the consistently appreciating yen begins to moderate the country's export performance. Japan's economic policymakers worry that declining exports will lead to a suppression of domestic demand and to a graver deceleration than forecast by OECD. Analysts agree that a reduction of the Japanese economy's export dependence through bolstering domestic demand will be the primary challenge of the country's economic policymakers in this decade.

The General Agreement on Tariffs and Trade (GATT) estimates that the volume of world trade rose less than 3 percent in 1985. This is about one-third the growth in 1984. An overall slowing in the economic expansion of industrialized countries and a general decline in the prices of some key commodities have been cited as principal reasons.

Many experts predict that U.S. interest rates will decline in the first half of 1986 due to low inflation and moderate economic growth and that the dollar will depreciate by 20 percent in 1986.

Some doubts have been raised about the usefulness of current economic projections except maybe for the very short term. It is generally agreed that economic forecasts in the postwar period have been largely influenced by what forecasters believed politicians and Federal Reserve officials would do next. Since politicians and central bankers themselves are currently searching for new economic policy directions, the task of economic forecasters has become more precarious than ever.

The Commerce Department's Bureau of Economic Analysis is currently revising time series data on national income and product accounts. This holds out the hope that further improvements in the quality of data will also improve the quality of economic analysis and forecasting. Among other things, the revised data will reflect better the extensive U.S. sub-rosa economy which, by largely escaping cyclical downturns, is a source of the nation's economic stability.

International Trade Developments

The Pony is coming!

For some time the Koreans have kept their product brand names invisible in the United States as they quietly penetrated many consumer markets by serving as manufacturers for American brand name distributors (e.g., RCA and GTE). Now, as their exports move upmarket, the Koreans are intent on establishing recognition on their own. This is particularly important since the Koreans hope to penetrate the tough U.S. auto market.

The bold onslaught on the U.S. auto market will come early this year when the Hyundai conglomerate begins selling its low-priced, stylish, subcompact Pony Excel. In Korea, the Pony captured a 75-percent share of the subcompact market in just 4 years. Two years ago the car was introduced in Canada where it is now the top selling imported car, having overtaken Honda in just 18 months. Despite its success, U.S. auto makers appear unconcerned about the impact of the Pony's arrival, having virtually abandoned the low end of the auto market to Japan. Hyundai hopes to sell about 100,000 cars here in 1986.

Selling at about $5,500, the Pony will face stiff competition from Japan and developing country exporters. Volkswagen will begin selling a $6,000 car from Brazil in 1987, and the Yugo, a $4,000 model from Yugoslavia, was recently introduced here. Taiwan also plans to export cars to the United States in 1987. However, the low end of the automobile market is dominated by the Japanese and it is unlikely they will give up market shares easily. Hyundai's success in Canada has been aided by low tariffs and strict quotas on Japanese imports. Hyundai hopes to repeat its Canadian success in the United States through a strong network of dealers and a good service network.

Opening new markets is almost a necessity for Korea. Its textile, shipbuilding, and construction industries are in deep crisis; Europe and Japan are blocking Korean exports with trade barriers. The United States has already imposed quotas on a number of Korean goods and is demanding Korea open its own highly protected domestic markets.

To keep its economic miracle going, Korean planners want to move Korea away from labor intensive industries and into more sophisticated markets. An advertising blitz will introduce the Pony to American consumers, and if the car does well, it could be the springboard by which Korean brand names like Daewoo, Samsung, and Goldstar become as familiar as Sony, Hitachi, and Canon. Precedents for this auto export strategy have already been set by Germany with its Volkswagen in the 1950's and Japan with Toyota in the 1970's.

United States and Soviet Union reach accord on air service

U.S. and Soviet negotiators have reached an agreement to resume direct air service between their two countries. Flights to the United States by Aeroflot, the Soviet national airline, were restricted to two a week in 1980 following the Soviet invasion of Afghanistan and were suspended altogether in 1981 following the imposition of martial law in Poland. Aeroflot's offices in the United States were ordered closed in 1983 following the Soviet downing of a Korean Airlines jet.

The new agreement was initialed on November 22 and is awaiting final approval by both governments. Final approval is subject to the implementation of safety measures for aircraft on North Pacific air routes, which were agreed to by American, Japanese, and Soviet negotiators on November 19. The United States and the Soviet Union must also approve an agreement between Aeroflot and the participating U.S. carrier, Pan American World Airways (Pan Am). Pan Am operated direct flights from the United States to the Soviet Union during the 1970's, but discontinued its service in 1978 because it was unprofitable.

The new air service agreement amends the U.S.-Soviet Civil Air Agreement of 1967, which has remained in effect despite the cessation of air service. The new agreement allows four weekly flights by carriers from each nation to New York and Moscow with an intermediate stop. Two of the four flights will be allowed to continue on to Washington, D.C. and Leningrad. No date has been set, but Pan Am reportedly hopes to resume direct flights to the Soviet Union in April.

The new agreement introduces revenue sharing by Aeroflot and Pan Am. The United States reportedly insisted on a formula that would assure an equitable distribution of benefits between the Soviet and American carriers. During the 1970's, Aeroflot tended to benefit disproportionately for two reasons. First, Soviet travellers were effectively forced to fly Aeroflot because they could only pay in rubles. Second, the Soviet Union's use of package tours that include airfare and hotel accommodations forced many non-Soviet travellers to fly Aeroflot. Disagreement on a "balancing mechanism" reportedly caused the negotiations to break down in late October. According to press accounts, the new agreement will require each carrier to share revenues once it has carried more than 12,450 passengers in either direction. The revenue sharing payment has been fixed at $175 per passenger.

United States and Japan settle leather dispute

On December 20, the United States and Japan agreed to settle bilaterally a longstanding U.S. complaint concerning Japan's restrictions on imports of leather and leather footwear. In the settlement, Japan agreed to expand its quotas on leather and to convert its quotas into a tariff-rate quota scheme. As a result, effective April 1, 1986, an overall quantitative limit will no longer apply to leather imported into Japan. Japan will also cut tariffs on several items of interest to the United States, notably those on aluminum and paper products. As part of the bilateral settlement, the United States will impose additional duties on imports of footwear and leather products from Japan.

Japan's restrictions on leather imports have been the subject of U.S. complaints for nearly a decade. The present dispute had its origins in a petition filed in 1977 by the Tanners Council of America under section 301 of the Trade Act of 1974. After bilateral consultations failed to resolve the dispute, the United States filed a formal complaint under Article XXIII:2 of the General Agreement on Tariffs and Trade (GATT) in July of 1978.

In February 1979, the United States and Japan opted for a bilateral settlement of the case, which called for expanded Japanese quotas and a more transparent licensing scheme. However, partly as a result of high tariffs and a still paternal import license allocation regime, U.S. suppliers were unable to increase their presence in the Japanese market.

Growing dissatisfaction with the outcome of the bilateral settlement led the United States to reopen its formal GATT protest in 1983. In April 1984, a GATT panel concluded that Japan's restrictions on leather imports were impairing U.S. benefits under the General Agreement. However, Japan took no action in the ensuing 16 months to remove its restrictions and failed to provide acceptable compensation to the United States. In September 1985, a frustrated President Reagan informed Japan that he was setting a December 1, 1985, deadline for reaching a compromise on the issue.

In the November 1 Federal Register, the Office of the U.S. Trade Representative identified 42 items as possible candidates for retaliation if no compromise was reached. Almost half of the items were leather products, but the list also included significant Japanese exports such as color television cameras, typewriters, cash registers, lawn mowers, and optical fibers. Hearings held before the United States Trade Representative to explore these possible areas of retaliation proved lively, pitting American high technology concerns, who generally did not favor retaliation, against U.S. leather suppliers and shoe manufacturers, who sought strong measures against Japan.

Bilateral discussions followed, but the two sides' positions were still far apart on December 1, and the United States announced its intention to retaliate. A plea by Prime Minister Nakasone to the President was delivered on December 2, and it apparently served to buy Tokyo a little time. Progress proved elusive, though, and the cabinet level Economic Policy Council met on December 20 to work out the details of retaliatory action. Convinced that the President intended to retaliate, Japan finally broke the impasse that evening, offering a solution that the United States considered worth discussing: substantial cuts in duties on products of interest to the United States and the conversion of existing absolute quotas into a less restrictive tariff-rate quota scheme. The offer represented a substantial improvement over a similar deal proposed by Japan in mid-November.

The settlement that emerged calls for Japanese tariff cuts on 142 items of interest to the United States, plus additional compensation in the form of higher U.S. tariffs on imports of leather and leather footwear from Japan. A total of $24 million in U.S. imports from Japan is expected to be affected by the higher duties, which will remain in effect as long as Japan's restrictions are in place. Japan agreed to lower its tariffs on several paper products of interest to the United States, along with those on film, glass, some sporting goods, and silicon wafers.

Of particular note is that Japan agreed to reduce tariffs on aluminum. Tariffs on unwrought aluminum and aluminum ingots are to be cut in two stages from the present 9.0-percent ad valorem level to 1.0-percent ad valorem in January 1, 1988; those on aluminum plate, sheet, and strip will be cut from the present 9.2-percent level to 3.0 percent. The Government of Japan also agreed to continue bilateral discussions on aluminum in January 1986. U.S. industry sources believe that the existence of high tariffs and a "recession cartel" in Japan, along with other business practices, has sharply limited U.S. penetration in Japan's market for processed aluminum products. Japan's restrictions on aluminum have recently been considered for possible 301 action by the President.

Japan will also convert its quotas on leather into tariff-rate quotas. Under the new system, once imports reach a prescribed level, additional duties of 40 percent will apply. Such tariff quotas are considered less restrictive than absolute quantity limits, and the amount of leather that will be allowed into Japan without additional restriction is higher than that allowed under the former quota system.

While the bilateral settlement does little to resolve the underlying issue--lack of U.S. access to Japan's leather and leather footwear markets--it appears to serve overall U.S. interests in several important respects. The very act of reaching a compromise bolsters the credibility of the GATT dispute settlement mechanism, an avenue for impartial redress of trade grievances that has left some U.S. agricultural interests distinctly frustrated in recent years. The administration of Japan's restrictions will be somewhat more transparent in the new regime. Under the former quota system, even obtaining information on the exact level of imports that would be allowed was difficult. Finally, by using the dispute to extract tariff concessions and a commitment by Japan to discuss its barriers to aluminum imports, U.S. negotiators appear to have moved several other American industries closer to reaching their objectives in the Japanese market. Unfortunately, as is often the case with trade disputes, the U.S. leather industry itself appears likely to benefit less than others will from the final resolution of its original complaint.

U.S. and Japanese leaders scheduled to assess progress in sectoral negotiations

In January, high level officials from Japan and the United States will meet in Washington to assess the progress trade negotiators have made since market oriented, sector selective (MOSS) talks were initiated a year ago. Before the month is over, U.S. negotiators hope to make new progress in forest products and telecommunications talks and to secure agreement from Japan to begin discussing new sectors within the MOSS negotiating framework. Due to the success of last year's intensive negotiations on medical equipment and pharmaceuticals, talks in that sector are also likely to be moved into a monitoring phase.

Last January, President Reagan asked Prime Minister Nakasone to undertake an ambitious negotiating program intended to uncover and resolve official obstacles to U.S. participation in four key Japanese markets: telecommunications equipment and services, electronics, forest products, and medical equipment and pharmaceuticals (IER, February 1985). The four sectors were chosen by U.S. policymakers based on several criteria: the Japanese market for such products was large and exhibited strong growth potential; U.S. firms were globally competitive in the goods and services; and identifiable regulatory, tariff, and other barriers were present in the Japanese market.

By any measure, the so-called MOSS process initiated by the two leaders has had positive results. Intense negotiations and unprecedented regulatory scrutiny produced a number of measures over the year that should give U.S. businesses greater freedom to participate in the Japanese market. Early on, U.S. negotiators made major breakthroughs in telecommunications talks (IER, March, April, and June 1985), achieving substantial liberalization of Japan's regulatory system for cable-based equipment. Since that time, 77 new kinds of U.S. hardware have been certified for sale in Japan. The American side also got most of what it sought in medical equipment and pharmaceuticals, and

Japan addressed several obtacles to U.S. competition in electronics (IER, August 1985). The Japanese agreed to eliminate tariffs on computer equipment and components, to provide legal protection for designers of semiconductor masks, and to drop a proposed law that would have hampered U.S. software sales in Japan. However, some serious U.S. problems with Japanese practices in the semiconductor industry and with Japan's official satellite procurement policies were still not resolved by yearend (IER, November 1985). Moreover, movement on forest products thus far has proven disappointing to the United States.

The year's near-continuous talks have severely strained patience and resources on both sides of the Pacific. The United States has spent more than a half million dollars in travel expenses and translation fees alone. Moreover, the atmosphere of urgency that has surrounded the talks has at times made thorough evaluation and investigation of the issues difficult. Still, the comprehensive nature of the talks seems to have produced concrete results that probably would not have been possible without the massive commitment that the MOSS approach implied.

The United States hopes to continue the MOSS process in the coming months, dividing its efforts between a followup of recent accomplishments and an abbreviated new sectoral agenda. To redress perceived functional problems with last year's talks, the U.S. side will attempt to allow longer periods between meetings, allow more time for technical discussions, use high level officials less frequently, and conduct more preparatory work between meetings. The U.S. Government is currently in the process of studying which new sectors it would like to include in future MOSS negotiations. Meanwhile, discussions in the four original MOSS sectors will focus on monitoring the agreements reached, identifying new problems, and pursuing more difficult and long-range issues such as the impact of Japan's market structure on U.S. businesses.

Industrial production

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 June	July	Aug.	Sept.	Oct.	Nov.
United States	-7.2	5.9	11.6	6.4	-2.3	2.1	1.3	1.9	2.0	-1.9	9.1	-1.9	-3.8	4.9
Canada	-10.0	5.3	8.8	13.1	0.7	0.7	4.5	11.4	20.0	23.6	-0.8	-2.4	8.4	
Japan	0.4	3.5	11.1	6.1	11.6	-2.6	11.2	-0.4	-21.6	22.7	-14.4	-12.9	12.5	-11.1
West Germany	-3.2	0.3	2.4	16.5	5.5	-3.0	11.5	0.8	43.9	0	-25.4	12.6		
United Kingdom	2.1	3.9	1.2	0.4	3.4	10.0	8.6	-1.6	-3.3	-11.5	3.4	22.1	-3.3	
France	-1.5	1.1	2.3	9.5	-9.5	-3.0	4.1	7.3	-16.6	43.5	0	-16.4	9.4	
Italy	-3.1	-3.2	3.1	7.7	-6.9	7.4	1.1	-2.5	39.3	-37.4	11.9	29.8	-37.0	

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, January 3, 1986.

Consumer prices

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 June	July	Aug.	Sept.	Oct.	Nov.
United States	6.2	3.2	4.3	3.7	3.5	3.3	4.2	2.4	2.4	2.4	2.4	2.3	3.8	6.9
Canada	10.8	5.8	4.3	3.3	3.3	5.4	3.8	3.4	3.1	3.1	4.1	4.0	2.4	3.9
Japan	2.6	1.8	2.3	1.3	3.3	2.4	1.2	2.1	7.9	4.2	-2.0	-3.7	9.1	0.7
West Germany	5.3	3.3	2.4	0.6	2.8	3.4	0.1	0.1	-0.9	-1.1	-0.3	2.1	-0.2	2.3
United Kingdom	8.6	4.6	5.0	5.5	6.0	7.1	9.1	3.0	4.5	0.6	2.7	1.9	1.5	4.3
France	12.0	9.5	7.7	7.3	6.5	5.7	6.2	4.2	6.1	3.4	3.0	2.3	2.4	4.2
Italy	16.4	14.9	10.6	8.0	6.0	10.1	10.2	7.3	9.2	6.5	7.1	2.5	7.2	6.5

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, January 3, 1986

Unemployment rates

(Percent; seasonally adjusted; rates of foreign countries adjusted to be roughly comparable to U.S. rate)

Country	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	9.7	9.6	7.5	7.4	7.2	7.3	7.3	7.2	7.3	7.0	7.1	7.1	7.0	6.9
Canada	11.0	11.9	11.3	11.6	11.2	11.1	10.6	10.3	10.4	10.3	10.1	10.3	10.2	
Japan	2.4	2.7	2.8	2.8	2.7	2.6	2.6	2.5	2.4	2.4	2.8	2.8		
West Germany	5.9	7.5	7.8	7.9	7.8	7.9	8.0	7.9	7.9	7.9	7.9	7.9	7.9	
United Kingdom	11.8	12.8	13.0	13.2	13.0	13.1	13.3	13.5	13.5	13.7	13.4	13.1	13.1	
France	8.4	8.6	10.1	10.3	10.4	10.5	10.5	10.5	10.5	10.5	10.4	10.3	10.3	
Italy	4.8	5.3	5.9	5.8	5.8	5.9	5.9	6.2				6.3		

Note.--Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S. Department of Labor, January 1986.

Trade balances
(Billions of U.S. dollars, f.o.b. basis, seasonally adjusted at annual rate)

Country	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 June	1985 July	1985 Aug.	1985 Sept.	1985 Oct.	1985 Nov.
United States-1/	-31.6	-57.5	-107.9	-124.4	-96.4	-114.8	-135.2	-127.6	-144.0	-110.4	-104.4	-168.0	-122.4	-147.6
Canada	14.4	14.4	15.9	16.4	17.6	16.4	13.6	9.2	10.8	2.4	9.6	15.6	19.2	
Japan	18.6	31.5	44.1	40.0	53.6	46.4	52.0	56.0	54.0	56.4	60.0	55.2	61.2	
West Germany	21.1	16.6	18.8	20.0	23.6	18.4	26.0	27.6	21.6	32.4	20.4	27.6	27.6	
United Kingdom	4.0	-1.6	-5.3	-8.4	-6.4	-5.6	-1.2	-2.8	-3.6	-1.2	-3.6	-3.6	0	
France	-14.0	-5.9	-2.8	1.6	-1.6	-4.4	-1.6	-2.8	2.4	-4.8	0	-3.6	1.2	
Italy	-12.8	-7.9	-10.9	-6.4	-14.8	-15.2	-14.4	-3.2		-7.2	-2.4	0	-7.2	

1/ Exports, f.a.s. value; imports, customs value.

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, January 3, 1986.

U.S. trade balance, by major commodity categories and by selected countries
(Billions of U.S. dollars, customs value basis for imports, seasonally adjusted unless otherwise indicated)

Item	1982	1983	1984	1984 III	1984 IV	1985 I	1985 II	1985 III	1985 June	1985 July	1985 Aug.	1985 Sept.	1985 Oct.	1985 Nov.
Commodity categories:														
Agriculture	21.6	20.0	18.4	4.0	4.6	3.3	2.1	1.7	.5	.5	.7	.5	.9	.9
Petroleum and selected products, unadj	-54.6	-49.1	-52.5	-13.2	-12.8	-9.5	-12.8	-11.0	-4.5	-3.7	-3.3	-4.0	-4.0	-4.1
Manufactured goods	-4.9	-31.3	-78.9	-25.1	-17.5	-23.2	-24.2	-24.9	-8.5	-6.9	-6.9	-11.1	-7.6	-9.7
Selected countries:														
Western Europe	7.6	1.2	-14.1	-4.5	-2.6	-4.5	-6.0	-5.7	-2.3	-1.6	-1.1	-3.0	-1.5	2.4
Canada	-12.6	-12.1	-20.1	-5.3	-5.7	-4.9	-5.3	-4.7	-1.7	-1.2	-1.4	-2.1	-2.0	-1.9
Japan	-17.0	-19.6	-33.8	-11.0	-7.9	-10.2	-11.8	-12.0	-4.2	-3.7	-3.5	-4.8	-3.0	-4.3
OPEC, unadj	-8.3	-8.2	-12.3	-3.7	-2.5	-1.3	-2.8	-2.4	-.9	-.6	-.5	-1.3	-1.1	-1.2
Unit Value (per barrel) of U.S. imports of petroleum and selected products, unadj	$31.48	$28.60	$28.11	$27.98	$27.69	$26.96	$27.09	$25.98	$27.02	$26.19	$26.05	$25.72	$25.97	$26.25

Source: Summary of U.S. Export and Import Merchandise Trade, U.S. Dept. of Commerce, Nobember 1985.

Money-market interest rates
(Percent, annual rate)

Country	1982	1983	1984	1984 IV	1985 I	1985 II	1985 III	1985 IV	1985 July	Aug.	Sept.	Oct.	Nov.	Dec.
United States	12.4	9.2	10.7	9.4	8.6	8.6	7.7	7.8	7.6	7.8	7.8	7.9	7.8	7.8
Canada	14.4	9.5	11.3	11.2	10.6	9.9	9.1	9.0	9.3	9.2	8.9	8.7	8.9	9.4
Japan	7.2	6.8	6.7	6.3	6.5	6.3	6.3	7.0	6.5	6.5	6.3	6.5	7.3	7.1
West Germany	8.8	5.7	6.0	5.9	6.1	6.0	4.9	4.8	5.3	4.8	4.7	4.8	4.8	4.8
United Kingdom	12.2	10.1	9.9	10.1	12.8	12.6	11.5	11.6	12.0	11.2	11.4	11.5	11.5	11.7
France	14.6	12.4	11.7	10.7	10.6	10.5	9.7	9.1	10.0	9.8	9.4	9.3	9.0	9.0
Italy	20.0	18.2	15.9	17.0	15.8	15.4	14.4	14.3	14.4	14.4	14.4	14.2	14.3	14.3

Note.--The figure for a quarter is the average rate for the last week of the quarter.

Source: Statistics provided by Federal Reserve Board.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential
(Index numbers, 1980-82 average=100; and percentage change from previous period)

Item	1982	1983	1984	1984 IV	1985 I	1985 II	1985 III	1985 IV	1985 July	Aug.	Sept.	Oct.	Nov.	Dec.
Unadjusted:														
Index number	109.8	114.2	122.3	128.2	135.1	131.3	125.0	117.3	125.8	124.0	125.3	118.9	116.9	116.1
Percentage change	10.4	4.0	7.1	2.5	5.4	-2.8	-4.8	-6.2	-3.5	-1.4	1.0	-5.1	-1.7	-0.7
Adjusted:														
Index number	109.8	112.4	118.3	123.0	128.8	124.3	119.4	112.0	120.2	118.5	119.5	112.0	112.1	111.9
Percentage change	9.0	2.4	5.2	1.8	4.7	-3.5	-3.9	-6.2	-2.7	-1.4	0.8	-6.3	0.1	-0.2

Note.--The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the U.S. and in these other nations; thus a decline in this measure suggests an increase in U.S. price competitiveness.

Source: World Financial Markets, Morgan Guaranty Trust Company of New York.

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C. 20436

OFFICIAL BUSINESS

ADDRESS CORRECTION REQUESTED

Postage And Fees Paid
U.S. International Trade Commission
Permit No. G-253

U.S. MAIL

ADDRESS CHANGE

- ☐ Remove from List
- ☐ Change as Shown

Please detach address label and mail to address shown above.