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CONTENTS

International Economic Comparisons

Lower interest rates, falling oil prices, the weaker dollar, price stability, and the prospect of a lower Federal deficit have all combined to brighten the U.S. economic landscape. Confidence runs generally high that the economy will continue to expand at least through 1986. The problems of oil producers, farmers, and import-competing manufacturers, as well as the threat of record private debts to the domestic credit system are the most distressing topical issues.

The early benefits of cheaper oil have begun to lubricate the economies of Europe and Japan. In Europe, interest rates are decreasing, inflation is under control, and national trade balances show improvement. Many European governments have announced an upward revision of their economic growth forecasts. In Japan, there is strong consensus that the Government policy of substituting domestic demand for exports in total demand will not disrupt the country's sustained strong economic performance. Private and government analysts in Japan anticipate substantial growth in the coming 12 months.

The external debt of developing nations will reach $1 trillion by the end of 1986, according to the World Bank. Developing nations, not including members of the Organization of Petroleum Exporting Countries (OPEC), owe $435 billion to Western commercial banks. (Of this they owe $103 billion to U.S. banks.) To assure an orderly payment of these debts at an average 10-percent interest during the next 10 years, these countries would have to (1) increase their exports by 60 percent; (2) reduce their imports by 50 percent; or (3) increase exports and reduce imports in some combination by enough to achieve the same effect. A 60-percent total increase in exports over the next 10 years would require a 5.1-percent average annual increase--an implausible prospect. World trade is unlikely to expand at that average rate during the next decade. Even if it did, the forced pace of export growth and import austerity would further reduce domestic consumption in nations that have already sacrificed 15 to 30 percent of their real incomes during the past 3 years in order to redress their external imbalances. Many financial experts feel that before the end of 1987 the debt problem will demand joint government intervention by the United States, Japan, and the European Community on a considerably larger scale than currently envisaged by these countries.

Industrial production

Following a 0.1-percent increase in January 1986, U.S. industrial production declined by 0.6 percent in February and 0.5 percent in March. Using the the producer price index to deflate the change in value, industrial output declined by 2.2 percent in February.

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, 4.1 percent; France, 3.9 percent; Italy, -0.6 percent; Japan, 0.7 percent; the United Kingdom, 3.1 percent; the United States, 1.6 percent; and West Germany, 4.3 percent.

Investment

The United States led the major industrial nations in real investment over the 1973-1984 period. U.S. real investment increased by 20.1 percent from 1973 to 1979 and by 23.6 percent from 1980 to 1984. Over the same two periods, real investment in Japan increased by 14.6 percent and 22.9 percent, and in the United Kingdom, it increased by 15.6 percent and 9.7 percent. In the Federal Republic of Germany, real investment increased by 15.8 percent from 1973 to 1979, but declined by 2.7 percent from 1980 to 1984; similarly, in France the changes in the rate of real investment were 13.5 percent and -5.3 percent over the two periods.

Employment

The rate of unemployment in the United States (on a total labor force basis including military personnel) inched down from 7.2 percent in February to 7.1 percent in March. The January rate was 6.6 percent. The national statistical offices of other countries reported the following unemployment rates. The February rate was 9.8 percent in Canada, 13.3 percent in the United Kingdom, 2.6 percent in Japan, and 9.2 percent in West Germany. The January rate was 10.7 percent in France and 13.7 percent in Italy. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

External balances

The deficit in U.S. merchandise trade dropped from $16.5 billion in January to $12.5 billion in February 1986. The decline reflects lower oil prices, seasonal factors, and some effects of the lower dollar.

The United States currently accounts for 20 percent, West Germany for 17 percent, and Japan for 16 percent of worldwide industrial exports. Per capita, West German industrial exports are almost four times larger than those of the United States and two times larger than those of Japan.

Prices

Led by declines in prices of gasoline, home heating oil, and food, the U.S. consumer price index dropped 0.4 percent in February. This was the first decrease since December 1982 and the largest since November 1953. Producer prices for finished goods declined by 1.6 percent, the largest monthly drop in this index since World War II. The prices of industrial materials (exclusive of oil products) also continued their downward trend in January and February. The latter decline is generally considered a bad sign since the price index of industrial materials is a coinciding indicator when the economy accelerates and a leading indicator when it decelerates.

The inflation rate over the 1-year period ending in February was 4.1 percent in Canada; 3.5 percent in France; 7.6 percent in Italy; 2.4 percent in Japan; 5.1 percent in the United Kingdom; 3.2 percent in the United States; and 0.7 percent in West Germany.

The average 4.6-percent increase in consumer prices in the Organization for Economic Cooperation and Development (OECD) countries was the lowest since 1968. The trend toward lower inflation was clear in 1985, and the dispersion of inflation rates narrowed slightly.

Forecasts

Economic growth

The 50 economists polled through Blue Chip Economic Worldscan predict an average of 3.0-percent real growth for the U.S. economy in 1986. The panel saw the first quarter of 1988 as the beginning of a new U.S. economic recession.

The United Nations Economic Commission for Europe forecasts 3.5-percent real economic growth for Western Europe in 1986. This represents a revision from the previous forecast of 2.5-percent real growth in 1986.

Private economists in France project that the French economy will grow at 2.5 to 3.0 percent in 1986. This acceleration from 1985's quasi-stagnation is expected to increase the French merchandise trade deficit from $2.7 billion in 1985 to $4.5 billion in 1986. Inflation is expected to remain under control and the rate of unemployment to improve. French analysts expect significant economic stimulus from low oil prices made even lower by the slide of the dollar.

The Japanese Government is considerably more optimistic about Japan's immediate economic outlook than are its private economists. The official projection for that country's real growth during the next 12 months is 4.0 percent, but most private economists forecast only 2.0- to 3.0-percent growth. The Government expects the country's current account surplus to be $51.0 billion during the same period, whereas major private research institutions predict that the surplus will be about $63.0 billion.

Trade deficit

Analysts warn that aggressive marketing by foreign sellers in the United States, brand loyalties to many foreign goods, and the willingness of foreign sellers to forego some profits in order to hang on to their U.S. market shares will counteract somewhat the decline of the dollar in the process of balancing U.S. trade. For the sake of U.S. price stability, the dollar may not be allowed to fall low enough to eliminate the U.S. merchandise trade deficit.

Oil prices

According to some experts, oil prices, now at their 12-year low, will fall to $5 a barrel in the near future. Members of OPEC are apparently unable to agree on production restraint, and cutbacks by producers outside OPEC are not making a significant dent in the abundant supply of oil. Demand for oil is expected to increase by only 1 percent in 1986. European countries hurt by the oil crisis in the 1970's have committed themselves to large-scale development of nuclear power. There is also great reluctance, particularly in the United Kingdom, to put coal miners out of work now that oil is once again competitive with coal. But this choice may not disturb the industrial countries much longer. Some analysts predict that OPEC will eventually regain its grip over oil prices, maybe as soon as during the last quarter of this year.

International Trade Developments

Nakasone pledges to take steps to reduce Japan's dependence on exports

In a cordial visit between Prime Minister Nakasone and President Reagan on April 13 and 14, the Japanese leader promised that he would take steps to stimulate domestic demand as part of an overall effort to improve Japan's relations with major trading partners. Nakasone's statement followed the release earlier in the month of the so-called Maekawa Commission report and the announcement, just prior to his Washington trip, of specific expansionary steps by the Japanese Government. President Reagan welcomed his ally's effort in a joint statement issued April 14, announcing that a bilateral dialogue on macroeconomic issues would be pursued by Treasury Secretary Baker and Secretary of State Schultz over the next few months.

On April 7, Prime Minister Nakasone formally endorsed the basic precepts of a report issued by the blue ribbon Commission headed by former Bank of Japan Governer Haruo Maekawa. The Commission had been set up by the Prime Minister on October 15 to propose ways to make Japan a better citizen in the world economic community. The report calls for structural adjustments in the Japanese economy that are designed to promote continued growth while reducing reliance on exports. Indeed, the Commission argued that the Government should make reducing Japan's current account surplus a national policy goal during the next 5 years. The report came on the eve of Prime Minister Nakasone's state visit to the United States and just weeks before the seven nation economic summit to be hosted in Tokyo. Individual ministries in Japan will now be charged with formulating proposals to achieve the report's broad aims.

While it is short on specifics, the Maekawa Commission's report advocates several broad measures long considered necessary by policymakers in the United States and elsewhere. Among them are phasing out protection of Japanese producers of coal and nonessential agricultural commodities, accelerating the adjustment in the 26 manufacturing industries that the Japanese Government believes are no longer competitive, reducing the prices of imported foodstuffs, and reviewing the distribution system for imported consumer products. The elimination of a tax preference for small savings accounts, lower interest rates, stepped up public works spending, income tax cuts, and removal of regulatory barriers to housing construction are among the domestic stimulus measures recommended by the panel.

On the following day, the Government officially adopted several short-term measures intended to stimulate domestic demand in Japan. The Government announced its intention to pursue a flexible (read stimulatory) monetary policy, to front load this year's public works spending, to ease restrictions on urban development, and to pass on to consumers most of the savings realized as a result of sharply falling oil prices and a strengthening yen. Interest rates for housing loans will also to be lowered in an effort to boost residential construction. Of particular importance to the United States was the Government's announcement that prices for beef, pork, butter, feedgrains, and certain other regulated farm commodities would be cut. The distribution system and retail markups for 37 imported consumer products will also be reviewed.

One aspect of the domestic stimulus program may pose problems for the United States. The Government announced that it intended to provide more assistance to small- and medium-sized businesses that have been hurt by the strengthening yen. Interest rates under the so-called yen-impact loan program were lowered as part of this effort. The loan program was set up on an emergency basis following the September Group of Five decision to devalue the dollar in international currency markets. Japan claims that this program will help such firms reduce their dependence on export markets by encouraging them to move into more domestically centered lines of business. The United States remains strongly opposed to the scheme, claiming that it will only shield such firms from the effects of a strengthening yen and permit the survival of some that would not be competitive in the new exchange rate environment.

Now that the much-anticipated report has been officially released, both domestic and foreign interests will attempt to shape the measures the Japanese Cabinet will adopt to implement the Commission's recommendations. U.S. policymakers will be looking for ways to encourage Japan to import products it can no longer produce efficiently, to deregulate prices of commodities where U.S. suppliers are competitive, and to promote greater purchasing power by Japanese citizens.

One nation, two systems: the policy in practice

After a third round of meetings of the Sino-British Joint Liaison Group (JLG) in mid-March, China and the United Kingdom reached agreement on Hong Kong's continued participation in the GATT. The JLG--composed of negotiators from Britian and China--is entrusted with the task of paving the way for Hong Kong's transition from British to Chinese sovereignty in 1997.

Currently, Hong Kong enjoys GATT membership under the British umbrella. The JLG agreed to recommend that Hong Kong continue to participate in the GATT, but as a separate and autonomous customs territory, independent of either Britain or China. The accord further provides that Hong Kong retain such status after 1997 when it becomes a Chinese Special Administrative Region with a high degree of autonomy except in foreign and defense affairs. JLG officials have expressed optimism that the agreement will be acceptable to the GATT Secretariat and to Hong Kong's major trading partners.

China was a founding member of the GATT but has not occupied its seat since the Communists gained control of the country in 1949. However, China is reapplying for GATT membership, and it originally proposed that Hong Kong need only switch from the British to the Chinese delegation. Britain's opposition to this proposal was based on the time required for China to be readmitted to the GATT and the liklihood that Hong Kong's affairs would get thoroughly enmeshed in China's, thereby hurting its trading interests. Moreover, Hong Kong would lose the freedom to maintain and develop its own economic and trade relations as stipulated in the 1984 joint accord turning the territory over to China in 1997. According to the 1984 declaration, Hong Kong is to retain its capitalist system and certain basic freedoms for at least 50 years after 1997.

In response to China's proposal, Britain proposed that Hong Kong participate as a non-state member with full autonomy in external trade affairs and as a separate and autonomous customs territory. Hong Kong already enjoys de facto economic autonomy, and the declaration would give it de jure autonomy as well. Although China initially opposed the idea of complete autonomy for Hong Kong in the GATT as an infringement of its own sovereignty, it eventually conceded to the British proposal. Some observers assert that China's flexibility is motivated by a more significant objective--the goal of peaceful national reunification through recovery of Taiwan. China's flexibility on the GATT issue--following the amicable 1984 accord--could be cited as further proof of its good intentions for the incorporation of Taiwan and as a basis for opening reunification negotiations with that island's reluctant leaders.

Now that Britain and China have reached an agreement, Hong Kong's continued GATT participation will not depend on China resuming its membership. Nor will Hong Kong's new status require the consent of other contracting parties since the new arrangement will not upset the "balance of rights and obligations" of other members. Implementation of the agreement should require only notification to the GATT. Britain will inform the GATT that Hong Kong will be a separate party to the agreement, and China will inform the GATT that the same status will continue after 1997. The accord also means that Hong Kong will lose British economic representation in third countries. However, this should not present a problem because, although ruled by the British, Hong Kong is treated by almost all countries as a virtually separate state. Hong Kong already maintains its own representation with its major trading partners.

Update on GATT dispute settlement

Results were recently obtained in two closely watched GATT disputes on EC production subsidies on canned fruit and on Canadian provincial tax practices on sales of gold coins. Although the panel reports have not been adopted in either case, the countries ruled against nevertheless agreed to alter or eliminate their practices in line with panel recommendations.

EC subsidies on canned fruit and raisins.-- The United States and the EC informed the GATT council in February of the terms of settlement reached to resolve this longstanding dispute. In a complaint raised by the United States as a result of a section 301 petition filed under U.S. law, the panel in this dispute, established in March 1982, submitted its report to the GATT in March 1985.

The panel found that the EC production subsidies on canned peaches and canned pears nullified and impaired U.S. benefits resulting from EC tariff concessions. The panel also suggested that the EC take measures to restore the competitive balance. For several months the EC resisted adoption of the report. In September 1985, President Reagan announced that he would exercise his retaliatory authority under section 301 if a solution were not found by December 1, 1985.

As reported to the GATT Council, the measures agreed to by the EC in late 1985 negotiations with the United States included:

(1) A commitment to reduce the production subsidies on canned peaches by 25 percent below the levels granted in 1985 and to reduce the subsidies in 1987 to levels that would not have the effect of an export subsidy.

(2) A commitment to reduce the level of subsidies on canned pears below the levels applied over the past 3 years and to place restrictions on the amount of the product eligible for the subsidies.

(3) An assurance that, in coming years, the subsidies would be fixed at levels that would not constitute an export subsidy for the canned fruits whether canned separately or as part of fruit cocktail mixtures.

Although the panel report remained unadopted, the parties informed the Council that the report had greatly facilitated solution of the dispute and that the negotiated measures basically conformed to the panel's recommendations.

Canadian provincial (Ontario) sales tax on gold coins.-- In spite of its reluctance to agree to adoption of the panel report, Canada informed the GATT council that it had taken actions to implement the findings of the panel in this case. South Africa requested a panel in November 1984 concerning a tax exemption granted by Ontario on sales of Canadian Maple Leaf gold coins but not on sales of other gold coins.

The panel report suggested that Canada take measures to ensure that the Ontario measures comply with the GATT provisions for equal internal tax treatment between imported and domestic products (GATT article III:2). Stating that it agreed with certain aspects of the panel findings, Canada announced that the retail sales tax on the Canadian Maple Leaf had been reinstated, thus removing the differential treatment between the Canadian coin and other gold coins.

Canada maintained its resistance to adoption of the panel report because of concern over certain implications of the panel findings. The areas of concern included: (1) the fact that the tax exemption was granted only to the Maple Leaf coin and not to any other coins whether produced in Canada or any other country; and (2) possible complications of the panel interpretation of article XXIV:2 (commiting contracting parties to insure GATT observance by local authorities) for countries with federal systems like that in Canada. Other delegations, including Brazil, shared some of Canada's concerns about the findings.

Although the panel report also suggested that the Contracting Parties might ask Canada to grant South Africa compensation, South Africa is not pushing for such action. South Africa is, however, still urging that the report be adopted as a precedent to discourage similar actions in the future.

First package of bilateral investment treaties sent to Senate for ratification

On March 25, President Reagan sent a package of six bilateral investment treaties--with Panama, Senegal, Haiti, Zaire, Turkey, and Morocco--to the Senate for ratification. These treaties were negotiated under the Bilateral Investment Treaty (BIT) Program that was established in December 1981 as part of a broader U.S. policy of liberalizing international investment activity. BIT's are expected to encourage American direct investment abroad, particularly in developing countries. A major aim of the program, according to the Reagan administration, is to enhance private sector participation in the development process. In 1984, U.S. direct investment overseas totaled $233 billion. However, less than one-fourth of this investment was in developing nations.

A BIT is a bilateral treaty between the United States and another country, usually a developing nation. BIT's are designed to guarantee American investors certain rights and protections abroad, thus limiting their risks and creating a more stable environment for investment. The U.S. Government negotiates BIT's from a standard, prototype treaty that covers four main elements: (1) national or most-favored-nation treatment of foreign investments; (2) freedom to transfer profits and other funds across borders; (3) prompt and fair compensation in the event of expropriation; and (4) procedures for dispute settlement including the option of international arbitration. The first version of the U.S. model treaty was developed in January 1982. The current model treaty, which dates from February 24, 1984, is a streamlined version of the original and should facilitate the negotiating process. Thirty days after both countries have ratified a BIT, it enters into force for a period of 10 years.

European nations and Japan have pursued their own BIT programs since the early 1970's. The treaties under these programs tend to be less detailed than their American counterparts but, as is the case with the U.S. program, participation has included primarily lower- and middle-income countries. Until the mid-1960's, the United States customarily negotiated bilateral treaties of Friendship, Commerce, and Navigation (FCN's) that contained some investment provisions. Many modern versions of FCN's are still in force; however, BIT's are more comprehensive and address a wider variety of concerns.

Since the beginning of the program, the U.S. Government has held preliminary discussions with over 40 interested countries. To date, nine BIT's have been signed. By the end of 1985, U.S. Trade Representative Clayton Yeutter or his predecessor William E. Brock had signed pacts with Morocco, Turkey, Panama, Egypt, Senegal, Haiti, and Zaire. More recently, the United States has signed treaties with Cameroon and Bangladesh, the first Asian country to conclude a BIT. Negotiations are currently underway with China, Malaysia, Indonesia, Liberia, Ivory Coast, Sri Lanka, Burundi, Honduras, Somalia, Uruguay, Gabon, and Costa Rica.

The USTR expects the Senate to hold hearings on the first six BIT's by early summer. Over the next several weeks, the treaties with Egypt, Cameroon, and Bangladesh will be sent by USTR to the President for approval. These three agreements are expected to be included in the first package of treaties that will be considered by the Senate.

<u>GATT Preparatory Committee progress</u>

In its most extensive meeting yet, the GATT Preparatory Committee wrapped up its overview of a long "shopping list" of potential new round trade topics in 4 days of talks, March 17-20. In April, the Committee will shift to treating trade topics in detail, drafting a Ministerial Declaration, and deciding the locale for the September Ministerial. The Preparatory Committee, established last fall by the GATT Contracting Parties, is expected to pave the way for launching a new round of multilateral trade negotiations. Committee members will report in June to the GATT Council on strategies to be forwarded to the Ministerial.

The March meeting was the last of four sessions devoted to review of the long list of topics drawn up last fall by the Senior Officials Group. The first three meetings of the Preparatory Committee reviewed standstill and rollback proposals, treatment of developing countries, safeguards, agriculture, dispute settlement, tropical products, tariffs, quantitative restrictions and other nontariff measures, Tokyo Round agreements, subsidies, services, structural adjustment, counterfeit trade and intellectual property rights, exports of domestically prohibited goods, textiles, export credits, natural resources, and exchange-rate fluctuations.

Discussions in March covered the remaining topics. Members discussed issues falling under current GATT articles on state trading, customs unions and free trade areas, rules of origin, and renegotiation of tariff concessions. They considered prospects for general improvement in the functioning of the GATT system and in procedures for notification and surveillance of trade measures. Members also discussed the potential for extending GATT coverage to countertrade, investment, restrictive business practices, and trade in commodities and high-technology products. Finally, participants raised proposals for institutional negotiating arrangements and modalities (i.e., negotiating principles, participation, and practical arrangements), recommending, among other things, that a committee on trade negotiations be established.

With the review completed, GATT Director General Arthur Dunkel has set an agenda for the next Preparatory Committee meeting that will begin substantive work on recommendations for submission at the September Ministerial. Dunkel will also present his own version of a draft Ministerial Declaration to serve as a starting point for drafting discussions.

Standstill and rollback proposals will be among the first topics scheduled for detailed debate in April. A standstill commitment has been used in previous rounds to encourage GATT members to refrain from implementing any new restrictive measures that could raise bargaining leverage as negotiations begin. Rollback refers to a commitment to cut back GATT-inconsistent and trade-distortive measures. Both concepts have gained wide support among developing countries in particular, but are also generally supported by the United States. Insistence by "hard line" developing countries, led by Brazil, that further discussions await resolution of the standstill and rollback issues was resisted. In a compromise move, GATT Director General Dunkel agreed to include discussion of Secretariat standstill and rollback papers on the April agenda, along with other Secretariat papers on issues drawn up to incorporate discussions thus far.

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

Country	1983	1984	1985	1984	1985				1985				1986	
				IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	5.9	11.6	2.2	-2.3	2.1	1.3	2.1	1.8	-1.9	-7.4	7.0	9.0	1.9	-7.3
Canada	5.3	8.8	4.3	0.7	0.7	4.5	9.4	5.5	-2.4	8.4	10.1			
Japan	3.5	11.1	4.7	11.6	-2.6	11.2	-0.4	-2.9	-12.9	12.5	-11.1	7.1	-6.7	-1.0
West Germany	0.3	2.4	4.5	5.5	-2.4	12.2	0.1	1.7	12.6	11.0	-11.9		22.1	
United Kingdom	3.9	1.3	4.8	3.4	11.5	7.6	0.4	1.2	22.1	0	15.2	-24.0	20.7	
France	1.1	2.3	0.5	-9.5	-3.0	4.1	7.3	0	-16.4	9.4	30.4	-36.0	-8.7	
Italy	-3.2	3.1	1.2	-6.9	7.4	1.1	-2.5	-1.8	29.8	-32.9	31.8	-39.3	26.9	

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, April 11, 1986.

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

Country	1983	1984	1985	1984	1985				1985				1986	
				IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States	3.2	4.3	3.5	3.5	3.3	4.2	2.6	4.3	2.3	3.8	6.9	5.3	4.1	-4.6
Canada	5.8	4.3	4.0	3.3	5.4	3.8	3.4	4.3	4.0	2.4	3.9	9.6	5.5	2.7
Japan	1.8	2.3	2.0	3.3	2.4	1.3	2.1	2.1	-3.7	9.1	-0.7	7.6	0.2	0
West Germany	3.3	2.4	2.2	2.8	3.5	2.5	0.2	1.0	2.1	-0.2	2.2	1.4	-1.1	-3.2
United Kingdom	4.6	5.0	6.1	6.0	7.1	9.1	3.0	3.2	1.9	1.5	4.5	5.9	6.0	3.8
France	9.5	7.7	5.8	6.5	5.7	6.0	4.3	3.2	2.3	2.4	4.2	4.5	-0.3	-3.2
Italy	14.9	10.6	8.6	6.0	10.1	10.2	7.2	6.8	2.5	7.2	6.6	13.7	3.6	5.3

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, April 11, 1986.

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

Country	1983	1984	1985	1984	1985				1985			1986		
				IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
United States	9.6	7.5	7.2	7.2	7.3	7.3	7.2	7.0	7.1	7.0	6.9	6.7	7.3	7.2
Canada	11.9	11.3	10.5	11.2	11.1	10.6	10.2	10.1	10.3	10.2	10.0	9.8	9.8	
Japan	2.7	2.8	2.6	2.7	2.6	2.6	2.7	2.9	2.8	2.9	2.9			
West Germany	7.5	7.8	7.9	7.8	7.9	8.0	7.9	7.8	7.9	7.9	7.8	7.8	7.8	
United Kingdom	12.8	13.0	13.3	13.0	13.1	13.3	13.4	13.1	13.2	13.1	13.2	13.2		
France	8.6	10.1	10.3	10.4	10.4	10.3	10.5	10.1	10.2	10.1	10.0	10.2	10.2	
Italy	5.3	5.9	6.1	5.8	5.9	5.9	6.2	6.3	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, April 1986.

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

Country	1983	1984	1985	1984	1985				1985				1986	
				IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
United States-1/	-57.5	-107.9	-132.8	-96.4	-114.8	-135.2	-127.6	-153.6	-171.6	-129.6	-147.6	-164.4	-180.0	-134.4
Canada	14.4	15.9	12.3	17.6	16.0	12.8	8.8	11.6	15.6	19.2	4.8	10.8	9.6	
Japan	31.5	44.0	56.0	53.6	46.4	52.4	57.6	68.0	55.2	61.2	73.2	70.8	72.0	64.8
West Germany	16.6	18.8	25.3	23.6	18.4	25.6	27.6	30.0	27.6	27.6	27.6	33.6	43.2	42.0
United Kingdom	-1.6	-5.3	-2.7	-6.4	-5.6	-1.2	-2.4	-1.2	-3.6	0	-2.4	2.4	2.4	6.0
France	-5.9	-2.8	-2.5	-1.6	-4.4	-1.6	-2.8	-1.2	-3.6	1.2	1.2	-4.8	6.0	0
Italy	-7.9	-10.9	-11.9	-14.8	-15.2	-14.8	-4.0	-14.0	0	-7.2	-19.2	-13.2	-21.6	-9.6

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

Source: Economic and Energy Indicators, U.S. Central Intelligence Agency, April 11, 1986.

Note.--The United States Department of Commerce reports monthly exports and imports without seasonal unadjustment beginning with January, 1986. U.S. data for prior periods have been accordingly changed. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

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	1983	1984	1985	1984	1985				1985				1986	
				IV	I	II	III	IV	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
Commodity categories:														
Agriculture	20.0	18.4	9.6	4.6	3.3	2.1	1.7	2.5	0.2	0.9	1.2	0.8	0.5	0.7
Petroleum and selected products, unadj	-49.1	-52.5	-45.9	-12.8	-9.5	-12.8	-11.0	-12.6	-3.9	-4.0	-4.1	-4.5	-4.6	-3.2
Manufactured goods	-31.3	-78.9	-102.0	-17.5	-23.2	-24.2	-24.9	-29.7	-11.2	-8.2	-9.9	-10.4	-11.1	-9.1
Selected countries:														
Western Europe	1.2	-14.1	-23.3	-2.6	-4.5	-6.0	-5.7	-7.1	-2.6	-1.6	-2.3	-2.9	-2.7	-1.6
Canada	-12.1	-20.1	-21.7	-5.7	-4.9	-5.3	-4.7	-6.8	-2.1	-2.0	-2.0	-2.7	-1.7	-1.9
Japan	-19.6	-33.8	-46.5	-7.9	-10.2	-11.8	-12.0	-12.5	-4.5	-3.4	-4.0	-4.5	-5.1	-4.0
OPEC, unadj	-8.2	-12.3	-10.2	-2.5	-1.3	-2.8	-2.4	-3.7	-1.3	-1.2	-1.4	-1.4	-1.8	-1.0
Unit Value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.60	$28.11	$26.59	$27.69	$26.96	$27.09	$25.98	$26.35	$25.72	$25.97	$26.25	$26.53	$26.02	$23.70

Source: Summary of U.S. Export and Import Merchandise Trade, U.S. Dept. of Commerce, February 1986.

Note.--The United States Department of Commerce reports monthly exports and imports without seasonal unadjustment beginning with January, 1986. U.S. data for prior periods have been accordingly changed. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Money-market interest rates
(Percent, annual rate)

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.
United States	9.2	10.7	8.3	8.8	8.6	7.9	7.8	7.6	7.9	7.8	7.9	7.8	7.7	7.2
Canada	9.5	11.3	9.7	10.6	9.9	9.1	9.0	11.1	8.7	8.9	9.4	10.5	11.8	10.9
Japan	6.8	6.7	6.5	6.5	6.3	6.3	7.0	6.0	6.5	7.3	7.1	6.5	6.0	5.5
West Germany	5.7	6.0	5.5	6.1	6.0	4.9	4.8	4.5	4.8	4.8	4.8	4.6	4.5	4.5
United Kingdom	10.1	9.9	12.1	12.8	12.6	11.5	11.6	11.9	11.5	11.5	11.7	11.6	12.6	11.7
France	12.4	11.7	10.0	10.6	10.5	9.7	9.1	8.7	9.3	9.0	9.0	8.9	8.8	8.3
Italy	18.2	15.9	15.0	15.8	15.4	14.4	14.3	15.5	14.2	14.3	14.3	14.4	15.9	16.1

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	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Oct.	1985 Nov.	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.
Unadjusted:														
Index number	114.2	122.4	127.1	135.1	131.3	125.0	117.3	117.8	118.9	117.0	116.1	115.0	111.2	109.0
Percentage change	4.0	7.2	3.8	5.4	-2.8	-4.8	-6.2	0.4	-5.1	-1.6	-0.7	-0.9	-3.3	-2.0
Adjusted:														
Index number	112.7	118.2	121.3	128.8	124.3	119.4	112.0	106.3	114.2	112.7	111.9	110.3	105.2	103.3
Percentage change	2.5	4.9	2.6	4.7	-3.5	-3.9	-6.2	-5.1	-3.1	-1.3	-0.7	-0.5	-5.5	-1.8

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.

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