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INTERNATIONAL ECONOMIC COMPARISONS

The boost that Western economies should get from lower energy prices and growth-stimulating monetary policies is taking a longer time to arrive than anticipated. Real economic growth in the United States, Japan, and West Germany is falling short of the 4.0 percent officially projected for 1986. This has caused renewed concern over the U.S. budget and trade deficits and over Third-World debt. Heavily exposed banks and businesses with large debts are particularly worried because constrained earnings in a sluggish economy make debt servicing more difficult.

The measures taken to correct the U.S. trade deficit and the Japanese trade surplus—the major imbalances in the industrial world—have had little effect thus far, but they have produced some unintended side effects. The appreciation of the yen helped push the Japanese economy into its current slump, and there is an outcry in Europe about the diversion of Japanese exports from the United States to that continent.

Western governments continue to say that a new economic rally is on tap and that measures taken to ameliorate international imbalances will show positive results in due time, but policymakers are understandably anxious. Defying the tradition of cooling down disputes during the vacation months, the trading partners are bickering sharply over protectionism and pleading with each other to grow faster and to sacrifice more in solving the global debt problem. Domestic policy debates in the industrial nations over monetary and fiscal issues are also unusually intense. To be sure, only a few economists say that the Western economic expansion faces an imminent danger, but many warn that expectations for growth in the key industrial nations should be scaled back to 3.0 percent. This was the average rate of economic growth in the 10 largest industrial nations during 1985 as well as the average rate of annual growth in the U.S. economy during the 20th century.

Industrial Production

Following an increase of 0.4 percent in April, U.S. industrial production decreased by 0.6 percent in May 1986. New orders for factory goods slipped 0.1 percent during May despite the huge rise in military orders. Based on the first 5 months of 1986, it seems likely that U.S. industrial output was lower at mid-year than at the beginning of the year. The manufacturing sector remains particularly weak, in part due to the continued barrage of imports.

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, 3.6 percent; France, 3.8 percent; Italy, 2.6 percent; Japan, -0.3 percent; the United Kingdom, 1.6 percent; the United States, 0.1 percent; and West Germany, 2.8 percent.

Productivity in Japanese manufacturing industries increased by 45.0 percent more in Japan than in the United States over the past 8 years, according to economists at Thermo Electron of Waltham, Mass.

Investment

The growth of real capital spending by U.S. businesses is expected to decline from 7.5 percent during 1985 to only 0.9 percent during 1986, according to a survey by the Department of Commerce. The same projection signals a 0.8-percent decline in real investment during the second half of 1986.

During 1984, the latest year for which data are available, the real cost of capital was 2.5 percent in Japan and 7.5 percent in the United States. According to the *Wall Street Journal*, this largely explains why real capital formation per worker in the United States has been less than one-third that of Japan during this recovery.

Employment

The rate of unemployment in the United States (on a total labor force basis including military personnel) declined from 7.2 percent in May to 7.0 percent in June. Employment increases in the service sector outweighed declines in goods-producing industries, including mining and construction. The national statistical offices of other countries reported the following unemployment rates for the Month of May: the May rate was 9.6 percent in Canada, 10.0 percent in France, 13.9 percent in Italy, 13.3 percent in the United Kingdom, and 9.0 percent in West Germany. The April rate was 2.9 percent in Japan. (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 increased from $12.1 billion in April to $14.2 billion in May. The trade deficit with Japan climbed from $4.7 billion in April to $5.0 billion in May, and the deficit with the European Community (EC), climbed from $1.9 billion to $2.3 billion. Early "J-curve" effects, which make the situation worse before it becomes better, are partially blamed for the May deficits. (For an explanation of the J-curve, see *IER*, June 1986.)

The United States lost shares in industrial world markets to other industrialized nations rather than to low-wage Third World countries during the 1980's, according to industry sources. The lost U.S. market shares went to Japan, West Germany, France, Italy, and Canada.

For the first time since 1914, the United States became a net debtor in 1985, according to official statistics of the Commerce Department. At $107.4 billion, the U.S. debt is now the largest in the world. At the end of 1985, the world owed Japan, the world's largest creditor, $60.0 billion.

Prices

The U.S. Consumer Price Index increased by 0.2 percent in May, following a 0.3 percent decline in April and 0.4 percent declines in both February and March. According to economists at The Manufacturers Hanover, the depreciation of the dollar, a bottoming out of oil prices, growth of the money supply, and tightening labor markets in some key sectors of the economy have neutralized the forces which have kept the U.S. price level from drastic rises since 1983. According to this view, the U.S. price level is poised for a moderate rise.

The inflation rate over the 1-year period ending in May was 4.1 percent in Canada, 2.3 percent in France, 2.8 percent in the United Kingdom, and 1.6 percent in the United States. The West German price level declined by 0.3 percent over the period. The inflation rate over the 1-year period ending in April was 6.6 percent in Italy and 0.8 percent in Japan.

The Bank of England predicts that the rate of inflation in the seven leading industrial nations (the United States, Japan, West Germany, France, the United Kingdom, Italy and Canada) will average 2.0 percent during 1986.

Forecasts

Economic growth

In its latest appraisal of industrial economies, the Organization for Economic Cooperation and Development (OECD) projects a real growth of 3.0–3.5 percent for the combined economies of OECD countries from the second half of 1986 through 1987. For the U.S. economy, the OECD foresees a 3.5–4.0 percent real growth over the same period. The Organization warned that the present economic situation in the industrialized world is conducive to larger-than-average errors in making economic growth forecasts.

On average, private economists polled by the National Association of Business Economists predict a 3.4-percent growth in the U.S. economy during the second half of 1986. The average forecast for the entire year of 1986 stands at just under 3.0 percent. According to the London Business School, The U.K. economy will grow by 2.0 percent during 1986, 3.2 percent during 1987, and by 3.0 percent during 1988. Their projection for 1986 is lower than the one they published earlier this year.

World debt

The World Bank predicts that the gross debt of Third World countries will increase by 6.3 percent to over a trillion dollars during 1986. The debt grew by 4.6 percent compared with the projected 8.8 percent during 1985. Like other international organizations, the Bank urges industrial nations and other international organizations to do more in dealing with the problem. The Bank remains cautiously optimistic that the debt will eventually be paid back without major changes in the existing framework of international finance.

However, former West German chancellor Helmut Schmidt predicts that some of the Third World debt "will never be paid back." He suggests that creditors may even have to forego interest payments on the debt when a global financial rehabilitation program gets under way. Joining many other prestigious Western commentators, the former chancellor urged a fresh, more realistic look at the problem and has called on Japan to increase its role as a financier of the developing world. Some analysts estimate that by committing $50 billion to the financial needs of the developing countries over the next 5 years, Japan's enormous current account surplus could play a crucial role in salvaging the embattled international monetary order. Such commitment would raise Japan's contribution to international development from a current 0.4 percent of its GNP to 1.5 percent. Although the comparable U.S. figure is only 0.2 percent, the United States outpaces by far other Western nations in committing resources to joint military defense.

Current Accounts

The OECD expects the U.S. current account deficit to increase from $120 billion during 1985 to $130 billion during 1986 and settle close to $120 billion during 1987. The Organization forecasts a rise in Japan's current account surplus from just below $50 billion during 1985 to $70 billion during 1986 and to $80 billion during 1987. The West German surplus is projected to remain in the $20–$30 billion range over the period.

According to World Bank estimates, the deficit on the combined current accounts of all developing countries will edge down from an average of $38.3 billion during 1985 to $37.0 billion during 1986.

World trade

The Bank of England joined Western governments in predicting a vigorous recovery of world trade. The Bank believes that world trade will expand at an annual rate of 5.5 percent during 1986 and 1987 but at a slower pace during 1988. □

INTERNATIONAL TRADE DEVELOPMENTS

U.S. and EC Reach Temporary Accord on Enlargement-Related Farm Trade Dispute

U.S. plans to impose restrictions on European Community (EC) imports on July 1 were recently abandoned when last minute negotiations produced a 6-month accord. This truce should temporarily halt the almost constant agricultural trade battle that has been raging across the Atlantic since certain EC enlargement provisions became effective.

On January 1, 1986, Spain and Portugal became the eleventh and twelfth members of the EC. As a condition for joining the Community, the EC required both countries to reduce their restrictions on goods imported from other member nations and to take measures impeding imports from nonmember nations, including the United States. The U.S.-EC farm trade dispute has centered on several specific provisions of the enlargement treaty that U.S. Government officials estimate could result in a loss of $1 billion worth of U.S. agricultural exports to Spain and Portugal in 1986. In particular, following Portugal's accession to the Community, the EC imposed restrictions on Portuguese imports of soybeans and required that 15.5 percent of its grain imports be purchased from other member countries. The EC also raised tariffs on Spanish corn and sorghum from 20 percent to about 120 to 140 percent as a condition for Spanish accession.

The dispute over EC restrictions affecting exports of U.S. soybeans and grains to Portugal was resolved in May. At that time, the President imposed quotas on a variety of imports from the EC including white wine valued over $4 per gallon, chocolate, candy, apple and pear juices, and beer. Because the EC has claimed that its Portuguese measures will not hurt U.S. exports, the Administration set nonbinding quotas that will have no immediate impact on trade.

In May, U.S. objections to the increase in Spanish tariffs on corn and sorghum were also addressed but not resolved. On May 15, the President published a list of EC products—including wines, brandies, gin, cheeses and sausages—that would be affected by U.S. restrictions on July 1 if the EC did not provide adequate compensation by that date. In response to the U.S. announcement, on June 16 the EC set forth a plan to curb U.S. imports of wheat, rice, and corn gluten feed should the United States impose its restrictions on July 1.

With a major trade war over agricultural products impending, officials on both sides agreed on July 1 to a temporary settlement covering 1986 trade. Under the compromise, Spain will retain its high level of tariffs on corn and sorghum that were enacted as a condition for joining the EC. However, should U.S. shipments to Spain fall below 234,000 metric tons per month—roughly equivalent to last year's levels—other Community members will reduce their tariffs to make up for the shortfall. U.S. government officials contend that the new accord actually represents a net gain for U.S. farmers since 1985 exports were bloated due to stockpiling in anticipation of trade disputes breaking out over the enlargement issue. However, the temporary agreement only buys time to negotiate compensation through the GATT—a process expected to take far longer than the 6-month period covered by the compromise. □

The Semiconductor Issue Moves Into a New Stage

On June 30 and July 2, the U.S. Department of Commerce and the Japanese Ministry of International Trade and Industry initialed partial settlements of several critical semiconductor trade issues. These negotiated settlements, if made final, would result in the suspension of two dumping cases currently under investigation by the Commerce Department and the International Trade Commission. U.S. law requires a 30-day period for comment on the terms of each settlement before it goes into effect. The suspension of the cases, however, will become effective only if the Japanese and U.S. Governments reach an overall agreement on remaining semiconductor issues by July 30, the deadline for the Commerce Department's final dumping determination on the first of the two cases. Although several important issues have yet to be resolved, the initialing of the tentative settlements is viewed as a significant step to ending this nearly year-long conflict.

Negotiations on semiconductor issues began in August of 1985 following an unfair trade practice complaint filed on June 14 by the U.S. Semiconductor Industry Association (SIA) under Section 301 of the Trade Act of 1974. The SIA charged that Japanese producers of semiconductors were colluding with their Japanese customers to restrict U.S. sales of semiconductors in Japan. It further claimed that because of this sheltered market, the Japanese companies involved were able to greatly expand their capacity and undercut U.S. prices. The SIA requested that the U.S. Government take action to increase U.S. firms' share of the Japanese semiconductor market and to prevent Japanese dumping in the United States.

Japan and the United States expanded the scope of the negotiations to include issues raised in several anti-dumping complaints filed by U.S. industry and the administration. The first of these complaints, claiming injury due to dumping, was filed in June 1985 by a U.S. producer of 64K Dynamic Random Access Memory (DRAM) components. Three U.S. firms filed the second complaint in September asking for an investigation into the dumping of Erasable Programmable Read Only Memory (EPROM) components. Before the end of the year, the administration asked the Commerce Department to initiate an investigation of alleged dumping of DRAM's with 256K or more. The International Trade Commission has concluded its preliminary investigations, and in each case unanimously determined that there is reasonable indication that the U.S. industry is being materially injured, or threatened with material injury, by reason of imports of the subject Japanese products. In May 1986, the Commission made a final determination on the 64K DRAM case, determining that the U.S. industry is injured by such imports from Japan sold at less than fair value. Dumping duties ranging from 11.87 percent to 35.34 percent have subsequently been imposed.

In late May Ambassador Yeutter and Michio Watanabe, the Japanese Minister of International Trade and Industry, met in Tokyo and came up with a framework for further negotiations. They instructed their negotiators to achieve two goals: (1) to insure fair prices by Japanese producers, and (2) to expand U.S. market share in Japan. The settlements of June 30 and July 2 dealt only with "suspension agreements" on EPROM's and on DRAM's with 256K and above. Although the dumping cases will be suspended if these agreements become effective, the Commerce Department can reinstate either or both investigations at any time if the related agreement is found to no longer be in the public interest. In the meantime, both the Commerce Department and the International Trade Commission are continuing both investigations internally, and determinations will be reached on schedule if the United States and Japan fail to resolve outstanding issues. The Commerce Department is scheduled to make its determinations on the question of sales at less than fair value for EPROM's on July 30 and for DRAM's on August 1. The International Trade Commission is then required to determine whether the dumping is a cause of material injury or threat of material injury to the U.S. domestic industry.

Although not yet disclosed, some important details have apparently been worked out. Industry officials from both countries believe that the issue of market access has been essentially resolved. U.S. officials earlier in the year had insisted on gaining no less than an official market share target of 30 percent from Japanese negotiators, an amount that the Japanese were not prepared to give. The U.S. negotiators are said to have lowered this amount to a 20 percent unofficial share, to be encouraged by both governments. One of the outstanding issues is the monitoring of prices. The essential elements of a system to monitor prices of semiconductors exported from Japan to the United States reportedly has been formulated, but the U.S. negotiators insist that a system be developed to monitor Japanese semiconductor prices in third countries. The United States fears that the exclusion of such a global system would encourage the dumping of Japanese semiconductors in third countries. This would force U.S. producers of semiconductor-utilizing products offshore for the purchase of the lower priced units or force them to move their circuit board assembly operations from the United States to third countries. The Japanese are concerned that the U.S. requests will impede the development of their semiconductor industry, which depends on the ability to reduce production costs quickly through mass production of successive generations of these high-technology products. □

No Assurances on Soviet Purchases of U.S. Wheat

Soviet purchases of wheat from the United States were a major topic on the U.S. agenda for the semiannual consultations on the grain agreement held on June 9 and 10. The agreement requires the Soviet Union to buy at least 4 million metric tons (MMT) of wheat annually, but it had purchased only 153,000 tons of U.S. wheat, or less than 4 percent of the minimum, since the beginning of the current agreement year in October 1985. During the previous agreement year (October 1984–September 1985), the Soviet Union purchased only 2.9 MMT of U.S. wheat (*IER*, November 1985). According to press reports, the Soviet delegation to the consultations gave no assurances that the remaining 3.8 MMT would be bought by the end of the current agreement year in September 1986. However, they reportedly indicated that the Soviet Union might make some additional purchases during the summer when the 1986 harvest could be estimated more accurately.

Under the agreement, the Soviet Union must also purchase 4 MMT of corn and an additional 1 MMT of corn, wheat, or soybeans, with each ton of soybeans counted as the equivalent of 2 tons of grain. As of early June, the Soviet Union had bought 6.5 MMT of corn and 1.5 MMT of soybeans for the current agreement year.

The Soviet Union may be holding back on purchases of U.S. wheat for commercial reasons. According to Soviet spokesmen, the Soviet Union did not meet the minimum wheat-purchasing requirement during the past agreement year because U.S. prices were higher than those offered by other countries. Soviet wheat production was fairly high in 1985, according to estimates by the U.S. Department of Agriculture (USDA), and the Soviet Union may anticipate that the 1986 grain harvest will be larger. At the June consultations, Soviet officials declined to provide a projection, but they reportedly expressed their opinion that the harvest would be better than last year's. In that case, the Soviets might want to delay purchases as long as possible, especially in light of the deterioration in their hard-currency position, owing to the decline in the price of oil. The pace of Soviet grain purchases began to slow around the first part of 1986, according to USDA estimates, and USDA has suggested that the Soviets may also expect world grain prices to decline during the summer and fall.

USDA is less optimistic about the 1986 Soviet harvest. In May, it estimated that grain output would remain unchanged from 1985 at 190 MMT, and in June, it lowered the estimate to 185 MMT. The estimate was reduced because of unfavorable weather in the Soviet Union during May, not because of the accident at the Chernobyl nuclear plant in late April. USDA analysts concluded that sufficient information on the accident was not available to assess its impact on Soviet grain production. □

Puerto Rico Embraces the CBI

The comprehensive U.S. tax reform proposal presently being considered in Congress contains a provision that is expected play to a major role in how Puerto Rico relates to the Caribbean Basin Initiative (CBI). The proposal would continue the federal tax exemptions enjoyed by subsidiaries of U.S. companies operating in Puerto Rico, which are codified in section 936 of the Internal Revenue Code. Puerto Rico believes that since many section 936 beneficiaries also have complementary operations in the Caribbean, or are planning to have them in the future, the argument in favor of maintaining this corporate tax haven is strengthened.

The CBI is a 12-year U.S. program intended to bring prosperity to Caribbean countries, mainly by granting duty-free entry for eligible Caribbean products to the U.S. market (see also *IER*, April 1985, and *IER*, March 1986.) The CBI could have easily triggered lasting protests from Puerto Rico since it takes away the duty-free advantage Puerto Rican products had over certain Caribbean products in U.S. markets. Being subject to U.S. minimum wage laws, Puerto Rico is sensitive to competition from low-wage Caribbean countries.

Instead, Puerto Rico chose to join forces with its Caribbean neighbors and compete together with them for the U.S. market against other low-cost producers in third countries, mostly in Asia. A policy of strong support for the CBI was announced by Rafael Hernandez-Colon, Puerto Rico's Governor, in his inaugural address in January 1985. In the Governor's words: "We are going to assume a leadership role to attain those valuable objectives pursued by President Reagan's Caribbean Basin Initiative." The Puerto Rican administration's position on the CBI has the backing of local businesses, including commercial banks, operating in Puerto Rico.

The economic incentives that tipped the scale in favor of Puerto Rico's support for the CBI were: (1) improved prospects for maintaining and spreading the scope of tax exemptions, and (2) a CBI provision that permits Puerto Rico to share the benefits that Caribbean countries derive from duty-free treatment.

In October 1984 the U.S. Treasury Department sought to repeal the tax benefits extended in section 936 of the Internal Revenue Code. These tax breaks greatly contributed to Puerto Rico's spectacular pace of industrialization (the "Operation Bootstrap" program). Since taking office, Puerto Rico's present administration has been vigorously fighting the repeal of section 936.

The Puerto Rican Government also used its commitment to the CBI as ammunition in this fight, asking that section 936 benefits not be lost for profits that are used to finance complementary facilities in CBI beneficiary countries. Under current provisions, tax-exempt profits earned in Puerto Rico cannot be used outside the island. The Government argues that operations extended from Puerto Rico to CBI beneficiary countries, and the resulting transfer of expertise and technology, could be important building blocks contributing to the ultimate success of the CBI. This position now has the support of Congress as reflected in certain provisions included in the tax reform proposal.

Section 936 firms began to adopt the concept of complementarity years ago by moving certain subassembly operations to Caribbean countries in order to take advantage of the lower Caribbean wage rates. The finishing work and quality control of the joint product continued to be performed in the companies' Puerto Rican plants because of the higher education level of the workers and better infrastructure of the island.

Complementary Caribbean facilities are currently in operation for some two dozen section 936 companies, manufacturing mostly footwear and electronics products and processing fruit. Barbados, the Dominican Republic, and Haiti have thus far been the best Caribbean partners for complementary operations.

The passage of the CBI provided added incentive for shared production between Puerto Rican and complementary Caribbean plants. Under the

CBI, beneficiary countries must add no less than 35 percent to the appraised value of their products entering the U.S. market to take advantage of duty-free treatment. However, CBI allows value generated in Puerto Rico (and the U.S. Virgin Islands) to be counted toward this 35 percent. □

STATISTICAL TABLES

Industrial production

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

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Dec.	1986 Jan.	Feb.	Mar.	Apr.	May
United States	5.9	11.6	2.3	2.1	1.3	2.1	1.9	0.5	9.0	2.9	-9.1	-10.9	5.9	-7.4
Canada	5.3	8.8	4.4	0.7	4.5	9.4	6.1	0.0		-0.8	8.2	-31.9	41.1	
Japan	3.5	11.1	4.7	-2.6	11.2	-0.4	-2.9	-1.0	7.1	-6.7	1.0	-2.9	0.0	4.0
West Germany	0.3	2.4	5.0	-2.4	12.2	0.1	0.8			23.4	-3.4			
United Kingdom	3.9	1.3	4.6	11.5	7.6	0.4	0.7	1.9	-24.0	8.1	15.4	-1.1	14.0	
France	1.1	2.5	0.5	-3.0	4.1	7.3	0.0	-4.9	-36.0	0.0	9.5	0.0	42.7	
Italy	-3.2	3.3	1.2	7.4	1.1	-2.5	-1.8	11.7	-39.3	20.7	39.3	44.9	16.4	

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

Consumer prices

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

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Dec.	1986 Jan.	Feb.	Mar.	Apr.	May
United States	3.2	4.3	3.5	3.3	4.2	2.6	4.3	1.4	5.3	4.1	-4.6	-5.0	-3.3	2.2
Canada	5.8	4.3	4.0	5.4	3.8	3.4	4.4	4.8	9.6	5.4	2.6	2.9	2.7	5.2
Japan	1.8	2.3	2.0	2.4	1.3	2.1	2.1	0.0	7.6	0.2	0	-6.3	0.3	-2.6
West Germany	3.3	2.4	2.2	3.5	2.5	0.2	1.0	-0.9	1.4	-1.1	-3.2	-2.1	-1.2	0.2
United Kingdom	4.6	5.0	6.1	7.1	9.1	3.0	3.2	4.6	5.9	5.9	3.4	0.7	-1.3	0.8
France	9.5	7.7	5.8	5.8	6.0	4.3	3.2	0.7	4.5	-0.6	-3.1	0.7	1.6	2.4
Italy	14.9	10.6	8.6	10.1	10.2	7.2	6.9	6.2	13.7	3.6	5.3	5.3	3.5	5.6

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

Unemployment rates

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

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1986 Jan.	Feb.	Mar.	Apr.	May	June
United States	9.6	7.5	7.2	7.3	7.3	7.2	7.0	7.1	6.7	7.3	7.2	7.1	7.3	7.1
Canada	11.9	11.3	10.5	11.1	10.6	10.2	10.1	9.7	9.8	9.8	9.6	9.6	9.6	
Japan	2.7	2.8	2.6	2.6	2.6	2.7	2.9	2.7	2.7	2.6	2.8	2.9	2.7	
West Germany	7.5	7.8	7.9	7.9	8.0	7.9	7.8	7.8	7.8	7.8	7.8	7.7	7.7	
United Kingdom	12.8	12.9	13.2	13.1	13.2	13.4	13.0	13.1	13.2	13.2	13.1	13.3		
France	8.6	9.9	10.3	10.5	10.4	10.4	10.1	10.2	10.2	10.2	10.3	10.5	10.5	
Italy	5.3	5.9	6.0	5.9	5.8	6.0	6.3	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, July 1986.

Trade balances

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

Country	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May
United States[1]	-57.5	-108.1	-132.0	-114.8	-135.2	-128.0	-147.2	-157.2	-164.4	-180.0	-134.4	-157.2	-129.6	-153.6
Canada	14.4	15.9	12.3	16.0	12.8	8.8	11.6	6.8	10.8	8.4	1.2	10.8	9.6	
Japan	31.5	44.0	55.9	46.4	52.4	57.2	67.6	71.6	70.8	70.8	66.0	76.8	81.6	
West Germany	16.6	18.8	25.3	18.4	25.6	27.6	29.6	40.4	33.6	43.2	39.6	37.1	56.4	
United Kingdom	-1.6	-5.3	-2.5	-5.6	-1.2	-2.4	-1.2	-8.0	2.4	2.4	-6.0	-21.6	-4.8	-12.0
France	-5.9	-2.8	-2.6	-4.4	-1.6	-3.2	-1.6	0.4	-4.8	6.0	0	-4.8	-8.4	-3.6
Italy	-7.9	-10.9	-11.9	-15.2	-14.8	-4.4	-14.4	-12.4	-13.2	-19.2	-8.4	-9.6	0.0	2.4

[1] Exports, f.a.s. value, unadjusted; imports, customs value, unadjusted.

Note.—The U.S. Department of Commerce reports monthly exports and imports without seasonal adjustment 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.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, July 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	1983	1984	1985	1985 I	1985 II	1985 III	1985 IV	1986 I	1985 Dec.	1986 Jan.	1986 Feb.	1986 Mar.	1986 Apr.	1986 May
Commodity categories:														
Agriculture	20.0	18.4	9.6	3.3	2.1	1.7	2.5	1.7	0.8	0.5	0.7	0.5	0.3	-0.2
Petroleum and selected products, unadj	-49.1	-52.5	-45.9	-9.5	-12.8	-11.0	-12.6	-10.6	-4.5	-4.6	-3.2	-2.8	-1.6	2.3
Manufactured goods	-31.3	-78.9	-102.0	-23.2	-24.2	-24.9	-29.7	-31.1	-10.4	-11.1	-9.1	-10.9	-9.6	-10.7
Selected countries:														
Western Europe	1.2	-14.1	-23.3	-4.5	-6.0	-5.7	-7.1	-6.6	-2.9	-2.7	-1.6	-2.3	-2.4	-2.3
Canada	-12.1	-20.1	-21.7	-4.9	-5.3	-4.7	-6.8	-5.9	-2.7	-1.7	-1.9	-2.3	-1.8	-2.1
Japan	-19.6	-33.8	-46.5	-10.2	-11.8	-12.0	-12.5	-14.3	-4.5	-5.1	-4.0	-5.2	-4.4	-4.7
OPEC, unadj	-8.2	-12.3	-10.2	-1.3	-2.8	-2.4	-3.7	-3.5	-1.2	-1.8	-1.0	-0.7	-0.1	-0.7
Unit Value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.60	$28.11	$26.59	$26.96	$27.09	$25.98	$26.35	$22.70	$26.53	$26.02	$23.70	$18.39	$13.94	$13.29

Note.—The U.S. Department of Commerce reports monthly exports and imports without seasonal adjustment 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.

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

Money-market interest rates

(Percent, annual rate)

Country	1983	1984	1985	1985 II	1985 III	1985 IV	1986 I	1986 II	1986 Jan.	Feb.	Mar.	Apr.	May	June
United States	9.2	10.7	8.3	8.6	7.9	7.8	7.6	6.5	7.8	7.7	7.2	6.0	6.7	6.7
Canada	9.5	11.3	9.7	9.9	9.1	9.0	11.1	8.9	10.5	11.8	10.9	9.6	8.6	8.7
Japan	6.8	6.7	6.5	6.3	6.3	7.0	6.0	4.7	6.5	6.0	5.5	4.9	4.6	4.5
West Germany	5.7	6.0	5.5	6.0	4.9	4.8	4.5	4.6	4.6	4.5	4.5	4.5	4.6	4.6
United Kingdom	10.1	9.9	12.1	12.6	11.5	11.6	11.9	10.1	11.6	12.6	11.7	10.4	10.2	9.7
France	12.4	11.7	10.0	10.5	9.7	9.1	8.7	7.4	8.9	8.8	8.3	7.7	7.2	7.2
Italy	18.2	15.9	15.0	15.4	14.4	14.3	15.5	12.9	14.4	15.9	16.1	13.6	13.4	11.8

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 II	1985 III	1985 IV	1986 I	1986 II	1986 Jan.	Feb.	Mar.	Apr.	May	June
Unadjusted:														
Index number	114.2	122.4	127.1	131.3	125.0	117.3	117.8	106.7	115.0	111.2	109.0	108.0	105.7	106.5
Percentage change	4.0	7.2	3.8	-2.8	-4.8	-6.2	0.4	-4.6	-0.9	-3.3	-2.0	-0.9	-2.1	0.8
Adjusted:														
Index number	112.7	118.2	121.3	124.3	119.4	112.0	106.3	99.1	110.3	105.2	103.3	100.2	97.5	100.9
Percentage change	2.5	4.9	2.6	-3.5	-3.9	-6.2	-5.1	-6.8	-0.5	-5.5	-1.8	-3.0	-2.7	3.5

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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