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INTERNATIONAL ECONOMIC COMPARISONS

Western economic performance in 1988 began on a much stronger note than most analysts anticipated. U.S. consumer outlays, which declined by 1.0 percent in constant 1982 dollars from the third to the fourth quarter of 1987, showed a modest rise in the early months of 1988. U.S. industrial output and employment expanded during the first quarter and the export sector seems poised for a historic boom. The economies of all major developed countries posted solid gains: the annual rate of real economic growth (latest available quarterly GNP/GDP growth, annualized) was 6.3 percent in Canada, 1.6 percent in France, 1.8 percent in Italy, 8.4 percent in Japan, 4.0 percent in the United Kingdom, 4.5 percent in the United States, and 2.9 percent in West Germany. Strong Japanese growth, along with an estimated quarterly deficit in that country's real, yen-based merchandise trade account (See Trade, below) suggests that international policy coordination aimed at reducing trade imbalances among the industrialized countries is beginning to work. Although European economic policies have so far failed to stimulate global growth to the extent desired by U.S. policy makers, integration within the European Community may help keep the global economy on track in the event of a U.S. economic slowdown.

Despite these positive signs, the global economic outlook remains unclear. No one really knows whether the dollar has fallen far enough to reduce the U.S. trade deficit or whether current fiscal measures are sufficient to eliminate concerns over the U.S. Government's budget deficit. If current fiscal measures are too weak, or the Federal Reserve is forced to restrain the growth of the money supply, interest rates in the United States and other Western nations could drift higher, provoking another period of turbulence in global financial markets. The latter could hamper the growth of world trade and choke off U.S. growth potential at a time when both consumers and the Federal Government—who together account for nearly three-fourths of the Nation's gross national product—are spending less. The impasse in dealing with developing country debt also remains a threat to economic growth in the industrialized countries. (See World trade and finance, under Forecasts.)

Industrial Production

U.S. industrial production rose by 0.2 percent in February, following a 0.3-percent increase in January. This was the fifth consecutive monthly increase in U.S. industrial output. New orders for durable goods fell 2.8 percent in January, mainly as a result of the 12.4-percent drop in orders for transportation equipment. Without this highly volatile item, orders increased by 0.7 percent.

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, 6.9 percent; France, 4.0 percent; Italy, 3.6 percent; Japan, 9.3 percent; the United Kingdom, 4.9 percent; the United States, 6.0 percent; and West Germany, 7.4 percent.

Investment

Income on U.S. investments abroad fell short of payments for foreign investments in the United States by $267 million during July-September 1987. This was the first quarterly deficit in investment income in over one-half century. (In 1986—the last year for which figures are available—U.S. assets abroad were worth $1,067.9 billion, and foreign assets in the United States were worth $1,331.5 billion.)

Foreign financial investment in U.S. Treasury papers increased from $121.7 billion in fiscal year 1980 to $268.4 billion in fiscal year 1987. Interest paid to foreigners on the Federal debt increased from $12.0 billion to $23.5 billion over the period. (For the effect of foreign debt on U.S. economic growth, see Forecasts.)

Trade

According to estimates by a Tokyo-based investment firm, the Daiwa Securities Research Institute, Japan's seasonally adjusted annualized quarterly trade balance in constant 1980 yen showed a 0.5 trillion deficit during the closing quarter of 1987. In dollar terms, Japan's overall merchandise trade surplus in January 1988 was 28.7 percent below its level in January 1987.

Japanese exports of motor vehicles in 1987 totaled 6.3 million units, down 4.5 percent from those in 1986. Of this, 3.1 million units were sold in the United States. West German motor-vehicle exports were an estimated 3.0 million units in 1987, with roughly 0.5 million units sold in the United States. U.S. exports of motor vehicles in 1987 totaled 0.8 million units, down by 4.7 percent from those in 1986. About 0.7 million units were sold in Canada.

The proportion of Japanese cars in the U.S. market increased from 20.7 percent in 1986 to

21.7 percent in 1987. Japanese cars represented 14.8 percent of the West German, 10.0 percent of the British, 2.9 percent of the French, and 0.7 percent of the Italian market in 1987.

According to the GATT, growth in the volume of world merchandise trade accelerated from 3.5 percent in 1986 to 4.0 percent in 1987. Exports of manufactures expanded by 5 percent and exports of agricultural products grew by 4 percent in 1987. Exports from the 15 most indebted developing countries as a group rose by 10 percent in 1987, outstripping the 7 percent increase in the growth of their imports.

Employment

The rate of unemployment in the United States (on a total labor force basis, including military personnel) declined slightly to 5.6 percent in February from 5.7 percent during the previous 2 months. U.S. nonfarm employment increased by nearly 0.3 million per month during the second half of 1987, compared with 0.2 million during the first half. Monthly employment growth accelerated to 0.4 million during the fourth quarter of 1987, the strongest clip since the third quarter of 1984. The average monthly increase during the first 2 months of 1988 came close to the rate of increase during the closing quarter of 1987.

The February rate of unemployment was 8.7 percent in West Germany. The national statistical offices of other countries reported the following unemployment rates for January: 8.1 percent in Canada, 10.4 percent in France, 15.2 percent in Italy, 2.7 percent in Japan, and 9.2 percent in the United Kingdom. (For foreign unemployment rates adjusted to U.S. statistical concepts, see tables at the end of this issue.)

Prices

The seasonally adjusted U.S. Consumer Price Index rose by 0.3 percent in January, following a 0.2-percent rise in December 1987. After falling for 3 months in a row, the Government's Producer's Price Index rose by a sharp 0.4 percent in January. Much of this increase reflected higher food prices at the wholesale level.

The average rate of inflation during the 1-year period ending in February 1988 was 4.9 percent in Italy and 0.9 percent in West Germany. The average rate of inflation during the 1-year period ending in January 1988 was 4.1 percent in Canada, 2.4 percent in France, 1.1 percent in Japan, 3.3 percent in the United Kingdom, and 4.0 percent in the United States.

The average annual inflation rate of the developing countries accelerated from 39.3 percent during July-September 1986 to 47.2 percent during July-September 1987.

Forecasts

U.S. economic conditions

Most forecasts for 1988 real growth in the U.S. economy range from 2.0 to 2.5 percent. The Administration's projection remains 2.4 percent. Many economists anticipate a rise in the Nation's civilian unemployment rate to 6.2 percent and business surveys reveal a general anticipation of inflation approaching 5.0 percent in 1988.

Data Resources Inc. predicts that the U.S. merchandise trade deficit will shrink to $140.7 billion in 1988 and to $123.5 million in 1989. The Organization for Economic Cooperation and Development (OECD) projects that the U.S. current account deficit will be $134.0 billion in 1988 and $105.0 million in 1989. Economists participating in a Conference Board survey predict a median $172 billion Federal budget deficit for fiscal year 1988, and $165 billion for fiscal year 1989.

World trade and finances

According to the GATT, the upheaval in global financial markets during the closing quarter of 1987 will not influence the growth of merchandise trade in 1988. Barring another major upset in international finances, or a recession in the United States, GATT's analysts predict that the volume of world trade will expand by at least as much in 1988 as it did in 1987.

World Bank projections indicate that, mostly as a result of exchange-rate adjustments, total developing country debt will rise from $1,190 million in 1987 to $1,245 million in 1988. The Bank issued another stern warning that the festering problem of rising Third World debt poses a major threat to the current business upswing in industrialized countries.

The effect of U.S. foreign debt on economic growth

Forecasters concur that U.S. net external liabilities will increase from $420 billion in 1987 to over $1 trillion by the early 1990's. However, views differ sharply over the likely effects of this huge debt on the nation's economic future. The pessimistic assessment is rooted in the assumption that most of the projected moderate growth in the GNP during the 1990's will go towards servicing and retiring the debt rather than raising personal consumption. If one-third of real GNP

increments go toward servicing and retiring the debt in the 1990's—as some private economists project—real increases in personal consumption will amount to between 1.0 and 2.0 percent (vs. 3.2 percent in the 1980's so far) provided that real growth will average 2.5 percent, as it did during 1980-87. Considering that by the mid-1990's the U.S. population will increase by 6.1 percent from its 1987 level, this set of assumptions implies deteriorating real incomes for many Americans.

Some economists believe that the issue of the external debt is overrated and that the United States will readily cope with this burden. They think that technological advances will generate new growth and that secondary economic activities will pick up the slack, protecting—if not raising—the population's living standards as it does in many other debtor countries. Some economists also say that the net debt itself is severely overstated as a result of taking U.S. foreign assets at book value and U.S. gold at official prices rather than using market values in both cases.

U.S. TRADE DEVELOPMENTS

At $12.4 billion, the seasonally unadjusted U.S. merchandise trade deficit for January 1988 was 12.8 percent below the $14.3 billion average monthly deficit of 1987. Although the deficit is 4.2 percent greater than the comparable figure of $11.9 billion for January 1987, some correction of the imbalance is evident. U.S. exports grew by 33.3 percent from January 1987 to January 1988, whereas imports grew by only 21.2 percent. Thus, the ratio of imports to exports declined from 1.71 to 1.56 over the period. Because monthly trade figures are unadjusted, it is difficult to assess the significance of the deficit's slight rise from $12.2 percent in December 1987.

The U.S. trade balance in constant 1982 prices declined from an annual rate of $163.5 billion in the third quarter of 1987 to $157.8 billion in the fourth quarter. The $5.7 billion decline implies a 3.5-percent reduction in the volume of the deficit. The improvement can largely be attributed to the $7.7 billion drop in imports in the volatile oil and oil products sector. If oil and oil products imports had remained at the same level as that during the third quarter, the fourth quarter deficit would have reached $165.5 billion, exceeding the average level of constant price deficit during the first three quarters of 1987. At $69.7 billion, the annual rate of U.S. auto imports during October-December 1987 was the highest quarterly figure in 1987. Fourth quarter auto imports also exceeded the $66.2 billion historically high level of imports in 1986.

The volume of both consumer and captial goods imports was greater in 1987 than in 1986. The quarterly acceleration in capital goods imports is particularly noteworthy. Analysts attribute the rise to two factors. Reflecting a sharp rise in foreign direct investments, foreign firms are bringing in equipment to expand their operations in the United States. Domestic producers, meanwhile, are apparently trying to increase their competitiveness through purchases of foreign machinery and equipment. In the short run, capital goods imports are likely to remain high, slowing the process of reducing the imbalances in trade among the industrialized countries.

The U.S. deficit in the machinery and transport equipment (SITC 7) trade, measured in constant 1982 prices, declined from 1986 to 1987 (table 1). This decline implies a reduction in the volume of the deficit. However, the 1987 deficit in this sector exceeded considerably the shortfalls reported for 1984 and 1985. Paralleling movements in the deficit, the number of antidumping petitions involving goods in this product category at the U.S. International Trade Commission increased from 1984 through 1986, and then dropped in 1987.

The U.S. trade deficit in January for trade of machinery and transport equipment amounted to $5.07 billion (imports c.i.f., exports f.a.s.). This was lower than the $6.37 billion deficit reported for December 1987 and the $5.27 billion deficit reported for January 1987. Since the increase in import prices exceeded the increase in export prices during January 1987- January 1988, the decline in the volume of the deficit is larger than the decline in value over the period.

Table 1
Machinery and transport equipment: U.S. imports,[1] exports,[2] and trade deficit, 1984-87

(In billions of 1982 constant dollars)

	Imports	*Exports*	*Deficit*
1984	122.34	89.51	32.83
1985	144.69	94.62	50.07
1986	161.84	96.16	65.68
1987:	165.09	107.20	57.89
January-March	38.92	24.85	14.07
April-June	42.15	26.75	15.40
July-September	39.75	26.07	13.68
October-December	44.27	29.53	14.74

[1] Customs value.
[2] F.a.s.
Source: Estimated by the staff of the U.S. International Trade Commission on the basis of official statistics of the U.S. Department of Commerce.

The U.S. deficit in January 1988 was below the 1987 monthly average deficit in trade with Japan. the European Community (EC), the Organization of Petroleum Exporting Countries (OPEC), Taiwan, and Korea. The January deficit was above the 1987 monthly average in trade with Canada and Mexico. From 1986 to 1987, the U.S. deficit narrowed in trade with Japan, the EC, and Canada, but widened in trade with OPEC, Mexico, Korea, and Taiwan. (Balances for the annual comparisons were calculated from domestic exports and imports for consumption on customs basis.)

INTERNATIONAL TRADE DEVELOPMENTS

EC Summit Leaders Reach Compromise to Curb Agricultural Spending

On February 13, EC ministers approved a wide-ranging package of budget and agricultural measures that should resolve the EC's longstanding problems of financing the budget. Community officials called the settlement "the most radical financial reform in the EC's thirty-year history." The settlement ended years of squabbling about budget reform, and opened the way toward completing Europe's internal market by 1992.

For the past several years, soaring expenditures on agriculture have left the EC on the brink of insolvency. One year ago, EC Commission President Jacques Delors presented a set of proposals concerning the future financing of the EC budget and reform of its agricultural policy and structural funds. Efforts to adopt the budget reform package led to heated debate among the member countries throughout 1987. The failure of the semiannual summit in December to reach agreement on financial reforms, including proposals to limit agricultural spending, left the Community without a formal 1988 budget. Disagreement over the level of Community expenditures on agriculture, which accounts for about two-thirds of the EC budget, blocked any hopes for compromise. West German reluctance to approve limits on farm subsidies was matched by Great Britain's insistance that it would only agree to new revenue-raising mechanisms if drastic reductions were made in farm spending. With a financial crisis looming, the EC ministers agreed to meet again in February for an emergency summit.

At the February 11–13 summit in Brussels, EC leaders approved a package of spending and revenue-raising measures that should put the EC's finances on sound footing for the next 5 years. The 12 EC ministers agreed on the following measures effective through 1992:

(1) An overall budget ceiling based on the EC's GNP, replacing a system of ceilings based on an assessment of goods and services subject to value added tax (VAT). The EC budget was fixed at 1.2 percent of the EC's GNP for payment appropriations.

(2) A limit in the rise of total agricultural expenditures to no more than 74 percent of the EC's GNP growth rate.

(3) A system of automatic price cuts when production of grains, oilseeds and other products exceeds specified ceilings. For cereals, farmers will face a price cut of 3 percent if they overproduce. Grain farmers will also be subject to a "coresponsibility levy" or producer tax, should they exceed the ceiling.

(4) A land set-aside program and early-retirement incentives for farmers. A farmer will qualify for the set-aside program if he withdraws at least 20 percent of his arable land for at least 5 years. The EC Council will make a decision on a plan for direct income aid to farmers, proposed almost a year ago, by July 1, 1988.

(5) A doubling of structural funds—economic development assistance—by 1993, with special focus on the least prosperous regions and special funds for Portugal.

(6) Continuation of the British rebate. (In 1984, the United Kingdom was granted a rebate from the budget because of the imbalance between the country's contribution to the budget and its share of Community expenditures.)

Some Community officials believe the reform package does not go far enough in limiting farm spending since the growth in agricultural expenditures has not been halted but simply fixed at a slower rate. Past experience has also proven that measures undertaken do not always have the desired effect. However, member states agree that setting the EC's budget on a sound basis will allow them to divert their energies to completing the internal market by 1992. (The "internal market" refers to EC efforts to create a Community without frontiers by 1992, with freedom of movement for people, goods, capital, and services.)

The EC Council also hopes that by taking significant measures to control agricultural production and expenditures, the Community has proven its dedication to the goal of correcting

world farm imbalances agreed internationally at the OECD ministerial and the Venice economic summit last year. By taking these measures, the EC has shown that it is in its self-interest to reduce the level of farm support, and that it is willing to negotiate meaningfully on agriculture in the Uruguay Round. European officials remind us that the Community is the world's largest trader—the EC accounts for about one-fifth of world trade—and therefore, has a vital interest in an open world trading system, with free access to export markets. However, EC ministers warned that serious market imbalances will continue unless international measures are taken. The EC Council stated that the package adopted can only achieve its desired effect "if other world producers apply equivalent discipline" to their farm sectors.

GSP Program Benefits Could Be Halved by Decision to Graduate Asian NICs

On January 29, 1988, President Reagan announced that exports from the Asian Newly Industrialized Countries (NICs)—Hong Kong, the Republic of Korea, Singapore, and Taiwan—would no longer be eligible for duty-free treatment under the U.S. Generalized System of Preferences (GSP) (IER, March 1988). The "four tigers," as they are sometimes called, have been among the most successful beneficiary nations in the program, accounting for nearly 60 percent of all U.S. imports under the GSP. In making his announcement, the President cited the "impressive level of economic development and competitiveness" of the Asian NICs. The President also expressed the hope that the decision would allow the remaining 140 GSP beneficiaries to increase their benefits under the preferential program.

An analysis of recent trade data indicates that the President's decision is unlikely to have a major impact on the economies of the four nations or on their trade with the United States. Although the four are major GSP beneficiaries, only a small share of their trade with the United States has actually received duty-free treatment. In 1986, only 14 percent of their exports to the United States were granted GSP duty-free treatment; only one-third of their exports to the United States involve GSP-eligible products and only 40 percent of the eligible exports actually received duty-free treatment in 1986. The reason that so few exports of the Asian NICs were receiving GSP benefits is that in recent years the four nations had been "graduated" to a significant extent under so-called competitive-need limits and discretionary product graduation. Almost one-half of their GSP-eligible exports to the United States were denied GSP duty-free treatment during 1986 on those grounds.

These facts lead to the conclusion that graduation of the Asian nations from the U.S. GSP program will not hurt their economies very much. According to estimates, the Asian NICs are likely to experience economic losses not to exceed $387 million annually in 1986 U.S. dollars as a result of their graduation. These losses represent just under 5 percent of the value of their GSP duty-free exports during 1986, or about 1/3 of 1 percent of their total exports to the United States. The welfare losses are, however, heavily concentrated among a few product sectors, especially electronics, miscellaneous metal and plastic articles, certain machinery, and toys.

Research suggests that the remaining beneficiary developing countries will not benefit much as a result of the graduation of the Asian NICs. Because the product composition of U.S. imports from the Asian NICs differs significantly from that of remaining beneficiaries, the scope for a transfer of benefits from the Asian Four to other beneficiaries will be limited. Based on the present composition of U.S. GSP trade with remaining beneficiaries, it is estimated that less than 2 percent of the benefits lost by Hong Kong, Korea, Taiwan, and Singapore will accrue to other developing countries. This amount is approximately $6.5 million—or $46,000 per remaining beneficiary—and represents 1/10 of 1 percent of beneficiary exports to the United States. If U.S. importers switch their purchasing of imports of GSP-eligible products from the Asian Four toward other beneficiaries to a greater extent than their current market shares, graduation will increase the export earnings of countries that remain eligible for GSP benefits than would be the case if market shares remain unchanged. Because they compete more directly with the Asian NICs, producers in Japan, Canada, Western Europe, and in the United States stand to capture 98 percent of the anticipated welfare loss of the Asian Four.

Since so few of the benefits will be transferred to other developing countries, graduation of the Asian NICs is likely to reduce the value of the tariff preference program by more than one-half. Research shows that the smaller, post-graduation, GSP program will be similar to the current program in that it will continue to benefit disproportionately the more advanced developing country beneficiaries such as Mexico and Brazil. Less developed countries such as Bangladesh, Belize, and Chad will likely continue to benefit very little.

Successive rounds of multilateral trade negotiations in the GATT have resulted in tariff differentials being less significant barriers to trade than nontariff restrictions (quotas, voluntary export restraints, etc.). The U.S. action and its resultant minimal impact on less developed beneficiaries could prompt a reappraisal of the importance of the GSP system to the development goals of the Third World (see Economist, Jan. 9, 1988, p. 61).

U.S.-Canada FTA: Economic Effects

The U.S.-Canada Free Trade Agreement (FTA), signed on January 2, 1988, addresses the largest bilateral trading relationship in the world, amounting to almost $200 billion in trade in goods and services each year. Since the onset of negotiations between the two governments in 1985, it has been agreed that the impact of the FTA will be greater in Canada. The FTA opens the Canadian economy, approximately the size of California, to a market 10 times the size of its own.

This disparity in impact is mirrored by a large difference in awareness among the citizenry of each country. According to a U.S.-wide survey of 1,000 adults, released February 23 by Environics Research Group Ltd. of Toronto, only 39 percent of the U.S. respondents were even aware that a bilateral free trade agreement had been negotiated. In Canada, however, (December Environics poll) 90 percent of Canadian respondents knew of the FTA's signing.

Three months have passed since the unveiling of the text of the agreement, and concrete analyses are now beginning to be made public. In January, the Canadian Department of Finance and the Department of Consumer and Corporate Affairs released separate analyses of the macroeconomic effects of the FTA on Canada. The Canadian Government has also published sectoral assessments of the FTA covering agriculture, consumers, energy, fisheries, and metals and mining. Studies on services, manufacturing, and forestry will be completed within the next month.

According to Canadian Minister of Finance Michael Wilson, the studies indicate that "Canadians will enjoy more jobs, higher wages and improved standards of living." After the FTA's full implementation, the Canadian studies show that:

- Canada's real income will increase by at least 2.5 percent, amounting to an annual increase of Can$450 for each Canadian. Canadian gross national product will increase by about 5 percent.
- At least 120,000 net new jobs will be created after only the first 5 of the 10-year implementation process.
- After the full removal of tariffs on the imports of food, each Canadian family can expect to save between Can$85 and Can$130 annually, or 1 week's worth of groceries.
- The costs of establishing a household for a family of four in a three-bedroom home, i.e. the purchase of construction materials, appliances, furnishings, towels, linens, etc., will also decrease, by Can$5,000 to Can$8,000.

To date, no comparable sectoral or general studies have been released by the U.S. Government. (As part of its mandate to provide advice on the probable economic effects of eliminating duties between the United States and Canada, the ITC conducted an industry-specific investigation. The Commission's advice, given to the United States Trade Representative, has never been made public.) However, U.S. analytical work is beginning to appear as this article is written.

The United States does have certain statistics on the aggregate economic effects of the FTA. After the FTA's signing, a White House press release stated that the FTA would, "...increase economic growth, lower prices [and] expand employment..." in the United States. United States Trade Representative Clayton Yeutter cites a maximum 1-percent boost in U.S. GNP, or $45 billion. The U.S. Department of Commerce estimates that bilateral trade will increase by $25 billion during the first 5 years that the FTA is in place and that 14,000 new manufacturing jobs alone will be created.

The full implementation of the FTA will take 10 years, in accordance with the tariff elimination schedule. All product categories have been assigned to one of three stages for duty reduction purposes: (1) immediate duty elimination; (2) elimination over 5 years in equal reductions of 20 percent per year; or (3) elimination over 10 years in ten equal reductions of 10 percent per year. Included in the first group are: automated data processing equipment, whiskey and rum, fur garments, modems, and motorcycles. The second group covers paper and paper products, furniture, petroleum, certain chemicals, and most machines. The third group—that with the longest implementation for the staged duty reductions—includes the most sensitive areas like steel, rubber, most agricultural items, fish, wood products, textiles and apparel, and alcoholic beverages.

Given the lack of any official concordance with cross-references and allocations between the U.S. tariff schedule and the Harmonized Sys-

tem—the basis for the tariff concessions and the staging contained in the FTA—trade analysts have been less than successful in determining precise effects of the FTA's duty elimination phase. Keeping in mind that most bilateral trade is already duty free, it is interesting to note that of the remaining dutiable trade, 35 percent of Canadian exports to the United States and 53 percent of U.S. exports to Canada are subject to the 10-year tariff elimination schedule. The incipient economic effects of the FTA will therefore be low. Industry-specific effects will also not be particularly disruptive because of the 10 incremental reductions in those areas most vulnerable in the first place. The economic studies available have consequently examined the effects of the FTA based on the full 10-year implementation process.

Both the U.S. Congress and Canadian Parliament must approve the FTA this year in order for it to go into effect as scheduled on January 1, 1989. Because of the FTA's relative importance in the trade arena, the economic studies can only be helpful in the current ratification process.

STATISTICAL TABLES

Industrial production

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

Country	1985	1986	1987	1986 IV	1987 I	II	III	IV	1987 Sept.	Oct.	Nov.	Dec.	1988 Jan.	Feb.
United States	1.9	1.1	3.8	3.3	3.1	4.3	8.7	6.6	-2.9	13.3	4.9	4.9	3.7	2.4
Canada	2.8	.8	2.6	([1])	1.8	5.3	5.7	3.7	([1])	([1])	4.9	-1.0	([1])	([1])
Japan	4.6	-.4	3.9	-2.4	5.6	-.8	15.4	18.1	44.5	15.9	0	17.7	([1])	([1])
West Germany ...	3.9	2.3	([1])	-.1	-1.9	-1.3	2.1	([1])	-9.8	-5.6	33.2	([1])	([1])	([1])
United Kingdom ...	4.7	1.5	3.1	.5	2.6	2.7	7.1	5.1	-11.8	11.0	-4.1	([1])	([1])	([1])
France	.6	.8	2.1	-5.1	1.3	6.7	2.6	2.6	-10.8	0	([1])	([1])	([1])	([1])
Italy	1.2	2.7	3.9	7.3	11.5	7.4	-7.4	11.5	9.9	33.7	-10.9	([1])	([1])	([1])

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Mar. 11, 1988.

Consumer prices

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

Country	1985	1986	1987	1986 IV	1987 I	II	III	IV	1987 Aug.	Sept.	Oct.	Nov.	Dec.	1988 Jan.
United States	3.6	1.9	3.7	2.7	5.3	4.9	3.9	3.6	5.8	2.4	4.6	3.5	1.2	3.7
Canada	4.0	4.2	4.4	4.9	3.6	5.4	4.6	3.3	.9	0	4.4	5.3	([1])	([1])
Japan	2.0	.6	.1	-.1	-2.2	5.0	-.8	1.1	1.2	15.3	0	-2.3	([1])	-2.4
West Germany ...	2.2	-.2	.3	-1.5	1.0	1.4	1.6	-0.1	-1.0	-2.9	2.0	0	([1])	-1.2
United Kingdom ..	6.1	3.4	4.1	6.5	5.6	2.3	3.7	4.9	3.6	3.6	6.0	6.0	([1])	.9
France	5.8	2.5	3.3	3.2	5.2	2.3	2.6	2.4	2.9	1.4	2.9	1.4	([1])	([1])
Italy	8.6	6.1	4.6	3.2	4.1	4.5	6.7	5.6	3.3	9.0	11.3	3.2	([1])	3.0

[1] Not available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Mar. 11, 1988.

Unemployment rates

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

Country	1985	1986	1987	1986 IV	1987 I	1987 II	1987 III	1987 IV	1987 Sept.	1987 Oct.	1987 Nov.	1987 Dec.	1988 Jan.	1988 Feb.
United States	7.2	7.0	6.2	6.9	6.6	6.3	6.0	5.9	5.9	6.0	5.9	5.8	5.8	5.7
Canada	10.5	9.6	8.9	9.4	9.6	9.1	8.8	8.2	8.6	8.4	8.2	8.1	8.1	([1])
Japan	2.6	2.8	2.9	2.9	3.0	3.1	2.8	2.8	2.8	2.8	2.7	2.7	([1])	([1])
West Germany	7.5	7.2	7.2	7.0	7.1	7.2	7.2	7.3	7.3	7.2	7.2	7.3	7.2	([1])
United Kingdom	11.3	11.1	10.0	10.9	10.7	10.3	9.8	9.2	9.5	9.4	9.1	9.0	([1])	([1])
France	10.4	10.7	11.1	10.8	11.2	11.2	11.1	10.8	11.0	10.9	10.8	10.8	10.9	([1])
Italy	6.0	6.3	6.8	6.6	6.7	6.7	6.8	7.0	([1])	([1])	([1])	([1])	([1])	([1])

[1] Not available.

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, March 1988.

Trade balances

(Billions of U.S. dollars, f.o.b. basis)

Country	1985	1986	1987	1986 IV	1987 I	1987 II	1987 III	1987 IV	1987 Aug.	1987 Sept.	1987 Oct.	1987 Nov.	1987 Dec.	1988 Jan.
United States[1]	-132.8	-149.3	-153.3	-166.8	-145.6	-149.2	-159.6	-158.4	-169.2	-151.2	-192.0	-134.4	-127.2	-130.8
Canada	12.4	7.5	7.8	8.0	9.6	10.0	8.4	13.2	([2])	([2])	9.6	6.0	([2])	([2])
Japan	55.8	92.5	96.2	104.0	110.8	94.0	88.8	90.0	([2])	([2])	93.6	86.4	([2])	([2])
West Germany	25.4	52.6	65.5	57.2	64.4	62.0	63.2	72.8	([2])	([2])	121.2	75.6	([2])	([2])
United Kingdom	-2.6	-12.4	-16.3	-14.8	-6.8	-15.6	-19.6	-23.2	([2])	([2])	-9.6	-25.2	([2])	([2])
France	-2.6	.1	-5.3	1.6	-4.0	-8.8	-4.4	-13.2	([2])	([2])	-57.6	-1.2	([2])	([2])
Italy	-12.1	-2.1	-8.8	-.8	-6.8	-12.0	-5.6	-10.8	([2])	([2])	-7.2	-2.4	([2])	([2])

[1] Exports, f.a.s. value, unadjusted; imports, customs value, unadjusted. Beginning with 1986, figures include previously undocumented exports to Canada. Data for individual quarters do not reflect similar adjustments.

[2] Not available.

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. 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, March 11, 1988.

U.S. trade balance, by major commodity categories and by selected countries

(Billions of U.S. dollars, customs value basis for imports)

				1986	1987				1987					1988
Item	*1985*	*1986*	*1987*	*IV*	*I*	*II*	*III*	*IV*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*
Commodity categories:														
Agriculture	9.6	4.5	8.0	2.3	1.4	1.3	2.1	3.2	.6	.8	.8	1.1	1.3	1.0
Petroleum and selected products, unadj	-45.9	-31.8	-38.4	-6.8	-7.6	-9.0	-11.7	-10.1	-4.2	-3.4	-3.8	-3.4	-2.9	-3.0
Manufactured goods	-102.0	-134.3	-140.1	-34.7	-32.7	-34.9	-36.3	-36.2	-12.2	-10.8	-14.4	-11.1	-11.6	-10.7
Selected countries:														
Western Europe ...	-23.3	-28.2	-25.7	-6.3	-5.2	-6.6	-7.0	-6.9	-2.1	-1.4	-2.6	-2.0	-2.3	-1.5
Canada [1]	-21.7	-23.0	-11.4	-5.4	-3.2	-2.3	-2.8	-3.1	-.9	-1.3	-1.3	-1.2	-.6	-1.3
Japan	-46.5	-55.3	-56.4	-15.0	-13.6	-14.5	-13.8	-14.5	-4.6	-4.4	-5.5	-4.5	-4.5	-4.1
OPEC, unadj	-10.2	-8.9	-13.1	-1.8	-2.4	-2.8	-4.6	-3.3	-1.6	-1.4	-1.5	-1.0	-.8	-.6
Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj ...	$26.59	$15.02	$17.01	$12.60	$15.55	$17.23	$17.99	$17.28	$18.33	$17.49	$17.51	$17.54	$16.78	$14.36

[1] Beginning with February 1987, figures include previously undocumented exports to Canada.

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. 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. Department of Commerce, January 1988.

Money-market interest rates (90-day certificate of deposit)

(Percentage, annual rates)

				1986		1987			1987				1988	
Country	*1984*	*1985*	*1986*	*III*	*IV*	*I*	*II*	*III*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*
United States	10.7	8.3	6.5	6.0	5.8	6.1	6.8	6.8	7.3	8.0	7.2	7.7	6.9	6.4
Canada	11.3	9.7	8.6	6.1	8.4	7.4	8.0	9.2	9.2	9.3	8.7	([1])	([1])	([1])
Japan	6.7	6.5	4.9	4.7	4.4	4.1	3.7	3.7	3.7	3.8	3.9	([1])	([1])	([1])
West Germany	6.0	5.5	4.6	4.5	4.7	3.9	3.7	4.2	4.6	4.7	3.9	([1])	([1])	([1])
United Kingdom	9.9	12.1	10.8	9.9	11.3	10.5	9.3	10.0	10.2	9.9	8.9	([1])	([1])	([1])
France	11.7	10.0	7.7	7.2	7.6	8.2	8.1	7.9	7.9	8.2	8.7	([1])	([1])	([1])
Italy	15.9	15.0	12.8	11.4	11.2	10.9	10.7	11.9	12.4	11.9	11.4	([1])	([1])	([1])

[1] Not available.

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; percentage change from previous period)

Item	1984	1985	1986	1986	1987				1987					1988
				IV	I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
Unadjusted:														
Index number	127.1	106.0	94.2	102.7	97.1	94.1	95.2	90.3	93.9	93.5	90.0	87.4	87.4	88.2
Percentage change	3.8	-16.6	-11.1	-.1	-5.5	-3.1	1.2	-5.1	-1.9	-.4	-3.7	-2.9	0	.9
Adjusted:														
Index number	122.5	101.5	90.7	98.3	93.4	90.5	91.6	87.4	90.0	90.5	87.3	84.5	84.9	85.8
Percentage change	2.4	-17.1	-10.6	1.4	-5.0	-2.9	1.2	-4.6	-2.4	.5	-3.5	-3.2	.5	1.1

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 United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

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

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