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INTERNATIONAL ECONOMIC COMPARISONS

The economic outlook remains favorable for the industrialized countries. In the United States, most analysts do not perceive the current, somewhat tighter monetary policy as a threat to economic growth, and most also think that the Nation's trade deficit is on a declining course despite the latest monthly setback. Japan's economy shows signs of robust health, thanks to the significant increase in domestic demand and the success of Japanese firms in adapting to the strong yen. Japan's economic policymakers are currently more concerned with the possibility of an overheating economy than a return to the poor growth performance that followed the appreciation of the yen in late 1985. Although projections signal deceleration in the overall economic growth of the European Community (EC) from 1987 to 1988, the pace of growth will quicken in West Germany and France and will remain in the high range in the United Kingdom. Inflation is in check and widespread expectations about economic benefits to be derived from the implementation of the 1992 unity plan help maintain business optimism throughout the continent. Nevertheless, the international community is grappling with renewed fears of protectionism and uncertainty about the dollar's internatioanl value.

The Japanese and the Europeans are worried that the new U.S. trade legislation might turn into an instrument of protectionism. The Americans and the Japanese are worried that the EC integration plan could turn out to be protectionist, and the Europeans worry that the contemplated U.S.-Japanese free-trade treaty might be aimed at their exclusion. Many analysts believe that there is an increased probability of trade frictions, retaliatory trade policies, and a shift from multilateralism to bilateralism and regionalism during the 1990's.

Concern about exchange-rate stability resurfaced in early August, when the central banks of the key industrialized countries, led by the U.S. Federal Reserve (Fed), began to raise interest rates. Although influential commentaries in the United States suggest that the Fed's move was a bungling overreaction to inflationary danger (see, for example, Hobart Rowen's column "Did the Fed Overreact?" in *The Washington Post,* Aug. 14, 1988), some overseas analysts believe that the U.S. Government is following a sophisticated game plan. (See article by Eric Leser, "Comment Jouer le Dollar," in "*Le Nouvel Economiste,*" August 1988.) According to these analysts, U.S. monetary policymakers have concluded that the dollar has fallen low enough to stimulate exports and strengthening it would do more good than harm. The reduced pace of economic growth that should result from higher interest rates would not only keep inflation under wrap but would also cut imports more than a slightly appreciated dollar would increase them. In addition, these analysts speculate, if real interest rates abroad were to decline compared with those in the United States (perhaps owing to the pressure on foreign countries to stimulate their economies through easy money policies), U.S. authorities would find it easier to finance the Federal budget deficit. Since there are forces in motion to reshape relative interest rates among the leading industrial countries, the danger of exchange rate volatility has increased.

Economic Growth

The rate of real economic growth (latest available quarterly Gross National Product (GNP)/Gross Domestic Product (GDP) growth annualized) was 5.3 percent in Canada, 4.0 percent in France, 2.8 percent in Italy, 6.7 percent in Japan, 4.0 percent in the United Kingdom, 4.3 percent in the United States, and 4.3 percent in West Germany. The average growth rate for the "Group of 7" (using 1986 GDP's as weights) was 4.7 percent. In 1987, the combined GDP of the "Group of 7" was $8.1 trillion, or 62.3 percent, of the world's total GDP of $13.0 trillion.

Industrial Production

U.S. industrial production rose by 0.8 percent in July, twice the 0.4-percent rate reported for June. The 1.0-percent jump in business equipment output is a further sign that export demand is growing and large-scale domestic capital expansion projects are underway. At 83.5 percent, the rate of capacity utilization in U.S. factories, utilities, and mines in July was the highest since March 1980.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthiy output with the output in the corresponding month of the previous year, were as follows: Canada, 6.7 percent; France, 1.9 percent; Italy, 5.4 percent; Japan, 9.1 percent; the United Kingdom, 3.8 percent; the United States, 5.8 percent; and West Germany, 3.5 percent.

Trade

According to the estimates of the Organization for Economic Cooperation and Development (OECD), 1987 exports amounted to $293.2 billion in West Germany, $252.8 billion in the

United States, $230.2 billion in Japan, $148.7 billion in France, and $130.6 billion in the United Kingdom. The export-import ratio increased from 59.6 percent in 1987 to a current 72.6 percent in the United States, from 128.7 percent to 131.0 percent in West Germany, and from 96.7 percent to 98.3 percent in France. This ratio declined from 153.2 percent to 132.7 percent in Japan and from 84.9 percent to 79.2 percent in the United Kingdom.

By 1985, according to the OECD, imports of manufactures from the newly industrialized countries made up 3.1 percent of the domestic market in Australia, 2.4 percent in the United States, 2.0 percent in Canada, 1.8 percent in Sweden, 1.4 percent in both the United Kingdom and West Germany, and 0.9 percent in Japan. Most of these market shares were gained since 1970.

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) increased slightly from 5.2 percent in June to 5.4 percent in July. Even so, the May–July 1988 average of 5.37 percent was lower than in any officially reported quarter since the April–June 1974.

July unemployment was 7.9 percent in Canada and 8.9 percent in West Germany. The national statistical offices of other countries reported the following unemployment rates for June: 10.5 percent in France, 16.1 percent in Italy, 2.4 percent in Japan, 8.4 percent in the United Kingdom. In all of these countries except Italy, unemployment declined compared with that of 1 year ago. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

On the basis of the latest monthly data available, the number of unemployed is 6.6 million in the United States, 2.6 million in France, 2.4 million in the United Kingdom, 2.3 million in West Germany, and 1.6 million in Japan.

Prices

The U.S. Consumer Price Index rose at a seasonally adjusted rate of 0.4 percent in July, following a 0.3-percent rise in June. Producer prices climbed by 0.5 percent in July and prices of intermediate goods increased by 0.7 percent. In 9 of the last 10 months, these prices rose faster than those of finished goods. The July producer price report increased inflationary worries and strengthened conviction that the Fed will restrict the growth of money supply.

The average rate of inflation during the 1-year period ending in July 1988 was 4.9 percent in Italy and 1.0 percent in West Germany. For the 1-year period ending in June, the average rate of inflation was 3.9 percent in Canada, 2.6 percent in France, 0.2 percent in Japan, 4.6 percent in the United Kingdom, and 4.0 percent in the United States.

Consumer prices are generally lower in the United States than in other leading industrial countries. According to data released by OECD, the amount of money that buys a typical "basket" of goods and services in the United States would buy only 63.1 percent of the basket's contents in Japan, 70.0 percent in West Germany, 76.1 percent in France, and 90.9 percent in the United Kingdom. Switzerland and Northern Europe are the most expensive. The U.S. purchase price of the basket would buy only 55.6 percent of its contents in Switzerland, 56.5 percent in Norway, 57.4 percent in Finland, 58.3 percent in Denmark, and 64.2 percent in Sweden. This indicates that the dollar is undervalued with respect to the currencies of these countries in terms of the "purchasing power parity." (The theory of purchasing power parity stipulates that the exchange rate between the currencies of two countries tends to be the same as the ratio of the price levels in the two countries. Although this tenet—developed by Swedish economist Gustave Cassel after World War I--has been much criticized for oversimplification, many economists still consider it a good compass for gauging the long-run equilibrium exchange rate.) However, the U.S. purchase price would buy 141.4 percent more in Turkey, 45.8 percent more in Portugal, 16.7 percent more in Greece, and 9.4 percent more in Spain. These comparisons may not be the best guide for tourists because the contents of the consumer basket reflect the purchasing habits and opportunities of residents in each country. Tourists do not necessarily buy the same items abroad as they do at home.

Varying rates of sales taxes explain much of the difference in consumer price levels. For example, sales taxes in Italy amount to an average of 38 percent, whereas there are no such taxes in the United Kingdom. With the planned uniformization of taxes in the 12-nation European Community (EC) in 1992, differences in price levels will narrow at least within the EC. In drafting the new EC tax system, the European Commission is reportedly using the U.S. system as its model.

Economic Growth Forecasts

The consensus forecast of 51 economists polled for the *Blue Chip Economic Indicators* calls for 3.8-percent real economic growth in the

United States in 1988—1.1 percentage points more than the OECD forecast. However, the Blue Chip panel—with a favorable tract record of forecasting—predicts a deceleration in U.S. economic growth to 2.3 percent in 1989. The majority of the interviewed economists, in an apparent agreement with their overseas colleagues, believe that U.S. monetary policy will be relatively restrictive in 1989.

For 1988, the OECD forecasts 2.7 percent real economic growth in the United States, 2.0 percent in France, 4.2 percent in Japan, 3.5 percent in the United Kingdom, and 2.2 percent in West Germany. However, overall growth in the EC is projected to decelerate from 2.6 percent in 1988 to 2.3 percent in 1989.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit jumped by 28.5 percent, from $9.8 billion in May to $12.5 billion in June 1988. Even so, the June deficit was 5.0 percent below the $13.2 billion average monthly deficit registered during the previous 12-month period and 16.7 percent below the $15.1 billion deficit of June 1987. During June 1987–May 1988, the deficit was the highest ($15.6 billion) in October 1987 and lowest ($9.8 billion) in May 1988. From January–June 1987 to January–June 1988, U.S. exports increased by 30.5 percent and imports by only 10.8 percent. The deficit was $84.5 billion for the first 6 months of 1987 and only $70.0 billion for the corresponding months of 1988. If the accumulation of the trade deficit during the second half of 1988 follows the pattern of the first half, the annual deficit will be $140.0 billion, considerably less than the 1987 record of $170.3 billion.

The deficit in U.S. machinery and transport equipment trade declined from $36.6 billion during January–June 1987 to $32.0 billion during the corresponding months of 1988. This was the net result of a 28.4-percent increase in exports and 11.5-percent increase in imports. In terms of 1987 prices for imports and exports, the deficit in machinery and transport equipment trade was only $27.6 billion during the first half of 1988. Thus, the deterioration in the terms of trade kept the dollar deficit from fully reflecting the changes in the quantities of these exports and imports. U.S. crude petroleum imports increased from $13.2 billion (782.8 million barrels) during January–June 1987 to $14.6 billion (923.8 million barrels) during January–June 1988. The U.S. surplus in agricultural trade increased from $2.0 billion to $6.6 billion over the period.

During the first half of 1988, the annualized deficit in trade with Japan was $51.9 billion, considerably less than the $59.8 billion record deficit of 1987. The U.S. deficit in trade with the EC declined by nearly one-half, from $24.3 billion during 1987 to an annualized rate of $12.2 billion during January–June 1988. In a similar comparison, the U.S. deficit declined in trade with the newly industrialized countries of Asia and with Mexico, but increased in trade with Canada.

The trend of dollar deterioration that began in 1985 continued during the first half of 1988. The trade-weighted value of the dollar declined by 6.1 percent from July–December 1987 to January–June 1988 and by 1.2 percent from the first to the second quarter of 1988. However, the dollar rose in foreign-exchange markets in the wake of higher U.S. interest rates during midsummer.

The debt crisis compressed demand for U.S. imports in the less developed countries and caused them to step up their exports to the United States. Unfortunately, this situation is unlikely to change, given that Third World debt totals $1.2 trillion and these countries need trade surpluses to service and reduce their obligations. Analysts agree that maintaining the developed countries' deficit in trade with the less developed world is preferable to a disruption in international creditor-debtor relations. As table 1 shows, the U.S. deficit with the neediest part of the Third World is much less than several commentators suggest.

Table 1.

U.S. trade[1] with less developed countries excluding members of the Organization of Petroleum Exporting Countries and the newly industrialized countries of Asia, 1978–88

(In billions of dollars)

Data	Exports	Imports	Balance
1978	25.7	28.6	- 2.9
1979	34.2	36.6	- 2.4
1980	46.4	45.4	+ 1.0
1981	49.4	47.9	+ 1.5
1982	40.8	47.3	- 6.5
1983	35.6	51.6	-16.0
1984	39.5	58.6	-19.1
1985	39.3	56.7	-17.4
1986	39.0	53.7	-14.7
1987	43.6	61.4	-17.8
1988[2]	48.7	66.9	-18.2

[1] Domestic exports, f.a.s.; imports for consumption, c.i.f.

[2] Year-to-date data annualized.

Source: Compiled from official statistics of the U.S. Department of Commerce.

INTERNATIONAL TRADE DEVELOPMENTS

U.S.-Canadian Free-Trade Agreement Closer to Reality

By a wide margin the U.S. House of Representatives has approved the free-trade agreement (FTA) between Canada and the United States. Action was surprisingly swift and reflects the considerable preliminary work that went into the legislation sent to the Congress. Under the terms of the fast-track process, Congress could vote the FTA only up or down, without any modifying amendments. As a result, the Administration worked with legislators in crafting a package that would win wide acceptance and still remain true to the agreement that had been negotiated with the Canadians.

The package of implementing legislation proposed to Congress by the White House on July 25 included a statement of benefits, or more formally a "Statement of Reasons as to How The United States-Canada Free Trade Agreement (FTA) Serves the Interests of U.S. Commerce." The statement addresses how the agreement will affect U.S. trade in goods and services, U.S. investments in Canada, and specific sectors of the U.S. economy. It summarizes the overall economic and trade effects of the agreement by highlighting the fact that the average tariff rate on U.S. dutiable imports entering Canada is 9.9 percent. This contrasts with a U.S. average of 3.3 percent on dutiable imports from Canada. (The statement includes average tariff data on specific categories of products, illustrating the tariff differentials between the United States and Canada.) The welfare gains in the United States from duty elimination under the FTA range between $1 billion and $3.5 billion. U.S. exports to Canada are expected to increase by about $2.4 billion.

Among the Canadian duties to be eliminated immediately when the agreement goes into effect are those on data processors, certain semiconductor devices, telephone sets, some telecommunications equipment, motorcycles, furs, raw hides, some unprocessed fish, whiskey, and rum. Current Canadian duties on these products range as high as 17.5 percent.

The FTA awaits action in the U.S. Senate, which is in recess until September 7. The focus of FTA activity will then shift to Ottawa, where the Canadian Parliament has yet to complete action on the legislation. The agreement has been through two of the three required readings in the House of Commons. However, it has become the subject of serious political wrangling in the Canadian Senate, and approval of the Senate is required before any piece of legislation becomes law. The Senate with its appointed membership heavily weighted by members of the Liberal party, currently out of power, has threatened to not take any action on the FTA unless and until the pact receives approval by the electorate. In effect, this means the issue must be placed before the Canadian public in a national election.

Debate in Canada on the entire FTA issue has been considerably more intense than in the United States. Assuming the present Government's position is endorsed in an election, the Senate would then go on to approve the FTA. This further politicization of the FTA issue by the Canadian upper house is unprecedented. It makes the Canadian outcome of the matter less certain.

U.S.-Korean Agricultural Trade Issues

South Korea is a high-cost agricultural producer that severely limits agricultural imports. For a number of years, the country's trading partners have sought to gain increased access to its agricultural markets and met with little success. However, a session of bilateral trade talks concluded in May between the United States and South Korea resulted in increased market access for several U.S. agricultural products. Korea agreed to ease import restrictions on five food items and alfalfa, reduce the tariff on wine, and increase the quota on orange juice concentrate. To facilitate future negotiations on agricultural tariffs, the two sides agreed to divide future talks into three categories: high-value items, bulk materials, and forestry items.

The liberalization of restrictions on the five food items—frozen potatoes, avocados, texturized vegetable protein (TVP), meat extract, and vegetable juice—became effective July 1. Imports of frozen potatoes, in demand because of the rapidly growing fast-food sector in Korea, had been restricted to protect the developing domestic frozen potato industry. The product has now been removed from the import surveillance list and added to the automatic import approval list with a 30 percent tariff.

Avocados, a new and unfamiliar product in Korea, will be subject to quarantine regulations and to a 50 percent tariff. The high tariff makes this a relatively expensive item, so avocados are unlikely to easily gain market acceptance. As a result of the negotiations, the protein requirement of TVP has been lowered from 70 to 50 percent, and the duties for TVP, meat extract, and vegetable juice have been lowered to 30 percent.

Alfalfa cubes and pellets will be imported under a quota system allowing 90,000 metric tons

into the country by April 1989. The tariff on these products will be 20 percent—making them expensive relative to other imported feed products. The import quota on orange juice concentrate will increase incrementally from 6,400 metric tons in 1987 to 7,000 tons in 1988 and 9,000 tons in 1989, and this item will carry a tariff of 50 percent. The negoiations on wine concluded with Korea agreeing to reduce the tariff from 100 to 70 percent and to eliminate the quota in 1990.

In a separate development, Korea agreed to resume beef imports after having imposed an import embargo on beef in 1984. (See *IER*, June 1988). The Agriculture, Forestry, and Fisheries Ministry announced that 14,500 tons of beef will be imported this year on a quota basis beginning September 25. About 3,000 tons of high-quality beef for use by tourist hotels will be imported solely from the United States. The remaining imports for general restaurants will be done through competitive bidding in which the United States, New Zealand, and Australia are expected to participate.

Other agricultural products receiving tariff cuts effective July 1 included spices, margarine, bread, sugar confectionary, and biscuits. The tariff for each of these items was lowered from 20 to 15 percent.

RECENT RESEARCH

The Trade Effects of Repealing the U.S. Offshore Assembly Provision

A recent study by USITC economists has estimated the effects that repeal of the U.S. offshore assembly provision (OAP) would have on U.S. imports and exports and on the export earnings of developing countries with OAP production facilities. The OAP allows U.S. components that are shipped abroad for processing or assembly to reenter the United States duty free; duties are levied only on the foreign value added to the final imported products. The provision has generated considerable controversy in this country. Opponents argue that it is harmful to domestic producers because it makes imports more price competitive in the U.S. market. Proponents contend that it stimulates exports of domestic components. There have been a number of unsuccessful attempts to repeal the OAP: 2 bills in 1969 and 22 in 1976, as well as amendments attached to the Burke-Hartke trade bill in 1971 and the Tariff Reform Act of 1974.

Many developing countries are also intensely interested in the future of the OAP. They believe the provision is an important source of foreign-exchange earnings and have taken measures to promote its use. These countries have a natural comparative advantage in labor-intensive activities, and the OAP helps them share in the production of many goods that require capital-intensive or technologically sophisticated components and labor-intensive processing or assembly.

The study, *The Trade Effects of Repealing the U.S. Offshore Assembly Provision,* found that repeal would have a small overall effect on imports that are directly affected by the provision (these imports would decline by 1.5 billion dollars, or by 4 percent), but the effect would be dramatic in several product categories. Apparel imports that currently enter under the OAP would fall by 63 percent, or by $691 million. This would represent over 46 percent of the total decline in OAP imports. Other industries that would be significantly affected by the repeal of the OAP are chemical products and office, computing, and accounting machines. The authors concluded that repeal of the OAP would lessen import competition for domestic producers, but the reduction would be modest at best.

The study also found that repeal of the OAP would cause an $857 million or 14-percent, decline in U.S. exports of components for use in OAP imports. Over 55 percent of the decline would be caused by the reduction in component exports to foreign assemblers of apparel. Most product categories would experience large percentage reductions in component exports.

Finally, the study found that the repeal of the OAP would reduce the foreign value added (foreign-exchange earnings) for developing countries more than for developed countries. The 492 million dollar decline in developing country foreign value added would be five times as great as the reduction for developed countries. In relative terms, developing countries' value added would decline by 8 percent, whereas the fall in developed countries' value added would be negligible (much less than 1 percent).

These results lead the authors to conclude that efforts by opponents of the OAP may be misplaced. They argue that repeal of the OAP would have a minimal effect on import competition, whereas it would have a relatively greater effect on exports of domestic components and would deny developing countries benefits from sharing in the production of a substantial amount of output that requires components from developed countries. On the other hand, the results also suggest to the authors that the rapid rise in U.S. OAP imports should not be attributed to the tariff preferences offered by the OAP. Rather, most of this rise is merely the result of importers taking advantage of these preferences when the trade flows would have occurred even if the OAP were not available.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1985–July 1988

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

Country	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 Feb.	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July
United States	1.9	1.1	3.8	3.1	4.3	8.7	7.1	4.0	0	2.7	7.4	6.2	4.9	10.0
Canada	2.8	.8	2.6	1.8	5.3	5.8	4.4	3.5	-5.6	2.9	5.9	1.9	(1)	(1)
Japan	3.7	-.4	2.9	5.6	-.8	15.2	15.7	13.5	32.7	6.6	-10.2	-18.7	(1)	(1)
West Germany ...	3.9	2.2	-.3	-1.8	-1.3	2.2	2.9	6.6	-1.1	21.3	-18.5	-4.5	(1)	(1)
United Kingdom ..	4.7	1.5	3.2	2.7	3.5	6.3	3.8	-3.1	-22.4	23.5	19.3	4.2	(1)	(1)
France	6	.8	2.2	1.3	6.7	2.6	3.9	2.6	0	0	-10.8	12.0	(1)	(1)
Italy	1.2	2.7	4.0	12.8	8.1	-10.8	14.0	9.6	-39.3	12.8	34.2	(1)	(1)	(1)

[1] Not available.

Source: U.S. Central Intelligence Agency, *Economic and Energy Indicators*, July 29, 1988.

Consumer prices, by selected countries and by specified periods, January 1985–July 1988

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

Country	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 Feb.	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July
United States	3.6	1.9	3.7	4.9	3.9	3.6	3.4	4.8	2.1	6.4	5.3	4.2	4.2	4.9
Canada	4.0	4.2	4.4	5.4	4.4	3.5	3.2	5.0	2.8	6.0	4.9	6.1	2.8	(1)
Japan	2.0	.6	.1	5.0	-.8	1.1	-2.1	2.8	-2.4	4.9	6.1	1.2	-2.3	(1)
West Germany ...	2.2	-.2	.3	1.4	1.5	0	.6	1.9	2.7	2.0	2.1	1.8	.8	(1)
United Kingdom ..	6.1	3.4	4.1	2.3	3.9	4.9	2.4	6.1	1.8	4.5	7.2	5.9	7.9	(1)
France	5.8	2.5	3.2	2.3	2.7	2.4	2.3	2.8	2.8	2.8	2.7	2.7	3.1	(1)
Italy	8.6	6.1	4.6	4.5	6.5	5.7	3.1	4.5	1.9	5.4	5.1	4.1	4.9	(1)

[1] Not available.

Source: U.S. Central Intelligence Agency, Economic and Energy Indicators, July 29, 1988.

Unemployment rates,[1] by selected countries and by specified periods, January 1985–July 1988

(In percent)

Country	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 Feb.	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July
United States	7.2	7.0	6.2	6.3	6.0	5.9	5.7	5.5	5.7	5.6	5.4	5.6	5.3	5.4
Canada	10.5	9.6	8.9	9.1	8.8	8.2	7.9	7.7	7.8	7.8	7.7	7.8	7.6	(2)
Japan	2.6	2.8	2.9	3.1	2.8	2.7	2.7	(2)	2.7	2.7	2.6	2.6	(2)	(2)
West Germany ...	7.5	7.0	6.9	6.9	7.0	7.0	6.9	7.0	6.9	6.9	7.0	7.0	7.0	(2)
United Kingdom ..	11.2	11.2	10.3	10.6	10.0	9.5	9.0	8.6	9.0	8.9	8.8	8.6	8.4	(2)
France	10.4	10.6	10.9	10.9	10.8	10.6	10.6	(2)	10.7	10.5	10.5	10.6	(2)	(2)
Italy	6.0	7.5	7.9	7.8	8.1	8.0	8.0	(2)	(2)	(2)	(2)	(2)	(2)	(2)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.

[2] 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, August 1988. (Expect for the U.S. figure, the May unemployment data issued by BLS were incorrectly transcribed in our August issue. The correct figures are shown above.)

Trade balances, by selected countries and by specified periods, January 1985–June 1988

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 Jan.	1988 Feb.	1988 Mar.	1988 Apr.	1988 May	1988 June
United States [1]	-132.8	-155.1	-170.3	-168.0	-169.6	-171.6	-172.0	-149.6	-135.6	-172.8	-140.4	-123.6	-117.6	-150.0
Canada	12.4	7.5	7.8	9.6	9.2	8.4	4.4	8.4	6.0	9.6	7.2	6.0	7.2	[2]
Japan	55.8	92.5	96.2	110.8	94.8	89.2	91.6	101.6	104.4	103.2	99.6	93.6	79.2	[2]
West Germany	25.4	52.6	65.5	64.4	61.2	62.8	74.0	64.0	73.2	62.4	62.4	72.0	[2]	[2]
United Kingdom	-2.6	-12.4	-15.9	-6.8	-15.6	-20.0	-21.2	-28.8	-31.2	-28.8	-19.2	-27.6	-38.2	[2]
France	-2.6	.1	-5.3	-4.0	-8.8	-4.4	-4.4	-2.8	-1.2	-10.8	-3.6	-4.8	-2.4	[2]
Italy	-12.1	-2.1	-8.8	-6.8	-12.0	-6.4	-10.8	12.8	-10.8	-4.8	-22.8	-6.0	[2]	[2]

[1] Exports, f.a.s. value, adjusted; imports, c.i.f., adjusted. Beginning with 1986, figures include previously undocumented exports to Canada. Data for individual quarters do not reflect similar adjustments.
[2] Not available.

Source: U.S. Central Intelligence Agency, *Economic and Energy Indicators*, June 29, 1988.

U.S. trade balance[1], by major commodity categories and by selected countries, and by specified periods, January 1985–June 1988

(In billions of U.S. dollars, C.I.F. value basis for imports)

Item	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 Jan.	1988 Feb.	1988 Mar	1988 Apr.	1988 May	1988 June
Commodity categories:														
Agriculture	9.6	4.5	7.0	.7	2.1	3.2	3.0	3.3	.8	1.0	1.2	1.2	1.2	.9
Petroleum and selected products, unadj	-45.9	-31.8	-39.5	-9.6	-11.7	-10.1	-9.7	-9.9	-3.3	-3.5	-2.9	-3.1	-3.6	-3.2
Manufactured goods	-102.0	-134.3	-146.1	-38.1	-36.3	-36.2	-35.0	-35.5	-11.7	-12.8	-10.5	-10.9	-11.0	-13.6
Selected countries:														
Western Europe	-23.3	-28.2	-27.9	-7.8	-7.0	-6.9	4.0	3.9	-1.3	-1.6	-.9	-.8	-1.2	-1.9
Canada [2]	-21.7	-23.0	-11.5	-2.3	-2.8	-3.1	-3.8	-4.4	-1.1	-1.5	-1.1	-1.9	-1.1	-1.4
Japan	-46.5	-55.3	-58.0	-15.3	-13.8	-14.5	-13.1	-12.9	-3.9	-4.5	-4.5	-4.1	-4.4	-4.4
OPEC, unadj	-10.2	-8.9	-13.7	-3.1	-4.6	-3.3	-2.6	-3.1	-1.0	-1.3	-.7	-.9	-1.1	-1.1
Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj	$26.59	$15.02	$18.12	$18.22	$18.99	$18.38	$16.35	$16.09	$16.92	$16.42	$15.70	$15.69	$16.40	$16.19

[1] Exports, f.a.s. value unadjusted; imports c.i.f. value unadjusted.
[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

Source: U.S. Department of Commerce, *Advance Report on U.S. Merchandise Trade*, August 1988.

Money-market interest rates,[1] by selected countries and by specified periods, January 1985–July 1988

(Percentage, annual rate)

Country	1985	1986	1987	1987 I	1987 II	1987 III	1987 IV	1988 I	1988 Feb.	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July
United States	8.3	6.5	6.8	6.1	6.8	6.8	7.6	6.7	6.4	6.9	7.2	7.2	7.5	7.9
Canada	9.7	8.6	8.4	7.4	8.0	9.2	9.0	8.7	8.6	8.7	8.9	9.3	[2]	[2]
Japan	6.5	4.9	3.9	4.1	3.7	3.7	3.9	3.8	3.8	3.8	3.8	3.8	[2]	[2]
West Germany	5.5	4.6	4.0	3.9	3.7	4.2	4.1	3.3	3.3	3.4	3.6	3.6	[2]	[2]
United Kingdom	12.1	10.8	9.8	10.5	9.3	10.0	9.2	8.9	9.3	8.7	8.3	7.8	[2]	[2]
France	10.0	7.7	8.2	8.2	8.1	7.9	8.5	7.9	7.4	7.9	7.9	[2]	[2]	[2]
Italy	15.0	12.8	11.3	10.9	10.7	11.9	11.6	11.0	11.1	10.4	10.4	11.0	[2]	[2]

[1] 90-day certificate of deposit.

[2] 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, by specified periods, January 1985–July 1988

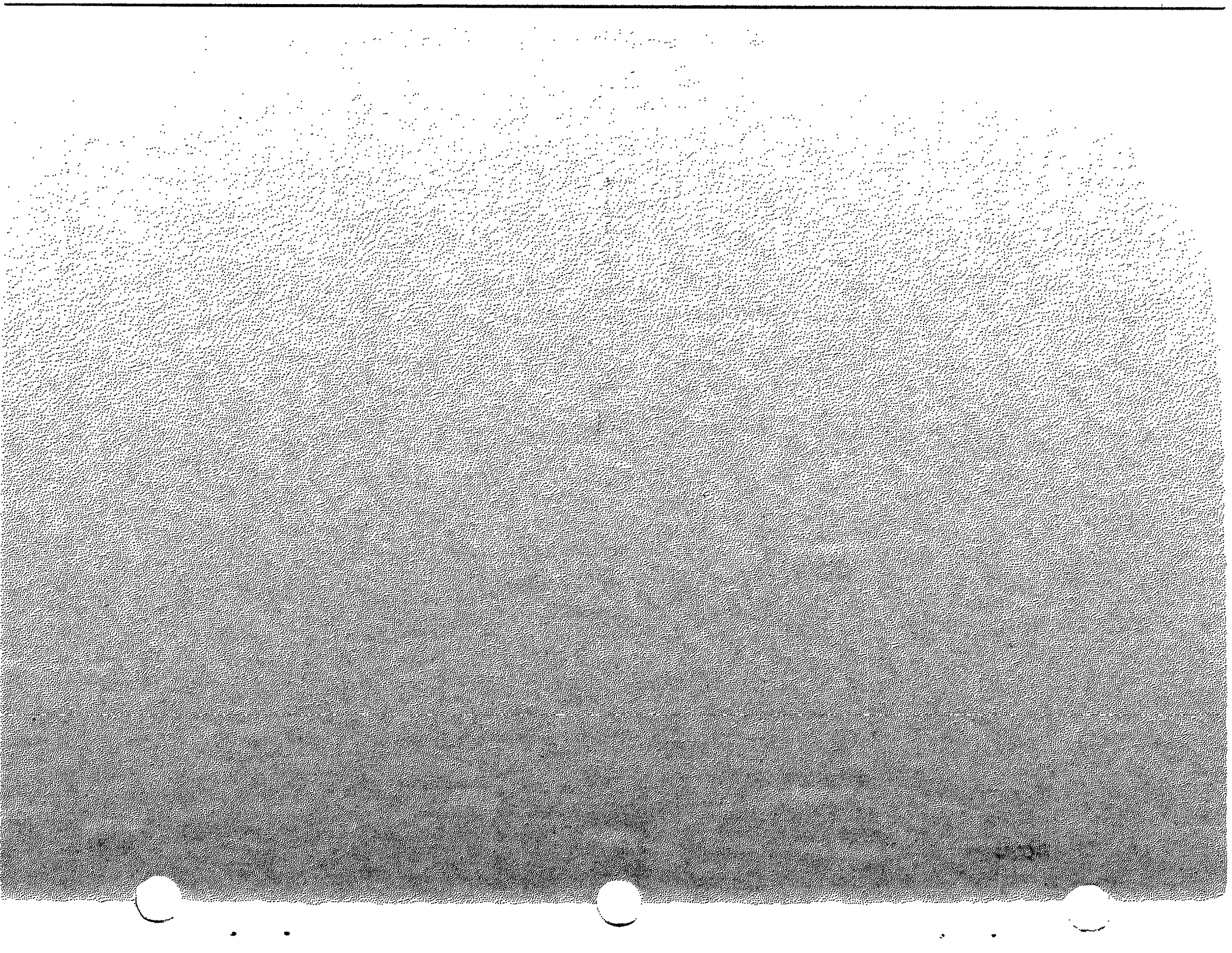
(Percentage change from previous period)

Item	1985	1986	1987	1987 II	1987 III	1987 IV	1988 I	1988 II	1988 Feb.	1988 Mar.	1988 Apr.	1988 May	1988 June	1988 July
Unadjusted														
Index number	127.1	106.0	94.2	94.1	95.2	90.3	87.5	86.5	88.2	86.8	85.8	86.1	87.6	90.1
Percentage change	3.8	-16.6	-11.1	-3.1	1.2	-5.1	-3.1	-1.1	.9	-1.6	-1.2	1.5	1.7	2.9
Adjusted:														
Index number [1]	121.7	100.9	90.2	90.5	87.0	87.4	84.9	84.2	85.3	84.7	83.4	83.8	85.3	88.1
Percentage change	1.8	-17.1	-10.6	-2.9	-3.9	-2.1	-2.9	-.8	1.2	-.8	-1.5	.5	1.8	3.3

[1] 1980–82 average=100.

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



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