U.S. International Transactions, Third Quarter 2000

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THE U.S. current-account deficit—the combined balances on trade in goods and services, income, and net unilateral current transfers—increased to $113.8 billion in the third quarter of 2000 from $105.0 billion (revised) in the second quarter (table A, chart 1).[1] The increase was mostly accounted for by an increase in the deficit on goods, as imports increased more than exports, and by a decrease in the surplus on services, as services payments increased more than services receipts.

In the financial account, net recorded financial inflows—the difference between changes in U.S.-owned assets abroad and changes in foreign-owned assets in the United States—were $123.0 billion in the third quarter, down from $152.7 billion (revised) in the second. Financial inflows for foreign-owned assets in the United States decreased more than financial outflows for U.S.-owned assets abroad.

The statistical discrepancy—errors and omissions in recorded transactions—was a negative $9.4 billion in the third quarter and a negative $47.9 billion in the second.

The following are highlights for the third quarter of 2000:

- Exports of goods increased strongly for the second consecutive quarter.
- Petroleum imports increased in value for the

1. Quarterly estimates of U.S. current- and financial-account components are seasonally adjusted when statistically significant seasonal patterns are present. The accompanying tables present both adjusted and unadjusted estimates.

Table A.—Summary of U.S. International Transactions

[Millions of dollars, seasonally adjusted]

Line	Lines in tables 1 and 10 in which transactions are included are indicated in () (Credits +; debits –)	1999	1999				2000			Change: 2000 II–III	January–September		
			I	II	III	IV	I	II r	III p		1999	2000	Change: 1999-2000
1	Exports of goods and services and income receipts (1)	1,232,407	293,717	300,994	313,084	324,612	336,854	353,622	361,467	7,845	907,795	1,051,943	144,148
2	Goods, balance of payments basis (3)	684,358	163,949	166,443	173,881	180,085	183,728	191,783	200,385	8,602	504,273	575,896	71,623
3	Services(4)	271,884	66,372	67,854	68,088	69,568	72,249	74,186	74,272	86	202,314	220,707	18,393
4	Income receipts (12)	276,165	63,396	66,697	71,115	74,959	80,877	87,653	86,810	–843	201,208	255,340	54,132
5	Imports of goods and services and income payments (18)	–1,515,861	–349,513	–368,439	–391,337	–406,575	–426,335	–446,323	–462,488	–16,165	–1,109,289	–1,335,146	–225,857
6	Goods, balance of payments basis (20)	–1,029,917	–236,973	–250,427	–266,199	–276,318	–289,566	–302,014	–315,801	–13,787	–753,599	–907,381	–153,782
7	Services (21)	–191,296	–46,024	–47,170	–48,488	–49,615	–51,528	–52,553	–55,359	–2,806	–141,682	–159,440	–17,758
8	Income payments (29)	–294,648	–66,516	–70,842	–76,650	–80,642	–85,241	–91,756	–91,328	428	–214,008	–268,325	–54,317
9	Unilateral current transfers, net (35)	–48,025	–10,831	–11,537	–11,396	–14,260	–12,024	–12,270	–12,752	–482	–33,764	–37,046	–3,282
10	Capital account transactions, net (39)	–3,500	157	165	171	–3,993	166	170	165	–5	493	501	8
11	U.S.-owned assets abroad, net (increase/ financial outflow (–)) (40)	–430,187	–21,555	–170,842	–122,909	–114,882	–178,958	–92,424	–77,204	15,220	–315,306	–348,586	–33,280
12	U.S. official reserve assets, net (41)	8,747	4,068	1,159	1,951	1,569	–554	2,020	–346	–2,366	7,178	1,120	–6,058
13	U.S. Government assets, other than official reserve assets, net (46)	2,751	118	–392	–686	3,711	–131	–574	110	684	–960	–595	365
14	U.S. private assets, net (50)	–441,685	–25,741	–171,609	–124,174	–120,162	–178,273	–93,870	–76,968	16,902	–321,524	–349,111	–27,587
15	Foreign-owned assets in the United States,net (increase/ financial inflow (+)) (55)	753,564	102,780	272,008	194,210	184,567	236,535	245,149	200,169	–44,980	568,998	681,853	112,855
16	Foreign official assets in the United States, net (56)	42,864	4,274	–1,096	12,191	27,495	22,015	6,346	11,625	5,279	15,369	39,986	24,617
17	Other foreign assets in the United States, net (63)	710,700	98,506	273,104	182,019	157,072	214,520	238,803	188,544	–50,259	553,629	641,867	88,238
18	Statistical discrepancy (sum of above items with sign reversed) (70)	11,602	–14,755	–22,349	18,177	30,531	43,762	–47,924	–9,357	38,567	–18,927	–13,519	5,408
	Memoranda:												
19	Balance on current account (76)	–331,479	–66,627	–78,982	–89,649	–96,223	–101,505	–104,971	–113,773	–8,802	–235,258	–320,249	–84,991
20	Net financial flow (40 and 55)	323,377	81,225	101,166	71,301	69,685	57,577	152,725	122,965	–29,760	253,692	333,267	79,575

r Revised.
p Preliminary.

sixth consecutive quarter; the third-quarter increase was attributable to a continued rise in petroleum prices.

- Both receipts and payments of income decreased after increasing strongly for five consecutive quarters.
- Net foreign purchases of U.S. corporate bonds increased to a record level, and net foreign purchases of U.S. stocks rose sharply.
- Net financial inflows for foreign direct investment in the United States fell sharply, but nonetheless remained very strong.

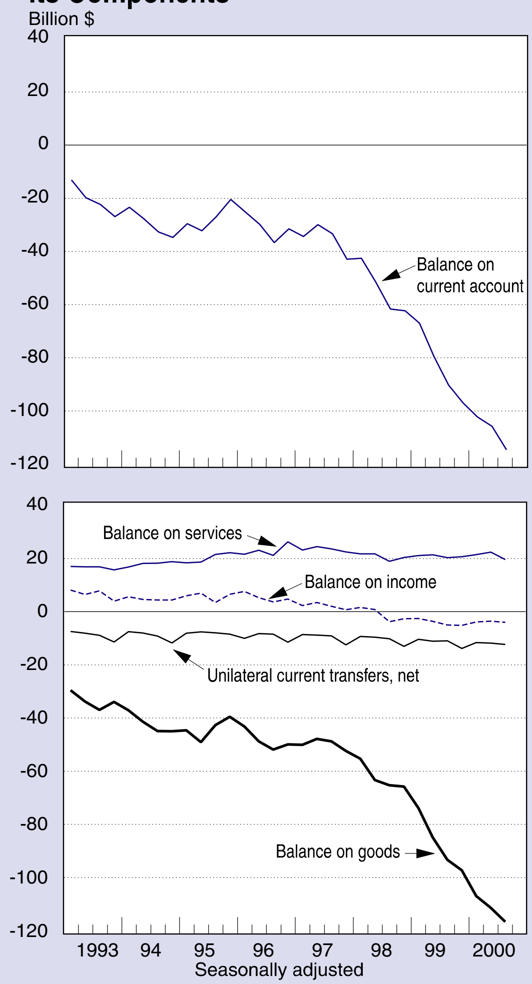
U.S. dollar in exchange markets

In the third quarter, the U.S. dollar appreciated 2 percent on a nominal, trade-weighted quarterly average basis against the group of seven major currencies that are widely traded in international markets (table B, chart 2).

The U.S. dollar appreciated 3 percent against the euro; since the euro's inception in January 1999, the dollar has appreciated 24 percent on a quarterly average basis. In the third quarter, the dollar appreciated steadily for most of the quarter, boosted by indications that the U.S. economy was growing moderately and that core U.S. inflation was not accelerating despite a continued increase in oil prices. U.S. monetary authorities left the Federal funds rate unchanged in the quarter after raising the rate 175 basis points to 6.5 percent from June 1999 to May 2000. The dollar was also boosted by indications that euro-area inflation might be accelerating, which prompted the European Central Bank to increase the interest rate on short-term refinancing operations to 4.5 percent. The euro depreciated sharply in the first 2 weeks of September; in response, monetary authorities in the euro area, the United States, Japan, the United Kingdom, and Canada intervened in currency markets on September 22 by purchasing euros,

CHART 1

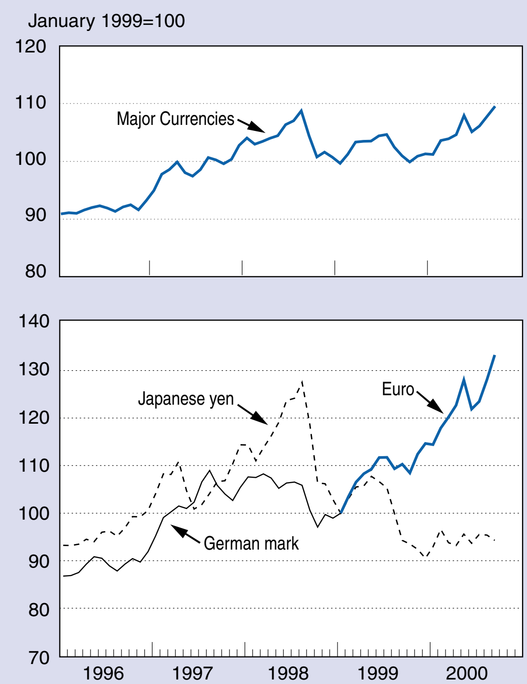
U.S. Current-Account Balance and Its Components



U.S. Department of Commerce, Bureau of Economic Analysis

CHART 2

Nominal Indexes of Foreign Currency Price of the U.S. Dollar



Note.–See table B for definitions of the indexes. Monthly average rates.

Data: Federal Reserve Board. Indexes rebased by BEA.

U.S. Department of Commerce, Bureau of Economic Analysis and as a result, the euro regained some of its lost value by the end of quarter.

The U.S. dollar appreciated 1 percent against the yen amid uncertainty about Japanese economic conditions. In response to some indications that the Japanese economy was gaining strength, Japanese monetary authorities increased the overnight call rate to 0.25 percent in mid-August from the near-zero rate that had prevailed for more than a year. Thereafter, concerns arose that the tightening of monetary policy might hinder the recovery of the Japanese economy.

Against other currencies, the U.S. dollar appreciated 4 percent against the British pound and 2 percent against the Swiss franc; since the beginning of the year, the dollar has appreciated 10 percent against the pound and 11 percent against the Swiss franc. The U.S. dollar was unchanged against the Canadian dollar, and it depreciated 2 percent against the Mexican peso.

Current Account

Goods and services

The deficit on goods and services increased to $96.5 billion in the third quarter from $88.6 billion in the second. The increase was accounted for by an increase in the deficit on goods and a decrease in the surplus on services.

Goods.—The deficit on goods increased $5.2 billion, to $115.4 billion, in the third quarter. Imports increased more than exports.

Exports.—Exports increased $8.6 billion, or 4 percent, to $200.4 billion in the third quarter. Quantities increased 4 percent, and prices were unchanged (table C).[2] The value of both agricultural products and nonagricultural products increased.

The value of exports has increased 22 percent since the first quarter of 1999 (chart 3). The increase, which was almost entirely accounted for by rising quantities, was propelled mostly by capital

2. Quantity (real) estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters. Real estimates are expressed as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

Revisions to the Second-Quarter 2000 Estimates

As a result of incorporating newly available, more complete source data, the international transactions accounts estimates for the second quarter of 2000 are revised from the preliminary estimates that were published in the October 2000 SURVEY OF CURRENT BUSINESS.

The current-account deficit for the second quarter was revised to $105.0 billion from $106.1 billion. The goods deficit was unrevised at $110.2 billion, the services surplus was revised to $21.6 billion from $21.0 billion, the deficit on income was revised to $4.1 billion from $4.5 billion, and net unilateral current transfers were unrevised at a negative $12.3 billion. Net recorded financial inflows were revised to $152.7 billion from $149.1 billion.

Table B.—Indexes of Foreign Currency Price of the U.S. Dollar

[January 1999=100]

	1999		2000			1999				2000								
	III	IV	I	II	III	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
Nominal: [1]																		
Broad [2]	101.7	100.7	101.6	103.7	105.0	101.1	100.6	100.8	100.8	100.7	102.0	102.0	102.6	104.8	103.7	104.1	104.8	106.0
Major currencies [3]	103.0	101.0	103.2	106.2	108.1	101.3	100.2	101.2	101.6	101.5	103.9	104.2	104.9	108.2	105.4	106.4	108.1	109.8
Other important trading partners [4]	100.1	100.4	99.5	100.6	101.1	100.8	101.2	100.3	99.8	99.79	9.79	9.29	9.6	100.7	101.6	101.2	100.7	101.4
Real: [1]																		
Broad [2]	102.1	101.0	102.2	105.0	106.3	101.5	100.9	101.1	101.1	101.0	102.4	103.1	103.8	105.9	105.2	105.6	106.2	107.2
Major currencies [3]	103.6	102.0	105.0	108.4	110.7	102.0	101.1	102.3	102.6	102.9	105.6	106.4	107.2	110.3	107.8	109.0	110.7	112.5
Other important trading partners [4]	100.3	99.9	98.7	100.7	101.1	100.7	100.7	99.7	99.2	98.7	98.4	99.1	99.6	100.6	101.9	101.5	100.7	101.0
Selected currencies: (nominal) [5]																		
Canada	97.8	96.9	95.6	97.4	97.6	97.2	97.2	96.6	96.9	95.3	95.5	96.1	96.7	98.4	97.2	97.3	97.6	97.8
European currencies:																		
Euro area [6]	110.5	111.7	117.5	124.2	128.3	110.4	108.3	112.2	114.6	114.4	117.9	120.2	122.7	128.0	121.9	123.5	128.1	133.3
United Kingdom	103.0	101.2	102.7	107.6	111.8	101.5	99.6	101.8	102.3	100.6	103.1	104.4	104.3	109.3	109.3	109.4	110.8	115.1
Switzerland	110.2	111.3	117.6	120.9	123.3	110.1	107.5	112.2	114.3	114.8	118.0	120.1	120.2	124.1	118.5	119.2	123.8	126.9
Japan	99.8	92.1	94.4	94.2	95.1	94.3	93.5	92.4	90.5	92.9	96.6	93.8	93.2	95.6	93.7	95.5	95.4	94.3
Mexico	92.5	93.5	92.8	94.6	92.3	92.2	94.5	93.0	93.1	93.7	93.1	91.7	92.8	93.9	97.1	93.0	91.5	92.4
Brazil	123.2	126.6	117.4	119.2	120.1	125.6	130.2	127.7	122.0	119.4	117.5	115.2	117.0	120.9	119.7	118.9	119.6	121.7

1. For more information on the nominal and real indexes of the foreign exchange value of the U.S. dollar, see *Federal Reserve Bulletin*, vol. 84 (October 1998): 811–18.
2. Weighted average of the foreign exchange value of the U.S. dollar against the currencies of a broad group of U.S. trading partners, including the currencies of the euro-area countries, Australia, Canada, Japan, Sweden, Switzerland, United Kingdom, Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
3. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that circulate widely outside the country of issue, including the currencies of euro-area countries, Australia, Canada, Japan, Sweden, Switzerland, and the United Kingdom. The weight for each currency is its broad-index weight divided by the sum of the broad-index weights for all of the currencies included in the major currency index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
4. Weighted average of the foreign exchange value of the U.S. dollar against broad-index currencies that do not circulate widely outside the country of issue, including the currencies of Argentina, Brazil, Chile, Colombia, Mexico, Venezuela, China, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand, Israel, Saudi Arabia, and Russia. The weight for each currency is its broad-index weight divided by the sum of the broad-index weights for all of the currencies included in the other important trading partners index. Data: Federal Reserve Board. Monthly and quarterly average rates. Index rebased by BEA.
5. Data: Federal Reserve Board. Monthly and quarterly average rates. Indexes prepared by BEA.
6. The euro area includes Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. Exchange rates (but not index values with January 1999=100) for the individual euro-area currencies can be derived from the euro exchange rate by using the fixed conversion rates (in currencies per euro) as shown below: 13.7603 Austrian schillings; 40.3399 Belgian francs; 5.94573 Finnish markkas; 6.55957 French francs; 1.95583 German marks; .787564Irish pounds; 1936.27 Italian liras; 40.3399 Luxembourg francs; 2.20371 Netherlands guilders; 200.482 Portuguese escudos; 166.386 Spanish pesetas.

goods, which contributed 11 percentage points to the rise, and by industrial supplies and materials, which contributed 6 percentage points. Through the first quarter of 1999, exports had decreased in five out of six quarters, partly because of financial crises and sharply falling demand in some foreign countries.

In the third quarter of 2000, nonagricultural exports increased $7.8 billion, or 4 percent, to $186.4 billion; quantities increased 4 percent, and prices were unchanged. Most of the increase in value was attributable to a rise in capital goods, reflecting strong increases in most capital goods commodities; the largest increases were in semiconductors, in other industrial, agricultural, and service industry machinery, and in computers, peripherals, and parts. Nonagricultural industrial supplies and materials rebounded, mostly as a result of increases in chemicals and in energy products. Consumer goods accelerated as a result of a rebound in durable goods, and automotive products edged higher.

Agricultural exports increased $0.8 billion, or 6 percent, to $14.0 billion; quantities increased 9 percent, and prices decreased 3 percent. In value, most of the increase was accounted for by increases in soybeans, in meat products and poultry, and in vegetables, fruits, nuts, and preparations.

Imports.—Imports increased $13.8 billion, or 5 percent, to $315.8 billion in the third quarter. Quantities increased 3 percent, and prices increased 2 percent (table C). The value of both petroleum products and nonpetroleum products increased.

Since the first quarter of 1999, the value of imports has increased 33 percent, the largest increase over six quarters since the mid-1980's. Largely as a result of rapidly rising petroleum prices, imports of petroleum products tripled, and they contributed 9 percentage points to the increase in total imports. Nonpetroleum products also rose strongly, and in contrast to petroleum products, the increase resulted almost entirely from rising quantities. Capital goods contributed 9 percentage points to the increase in total imports, consumer goods contributed 6 percentage points, nonpetroleum industrial supplies and materials contributed 4 percentage points, and automotive products contributed 4 percentage points.

In the third quarter of 2000, nonpetroleum imports increased $11.4 billion, or 4 percent, to $284.1 billion; quantities increased 4 percent, and prices were unchanged. In value, most major commodity categories increased strongly. The increase in capital goods was largely attributable to a surge in semiconductors, to a strong rise in computers, peripherals, and parts, and to a sizable increase in civilian aircraft, engines, and parts. Nonpetroleum industrial supplies and materials rebounded, partly as a result of a step-up in chemicals and of increases in nonferrous metals and in paper and paper base stocks. Automotive products accelerated as a result of a strong increase in passenger cars, and consumer goods slowed sharply.

Table C.—U.S. Trade in Goods, Current and Chained (1996) Dollars, and Percent Changes from Previous Period

[Balance of payments basis, millions of dollars, quarterly estimates seasonally adjusted]

	Current dollars									Chained (1996) dollars [1]								
	1998	1999	1999				2000			1998	1999	1999				2000		
			I	II	III	IV	I	II r	III p			I	II	III	IV	I	II r	III p
Exports	670,324	684,358	163,949	166,443	173,881	180,085	183,728	191,783	200,385	711,246	736,199	176,669	179,550	187,170	192,810	196,081	204,024	213,176
Agricultural products	53,105	49,619	11,711	12,236	13,178	12,494	13,126	13,197	13,951	62,549	63,131	14,548	15,627	16,938	16,018	16,959	16,876	18,429
Nonagricultural products	617,219	634,739	152,238	154,207	160,703	167,591	170,602	178,586	186,434	648,364	672,845	161,955	163,876	170,417	176,597	179,204	187,001	194,608
Imports	917,178	1,029,917	236,973	250,427	266,199	276,318	289,566	302,014	315,801	1,017,149	1,140,418	268,069	279,807	292,848	299,694	309,035	321,634	332,772
Petroleum and products	50,903	67,807	10,532	15,940	19,903	21,432	27,010	29,265	31,688	81,418	81,498	20,023	21,339	21,017	19,119	20,431	22,037	21,719
Nonpetroleum products	866,275	962,110	226,441	234,487	246,296	254,886	262,556	272,749	284,113	935,464	1,056,193	247,477	257,678	271,251	279,787	287,575	298,086	310,167

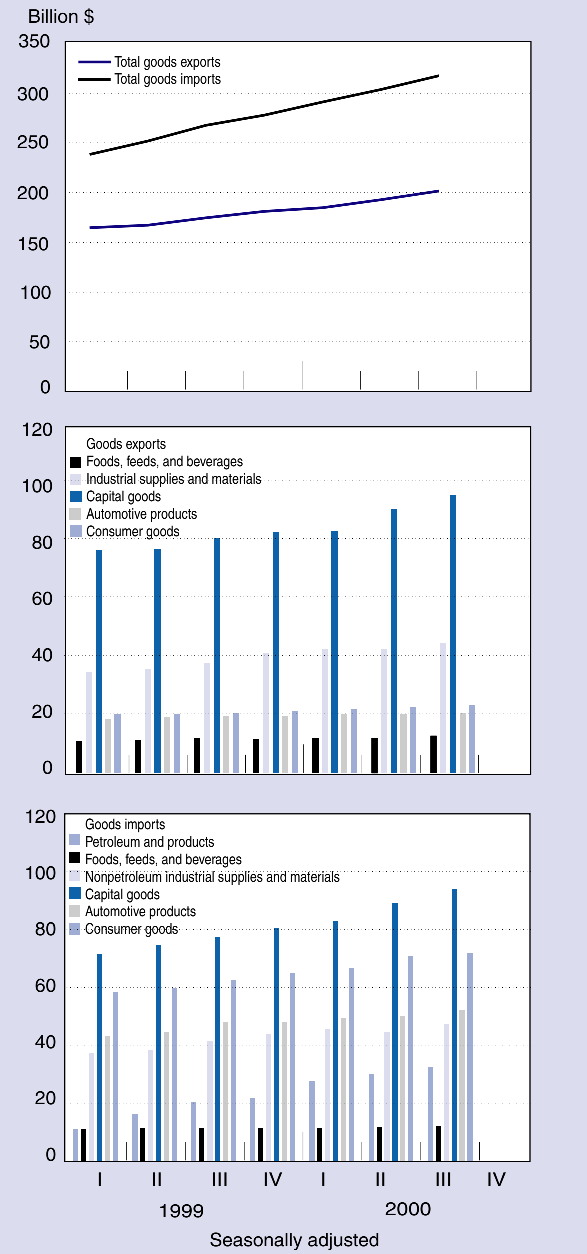
	Percent change from preceding period									Percent change from preceding period								
	1998	1999	1999				2000			1998	1999	1999				2000		
			I	II	III	IV	I	II r	III p			I	II	III	IV	I	II r	III p
Exports	–1.4	2.1	–3.2	1.5	4.5	3.6	2.0	4.4	4.5	1.8	3.5	–2.7	1.6	4.2	3.0	1.7	4.1	4.5
Agricultural products	–9.1	–6.6	–11.4	4.5	7.7	–5.2	5.1	.5	5.7	0	.9	–9.7	7.4	8.4	–5.4	5.9	–.5	9.2
Nonagricultural products	–.7	2.8	–2.4	1.3	4.2	4.3	1.8	4.7	4.4	2.0	3.8	–2.1	1.2	4.0	3.6	1.5	4.4	4.1
Imports	4.7	12.3	1.1	5.7	6.3	3.8	4.8	4.3	4.6	11.3	12.1	1.8	4.4	4.7	2.3	3.1	4.1	3.5
Petroleum and products	–29.1	33.2	–8.5	51.3	24.9	7.7	26.0	8.3	8.3	7.0	.1	.7	6.6	–1.5	–9.0	6.9	7.9	–1.4
Nonpetroleum products	7.7	11.1	1.6	3.6	5.0	3.5	3.0	3.9	4.2	11.6	12.9	1.9	4.1	5.3	3.1	2.8	3.7	4.1

p Preliminary.
r Revised.
1. Because chain indexes use weights of more than one period, the corresponding chained dollar estimates are usually not additive.

Petroleum imports increased $2.4 billion, or 8 percent, to $31.7 billion. The increase was attributable to a rise in prices, to an average of $28.76 per barrel from $26.12 per barrel. Average petroleum prices have increased 177 percent since the first quarter of 1999, reaching the highest level since the fourth quarter of 1990. In the third quarter of 2000, the average number of barrels imported daily decreased to 12.08 million from 12.26 million in the second.

CHART 3

U.S. Goods Exports and Imports



U.S. Department of Commerce, Bureau of Economic Analysis

Balances by area.—The deficit on goods with China increased $5.1 billion, to $24.6 billion, the largest deficit with any single country.[3] The deficit with Asia excluding China and Japan increased $3.0 billion, to $27.7 billion. In contrast, the deficits with several other areas and countries decreased. The deficit with "Latin America and Other Western Hemisphere" decreased $1.9 billion, to $8.7 billion, largely as a result of a decline in the deficit with Mexico and a rise in the surplus with Brazil. The deficit with Japan decreased $1.3 billion, to $19.8 billion.

Services.—The surplus on services decreased $2.7 billion, to $18.9 billion, in the third quarter. Receipts edged up to $74.3 billion from $74.2 billion, and payments increased to $55.4 billion from $52.6 billion.

Travel receipts increased to $21.6 billion from $21.4 billion. The increase was more than accounted for by an increase in receipts from overseas visitors to the United States. Travel payments increased to $16.7 billion from $16.0 billion. The increase was largely attributable to an increase in payments by U.S. travelers to countries overseas.

"Other" transportation receipts increased to $7.6 billion from $7.4 billion, mostly as a result of an increase in freight receipts. "Other" transportation payments increased to $10.5 billion from $9.9 billion as a result of an increase in freight payments. The sizable increases in "other" transportation payments over the past six quarters have partly reflected the strong increases in the volume of U.S. goods imports. In addition, freight payments have been boosted in the last three quarters by increases in ocean freight rates.

Receipts for "other" private services decreased to $26.3 billion from $26.5 billion as a result of a decline in affiliated services receipts. In unaffiliated services, increases in receipts for most types of services more than offset a drop in receipts for financial services. Payments for "other" private services increased to $13.3 billion from $12.9 billion, mostly as a result of a rise in net insurance payments, which are premiums paid less losses recovered.

3. Seasonally adjusted estimates for exports for areas and countries are derived by applying seasonal factors for total U.S. agricultural and nonagricultural exports to the unadjusted agricultural and nonagricultural exports for areas and countries and then summing the seasonally adjusted estimates. Seasonally adjusted estimates for imports for areas and countries are derived by applying seasonal factors for total U.S. petroleum and nonpetroleum imports to the unadjusted petroleum and nonpetroleum imports for areas and countries and then summing the seasonally adjusted estimates. (The seasonal factors are derived from the seasonal adjustment of U.S. exports and U.S. imports by five-digit end-use commodity category.)

Income

The deficit on income increased to $4.5 billion in the third quarter from $4.1 billion in the second. Income receipts decreased to $86.8 billion from $87.7 billion, and income payments decreased to $91.3 billion from $91.8 billion.

Investment income.—Receipts of investment income on U.S.-owned assets abroad decreased to $86.2 billion from $87.1 billion, and payments of investment income on foreign-owned assets in the United States decreased to $89.4 billion from $89.8 billion.

Receipts of income on U.S. direct investment abroad decreased to $37.3 billion from $37.9 billion. The decrease was attributable to declines in earnings of foreign affiliates in manufacturing and in "other" industries. The largest declines were in earnings of Canadian affiliates in transportation equipment manufacturing and in earnings of Western European affiliates in transportation equipment manufacturing and in finance, where lower earnings may have partly reflected the depreciation of the euro and of the British pound against the U.S. dollar. In contrast, earnings of petroleum affiliates continued to increase strongly as a result of rising petroleum prices. Interest receipts edged up.

Payments of income on foreign direct investment in the United States decreased to $15.8 billion from $18.9 billion. The large decrease, which followed two quarters of large increases, was mostly attributable to a decline in earnings of manufacturing affiliates. Earnings of continental Western European-owned manufacturing affiliates dropped the most as a result of shifts to losses and of increased losses for some large affiliates. Earnings of affiliates in "other" industries also decreased, largely as a result of a decline in earnings of depository institutions.

"Other" private income receipts increased to $48.1 billion from $47.9 billion. Increases in receipts on bank and on nonbank claims, mostly as a result of a rise in average yields, more than offset a decrease in receipts on foreign securities.

"Other" private income payments increased to $46.2 billion from $44.0 billion. Increases in payments on bank and on nonbank liabilities reflected rises in average holdings and in average yields. An increase in payments on U.S. securities reflected a rise in average holdings.

U.S. Government income receipts decreased to $0.8 billion from $1.2 billion. U.S. Government income payments increased to $27.4 billion from $26.9 billion.

Unilateral current transfers

Unilateral current transfers were net outflows of $12.8 billion in the third quarter, up from net outflows of $12.3 billion in the second. The increase was almost entirely accounted for by increases in U.S. Government grants and in private remittances and other transfers.

Capital Account

Capital account transactions were unchanged at net inflows of $0.2 billion in the third quarter.

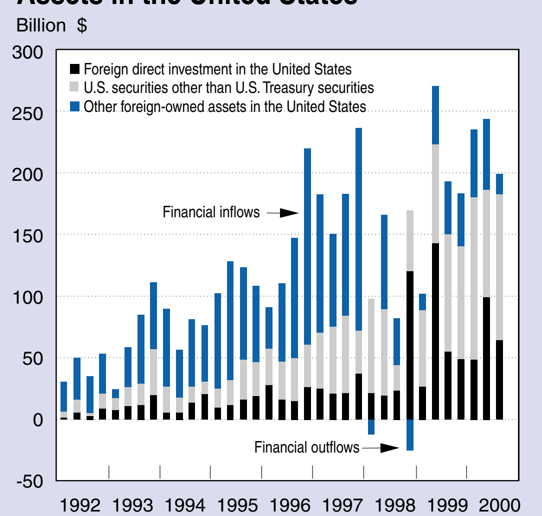
Financial Account

Net recorded financial inflows—the difference between changes in U.S.-owned assets abroad and changes in foreign-owned assets in the United States—were $123.0 billion in the third quarter, down from $152.7 billion (revised) in the second. Financial inflows for foreign-owned assets in the United States decreased more than financial outflows for U.S.-owned assets abroad.

Net inflows for foreign direct investment in the United States and net foreign purchases of U.S. securities other than U.S. Treasury securities remained very strong (chart 4). These inflows

CHART 4

Financial Flows for Foreign-Owned Assets in the United States



U.S. Department of Commerce, Bureau of Economic Analysis accounted for 92 percent of total financial inflows for foreign-owned assets in the United States, and since the fourth quarter of 1998, they have accounted for more than 75 percent of total inflows. Net inflows for foreign direct investment in the United States have been boosted by numerous large-sized acquisitions of U.S. companies by foreign companies, partly reflecting the high profitability of U.S. companies, global consolidation in some industries, and the rapidly changing technology environment. Net foreign purchases of U.S. securities other than U.S. Treasury securities have been supported by the favorable economic environment in the United States over most of the period—including strong economic growth, low inflation, and higher U.S. interest rates relative to foreign interest rates.

U.S.-owned assets abroad

Net U.S.-owned assets abroad increased $77.2 billion in the third quarter, following an increase of $92.4 billion in the second. The slowdown was accounted for by a decrease in U.S. claims on foreigners reported by U.S. nonbanks after a large second-quarter increase and by slowdowns in net U.S. purchases of foreign securities and in net outflows for U.S. direct investment abroad. In contrast, claims on foreigners reported by U.S. banks increased after a second-quarter decrease.

U.S. official reserve assets.—Net U.S. official reserve assets increased $0.3 billion in the third quarter, in contrast to a decrease of $2.0 billion in the second (table D). The third-quarter increase was more than accounted for by an increase in U.S. holdings of foreign currencies, reflecting U.S. intervention purchases of euros, and by an increase in U.S. holdings of special drawing rights. The U.S. reserve position in the International Monetary Fund (IMF) decreased, reflecting net foreign repayments of U.S. dollars to the IMF.

Claims reported by banks and by nonbanks.—U.S. claims on foreigners reported by U.S. banks increased $11.4 billion in the third quarter, in contrast to a decrease of $18.3 billion in the second. Banks' own claims increased for the sixth consecutive quarter.

In the third quarter, banks' own claims payable in dollars increased $22.5 billion, following an increase of $12.0 billion. The third-quarter increase was more than accounted for by bank lending to offices abroad, partly reflecting strong foreign demand for U.S. dollar funds to finance mergers and acquisitions and nonmerger-related purchases of U.S. corporate stocks and bonds. Foreign-owned banks in the United States were the largest lenders, providing substantial funds to their own offices in the Caribbean and, to a lesser extent, in Western Europe. U.S.-owned bank lending was small. Banks' claims on other private foreigners decreased after a large increase; the third-quarter decrease was mostly attributable to repayments from investment funds in the Caribbean to U.S. securities brokers and dealers.

Banks' domestic customers' claims payable in dollars decreased $11.0 billion, following a decrease of $27.4 billion. In the third quarter, a second consecutive large decrease in deposits abroad more than offset a surge in foreign commercial paper outstanding in the United States.

Claims reported by U.S. nonbanking concerns decreased $0.9 billion after increasing $36.5 billion. The decrease, which followed six strong quarterly increases, was attributable to a decline in deposits abroad.

Table D.—Selected Transactions with Official Agencies

[Millions of dollars]

	1999	1999				2000			Change: 2000 II–III	January–September		
		I	II	III	IV	I	II[r]	III[p]		1999	2000	Change: 1999–2000
Changes in foreign official assets in the United States, net (decrease –) (table 1, line 56)	42,864	4,274	–1,096	12,191	27,495	22,015	6,346	11,625	5,279	15,369	39,986	24,617
Industrial countries [1]	31,119	3,342	1,314	13,988	12,475	12,416	13,698	–3,499	–17,197	18,644	22,615	3,971
Members of OPEC [2]	1,331	2,155	1,632	–783	–1,673	6,109	1,913	3,450	1,537	3,004	11,472	8,468
Other countries	10,414	–1,223	–4,042	–1,014	16,693	3,490	–9,265	11,674	20,939	–6,279	5,899	12,178
Changes in U.S. official reserve assets, net (increase –) (table 1, line 41)	8,747	4,068	1,159	1,951	1,569	–554	2,020	–346	–2,366	7,178	1,120	–6,058

[p] Preliminary.
[r] Revised.
1. Western Europe, Canada, Japan, Australia, New Zealand, and South Africa.
2. Based on data for Ecuador, Venezuela, Indonesia, and other Asian and African oil-exporting countries. Excludes Ecuador beginning January 1993 and Gabon beginning January 1995.

Foreign securities.—Net U.S. purchases of foreign securities were $30.4 billion in the third quarter, down from $38.2 billion in the second. Net U.S. purchases of foreign stocks were $12.5 billion, down from $45.0 billion, and transactions in foreign bonds shifted to net U.S. purchases of $17.9 billion from net U.S. sales of $6.8 billion.

The decrease in net U.S. purchases of foreign stocks was attributable to a sharp slowdown in merger-related exchanges of stock. Nonmerger-related transactions in foreign stocks shifted to net U.S. purchases from net U.S. sales. U.S. investors have made minimal net purchases or have made net sales of non-Japanese foreign stocks since the fourth quarter of 1997, but in recent quarters, net purchases of some of these stocks have increased. In the third quarter of 2000, transactions in Western European stocks shifted to net U.S. purchases, largely as a result of strong net purchases early in the quarter when most Western European stock markets rose. Net U.S. sales to Japan were less than half of large second-quarter net sales, and net U.S. purchases from Canada picked up.

The shift to net U.S. purchases of foreign bonds was supported by a decline in volatility in international bond markets, which were unsettled in the second quarter. In the third quarter, new foreign issues in the United States surged, partly as a result of increased placements by borrowers from Western Europe, particularly those in the telecommunications industry. New issues by Latin American borrowers also increased sharply, despite a slowdown in emerging market placements in September when U.S. investors became more concerned about creditworthiness. Transactions in outstanding foreign bonds shifted to net U.S. purchases from net U.S. sales, largely as a result of substantial net U.S. purchases from the United Kingdom.

Direct investment.—Net financial outflows for U.S. direct investment abroad were $36.1 billion in the third quarter, down from $37.5 billion in the second. The decrease was more than accounted for by a decline in net equity capital outflows that resulted from a greater pickup in divestitures of existing foreign affiliates than in acquisitions of new foreign affiliates. The acquisitions included U.S. purchases of financial companies in Western Europe and technology companies in several geographic areas. In contrast, reinvested earnings increased, and net inflows for intercompany debt slowed.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased $200.2 billion in the third quarter, following an increase of $245.1 billion in the second. The slowdown was attributable to a sharp drop in net inflows for foreign direct investment in the United States and to much smaller increases in U.S. liabilities reported by U.S. banks and by U.S. nonbanking concerns in the third quarter than in the second. In contrast, net foreign purchases of U.S. securities other than U.S. Treasury securities stepped up, and net foreign sales of U.S. Treasury securities slowed.

Foreign official assets.—Net foreign official assets in the United States increased $11.6 billion in the third quarter, following an increase of $6.3 billion in the second (table D). The third-quarter increase was largely accounted for by increases in the assets of several large developing countries. Assets of industrial countries decreased, perhaps partly reflecting intervention sales of dollars for euros by some foreign official agencies.

Liabilities reported by banks and by nonbanks.—U.S. liabilities to foreigners reported by U.S. banks, excluding U.S. Treasury securities, increased $14.0 billion in the third quarter, following an increase of $46.9 billion in the second. Banks' own liabilities increased for the sixth consecutive quarter.

Banks' own liabilities payable in dollars increased $16.0 billion in the third quarter, following an increase of $54.5 billion in the second. The slowdown was more than accounted for by a decrease in U.S.-owned banks' liabilities to their own offices abroad after a very large second-quarter increase. The decrease partly reflected a slowdown in bank lending in the United States that reduced the demand for funds from abroad. In contrast, liabilities of foreign-owned banks in the United States increased, partly as a result of borrowing to support foreign-owned bank lending to offices abroad. Liabilities to other private foreigners increased, mostly as a result of an increase in liabilities to international bond funds in Western Europe.

Banks' custody liabilities payable in dollars decreased $4.3 billion, following a decrease of $1.9 billion. The third-quarter decrease was largely accounted for by a decrease in custody liabilities to investors in the Caribbean.

Liabilities reported by U.S. nonbanking concerns increased $2.6 billion, following an increase of $24.0 billion. The third-quarter increase was attributable to borrowing by nonbank financial intermediaries.

U.S. Treasury securities.—Net foreign sales of U.S. Treasury securities decreased to $12.6 billion in the third quarter from $20.6 billion in the second. Yields on long-term U.S. Treasury securities declined for most of the third quarter amid growing expectations that the U.S. economy was slowing and that U.S. monetary policy would not be further tightened. The decrease in net foreign sales was largely accounted for by a decline in net sales by Western European investors. In contrast, net sales by Asian investors and by investment funds in the Carribean increased. Foreigners have been net sellers of U.S. Treasury securities in six of the last seven quarters, as they shifted some funds into higher yielding U.S. corporate debt securities and U.S. stocks.

Other U.S. securities.—Net foreign purchases of U.S. securities other than U.S. Treasury securities increased to $118.9 billion in the third quarter from $87.1 billion in the second. Net foreign purchases of U.S. stocks rose sharply, and net foreign purchases of U.S. bonds increased to a record level.

Net foreign purchases of U.S. stocks were $46.8 billion, up from $26.3 billion. Net foreign purchases over the first three quarters of 2000 have been exceptionally strong, surpassing the record annual total for 1999 by 36 percent. In the third quarter, net foreign purchases were largest in August, when U.S. stock prices rose considerably as a result of indications that the U.S. economy was growing moderately and that inflation was not accelerating. By area, the increase in net foreign purchases was largely accounted for by a shift to net purchases from large net sales by investment funds in the Caribbean. Transactions by Japanese investors also shifted to net purchases from net sales, and net purchases by Western European investors increased.

Net foreign purchases of U.S. corporate and other bonds increased to a record $72.1 billion from $60.8 billion. Net foreign purchases of U.S. federally sponsored agency bonds increased to a record level. U.S. agencies boosted their debt issuance in international markets, partly as a result of a decline in the risk premium on their debt after a sharp second-quarter rise. New issues sold abroad by U.S. corporations stepped up, partly in response to a decline in long-term interest rates for highly rated borrowers. New issues in euros nearly doubled, surpassing new issues in U.S. dollars for the first time.

U.S. currency flows.—Net U.S. currency shipments from the United States to foreign countries decreased to $0.8 billion in the third quarter from $1.0 billion in the second. Net U.S. currency shipments were restrained by the absence of new or worsening political and economic crises abroad that often boost such shipments.

Direct investment.—Net financial inflows for foreign direct investment in the United States were $64.9 billion in the third quarter, down from $100.3 billion in the second. Net equity capital inflows fell sharply in the absence of the exceptionally large acquisitions of U.S. companies that had occurred in the second quarter, but these inflows remained strong as a result of numerous, large third-quarter acquisitions in manufacturing and in "other" industries, such as telecommunications and insurance. Net intercompany debt inflows slowed, and reinvested earnings decreased, largely as a result of a decline in earnings.

Data Availability

The current and historical estimates that are presented in tables 1–10a of the U.S. international transactions accounts are available as compressed files on BEA's Web site at <www.bea.doc.gov>; click on "Catalog of Products," and look under "International Accounts Products," "Balance of Payments."

The estimates are also available from BEA on the following diskettes:

- U.S. International Transactions. The most recently released annual and quarterly estimates are available as a 1-year subscription (four installments)—product number IDS–0001, price $80. The subscription also includes the diskette of the historical series estimates (see below).
- U.S. International Transactions, Third Quarter 2000. Annual estimates for 1999 and quarterly estimates for 1999:I–2000:III on a single diskette—product number IDN–0276, price $20.
- U.S. International Transactions, Historical Series. All the available historical annual and quarterly estimates on a single diskette—product number IDN–0261, price $20.

To order, call the BEA Order Desk at 1–800–704–0415 (outside the United States, call 202–606–9666).

Tables 1 through 10 follow.