U.S. International Transactions

Fourth Quarter of 2006

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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—decreased to $195.8 billion (preliminary) in the fourth quarter of 2006 from $229.4 billion (revised) in the third quarter (table A, chart 1).[1] The decrease was mostly accounted for by a decrease in the deficit on goods. In addition, the balance on income shifted to a surplus from a deficit, net unilateral current transfers to foreigners decreased, and the surplus on services increased.

In the financial account, net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were $164.6 billion in the fourth quarter, down from $229.7 billion in the third quarter. Net acquisitions by foreign residents slowed, and net acquisitions by U.S. residents picked up.

The statistical discrepancy—errors and omissions in recorded transactions—was a positive $31.8 billion in the fourth quarter, compared with a positive $0.2 billion in the third quarter.

The following are highlights for the fourth quarter:

- Goods imports decreased for the first time in 5 years as a result of a large decline in petroleum and products. Goods exports increased at a more moderate rate than in recent quarters.
- Income receipts increased strongly, and income payments decreased very slightly.
- Net U.S. purchases of foreign securities increased strongly as a result of a step-up in net purchases of foreign stocks and record net purchases of foreign bonds.
- Net foreign purchases of U.S. securities were boosted by a shift to net purchases of U.S. Treasury securities and record net purchases of U.S. corporate bonds.

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

Table A. Summary of U.S. International Transactions

[Millions of dollars, quarters seasonally adjusted]

Line	Corresponding lines in tables 1 and 11 are indicated in ( ) (Credits +; debits –)	2005	2006 p	Change: 2005–2006	2005				2006				Change: 2006:III–IV
					I	II	III	IV	I r	II r	III r	IV p	
	Current account												
1	**Exports of goods and services and income receipts (1)**	**1,749,892**	**2,058,836**	**308,944**	**415,277**	**429,326**	**442,935**	**462,357**	**483,338**	**510,923**	**523,832**	**540,741**	**16,909**
2	Goods, balance of payments basis (3)	894,631	1,023,689	129,058	214,189	222,591	224,947	232,904	243,726	252,057	261,283	266,623	5,340
3	Services (4)	380,614	413,127	32,513	92,391	94,054	95,906	98,261	99,719	102,894	103,664	106,849	3,185
4	Income receipts (12)	474,647	622,020	147,373	108,697	112,681	122,081	131,192	139,893	155,972	158,885	167,269	8,384
5	**Imports of goods and services and income payments (18)**	**–2,455,328**	**–2,831,369**	**–376,041**	**–579,764**	**–599,390**	**–616,886**	**–659,290**	**–677,571**	**–706,776**	**–730,711**	**–716,311**	**14,400**
6	Goods, balance of payments basis (20)	–1,677,371	–1,859,655	–182,284	–397,457	–410,811	–423,693	–445,410	–451,974	–462,937	–480,175	–464,569	15,606
7	Services (21)	–314,604	–342,428	–27,824	–77,231	–77,892	–78,952	–80,529	–83,117	–85,647	–86,171	–87,494	–1,323
8	Income payments (29)	–463,353	–629,286	–165,933	–105,076	–110,687	–114,240	–133,351	–142,480	–158,192	–164,365	–164,248	117
9	**Unilateral current transfers, net (35)**	**–86,072**	**–84,122**	**1,950**	**–27,237**	**–23,194**	**–9,464**	**–26,176**	**–19,545**	**–21,860**	**–22,498**	**–20,220**	**2,278**
	Capital account												
10	**Capital account transactions, net (39)**	**–4,351**	**–3,914**	**437**	**–2,691**	**–589**	**–557**	**–514**	**–1,756**	**–1,003**	**–551**	**–604**	**–53**
	Financial account												
11	**U.S.-owned assets abroad, net (increase/financial outflow (–)) (40)**	**–426,801**	**–1,045,760**	**–618,959**	**–87,391**	**–196,376**	**–132,380**	**–10,656**	**–356,654**	**–211,969**	**–225,888**	**–251,249**	**–25,361**
12	U.S. official reserve assets, net (41)	14,096	2,374	–11,722	5,331	–797	4,766	4,796	513	–560	1,006	1,415	409
13	U.S. Government assets, other than official reserve assets, net (46)	5,539	5,219	–320	2,591	989	1,501	459	1,049	1,765	1,570	835	–735
14	U.S. private assets, net (50)	–446,436	–1,053,353	–606,917	–95,313	–196,568	–138,647	–15,911	–358,216	–213,174	–228,464	–253,499	–25,035
15	**Foreign-owned assets in the United States, net (increase/financial inflow (+)) (55)**	**1,212,250**	**1,764,909**	**552,659**	**224,128**	**346,179**	**388,592**	**253,350**	**527,923**	**365,543**	**455,598**	**415,845**	**–39,753**
16	Foreign official assets in the United States, net (56)	199,495	300,510	101,015	18,965	74,613	33,983	71,934	75,697	75,869	78,434	70,510	–7,924
17	Other foreign assets in the United States, net (63)	1,012,755	1,464,399	451,644	205,163	271,566	354,609	181,416	452,226	289,674	377,164	345,335	–31,829
18	**Statistical discrepancy (sum of above items with sign reversed) (70)**	**10,410**	**141,419**	**131,009**	**57,678**	**44,044**	**–72,240**	**–19,071**	**44,265**	**65,142**	**218**	**31,798**	**31,580**
	Memoranda:												
19	Balance on current account (76)	–791,508	–856,655	–65,147	–191,724	–193,258	–183,415	–223,109	–213,778	–217,713	–229,377	–195,790	33,587
20	Net financial flows (40 and 55)	785,449	719,149	–66,300	136,737	149,803	256,212	242,694	171,269	153,574	229,710	164,596	–65,114

r Revised
p Preliminary

- Both U.S. claims and U.S. liabilities reported by U.S. banks increased strongly.

Selected economic and financial market developments

In the fourth quarter, the U.S. dollar changed little on a nominal, trade-weighted, quarterly average basis against a group of seven major currencies that are widely traded in international markets (table B, chart 2). The U.S. dollar appreciated 2 percent against the Canadian dollar and 1 percent against the Japanese yen, and it depreciated 1 percent against the euro.

In the United States, data releases in the fourth quarter indicated that U.S. economic growth slowed further in the third quarter, following a substantial slowdown in the second quarter. Releases indicated that the U.S. deficit on trade in goods and services increased in August but decreased in September and October. U.S. monetary authorities left the target level for the Federal funds rate at 5.25 percent, and other U.S. short-term interest rates decreased slightly (chart 3). U.S. long-term interest rates decreased, and U.S. and foreign stock markets increased strongly.

In Europe, data releases indicated that euro area economic growth slowed considerably in the third quarter. Among selected countries, economic activity in Germany, France, and Italy slowed, and activity in Spain remained relatively strong. Euro area monetary authorities raised the minimum bid rate on main refinancing operations, a key policy-controlled interest rate, in two steps to 3.5 percent from 3 percent.

In Japan, reports showed that economic growth in the third quarter changed little. Japanese monetary authorities left their key overnight lending rate at 0.25

Chart 1. U.S. Current-Account Balance and Its Components

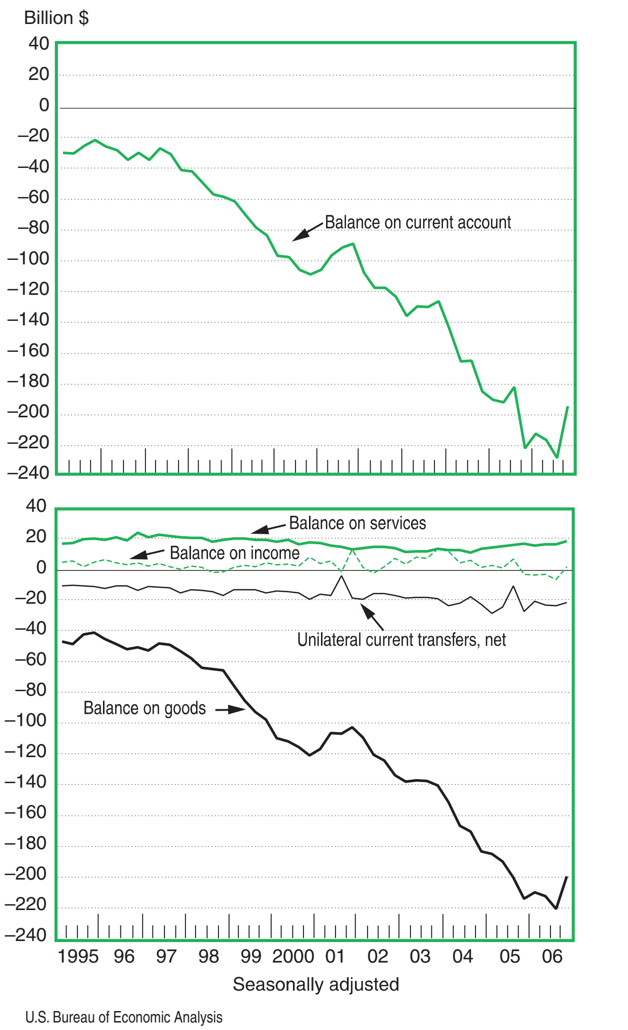
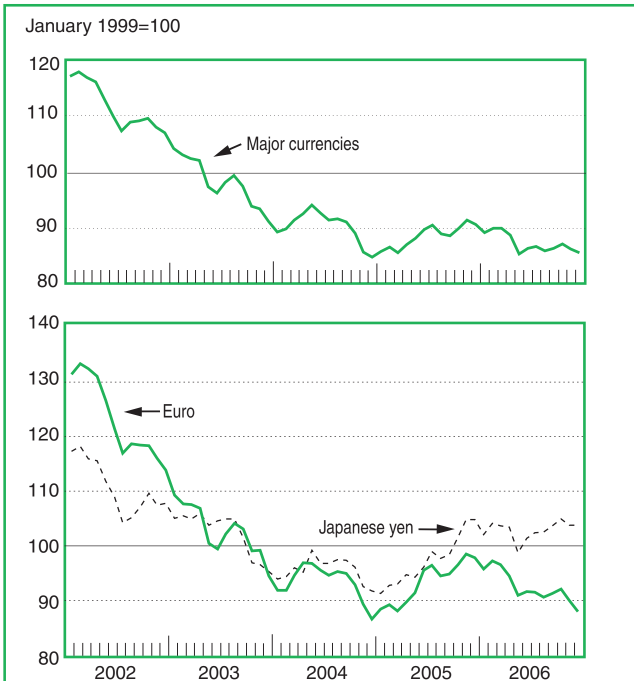


Chart 2. Nominal Indexes of Foreign Currency Price of the U.S. Dollar



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

Data: Federal Reserve Board. Indexes rebased by BEA.

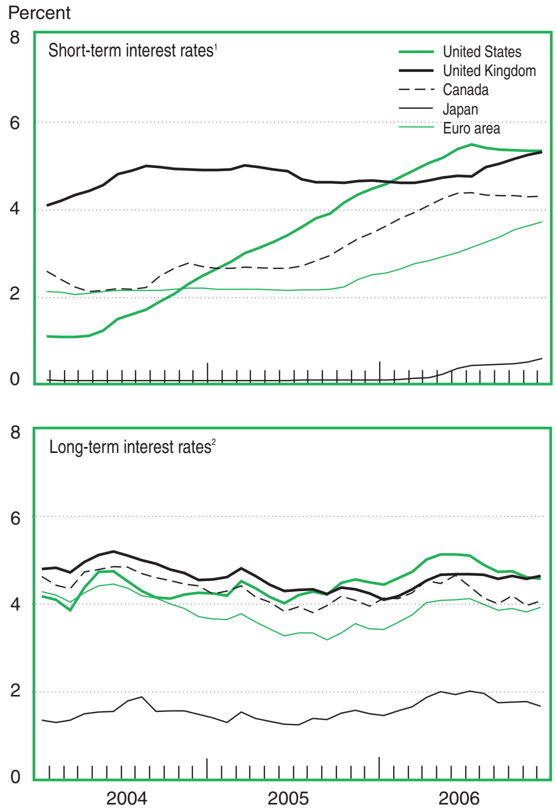
U.S. Bureau of Economic Analysis

Data Availability

The estimates of the U.S. international transactions accounts are presented in tables 1–11 in “U.S. International Transactions in 2006” in this issue. These estimates are also available interactively on BEA’s Web site at <www.bea.gov>. Users may view and download the most recent quarterly estimates for an entire table, or they may select the period, frequency, and lines that they wish to view. The estimates are available in an HTML table, in an Excel file, or as comma-separated values.

percent. In Canada, reported third-quarter economic growth changed little, and Canadian monetary authorities left the target level for the overnight rate at 4.25 percent.

Chart 3. U.S. and Foreign Interest Rates



1. Three-month interest rates.
2. Long-term government bonds, 10-year maturities.
Data: Federal Reserve Board, British Bankers' Association, and foreign monetary authorities.

U.S. Bureau of Economic Analysis

Current Account

Goods and services

The deficit on goods and services decreased $22.8 billion to $178.6 billion in the fourth quarter from $201.4 billion in the third quarter. The deficit on goods decreased $20.9 billion, and the surplus on services increased $1.9 billion.

Goods

The deficit on goods decreased to $197.9 billion in the fourth quarter from $218.9 billion in the third quarter.

Revisions to the Third-Quarter Estimates

The international transactions accounts estimates for the third quarter of 2006 have been revised from the preliminary estimates that were published in the January 2007 Survey of Current Business. In addition, the estimates for the first, second, and third quarters have been revised to ensure that the seasonally adjusted estimates sum to the same annual totals as the unadjusted estimates. The revisions to the estimates for the first and second quarters were small.

For the third quarter, the current-account deficit was revised to $229.4 billion from $225.6 billion. The goods deficit was revised to $218.9 billion from $218.6 billion; the services surplus was revised to $17.5 billion from $18.3 billion; the deficit on income was revised to $5.5 billion from $3.8 billion; and net unilateral current transfers to foreigners were revised to $22.5 billion from $21.5 billion. Net financial inflows were revised to $229.7 billion from $176.4 billion.

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

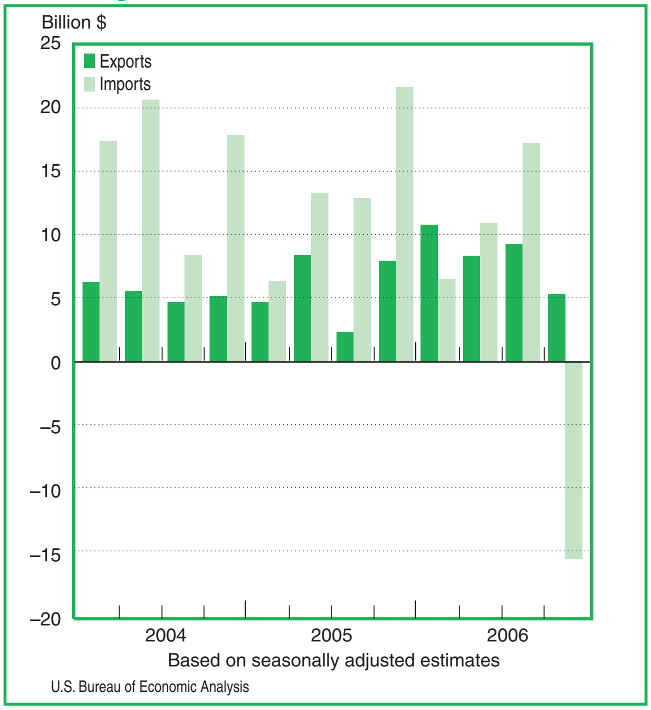
[January 1999=100]

	2005	2006				2005	2006											
	IV	I	II	III	IV	Dec.	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Nominal: [1]																		
Broad [2]	97.7	96.4	94.9	94.4	93.9	97.5	96.2	96.4	96.6	95.9	93.9	95.0	94.8	94.1	94.4	94.6	93.9	93.2
Major currencies [3]	90.7	89.7	86.8	86.3	86.3	90.7	89.2	90.0	90.0	88.8	85.3	86.3	86.7	85.9	86.4	87.2	86.2	85.6
Other important trading partners [4]	106.9	105.1	105.5	105.0	103.7	106.6	105.4	104.8	105.2	105.2	105.0	106.4	105.3	104.8	104.8	104.4	103.8	103.0
Real: [1]																		
Broad [2]	100.1	98.6	98.4	98.0	96.0	99.3	98.4	98.4	99.1	99.1	97.4	98.7	98.6	97.9	97.6	97.1	95.8	95.0
Major currencies [3]	98.0	97.1	94.9	94.7	93.8	97.4	96.3	97.4	97.7	96.9	93.4	94.5	95.2	94.3	94.5	94.9	93.6	92.8
Other important trading partners [4]	102.6	100.3	102.3	101.9	98.5	101.5	100.7	99.6	100.7	101.5	101.9	103.5	102.5	102.1	101.1	99.6	98.4	97.5
Selected currencies: (nominal) [5]																		
Canada	77.2	76.0	73.9	73.8	75.0	76.4	76.2	75.6	76.2	75.3	73.1	73.3	74.3	73.6	73.5	74.3	74.8	75.9
European currencies:																		
Euro area [6]	97.5	96.4	92.2	91.0	89.9	97.7	95.6	97.1	96.4	94.4	90.8	91.5	91.4	90.5	91.1	91.9	89.9	87.8
United Kingdom	94.4	94.1	90.4	88.0	86.1	94.5	93.3	94.4	94.6	93.3	88.3	89.5	89.5	87.1	87.6	87.9	86.3	84.0
Switzerland	93.9	93.5	89.8	89.4	89.1	94.2	92.2	94.2	94.2	92.6	88.0	88.9	89.3	88.9	89.9	90.9	89.2	87.3
Japan	103.5	103.1	101.0	102.7	104.0	104.6	101.9	104.0	103.5	103.3	98.6	101.2	102.2	102.3	103.5	104.7	103.6	103.6
Mexico	105.8	104.6	110.4	108.1	107.5	104.9	104.1	103.5	106.1	109.1	109.5	112.5	108.4	107.4	108.5	107.5	107.8	107.2
Brazil	148.7	145.0	144.3	143.5	142.2	150.9	149.9	142.8	142.4	140.7	143.5	148.8	144.7	142.5	143.4	141.9	142.6	142.0

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, the 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 the euro area countries, Australia, Canada, Japan, Sweden, Switzerland, the United Kingdom, 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, the 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, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

The decrease was largely accounted for by a decrease in imports, which resulted from a substantial decline in imports of petroleum and products. Exports increased, but at a more moderate rate than in the previous four quarters (chart 4).

Chart 4. U.S. Trade in Goods: Change in Value From Preceding Quarter



Exports. Exports increased $5.3 billion, or 2.0 percent, to $266.6 billion (table C). Real exports increased 2.0 percent, and export prices were virtually unchanged.[2] More than three-fourths of the increase in value was accounted for by capital goods.

Capital goods increased $4.1 billion. The increase was mostly attributable to a large rise in civilian aircraft, engines, and parts. Aircraft deliveries were primarily to Singapore and Thailand. Among other capital goods, oil drilling, mining, and construction machinery increased significantly for the third consecutive quarter. Scientific, medical, and hospital equipment and computers, peripherals, and parts also increased. In contrast, semiconductors decreased the most in 4 years.

Consumer goods increased $1.2 billion as a result of increases in durable goods, mainly household and kitchen appliances and recreational equipment, and in nondurable goods, mainly medical, dental, and pharmaceutical preparations.

Nonagricultural industrial supplies and materials increased $0.2 billion, substantially less than in the previous three quarters. The slowdown mainly resulted from downturns in chemicals and in energy products. In contrast, nonferrous metals picked up as a result of a large increase in "other" precious metals.

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 (2000) dollars. Price indexes (2000 = 100) are also calculated using a chain-type Fisher formula.

Table C. U.S. Trade in Goods in Current and Chained (2000) Dollars and Percent Changes From Previous Period

[Balance-of-payments basis, millions of dollars, quarters seasonally adjusted]

	Current dollars								
	2005	2006 p	2005			2006			
			II	III	IV	I r	II r	III r	IV p
Exports	**894,631**	**1,023,689**	**222,591**	**224,947**	**232,904**	**243,726**	**252,057**	**261,283**	**266,623**
Agricultural products	64,883	72,818	16,511	16,291	16,471	17,234	18,124	18,796	18,664
Nonagricultural products	829,748	950,871	206,080	208,656	216,433	226,492	233,933	242,487	247,959
Imports	**1,677,371**	**1,859,655**	**410,811**	**423,693**	**445,410**	**451,974**	**462,937**	**480,175**	**464,569**
Petroleum and products	251,856	302,580	58,261	67,284	73,154	72,334	79,497	84,382	66,367
Nonpetroleum products	1,425,515	1,557,075	352,550	356,409	372,256	379,640	383,440	395,793	398,202

	Chained (2000) dollars [1]								
	2005	2006 p	2005			2006			
			II	III	IV	I r	II r	III r	IV p
Exports	**831,225**	**920,940**	**207,059**	**208,582**	**214,757**	**223,209**	**227,382**	**232,694**	**237,420**
Agricultural products	53,533	57,920	13,495	13,315	13,521	14,137	14,775	14,857	14,160
Nonagricultural products	779,150	864,861	193,899	195,651	201,665	209,507	213,005	218,278	223,877
Imports	**1,530,141**	**1,623,869**	**378,834**	**380,393**	**394,902**	**402,359**	**401,865**	**411,024**	**408,488**
Petroleum and products	140,986	138,096	34,543	33,409	36,377	36,033	34,252	34,842	32,951
Nonpetroleum products	1,391,615	1,498,729	345,238	348,849	358,867	367,640	370,645	379,486	380,832

	Percent change from previous period (current dollars)								
	2005	2006 p	2005			2006			
			II	III	IV	I r	II r	III r	IV p
Exports	**10.8**	**14.4**	**3.9**	**1.1**	**3.5**	**4.6**	**3.4**	**3.7**	**2.0**
Agricultural products	3.1	12.2	5.8	–1.3	1.1	4.6	5.2	3.7	–0.7
Nonagricultural products	11.4	14.6	3.8	1.3	3.7	4.6	3.3	3.7	2.3
Imports	**13.9**	**10.9**	**3.4**	**3.1**	**5.1**	**1.5**	**2.4**	**3.7**	**–3.3**
Petroleum and products	39.6	20.1	9.6	15.5	8.7	–1.1	9.9	6.1	–21.3
Nonpetroleum products	10.3	9.2	2.4	1.1	4.4	2.0	1.0	3.2	0.6

	Percent change from previous period (chained (2000) dollars)								
	2005	2006 p	2005			2006			
			II	III	IV	I r	II r	III r	IV p
Exports	**7.5**	**10.8**	**3.2**	**0.7**	**3.0**	**3.9**	**1.9**	**2.3**	**2.0**
Agricultural products	5.2	8.2	2.3	–1.3	1.5	4.6	4.5	0.6	–4.7
Nonagricultural products	7.7	11.0	3.2	0.9	3.1	3.9	1.7	2.5	2.6
Imports	**7.0**	**6.1**	**0.9**	**0.4**	**3.8**	**1.9**	**–0.1**	**2.3**	**–0.6**
Petroleum and products	2.3	–2.0	–5.8	–3.3	8.9	–0.9	–4.9	1.7	–5.4
Nonpetroleum products	7.7	7.7	2.0	1.0	2.9	2.4	0.8	2.4	0.4

p Preliminary
r Revised
1. Because chain indexes use weights of more than one period, the corresponding chained dollar estimates are usually not additive.
NOTE. Percent changes in quarterly estimates are not annualized and are expressed at quarterly rates.

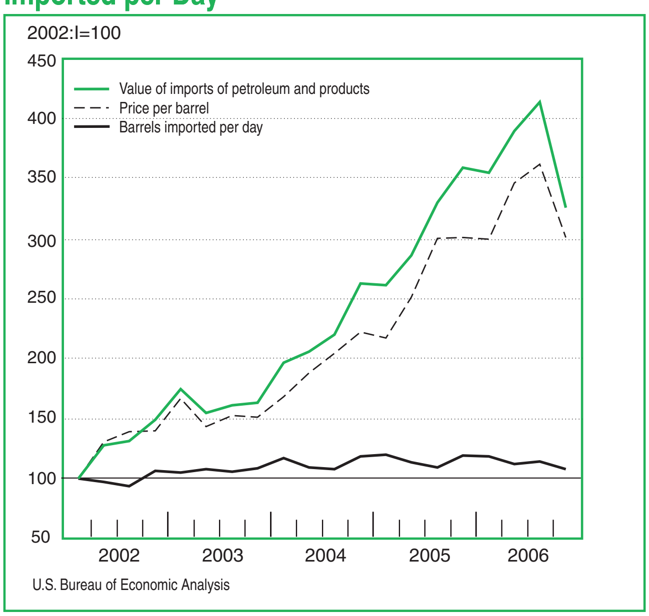
Automotive vehicles, parts, and engines decreased $0.5 billion after a strong third-quarter increase. The decrease was more than accounted for by a decline in passenger cars, mostly to Germany, Saudi Arabia, and Canada.

Agricultural products decreased $0.1 billion. Soybeans decreased sharply after a record third-quarter increase. In contrast, corn increased substantially for the third consecutive quarter. Corn prices have increased in recent quarters, partly in response to a rapid expansion in the production of ethanol.

Imports. Imports decreased $15.6 billion, or 3.3 percent, to $464.6 billion in the fourth quarter (table C). Real imports decreased 0.6 percent, and import prices decreased 2.7 percent. The decrease in value, the first decrease in 5 years, was more than accounted for by a substantial decline in petroleum and products.

Petroleum and products decreased $18.0 billion, or 21 percent, after increasing strongly in recent years (chart 5). The average price per barrel fell 17 percent, to $55.34, in the fourth quarter from a record high in the third quarter. The sharp decline may have partly resulted both from the relatively mild weather at the start of winter that gave rise to unexpectedly weak demand for heating fuel and from the recent slowdown in U.S. economic growth. The average number of barrels imported daily fell 5 percent, to 13.09 million. U.S. domestic production and consumption of petroleum increased slightly, while U.S. inventories remained at high levels. The largest decreases in petroleum imports were from members of OPEC—particularly Venezuela, Algeria, Iraq, and Saudi Arabia—and from Mexico and Russia.

Chart 5. Imports of Petroleum and Products: Indexes of Value, Price per Barrel, and Barrels Imported per Day



Nonpetroleum industrial supplies and materials decreased $4.0 billion. The decrease, the largest in several years, was mostly attributable to decreases in chemicals, building materials, nonferrous metals, and iron and steel products. The decrease in building materials may have partly reflected the recent slowdown in U.S. residential construction activity. A substantial fall in U.S. motor vehicle production in the fourth quarter may have contributed to the decline in imports of iron and steel products.

Capital goods decreased $0.7 billion after increasing moderately strongly in the previous three quarters. The downturn partly reflected a substantial decline in U.S. private fixed investment in the fourth quarter. The largest decreases in imports were in computers, peripherals, and parts, in electric generating machinery, and in semiconductors, all of which had grown strongly in the third quarter. In contrast, civilian aircraft, engines, and parts stepped up, mostly as a result of higher imports of aircraft from France and Germany.

Consumer goods increased $5.0 billion. In the last two quarters, consumer goods have grown much more strongly than in the recent preceding quarters. The fourth-quarter increase was mostly attributable to a rise in durable goods, particularly in toys and sporting goods and home entertainment equipment from China and in household and kitchen appliances from the Republic of Korea and Ireland. The largest increases in nondurable goods were in textile apparel and medicinal products.

Automotive vehicles, parts, and engines increased $1.3 billion as a result of rebounds in passenger cars and in other vehicles. Foods, feeds, and beverages increased $0.3 billion, mostly because of a rise in wine, beer, and related products from France.

Balances by area. The deficits on goods with all the major areas except Canada decreased. Lower imports of petroleum contributed to declines in the deficits with Latin America and Other Western Hemisphere of $5.6 billion, with Africa of $4.5 billion, with Europe of $4.3 billion, and with the Middle East of $3.3 billion. The deficit with Asia and Pacific decreased $3.3 billion despite increases in the deficits with Japan and China.

Services

The surplus on services increased to $19.4 billion in the fourth quarter from $17.5 billion in the third quarter, as services receipts increased much more than services payments. The services surplus has risen considerably in the last nine quarters, partly as a result of an increase in the surplus on "other" private services (such as business, professional, and technical services, insurance services, and financial services).

In the fourth quarter, "other" private services receipts increased $1.8 billion to $46.5 billion. The increase was more than accounted for by a rise in receipts for unaffiliated services—mostly for financial services and business, professional, and technical services. "Other" private services payments increased $1.2 billion to $30.1 billion. The increase resulted from increases in payments for unaffiliated services—mostly for insurance services, financial services, and business, professional, and technical services—and for affiliated services.

Travel receipts increased $0.8 billion to $22.1 billion. The increase was mostly accounted for by an increase in receipts from overseas travelers, resulting from a pickup in the number of overseas visitors to the United States. Travel payments increased $0.2 billion to $18.6 billion. The increase was more than accounted for by a strong rise in payments to Mexico, where the travel industry is recovering from recent hurricanes and other disruptions in travel conditions. Passenger fare receipts increased $0.1 billion to $5.7 billion, and passenger fare payments increased $0.3 billion to $6.9 billion.

"Other" transportation receipts were virtually unchanged at $12.2 billion. Receipts for both freight and port services were virtually unchanged. "Other" transportation payments decreased $0.1 billion to $16.5 billion. A decrease in payments for port services, which resulted from a decline in airport services, was partly offset by an increase in payments for freight services.

Income

The balance on income shifted to a surplus of $3.0 billion in the fourth quarter from a deficit of $5.5 billion in the third quarter. The shift resulted from a large increase in the surplus on direct investment income, as direct investment receipts increased and payments decreased.

Receipts of income on U.S. direct investment abroad increased $4.2 billion to $78.3 billion. The increase resulted from higher earnings by foreign affiliates in all major industries, but the largest increases were in holding companies and in finance and insurance. By area, earnings of European affiliates accounted for most of the total increase.

Payments of income on foreign direct investment in the United States decreased $5.4 billion to $34.4 billion. The large decline resulted from decreases in the earnings of U.S. affiliates in finance and insurance, in wholesale trade, and in "other" industries. Earnings of finance and insurance affiliates fell largely as a result of a drop in earnings of depository institutions owned by European parent companies. Wholesale trade earnings were lowered by reduced earnings of petroleum wholesale trade affiliates.

Both receipts and payments of income on financial assets other than direct investment increased as a result of higher average positions, in contrast to recent periods when income was boosted mainly by higher average interest rates. In the fourth quarter, receipts of "other" private income increased $4.0 billion to $87.6 billion. The increase reflected increases in interest receipts on bank claims and in interest and dividends on U.S. holdings of foreign securities. U.S. Government income receipts increased $0.2 billion to $0.7 billion.

Payments of "other" private income increased $4.2 billion to $89.0 billion. The increase was attributable to increases in interest payments on foreign holdings of U.S. securities and on bank and nonbank liabilities. Payments of income on U.S. Government liabilities increased $1.0 billion to $38.4 billion.

Unilateral current transfers

Net unilateral current transfers to foreigners were $20.2 billion in the fourth quarter, down from $22.5 billion in the third quarter. The decrease resulted from decreases in private remittances and other transfers and in U.S. Government grants.

Capital Account

Net capital account payments (outflows) were virtually unchanged at $0.6 billion in the fourth quarter.

Financial Account

Net financial inflows—net acquisitions by foreign residents of assets in the United States less net acquisitions by U.S. residents of assets abroad—were $164.6 billion in the fourth quarter, down from $229.7 billion in the third quarter. Net acquisitions by foreign residents slowed, and net acquisitions by U.S. residents picked up.

U.S.-owned assets abroad

Net U.S.-owned assets abroad increased $251.2 billion in the fourth quarter after an increase of $225.9 billion in the third quarter. The pickup was attributable to a substantial pickup in net U.S. purchases of foreign securities and to a larger increase in claims reported by U.S. banks in the fourth quarter than in the third quarter. In contrast, claims reported by U.S. nonbanking concerns decreased after a third-quarter increase.

U.S. official reserve assets. U.S. official reserve assets decreased $1.4 billion in the fourth quarter after a decrease of $1.0 billion in the third quarter. The fourth-quarter decrease resulted from a decrease in the U.S. reserve position in the International Monetary Fund (IMF), mostly reflecting the repayment of U.S. dollars to the IMF by Indonesia, Uruguay, and Turkey.

Claims reported by banks and by nonbanks. U.S. claims on foreigners reported by U.S. banks and securities brokers increased $120.7 billion in the fourth quarter after an increase of $84.6 billion in the third quarter (chart 6). As frequently occurs, the direction and the size of the change in claims was very similar to the direction and the size of the change in liabilities for these reporters.

Banks' own claims denominated in dollars increased $104.9 billion after an increase of $45.1 billion. In recent quarters, interbank lending has been boosted by heightened global merger and acquisition activity, and activity in the fourth quarter was the strongest of the year. Lending by foreign-owned banks in the United States—mostly to their own offices in Europe, Caribbean financial centers, and Japan—was substantial. In addition, brokers and dealers lent funds to foreign nonbanks, mostly in the United Kingdom.

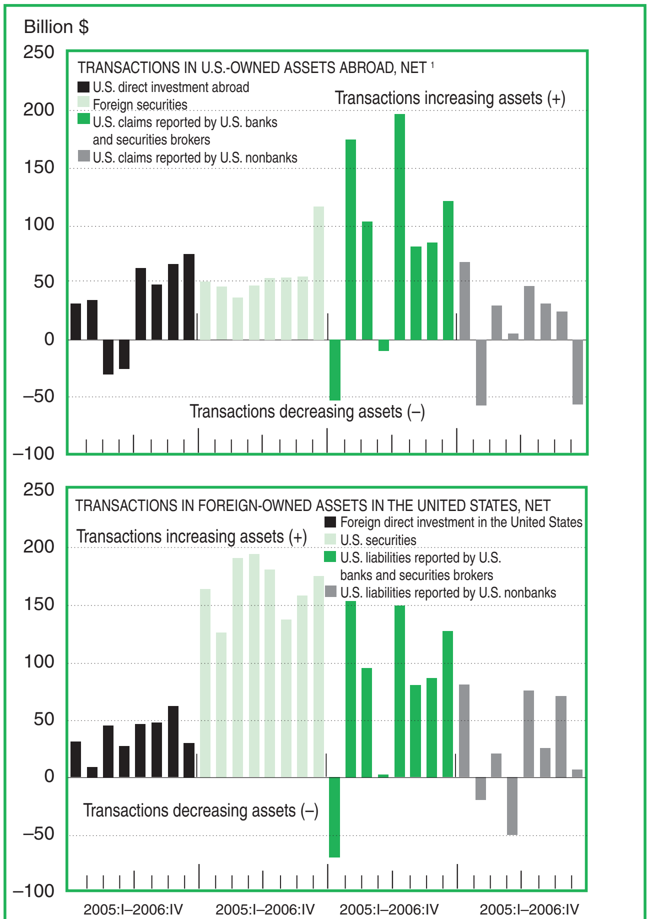
Banks' domestic customers' claims denominated in dollars increased $20.4 billion after an increase of $49.3 billion. The fourth-quarter increase largely reflected an increase in negotiable certificates of deposit that was partly offset by a decrease in holdings of commercial paper.

Claims reported by U.S. nonbanking concerns decreased $57.1 billion after an increase of $24.1 billion. The decrease was mostly accounted for by a decrease in deposits in the United Kingdom.

Foreign securities. Net U.S. purchases of foreign securities were a record $115.7 billion in the fourth quarter, up substantially from $54.4 billion in the third quarter. Net U.S. purchases of foreign stocks increased strongly, and net U.S. purchases of foreign bonds increased to a record level (chart 7).

Net U.S. purchases of foreign stocks were $60.2 billion, up from $10.3 billion. After weakening in the previous two quarters, net U.S. purchases stepped up in the fourth quarter, as foreign stock markets outperformed the U.S. stock market for the first time in three quarters. Net U.S. purchases were boosted by exchanges of stock related to foreign acquisitions of U.S. companies. Net U.S. purchases of stocks from Europe

Chart 6. Selected Financial-Account Transactions, 2005:I–2006:IV



1. Under balance-of-payments concepts, transactions that increase U.S.-owned assets abroad are shown as negative amounts in tables 1–11, and transactions that decrease U.S.-owned assets abroad are shown as positive amounts.

NOTE. Excludes financial-account transactions in U.S. official reserve assets, in other U.S. Government assets, in foreign official assets in the United States, and in U.S. currency.

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Chart 7. Net U.S. Purchases of Foreign Securities, 2005:I–2006:IV [1]

1. Net U.S. purchases of foreign securities are shown as positive amounts in this chart, but as negative amounts in tables 1–11 under balance-of-payments concepts.

U.S. Bureau of Economic Analysis

increased strongly as a result of a rise in net purchases from the United Kingdom, a shift from net sales to net purchases from France, and a decrease in net sales to the Netherlands. Transactions in Asia shifted to large net U.S. purchases from net sales, mainly as a result of increases in net purchases from Hong Kong and Japan.

Net U.S. purchases of foreign bonds were a record $55.5 billion, up from the previous record of $44.1 billion in the third quarter. After performing strongly in the third quarter, global bond markets were mixed in the fourth quarter, as emerging markets far outperformed other bond markets. Net U.S. purchases of bonds from Europe, mostly from the United Kingdom where the bonds of many foreign countries are traded, were very strong for the third consecutive quarter. In addition, net U.S. purchases from Latin America and from Caribbean financial centers increased. In contrast, net U.S. sales of bonds to Asia picked up.

Direct investment. U.S. direct investment abroad increased $74.2 billion in the fourth quarter after an increase of $65.4 billion in the third quarter. The pickup was mostly accounted for by net equity capital investment abroad, which was the strongest in 2 years. Net equity capital investment was boosted by a rise in the value of U.S. acquisitions, including acquisitions of a few moderately sized foreign technology companies. Reinvested earnings also strengthened. In contrast, net intercompany debt investment abroad shifted from an increase to a decrease.

Foreign-owned assets in the United States

Net foreign-owned assets in the United States increased $415.8 billion in the fourth quarter after an increase of $455.6 billion in the third quarter. A much smaller increase in liabilities reported by U.S. nonbanking concerns in the fourth quarter than in the third quarter and a slowdown in foreign direct investment in the United States were partly offset by a larger increase in liabilities reported by U.S. banks and a shift to net purchases by foreigners of U.S. Treasury securities.

Foreign official assets. Foreign official assets in the United States increased $70.5 billion in the fourth quarter after an increase of $78.4 billion in the third quarter. Assets of Asian countries increased much less in the fourth quarter than in the third quarter. In contrast, assets of European countries increased in the fourth quarter after decreasing in the third quarter.

Liabilities reported by banks and by nonbanks. U.S. liabilities reported by U.S. banks and securities brokers, excluding U.S. Treasury securities, increased $126.7 billion in the fourth quarter after an increase of $86.0 billion in the third quarter.

Banks' own liabilities denominated in dollars increased $85.4 billion after an increase of $42.6 billion. The fourth-quarter increase resulted from substantial borrowing by U.S.-owned and foreign-owned banks. The borrowing was in the form of deposits and brokerage balances, mostly from foreign banks in Caribbean financial centers and Asia. In contrast, brokers and dealers reduced their borrowing, mainly through a reduction in repurchase agreements with banks in Europe.

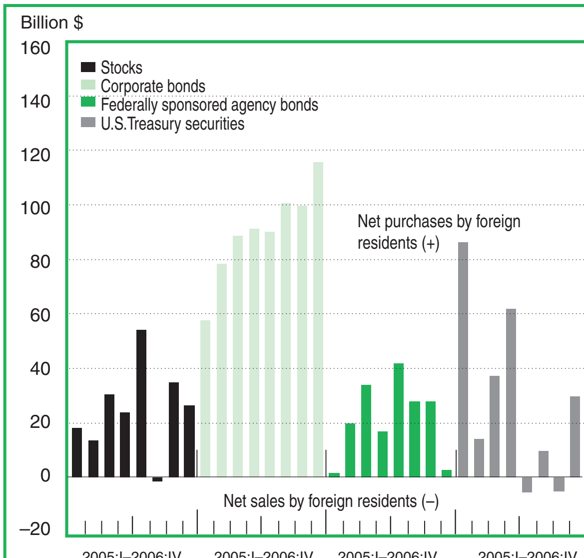
Banks' customers' liabilities denominated in dollars increased $21.4 billion after an increase of $39.6 billion. The fourth-quarter increase was attributable to increases in negotiable certificates of deposits and other short-term instruments and in "other" liabilities.

U.S. liabilities reported by U.S. nonbanking concerns increased $6.1 billion after an increase of $70.3 billion.[3] The fourth-quarter increase was more than accounted for by an increase in "other" liabilities, mostly to the United Kingdom.

U.S. Treasury securities. Transactions in U.S. Treasury securities shifted to net purchases by foreigners of $29.7 billion in the fourth quarter from net sales by foreigners of $4.9 billion in the third quarter (chart 8). Transactions by both the United Kingdom and

3. Liabilities reported by U.S. nonbanking concerns include a special adjustment for the refund of duties on U.S. imports of softwood lumber paid by Canadian residents in past quarters and the return of a portion of those refunds to U.S. residents. The adjustment increased U.S. net payments (outflows) to Canada by $5.0 billion.

Chart 8. Transactions in U.S. Securities, 2005:I–2006:IV



NOTE. Excludes transactions in foreign official assets.
U.S. Bureau of Economic Analysis

Caribbean financial centers shifted to net purchases from net sales, and net purchases by Asia increased.

Other U.S. securities. Net purchases by foreigners of U.S. securities other than U.S. Treasury securities were $144.9 billion in the fourth quarter, down from $163.0 billion in the third quarter. The decrease was attributable to decreases in net purchases of federally sponsored agency bonds and of U.S. stocks. In contrast, net purchases of U.S. corporate bonds increased to a record level.

Net purchases by foreigners of U.S. stocks were $26.4 billion, down from $35.0 billion. U.S. stock prices increased strongly in the fourth quarter as U.S. corporate earnings remained strong and investors' confidence may have been boosted by the decline in oil prices. The decrease in net purchases by foreigners was more than accounted for by a decrease in net purchases from Europe. In contrast, net purchases from Caribbean financial centers increased.

Net purchases by foreigners of U.S. corporate bonds were a record $115.7 billion, up from $99.8 billion. Financial market conditions that have encouraged foreigners to invest heavily in U.S. corporate bonds include the higher yields available on U.S. corporate bonds than on foreign bonds, healthy U.S. corporate balance sheets, low U.S. bond default rates, and in the fourth quarter, moderating U.S. inflation. In the fourth quarter, prices of non-investment-grade bonds increased, and prices of investment-grade bonds changed little. The increase in net purchases by foreigners resulted from increases in net purchases from Asia, Caribbean financial centers, and Europe.

Net purchases by foreigners of U.S. federally sponsored agency bonds were $2.9 billion, down markedly from $28.1 billion. Transactions from Asia and Europe shifted to net sales from net purchases, and net purchases from Caribbean financial centers decreased.

Direct investment. Foreign direct investment in the United States increased $29.4 billion in the fourth quarter after an increase of $61.6 billion in the third quarter. The slowdown mainly reflected a shift from an increase to a decrease in net intercompany debt investment in the United States. In addition, reinvested earnings slowed considerably as a result of an increase in the share of earnings that were distributed. In contrast, net equity capital investment in the United States increased, partly as a result of a few large foreign acquisitions of U.S. companies in manufacturing (including computers and electronic products and chemicals) and in finance and insurance.