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INTERNATIONAL ECONOMIC COMPARISONS

Industrial economies revived in the third quarter after a rather pallid performance earlier this year. U.S. real gross national product (GNP) rose at an annual rate of 2.4 percent during the third quarter of 1986. Preliminary estimates show a real economic growth of 2.4 percent in France, 2.6 percent in Japan, 3.1 percent in the United Kingdom, and 4.0 percent in West Germany. The United States-Japan agreement to maintain the current yen-dollar exchange rate, and extensive trade negotiations between European and Japanese officials have improved prospects for the international coordination of economic policies.

The moderate rate of U.S. growth in the third quarter comes as a relief after the second quarter's alarmingly low 1.1-percent rate, but it is unlikely that the economy can live up to the officially projected 3.2-percent expansion for the full year of 1986. Signs of strength (pickup in factory orders, subsiding trade gap, the lowest quarterly discomfort index—the sum of unemployment and inflation—in 17 years) are offset by signs of weakness (record number of bank failures, sagging business and residential construction, unfavorable conditions facing the automobile and oil and gas industries). Some analysts say that owing mainly to the prostrating effects of the trade gap, the economy will lapse into zero growth during the fourth quarter. The deficit has purportedly subtracted more than a full percentage point from the U.S. economic growth during the third quarter.

There are several views on where we are with the trade deficit. One view, approximating the administration's public assessment, is that the dollar has fallen far enough, the gap is now improving, and it is only a matter of time before it decisively narrows. The speed of this will depend on the strength of economic growth in the industrialized world and on the growth differential. The expectation is that the economies of other industrialized powers will grow faster than the U.S. economy, making room for U.S. exports and relieving the United States from providing a disproportionate share of incremental demand to the world economy. A second view holds that the gap is not improving but we are not far from having created the conditions for a decisive turnabout. The dollar has fallen low enough against the European currencies and the yen, and now it needs to fall against the currencies of the newly industrialized countries (NIC's). Another view is that the gap is far from improvement. The dollar still has to fall against all currencies in order to correct U.S. handicaps in international competitiveness. This might bring the economy into the inflationary danger zone, the supporters of this view maintain, but the entailed risk is smaller than the one associated with a new recession.

Some say that the policy of leaning primarily on exchange rate adjustments in attempting to correct the deficit has failed altogether. Proponents of this view contend that policymakers have fallen victim to the textbook economic dogma which swears by the short-term efficiency of price shifts (i.e., shifts in the external price of the dollar) in bringing about market equilibrium. They argue that the underlying causes of high-import and low-export levels are not responsive to exchange rate policy; that countries which depend on dollar earnings for prosperity are willing to engage in fiscal policies that will prevent appreciation of their currencies against the dollar; that individual foreign suppliers are ready to make great financial sacrifices to preserve their share of U.S. markets; and, finally, that measures aimed at boosting exports have failed, partly because U.S. banks, intimidated by the debt crisis and beset by other problems, are not willing to finance exports to the natural U.S. markets in the Western Hemisphere.

Still another view, popular among many U.S. economists and almost all European economists, is that the trade deficit is an inextricable reflection of the budget deficit. The Federal deficit tends to grow because of low economic growth, and growth remains low because of the large trade deficit. This external-internal deficit spiral is manageable only to the extent the Federal deficit is reduced. Without that, exchange rate policy remains ineffective and other medicine might be worse than the disease.

The prestigious French newspaper *Le Monde* organizes an international forum every year to rank industrial nations according to their competitiveness on world markets. The United States slipped to second place behind Japan this year. Switzerland ranked third, and West Germany was fourth. The United Kingdom came in 14th, followed by France. The elaborate ranking system compares countries on 340 criteria grouped in the following broad categories: dynamism of the national economy and domestic markets; availability of capital, natural and human resources; foreign commercial relations; limits placed on state intervention in the economy; industrial productivity; technological progress; public consensus; and socio-political stability.

Industrial Production

U.S. industrial production remained unchanged in October, following a slim 0.1-percent increase in September and a similar gain August. Output of consumer goods declined by 0.4 percent and that of business equipment remained unchanged. During the third quarter, output of business equipment increased by only 1.0 percent.

The annual rates of industrial growth in the major industrialized countries, calculated by comparing the latest available monthly output with the output in the corresponding month of the previous year, were as follows: Canada, -0.3 percent; France, 1.5 percent; Italy, 3.1 percent; Japan, 0.6 percent; the United Kingdom, 2.1 percent; the United States, 0.8 percent; and West Germany, 3.0 percent.

Investment

Foreign companies will invest $34.2 billion through their majority-owned U.S. affiliates in 1986, according to the Commerce Department. In 1982, foreign-owned U.S. firms spent $44.8 billion. Since then, annual capital spending in this category has averaged below $36.0 billion. The surveyed firms cited depressed oil prices and sluggish economic growth in the countries where they are headquartered. Despite the predominantly downbeat surveys about the U.S. investment outlook, the investment firm of Salomon Bros. maintains that the weak capital spending on technology-related projects has hit bottom and is about to rebound, even if the economy remains sluggish.

Privatization of capital ownership is progressing the world over. France's current, conservative Government is trying to prevent future "renationalization" by increasing the number of private shareholders. This means breaking historical habits, since private savings in France have traditionally gone into bonds and shares in mutual funds. Stock ownership in France has been much less widespread than in other major industrial countries. The West German Government that inherited its ownership in Volkswagen from the Third Reich wants to get rid of its remaining 20-percent share in Europe's largest carmaker before the end of this year, according to press reports. It also wants to sell its shares in the federal railroad system and in the energy sector.

Encouraged by the World Bank and the International Monetary Fund, privatization has become a popular policy goal in the developing countries. According to Mr. De La Giroday, French banking consultant who prepares denationalization plans for developing countries under the aegis of the United Nations, the benefits of privatization may have already contributed to the relative stability of the world economy. But "the trend of privatization would suffer a drastic turnabout, not only in the developing but also in the industrialized countries, if a new recession ensues," he warns.

Employment

The rate of unemployment in the United States (on a total labor-force basis, including military personnel) remained 6.9 percent in October, the same as in September. The national statistical offices of other countries reported the following unemployment rates: the September rate was 9.5 percent in Canada, 10.8 percent in France, 11.6 percent in the United Kingdom, and 8.8 percent in West Germany. The August rate was 13.4 percent in Italy and 2.9 percent in Japan. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the back of this issue.)

External Balances

The deficit in U.S. merchandise trade improved from $13.3 billion in August to $12.6 billion in September, reaching the lowest level since April and the third lowest for the year. Imports subsided but exports remained flat. Farm trade showed a slight surplus for the second consecutive month, and the deficit in manufacturing trade dropped from $12.1 billion in August to $10.5 billion in September. The U.S. deficit in trade with Japan and the European Community decreased for the second consecutive month. The deficit with Canada also improved in September. However, it worsened with Mexico, partly as a result of a sharp increase in crude oil imports from August to September. Analysts are divided over whether this is a sign that energy-guzzling habits are back, users are simply building up their stocks for the winter, or imports are being substituted for domestic oil and gas. (U.S. production has been declining since December 1985.)

The United States is headed for its first annual deficit in high-tech trade in 1986, according to a study prepared for Congress. As defined in the study, the high-tech sector comprises about 30.0 percent of U.S. manufacturing trade. The study suggests the possibility of a fundamental erosion in U.S. technological and competitive advantage vis-a-vis Japan.

Prices

The U.S. Consumer Price Index advanced 0.3 percent in September, following another mild increase of 0.2 percent in August. Economists at Manufacturers Hanover say that this index (seasonally adjusted for all urban consumers) runs contrary to the perception of price rises in daily and weekly shopping. The U.S. Consumer Price Index quoted above uses large weights for the only occasional big-ticket purchases such as cars and household furnishings. For a selection of 36 small-ticket items commonly purchased on a daily or weekly basis, prices increased by a whopping 23.9 percent from September 1984 to September 1986.

The price level declined by 0.9 percent in West Germany during the 1-year period ending in October. The inflation rate during the 1-year period ending in September was 4.1 percent in Canada, 2.3 percent in France, 3.0 percent in the United Kingdom, and 1.8 percent in the United States. The rate during the 1-year period ending in August was 5.9 percent in Italy and 0.1 percent in Japan.

Forecasts

Economic growth

Many private economists believe that the 4.0-percent annual real growth rate projected by the administration for the rest of the decade is not realistic for 1987. They argue, however, that it is achievable later, provided that expansionary economic policies prevail and the recently introduced tax reform stimulates productive investment. Most economists believe that there will be an extended period in this century when growth rates will be at or in excess of 4.0 percent. Wright Investors' Service, which has one of the private sector's most extensive economic data bases, offers statistics to support this view. The average growth rate exceeded 4.0 percent during the first decade and then again at mid-century during the 20 years from 1940 to 1960. Given that the fundamentally favorable conditions for economic growth have not changed in the United States over the past 86 years, there is no reason to think that the long-term growth pattern will be interrupted.

The Japanese Government's announcement in September that it would inject a $22.6 billion fiscal stimulus into the country's ailing economy was followed this month by a reduction in its central bank's discount rate to the lowest level since World War II. Most private analysts agree that its stimulative measures can do little to induce the 4.0-percent growth currently sought by Japan. They say that the monetary move came too late and the fiscal component of the package is too austere to accelerate growth beyond the already forecast 2.0 to 2.5 percent for the current fiscal year. But economists find the opening maneuver of Japan's growth strategy promising for the longer run. Conventional economic wisdom holds that austere fiscal policy (relatively high tax rates and low government expenditures) combined with stimulative monetary policy tend to channel resources into investment by keeping disposable incomes down. Moreover, projections show that investment is shifting in the desired direction. Capital spending in the heavily export-oriented manufacturing is forecast to fall by 6.0 percent in the current fiscal year that will end in March 1987. But capital spending in the nonmanufacturing sector, with the exception of electric utilities, is forecast to rise 13.3 percent over the same period. Investment in electric utilities is expected to increase by 15.8 percent. (Japan's plans call for rechanneling much of the country's investment resources from the export sector to infrastructure development.) Smaller companies that are traditionally closer to domestic than to world markets are expected to expand faster than large companies which have been credited for Japan's great successes in world markets. Shifting the island economy from producing for export to satisfying domestic needs is viewed by economists as a multiyear process, just as is the elimination of the U.S. trade deficit.

Trade deficit

Official forecasts for the 1986 U.S. merchandise trade balance range from $158.0 billion to $166.6 billion; for the 1987 deficit, from $133.6 billion to $164.4 billion. (This compares with $148.5 billion in 1985.) Private analysts predict that the deficit will be $160 billion to $170 billion in 1986. Private projections for 1987 vary greatly, most of them calling for a decline in the deficit compared with its level in 1986. The Institute for International Economics, for example, projects declines by $30 billion to $40 billion for each of the next 2 years. A notable exception from the cautiously optimistic assessments for 1987 is provided by Wharton Econometric Forecasting Associates. Wharton predicts a deterioration in the deficit from $145.8 billion in 1986 to $161.3 billion in 1987. Most of the deterioration will be caused by increasing prices for imported manufactures. It does not project a decline in the volume of these imports and sees difficulties ahead for U.S. farm trade, mainly as a consequence of weak export prices on fiercely competitive world markets. Wharton also believes that the volume of imported fuels will increase from 1986 to 1987.

Mr. Albert M. Wojnilower, Director of First Boston Corp., predicted in a recent speech that protectionism "will make its grand entrance wrapped in the mantle of budget-deficit reduction, through some version of value-added tax, import fee or surcharge." Mr. Wojnilower says that the slightest recession in the United States would "trigger the protectionist stampede right away." ■

INTERNATIONAL TRADE DEVELOPMENTS

United States Criticizes Japan's Mixed-Credit Policy

Japan was the subject of pointed criticism by the United States at the October OECD meeting on the subject of mixed credits. U.S. Deputy Assistant Treasury Secretary Robert Cornell criticized Japan for "single-handedly" blocking substantive progress toward agreement on curbing the use of so-called mixed credits, which involve mixing development aid with commercial export financing. Cornell maintained that Japan retains an "unfair advantage" in export financing vis-a-vis the other industrial countries because of its use of mixed credits.

The OECD meeting—made up of participants in the Arrangement on Guidelines for Officially Supported Export Credits—sought to bring the member countries into agreement on the use of mixed credits for export financing. Two main issues were debated during the meeting.

The first issue centers on a proposal to increase the minimum grant level a mixed-credit offer may contain. This would make the use of mixed credits for commercial deals more expensive for lenders by increasing the portion of an export-financing package that may be made up of concessional government aid. Most OECD countries favor raising the grant element from its present level of 25 percent of mixed-credit offers to at least 35 percent. The United States is seeking to raise the grant level to 40 or 50 percent.

The second issue, where U.S. criticism of Japan is strongest, involves the method of calculating the grant component of mixed-credit offers. The current system allows use of a fixed discount rate of 10 percent. Under this system, Japan, with commercial interest rates of 5 to 6 percent, can make export loans at the commercial rate and claim the difference between the two rates as development aid. The United States would like to change the methodology to more closely reflect the real interest rates of each country. Japan is the only member country still favoring the current system, although other countries with relatively low interest rates (West Germany and Switzerland, for example) benefit from the present rules.

The OECD participants ended the meeting with a tentative agreement to convene in December and take up the issue of revising mixed-credit rules once again. However, Cornell said that "if there is no prospect for a fruitful meeting, it won't happen." Meanwhile, the United States has been mounting an aggressive campaign on another front to force changes in the rules governing mixed credits. Central to that campaign is intense U.S. competition countering foreign mixed-credit offers by using the Export-Import Bank of the United States (Eximbank) to win commercial contracts for U.S. firms. Cornell explained the intent of vigorous U.S. action in combating the mixed-credit issue by stating: "You need to offer better deals and make predatory attempts to go out and get business in order to push the original offerer to think twice, and therefore to come to the table and say, 'enough—let's make rules.'"

In 13 recent projects where foreign mixed credits perceived as unfair were contained in contract offers, Eximbank responded with more generous U.S. financing offers. Of these 13, 5 have been won for U.S. firms. One case involved $27 million in financing for a gas-fired powerplant to be built by General Electric in India. With a grant element of nearly 33 percent, this deal includes two Eximbank loans: one 10-year loan for $13.7 million at 7.4 percent interest, and one 20-year loan of $13.3 million at 2.0 percent. The other mixed-credit contracts targeted by Eximbank that were recently won for U.S. firms are a $27 million contract to sell mainframe computer equipment to India; a $35 million deal to supply hospital equipment to Brazil; $21 million financing for telecommunications equipment to Gabon; and $53 million backing the sale of navigation equipment to Brazil.

The Reagan administration appears committed to continuing to meet foreign mixed-credit offers it sees as unfair. The President recently signed legislation handing Eximbank a $300 million "war-chest" of mixed credits to use in bidding for foreign contracts. ■

China Offers New Incentives to Foreign Investors

During the first half of 1986, commitments by foreign companies to invest in China amounted to only $1.24 billion, 20 percent less than their value during the corresponding period of 1985. Moreover, although contracts for approximately 2,600 Chinese-foreign business ventures have been signed since China was opened to foreign investment in 1979, less than one-third of the enterprises were actually in operation by mid-1986, and a large proportion of these had been scaled down because of bureaucratic red tape, arbitrarily imposed labor and equipment costs, management problems, and negligible returns. In August, Chinese Premier Zhao Ziyang formally acknowledged and promised to address the persistent problems faced by investors, and on October 11, China announced new joint-venture regulations. The Provisions for Encourgement of Foreign Investment make special concessions to enterprises that incorporate high-level production technology and that produce goods mainly for export, but they also include measures that, if implemented, will ease the problems of all foreign investors.

The new regulations consist mainly of specific cost-cutting measures that apply to only "export enterprises" and "technologically advanced enterprises." These provisions include the standardization of and a reduction in land-use fees; a rule that fees for water, electricity, transportation services, and communication facilities will be the same as those charged China's State-owned enterprises; and exemption from payments to the State of all subsidies for staff and workers except those covering welfare costs, worker insurance, and housing subsidies. (Charges to cover a variety of Government subsidies have made the labor costs of investing in China substantially higher than those in most other Asian countries.) Such enterprises will also be exempt from China's income tax on profits they remit abroad and on profits they pledge to reinvest for not less than 5 years. Firms that sell more than 70 percent of their output abroad will receive, in addition, a 50-percent cut in their profits tax.

One article in the new regulations that applies to all joint Chinese-foreign and wholly foreign-owned ventures could lead to a turnabout in China's reputation as a difficult place to do business. This measure states that "the people's governments at all levels . . . shall guarantee the autonomy of enterprises with foreign investment." It gives them the right to recruit, hire, or dismiss senior managerial personnel, other staff members, and workers (a complete break from the practice that has ensured China's workers jobs for life) and to independently determine wage levels and bonuses. In addition, enterprises with foreign investment are accorded the right "to determine by themselves" production and operation plans; and to raise funds, purchase materials, and sell output on their own. They are also given the right to refuse to pay "unreasonable charges" levied by local authorities and to appeal their complaints to the State Economic Commission. The long wait that normally accompanies efforts to invest in China is also addressed by the new rules. Local officials will be required to make decisions on investment applications within 3 months of receipt of the documents.

The provisions guaranteeing autonomy to enterprises with foreign investment will be difficult to implement, however. Since October 1984, when China's leaders instituted a reform program decentralizing control over all except a few key industries, decisions on the type and amount of foreign investment and the rules governing these enterprises have been largely determined by provincial and local officials, subject only to guidelines issued by the central Government. The intent and, to some extent, the result of the reforms was to allow market forces to play a greater role in formulating and carrying out business decisions. On the other hand, released from direct control by the State, provincial and local authorities have assumed more power over the past 2 years, which they must now surrender if foreign investors are to have the freedom the new provisions imply. In an attempt to address the problem of enforcement, the regulations create a central Government foreign-investment steering commission that will monitor these often-intransigent officials charged with actually administering the rules. ■

A New U.S. Levy on Imported Crude Oil Upsets Economic Relations With Mexico

U.S.-Mexican economic relations, which began to improve markedly following a meeting of the two countries' leaders last August, have suffered a setback from a newly levied U.S. surcharge on imported crude oil. The imposition of a tax of 11.7 cents per barrel on imported oil was among the measures Congress passed before its adjournment preceding the November elections. The revenues from the surcharge are slated to go to a "superfund" that will pay for clearing deposits of toxic waste in the United States.

Echoing the reactions to the oil tax of Venezuela, Canada, and the United Kingdom, the Mexican Government sent a strongly worded formal protest to the U.S. Department of Commerce. In this message, Mexico claimed that the tax will seriously affect its sales of crude oil and oil byproducts to the United States, and thus "will have an adverse impact on our foreign exchange revenue, so necessary to reactivate the country's economic growth and to enable us to continue meeting our foreign financial commitments." Mexico is one of the principal suppliers of crude oil to the United States.

However, some industry analysts doubt that the new levy will have a noticeable effect on prices customers will pay at the pump, or that it will have a major impact on imports from Mexico. Analysts argue that the imposition of the oil tax reflects an international trend of putting new levies on oil.

The Mexican protest also stated that the oil levy contradicts the spirit of cooperation and cordial understanding expressed during the recent meeting between Presidents Ronald Reagan and Miguel de la Madrid. That meeting, which took place on August 13, appeared to inaugurate a positive phase in bilateral economic relations. On that occasion, President Reagan praised the Mexican President for recent actions such as the decision to join the General Agreement on Tariffs and Trade (GATT); efforts to liberalize trade, devalue the peso, shut down inefficient nationalized companies; and other steps essential to restore Mexico's economic growth.

Most important, the two leaders agreed in August to begin bilateral negotiations leading to a broad agreement on trade and investment. The concept of such a framework agreement has been discussed for a number of years. The accord would provide a permanent consultation and dispute settlement mechanism between the two countries to minimize disruptions in trade relations. In addition, the agreement would serve as a vehicle to clarify trade and investment principles on which bilateral transactions would be based. The bilateral accord is meant to complement the multilateral mechanism that was newly provided by Mexico's accession to the GATT.

Contributing to better relations was also the lifting of a 6-year old U.S. embargo on tuna imports from Mexico. President Reagan announced the revocation of the embargo as part of his cordial August meeting with President de la Madrid. This ban was imposed in 1980, after Mexican authorities began seizing U.S. tuna boats in a dispute over territorial water limits. ■

EC Challenges U.S.-Japanese Semiconductor Agreement

On October 8, the EC requested the GATT to investigate the legality of the U.S.-Japanese semiconductor accord reached on July 30, 1986. EC officials claim the agreement violates GATT's fair trade rules and threatens the interests of the EC.

The 5-year semiconductor accord contains provisions that are expected to increase the U.S. share of the Japanese market and prevent dumping of semiconductors in the United States and third countries (see August *IER*). The Japanese have agreed to monitor costs and export prices of Japanese semiconductor firms in order to prevent pricing at less than fair value. A provision to require the monitoring of third-country pricing was also included to discourage U.S. producers of semiconductor-utilizing products from moving offshore. In addition, it was hoped such a provision would assuage European concerns that the agreement would divert Japanese chips from U.S. to EC markets.

After observing evidence of increases in prices of semiconductors on the U.S. market—by as much as 30 or 40 percent—the EC lodged a formal complaint with the GATT. EC officials are critical of two major aspects of the pact. First, they fear an arbitrary increase in semiconductor prices in the Community. They also object to the privileged access of U.S. firms to the Japanese market.

The United States and Japan account for approximately 90 percent of world semiconductor production. The EC fears that the accord places the United States and Japan in a position to control the price of semiconductors on the world market, hurting EC industry which is highly dependent on semiconductor imports as production factors. In 1985, the EC imported $1.1 billion worth of semiconductors from the United States and $525 million from Japan.

In addition, the EC is concerned that special U.S. access to the Japanese market will threaten EC exports to Japan. U.S. officials claim that access to the Japanese market does not single out American chips but is laid out in the accord in terms of "foreign" chips including semiconductors from the EC. However, the EC charges that an unofficial understanding guarantees U.S. firms access to Japan at the expense of competing EC suppliers.

The EC's complaint in the GATT is twofold. First, the Community requested formal consultations under article XXII of the GATT, part of the GATT's dispute settlement process. The EC also charged that the U.S.-Japanese accord violates the GATT antidumping code by controlling export prices to third countries. Under the code, a third country has the right to make the decision of opening antidumping procedures affecting its own market. U.S. and Japanese officials have accepted the European demand for joint consultations and will meet with EC representatives in Geneva by the end of November to discuss the issue. ■

STATISTICAL TABLES

Industrial production

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

Country	1983	1984	1985	1985 II	1985 III	1985 IV	1986 I	1986 II	1986 Apr.	May	June	July	Aug.	Sept.
United States	5.9	11.2	2.0	1.3	2.1	1.9	1.2	-2.1	8.0	-6.5	0.0	7.0	1.9	1.2
Canada	5.3	8.8	4.3	4.5	9.4	6.1	-0.9		4.6	-21.9				
Japan	3.5	11.1	4.6	11.2	-0.4	-2.9	0.7	0.9	0.0	4.0	4.0	-1.9	-28.0	
West Germany	0.3	3.3	3.9	12.2	0.1	0.8	0.0	10.5	72.6	-32.8	41.0	-22.2	-3.4	
United Kingdom	3.9	1.3	4.8	7.6	0.4	0.7	2.7	-1.3	6.8	-19.7	-14.5	28.9	6.8	
France	1.1	2.5	0.5	4.1	7.3	0.0	-4.9	6.2	55.7	-46.5	31.2	9.2	0.0	
Italy	-3.2	3.3	1.2	1.1	-2.5	-1.8	11.7	7.1	16.4	-43.5	89.8	-34.3	-42.2	

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 7, 1986.

Consumer prices

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

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 Apr.	May	June	July	Aug.	Sept.
United States	3.2	4.3	3.5	2.6	4.3	1.4	-1.7	2.6	-3.3	2.2	5.7	0.4	2.2	4.1
Canada	5.8	4.3	4.0	3.4	4.4	4.8	3.0	4.7	2.7	5.0	0.3	7.8	5.4	3.1
Japan	1.9	2.2	2.1	2.1	2.1	0.4	0.9	-2.0	0.3	1.5	0.6	-3.5	-2.4	6.2
West Germany	3.3	2.4	2.2	0.2	1.0	-1.0	-1.1	-0.6	-1.2	0.2	0.4	-2.5	0.8	1.0
United Kingdom	4.6	5.0	6.1	3.0	3.2	4.2	0.6	2.5	-1.3	1.0	1.2	1.0	2.4	9.0
France	9.5	7.7	5.8	4.3	3.2	0.9	1.6	2.8	1.6	2.6	4.5	1.1	2.7	5.1
Italy	14.9	10.6	8.6	7.2	6.9	6.1	5.0	5.1	3.5	5.8	6.6	3.8	6.8	2.7

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 7, 1986.

Unemployment rates

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

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 May	June	July	Aug.	Sept.	Oct.
United States	9.6	7.5	7.2	7.2	7.0	7.1	7.2	6.9	7.3	7.1	6.9	6.8	7.0	7.0
Canada	11.9	11.3	10.5	10.2	10.1	9.7	9.6	9.7	9.6	9.5	9.9	9.7	9.5	
Japan	2.7	2.8	2.6	2.7	2.9	2.7	2.8		2.7	2.8	3.0	2.9		
West Germany	7.4	7.8	7.9	7.9	7.8	7.8	7.6	7.5	7.6	7.6	7.5	7.5	7.4	
United Kingdom	11.9	11.7	11.3	11.3	11.3	11.5	11.7	11.6	13.1	11.7	11.7	11.7	11.4	
France	8.6	9.9	10.3	10.4	10.1	10.2	10.5	10.7	10.6	10.5	10.6	10.7	10.6	
Italy	5.9	5.9	6.0	6.3	6.3	6.3	6.5	6.1			6.1			

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, November 1986.

Trade balances

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

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 Apr.	May	June	July	Aug.	Sept.
United States[1]	-57.8	-108.1	-132.9	-128.0	-147.2	-155.2	-141.1	-153.6	-129.6	-153.6	-140.4	-183.6	-142.8	-134.4
Canada	14.4	15.9	12.8	8.	8	11.6	6.8	8.4		9.6	8.4	3.6	2.4	3.6
Japan	31.5	44.0	55.9	57.2	67.6	71.6	88.8	102.8	84.0	100.8	80.8	96.0	105.6	106.8
West Germany	16.6	18.8	25.3	27.6	29.6	40.8	52.8	60.0	56.4	38.4	63.6	62.4	63.6	55.2
United Kingdom	-1.3	-5.7	-2.6	-2.4	-1.2	-8.4	-9.6	-17.6	-4.8	-13.2	-10.8	-10.8	-26.4	-15.6
France	-5.9	-2.8	-2.6	-3.2	-1.6	0.4	-4.4	1.2	-8.4	-3.6	-2.4	-2.4	6.0	-4.8
Italy	-7.9	-10.9	-11.9	-4.4	-14.4	-10.8	0.4	2.4	0.0	1.2	1.2	-7.2	20.4	-7.2

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

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, Nov. 7, 1986.

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

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

Item	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 Apr.	May	June	July	Aug.	Sept.
Commodity categories:														
Agriculture	20.0	18.4	9.6	1.7	2.5	1.7	0.0	0.5	0.3	-0.2	-0.1	-0.1	0.3	0.3
Petroleum and selected products, unadj	-49.1	-52.5	-45.9	-11.0	-12.6	-10.6	-7.2	-7.2	-1.6	-2.3	-2.8	-2.6	-2.1	-2.5
Manufactured goods	-31.3	-78.9	-102.0	-24.9	-29.7	-31.1	-32.4	-36.1	-10.0	-10.7	-11.7	-15.0	-11.1	-10.0
Selected countries:														
Western Europe	1.2	-14.1	-23.3	-5.7	-7.1	-6.6	-8.0	-7.3	-2.3	-2.3	-3.4	-3.7	-2.1	-1.5
Canada	-12.1	-20.1	-21.7	-4.7	-6.8	-5.9	-5.8	-5.9	-1.8	-2.1	-1.9	-2.3	-2.1	-1.5
Japan	-19.6	-33.8	-46.5	-12.0	-12.5	-14.3	-12.5	-13.5	-4.4	-4.7	-3.4	-5.2	-4.4	-3.9
OPEC, unadj	-8.2	-12.3	-10.2	-2.4	-3.7	-3.5	-1.5	-2.1	-0.1	-0.6	-0.8	-0.7	-0.5	-0.9
Unit value (per barrel) of U.S. imports of petroleum and selected products, unadj	$28.60	$28.11	$26.59	$25.98	$26.35	$22.70	$13.40	$11.41	$13.94	$13.29	$12.97	$11.75	$10.89	$11.59

Note.—Beginning with January 1986, the U.S. Department of Commerce stopped reporting export and import data on a seasonally adjusted basis. U.S. data for prior periods have been changed accordingly. This does not affect the comparability of U.S. and foreign trade balances on an annual basis.

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

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

(Percentage, annual rates)

Country	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 May	June	July	Aug.	Sept.	Oct.
United States	9.2	10.7	8.3	7.9	7.8	7.6	6.5	6.0	6.7	6.7	6.4	5.9	5.7	5.7
Canada	9.5	11.3	9.7	9.1	9.0	11.1	8.9		8.6	8.7	8.4	8.4		
Japan	6.8	6.7	6.5	6.3	7.0	6.0	4.7		4.6	4.5	4.9	4.5		
West Germany	5.7	6.0	5.5	4.9	4.8	4.5	4.6	4.5	4.6	4.6	4.4	4.3	4.4	
United Kingdom	10.1	9.9	12.1	11.5	11.6	11.9	10.1	9.9	10.2	9.7	9.9	9.6	10.0	
France	12.4	11.7	10.0	9.7	9.1	8.7	7.4	7.2	7.2	7.2	7.4	7.1	7.1	
Italy	18.2	15.9	15.0	14.4	14.3	15.5	12.9	11.4	13.4	11.8	11.9	11.0	11.2	

Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: Statistics provided by Federal Reserve Board.

Effective exchange rates of the U.S. dollar, unadjusted and adjusted for inflation differential

(Index numbers, 1980-82 average=100; and percentage change from previous period)

Item	1983	1984	1985	1985 III	1985 IV	1986 I	1986 II	1986 III	1986 May	June	July	Aug.	Sept.	Oct.
Unadjusted:														
Index number	114.2	122.4	127.1	125.0	117.3	117.8	106.7	102.8	105.8	106.5	104.0	102.3	102.1	102.1
Percentage change	4.0	7.2	3.8	-4.8	-6.2	0.4	-4.6	-3.7	-2.1	0.8	-1.5	-1.5	-0.2	0.0
Adjusted:														
Index number	112.8	118.0	120.9	119.4	112.0	106.3	99.1	96.9	100.1	101.0	98.0	96.6	96.2	99.8
Percentage change	2.7	4.6	2.5	-3.9	-6.2	-5.1	-6.8	-2.2	-1.1	0.9	-3.0	-1.4	-0.3	3.7

Note.—The foreign-currency value of the U.S. dollar is a trade-weighted average in terms of the currencies of 15 other major nations. The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the U.S. and in these other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

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

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