19.6: U.S. Balance of Payments Statistics (2008)

Learning Objective

1. Learn the recent values for U.S. balance of payments statistics and the ways transactions are classified on both the current account and the financial account.

One of the most informative ways to learn about a country's balance of payments statistics is to take a careful look at them for a particular year. We will do that here for the U.S. balance of payments (U.S. BoP) statistics for 2008. Below we present an abbreviated version of the U.S. BoP statistics.

The line numbers refer to the line item on the complete Bureau of Economic Analysis (BEA) report. All debit entries have a minus sign, and all credit entries have a plus sign. A brief description of each line item is provided below where all values are rounded downward for easy reference with the table. To see the entries for every line or for more recent statistics, see the U.S. Department of Commerce, Bureau of Economic Analysis Web site, located at http://www.bea.gov.

Line Number	Category	Value (credits [+], debits [−])
Current Account		
1	Exports of goods, services, and income receipts	+2,591,233
3	Goods	+1,276,994
4	Services	+549,602
13	Income receipts on U.S. assets abroad	+761,593
14	Direct investment receipts	+370,747
15	Other private receipts	+385,940
16	U.S. government receipts	+4,906
18	Imports of goods, services, and income	−3,168,938
20	Goods	−2,117,245
21	Services	−405,287
30	Income payments on foreign assets in the United States	−636,043
31	Direct investment payments	−120,862
32	Other private payments	−349,871
33	U.S. government payments	−165,310
35	Unilateral transfers, net	−128,363
Capital Account		
39	Capital account transactions, net	+953
Financial Account		
40	U.S. assets abroad (increase/financial outflow [−])	−106
41	U.S. official reserve assets	−4,848
46	U.S. government assets	−529,615

Line Number	Category	Value (credits [+], debits [−])
50	U.S. private assets	+534,357
51	Direct investment	−332,012
52	Foreign securities	+60,761
53	U.S. claims reported by U.S. nonbanks	+372,229
54	U.S. claims reported by U.S. banks	+433,379
55	Foreign assets in the United States (increase/financial inflow [+])	+534,071
56	Foreign official assets in the United States	+487,021
63	Other foreign assets in the United States, net	+47,050
64	Direct investment	+319,737
65	U.S. Treasury securities	+196,619
66	U.S. securities other than T-bills	−126,737
67	U.S. currency	+29,187
68	U.S. liabilities reported by U.S. nonbanks	−45,167
69	U.S. liabilities reported by U.S. banks	−326,589
71	Statistical discrepancy (sum of above with sign reversed)	+200,055

Figure 19.6.1: Table 2.5 U.S. Balance of Payments, 2008 (Millions of Dollars Seasonally Adjusted)

Below we provide a brief description of each line item that appears on this abbreviated balance of payments record.

Current Account

Line 1, \$2.59 trillion, shows the value of all U.S. exports of goods, services, and income. This value is equal to the sum of lines 3, 4, and 13.

Line 3, \$1.27 trillion, shows exports of merchandise goods. This includes any physical items that leave the country.

Line 4, \$549 billion, shows exports of services to foreigners. This category includes travel services, passenger fares, royalties, license fees, insurance legal services, and other private services.

Line 13, \$761 billion, shows income receipts on U.S. assets abroad. This represents profits and interest earned by U.S. residents on investments in other countries. In a sense, these are payments for services rendered where the services include entrepreneurial services in the case of foreign-operated factories, or monetary services in the case of interest and dividend payments on foreign securities. This line is included in a measure of gross national product (GNP) since this income is accruing to U.S. factors of production. However, the line is excluded from a measure of gross domestic product (GDP) since production did not take place within the borders of the country. Income receipts are divided into four subcategories: direct investment receipts, other private receipts, U.S. government receipts, and compensation of employees.

Line 14, \$370 billion, shows direct investment receipts. This represents profit earned by U.S. companies on foreign direct investment (FDI), where FDI is defined as a greater than 10 percent ownership share in a foreign company. Note that this is not new investments but rather the profit and dividends earned on previous investments.

Line 15, \$385 billion, shows other private receipts. This category includes interest and profit earned by individuals, businesses, investment companies, mutual funds, pension plans, and so on. In effect, all private investment income that accrues on investments worth less than 10 percent of a company would be included here.

Line 16, $4.9 billion, shows U.S. government income receipts. This refers to interest and other income earned by government investments abroad. Notice that this item is very small compared to the other two income categories.

Line 18, $3.1 trillion, records imports of goods, services, and income. This value is equal to the sum of lines 20, 21, and 30.

Line 20, $2.1 trillion, shows imports of merchandise goods. Notice that goods imports make up about two-thirds of total imports.

Line 21, $405 billion, shows imports of services such as travel services, passenger fares, insurance, and so on.

Line 30, $636 billion, shows income payments on foreign assets in the United States. This corresponds to income earned by foreigners who operate companies in the United States or income earned on other U.S.-based assets held by foreigners. This entry is further divided into four components: direct investment payments, other private payments, U.S. government payments, and compensation of employees.

Line 31, $120 billion, records direct investment payments to foreigners in the United States. This represents profit earned on foreign direct investment by foreign residents' companies, where FDI is defined as a greater than 10 percent ownership share in a U.S. company. Note that this is not new investments but rather the profit and dividends earned on previous investments.

Line 32, $349 billion, reports other private payments. This category includes interest and profit earned by individuals, businesses, investment companies, mutual funds, pension plans, and so on. In effect, all private investment income that accrues on investments worth less than 10 percent of a company would be included here.

Line 33, $165 billion, records payments made by the U.S. government to foreigners. This item represents mostly interest payments on U.S. Treasury bills owned by foreigners.

Line 35, $128 billion, records net unilateral transfers. These transfers refer to government grants to foreign nations, government pension payments, and private remittances to family and friends abroad. A debit entry here means that the net transfers are outbound, that is, more transfers are made from the U.S. to individuals abroad than are made in the reverse direction.

Capital Account

Line 39, $953 million, represents net capital account transactions.

Financial Account

Line 40, $106 million, shows the value of purchases of foreign assets by U.S. residents, hence it is referred to as a capital outflow. The line is the sum of U.S. official reserve assets (line 41), U.S. government assets (line 46), and U.S. private assets (line 50).

Line 41, $4.8 billion, represents net U.S. official reserve transactions. Any purchases or sales of foreign currency in a foreign exchange intervention by the central bank would be recorded here. Since the item is a debit entry, it means that the U.S. central bank made net purchases of foreign assets (currencies) in 2008.

It is worth noting that this line is more important for a country maintaining a fixed exchange rate. To maintain a credible fixed exchange rate, central banks must periodically participate in the foreign exchange market. This line measures the extent of that participation and is sometimes referred to as the "balance of payments" in a fixed exchange rate system.

Line 46, $529 billion, represents net purchases of assets by the U.S. government, though not by the Federal Reserve.

Line 50, $534 billion, shows private purchases of foreign assets by U.S. residents. It is the primary component of total U.S. assets abroad. The item is composed of direct investment (line 51), foreign securities (line 52), U.S. claims reported by U.S. nonbanks (line 53), and U.S. claims reported by U.S. banks (line 54).

Line 51, $332 billion, shows direct investment by U.S. residents abroad. It would include purchases of factories, stocks, and so on by U.S. businesses and affiliates in foreign countries as long as there is a controlling interest in excess of 10 percent voting share.

Line 52, $60 billion, shows net purchases of foreign stocks and bonds by U.S. individuals and businesses when there is no controlling interest in the foreign company. Most purchases by U.S. mutual funds, pension funds, and insurance companies would be classified here.

Line 53, $372 billion, shows U.S. resident purchases of foreign assets reported by nonbanks.

Line 54, $433 billion, reports U.S. resident purchases of foreign assets reported by U.S. banks. This may include items like foreign currency denominated demand deposits held by U.S. businesses and individuals in U.S. banks.

Line 55, $534 billion, shows the sum total of foreign assets in the United States. This item refers to all purchases of U.S. assets by foreign residents, thus, it is listed as a capital inflow. This line is composed of the sum of foreign official assets in the United States (line 56), and other foreign assets in the United States (line 63).

Line 56, $487 billion, refers to purchases of U.S. assets by foreign governments or foreign central banks.

Line 63, $47 billion, refers to all other foreign assets purchases of U.S. assets and is the main component of capital inflows. It is composed of direct investment (line 64), U.S. Treasury securities (line 65), U.S. securities other than T-bills (line 66), U.S. currency (line 67), U.S. liabilities reported by U.S. nonbanks (line 68), and U.S. liabilities reported by U.S. banks (line 69).

Line 64, $319 billion, refers to purchases of U.S. factories and stocks when there is a greater than 10 percent ownership share.

Line 65, $196 billion, shows total purchases of U.S. Treasury bills by foreigners. This corresponds to foreign loans to the U.S. government.

Line 66, $126 billion, shows non-U.S. Treasury bill and nondirect investment purchases of stocks and bonds by foreigners.

Line 67, $29 billion, a credit entry, represents U.S. currency that has been repatriated (net). Typically, this flow is a credit indicating an outflow of U.S. currency. Because of the expectation that the U.S. dollar will remain stable in value, it is often held by residents in inflationary countries to prevent the deterioration of purchasing power. It is estimated that over $270 billion of U.S. currency circulates abroad and is used in exchange for foreign goods and services or simply held to store value. The value on line 67 represents only the amount that flowed back in 2007.

Line 68, $45 billion, shows deposits and purchases of U.S. assets by foreigners reported by U.S. nonbanks.

Line 69, $326 billion, reports deposits and purchases of U.S. assets by foreigners reported by U.S. banks. Thus if a foreign resident opens a checking account in a U.S. bank denominated in U.S. dollars, that value would be recorded here.

Line 71, $200 billion, represents the statistical discrepancy. It is the sum of all the above items with the sign reversed. It is included to satisfy the accounting requirement that all debit entries be balanced by credit entries of equal value. Thus when the statistical discrepancy is included, the balance on the complete balance of payments is zero.

Summary Balances on the U.S. Balance of Payments (2008)

Table 2.6 reports a number of noteworthy balance of payments "balances" for 2008. In effect these subaccount balances allow us to identify net inflows or outflows of specific categories of goods, services, income, and assets.

Lines 1 + 18 + 35	Current account balance	−706, 068
Lines 3 + 20	Trade (goods) balance	−840, 251
Lines 4 + 21	Services balance	+144, 315
Lines 3 + 4 + 20 + 21	Goods and services balance	−695, 936
Lines 12 + 29 (not listed)	Investment income balance	+118, 231
Lines 40 + 55	Financial account balance	+533, 965
Line 71	Statistical discrepancy	+200,055

Figure $19.6.2$: Table 2.6 Balances on the U.S. Balance of Payments, 2008 (Millions of Dollars Seasonally Adjusted) (Credits [+], Debits [−])

The sum of lines 1, 18, and 35 (i.e., exports of goods, services, and income; imports of goods, services, and income; and unilateral transfers [maintaining signs]) represents the current account (CA) balance. In 2008 in the United States, the CA balance was −706 billion dollars where the minus sign indicates a deficit. Thus the United States recorded a current account deficit of $706 billion. Note that the current account balance is often reported as the "trade balance using a broad measure of international trade."

Because unilateral transfers are relatively small and because investment income can be interpreted as payments for a service, it is common to say that a current account deficit means that imports of goods and services exceed exports of goods and services.

The sum of lines 3 and 20 (i.e., exports of goods and imports of goods) is known as the merchandise trade balance, or just trade balance for short. In 2008, the United States recorded a trade deficit of over $840 billion. This means that the United States imported more physical goods than it exported.

The sum of lines 4 and 21, service exports and service imports, represents the service trade balance or just service balance. The table shows that the United States recorded a service surplus of over $144 billion in 2008. In other words, the U.S. exports more services than it imports from the rest of the world.

The sum of lines 2 and 19 (not listed), exports of goods and services and imports of goods and services, is a noteworthy trade balance because this difference is used in the national income identity for GDP. In contrast, the national income identity for GNP includes the current account balance instead. In 2008, the United States recorded a goods and services trade deficit of over $695 billion.

The sum of lines 12 and 29 (not listed), income receipts on U.S. assets abroad and income payments on foreign assets in the United States, represents the balance on investment income. In 2008, there was a recorded investment income surplus of over $118 billion in the United States. This means that U.S. residents earned more on their investments abroad than foreigners earned on their investments in the United States.

The sum of lines 40 and 55, U.S. assets abroad and foreign assets in the United States, represents the financial account balance. In 2008, the United States recorded a financial account surplus of over $533 billion. A surplus on capital account means that foreigners are buying more U.S. assets than U.S. residents are buying of foreign assets. These asset purchases, in part, represent international borrowing and lending. In this regard, a capital account surplus implies that the United States is borrowing money from the rest of the world.

Finally, line 71 records the 2008 U.S. statistical discrepancy as a $200 billion credit entry. This implies that recorded debit entries on the balance of payments exceeded recorded credit entries. Thus an additional $200 billion credit entry is needed to make the accounts balance. This is the largest statistical discrepancy recorded since the BEA records began in 1960.

The presence of a statistical discrepancy means that there are international transactions that have taken place but have not been recorded or accounted for properly. One might conclude that the size of the errors is $200 billion, but this does not follow. The discrepancy only records the net effect. It is conceivable that $400 billion of credit entries and $200 billion of debit entries were missed. Or possibly, $800 billion of debit entries and $600 billion of credit entries were missed. In each case, the difference is $200 billion dollars, but clearly the amount of error is substantially more in the latter case.

Based on the way the balance of payments data are collected, it seems likely that the primary source of the statistical discrepancy is on the capital account side rather than the current account side. This is because trade in goods, the primary component of the current account, is measured directly and completely by customs officials, while capital account data are acquired through surveys completed by major banks and financial institutions. This does not mean that errors cannot occur, however. Goods trade is tangible and thus is easier to monitor. Capital transactions, in contrast, can be accomplished electronically and invisibly and thus are more prone to measurement errors. Service and income transactions on the current account are also likely to exhibit the same difficulty in monitoring, implying that errors in the current account are more likely to arise in these subcategories.

Key Takeaways

- The U.S. balance of payments records transactions on both the current and financial accounts concluding with several important balances.
- The United States had a current account deficit of $706 billion in 2008.
- The U.S. had a merchandise trade deficit that was larger than its current account deficit at over $840 billion in 2008.
- The U.S. had a financial account surplus of over $533 billion.
- The statistical discrepancy at $200 billion in 2008 demonstrates that all international transactions are not being recorded since the sum of the balance on the current account and the financial accounts does not equal zero.

exercise

1. **Jeopardy Questions**. As in the popular television game show, you are given an answer to a question and you must respond with the question. For example, if the answer is “a tax on imports,” then the correct question is “What is a tariff?”

- The value of the statistical discrepancy if a country has a current account deficit of $250 billion and a financial account surplus of $230 billion.
- The approximate value of the U.S. current account deficit in 2008.

- The approximate value of the U.S. merchandise trade deficit in 2008.
- Of *U.S. domestic residents* or *foreign residents*, this group profited more on its foreign investments because the United States ran a surplus on its investment income balance.
- The approximate value of the U.S. financial account surplus in 2008.
- The approximate value of the statistical discrepancy in the U.S. balance of payments in 2008.