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U.S. Exports and Imports: Are We Tracking?

CHANGES IN NET EXPORTS of the United States seldom have an important direct impact upon domestic activity. For this reason and because of the difficulties involved, little effort has been—or should be—spent on forecasting the U.S. net export component of gross national product (GNP). Indeed, the domestic economy is influenced by its foreign elements only when the concern policy makers feel about the competitive position of American goods in world markets, or about the balance of payments in general, becomes sufficient to affect economic policy. Hence it may be worthwhile to consider the prospect that such a worrisome situation might develop.

According to the aggregate numbers, there may be grounds for concern. Net exports of goods and services by the United States in the calendar year 1969 were only $2.1 billion, continuing the decline from the $8.6 billion peak reached in 1964. No doubt the very rapid and inflationary growth of the domestic economy over this period was the major factor in the decline. The important questions are whether and to what extent net exports will recover, given changed conditions in the domestic economy. Putting the question somewhat differently, one can ask to what extent the price developments at home and abroad, plus exchange rate adjustments (or their equivalents), have resulted in a deterioration of the competitive position of the United States. Some evidence that bears on this question is presented below.

In Table 1, seasonally adjusted moving averages of imports and exports are shown for the last two years.[1] The export surplus appears to have increased since the middle of 1969. In the three months January through

Table 1. U.S. Merchandise Imports and Exports, Trade Balance, and Imports as a Percent of GNP, 1968–70[a]

Dollar amounts in millions, seasonally adjusted

Year and month		*Exports*	*Imports*	*Trade balance*	*Imports as percent of GNP*
1968	January	$2,732	$2,584	$+148	
	February	2,685	2,618	+ 67	3.8%
	March	2,721	2,625	+ 96	
	April	2,701	2,680	+ 21	
	May	2,835	2,756	+ 79	3.9
	June	2,814	2,769	+ 45	
	July	2,880	2,790	+ 90	
	August	3,013	2,831	+182	3.9
	September	2,938	2,828	+110	
	October	2,960	2,826	+134	
	November	2,833	2,819	+ 14	3.8
	December	2,687	2,584	+103	
1969	January	2,453	2,525	− 72	
	February	2,526	2,548	− 22	4.0
	March	2,948	2,934	+ 14	
	April	3,281	3,142	+139	
	May	3,286	3,212	+ 74	4.2
	June	3,224	3,176	+ 48	
	July	3,251	3,144	+107	
	August	3,289	3,100	+189	3.9
	September	3,354	3,152	+202	
	October	3,352	3,164	+188	
	November	3,323	3,148	+175	4.0
	December	3,304	3,157	+147	
1970	January	3,391	3,171	+220	
	February	3,437	3,240	+197	4.0

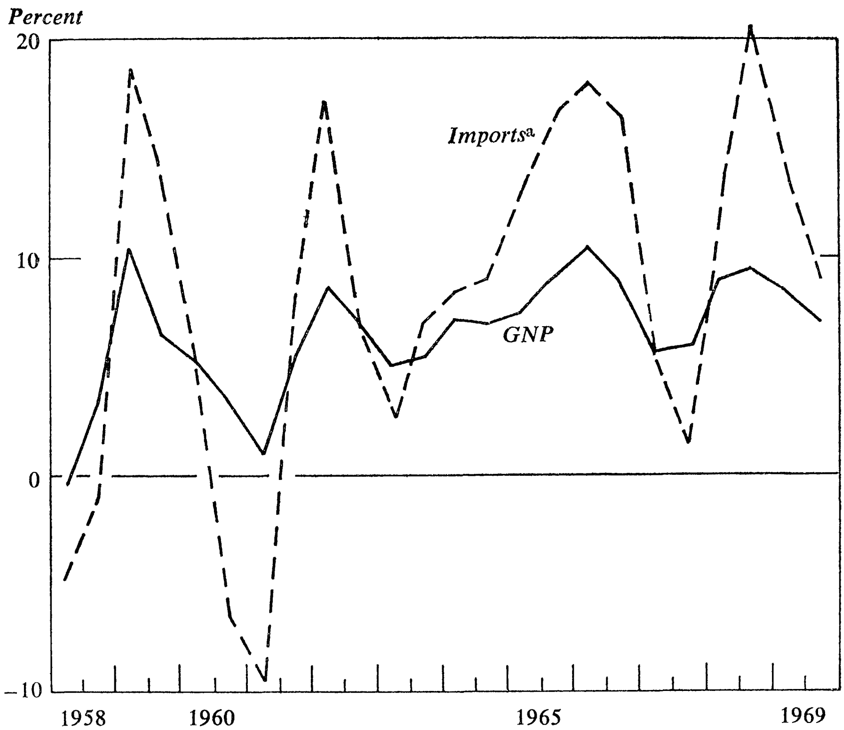
Source: *Economic Indicators*, various issues.
a. Centered three-month moving averages, Census basis; must be adjusted to correspond to balance-of-payments concept.

1. One of the frustrating aspects of trying to evaluate current developments in trade data is that they are significantly affected by temporary events such as strikes —witness the dip at the end of 1968 and the beginning of 1969 due to the East-Gulf Coast strike. These data have been smoothed with three-month moving averages, but no special adjustments have been made.

March 1970, the trade surplus ran at an annual rate of approximately $2.1 billion (balance-of-payments basis) compared with the $700 million recorded in 1969. The major development has been the slowing down of the growth of imports. As the table shows, imports seem to be following the path of real GNP, holding close to a ratio of 4 percent.

During previous cyclical downturns and pronounced slowdowns, imports have declined as a percent of current GNP and it remains to be seen whether this experience will be repeated. One would not expect the import-GNP ratio to fall to its earlier values because, among other reasons, (1) the Canadian-U.S. automobile agreement has raised U.S. demand for imported automobiles, and (2) the tariff liberalization has had a similar

Figure 1. Percentage Change from Corresponding Year-earlier Period in U.S. Gross National Product and Imports, by Half Years, 1958–69



Source: *Survey of Current Business,* March 1970.
a. Imports are adjusted to exclude automotive shipments from Canada to the United States and temporary effects of U.S. strikes.

effect on most dutiable items. If the import-GNP ratio falls less than historical experience would suggest, loss of price competitiveness of U.S. products might be the explanation.

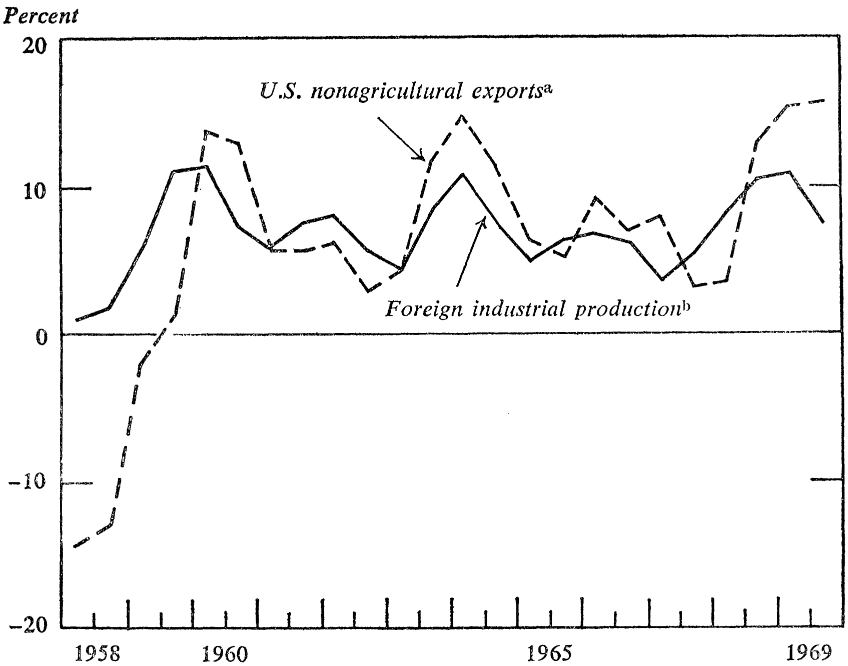
Figure 1 presents the annual percent changes of U.S. imports along with the percent changes in U.S. nominal GNP. The import data have been adjusted to exclude automobile imports from Canada and temporary effects of U.S. strikes. The figure suggests that imports grow at a faster rate than GNP when the growth rate of GNP exceeds approximately 6 percent and at a slower rate than GNP otherwise. The relationship appears quite regular and stable. The validity of this interpretation is greatly dependent, however, on the data adjustments, which by their very nature are open to question. As noted before, the year 1970 will test whether this relationship holds or has been altered by a shift in U.S. competitiveness.

On the export side, the foreign demand of the major trading partners of the United States is the basic determinant of its exports. The index of industrial production of the European OECD countries can be utilized as a first approximation of the growth in U.S. export markets, although it is somewhat on the low side because it excludes Japan. By this yardstick, U.S. exports have not grown as much as one might have expected following the end of the U.S. dock strike. During the second half of 1969, industrial production in Europe increased more than 1 percent while U.S. exports expanded only half as much. This may be due to a loss of competitiveness in foreign markets or to some other factor. Agricultural exports have been doing rather badly for reasons unrelated to competitiveness (in the usual sense) and agriculture makes up 20 percent of the total. Furthermore, U.S. aircraft deliveries have slowed down because of the time lag between the decline of sales of the narrow-bodied jets (707, 727, DC-8, and so on) and the beginning of deliveries of the newer models (such as the 747 and the 1101) in which U.S. companies dominate and which are important in total value of U.S. exports. But some loss of our overall export market may also have occurred.

Figure 2 presents the percent changes in U.S. nonagricultural exports along with the percent changes in industrial production in six major foreign industrial countries weighted by their importance in U.S. exports. The export data are adjusted to exclude automobiles to Canada, aircraft, and temporary effects of U.S. strikes, as well as agricultural exports. These U.S. exports seem to have followed foreign demand quite closely over the past ten years, thus suggesting little change in competitive position. One must again, however, be concerned about the nature of the data adjustments. The approximate mean value of U.S. export growth has been about 8 to 10 percent. This rate would appear adequate to support balanced development of U.S. foreign trade as long as the growth of GNP at full potential is accompanied by only moderate inflation. The problem of agricultural exports still remains, however, along with the fear of losing some ability to compete.

The projection for 1970 in the *OECD Economic Outlook* (December 1969) was rather optimistic for the United States. U.S. imports were estimated to increase by 5 percent (under the assumptions of 1.5 percent real growth in GNP and 4 percent increase in deflator) and U.S. exports by

Figure 2. Percentage Change from Corresponding Year-earlier Period in U.S. Nonagricultural Exports and Industrial Production in Major Foreign Industrial Countries, by Half Years, 1958–69



Source: *Survey of Current Business,* March 1970.

a. U.S. nonagricultural exports are adjusted to exclude automotive exports to Canada, aircraft, and temporary effects of U.S. strikes.

b. Industrial production in Canada, Japan, United Kingdom, Germany, France, and Italy, weighted by these countries' percentage shares in U.S. exports.

9.75 percent—exactly parallel to the growth in the export market. This suggests maintenance of competitive strength, at least during the conjunctural conditions expected in 1970. If achieved, this forecast would mean a $1½ billion to $2 billion increase in U.S. net exports.

The net services balance in the goods and services account deteriorated by over half a billion dollars in 1969, despite sharply higher income from U.S. investments abroad. This deterioration was a consequence of the continued growth in foreign military expenditures and a significant increase in payments of dividends and interest to foreigners for their investments in the United States. In fact, the combination of much higher interest rates and heavy short-term Eurodollar borrowing by U.S. banks caused investment payments to increase $400 million more than investment receipts, thereby accounting for most of the overall deterioration. With a return to less tight money markets in the United States and lower interest rates, these conditions should reverse themselves. It should be noted that interest rates in the Eurodollar market, more volatile than short-term rates within the United States, already have dropped almost 3 percentage points from their 1969 peaks. With normal growth of U.S. investment income, a slight decline in military expenditures abroad, and the money market conditions noted above, the U.S. net surplus on services should increase by about $1½ billion. This improvement, along with developments in the merchandise account, might mean a $3 billion increase in net exports to about $5 billion—similar to the 1967 outcome. It should be noted, however, that the factors that improve the current account usually cause a greater deterioration in the capital account; thus the overall balance of payments on the official settlements basis likely will deteriorate.