Section 3 U.S. economy: Continued growth but prospects uncertain

1. Overview

From the latter half of 2009 through 2010, underpinned by the government's aggressive fiscal policy and the monetary easing policy by the Federal Reserve Board (hereinafter referred to as FRB), the U.S. economy had been recovering moderately (Figure 1-3-1-1).

In 2011, however, the recovery made a slowdown mainly due to the rise in the gas price caused by higher petroleum prices and the supply-chain disruption brought by the Great East Japan Earthquake[101]. In July and August, a series of events occurred, such as political hostilities over the higher debt ceiling issue and downgrade of U.S. Treasury bonds for the first time ever by one of the U.S. credit-rating agencies that caused turmoil in the financial markets, leading to a global stocks descent[102].

But since around October, economic indexes[103] that exceeded markets' expectation released, gradually easing concerns about economic slowdown. And, the pace of recovery accelerated in the latter half of the year with real GDP growth rate for the 3rd quarter positive annualized 1.8% quarter on quarter and for the 4th quarter 3.0% (same Figure as above).

In 2012 as well, recent economic indicators show moderate recovery as a whole, such as the move that signs of improvement have been seen in the labor market and the housing market. Though the real GDP growth rate for the 1st quarter of 2012 (quick estimation) was a 2.2% quarter-on-quarter annualized change, slowing down from 3.0 % of the previous quarter, it maintained a larger growth rate than each growth rate for the 1st-3rd quarters of 2011. According to "World Economic Outlook" issued by IMF in April, the growth rate is expected to be 2.1% in 2012 and 2.4% in 2013.

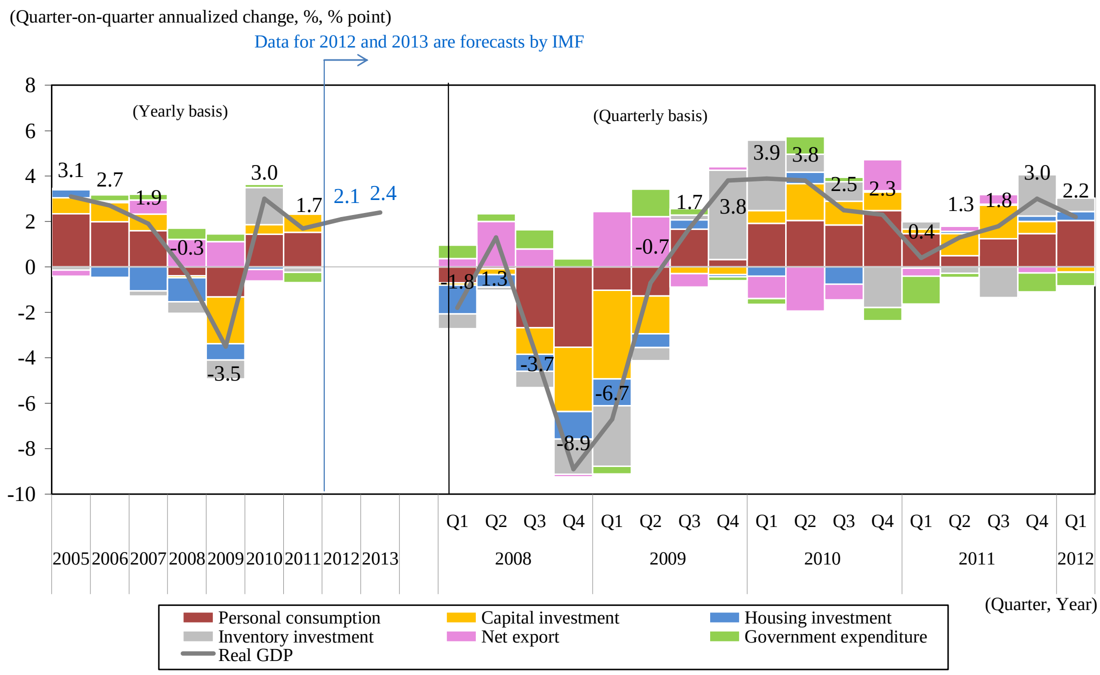
101 On July 29, 2011, the United States Department of Commerce announced that the real GDP growth rate in the 2nd quarter of 2011 was annualized 1.3% quarter on quarter, which was below nearly 2% of what the market had expected, and that catch-up revised number in the 1st quarter of 2011 was 0.4%, which was significantly revised downward from the original 1.9%. Thus, finding that the economy in 2011 was weaker than the most had expected was a trigger that raised concern over the future of the economy.

102 Even after that, a series of weak economic indicators surfaced, such as a decline in consumer confidence in August and a downward swing of employment data in August.

103 For instance, the employment rate (a 103,000-people increase month on month that was revised to 202,000 people afterward) and retail sales (a 1.1% increase from August, that was revised to 1.2% afterward) in September exceeded market expectations.

Figure 1-3-1-1

Real GDP growth and demand-side composition in the U.S.



Note: Seasonally adjusted. Data for the 1st quarter of 2012 is a quick estimation.
Source: United States Department of Commerce, *WEO, April 2012* (IMF).

However, as household balance-sheet adjustments are continuing, consumption that accounts for 70% of the GDP has not fully recovered. And, a declining but high unemployment rate and slumping housing prices are risk factors of a depressed U.S. economy. Also, in addition to a concern particularly over the drop in foreign demand due to the growth deceleration of emerging countries and the spillover of European debt crisis, attention should be paid to the influences of a recent rise in gasoline prices, etc.[104]

As seen above, under the circumstances where uncertainty over the economy still remains, support by monetary policies and fiscal policies are continuously expected. But, with presidential and congressional elections in November 2012, financial policy adjustment between the Democratic Party and Republican Party is getting extremely difficult, and therefore, room for fiscal policies is limited. Meanwhile, in the case of monetary policies, FRB maintains a course of continuing an accommodative monetary policy for the time being at the Federal Open Market Committee (hereinafter referred to as FOMC).

In this way, the U.S. economy is slowly recovering on the whole, but the pace of recovery varies.

Looking at the recovery of real GDP by each category of demand against the demand when the economy peaked[105] (the 4th quarter of 2007), which is set at 100 (Figure 1-3-1-2), export was among the first to recover from an enormous decline, shifting at a level far above 100. Import dropped off

104 IMF (2012) referred to, other than the spillover of the European debt issue, the uncertainty of public finance and the housing market's weakness, as the downward risks of the U.S. economy.

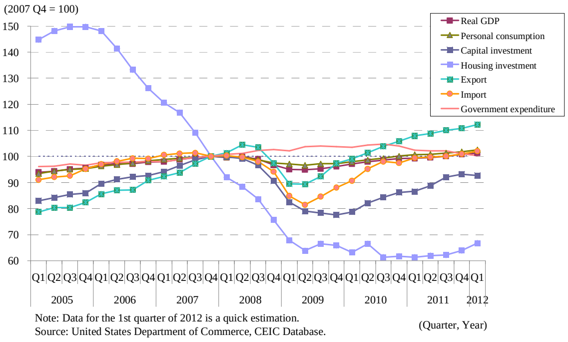
105 In September 2009, the National Bureau of Economic Research (NBER) announced, "After the economy peaked in December 2007, it hit the bottom in June 2009."

severer than that, but it has almost recovered to its former level. In contrast, housing investment declined sharply from a high level and showed no visible sign of recovering, but it has recently shown a tendency to increase. Though facility investment has steadily recovered, it recently fell into a sluggish pace. Personal consumption is gradually recovering. Fiscal expenditure had been expanding reflecting the economic expansion, but it has recently been shrinking.

In the following, U.S. economic trends will be organized focusing on 2011 to the present.

Figure 1-3-1-2

Real GDP and demand item in the U.S. (4th quarter of 2007 = 100)



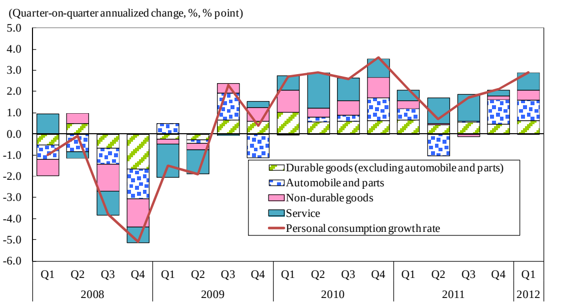
Note: Data for the 1st quarter of 2012 is a quick estimation.
Source: United States Department of Commerce, CEIC Database.

(1) Personal Consumption/Personal Income

Reflecting the decrease of durable products such as automobiles (a negative annualized growth rate of 5.3% quarter on quarter), the real personal consumption increase in the 2nd quarter of 2011 was the lowest since the 4th quarter of 2009. As the factors including rising gas prices and the short supply of parts caused by the Great East Japan Earthquake that are considered to have affected this decrease of durable products consumption had been resolved, personal consumption recovered, supporting the recovery of the U.S. economy in the latter half of the year (Figure 1-3-1-3).

Figure 1-3-1-3

Contribution by actual personal consumption and expenditure items in the U.S.



Note: Seasonally adjusted. Data for the 1st quarter of 2012 is a quick estimation.
Source: United States Department of Commerce, CEIC Database.

Retail sales month on month have been increasing as well[106] (Figure 1-3-1-4). Consumer credit

106 In the latter half of 2011, personal consumption was high, seemingly in consequence of the events

mainly composed of credit cards and car loans is also increasing month on month. In particular, the increase was high at the end of 2011, contributing to a high level of sales on Christmas business (Figure 1-3-1-5).

However, in 2012, gasoline prices have risen again, possibly leading to a negative impact on future consumption[107] [108] (Figure 1-3-1-6).

Figure 1-3-1-4

Retail sales in the U.S.

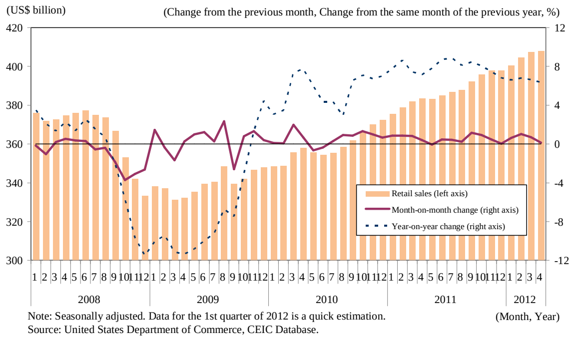
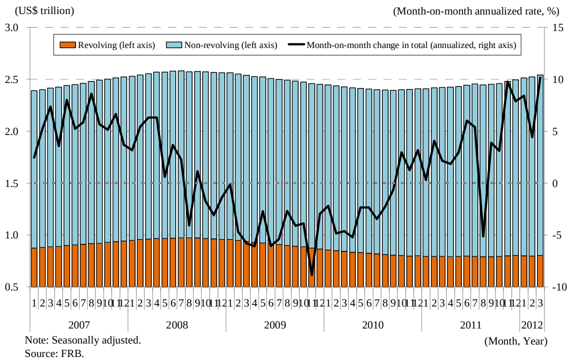


Figure 1-3-1-5

U.S. credit balance



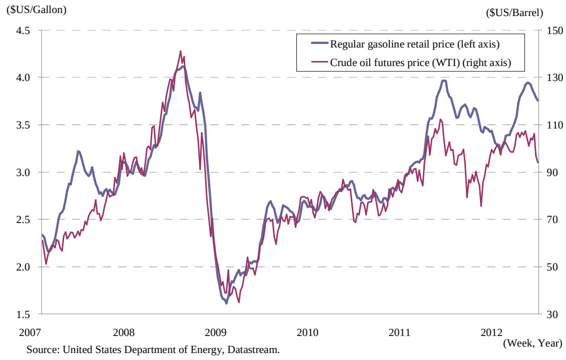
including the lift on the restriction of automobile supply and the anticipation of the demand of spring clothing due to the record warm winter.

107 Summary of Commentary on Current Economic Conditions—a report of regional economic conditions compiled by the Federal Reserve District used as a discussion paper in the next FOMC and called the Beige Book after its color—that was released by FRB on April 11, 2011, reported, “Immediate outlook for household consumption is reassuring but many people concerned expressed their concern that the rising gas prices might suppress discretionary spending over the next several months.”

108 In the short-term energy outlook of May 8, 2012, the U.S. Energy Information Administration (EIA (2012)) forecasted that gasoline retail price in 2012 would be $ 3.71 a gallon.

Figure 1-3-1-6

Regular gasoline retail price and crude oil futures price (WTI) in the U.S.

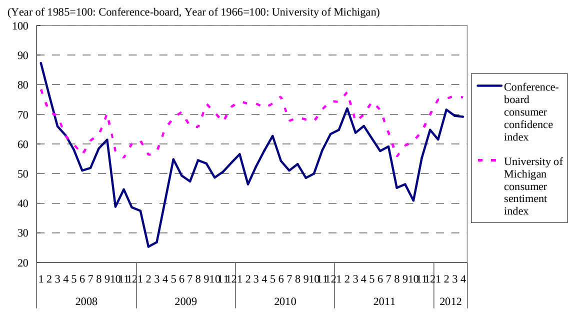


Source: United States Department of Energy, Datastream.

Consumer confidence sharply declined mainly reflecting the concern over the U.S. economic slowdown that surfaced between the summer and autumn, the distrust toward fiscal policy influenced by the fights over the raising federal debt ceiling issue, and the concerns over the European debt crisis. Although consumer confidence has recently been picking up partly because of the improvement of employment conditions, they could worsen and lead to a decline in consumption from here on due to surging gasoline prices, etc. (Figure 1-3-1-7).

Figure 1-3-1-7

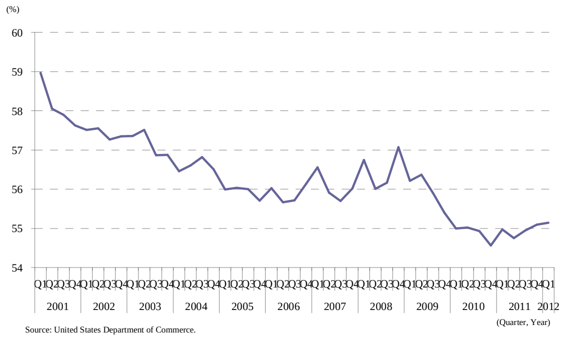
U.S. conference-board consumer confidence index and the University of Michigan consumer sentiment index



Source: Conference-board, University of Michigan, and CEIC Database.

Figure 1-3-1-8

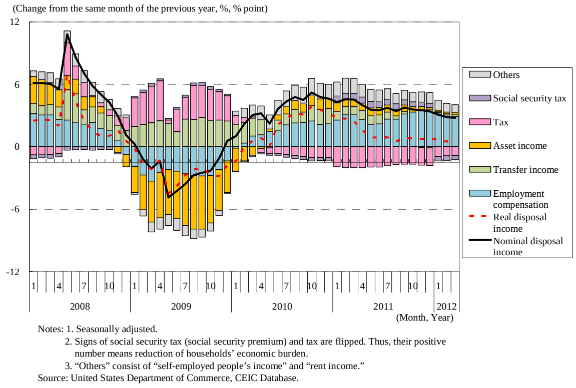
Employee compensation in the U.S. (ratio to nominal GDP)



Personal income that supported consumption increased gradually through 2011. Employment consumption that had been declining against nominal GDP since 2009 has been back on the recovery track since 2011 with the recovery of employment conditions (Figure 1-3-1-8) becoming a factor that boosted nominal disposable income. Meanwhile, real disposable income taking into account price increase has been near a 0% increase year on year since 2011. However, the effects of support, such as transfer income that pushed up personal income owing to the government's economic measures and cuts in social security tax, have been deteriorating from the middle of 2011, and therefore, income growth could have a slowdown from here on (Figure 1-3-1-9).

Figure 1-3-1-9

Contribution decomposition of nominal disposable income (year-on-year change) and transition of actual disposable income (year-on-year change) in the U.S.

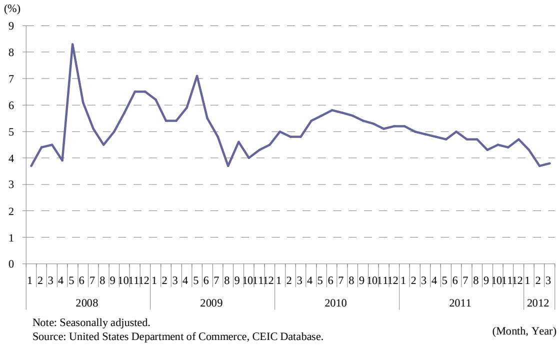


Also, the personal-saving rate has been declining lately (Figure 1-3-1-10). Consumers seem to spend some of their savings, creating some concern over the sustainability of a future consumption rise[109].

109 Estimating the proper range of personal saving rate from the perspective of the households' balance-sheet adjustment, Hattori (2012), because the personal saving rate as of the end of 2011 is found to be near the lower limit of the proper range, says "Supports for consumption by further decline in the household savings cannot be expected."

Figure 1-3-1-10

National savings rate in the U.S.

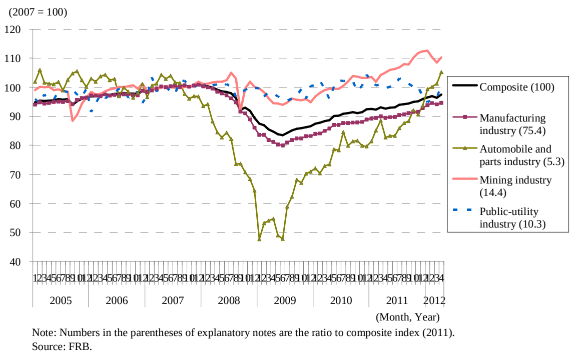


(2) Enterprise Activities

Industrial Production Index (composite) indicates that enterprise production activities have gradually risen throughout 2011.

Figure 1-3-1-11

U.S. industrial production index (by major industry)



The production index of automobiles/parts that dropped sharply in the recession period has recently been recovering at the level in 2007. Despite the production decline in 2011 affected by the Great East Japan Earthquake and the disruptions and delays of supply of parts due to the flood in Thailand, it maintains an upward trend with the resolution of the procurement shortfall afterwards and the sales recovery of new automobiles in the latter half of the year in the U.S. (Table 1-3-1-12)(Figure 1-3-1-13)

The operational rate of facilities recovered gradually throughout 2011, but remains below the long-term average (the years of 1972-2011) of 80.3% (Figure 1-3-1-14).

Private facility investment increased steadily[110] in the context of strong enterprise performances,[111]

110 Refer to the column “US multinational corporations with overseas subsidiaries of increasing importance”

111 The enactment of “The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010” in December 2012 that incorporates facility investment tax cuts also helped the increase of private facility investment . The Act permitted 100% special depreciation for a facility investment made from September 9, 2010, to the end of 2011, 50% special depreciation made during 2012, and an

supporting the growth in 2011. However, it has been slowing down recently, and the real private facility investment in the 1st quarter of 2012 decreased quarter on quarter for the first time since the 4th quarter of 2009[112] (Figure 1-3-1-15).

Order of core capital goods (nondefense capital goods excluding aircraft), which is considered a leading indicator of private facility investment, has been at a standstill since the autumn of 2011 (Figure 1-3-1-16). Also, on the subject of enterprise sentiments toward future facility investment, looking at the index relevant to enterprises' investment trends 6 months later by the federal reserve bank of New York and the federal reserve bank of Philadelphia, though once elevating after experiencing a sharp drop through the autumn of 2011, it has been declining again lately (Figure 1-3-1-17).

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expansion of immediate depreciation for small and medium-sized enterprises.

112 Some think that partial expiration of facility investment tax cut at the end of 2011 was affected as well.

Table 1-3-1-12

Impact of the Great East Japan Earthquake and the flood in Thailand on U.S. automotive production and sales businesses

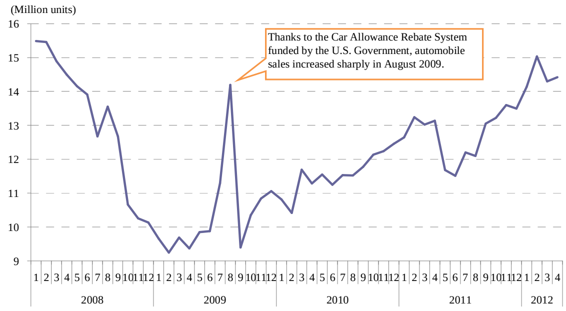
(extract from Summary of Commentary on Current Economic Conditions by the Federal Reserve District for September 2011 to January 2012)

Data of publication	Federal reserve banks	Contents of the report
2011/9/7	**While negative impacts continue, such as the supply disruptions due to the earthquake disaster, some banks report that sales have been improving.**	
	New York (×)	Reflecting the supply disruptions and the shortage of sales incentive, new car sales will continue to show weakness in the weeks to come.
	Philadelphia (×)	The supply disruptions of some Japan-related automobile/parts continue. Their sales dropped in July.
	Atlanta (○)	With the normalization of supply chains, new orders for tires have increased sharply.
	Dallas (○)	Sales have been improving. Supply will have recovered by the end of September.
	San Francisco (×○)	While the shortage of automobile parts and some branded automobiles brought by the earthquake disaster has been continuing, new car sales have somewhat improved.
2011/10/19	**With the resolution of the supply disruptions due to the earthquake disaster, an increasing number of reports point out improvements such as the recovery of stock.**	
	New York (○)	Stock has increased with the resolution of stock supply disruptions, and sales have improved as well compared with that in the previous report.
	Cleveland (○×)	• Thanks to the start of production of 2012 models and the resolution of the supply disruptions, the amount of production in August increased considerably compared with July's. • Though Japanese automobile stock has made a recovery, it has not come up to the level dealers want.
	Atlanta (○)	Impact of the disaster has weakened, and production has got back to normal.
	San Francisco (○)	As a result of the stock replenishment of branded cars that had been in short supply due to Japan's disaster, new car sales have increased by a large margin.
2011/11/30	**Negative impact on the recovery of stock due to the flood.**	
	Chicago (×)	As a result of the impact of the recent flood in Thailand, the recovery of Japanese automobile stock for sale has been delayed.
	Dallas (○×)	While the stock shortage of Japanese automobile due to the tsunami has got back to almost normal, some foreign products have been influenced recently by the flood in Thailand.
	San Francisco (○)	The stock of some Japanese automobiles has recovered to meet increasing consumer demand. New car sales have remained firm.
2012/1/11	**Some negative impact caused by the flood.**	
	Atlanta (×)	Due to the damages to the factories in Thailand or production cutback for several weeks, the production of several types of automobile was subject to moderate negative impact.

Note: (×) shows negative impacts or their continuation; (○) shows improvements from negative impacts.
Source: FRB.

Figure 1-3-1-13

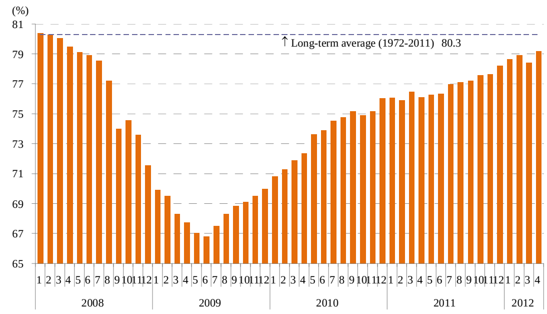
U.S. new car sales



Note: Seasonally adjusted, Annualized rate.
Source: United States Department of Commerce.

Figure 1-3-1-14

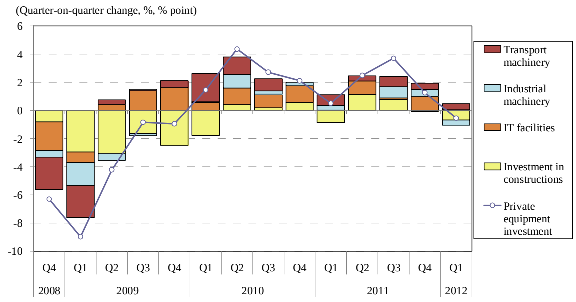
U.S. capacity utilization rate



Note: Seasonally adjusted.
Source: FRB, CEIC Database.

Figure 1-3-1-15

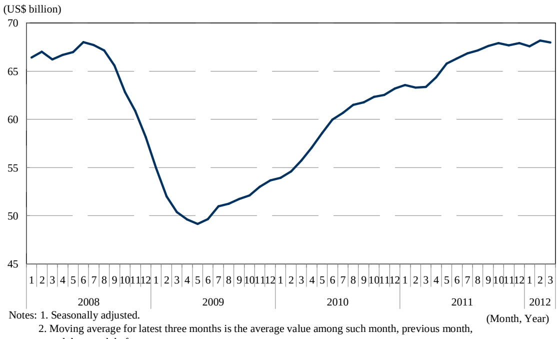
U.S. private equipment investment and contribution by major items



Note: Seasonally adjusted. Data for the 1st quarter of 2012 is a quick estimation.
Source: United States Department of Commerce, CEIC Database.

Figure 1-3-1-16

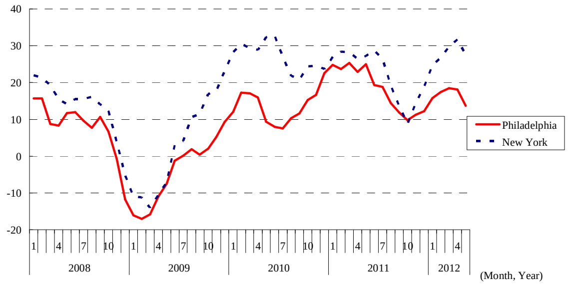
Orders of core capital goods in the U.S. (nondefense capital goods orders excluding aircraft) (moving average for the latest three months)



Notes: 1. Seasonally adjusted.
2. Moving average for latest three months is the average value among such month, previous month, and the month before.
Source: United States Department of Commerce, CEIC Database.

Figure 1-3-1-17

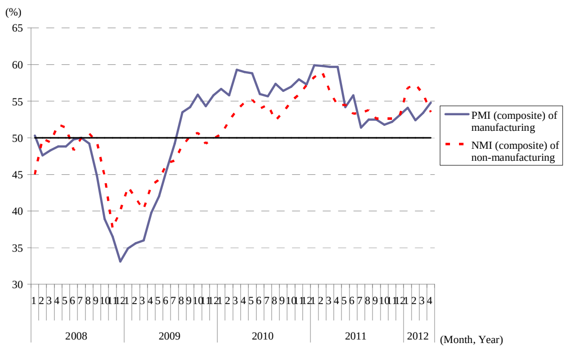
Index of the federal reserve bank of New York business outlook survey and index of the federal reserve bank of Philadelphia business outlook survey (equipment investment, the average of the previous three months)



Notes: 1. The index of the Federal Reserve Bank of New York covers the state of New York and the index of Federal Reserve Bank of Philadelphia covers the states of Pennsylvania, New Jersey, and Delaware.
2. A questionnaire survey of enterprises on the outlook six months from then was conducted. Zero (0) is the crossroads of expansion or shrinkage.
3. Moving average for latest three months is the average value among such month, previous month, and the month before.
Source: Federal Reserve Bank of New York, Federal Reserve Bank of Philadelphia, and CEIC Database.

Figure 1-3-1-18

U.S. ISM business conditions index (manufacturing, nonmanufacturing)



Note: 50 is the level considered to be a crossroads of expansion or shrinkage of production activities.
Source: U.S. Institute for Supply Management, CEIC Database.

The indexes relating to enterprise sentiments by the Institute for Supply Management (ISM) that compared the current status of production, new orders, and employment, etc., with the status of those of one month before, exceed 50, which is a turning point in judging the economy in both manufacturing and non-manufacturing businesses[113]. The expansion pace slowed down through the latter half of 2011, but there is a visible sign of recovery in 2012 (Figure 1-3-1-18).

Column 2 U.S. multinational enterprises with foreign affiliates of increasing importance

Pre-tax income of U.S. enterprises is at the record high level beyond the peak before the world economic crisis (Column Figure 2-1). Since 2007, with overseas income expanding and domestic income dropping, the ratio of overseas income has increased substantially, supporting the overall income. Reflecting the recovery of domestic economy after the world economic crisis, the ratio of overseas income declined, but the importance of overseas economy for enterprises' overall income is increasing compared to the period of economic prosperity from 2005 to around 2006.

Under these circumstances, U.S. multinational enterprises are increasing employment and facility investment in foreign affiliates[114] more than at home. According to the Bureau of Economic Analysis (BEA (2012)[115]), the number of people working for U.S. multinational enterprises in 2010 was 34 million (a 0.5% increase year on year). While 23 million (a 0.1% increase year on year) of them were domestic employment by parent corporations in the U.S. that remained virtually flat[116] from the previous year, 11 million (a 1.5% increase year on year) of them were employed overseas by foreign affiliates (majority-owned) that recorded a higher increase than the domestic employment. Even in the long term, the share of workers in foreign affiliates to the total workers of U.S. multinational enterprises increased from 24.8% in 1999 to 32.3% in 2010 (Column Figure 2-2).

Likewise, out of $US 621 billion (a 3.9% increase year on year) of total facility investment in 2010, while domestic facility investment by U.S. parent companies was $US 447 billion (a 3.3% increase year on year), overseas investment for foreign affiliates was $US 173 billion (a 5.5% increase year on year), recording a higher increase than the domestic facility investment. The share of facility investment for foreign affiliates increased from 21.6% in 1999 to 27.9% in 2010 (Column Figure 2-3)[117].

On the other hand, as for foreign multinational enterprises, the number of employees of foreign affiliates (majority-owned) in the U.S. was 52,000 people (a 1.0% decrease year on year) and facility

113 The indexes exceeded 50 since August 2009 in manufacturing businesses, and since January 2010 in non-manufacturing businesses.

114 "Overseas income (acceptance)" in this column includes income and dividends from foreign affiliates in direct investment relationships (e.g. 10% or more voting rights) and unaffiliated foreign corporations. Meanwhile, "foreign affiliates" of multinational corporations mean only majority-owned foreign affiliates or majority-owned U.S. companies.

115 http://www.bea.gov/newsreleases/international/mnc/2012/_pdf/mnc2010.pdf

116 Although the employment in the U.S. private sector had decreased by 0.6% year on year in 2010, that in U.S. parent corporations remained almost unchanged. The employment in U.S. parent corporations accounts for about one-fifth of that of the U.S. private sector (BEA (2012)).

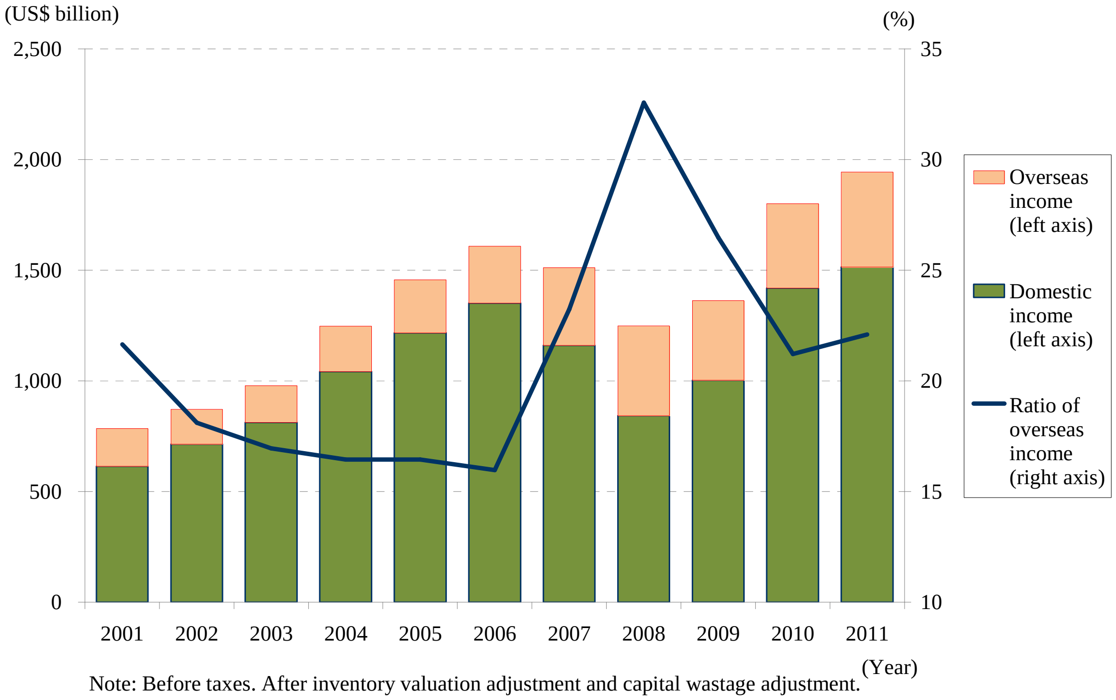
117 (BEA (2012)) pointed out that the shift in the share of U.S. parent companies and foreign subsidiaries in U.S. multinational enterprises activities didn't necessarily show a production shift between them, and that other factors might be related, such as the difference in economic growth rates between the U.S. market and characteristic markets of invested countries and new overseas market opportunities that could not be obtained through imports from the U.S.

investment was US$ 147.4 billion (a 1.7% decrease year on year), both of which decreased year on year (Column Figure 2-4). Although these decreases are not as sharp as those in 2009 (a 6.1% decrease in employees year on year, 20.6% decrease in facility investment year on year), they turned out to be consecutive negative growths year on year.

Thus, it can be said that, with the growing importance of overseas income for the total income, the situation has been produced where while U.S. multinational enterprises have been increasing employment and capital investment for foreign affiliates rather than for U.S. parent corporations, foreign multinational enterprises have been decreasing employment and capital investment for their affiliates in the U.S.

Column Figure 2-1

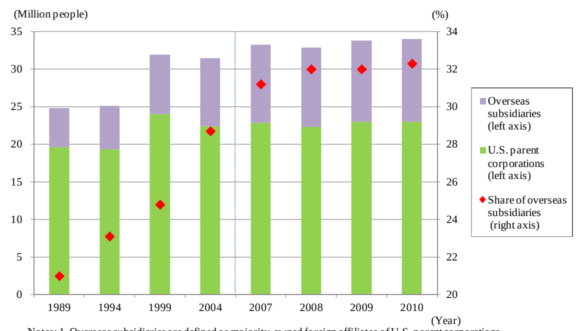
U.S. corporate pre-tax profit



Note: Before taxes. After inventory valuation adjustment and capital wastage adjustment.
Source: United States Department of Commerce, CEIC Database.

Column Figure 2-2

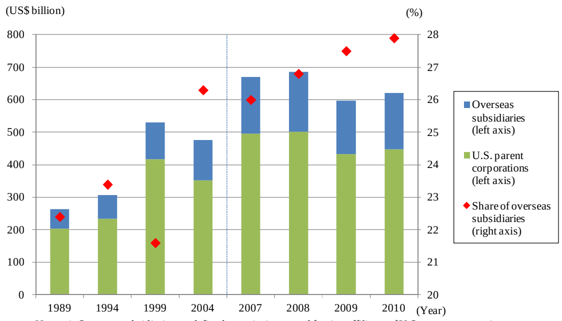
Employees of U.S. multinational enterprises



Notes: 1. Overseas subsidiaries are defined as majority-owned foreign affiliates of U.S. parent corporations.
2. Quinquennial trends from 1989 to 2004. Annual trends after 2007.
Source: United States Department of Commerce.

Column Figure 2-3

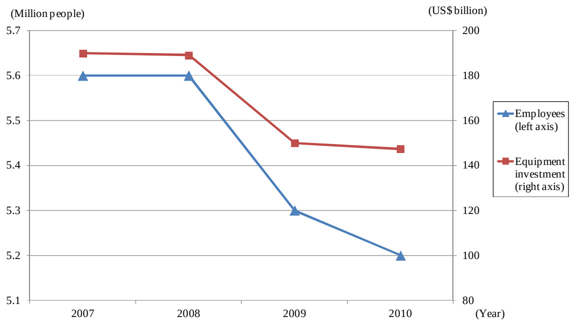
Equipment investment of U.S. multinational enterprises



Notes: 1. Overseas subsidiaries are defined as majority-owned foreign affiliates of U.S. parent corporations.
2. Quinquennial trends from 1989 to 2004. Annual trends after 2007.
Source: United States Department of Commerce.

Column Figure 2-4

Number of employees and the amount of equipment investment of multinational enterprises' subsidiaries (U.S.)



Note: Overseas subsidiaries are defined as majority-owned foreign affiliates of U.S. parent corporations.
Source: United States Department of Commerce.

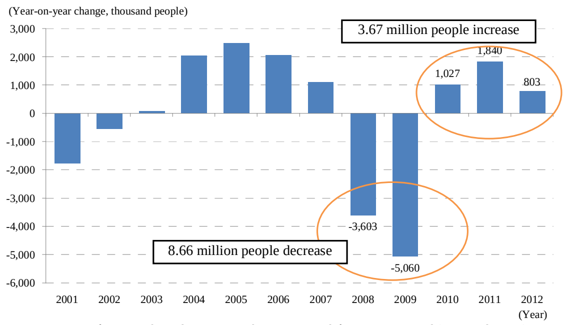
(3) Labor Market

The number of employees of the U.S. nonagricultural sector in 2011 increased by 1.84 million people year on year, surpassing the 1.03-million-people increase in 2010[118]. Furthermore, it increased by 0.803 million people by April 2012, increasing about 0.2 million people per month. The increases since 2010 totaled to 3.67 million people, but this number fell far short of 8.66 million people, which is the number of people who lost their jobs from 2008 to 2009 (Figure 1-3-1-19).

118 In fact, however, the pace of increase has been slowing down on a month-by-month basis.

Figure 1-3-1-19

Number of employees in the U.S. nonagricultural sector (year-on-year change)

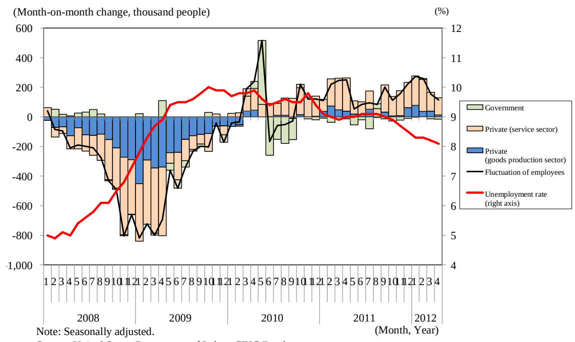


Note: Data for 2012 is the total increase over the previous month from January to April (announced in May).
Source: United States Department of Labor, CEIC Database.

Looking at the trends of the increase of employees by section (Figure 1-3-1-20), the number of employees of the private service sector had increased by 143 thousand people per month in 2011 and by 165 thousand people per month by April 2012, supporting overall increases. As to the private goods production sector (Figure 1-3-1-21) which had experienced a slump worse than any other sector in the recession period, its number of employees had increased by 33 thousand people per month in 2011 and by 51 thousand people by April 2012[119]. However, the increasing pace of the number of employees in both the private service sector and the private goods sector has slowed down lately. The number of employees in the government sector decreased by 22 thousand people per month in 2011 and has been on a declining trend in 2012 as well.

Figure 1-3-1-20

Number of employees and unemployment rate of the U.S. nonagricultural sector (year-on-year change)

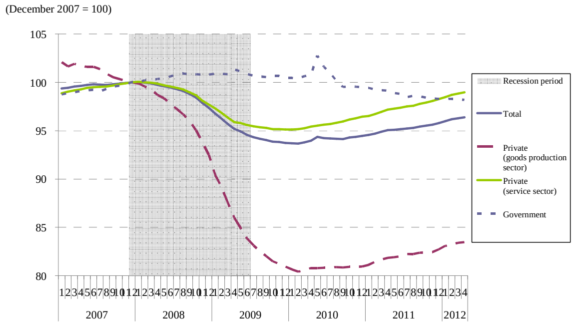


Note: Seasonally adjusted.
Source: United States Department of Labor, CEIC Database.

119 It recorded a 78-thousand increase in January, the highest increase since world economic crisis.

Figure 1-3-1-21

Number of employees in the U.S. nonagricultural sector (December 2007 = 100)



Source: United States Department of Labor, CEIC Database.

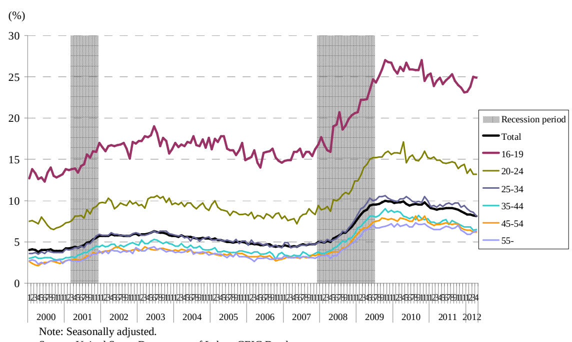
In 2011, the unemployment rate had been around 9% and dropped sharply from the end of the year, resulting in 8.1% in April 2012, the lowest level since January 2009 (aforesaid Figure 1-3-1-20). But, it is still higher than the unemployment rate (around 5%) before the recession period[120].

The unemployment rate rises with younger age and lower education, and about one in four between the ages of 16 and 19 are unemployed (Figure 1-3-1-22, Figure 1-3-1-23). Moreover, unemployment periods have been prolonged. Those who have been unemployed for 27 weeks or more account for about 40% of all the unemployed, and the average unemployment periods have reached as long as 40 weeks[121] (Figure 1-3-1-24).

In addition, the recent decline in the unemployment rate is partly due to the withdrawals of those who have been discouraged. The Labor Force Participation Rate[122] has recently fallen below 64%, resulting in the lowest for these 30 years (Figure 1-3-1-25). In cases where the number of job seekers increases (Labor Force Participation Rate grows), reflecting the recovery of the labor market, the unemployment rate could turn upward.

Figure 1-3-1-22

Unemployment rate by age group in the U.S.



Note: Seasonally adjusted.
Source: United States Department of Labor, CEIC Database.

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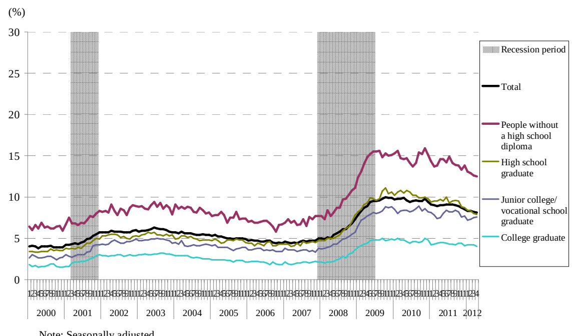
120 In the FOMC statement of April 24-25, FRB indicated, “the labor market circumstances has improved in the last months and the unemployment has been decreasing but remains at high level.”

121 For instance, the average unemployment period in March 2012 was 39.4 weeks, 2.4 times more than that in March 2008 (16.5 weeks).

122 Labor Force Participation Rate = labor force (employed＋unemployed) / working-age population (16 years of age or older, neither institutionalized nor in the military)

Figure 1-3-1-23

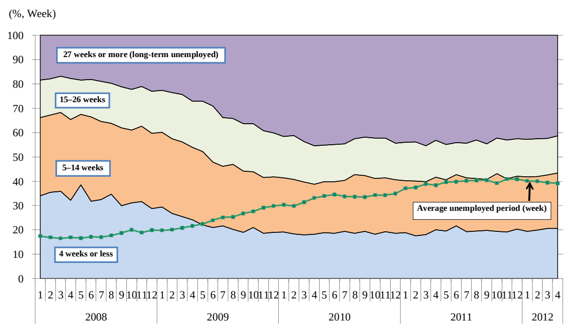
Unemployment rate by academic background in the U.S. (over the age of 25)



Note: Seasonally adjusted.
Source: United States Department of Labor, CEIC Database.

Figure 1-3-1-24

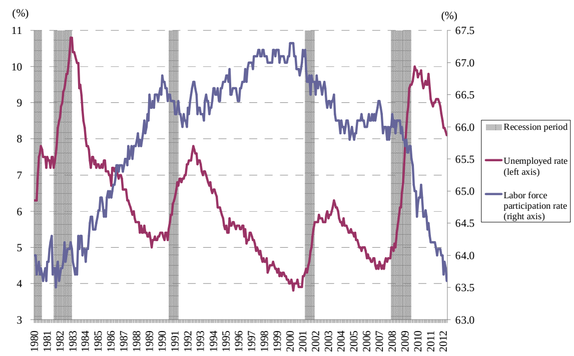
Share of unemployment by duration and average unemployment duration



Note: Seasonally adjusted.
Source: United States Department of Labor, CEIC Database.

Figure 1-3-1-25

U.S. labor force participation rate and unemployment rate



Source: United States Department of Labor, CEIC Database.

The number of new applications for unemployment insurance regarded as a leading indicator of employment statistics has recently decreased to the level of the first half of 2008, shifting lower than 400 thousand applications, which is considered to be a benchmark of the crossroads between employment creation and losses (Figure 1-3-1-26). This suggests that the labor market has been improving modestly, but given the fact that the applications have been increasing lately, it is necessary to continue to take a cautious approach to the employment conditions.

Figure 1-3-1-26

U.S. new applications for unemployment insurance

Note: Seasonally adjusted; 400,000 applications are considered to be a benchmark of the crossroads between employment creation and employment losses.
Source: United States Department of Labor, CEIC Database.

(4) Housing Market

The housing market remains at a low level, but there are visible signs of some recovery[123]. The real housing investment in the 1st quarter of 2012 (quick estimation) increased by an annualized growth rate of 19.1% quarter on quarter, recording the highest increase since the 2nd quarter of 2010 and resulting in the increase of four consecutive quarters (Figure 1-3-1-1 aforesaid). Home sales of new homes/existing homes have increased month on month since the latter half of 2011 (Figure 1-3-1-27), and, moreover, housing starts and building permits, which are considered to be leading indicators of housing starts, are steadily increasing (Figure 1-3-1-28). Incidentally, in terms of the composition of housing starts, increases in housing starts of complex housings pushed up the total housing starts in 2011 (Figure 1-3-1-29), which is believed to reflect growing demand for rental housings while the U.S. home ownership rate is on the decline(Figure 1-3-1-30).

Meanwhile, home prices are continually decreasing. S&P/Case-Shiller Home Price Indices (seasonally unadjusted) have decreased since October 2010 compared to the same month of the previous year (Figure 1-3-1-31). Recent stock-sales ratio of existing homes has declined to 6 months at the level of 2006 (aforesaid Figure 1-3-1-27), but the presence of what is called shadow inventory[124] is regarded to be a factor of housing price decline[125].

---

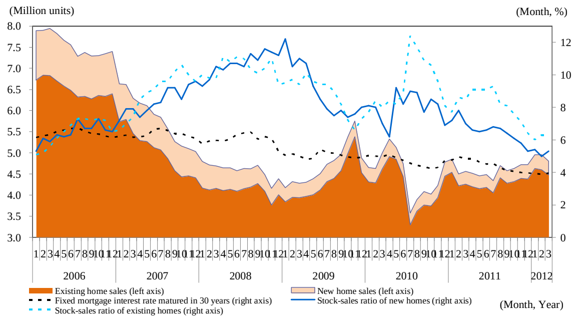
123 In the FOMC statement of April 24-25, FRB indicated, “Despite the several signs of improvement, the housing sector remains a very low activity.” The description respecting the signs of improvement was added to “remains a very low activity” in the previous statement.

124 Generally speaking, it means the housings on which mortgage repayment has not been paid for a long period or which is in a foreclosure process, etc.

125 Miwa/Maruyama (2012) point out that shadow inventory could flow into the housing market at a fast pace owing to the promoted foreclosure processes, reflecting that five of the biggest U.S. banks agreed to the settlement with concerned, including the U.S. government in February 2012 that they would pay 25 billion dollars on the issue of the mortgage foreclosure abuse.

Figure 1-3-1-27

U.S. home sales (new homes, existing homes), stock-sales ratio, and mortgage interest

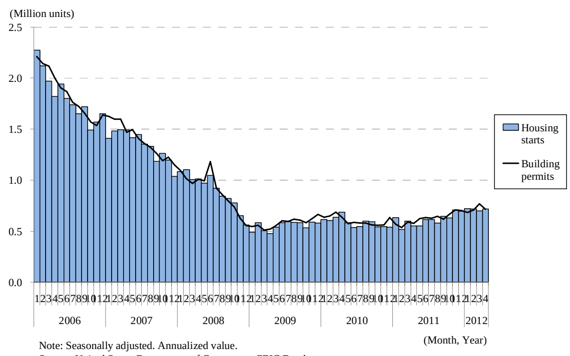


Notes: 1. Seasonally adjusted. Annualized rate.
2. Stock-to-sales ratio is an index measuring how many months of housing are in stock to current home sales if there is no additional housing supply at the time.

Source: United States Department of Commerce, Institute of Real Estate Management, Freddie Mac, and CEIC Database.

Figure 1-3-1-28

U.S. housing starts and building permits

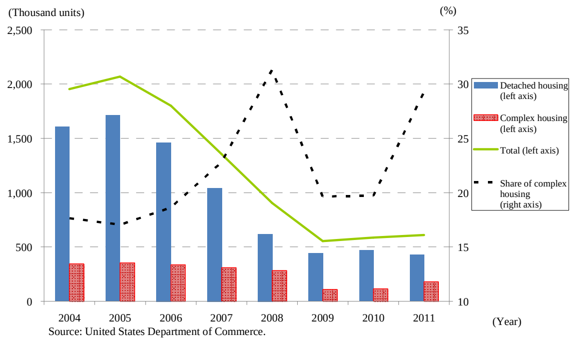


Note: Seasonally adjusted. Annualized value.

Source: United States Department of Commerce, CEIC Database.

Figure 1-3-1-29

U.S. housing starts (year basis)



Source: United States Department of Commerce.

Figure 1-3-1-30

U.S. home ownership rate and rental vacancy rate

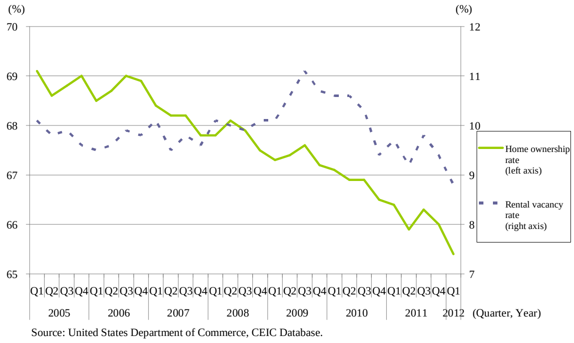
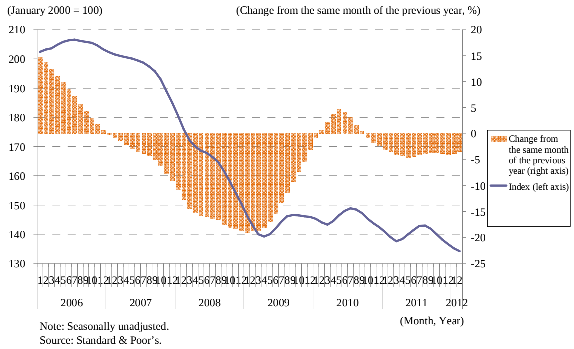


Figure 1-3-1-31

U.S. Case-Shiller Home Price Indices



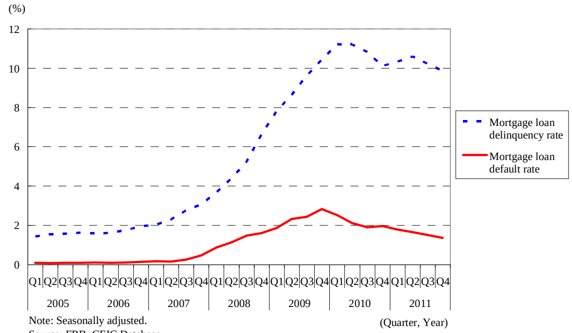
As home prices have declined, mortgage interest is at the lowest recorded level (Figure 1-3-1-27 aforesaid). It can be said that housing environment has been improving; for example, a series of changes were made to the Home Affordable Refinance Program (HARP)[126]. However, though the recent mortgage loan delinquency rate and default rate have downward tendencies, they are still at high levels compared to the past (Figure 1-3-1-32). Thus, the recovery of the housing market could remain slow at the moment[127].

126 On October 24, 2011, FHFA (Federal Housing Finance Agency), with Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation), announced a series of changes to the Home Affordable Refinance Program (HARP) in an effort to ease the conditions of use. The changes included eliminating certain risk-based fees for borrowers who refinance into shorter-term mortgages and lowering fees for other borrowers and removing the current 125% LTV (loan-to-value) ceiling for fixed-rate mortgages, which make mortgage refinancing easier; for example, one can have access to refinances even though the appraised value of his/her home has decreased. In addition, the end date for HARP was extended until the end of 2013.

127 IMF (2012) points out that the issues of debt reduction in households and inventory growth caused by foreclosures on homes are stretching the period of home price decline more than expected, and that housing assistance, along with fiscal policy, is one of the high-priority policies.

Figure 1-3-1-32

U.S. mortgage loan delinquency rate and default rate



Note: Seasonally adjusted.
Source: FRB, CEIC Database.

The decline in housing prices affects household balance-sheets adjustments[128]. Household net assets compared to the previous year at the end of December 2011 recorded the first negative growth in three years (Table 1-3-1-33). This was because the fall of assets had been steeper than that of liabilities, mainly reflecting the fall of real-estate prices and the downward trend of the stock market caused by the European debt crisis.

The ratio of interest-bearing liabilities such as mortgage to disposable income has been declining to the trend standard from 1980 to 2000, showing the advancement of adjustment (Figure 1-3-1-34). But, the decreasing rate of mortgage, accounting for about 70% of total liabilities, has recently been slowing down, indicating that the reduction in household debts could have been slowing down.

(5) Price

The rate of consumer price increase had been growing since the end of 2010, but it has shown gradual movement since the autumn of 2011 (Figure 1-3-1-35). Reflecting that the pace of gas price increase became moderate, the increase of composite index in comparison with the same month of the previous year has been on the decline (Figure 1-3-1-36). Meanwhile, core index, excluding food and energy, has been increasing by 2.2-2.3% in comparison with the same month of the previous year since November 2011, showing stability[129] (Figure 1-3-1-35 aforesaid).

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128 When the appraised value of one's home cannot cover the mortgage balance owing to the decline of the home price, this situation is called underwater. This home becomes a negative equity for a homeowner. According to the report by The White House Council on Economic Affairs in 2012 (CEA (2012), negative equities total to US$ 700 billion, and 10.7 million homes (or 22% of the total) are believed to be in the underwater situation. Among all, experiencing the sharp drop in home prices, 6 states (Arizona, California, Florida, Georgia, Michigan, and Nevada) hold more than half the negative equity of the entire U.S.

129 In the FOMC statement of April 24-25, 2012, FRB indicated, "though inflation had somewhat accelerated mainly reflecting the rising prices of crude oil and gasoline, inflationary expectation in the long term is continuously stable."

Table 1-3-1-33

Balance sheet (major items) of the U.S. household sector

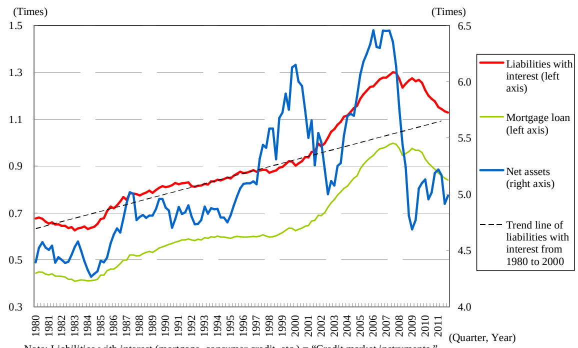
(Unit: US$ billion)

			End of 2006	End of 2007	End of 2008	End of 2009	End of 2010	1st quarter of 2011	2nd quarter of 2011	3rd quarter of 2011	4th quarter of 2011
Total assets			78,678.6	79,544.5	66,688.6	69,172.9	72,729.8	73,770.3	73,583.4	71,032.7	72,229.0
	Real assets		29,546.2	27,970.0	24,454.0	23,738.6	23,477.4	23,227.7	23,321.2	23,428.7	23,161.8
		Real estates	25,009.4	23,239.6	19,603.6	18,872.9	18,586.2	18,283.4	18,300.3	18,356.9	18,056.4
	Financial assets		49,132.4	51,574.6	42,234.6	45,434.3	49,252.4	50,542.5	50,262.2	47,604.0	49,067.2
		Stocks	9,652.6	9,636.8	5,746.9	7,408.7	8,663.1	9,211.7	9,008.2	7,415.2	8,140.2
Total liabilities			13,430.3	14,346.4	14,229.7	14,048.0	13,905.7	13,835.8	13,829.5	13,768.3	13,773.9
	Liabilities with interest		12,915.4	13,782.4	13,801.1	13,570.2	13,328.6	13,215.7	13,208.4	13,205.9	13,222.9
	Ratio to disposal income		1.28	1.30	1.26	1.26	1.18	1.15	1.14	1.13	1.13
	Mortgage loan		9,868.5	10,545.7	10,496.5	10,351.2	10,050.9	9,984.9	9,936.9	9,882.4	9,840.5
	Ratio to total liabilities		73.5%	73.5%	73.8%	73.7%	72.3%	72.2%	71.9%	71.8%	71.4%
	Year-on-year (%)		-	6.9%	-0.5%	-1.4%	-2.9%	-	-	-	-2.1%
	Quarter-on-quarter (%)		-	-	-	-	-	-0.7%	-0.5%	-0.5%	-0.4%
	Consumer loan		2,416.0	2,555.3	2,594.1	2,478.9	2,434.7	2,401.9	2,424.3	2,466.7	2,521.0
Net Assets			65,248.3	65,198.2	52,458.9	55,124.9	58,824.1	59,934.5	59,753.8	57,264.4	58,455.1
	Ratio to disposal income		6.45	6.14	4.81	5.10	5.19	5.22	5.17	4.92	4.99

Note: Liabilities with interest (mortgage loan, consumer credit, etc.) = “Credit market instruments”
Source: FRB.

Figure 1-3-1-34

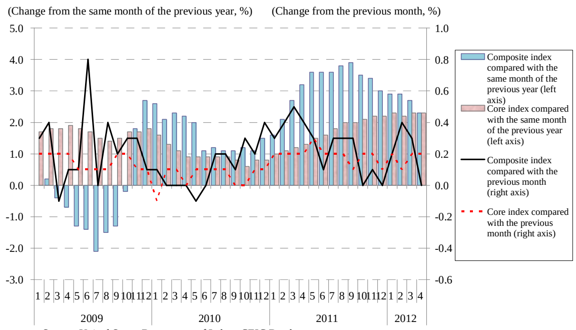
U.S. household liabilities and net assets (ratio to disposable income)



Note: Liabilities with interest (mortgage, consumer credit, etc.) = “Credit market instruments.”
Source: FRB, CEIC Database.

Figure 1-3-1-35

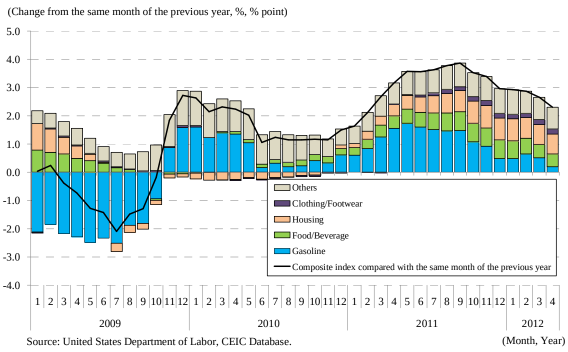
U.S. consumer price index



Source: United States Department of Labor, CEIC Database.

Figure 1-3-1-36

U.S. consumer price index (composite) factor decomposition (year-on-year change)



Column 3 Misery Index

In 2011, while the U.S. experienced economic slowdown, rising prices were accelerating. The state of coexistence between economic recession (stagnation) and rising prices (inflation) is called stagflation.

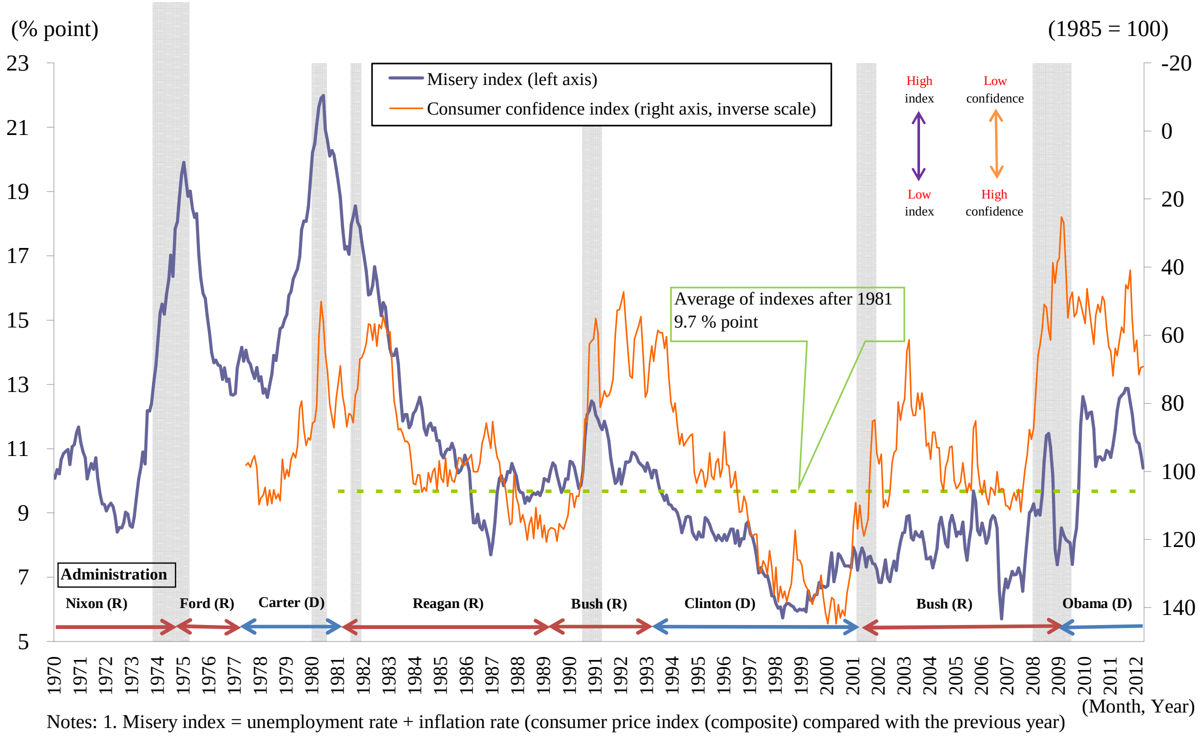
As an index describing the degree of stagflation, there is the misery index[130] found by adding unemployment rate and consumer price index (composite) in comparison with the previous year. When this index is high, it is concerned that consumer confidence gets worse. The misery index in August 2011 was 12.9% points, the highest since 1983, but it has been declining since then. However, the index recorded 10.4% points[131] in April 2012, still at the levels above the long-term average since 1981 (9.7% points) (Column Figure 3-1).

130 It was created by Arthur Okun, a U.S. economist.

131 Unemployment rate, 8.1% + consumer price index (composite) year on year, 2.3%.

Column Figure 3-1

U.S. misery index



Notes: 1. Misery index = unemployment rate + inflation rate (consumer price index (composite) compared with the previous year)

2. Shaded areas represent recession periods.

Source: United States Department of Labor, Conference-board and CEIC Database.

(6) Fiscal Policy

U.S. real fiscal expenditures that had supported its economic recovery in 2010 recorded minus 2.1% year on year in 2011 owing to the reduction of defense expenditures and the cutting of state/local government expenditures, shifting to negative contribution to growth rate. As for state/local government expenditures, they recorded negative contributions for the third consecutive year[132] (Figure 1-3-1-1, Table 1-3-1-37 aforesaid).

Table 1-3-1-37

Contribution decomposition of U.S. real fiscal expenditure (year-on-year change)

(Year-on-year change, %, % point)

		2008	2009	2010	2011
Federal government		2.60	2.26	1.77	-0.79
	Defense	1.84	1.48	0.87	-0.64
	Nondefense	0.75	0.78	0.90	-0.15
State/Regional government		0.00	-0.57	-1.09	-1.32
Government expenditures (year-on-year change)		2.6	1.7	0.7	-2.1

Source: United States Department of Commerce.

Fiscal stimulus package (US$ 787.2 billion in 10 years) based on "the American Recovery and

132 According to a provisional estimate by CBPP (Center on Budget and Policy Priorities), a U.S. think tank, (CBPP (2012)), though state governments' expenditures deficit for the 2012 fiscal year are expected to shrink for the second consecutive year from 2010, state governments' revenues in the third quarter of 2011 were 7% lower than the level before the recession, and financial support by the federal government based on the American Recovery and Reinvestment Act (ARRA) is expected to almost end. Therefore, CBPP suggests that it takes time before state governments' fiscal conditions recover.

Reinvestment Act (ARRA)"[133] enacted in February 2009 hit its peak expenditure in the first half of 2010. According to the estimation by the Congressional Budget Office (CBO (2012)), the fiscal stimulus package based on ARRA pushed up the real GDP growth in 2010 up to 4.1%, but it reduced down to 2.3% in 2011 (Table 1-3-1-38).

Table 1-3-1-38

Effect of bolstering economy by the American Recovery and Reinvestment Act (ARRA) (estimate of the U.S. Congressional Budget Office)

		2009	2010	2011	2012	2013
Real GDP (unit: %)	Low Estimate	0.4	0.7	0.4	0.1	0.1
	High Estimate	1.8	4.1	2.3	0.8	0.4
Unemployment rate (unit: % point)	Low Estimate	-0.1	-0.4	-0.2	-0.1	-0.05 - 0.05
	High Estimate	-0.5	-1.8	-1.4	-0.6	-0.3
Employee (unit: million people)	Low Estimate	0.2	0.7	0.4	0.2	0.1
	High Estimate	0.9	3.3	2.6	1.1	0.5

Source: *Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2011 Through December 2011* (Congressional Budget Office (CBO (2012))).

In December 2010, "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act"[134] (857.8 billion dollars in 10 years) was enacted as an additional stimulative measure. This Act centered on an extension of the existing policies including what is called "Bush tax cuts,", which expire at the end of December 2012, successfully leading to positive factors for the economy, such as avoiding the reactionary decline of personal consumption due to expiration[135].

While these stimulus measures were implemented, the federal government's budget deficit has been over US$ 1,000 billion since 2009 (Figure 1-3-1-39). In the issue of raising the debt ceiling[136] arising under these circumstances, political frictions intensified over the deficit-cutting plan. After the debates for several months, default was averted with the enactment of the Budget Control Act of 2011 [137]on August 2, 2011, that was the deadline to default (Figure 1-3-1-40). Immediately after that, however,

133 Refer to the "Ministry of Economy, Trade and Industry (2010), 'White Paper on International Economy and Trade 2010,' Chapter 1, Section 2, 1. The Economy of the United States (2)."

134 Refer to the "Ministry of Economy, Trade and Industry (2011), 'White Paper on International Economy and Trade 2011,' Chapter 1, Section 1, 2. Current status and problems of US economy (A)(f)."

135 The Act extended the tax relief for social security tax and special arrangement of unemployment benefits to the end of December 2012 that had been supposed to end at the end of December 2011.

136 The federal government's debt ceiling is set by law in the U.S. Therefore, it is required to change the ceiling that the government should submit a bill and congress approve it. For this reason, though both the ruling and the opposition parties went into talks from May 2011 about raising the debt ceiling and fiscal deficit reduction, they had difficulty reaching a consensus, and as the national debt approached its ceiling, the concerns over default arouse in the market.

137 It consists of two items, one of which is raising the debt ceiling (the Act gives the president authority to raise the debt ceiling by at least US$ 2.1 trillion under two time frames) and the other is fiscal deficit reduction (the deficit will be reduced by the total amount of US$ 2.4 trillion in ten years under two time frames). The first installment of fiscal deficit reduction is US$ 917 billion cut in discretionary expenditures, and in the second installment, the bipartisan committee examines the content of the remaining US$ 1.5 trillion cut. If Congress failed to produce a deficit reduction bill with US$1.2 trillion or over in cuts, automatic expenditure cut in US$1.2 trillion is going to be triggered (from fiscal 2013 to 2021).

U.S. government bond was downgraded for the first time ever[138].

Figure 1-3-1-39

U.S. federal government fiscal balance

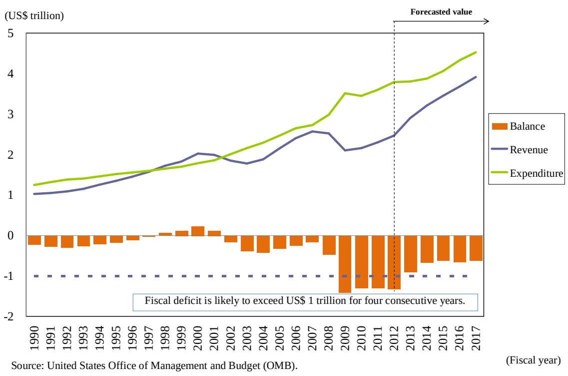
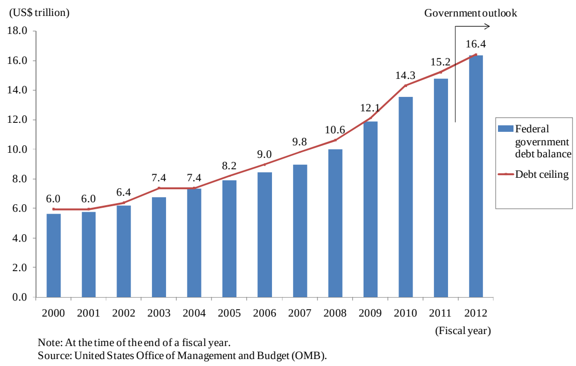


Figure 1-3-1-40

U.S. federal government debt balance and debt ceiling



Incidentally, in regard to the fiscal deficit reduction measure of “US$ 1.5 trillion cut over the next ten years” that the special bipartisan committee examined as the second installment of the Budget Control Act of 2011, the committee was unable to agree on how to reduce the deficit. Thus, predetermined expenditure cut in US$ 1.2 trillion is going to be automatically implemented in 2013.

According to the 2013 fiscal budget (OMB (2012))[139] that President Obama sent to Congress on February 13, 2012, while fiscal deficit in fiscal 2012 is expected to be US$ 1 trillion and 327 billion,

138 On August 5, the credit-rating agency S&P downgraded the credit rating of U.S. government bond by one notch from the highest AAA to AA plus. S&P cited dysfunctional political situation and long-term outlook of fiscal balance as main causes of the downgrade. Later, on August 8, the New York Stock Exchange’s Dow Jones industrial average dropped by US$ 634.76 compared with the previous day, falling below US$ 11 thousand.

139 In September 2011, President Obama announced the US$ 447 billion economic and employment package. Though the President submitted this package to Congress as “The American Jobs Act” which pillars include a tax advantage for employment promotion and an expansion of public works such as infrastructure development, in October, Republicans blocked the bill to be brought to the floor as a set. The content of this economic package is almost reflected in the 2013 fiscal budget.

exceeding US$ 1 trillion for four consecutive years, fiscal deficit in fiscal 2013 is expected to be US$ 901.4 billion, decreasing by 32.1% year on year (Figure 1-3-1-39 aforesaid). This is because while the expenditures are expected to remain $US 3 trillion and 801 billion, only a 0.2% increase year on year, the revenues are expected to reach $US 2 trillion and 902 billion, a dramatic 17.6% increase year on year, mainly thanks to increases in tax revenues entailed in economic recovery and revenue increases from imposing greater taxes on the wealthy class.

However, because the majority parties are different[140] in the Senate and the House of Representatives in the current Congress, and presidential and congressional elections are scheduled in the coming November, the Democrat-Republican confrontation is intensifying and policies shown in the 2013 fiscal budget are believed to be difficult to be implemented. Even after the elections, important fiscal events (Table 1-3-1-41) such as the expiration of Bush Tax Cuts and Social Security Tax Cuts at the end of 2012 coupled with automatic expenditure cuts from 2013 are going to happen one after another, and attention will be focused on how to deal with them. Thus, the sense of uncertainty about the future is high[141].

(7) Monetary Policy

Since having lowered a target range for the federal funds rate (referred to as "FF rate"[142] hereinafter) to 0-0.25%, FRB has maintained an extremely low interest rate policy (Figure 1-3-1-42).

Table 1-3-1-41

U.S. major fiscal policy expiring in 2012 to 2013

Policy	**Time**	**Content**
Bush Tax Cuts	End of 2012	Cuts in income tax rate and dividend/long-term capital gain tax rate, etc.
Social Security Tax Cuts	End of 2012	Cuts in public pension part of social security tax withholding rate from 6.2 percent to 4.2 percent.
Extension of unemployment insurance benefits	End of 2012	Extension of the benefits up to 99 weeks
Possibility of raising the debt ceiling	End of the 2012 fiscal year–	According to the Budget of the United States Government, Fiscal year 2013, federal government debt will reach U.S. $ 16 trillion and 350.9 billion at the end of the 2012 fiscal year (September 2012). This figure is close to the current debt ceiling of U.S. $16 trillion and 394 billion that was raised by U.S. $2.1 trillion under Budget Control Act of 2011, and therefore, there is a possibility that another raise of the debt ceiling will be necessary.
Automatic spending cuts	2013–	U.S. $1.2 trillion automatic spending cuts (2013–2021 fiscal year) will be implemented under Budget Control Act of 2011.

Source: Various press materials and others.

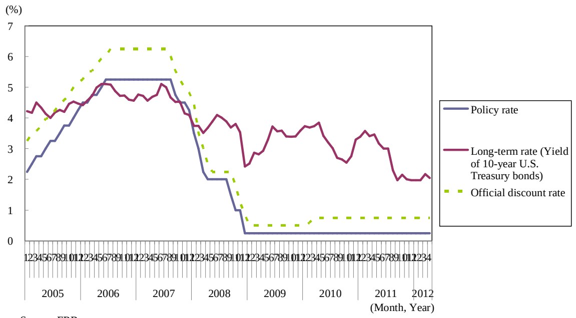
140 As of April 2012, out of 435 seats of the House of Representatives, 190 seats were distributed to the Democratic Party and 242 seats to the Republican Party (with 3 seat vacancies). As for the Senate, out of 100 seats, 51 seats were distributed to the Democratic Party and 47 seats to the Republican Party (with 2 independent senators).

141 IMF (2012) cited the insufficient progress of establishing a U.S. medium-term fiscal reform program as an imminent downside risk in the U.S. and pointed out that political conflicts could damage market confidence, hurting economic growth.

142 Federal fund rate

Figure 1-3-1-42

U.S. policy interest rate, long-term interest rate, and official discount rate



Source: FRB.

Even after completing to buy US$ 600 billion in long-term Treasuries[143] at the end of June 2011 as scheduled, which had been decided in November 2010, FRB maintained the existing policy of reinvesting the refunded principal of securities holdings. In August 2011, FRB introduced a new policy of specifying the time axis by saying, "It is expected for now that exceptionally low federal fund rate is likely to be warranted until at least mid-2013."

Then, in September 2011, FRB adopted an additional monetary easing policy. It was announced that Operation Twist would be implemented under which FRB would buy US$ 400 billion of Treasury securities matured in 6-30 years by the end of June 2012 and sell the same amount of Treasury securities matured in 3 years or less in order to facilitate the decline in long-term interest rates, and that, in parallel, FRB would reinvest the refunded principals of Agency Securities and Agency Mortgage-Backed Securities (MBS) for the purpose of facilitating the decline in housing loan interest rates.

Furthermore, in January 2012, FRB extended the period of maintaining an extremely low interest rate policy from the previous mid-2013 by forecasting, "Exceptionally low levels for the federal funds rate are likely to be warranted at least through late-2014" and, at the same time, a long-term policy target of "＋2.0% inflation goal as measured by the annual change of the PCE deflator"[144] was newly announced (Figure 1-3-1-43). Also, FOMC participants' projections for the timing of the increase in interest rates and views on the appropriate path of the federal funds rate[145] were released for the first time.

According to the 2012 quarterly economic forecast announced by FRB after FOMC held on April 24-25, the real GDP growth rate in the 4th quarter of 2012 was estimated to be 2.4-2.9%, revised upward from 2.2-2.7% (forecast in January). Also, the unemployment rate in the 4th quarter of 2012 was estimated to be 7.8-8.0%, revised downward from 8.2-8.5% (forecast in January) (Table

143 A policy that is called QE2

144 While the target was set relevant to price, the target was not set relevant to employment.

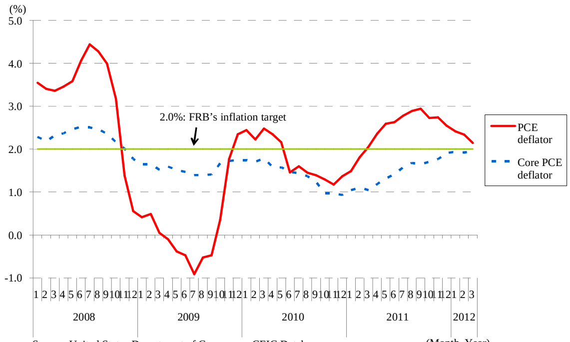
145 According to projections for the timing of the increase in interest rates announced by FRB after FOMC held on April 24-25, the numbers of FOMC participants who judged that the increase in the target federal funds rate would occur in 2012, 2013, 2014, and 2015 were, respectively, 3, 3, 7, and 4. Also, as for the views on the appropriate path of the federal funds rate, 10 participants projected that the rate will be 1% or more in late-2014 (7 of them projected 2% or more).

1-3-1-44).

FRB is concerned that global financial market strain and others are significant downside risks to economic outlook, and, therefore, seems to maintain an accommodative attitude[146].

Figure 1-3-1-43

U.S. PCE deflator (ratio to the same month of the previous year)



Source: United States Department of Commerce, CEIC Database.

Table 1-3-1-44

FOMC quarterly economic projections (April 2012)

(%)	Central tendency			
	2012	2013	2014	Long term
Real GDP growth	2.4 – 2.9	2.7 – 3.1	3.1 - 3.6	2.3 – 2.6
Forecast in January	2.2 – 2.7	2.8 – 3.2	3.3 - 4.0	2.3 – 2.6
Unemployment rate	7.8 – 8.0	7.3 – 7.7	6.7 – 7.4	5.2 – 6.0
Forecast in January	8.2 – 8.5	7.4 – 8.1	6.7 – 7.6	5.2 – 6.0
PCE deflator	1.9 – 2.0	1.6 – 2.0	1.7 – 2.0	2.0
Forecast in January	1.4 – 1.8	1.4 – 2.0	1.6 – 2.0	2.0
Core PCE deflator	1.8 – 2.0	1.7 – 2.0	1.8 – 2.0	–
Forecast in January	1.5 – 1.8	1.5 – 2.0	1.6 – 2.0	–

Notes: 1. Growth rate and inflation rate are those of the 4th quarter over the same quarter of the previous year. Unemployment rate is the average value during the 4th quarter.
2. Central tendency represents the forecasts of all participants excluding each three forecasts from the highest value and the lowest value.

Source: FRB.

2. Trends in trade and investment

In 2011, while world economy was slowing down, both U.S. annual export and import increased. Reflecting that export increases exceeded import increases in real terms, negative amounts of net export (external demand) shrank, firstly pushing up the growth in two years (Figure 1-3-1-1 aforesaid). However, slowdown in overseas demand remains a risk to be a burden on U.S. export growth in the future.

The Obama administration that cites employment creation as the most crucial task places

146 At his speech for the National Association for Business Economics (NABE) on March 26, 2012, FRB Chairman Bernanke stated that he did not see the accelerating pace of employment upturn as persistent and as the rationale for the accommodative monetary policy. Also, at the press conference FOMC held on April 24-25, 2012, Chairman Bernanke said, “FRB’s intention is to maintain a highly accommodative stance of policy for the foreseeable future, and we remain able and willing to take further action if necessary.”

importance on trade policy under the circumstances where the room for fiscal measures is limited. Thus, the administration has taken actions to promote imports that lead to increase in employment and domestic direct investment. Hereinafter, trends in relation to U.S. trade/investment will be overviewed and relevant policies will be organized.

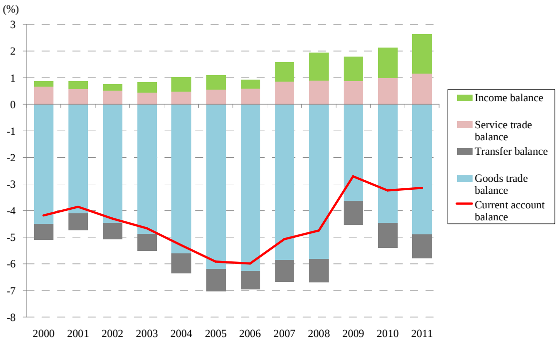
(1) Current balance

(A) Goods trade deficit: a major cause of current account deficit

The current account deficit in 2011 was US$ 473.4 billion (a 0.5% increase year on year), increasing for the second consecutive year. While the surpluses of income balance and service trade balance recorded the highest ever, the deficit of goods trade balance increased. On a nominal GDP basis, however, it recorded 3.1%, shrinking by 0.1% points year on year (Figure 1-3-2-1).

Figure 1-3-2-1

U.S. current account balance (ratio to nominal GDP)

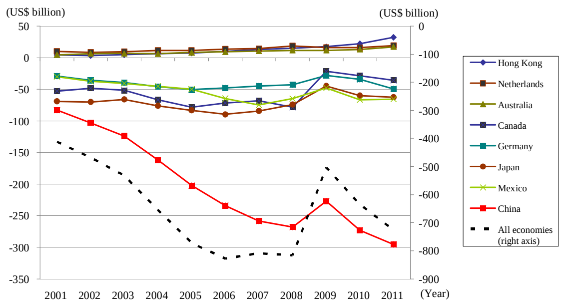


Source: United States Department of Commerce, CEIC Database.

Looking at trends in goods trade balance by major trading partners, trade deficit with China has been moving at a high level. Trade deficit with China in 2011 recorded the highest ever (Figure 1-3-2-2).

Figure 1-3-2-2

U.S. trade balance of goods (by major counterpart country/region)



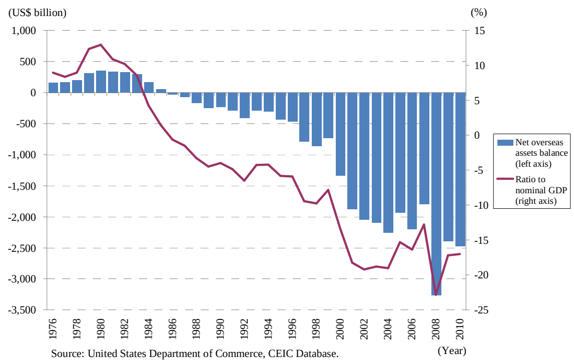
Note: Top three countries/regions with which U.S. had a trade surplus and top five countries/regions with which U.S. had a trade deficit in 2011 are shown.
Source: Global Trade Atlas.

(B) Capital gain having an impact on decrease and increase in net external assets

Although the U.S. has been recording deficits in the current balance for many years (net capital inflow into U.S. has been continuing), net external deficit balance decreased year on year in 2009 (Figure 1-3-2-3). This is attributable to capital gain arising from asset price changes and exchange rate fluctuations[147]. More specifically, (A) price fluctuations of U.S. external assets surpassed that of foreign assets in the U.S., (B) reflecting that currency market moved toward the weakening dollar, the apprised value of external assets based on U.S.$ increased, and (C) other evaluation adjustments brought the decrease of net external assets in total (Figure 1-3-2-4).

Figure 1-3-2-3

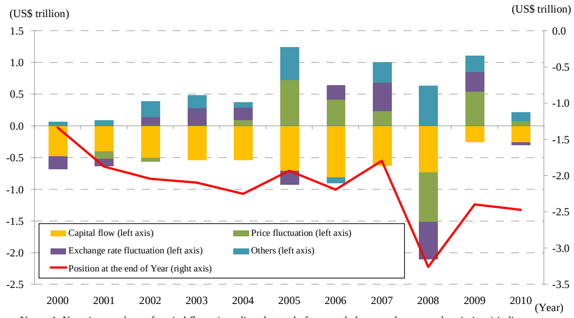
U.S. net external asset balance



Source: United States Department of Commerce, CEIC Database.

Figure 1-3-2-4

Factor decomposition of changes in U.S. net external asset balance



Notes: 1. Negative numbers of capital flows (equaling the total of current balance and errors and omissions) indicate that incoming capital to the U.S. exceeds outgoing capital.
2. "Others" mean capital gains/losses in relation to direct investment, etc.
Source: United States Department of Commerce.

In contrast, in 2010, because price fluctuations did not push it up much compared to the previous year and exchange rate fluctuations also pushed it down, U.S. net external asset balance increased from the previous year.

147 Refer to Ministry of Economy, Trade and Industry (2010), "White Paper on International Economy and Trade 2010," Chapter 1, Section 1, 2. (1) (B) (a), and, Ministry of Economy, Trade and Industry (2011), "White Paper on International Economy and Trade 2011," Chapter 1, Section 1, 1.(4) (B) (b)

(C) Income balance posting the surpluses consistently

While the composition rates of stock and direct investment whose earning rates are relatively high are high[148] in U.S. external assets, the composition rate of the U.S. Treasury bond whose yields are relatively low is high in U.S. external liabilities (Table 1-3-2-5). Because of this, the U.S. earns a vast amount of capital gain and consistently posts the surpluses in income balance (Figure 1-3-2-6).

Table 1-3-2-5

Composition of U.S. external assets and liabilities (end of 2010)

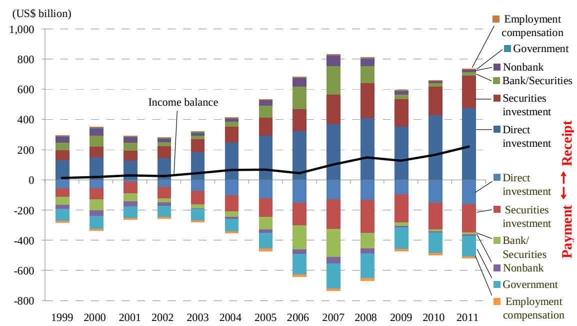
(Unit: US$ billion)

Assets				Composition rate	Liabilities				Composition rate	Net asset
Public sector			**564**	**3%**	Public sector			**5,474**	**24%**	
	Foreign currency reserve		489	2%		Government's debts (Treasury securities, etc.)		5,132	23%	
	Government-owned assets		75	0%		U.S. currency		342	2%	
Private sector			**16,099**	**79%**	Private sector			**13,152**	**58%**	
	Outward direct investment		4,429	22%		Inward direct investment		2,659	12%	
	Outward securities investment		6,223	31%		Inward securities investment		5,860	26%	
		Receivables	1,737	9%			Receivables	2,868	13%	
		Stocks	4,486	22%			Stocks	2,992	13%	
	Loan receivables, etc.		5,446	27%		Debt loans, etc.		4,633	20%	
Derivatives			**3,653**	**18%**	Derivatives			**3,542**	**16%**	
					Others			**618**	**3%**	
Total			**20,315**	**100%**	Total			**22,786**	**100%**	**-2,471**

Source: United States Department of Commerce.

Figure 1-3-2-6

U.S. income balance



Source: United States Department of Commerce.

Incidentally, most income from direct investment is reserved overseas as reinvestment returns (Figure 1-3-2-7). Money flew into the U.S. owing to the Homeland Investment Act[149] in 2005. But,

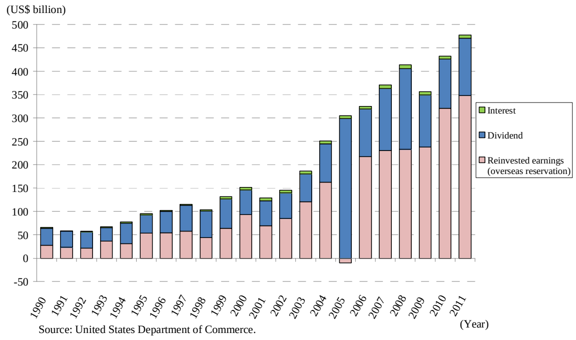
148 65% of income of the U.S. in 2011 is from direct investment.

149 The Homeland Investment Act was enacted in October 2004 for the purpose of fund recycling to the U.S. Only in 2005, in cases where profits and dividends of U.S. multinational enterprises are remitted to the U.S., if certain conditions are met, such as that the remittance is for the purpose of reinvestment, investments in U.S. are promoted by implementing 85% income deduction from the amount remitted (for example, because corporate tax rate is 35%, effective tax rate on the dividends and such is calculated to be 5.25% ((1 - 0.85) × 0.35)).

after 2006, overseas reservation has been increasing again, and in 2011, 73% of income from direct investment was reserved overseas.

Figure 1-3-2-7

U.S. direct foreign investment returns



(2) Trade

(A) Export and Import

Export in 2011 (goods + service, international balance basis, same as import) expanded partly owing to US$ depreciation, marking a record high coupled with import. Meanwhile, trade deficit in 2011 was US$ 560 billion (a 12.0% increase year on year) and the increase in the deficit expanded second straight year (Figure 1-3-2-8).

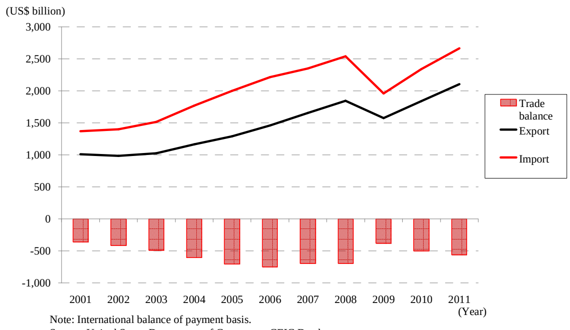
In terms of the trends in goods export and import by item[150] (custom clearance basis), in 2011, both export and import of all items exceeded the previous year (Figure 1-3-2-9, Figure 1-3-2-10). The export of industrial raw materials contributed substantially (8.4% contribution ratio) to the increase of overall export (a 15.8% increase year on year), major items of which were petroleum products such as fuel oil and non-monetary gold.

Industrial raw materials also contributed largely (8.0% contribution ratio) to overall import (a 15.4 increase year on year), major items of which were petroleum products such as crude oil and fuel oil. Among them, the increasing amount of crude oil import, accounting for 40% or more of industrial raw materials, was large (Figure 1-3-2-11), influenced by price rising. Although the volume of crude oil import tended to be decreasing since 2005, there was no significant change. Meanwhile, the unit price of crude oil once declined in 2009 after rising through 2008, but it has risen again since 2010. With this trend, the unit price of crude oil in 2011 reached 4.7 times higher than that in 2001, and, accordingly, the crude oil import value in 2011, as well, reached 4.5 times higher than that in 2001 (Figure 1-3-2-12).

150 Categorization by the United States Ministry of Commerce. Six End-use Categories are set on the basis of HS categorization.

Figure 1-3-2-8

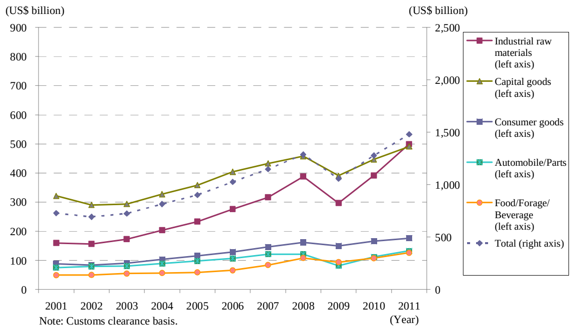
U.S. trade balance



Note: International balance of payment basis.
Source: United States Department of Commerce, CEIC Database.

Figure 1-3-2-9

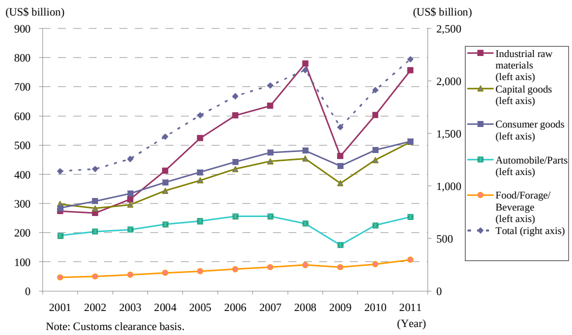
U.S. export amount of goods (by item)



Note: Customs clearance basis.
Source: United States Department of Commerce, CEIC Database.

Figure 1-3-2-10

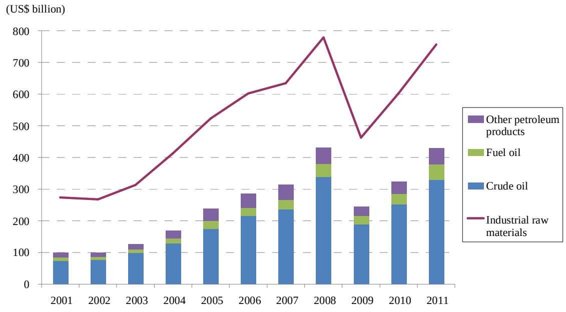
U.S. import amount of goods (by item)



Note: Customs clearance basis.
Source: United States Department of Commerce, CEIC Database.

Figure 1-3-2-11

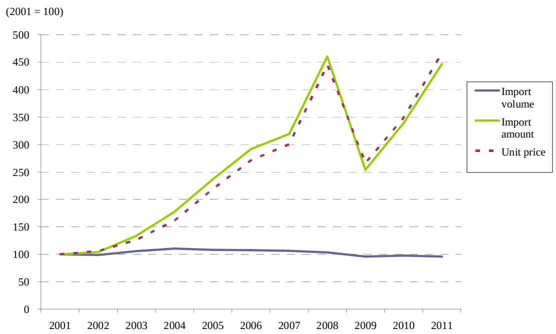
U.S. import amount of industrial raw materials (by major item)



Note: Customs clearance basis.
Source: United States Department of Commerce, CEIC Database.

Figure 1-3-2-12

U.S. import volume, import amount, and unit price of crude oil (2001 = 100)



Note: United States Department of Commerce.

(B) Progress of the plan to double export

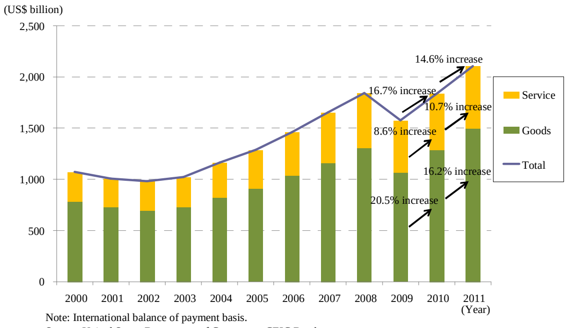
To achieve the plan to double export (doubling the export over 5 years from 2009 to 2014 and contributing to employment increase)[151] announced by President Obama in the State of the Union Address, the pace of a 15% yearly increase is required. The amount of export (goods, service) in 2011 was 14.6% increase year on year (Figure 1-3-2-13), and in the Economic Report of the President (CEA (2012)), which President Obama transmitted to Congress in February 2012, it was recognized, “Despite a slowing global economy, America’s exports of goods and services have surpassed their pre-crisis peaks and have been growing more than fast enough to meet the President’s goal of doubling the 2009 export level by the end of 2014.”[152]

151 In March 2010, President Obama set up the National Export Initiative for achieving the plan to double export. Refer to the “Ministry of Economy, Trade and Industry (2011), ‘White Paper on International Economy and Trade 2011,’ Chapter 1, Section 1, 2. Current status and problems of US economy (1)② (a).”

152 The report referred to, as factors contributing to the fast pace of growth, a big downward shift in unit labor costs reflecting continued productivity growth in manufacturing that favors U.S. businesses over those in other advanced countries, and the improvement of America’s trade balance in petroleum products owing to technological innovation in the energy sector.

Figure 1-3-2-13

U.S. export amount (goods and services)



Note: International balance of payment basis.
Source: United States Department of Commerce, CEIC Database.

Also, toward the further achievement of the plan to double export, the Obama administration announced new policies (new credit for exporters, reorganization of the Federal government, creation of websites to make it easier to access U.S. Business, etc.) for export promotion (Table 1-3-2-14)[153] in February 2012, and launched ITEC (Interagency Trade Enforcement Center) within USTR, which is a new trade enforcement unit to investigate unfair trade practices[154].

Table 1-3-2-14

A new U.S. policy to encourage exports (announced in February 2012)

• **Leveling the terms of export credit** An instruction was made to the relevant departments or agencies that they should make arrangements for the Export-Import Bank of the United States to be able to provide U.S. businesses competing in the domestic or third countries' markets with export credit at the same level as overseas uncompetitive public credit that fails to meet the global standard.
• **New loan to small/medium business exporters** A pilot program, the Global Credit Express program that provides up to U.S. $100 million, was created through which small/medium business exporters are eligible for a 6-to-12 months loan of up to U.S. $500,000.
• **Request to raise the loan limit of the Export-Import Bank of the United States** A request to raise the loan limit of the Export-Import Bank of the United States was made to Congress.
• **Simplification of procedures in relation to Foreign Trade Zone (FTZ)** U.S. Department of Commerce simplified procedures in relation to Foreign Trade Zone (FTZ), a specific zone within which special procedures are available, such as the extension/reduction of the payment of custom duty.
• **Delivery of a bill for reorganizing the Federal government** President Obama sent to Congress a bill—Consolidating and Reforming Government Act of 2012—which aimed at providing presidential authority to reorganize the Federal government.
• **Issue of a presidential memorandum for strengthening the Export Promotion Ministerial Meeting** A presidential memorandum for strengthening the Export Promotion Ministerial Meeting was issued.
• **Creation of BusinessUSA** The website was created to make it easier for U.S. businesses to access necessary services/information to grow, hire, and export.

Source: The White House.

153 In her keynote address at the Global Business Conference held in February 2012 in the U.S., Secretary of State Clinton announced, "I have made 'Jobs Diplomacy' a priority mission at the State Department," and referred to three lines of action: 1. Promoting U.S. Businesses; 2. Attracting investment back to the United States; and 3.Leveling the playing field overseas for fair competition.

154 In the State of Union Address in January 2012, the launch of ITEC was first announced.

The Obama administration has been strengthening the efforts to conclude trade agreements as well. In 2012, Free Trade Agreements (FTA) with South Korea (on March 15) and Columbia (on May 15) took into effect respectively. Also, President Obama has already signed with Panama in October 2011. Particularly, the U.S.-Korea Free Trade Agreement is the largest-scale trade agreement for the U.S. since the North America Free Trade Agreement (NAFTA), which is expected to have the effects of export increase and employment creation[155]. In addition, negotiations are in progress for the Trans-Pacific Strategic Economic Partnership Agreement (TPP), a multilateral FTA.

Under these circumstances, the Obama administration has started full-fledged support for the manufacturing industry to return to the U.S. Specifically, besides referring to the support for the manufacturing industry as a pillar of economic policy in his State of the Union address in January 2011, President Obama, in the Budget of the United States Government, Fiscal Year 2013, transmitted in February, expressed support for the domestic manufacturing industry to ensure a long-term competitive edge.

In "The Competitiveness and Innovative Capacity of the United States"[156], a report published by the United States Ministry of Commerce in January 2012, the following are cited as the reasons why the manufacturing sector is important in the U.S.: employment increases in the manufacturing sector has indirect employment effects on other sectors such as agriculture, construction, services, etc.; compensation in the manufacturing sector is higher than average.; manufacturing is the largest contributor to U.S. exports[157]; manufacturing greatly contributes to research and development in the U.S.; and others. In addition, the Obama administration, in Business Tax Reform Proposals[158] released in February, includes the plan to reduce the effective tax rate for domestic manufactures to 25% as well as to reduce the federal government's corporate tax rate from 35% to 28%.

In the following, trends in export will be overviewed divided between goods and service.

(a) Goods export

The increase of goods export in 2011 compared to the same month of the previous year slowed down over the latter half of the year.

By item[159], the slowing increase of industrial raw materials was evident, and the export of food, forage, and beverage declined since December 2011 (Figure 1-3-2-15). Also, by region, the slowing increase in the export for Asia-Pacific and Europe was distinguished, symbolizing the influence of the European economic slowdown. (Figure 1-3-2-16)

155 According to the Office of the United States Trade Representative (USTR), the U.S.-Korea Free Trade Agreement will have an effect of increasing exports by approximately $11 billion a year and supporting 70,000 jobs. (http://www.ustr.gov/uskoreaFTA/discover_new_opportunities)

156 U.S. Department of Commerce (2012)

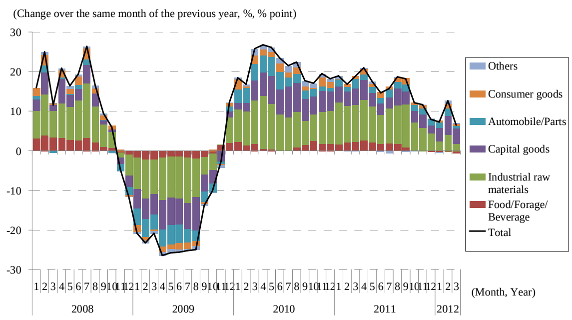
157 According to Standard International Trade Classification (SITC), though manufactured goods accounted for 75% of the amount of U.S. goods export in 2011, the ratio has been declining from 86% in 2004.

158 The White House and the Department of the Treasury (2012)

159 Same as footnote 150 (classification according to the United States Department of Commerce)

Figure 1-3-2-15

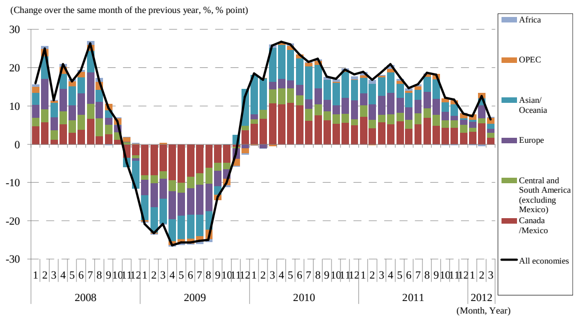
Contribution decomposition of U.S. export amount of goods (ratio to the same month of the previous year) (by item)



Note: Seasonally unadjusted, Customs clearance basis.
Source: United States Department of Commerce, CEIC Database.

Figure 1-3-2-16

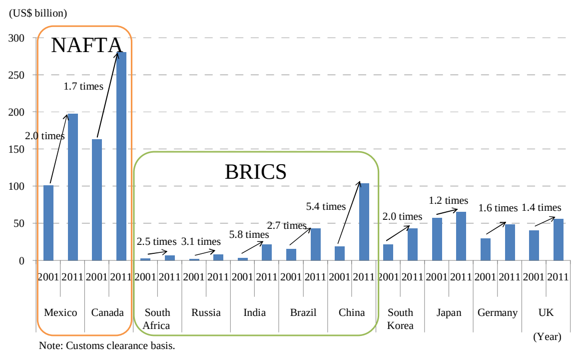
Contribution decomposition of U.S. export amount of goods (ratio to the same month of the previous year (by region)



Notes: 1. Seasonally unadjusted, Customs clearance basis.
2. Asia/Oceania represents 18 economies/regions that include Japan, China, South Korea, India, Hong Kong, Taiwan, ASEAN, Australia, and New Zealand. Other groups are grouped in accordance with the Area grouping of the United States Department of Commerce.
Source: United States Department of Commerce.

Figure 1-3-2-17

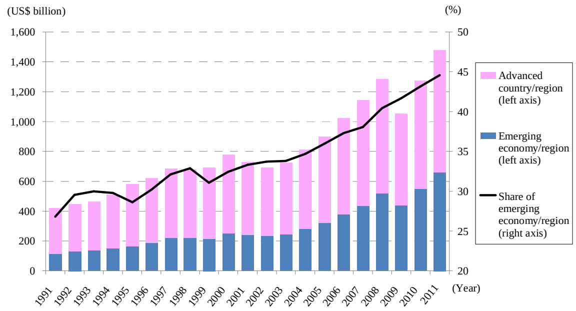
U.S. export amount of goods (by major country, 2001 to 2011)



Note: Customs clearance basis.
Source: United States Department of Commerce.

Figure 1-3-2-18

U.S. export amount of goods (by major advanced country/region and emerging economy/region)



Notes: 1. Advanced country/region represents 33 economies/regions, excluding the U.S., that are shown as Advanced economies in "WEO, April 2012 (IMF)." Emerging economy/region represents the rest.
2. Customs clearance basis.
Source: Global Trade Atlas.

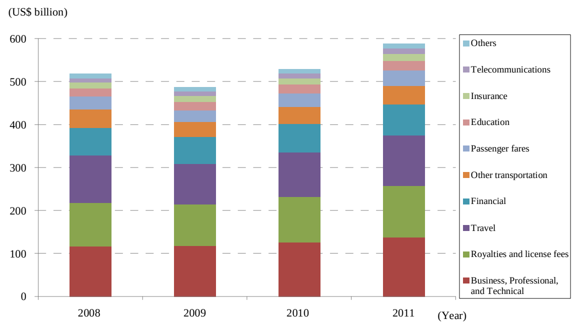
In terms of long-term trends, new economies have become more important as U.S. export counterparts. Looking at the changes in the amount of goods exported from the U.S. from 2001 to 2011 by major trading partners, that of Canada and Mexico, which are signatory countries of the North America Free Trade Agreement (NAFTA) and the largest and the second-largest importers, increased by 1.7 times and 2.0 times respectively. Meanwhile, the amount of goods exported from the U.S. to China, Brazil, and India increased by 5.4 times, 2.7 times, and 5.8 times, respectively, which are larger increases compared to those of other major trading partners (Figure 1-3-2-17). Dividing the trends in the amount of goods exported from the U.S. into those of advanced countries and emerging countries (including regions), the share of export for emerging countries/regions has increased every year, reaching 44.6% in 2011. (Figure 1-3-2-18)

(b) Service export

Service export accounts for about 30% of overall exports. Service export in 2011 marked a record high of US$ 607.7 billion. Among them, the export of private-sector services accounted for US$ 588.8 billion[160]. By category, "Business, Professional, Technology," "Royalties, Licensing fees," and "Tourism" play a central role. (Figure 1-3-2-19)

Figure 1-3-2-19

U.S. export amount of private-sector services (by item)

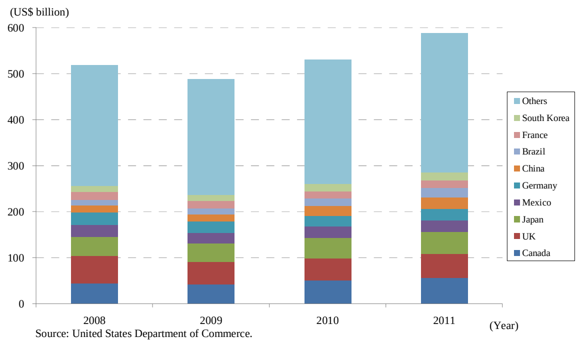


Source: United States Department of Commerce.

160 The export of the private-service sector also marked a record high.

Figure 1-3-2-20

U.S. export amount of private-sector services (by major countries)



Source: United States Department of Commerce.

The Obama administration has attached importance to not only the manufacturing sector but also the service sector as competitive export industries. According to balance payment statistics, service trade balance has been posting a profit together with income balance, and the amount of the profit has an increasing tendency. Following this trend, in the Economic Report of the President (CEA (2012)), the Obama administration said, “With a need to further strengthen the current account balance, policymakers recognize the need not only to encourage exports of goods, but also to expand the important role that services trade can play in that process” and, as an example, indicated a policy of ensuring sightseeing trips and tourism to the U.S. by increasing the visa-processing capacity in Brazil and China, etc. Also, as a reason for disproportionate surplus in skill-intensive services such as other private services (business, professional, technical services, etc.) and royalties and licensing, the Obama administration pointed out, “(other private services and royalties and licensing) conform to America’s comparative advantage as a technologically advanced nation with an abundant supply of highly educated workers.” By export counterpart, advanced economies like Canada and Europe remain ranking high (Figure 1-3-2-20). To this, the Report forecasts, “as rapid economic growth raises income levels in large emerging markets, U.S. service export flows to these countries are likely to grow.”

(3) Direct Investment

The Obama administration is also devoting itself to promoting inward direct investment from foreign enterprises. In June 2011, President Obama issued the Executive Order to launch the SelectUSA[161] initiative that was a government-wide program for promoting investments to the U.S.

In the same month, The White House Council on Economic Affairs (CEA) announced, “Foreign direct investment to the U.S. in 2010 totaled US$ 228 billion, increasing sharply by 49% from US$ 153 billion in 2009.” The investments by the enterprises based in Europe, Japan, and Canada accounted for 90% of the total investments. According to CEA, these foreign enterprises play an

161 The first investment promotion system initiated by the federal government. More concretely, it offers (the) services including providing information, answering the inquiries from foreign investors, and bridging the gap between investors and investment institution of each U.S. state. (http://selectusa.commerce.gov/)

important role in U.S. economy, including employing 5.7 million people, which accounted for 5% of the U.S. private sector[162].

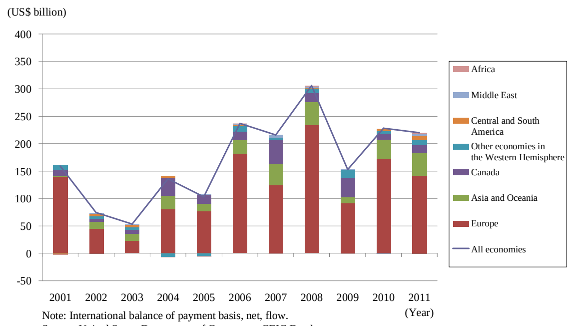
In addition, in October 2011, the President's Council on Jobs and Competitiveness[163] recommended the government to launch the National Investment Initiative to attract US$ 1 trillion in investment over the next five years[164].

More than a half of the foreign direct investment in the U.S. was from Europe, and almost all of the rest was from Canada or Asia-Pacific. Direct inward investment in 2011 was US$ 220 billion, a 3.6% decrease year on year, reflecting the decrease of the investment from Europe by 18.0% (Figure 1-3-2-21).

Conversely, about a half of the outward direct investment from the U.S. was targeted at Europe and along with Canada and Asia, Central and South America received a lot of investments. Direct outward investment in 2011 was US$ 383.8 billion, a 16.7% increase year on year. Investment for Asia-Pacific decreased by 35.5%, but investment for Europe increased by 15.4%, and, consequently, total outward investment marked a second consecutive yearly increase (Figure 1-3-2-22).

Figure 1-3-2-21

U.S. inward foreign direct investment amount (by region)



Note: International balance of payment basis, net, flow.
Source: United States Department of Commerce, CEIC Database.

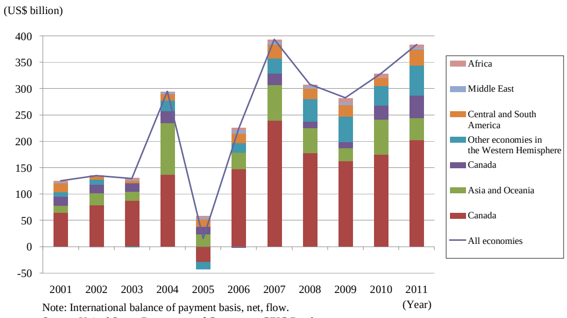
162 In his statement, President Obama pointed out, "to promote foreign direct investment is an important opportunity to accelerate economic recovery."

163 Newly established in January 2011 for the purpose of job creation and improving the international competitiveness of U.S. corporations. The council chair is Jeffery R. Immelt, CEO of the General Electric.

164 The President's Council On Jobs and Competitiveness (Jobs Council Recommendations A National Investment Initiative) (http://files.jobs-council.com/files/2011/10/JobsCouncil_NII.pdf)

Figure 1-3-2-22

U.S. outward foreign direct investment amount (by region)



Note: International balance of payment basis, net, flow.
Source: United States Department of Commerce, CEIC Database.