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# TOKYO CLUB: the “US external deficit” and its counterpart conundrums

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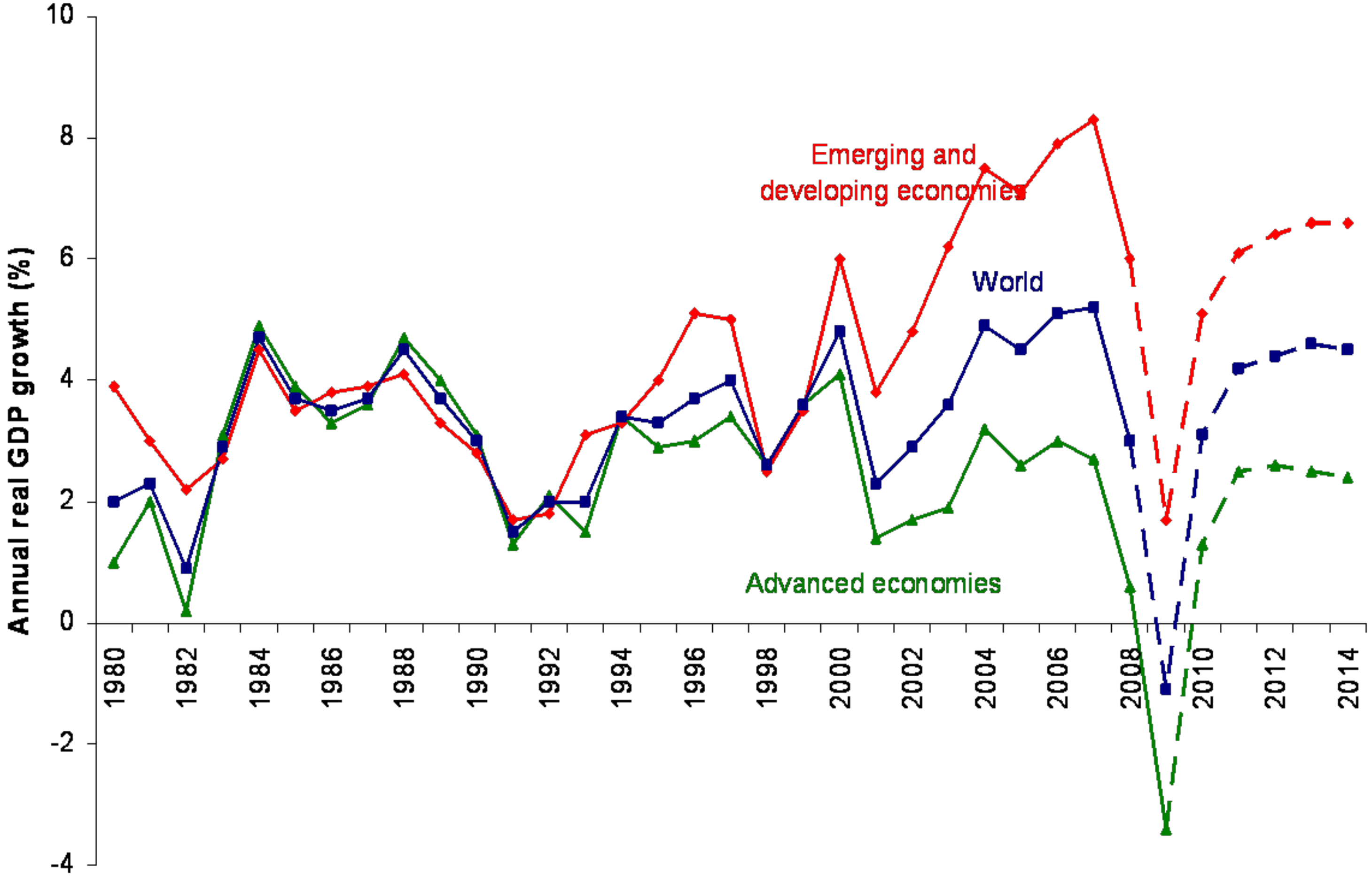
# US external deficit:

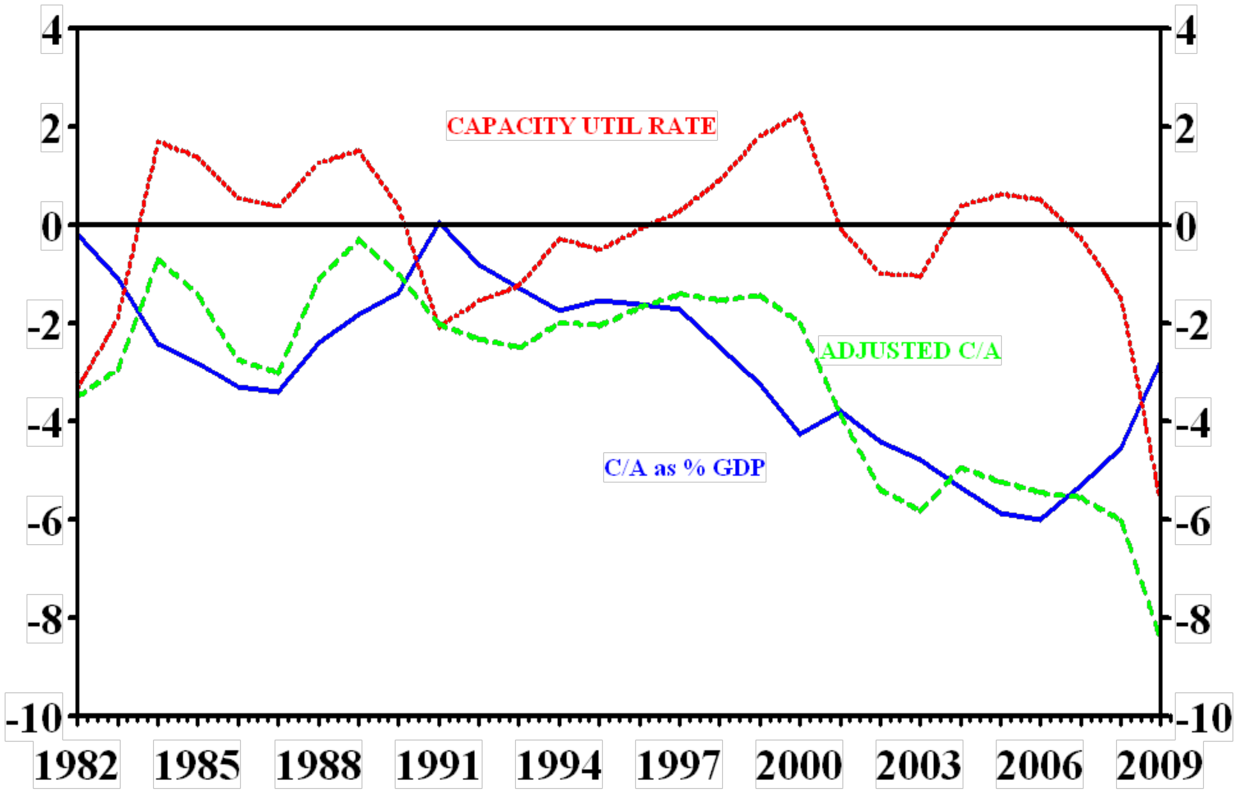
- History of deficits between zero and 3-4% GDP based on mediocre savings rates, cyclical swings in competitiveness - but trade performance was more or less in line with demand drivers (exports-world trade and imports-domestic demand) - up to 1999
- The cycle adjusted current account deficit fairly stable up to 1999
- US savings rate has been trending down
- Dollar tends to be pro-cyclical - except 2001?

# Cycles in US and world economy

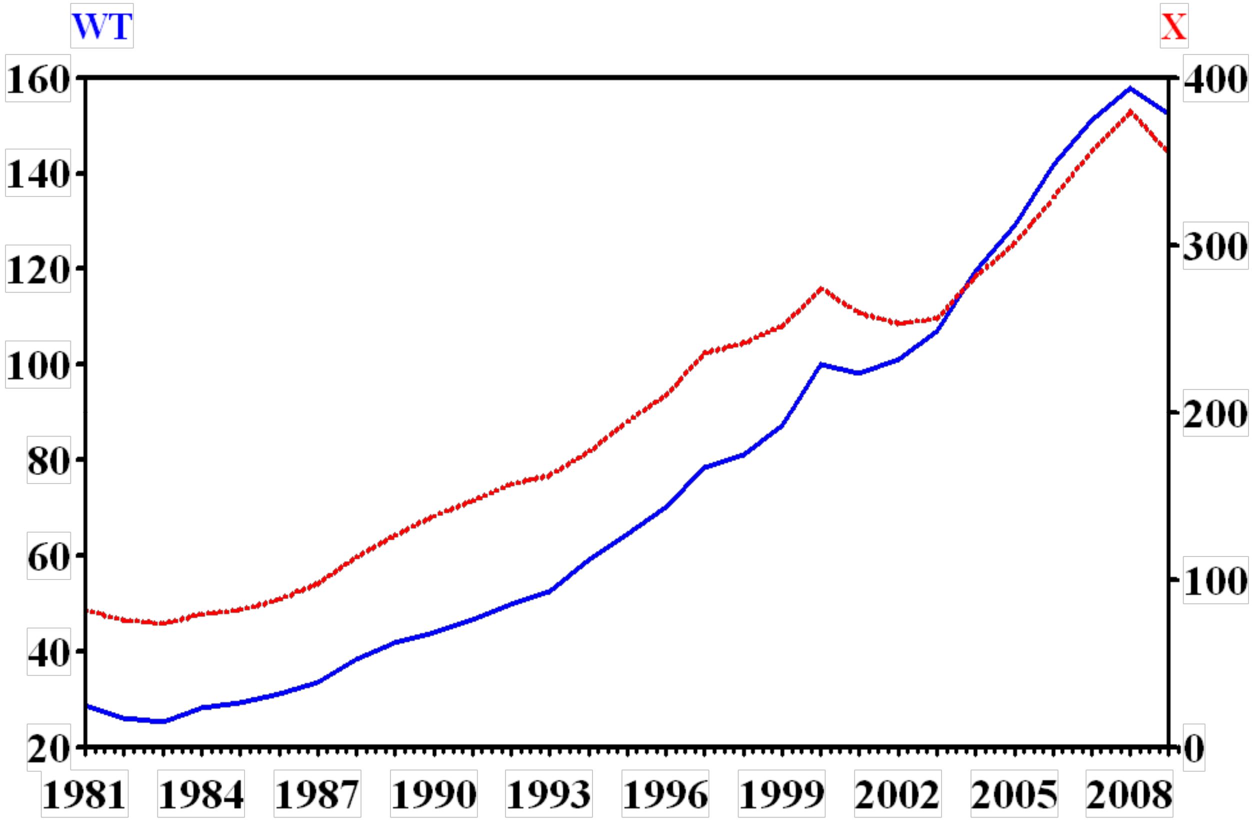



Source: IMF

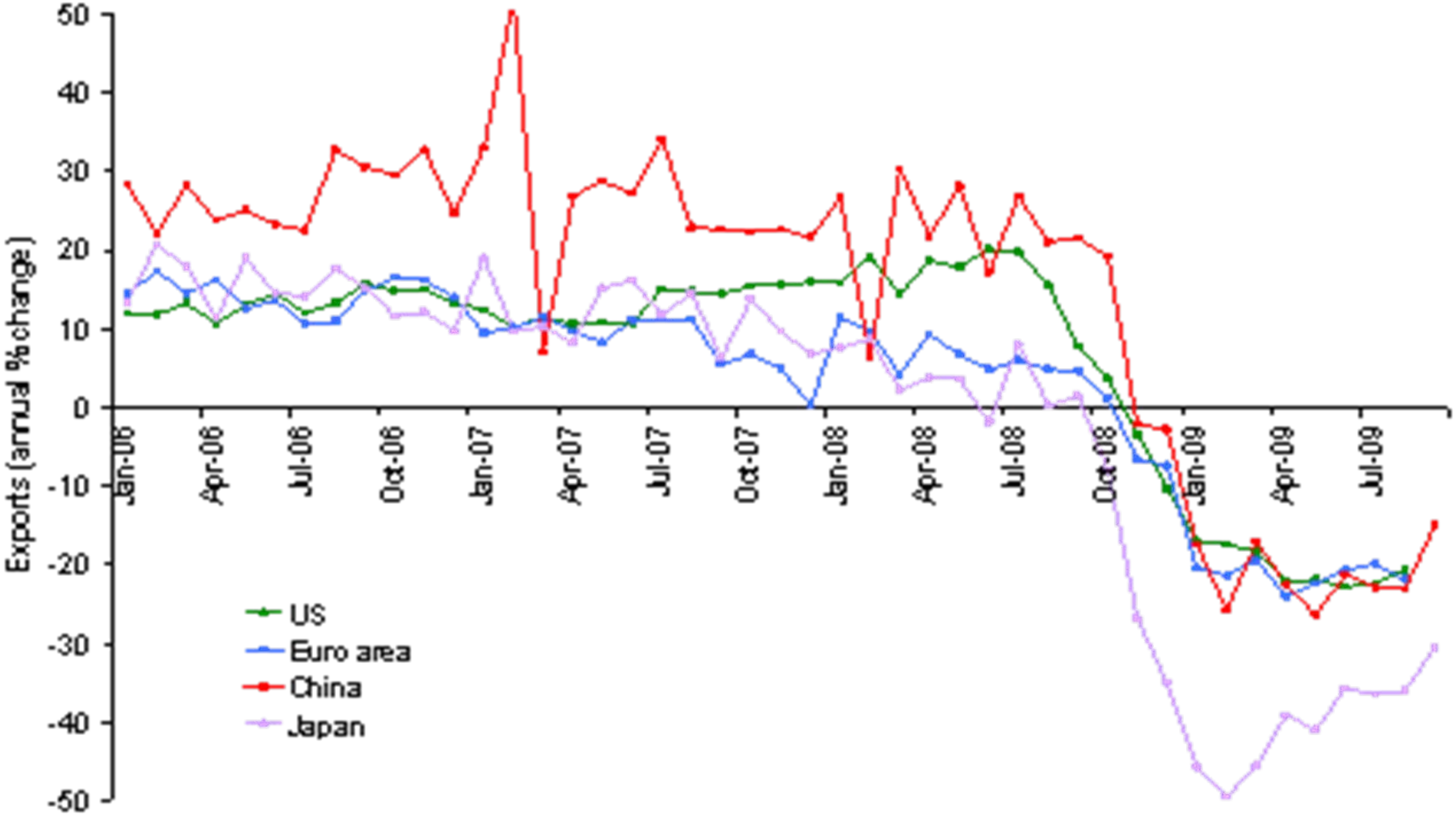
# US cycle adjusted current account steady to 1999



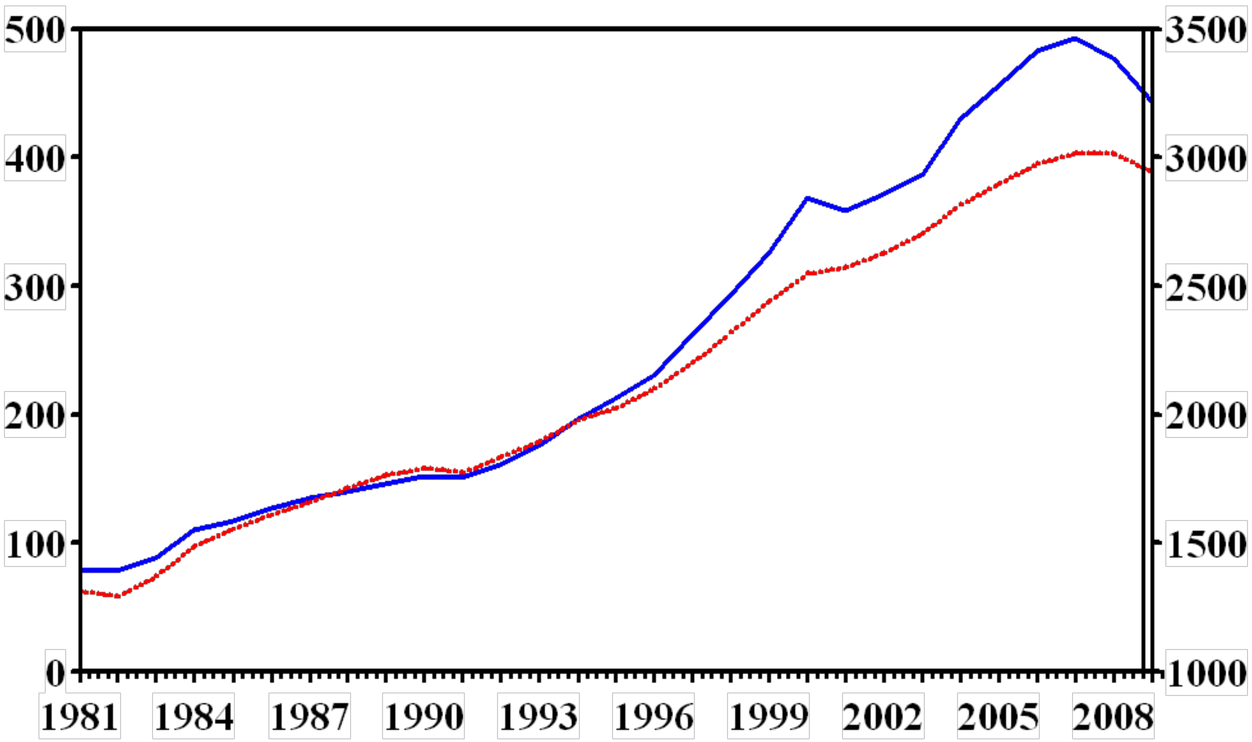
# US under-performs world trade from 1999



# World trade loss fairly uniform in crisis - exception is Japan not US



# US imports outperform domestic demand

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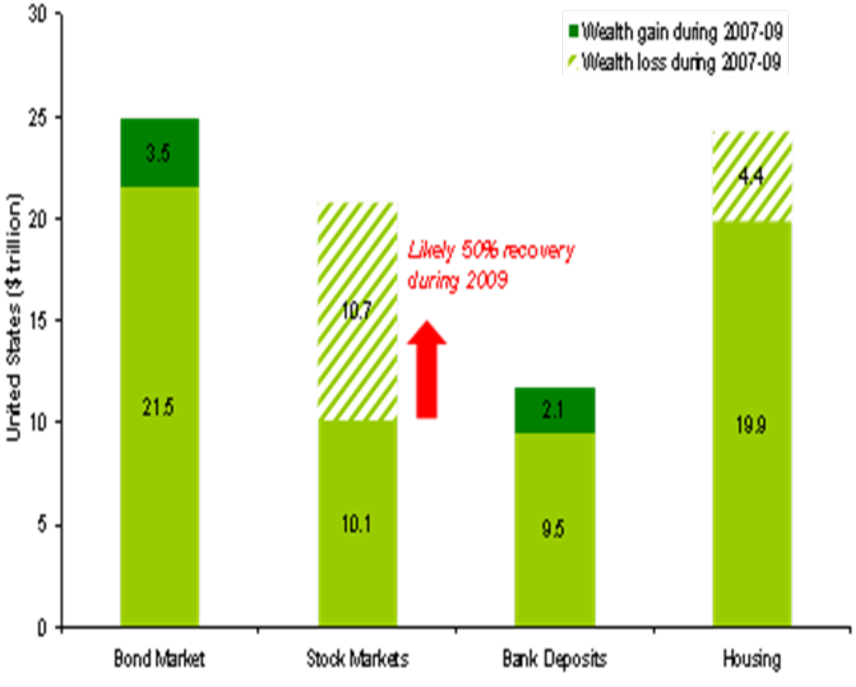
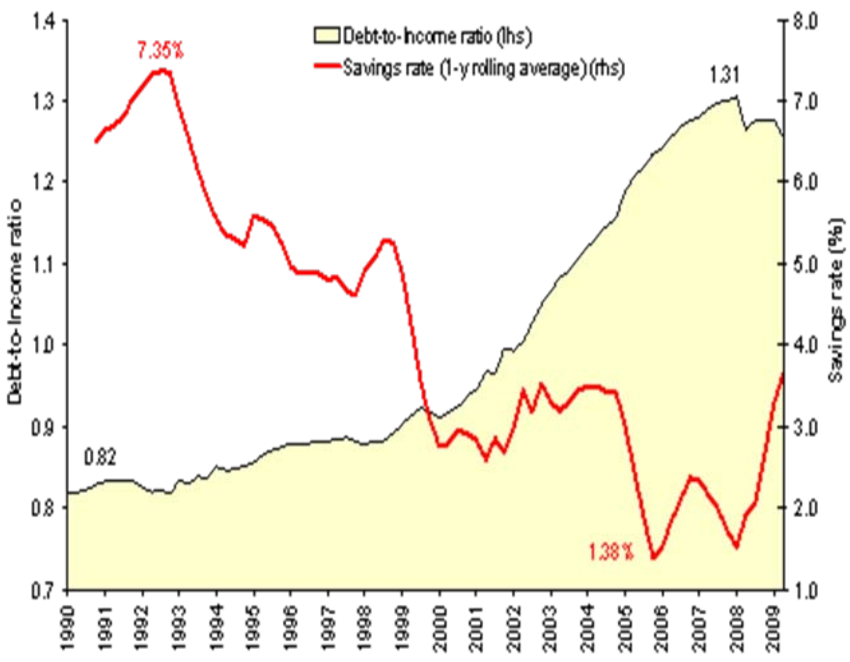
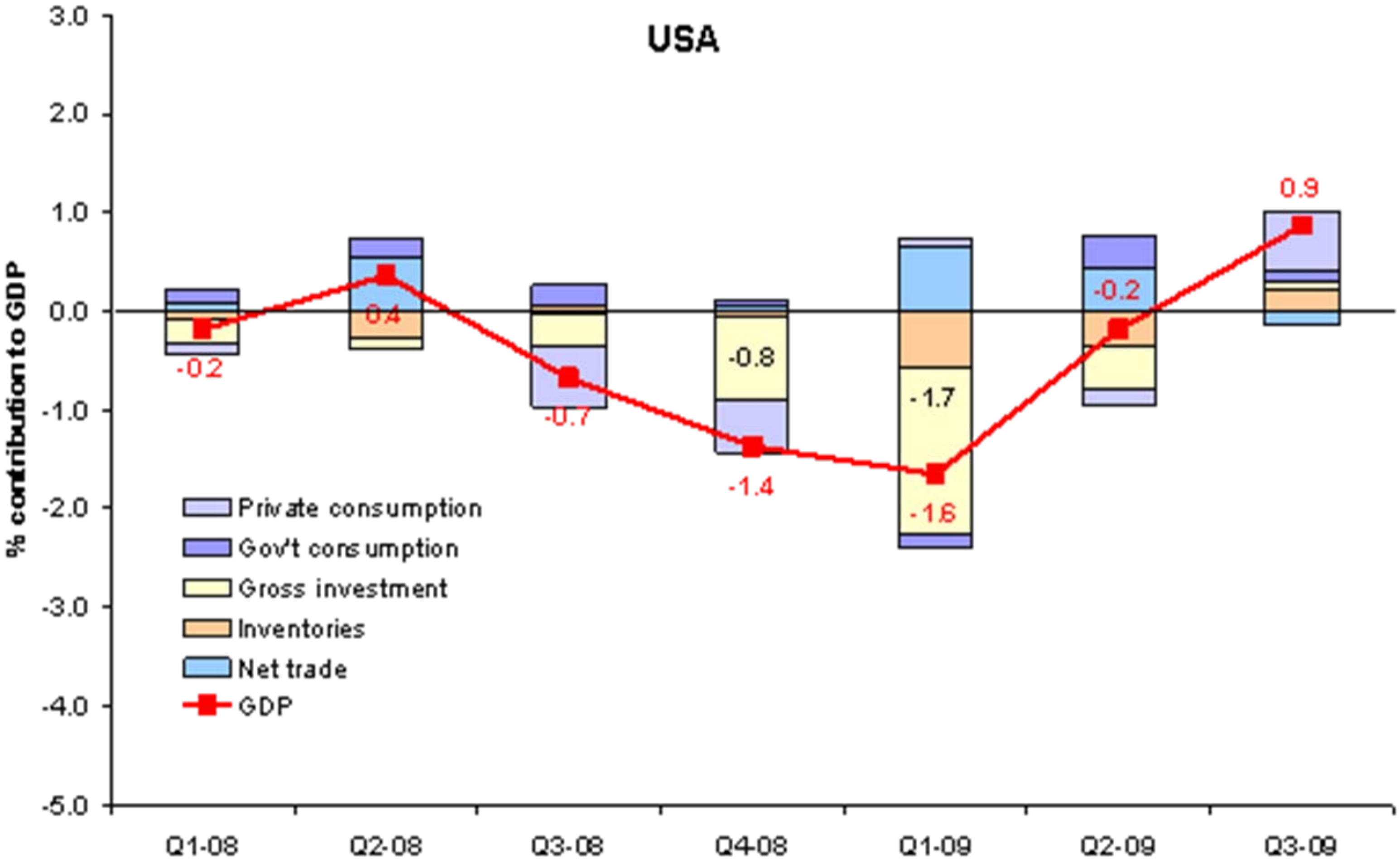
# US wealth losses in crisis were large, savings up, debt decreasing



# US exits recession in Q3 - and imports rise

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## Thorough discussion of possible explanations for deepening external deficit:

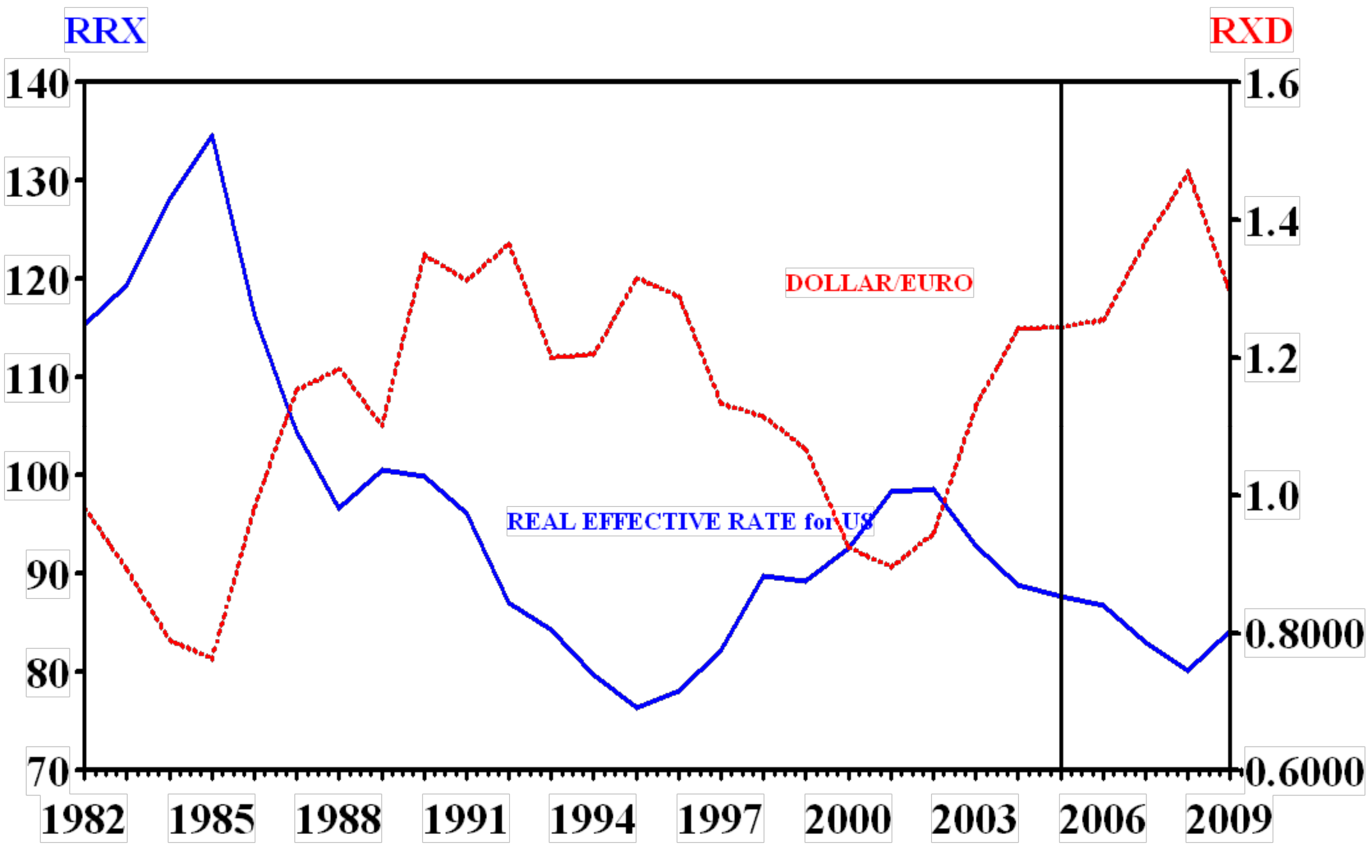
- Don’t write off the possibility that wealthy consumers have an increasing propensity to consume and to consume imports - more choice and more demand for the categories of goods and services that are traded

- Poorer countries still buying staples - don’t start to buy holidays abroad or cars until they pass certain income thresholds

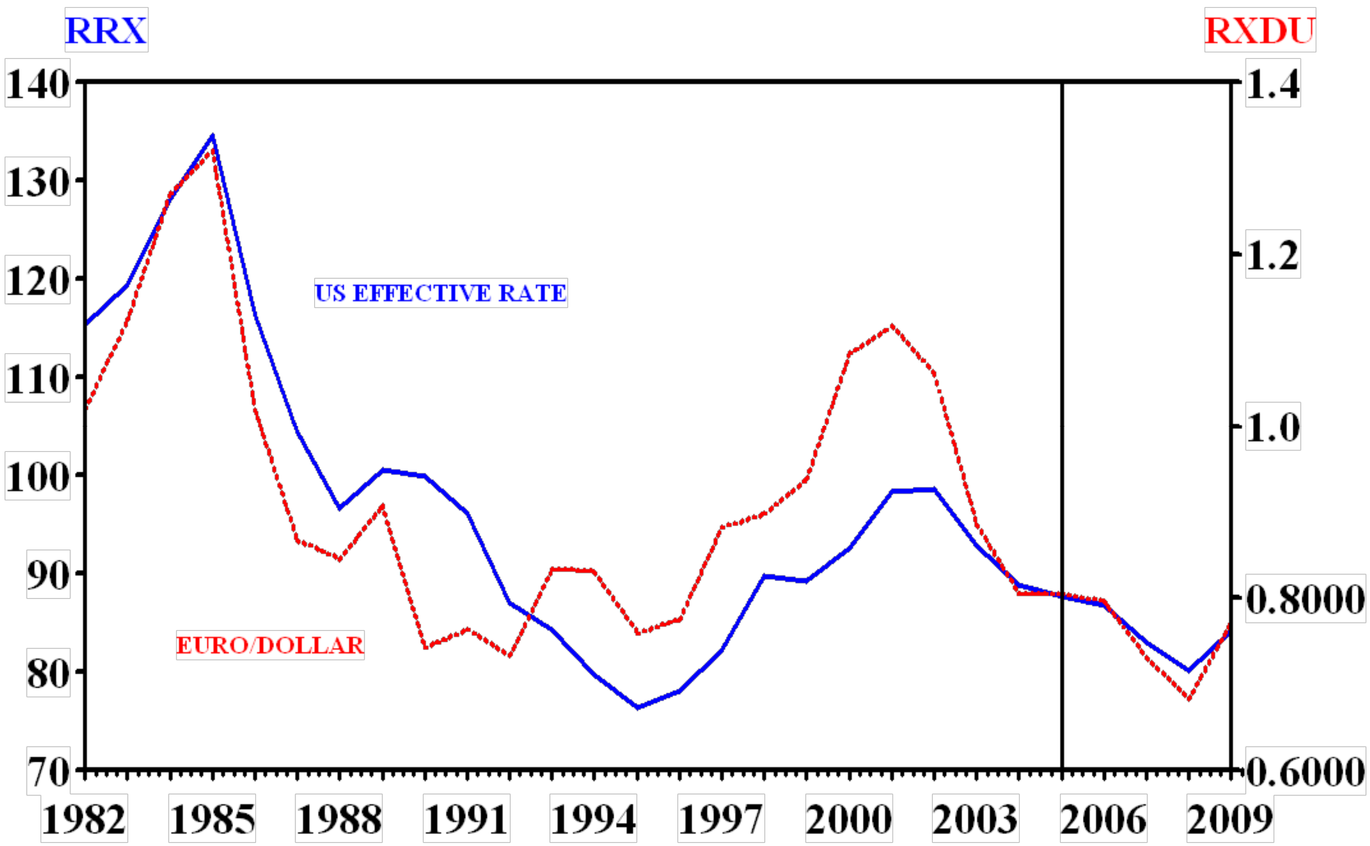
- Non-linearities & threshold effects may matter - ever greater US competitivity needed to curb deficit?

- Right to investigate US savings rate - *but also recall that the Rest of the World is the mirror image*

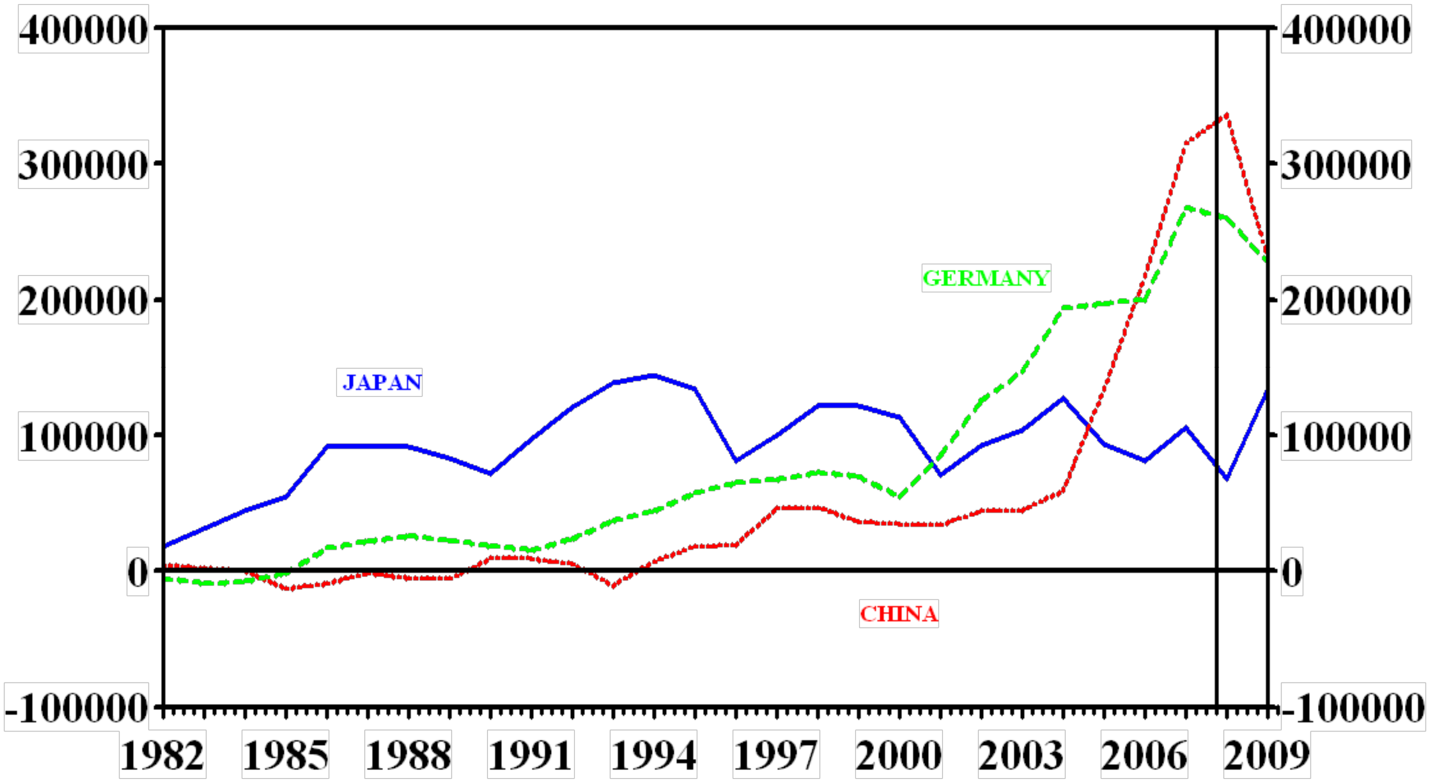
# Euro swings dominate US “exchange rate” ?



# Euro/dollar rate v US real effective rate



# Trade balances for Japan, Germany and China ($m)

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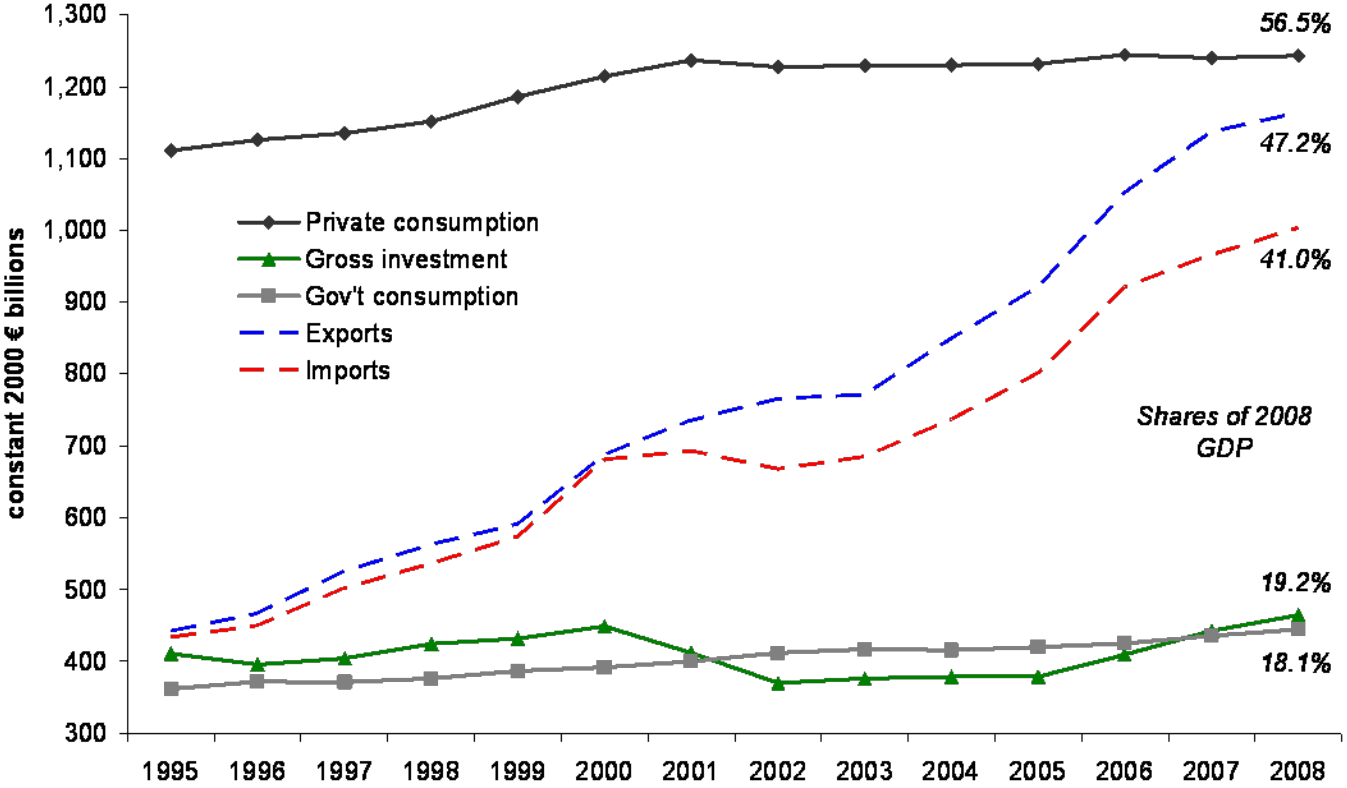
# German trade dependency



# Conundrums:

- US consumers spend more when they feel wealthier - but not Europeans in spite of much greater social benefits

- Persistently high savings rates (10-15%) in Euro area

- In comparison, China's savings rate is more justifiably high -- but it is coming down

- And Japan's savings rate too has dropped from Euro style to around 2-3% recently

# Conclusions: some pot shot guesses?

- Want reasonably stable situation for acceptable external imbalances, eg US deficit 0-4% GDP
- US, European and Japanese savings rates should cluster closer to about 5%
- Developing world fast passing thresholds - spending more and will want more choice
- Try to curb excessive swings in major FX rates - euro, yen and also leading emergers
- Euro not at parity or 1.70 but 1.20-1.40, Yen 90-110 not 140 or 80, and continue *trend* to strengthening RMB