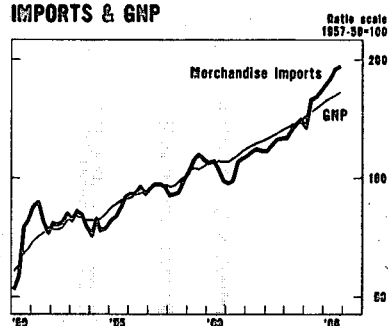
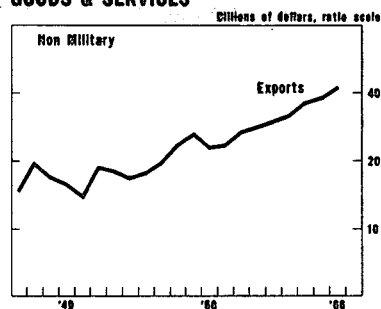
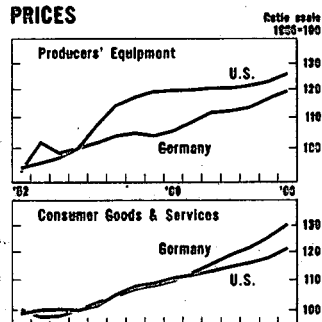


**IMPORTS & GNP****GOODS & SERVICES****PRICES**

which, on a ratio scale, shows up as a steady gap.

There have been wide fluctuations, mostly of a cyclical character, in the goods and services balance. Fluctuations in demand in this country cause short-run variations in the growth of U.S. imports. Over the long run, merchandise imports have grown roughly in line with GNP. But they have declined more rapidly than GNP in recessions, shown in the chart by the shading. And they have risen much more sharply than GNP during boom periods, as in 1965-66, when domestic pressures on capacity became intense.

Similarly, exports fluctuate in response to cyclical developments abroad. Cycles in Europe, Canada, and Japan directly affect shipments to those countries. And shipments to nonindustrial countries tend also to reflect, with a lag, the fluctuations of demand in foreign industrial countries and in the United States.

Longer-run trends of both exports and imports are influenced by our competitive position in world markets. During the boom of the mid-1950's, prices in this country rose sharply, especially for producers' equipment. The price advance here for those products outpaced that in Europe, which is exemplified in the chart by Germany. Europe's better price performance in the 1950's was the result, in part, of a more rapid advance in productivity. Thus, sharply rising wages in Europe kept consumer prices moving up as fast as ours in the 1950's while Europe's industrial and export prices lagged ours. Our international competitive position may have been at its weakest in the years from 1958 to 1960. Thereafter, relative price stability in the United States—at least until last year—has been helping us to regain some of the ground lost.