

Preview of the 2018 Annual Update of the International Economic Accounts

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In June, the Bureau of Economic Analysis (BEA) will release the results of the 2018 annual update of the U.S. international transactions accounts (ITAs) and the U.S. international investment position (IIP) accounts. Annual updates provide the opportunity to introduce both standard updates to maintain the international accounts and major improvements, such as those outlined in BEA's strategic plan.¹ The improvements are generally of three major types: (1) statistical changes to introduce new and improved methodologies and to incorporate newly available and revised source data, (2) changes in definitions to more accurately portray the evolving U.S. economy and to provide consistent comparisons with data for other national economies, and (3) changes in presentations to reflect the definitional and statistical changes, where necessary, or to provide additional data or perspectives for users.

As with previous annual updates, this year's annual update of the U.S. ITAs and IIP accounts will incorporate newly available and revised source data for the preceding 3 years and for additional years for selected series.² In addition to these standard updates, BEA will incorporate newly available source data from the benchmark survey of U.S. direct investment abroad. The annual update of the ITAs and the IIP accounts will also include an improved method for estimating exports of goods under the U.S. Foreign Military Sales (FMS) program and associated financial transactions and positions. In addition, the annual update of the ITAs will incorporate an improved method for estimating exports of goods and services under selected U.S. military grant programs and adjustments to address a problem with source data for exports of travel services.

Additionally, seasonally adjusted statistics will be revised to reflect recalculated seasonal and trading day adjustments. With previous annual updates, seasonal factors were typically updated for the previous 3 years. As part of BEA's goal to more accurately portray the changing U.S. economy, BEA will, from this update forward, incorporate revised seasonal factors for the previous 5 years; this year's annual update will incorporate revised factors for 2013 to 2017.

Incorporation of Benchmark Survey of U.S. Direct Investment Abroad

BEA collects information on direct investment through mandatory benchmark, annual, and quarterly surveys of U.S. multinational enterprises. Benchmark surveys (or censuses), which are conducted every 5 years, are the most comprehensive surveys in two respects: they collect greater detail than is collected on the annual and quarterly surveys, and they cover the entire population—or universe—of companies. In addition to the benchmark surveys, BEA conducts quarterly and annual sample surveys. To reduce the reporting burden on U.S. enterprises that respond to sample surveys, the enterprises are not required to report on foreign affiliates that have sales, assets, and net income of \$60 million or less (positive or negative).³ Instead, BEA estimates the data for these affiliates by extrapolating their data from the most recent benchmark survey based on the changes reflected in the sample data. Therefore, coverage of the U.S. multinational enterprise universe is complete whether the periods are covered by benchmark surveys or sample surveys.

Direct investment positions, transactions in financial assets and liabilities, and related income receipts and payments for 2014–2017 will be revised to incorporate the results of BEA's 2014 Benchmark Survey of U.S. Direct Investment Abroad. This benchmark survey collected data on the U.S. and foreign operations of all U.S. investors that owned 10 percent or more of a foreign business enterprise.⁴

Improved Method for Estimating Exports of Goods Under the U.S. Foreign Military Sales Program

BEA's current methodology for estimating exports of goods under the FMS program uses two data sources: (1) goods identified as FMS exports in the U.S. Census Bureau's merchandise trade statistics, which are collected through the Automated Export System (AES), and (2) deliveries of FMS goods reported to BEA by the U.S. Department of Defense (DOD). BEA replaces the FMS exports recorded in the AES with the DOD data. This approach was implemented in 2007 after a BEA study concluded that the DOD data more accurately reflected FMS exports than the data recorded in the AES, primarily because the DOD data provided better coverage of these transactions at the time.

However, enhancements to the AES since then, such as implementation of mandatory electronic filing in late 2008 and the Census Bureau's routine outreach to, and training for, AES filers on export compliance and reporting requirements, have improved the coverage and accuracy of FMS export transactions. In addition, recent BEA research has determined that the FMS exports in the AES more accurately reflect when the economic ownership of the goods transfers to nonresidents.⁵

Beginning with statistics for 2010, BEA will use the FMS exports recorded in the AES as the source data for these transactions and will no longer replace them with the DOD data. Exports of goods in the ITAs will be revised to reflect this change in BEA's use of source data. Given the double-entry accounting that underlies the ITAs, the value of exports of FMS goods will also be recorded in the financial account under general government trade credits and advances as a reduction in the liabilities of the U.S. government.⁶ Trade credits and advances in the IIP accounts under U.S. liabilities will also be revised to reflect the revised valuation of the FMS goods.

Improved Method for Estimating Exports of Goods and Services Under Selected U.S. Military Grant Programs

The U.S. government provides defense-related goods and services to several partner countries through military grant programs that DOD calls Building Partner Capacity (BPC) programs.⁷ BEA records the value of the goods or services provided to nonresidents through these programs in exports of services under government goods and services n.i.e. (not included elsewhere) and, given the double-entry accounting that underlies the ITAs, in payments of secondary income (current transfers) under U.S. government grants.⁸ BEA research has revealed that in addition to transfers of goods and services, the source data also include cash transfers. Like transfers of goods and services, the value of cash transfers is recorded in payments of U.S. government grants. The other entry in the ITAs for cash grants, however, is recorded in the financial account in other investment liabilities under currency and deposits. BEA has identified that cash transfers disbursed through the Afghanistan Security Forces Fund program are included in the source data and will remove them from exports of government goods and services n.i.e. beginning with statistics for 2010. No adjustment to currency and deposits is necessary, because these cash grants, while not identifiable, are captured in BEA's source data on financial transactions.

Adjustments to Address a Problem With Source Data for Travel Services

Exports of travel services (for all purposes including education) reflect expenditures on goods and services by foreign residents visiting the United States. Travel (for all purposes including education) includes both business and personal travel. Combined, other business travel and other personal travel compose a subaggregate measure of travel that excludes both expenditures by travelers whose primary purpose for travel is education or health and expenditures by border, seasonal, and other short-term workers.

For all countries other than Canada and Mexico, and excluding cruise-related travel expenditures, this subaggregate of travel exports is derived by multiplying the number of foreign travelers by a measure of their average expenditures.⁹ The number of travelers is obtained from the National Travel and Tourism Office (NTTO) of the International Trade Administration in the U.S. Department of Commerce and is based on data collected by the U.S. Customs and Border Protection (CBP) of the U.S. Department of Homeland Security on form I-94. On April 9, 2018, NTTO announced it was suspending releases of I-94 overseas arrivals data pending the resolution of underlying technical issues with a significant number of records that resulted in a probable undercount of foreign travelers.¹⁰

BEA is working closely with NTTO to explore using CBP data on other related variables, such as country of citizenship, nationality, passport-issuing country, or document-issuing country as a proxy for residence to adjust overseas arrival counts. Although NTTO initially flagged this issue as a concern for 2017 arrivals, BEA believes that the patterns in the July 2016 through December 2016 arrivals are also unusual and could reflect an undercount of foreign visitors. BEA expects upward revisions to other business and other personal travel exports as a result of correcting for these undercounts of foreign travelers. Unlike the improved estimation methods described in the previous sections, the adjustments described in this section do not require related revisions in the financial and IIP accounts. The method BEA uses to correct for the undercount of foreign travelers will be described in an article highlighting the results of the annual update of the ITAs and IIP accounts in the July issue of the *Survey of Current Business*.

1. See “[Bureau of Economic Analysis Strategic Plan](#)” on BEA’s Web site.
2. For information on BEA’s revision policy and on data sources and estimation methodologies, see *U.S. International Economic Accounts: Concepts and Methods* on BEA’s Web site.
3. For more information, see “[A Guide to BEA’s Direct Investment Surveys](#)” on BEA’s Web site.
4. The benchmark survey data are also the source of BEA’s statistics on the activities of U.S. multinational enterprises for 2014. [These statistics](#) are available on BEA’s Web site.
5. Change in economic ownership is a fundamental concept that determines whether a transaction is recorded in the ITAs.
6. A liability was recorded in the ITAs in a prior period when a foreign government made advance payments for FMS goods.
7. Chapter 15 of the *Security Assistance Management Manual*, published by the Defense Security Cooperation Agency, notes that BPC programs are funded with U.S. Government appropriations and may provide defense articles for the purpose of building the capacity of partner nation security forces and enhancing their capability to conduct counterterrorism, counterdrug, and counterinsurgency operations, or to support U.S. military and stability operations, multilateral peace operations, and other programs.
8. Because the types of goods or services cannot be identified, BEA records them in government goods and service n.i.e. If they could be identified, BEA would record them in the appropriate goods or services account.
9. BEA receives data on arrivals from Canada and Mexico from Statistics Canada and the Bank of Mexico, respectively, and estimates cruise-related travel separately. For more information on how BEA calculates its statistics on travel (for all purposes including education), see “International Transactions Accounts” in *U.S. International Economic Accounts: Concepts and Methods*, [chapter 10, paragraphs 10–88](#).
10. See the press release “[International Trade Administration Announces Suspension of 2017 I–94 Overseas Arrivals Data Releases](#).”



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