

# Revisiting the sources of U.S. imbalances: Wavelet approach

JUN-HYUNG KO<sup>†</sup> and YOSHITO FUNASHIMA<sup>‡</sup>

<sup>†</sup>Aoyama Gakuin University    <sup>‡</sup>Tohoku Gakuin University

February, 2023

## Abstract

This paper investigates the sources of U.S. current account imbalances using the discrete wavelet method. In line with theoretical implications, the links between current account and the real interest rate are decomposed into time and frequency domains. Main findings are summarized as follows. First, in the 1980s and the late 2000s, the negative links are strongly observed in more-than-16 year cycles, which supports that the domestic factors are the main source of the U.S. current account deteriorations and improvements. In contrast, from the 1990s to the early 2000s, the external factors appear to be the dominant source of the current account imbalances. Second, focusing on the domestic factors, the negative trend of the U.S. current account starts with the investment boom, and the trough of the current account is accompanied by the saving drought, and finally investment drought is attributed to the recovery of the current account imbalances.

**Keywords:** Global imbalance; International capital mobility; Meltzer-diagram; Discrete wavelets

**JEL classification:** C32; F21; F32