The Price Competitiveness of U.S. Exports

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The Changing Value of the Dollar

- In economic theory, changes in the exchange rate should impact both price trends and volume trends of internationally traded goods and services.

- A weaker Dollar should lead to higher import prices, and lower export prices.

- A stronger Dollar should lead to the reverse.

- In reality, the weaker Dollar tends to put downward pressure on both the price indexes for U.S. imports and U.S. exports.
Currently, U.S. Exports are priced in U.S. Dollar Terms

Only tells part of the story from the perspective of U.S sellers

A better measure of how price competitive U.S. Exports are would be to look at the prices from the perspective of foreign buyers
Matter of Perspective

- A falling U.S. Dollar will always lead to a higher Dollar price, even in the case of exports.

- But, that doesn’t mean the price of U.S exports are becoming more expensive, just that U.S sellers are getting more, but less valuable Dollars for them.

- From the perspective of foreign buyers, the lower U.S. Dollar means that U.S. exports are getting cheaper.
Impact of a Change in the Value of the Dollar

- In response to a weaker Dollar, foreign buyers of U.S. Exports require less of their own currency to pay the same dollar transaction price.

- The opposite will happen when the Dollar strengthens.
Example

- A Canadian buyer might buy a U.S. export that goes up 5% in U.S. Dollar terms from the previous month.

- But, let’s say over the same period, the value of the Canadian Dollar increases 10% against the U.S. Dollar.

- From the buyer’s perspective, in Canadian Dollar terms, the item will be 5% cheaper.
Pass-Through Effects

- Studies have shown that about half of the pass-through effect of exchange rates will take place in the short-term (one to three months).

- In each case, the majority of the exchange rate change passes through to the foreign currency price.

- The pass-through rate into the foreign currency price is higher for exports than imports, where more of the change passes through to the U.S. Dollar price.
Last year, BLS published a focus paper titled “The Price Competitiveness of U.S. Exports”

Paper looked at how the value of the Dollar impacted export prices in foreign currency as well as the value of U.S. exports
Creating a Foreign Currency Export Price Index

- To convert Export Prices from U.S. Dollars to Foreign Currency Terms you need a measure of average exchange rates

- The Federal Reserve produces a trade weighted exchange rate index between the U.S. dollar and a set of major currencies

- Multiplying that Dollar price index by the exchange rate index yields an index of overall export prices in foreign currency terms
Exports in Dollar terms vs. Foreign Currency Terms

U.S. Dollar Exports And Foreign Currency Export Price Indexes, January 2009 - March 2010
(January 2009 = 100)

Index Value

Jan-09  Feb-09  Mar-09  Apr-09  May-09  Jun-09  Jul-09  Aug-09  Sep-09  Oct-09  Nov-09  Dec-09  Jan-10  Feb-10  Mar-10

U.S. Dollar Exports
Foreign Currency Exports

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**Trends up Through February 2010**

- The U.S Dollar lost approximately 12% of its value against a basket of major currencies the final nine months of 2009.

- From the April 2009 through February 2010, U.S. exports in Dollar terms rose 4.0 percent.

- But in foreign currency terms, export prices fell 5.4 percent.

- Not surprisingly, cheaper export prices contributed to the value of U.S. exports rising 24 percent over the final nine months of 2009.
Export Prices vs. the Value of Exports

Total Dollar Value Of U.S. Goods Exports & Foreign Currency Export Price Index, January 2009 - February 2010
(Source for Total Exports: U.S. Bureau of Census, Foreign Trade Division)
Foreign Currency Export Index based on January 2009 = 100

BLS Corporate Orientation
Exports in Dollar terms vs. Foreign Currency Terms

Chart 1: U.S. Dollar Exports And Foreign Currency Export Price Indexes, January 2009 - March 2010
(January 2009 = 100)
What’s happened since the paper was published in March 2010

- The U.S. Dollar has been down against most major currencies
- In Dollar terms, export prices have continued to rise
- But in foreign currency terms, prices have been relatively flat
- That has helped to make U.S. more competitive overseas, leading a rise in U.S exports
Export Prices vs. the Value of Exports

(Source for Total Exports: U.S. Bureau of Census, Foreign Trade Division)
Foreign Currency Export Index based on January 2009 = 100

Millions of Dollars

Index Value
Impact of Exchange Rates on Disaggregated Indexes

- Even more information on the impact of exchange rates can be ascertained by disaggregating indexes by product categories.

- Product area impact varies by the mix of U.S. trade partners for given item categories.

- Take the example of imported Metalworking Machine Tools and imported Apparel.
Comparison of where items are imported from for Metalworking Machinery tools vs. Apparel

- The Euro and Yen are the currencies that will have the greatest impact on imported metalworking machinery.
- Clothing and apparel imports will be impacted by a mix of Asian and Latin American currencies, most of which are tied to the Dollar.
Average Exchange Rate Indexes and Foreign Currency Indexes

- Average Exchange Rate and Foreign Currency Indexes are necessary to compare exchange rate effects for disaggregated data.

- Average Exchange Rate Indexes measure the change in the price of a trade-weighted basket of currencies against the U.S. Dollar. They are multiplied by U.S. Dollar indexes to derive indexes in foreign currency terms.

- Foreign Currency indexes then measure U.S. import and export price trends in foreign currency terms.
Foreign Currency Price Indexes

\[ FCPI_{y,t}^n = \frac{(USPI \times AERI_{y,t}^n)}{100} \]

- Where,
  - USPI = United States import or export price index
The International Price Program produced Average Exchange Rate Indexes and Foreign Currency Indexes up until 1992.

Currently looking to bring them back as a measure of the competitiveness of U.S. exports in foreign markets.
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