
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

Matter of Perspective

- 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

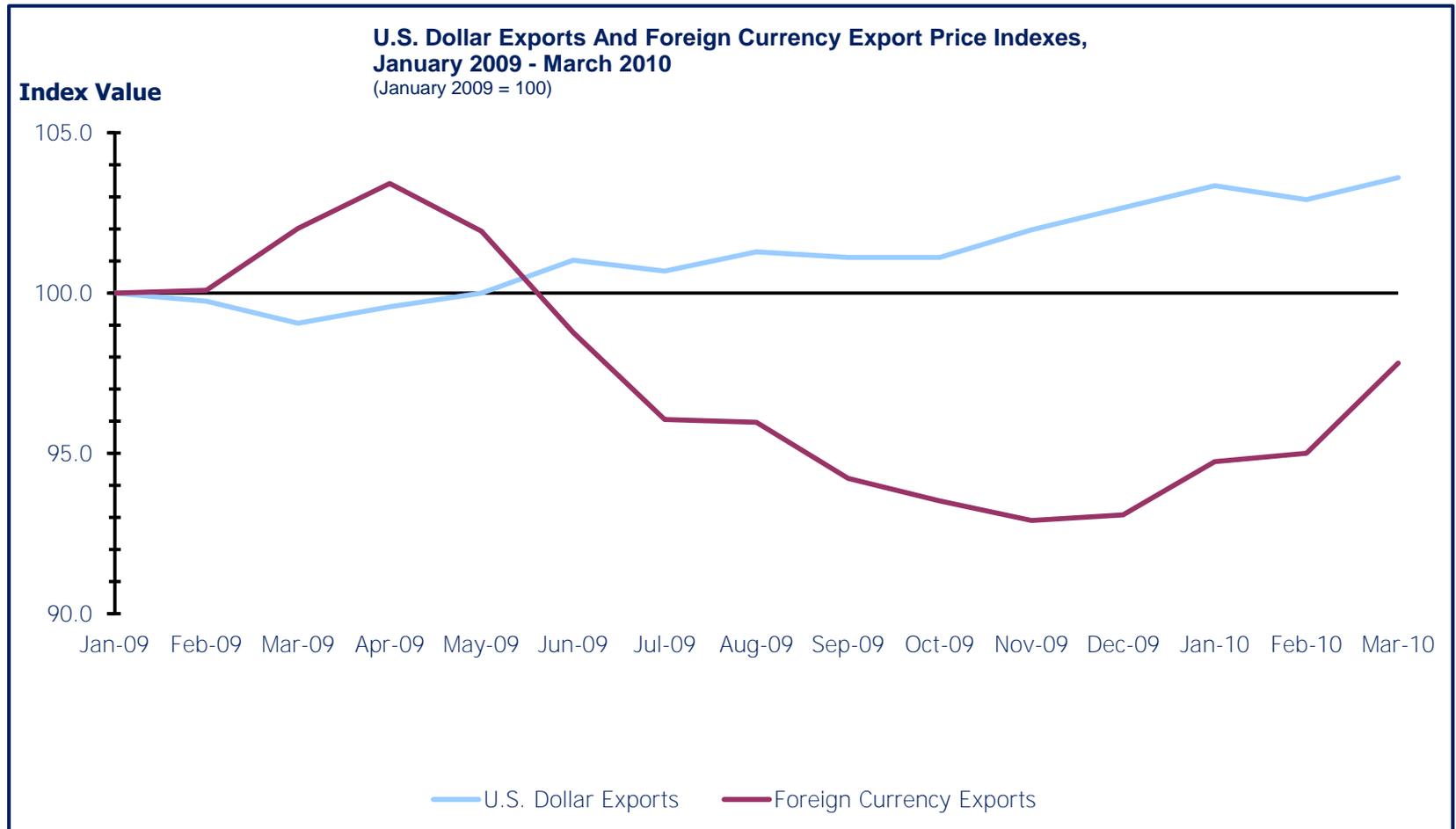
MLR Focus Paper – March 2010

- 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

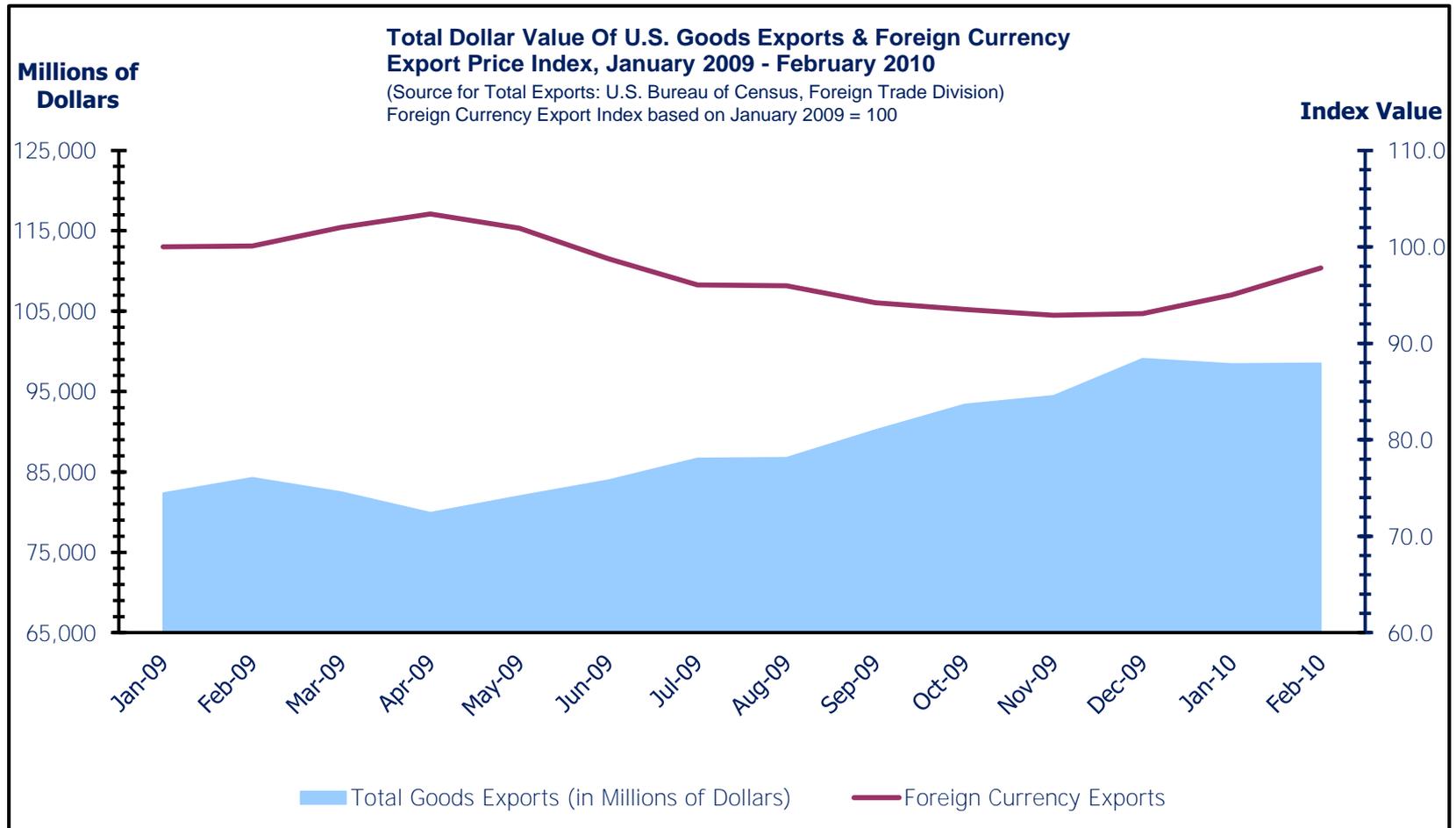
Exports in Dollar terms vs. Foreign Currency Terms



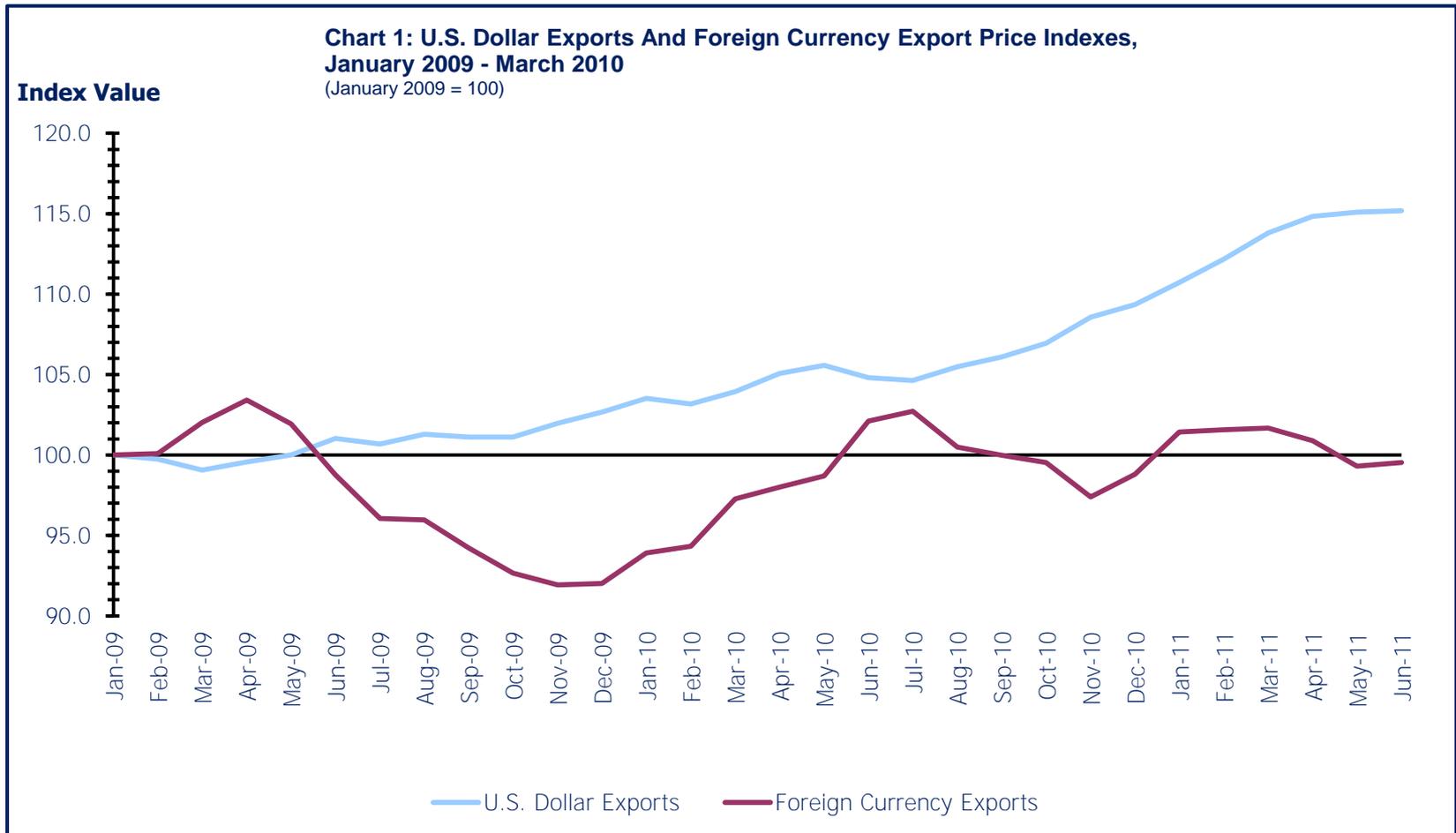
Trends up Through February 2010

- The U.S Dollar lost approximately 12% of it's 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



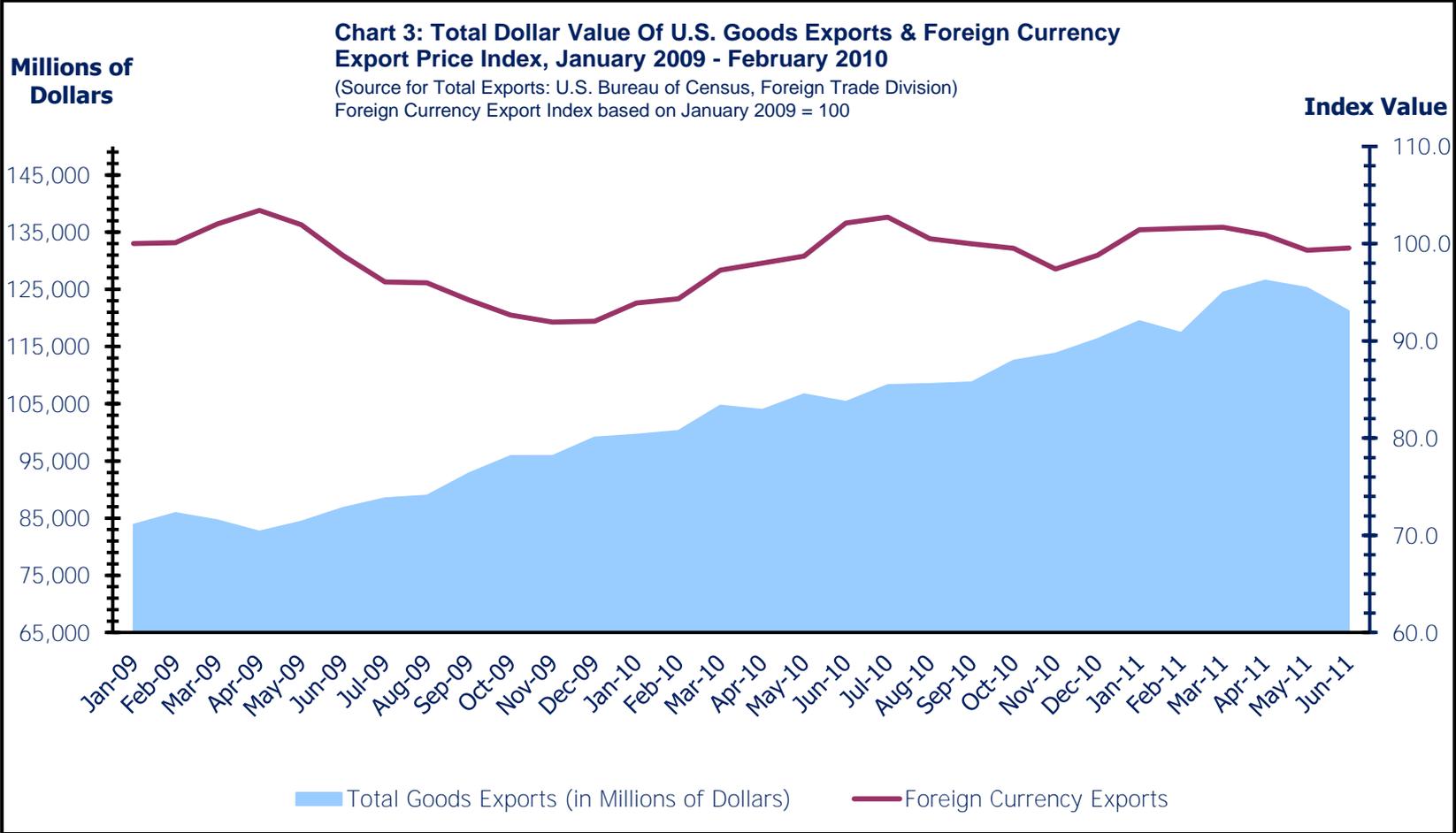
Exports in Dollar terms vs. Foreign Currency Terms



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

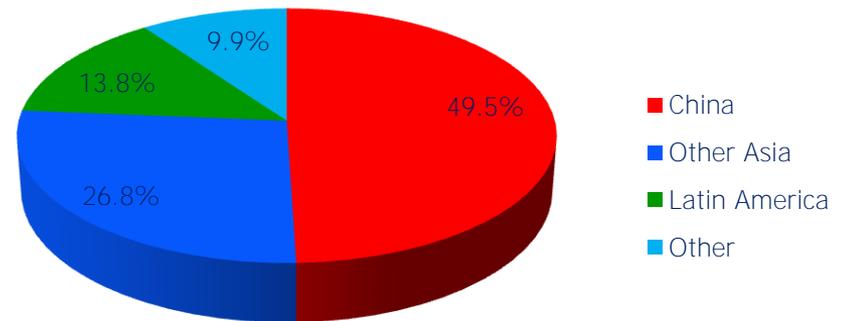
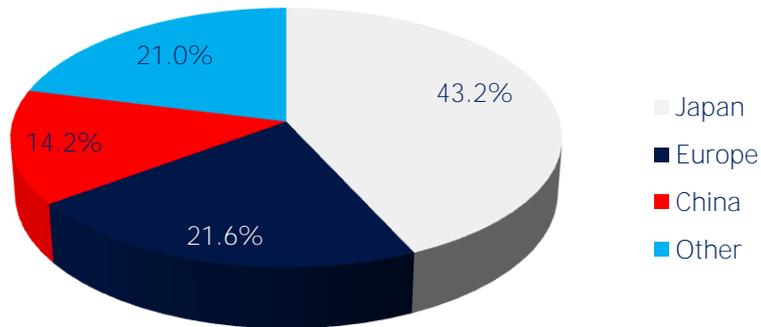
Export Prices vs. the Value of Exports



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

$$FCPI_{y,t}^n = (USPI * AERI_{y,t}^n) / 100$$

■ Where,

- ▶ USPI = United States import or export price index

Average Exchange Rate Indexes and Foreign Currency Indexes

- 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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