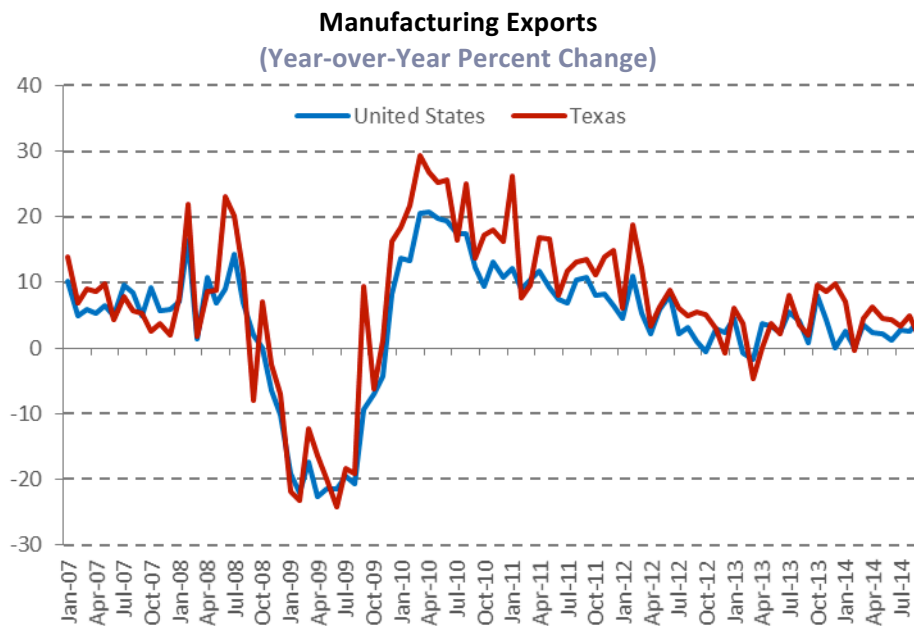


About this Reference Document

This document helps you understand and interpret a particular economic indicator that is part of the larger *Outlook for the Texas Economy*. Note that all data, charts, and explanations presented are from prior reports and thus are not current. Your feedback is always appreciated. Send comments and suggestions to info@recenter.tamu.edu.

Dr. Luis Torres and Wayne Day



Note: Adjusted for inflation with Bureau of Labor Statistics export indices.
Sources: International Trade Administration, Foreign Trade Division and U.S. Census Bureau

Through its Foreign Trade Division, the U.S. Census Bureau is responsible for collecting, compiling and publishing trade statistics for the United States. In 1985, a new field was added, one that not only reports where the export begins its journey but also its foreign destination. The field allows the compilation of what's called the State of Origin of Movement (OM) Series.

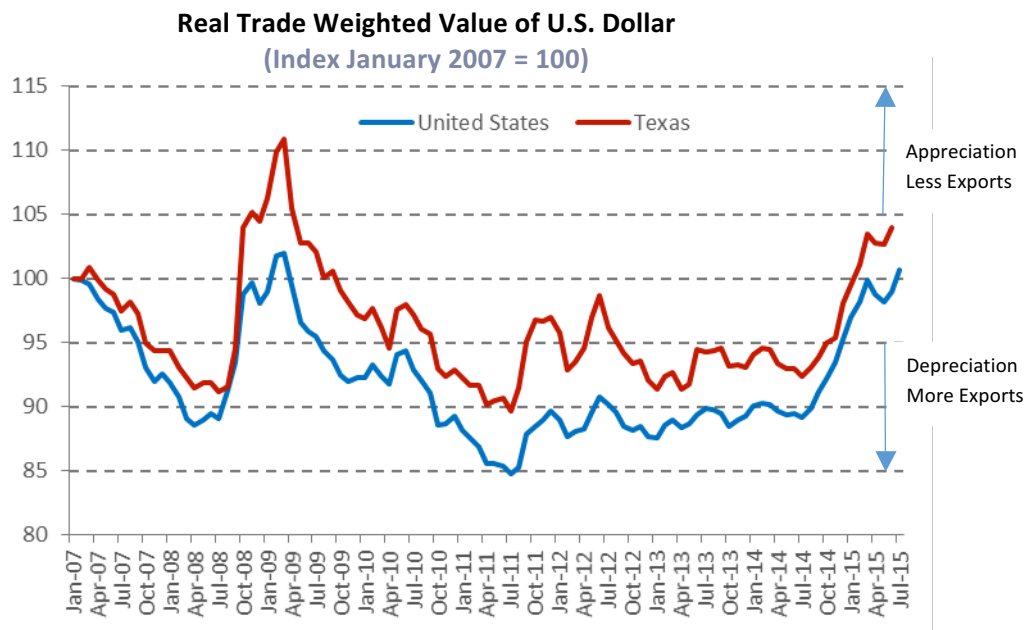
The OM field is very useful because it allows researchers to analyze export patterns by state and destination. The OM series first became available in 1987. Unfortunately, its usefulness is limited because an export's movement origin is not necessarily the production origin.

The data are available monthly, quarterly and annually. In addition to the state and destination information, the series contains data by industrial group as classified by the North American Industry Classification System or Harmonized System.

By definition, manufactured exports come from plants, factories or mills engaged in the mechanical, physical or chemical transformation of materials, substances or components into new products. They use machines and materials-handling equipment.

This month’s highlighted chart shows Texas manufacturing exports continue to expand but at a slower pace. The slowdown is the result of declining growth in the global economy and the appreciation of the U.S. dollar versus other world currencies, which negatively impact demand for Texas exports.

Source: International Trade Administration, Foreign Trade Division and U.S. Census Bureau
<https://www.census.gov/foreign-trade/aip/elom.html>



Source: Federal Reserve Bank of Dallas

The Dallas Federal Reserve estimates an index comparing the value of the dollar against the currencies of countries with which the state trades. To produce the state measures, real exchange rates between the United States and its trading partners are estimated. State-specific measures are then calculated by weighting the real exchange rates by the percentage of the state’s exports to specific countries.

For example, historically more than one-third of Texas exports have gone to Mexico, so the real value of the peso is multiplied by a value close to that weight when calculating the state’s real trade weighted value. The index is then adjusted for each country’s inflation rate so that it best represents the purchasing power of the dollar relative to the foreign currency. Weights are moving and based on prior years’ exports, and the exchange rates are adjusted for inflation in both countries. The real trade value weighted value of the U.S. dollar is available on the [Dallas Federal Reserve](#) website monthly. It is estimated for each of the 50 states.

The real trade weighted value of the U.S. dollar for Texas is down sharply from the high reached in March 2009 and close to prerecession levels of mid-2007. The dollar's rise during the financial crisis likely pressured manufacturers throughout the United States as the cost of their products in foreign currencies rose.

An **increase** of the index represents an appreciation of the currency, causing Texas exports to be more expensive relative to its major trade partners and lowering the demand for Texas exports. A **decrease** of the index reflects a depreciation of the currency and causes Texas exports to be less expensive relative to the state's major trade partners and increases the demand for Texas exports. The index shows the effect on Texas exports and state economic activity and is a leading indicator for future Texas economic activity.

Source: Dallas Federal Reserve Bank

<http://www.dallasfed.org/research/econdata/rtwvd.cfm>

