



New Hampshire Exporters Cashing In On Undervalued U.S. Dollar

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DURHAM, N.H. -- New Hampshire exporters are cashing in on a weak U.S. dollar and will hold on to their competitive advantage into early 2007, according to a new study by the International Private Enterprise Center at the University of New Hampshire Whittemore School of Business and Economics.

"International trade is very important for the health of New Hampshire's manufacturing firms. All together, New Hampshire export and export-related shipments support over 20 percent of manufacturing employment and represent over 20 percent of the value of all New Hampshire manufacturers' shipments," says Fred Kaen, director of the International Private Enterprise Center and professor of finance at UNH.

According to the center, the Nominal New Hampshire Trade Weighted Currency Index calculated by the center fell from 94.47 to 92.31 during 2005 (the base year value of 100 is 1999). The decline means the dollar has weakened on the foreign exchange markets, a weakening that has occurred with respect to every major currency or trade area important to New Hampshire except Japan.

More importantly, the Real New Hampshire Trade Weighted Currency Index also has declined from 89.33 to 87.34. The Real New Hampshire Trade Weighted Currency Index measures the effective or real prices of New Hampshire exports to the rest of the world based on the purchasing power of the dollar.

"A decline in this index means that New Hampshire exports have become less expensive in real terms," Kaen says. "The major reason for the decline in the Real Index was the strengthening of the Canadian dollar. The Real Dollar Index against the Canadian dollar fell from 86.76 to 77.81."

The decline in the Real New Hampshire Trade Weighted Currency Index may partially explain the increase in New Hampshire exports from \$1.9 billion in 2002 to \$2.5 billion in 2005. In 2002, the Real Index stood at 108.68 compared to the current level of 87.34.

The improvement in the currency competitiveness for New Hampshire exporters is important because the export sector generates a substantial number of jobs in the state, Kaen says. According to a 2004 U.S. Department of Commerce study, New Hampshire's 2001 exports supported 13,300 jobs or 13.8 percent of the New Hampshire's manufacturing employment. Export-supporting activities generated an additional 6,800 jobs for a total 20.8 percent of manufacturing employment.

“The prospects for the currency competitiveness of New Hampshire exporters remain positive for 2006 as the dollar is unlikely to appreciate substantially. The U.S. continues to run sizeable current account deficits that are partially financed by foreign central banks because private investors do not want all the dollars coming to the foreign exchange market,” Kaen says. “If the central banks – primarily China and Japan – stop buying these dollars, the dollar will depreciate further. And should China revalue its currency, New Hampshire firms would see an improvement in their currency competitiveness relative to China and their major Asian destinations – South Korea, Hong Kong, Thailand and Singapore.”

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