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Editors: Fred Kaen is available to discuss the results of the report. He can be reached at 603-862-3354 or frk@christa.unh.edu The full research report is available for download at http://unhinfo.unh.edu/news/docs/exchange.pdf.

DURHAM, N.H. – Changes in the value of the dollar can substantially affect the international competitiveness of New Hampshire exporters and the overall New Hampshire economy. Not only do New Hampshire manufacturing exports support more than 20 percent of New Hampshire manufacturing jobs, the jobs they support are in relatively high-paying industries such as computer and electronic products.

These findings and more are discussed in a new research report, “Foreign Exchange Rate Exposures of New Hampshire Manufacturing Industries: Competitive Implications and Managerial Strategies,” published by the International Private Enterprise Center at the University of New Hampshire Whittemore School of Business and Economics. The paper will be presented in October at the Northeast Business and Economics Association Conference in Rhode Island.

“To track and evaluate how these changes affect New Hampshire manufacturing firms, the International Private Enterprise Center constructed two foreign exchange rate indexes based on the destination of New Hampshire manufacturing exports -- New Hampshire Nominal Exchange Rate Index (NERI) and the New Hampshire Effective Exchange Rate Index (EERI),” according to Fred Kaen, co-director of the center and professor of finance.

The NERI is a trade-weighted index that is calculated using actual (nominal) exchange rates. According to the research, from a base of 100 in 1999, the NERI rose from 100 to 109.22 or 9.22 percent, reflecting the strengthening of the dollar in the foreign exchange markets. However, since 2001, the nominal dollar has weakened considerably and the NERI has fallen from 109.22 to 94.47 or 13.5 percent.

“This strengthening and weakening of the dollar is mirrored in changes in total New Hampshire exports. New Hampshire exports fell sharply in 2002, in part reflecting the strong dollar and began recovering in 2003and 2004 in part due to the weakening dollar,” according to Kaen.

Since 2002, the currency competitive position of New Hampshire exporters has improved more than that for the typical U.S. firm. “This improvement is particularly noticeable with respect to Canada, New Hampshire’s major trading partner, and with the European countries that have adopted the Euro as their currency, New Hampshire’s second most important currency/trade area destination,” Kaen said.

New Hampshire exporters have not experienced much change in the nominal exchange rates they face in Asia. The New Hampshire Asian trade area index has moved within a narrow range of 99.94 to103.28 since 1999. However, exports to China have increased substantially and, as a percent of total exports, moved from 1.1 percent to 4.5 percent despite the fact that the Chinese have kept their currency pegged to the dollar at a constant rate from 1999 until recently.

“Given China’s recent decision to revalue its currency upward, the potential for further growth in New Hampshire exports to China seems promising,” Kaen said.

New Hampshire exporters have experienced a deterioration in their currency competitiveness relative to Latin and South American countries. Nevertheless, exports to these destinations, especially Mexico, increased in 2004 after falling in 2002.

The EERI is also a trade-weighted index but uses purchasing power parity exchange (PPP) rates instead of the actual exchange rates. PPP exchange rates are used to measure whether a country’s currency is overvalued or undervalued in terms of what it can buy in foreign countries. An index value of more than 100 means that the dollar is overvalued making New Hampshire exports more expensive in real terms than those of other countries. An index value of less than 100 means that dollar is undervalued thereby enhancing the currency competitiveness of New Hampshire exports.

In 1999, the EERI stood at 114.94, meaning that New Hampshire exporters faced an overall currency competitive disadvantage with respect to trading partners. The EERI climbed to a high of 120.04 in 2002. Since 2002, though, New Hampshire exporters have experienced a substantial improvement in currency competitiveness, with the EERI actually below 100 at 98.17 in 2004.

“In other words, in real terms, New Hampshire exports today are less expensive than they would have been had purchasing power parity held in the foreign exchange markets,” Kaen said. “In fact, relative to 1999, New Hampshire exports have become considerably less expensive in real terms in all currencies except the Japanese yen. Currency-specific effective exchange rate indexes dropped from 100 in 1999 (after rising through 2001) to the mid-80s for Canada, the United Kingdom, Euro countries, Mexico and Australia. Thus, New Hampshire exporters should continue to see an improvement in their international competitive position through 2005.”