



Get to Know a Principal Economic Indicator:
U.S. Import and Export Price Indexes

With the trend towards openness and connectivity of the world's economies, trading has become a more integral and complex part of national economic activity. In the U.S. and other countries that export a lot of goods and services *and* import a lot of goods and services, trade related indicators provide important measures of the economy.

Export and import price indices calculated by the Bureau of Labor Statistics (BLS) are based on statistically sound survey data collected by the BLS from U.S. firms that export and/or import goods or services. They are essential to a range of issues, including: the U.S. Balance of Trade; the accurate contribution of imports and exports to inflation; the terms of trade for U.S. competitiveness; negotiating trade contracts (by firms) or agreements (between nations), and in creating major indicators of U.S. economic health. The figures are produced monthly and used extensively by government and private businesses.

1. We can't measure the U.S. Balance of Trade with other countries without using the BLS price indices to adjust Census data. The balance of trade is the difference between the value of exports and imports and shows whether there is a trade surplus (more money coming into the country) or a trade deficit (more money going out of the country). Over the long term, a trade deficit can result in a devaluation of U.S. currency as foreign debt increases. This increase in debt reduces the credibility of our currency, which will inevitably lower the demand for it and thereby its value. Significant debt can lead to a major financial burden for future generations who will be forced to pay it off. Thus the balance of trade is a major economic indicator.

2. BLS export and import price indices are also the basis for measuring trade competitiveness. The "terms of trade" represent the relative price of what a nation is exporting, over the price paid to foreigners for imported goods. When the price of what is being exported rises, or when the price paid to foreigners for imported goods falls, terms of trade improve and U.S. competitiveness is said to be greater. Since various policies can change the terms of trade, it is important to measure and keep track of it.

3. BLS export and import price indices are used by exporting/importing businesses for contracting purposes. Businesses frequently employ a clause within contracts to include a mechanism to adjust prices based on an agreed measure of inflation. The BLS import and export price indices are the best measures for inflation when a contract is being written for imported or exported goods.

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4. BLS export and import price indices allow us to analyze *why* trade volume may be changing for the U.S. as a whole or for particular economic sectors. Is volume changing because of relative prices, because of greater (or lesser) demand for a product overseas, or can it be related to new policies, such as a raise in the minimum wage? Without the BLS data to adjust inflation in the appropriate set of traded goods and services, the U.S. government and private firms could not examine *inflation-adjusted* measures of trade in the U.S. economy. This is particularly important in examining trends in trade over time.

5. Accurate export and import price indices are essential in international trade negotiations. Trade agreements determine the tariffs, (taxes and duties) that countries impose on each other's imports and exports. Tariffs and other trade barriers alter the effective price of imported or exported goods. Trade agreement negotiation thus centers heavily on what unaltered market prices are before and would be after various levels of trade policy intervention.

6. Major economic indicators are created using the BLS export and import price indices. Calculation of the nation's gross domestic product (GDP), among our most important gauges of U.S. economic health, relies on accurate export price indices. The BLS price indices are used in creating and maintaining the full national income and products accounts (NIPA) calculated by the Bureau of Economic Analysis. These economic indicators reliant on BLS trade price indices are, in turn, used for important decisions by a range of economic institutions, including the Congressional Budget Office, the Federal Reserve Board, and the President's Council of Economic Advisors.

7. BLS export and import price indices are critical in determining the impact of exchange rate movements on the price of imports and exports. Movement of the dollar against the currencies of major U.S. trade partners impacts both import and export prices. A stronger dollar typically results in lower prices for imported goods, but higher prices for exported goods. Import and export price indices are necessary to determine how much of an exchange rate change passes through to import and export prices.

There is no good substitute for the BLS price indices. To construct these price indices, BLS surveys U.S. exporters and U.S. importers to get current prices in a timely manner. It then uses a formula based on trade volumes to create an appropriate weighted overall index. Price indices are also available by industrial sector and are made available to the public on a monthly basis. These indices are unique because only the BLS survey permits construction of a *trade-specific* price index constructed from a traded set of goods and services that can be very different from the set of *all* goods and services produced in the United States.

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