N VIEW OF the recent fluctuations in the value of the Texas Leading Index, it is important to understand the source of this volatility. These movements can be attributed to the Real Texas Value of the Dollar (TXVD). The TXVD is one of the eight components of the Texas Leading Index and has lately become one of its most important contributors. From September 1997 through January 1998, the TXVD was the largest overall contributor to the Leading Index.

The TXVD, the Texas equivalent of the Trade Weighted Value of the Dollar (TWVD), is an index of the weighted value of the inflation-adjusted dollar relative to the inflation-adjusted currencies of other countries. Each country is assigned a weight based on the size of its exports relative to total exports. There are 48 countries in the TXVD, accounting for 94.7 percent of the Texas exports. Mexico is the largest country in this index, with 35.9 percent of the weight, followed by Canada (9.8 percent) and Japan (4.06 percent). Therefore, movements in the value of the Mexican peso will affect the TXVD more than movements in any of the other currencies.

The TXVD is inversely related to the Texas Leading Index (Chart 1). In other words, an increase in the TXVD affects the Texas Leading Index negatively, while a decrease in the TXVD gives it a positive boost. The TXVD is included in the Leading Index because it serves as an indicator for the price of Texas exports. When the value of the TXVD increases, these exports become more expensive for Texas’ trading partners. This could result in a reduction in the volume of Texas exports.

From September 1997 through January 1998, the TXVD saw rapid growth of 5.4 percent. The bulk of this growth can be attributed to the Asian crisis, during which most of the East Asian countries suffered strong devaluations of their currencies. Indonesia, Thailand, Philippines, South Korea and Malaysia were affected the most by the crisis. Indonesia saw its currency depreciate by as much as 140 percent against the dollar in real terms. As Chart 2 shows, growth in the TXVD would have been insignificant if the Asian countries had been excluded from this index. The combined weight of all the Asian countries included in the TXVD is 20 percent of the total. This weight is significant enough to cause important changes in the TXVD.

During the September 1997–January 1998 period, the Texas Leading Index fell each month except January. The cumulative decline was 0.5 percent. If the TXVD had remained unchanged,
the Leading Index would not have fallen.

The effects of the Asian crisis are similar to those observed during the peso crisis at the end of 1994. From December 1994 to March 1995, the Mexican peso lost as much as 50 percent of its value against the dollar in real terms. This dramatic devaluation of the peso caused the TXVD to rise sharply—by 20.1 percent—during the November 1994–March 1995 period. At the same time, the Texas Leading Index declined by 1.6 percent. It is important to note that even though the peso devaluation was not as large as some of the devaluations that took place during the Asian crisis, it had a bigger effect on the TXVD—a consequence of Mexico’s greater weight in this index. During both of these crises, the TXVD was the largest contributor to the changes in the Texas Leading Index and, hence, was the driving force in its decline.

Currently, the TXVD has edged down, driven by a decline in the value of the dollar against the Asian currencies as these currencies strengthened. This decline in the TXVD contributed, along with other positive components, to a 0.6 percent increase in the Leading Index from January through March 1998.

—Ricardo Laudes

Note

1 The Texas Leading Index is a measure of the current conditions in the Texas economy; the higher its value, the better are economic conditions in Texas. The index leads changes in Texas employment by six months.

Further Information on the Data
