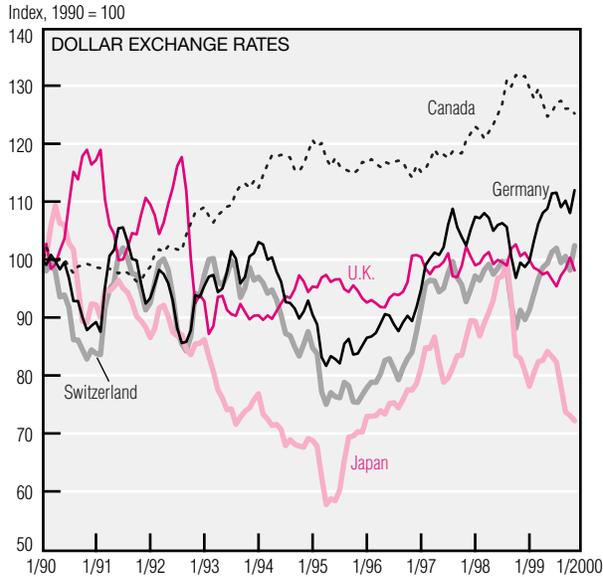
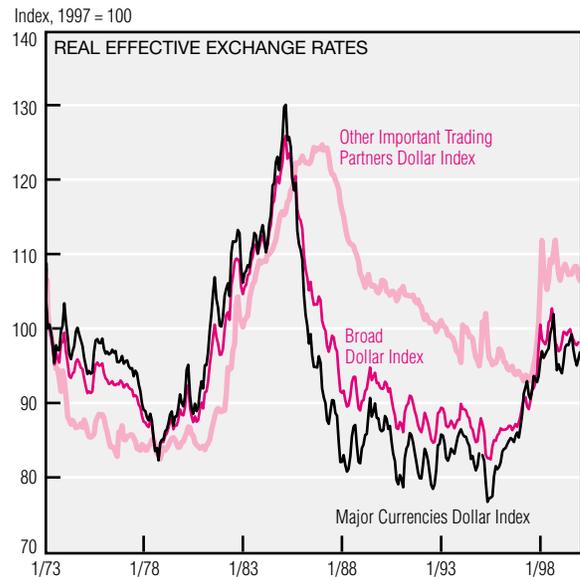
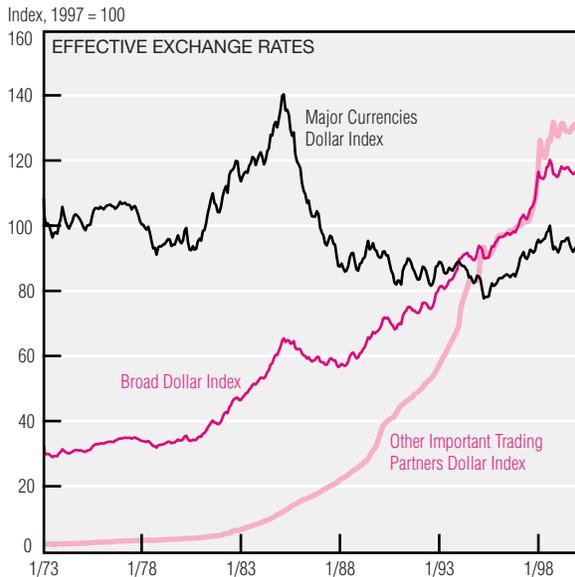


Effective Dollar Exchange Rates



Trade Weights for U.S. Dollar Indexes, 1997

	Broad	Major Currencies	Other Important Trading Partners
Canada	17.3	30.3	—
Euro area	16.4	28.7	—
Japan	14.6	25.6	—
Mexico	8.6	—	19.9
China	6.6	—	15.3
U.K.	4.6	8.0	—
Taiwan	3.9	—	9.1
Korea	3.7	—	8.6
Singapore	3.1	—	7.2
Hong Kong	2.8	—	6.6
Malaysia	2.4	—	5.5
Brazil	1.9	—	4.4
Switzerland	1.8	3.2	—
Other	12.3	4.2	23.4



NOTE: For more information, see "New Summary Measures of the Foreign Exchange Value of the Dollar," *Federal Reserve Bulletin*, October 1998, pp. 811–18.
SOURCE: Board of Governors of the Federal Reserve System, "Selected Interest Rates," *Federal Reserve Statistical Releases*, H.15.

During 1999, the U.S. dollar depreciated against the Japanese yen, appreciated against most European currencies, and held steady against its Canadian counterpart. Did the dollar strengthen or weaken last year?

To monitor the dollar's overall movement, economists construct effective exchange-rate indexes. These calculate the average change in the dollar from a sample of individual bilateral exchange rates, each of which is weighted according to that country's importance in U.S.

trade. Canada and Japan, therefore, receive more weight in calculations of effective dollar exchange rates than Switzerland and Brazil. The Federal Reserve Board uses three measures of effective exchange rates. The Broad Dollar Index is a summary of 26 currencies. The Major Currencies Index—a subset of the Broad Dollar Index—includes major developed countries whose currencies are broadly traded: Australia, Canada, Japan, Sweden, Switzerland, the U.K., and the Euro area. The Other Important Trading Partners Index comprises

the remaining 19 countries in the Broad Dollar Index, whose currencies are not widely traded.

To better understand the global competitive posture of the U.S., one should also adjust exchange rates for relative inflation patterns here and abroad. A real effective exchange rate does this. Its rise represents a dollar appreciation and suggests that U.S. goods are becoming more expensive in world markets. A drop in the real effective exchange rate suggests that the nation's competitive position has improved.