

# Investment in Manufacturing, Exchange-Rates and External Exposure

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## ABSTRACT

This paper studies the linkage between exchange rates and investment, emphasizing the role of producer exposure through export sales and through imported inputs into production. For two-digit United States manufacturing sectors we present time series of export shares and imported input shares. On average, manufacturing sectors have evolved from being primarily export exposed in the 1970s to being primarily import exposed by the early 1980s. Due to this pattern in exposure, exchange rate appreciations reduced investment in durable goods sectors in the 1970s and stimulated investment after 1983. By contrast nondurables sectors tended to absorb exchange rate changes in price over cost markups. Exchange rate volatility depressed investment but the effects were quantitatively small.

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