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Pros and cons of a stronger dollar



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The dollar is gaining strength in foreign exchange markets, particularly against the euro. Is that a good thing? It depends. John Dimsdale reports how a stronger dollar affects the American economy.

TEXT OF STORY

Tess Vigeland: Gold isn't the only commodity heading downward. Oil, farm products and other metals like copper have dropped to levels we haven't seen since early spring. And today the value of the dollar kept pumping iron on foreign exchange markets, especially compared to the euro. That is certainly good news for Americans planning a European vacation. But we wondered about the effect on the overall economy. Here's Marketplace's John Dimsdale.

John Dimsdale: The dollar today hit a six-month high against the euro. Oil and many other commodities are down over 20 percent. And some experts see the end of the commodity price boom that's been fueling fears of inflation.

Joel Naroff: There is a growing realization the U.S. economy is beginning to hit bottom, and the end of the long troubles may be in sight.

That's Joel Naroff, the chief economist for Commerce Bank.

Naroff: It may not be immediately, but the cycle is working itself through.

U.S. manufacturers are less sanguine. They welcome the lower prices for raw materials. But the stronger dollar takes away a big advantage their exports have enjoyed. Here's Drew Greenblatt, the owner of Marlin Steel Wire Products in Baltimore.

Drew Greenblatt: It's more important that the dollar stays where it is because that has opened up a lot of markets that were never available to us. Last month, we got our biggest order in company history from a Mexican company. I think its because our dollar was at a much more favorable trading range. We snatched it from the jaws of a Chinese company.

Here's the positive scenario that had some economists smiling today. A stronger dollar, along with cheaper energy and food and other commodities, will lower inflation. That means the Federal Reserve Board will have more leeway to keep interest rates down. Lower interest rates should give banks more confidence to lend, which should ease the credit crunch, helping homebuyers and the housing industry.

In Washington, I'm John Dimsdale for Marketplace.

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