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Sliding Dollar May Be Something to Cheer About

WASHINGTON _ The falling dollar is stoking fears of inflation and worries about the country's eroding power in the world. But for now it may be just the tonic that's needed to help the U.S. economy get back on its feet.

By making American products cheaper for most foreign buyers, the dollar is helping many U.S. companies boost their overseas sales. The weakening dollar also gives domestic businesses a competitive edge at home, making their products cheaper than rival imports.

The greenback's value slipped for a fourth straight day Thursday, to its lowest level in more than a year against other major currencies. It now takes \$1.49 to buy one euro, compared with \$1.26 seven months ago. Many experts expect the dollar to keep falling in the coming months.

That decline has its downside, making imports including commodities like oil more expensive for U.S. businesses and consumers. The price of crude rose to \$77.58 a barrel Thursday, a nearly one-year high that's due at least in part to the slumping dollar.

But to companies like Paulson Manufacturing Corp. in Temecula, Calif., which makes goggles and other protective gear, the greenback's slide is good news.

For a customer in Brazil, the company's top overseas market, buying \$10,000 of Paulson's face shields in early March meant shelling out more than 24,000 Brazilian reals. That same order costs only about 17,000 reals now.

"It certainly helps to have the dollar go down," said owner Roy Paulson, who's considering expanding his staff of 135. "I'll have more exports. There's no doubt about it."

Even U.S. companies that don't sell any products abroad can benefit from the fading U.S. currency.

The U.S. tourism industry, including hotels, restaurants and stores, could see a bump in business from foreigners sleeping and eating and shopping at what may seem like bargain prices to them.

Tour operator RMP Travel in New York is getting more requests for quotes from overseas travelers interested in visiting the United States.

"It looks like 2010 could be promising," said Suzi Steiger, the company's president.

U.S.-based multinational firms are likely to cash in on the humbler greenback as well. The reason: About 40 percent of sales by companies in the Standard & Poor's 500 stock index are made overseas. So when Procter & Gamble, Walt Disney and Abbott Laboratories convert money made in euros or Japanese yen into dollars, they will see more dollars on the bottom line.

That expectation is one driver of the rally on Wall Street that took the Dow Jones industrials back above 10,000 points this week.

The sinking dollar comes with some immediate downsides, of course. Foreign travelers may be more inclined to visit, but Americans heading to Paris, Sydney and other cities abroad may experience a bad case of sticker shock, something that could get worse in the months ahead.

Although currency exchange rates are notoriously volatile, there are good reasons traders and economists alike are betting on a sliding dollar. The currency has been weakening steadily since 2002 in a trend that reversed temporarily last fall only when the escalating global financial crisis prompted frightened investors to move money into dollar-denominated assets such as Treasury bills for their perceived safety.

But since March, as the global recession has showed signs of easing, investors have been selling dollars or borrowing them to plow money into faster-growing places overseas, particularly Asia, and that has driven the greenback's value back down.

The weak dollar also reflects serious concerns about the U.S. economy and its massive budget and trade deficits. Many people worry about an eventual onslaught of inflation.

Though hardly anybody predicts an outright collapse in the dollar, most analysts expect a further gradual erosion in its value as investors

continue to move into riskier assets and foreign banks that are paying higher interest rates.

In public remarks, Treasury Secretary Timothy F. Geithner has repeated the standard mantra that the U.S. favors a strong dollar. But he and others on Obama's economic team, which is struggling to stanch rising unemployment, may be quietly cheering the greenback's decline.

"It's a lucky break for the administration," said Simon Johnson, an MIT professor and former chief economist at the International Monetary Fund. "In this environment where there's low inflation," he says, the weak dollar "is expansionary for the economy and will help create jobs."

It could also boost the Obama administration's effort to "rebalance" the global economy, which many believe relies too heavily on American consumer spending. A weaker dollar could help the U.S. build a more export-oriented economy.

Treasury officials declined to comment. But last week, in addressing the National Association of Manufacturers' board in Washington, Geithner conveyed a message that "his first thing was getting the economy stronger and that he'll worry about the dollar later," said Drew Greenblatt, a board member of the association and president of [Marlin Steel Wire Products in Baltimore](#).

For Marlin, the lower dollar has been "like wind behind my sails," Greenblatt said, projecting that exports will make up 25 percent of his business this year, about twice as much as in 2008. A few years ago, he says, he had no sales overseas.

The company made its first shipment last week to [Australia](#): 50 six-pound wire baskets. Seven months ago the Australian customer would have had to pay almost 30 percent more. "It's as if we're having a sale," he said. "Foreign sales are saving my bacon."

Of course, shifting currency values won't help most of the 2 million-plus U.S. factory workers who have lost their jobs in the recession that began at the end of 2007, or bring about an immediate surge in exports.

History suggests that the effects of the low dollar won't take full shape for a year or more because of a lag in orders and shipments, said Frank Vargo, a spokesman for the manufacturing group. Even then, he added, any benefit will depend on customer demand, which remains weak here and abroad.

Some export-sensitive countries also can be expected to devalue their currencies to maintain their competitiveness in international markets. What's more, the dollar hasn't weakened against every major currency, notably the Chinese yuan, which Beijing does not allow to be freely traded in currency markets.

Because of the Chinese government's policy, the exchange rate between the dollar and the yuan has changed little since the summer of 2008.

Leading China experts believe that the yuan is undervalued against the dollar by 20 percent or more. U.S. officials are pressing the Chinese to rely less on exports and stimulate domestic demand, which would help reduce the large U.S. trade deficit with China and bolster U.S. exports to the world's most populous country.

Still, for U.S. companies, even small gains in exports are likely to boost production and sales and could eventually spur business investment and the hiring of new employees.

Paulson, owner of the goggle manufacturer in Temecula, sees his company in the early stages of that transition.

"Everything is lining up for next year to be wonderful," he says. But he has bittersweet feelings about what's happening. Like many U.S. business owners, he sees the dollar as a sign of a weakening economy, with the country's debts growing and foreigners coming to pick up land, companies and assets at bargain-basement prices.

If that trend continues, he said, "people will view us as a second-rate country."

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