

Silver lining in dollar's cloud

Export-oriented businesses benefit from greenback's slide

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If the American economy is cooling, Bentley World-Packaging has yet to feel the chill. The export-services firm, which crates and ships goods overseas, has never been busier. Bentley's six southeastern Wisconsin shipping centers are at capacity, and it plans further expansion.

The good times at Bentley, its chief executive says, reflect the powerful upside of the dollar's drooping exchange rate.

Each time the dollar loses ground against other currencies - and the greenback has ceded a lot of ground in recent weeks - U.S. exports become cheaper in foreign markets. Currency markets effectively have slapped discounts on all made-in-America goods and services that go abroad.

"It's like all our stuff is on sale," said CEO Tom Bentley III.

Unlike businesses that focus narrowly on domestic customers, many export-oriented U.S. companies can use the depressed dollar to offset at least some of the weakness at home, where housing markets are slumping, carmakers are bleeding losses and consumers are swimming in debt.

The world's most actively traded exchange rate, the European Union's euro against the dollar, has led the losses. The euro, which traded at \$1.25 six weeks ago, these days buys \$1.31 to \$1.33. (Currency traders routinely quote the euro-dollar rate in terms of how many dollars a euro can buy).

The dollar's swoon extends losses that go back more than four years. The 12-nation euro, which came into existence in 1999 when European Union nations began merging their economies and currencies, traded as low as 83 U.S. cents in July 2001, following a wobbly start. But since then, the euro has gained investor confidence while investors around the world have been losing faith in the dollar.

Since July 2001, the dollar lost about 60% of its value against the euro. That meant that gears made here by Falk Corp. sold in Germany or Italy at a 60% discount, said Ken Spirewka, a foreign exchange analyst in Milwaukee at U.S. Bancorp.

Good for exports, bad for U.S.

Tom Bentley knows firsthand that the falling dollar works like an elixir in some pockets of the U.S. economy. Most of Bentley's 500 industrial customers are from Wisconsin, many with fat foreign order books. His crews build crates as large as two-car garages that fit oil refining equipment that General Electric made in Oshkosh or cranes from P&H Mining Equipment in Milwaukee.

The battered dollar may be great for exports, Bentley says, but its weakness reflects a downgrading of America's international status.

"As a U.S. citizen, I don't like it," said Bentley, who's been active in international trade for 35 years. "The U.S. dollar used to be the strongest currency on Earth. It was sort of revered as a reserve currency. But now businesspeople and foreign governments openly are talking about our out-of-control deficits. People are losing confidence."

Dollar-skepticism is evident in financial centers such as London, New York and Beijing, where bankers trade currencies with the same speed and volatility as barrels of oil or shares in the stock market. A single headline that flashes on traders' screens can trigger whiplash changes in currency rates - such as the pronouncement last week by former Federal Reserve Chairman Alan Greenspan that the dollar will "continue to drift downward."

Behind the bearish sentiment, economists and traders concur, are concerns that the U.S. imports far more than it exports. That means Americans consume far more than they produce, forcing the nation to borrow from abroad to pay for what it cannot afford, which in turn saddles the nation with record trade deficits as well as the status of the world's biggest debtor nation.

"We're not producing nearly as much as we need, either for business or consumers," said Charles McMillion, chief economist at MBG Information Services, a Washington, D.C., forecasting firm.

Washington, in effect, has financed its tax cuts, domestic programs and military expansion on credit from abroad, with China and Japan acting as the biggest foreign buyer of U.S. Treasury debt.

In the past, nations owned a disproportionate share of dollars in their reserves of foreign currencies. The Europeans, however, never concealed their ambition to make the euro a counterweight to the dollar. Just as Europe yoked together its national aircraft makers to challenge Boeing Co. with Airbus Industrie, it also tied its currencies as an alternative store of value.

But the currency's decline, which reduces the value of dollar holdings in China and Japan, gives foreigners fewer reasons to hold dollars. The worry is that foreign lenders could lose their willingness to lend the United States the money to finance its consumption.

Twice in November, Chinese central bankers jolted currency markets with plans to diversify their holdings of foreign reserve currencies - with less weighting on dollars. Similarly, Greenspan's Dec. 11 speech roiled markets when he said that oil-producing nations - which are swimming in a wealth of dollar reserves - "are beginning to switch their reserves out of dollars and into euro and yen," according to Reuters news agency.

Spirowka at U.S. Bancorp expects the dollar to fall below the record low of \$1.36 against the euro that it hit in late 2004.

Against the British pound - Britain opted to stay outside the 12-nation eurozone - the dollar shed about 40% of its value since mid-2001. The story is similar in Canada, the biggest U.S. trading partner, where the dollar lost 32% against the Canadian dollar in the 2001-'06 period.

The dollar's tumble has other unwelcome side effects, economists say. Americans unavoidably face surging costs of foreign travel.

A box of Belgian chocolates that would have cost the equivalent \$5 in July 2001 would cost \$8 today, Spirowka calculates. A London taxi ride that would have cost \$10 in 2001 costs \$14 today without carrying the rider any farther. Two tickets for a Toronto Blue Jays game that would have cost \$50 in 2001 would be \$66 today.

Imports into the U.S. - anything from German cars to French wine - also surge in price. And the dollar is a double-edged sword even for manufacturers who rely on foreign parts suppliers. The dollar's fall increased costs for imported parts and also raised production costs.

But America's biggest problem is its relative lack of exporters, combined with an insatiable demand for imports. Even though the dollar has dropped, the U.S. trade deficit has increased, McMillion noted. "The feeling is that the dollar has to come down much further."