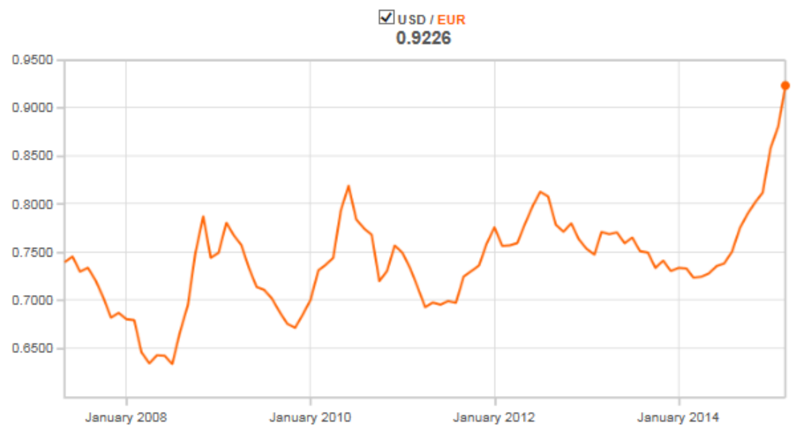
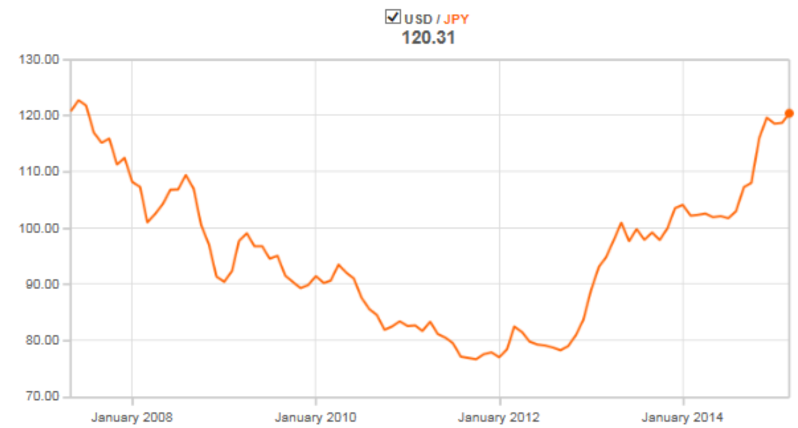
Impact of a Strong U.S. Dollar

April 2015

The U.S. dollar has appreciated 25% against the euro since early 2014 and 45% to the yen since early 2012. The last time the dollar began this magnitude of strengthening in such a short period of time was during the early 1980s when the Federal Reserve, under Paul Volcker, began an aggressive anti-inflation policy of raising borrowing costs. Is a strengthening dollar good or bad policy? The answer depends on your perspective.





The strong dollar means that U.S. imports cost less to consumers, businesses and manufacturers. Oil, cars, trucks, tractors, clothing, electronics, and durable goods cost less. There is a wealth effect – which encourages more spending and consumption. This cycle leads to a worldwide glut of U.S dollars that eventually leads to its weakening.

U.S. multinational corporations have already reported the strong dollar hurting sales. German export manufacturers reported strong sales growth in February and March.

Why would the Federal Reserve (FOMC) elect to raise policy interest rates during the summer or fall of 2015? This measure of tightening would risk moving the U.S. economy into a slower growth profile and perhaps a recession in 2016. Accordingly, it appears more likely, given the above, that the Fed will delay any meaningful policy to raise interest rates.

Disadvantages of a Strong Dollar

- Decreases U.S. exports – cuts revenues and market share
- U.S. firms can't raise local prices
- Fewer foreign tourists visit the U.S.
- Less direct investment by foreign investors
- Fewer foreign companies outsource facilities to the U.S.
- U.S. manufacturers move offshore (again)

Advantages of a Strong Dollar

- Lower import prices contribute to lower inflation
- Consumer wealth effect
- Cost to travel abroad decreases
- Foreign ownership (and influence) of U.S. assets decreases

Currency source: www.oanda.com