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Impact of Currencies

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It may seem somewhat counter-intuitive that a "weaker" currency can be good news for a country. But it results in local products and services becoming less expensive abroad, resulting in foreign currencies being able to purchase more of the same goods. A drop in the value of a local currency should increase external demand and increase exports.

The U.S. dollar recently hit a 14-year high relative to the world's major currencies (WSJ 1/4/17). While the U.S. economy has shown some signs of improvement, the stronger dollar is making matters worse for domestic growth prospects - especially U.S. companies that rely on exports. The recent Fed rate hike has bolstered the dollar even further. While some analysts are projecting that the Fed will raise rates three or four times in 2017, the stronger dollar may cause the Fed to reconsider. The strength of the dollar may also have an impact on the proposed corporate tax rate and foreign earnings repatriation. With the U.S. currently having one of the highest corporate tax rates (35%), U. S. companies are holding large amounts of profits in overseas banks. Speculation is the new administration will propose a one-time tax "holiday" that would encourage companies to bring that cash back to the U.S., perhaps at a much lower 10% tax rate.

Strong Dollar Advantages	**Disadvantages**
Lower inflation and cost of living	Domestic manufactures face increased competition
Fed less likely to raise rates	Domestic companies move operations abroad
Mortgage rates remain low	Decreased domestic investment in plant and equipment
Consumer wealth affect	Exports and related jobs fall
Foreign-imports are cheaper	Foreign competitors become stronger