Strong or weak dollar works

Businesses benefit on both sides of debate

The Atlanta Journal-Constitution

12:59 p.m. Saturday, December 25, 2010

By Michael E. Kanell mkanell@ajc.com

To learn about currency, just plan a trip across the ocean.

Convert your money to foreign funds, then book airline tickets, hotels and trains. Suddenly, you'll find out how the dollar is doing in, say, Europe, and how much value is lost in translation.

"They buy from me in U.S. dollars, but I have to pay in euros," said Bram Majtlis, president of International Marketing & Travel Concepts, an Atlanta-based company that arranges trips, mostly to Europe.

The exchange rate fluctuates daily, peaking last summer when it took $1.46 to "buy" one euro. For the past three months, it has consistently hovered above $1.30 per euro. Back in 2002, it took less than a buck.

As the dollar weakens, Majtlis must stack up more of them to make those purchases, he said. "A lot of experts say a weaker dollar is good, but I disagree strongly."

He's far from alone. Some analysts fear that the current, high-profile campaign of the Federal Reserve to stimulate the economy is destined — intentionally or not — to demolish the dollar. The result of buying securities and effectively printing money, they say, will be inflation and a decline in U.S. power.

The Fed says it's not trying to weaken the dollar. Instead it hopes to encourage companies to invest and hire and to make it easier for consumers to borrow and spend.

Strong dollar or weak, it matters to Americans — and not just those who travel.

As a major transit hub, metro Atlanta has its share of both importers and exporters, said Richard Kopelman, a partner in Habif, Arogeti & Wynne, financial and business advisers.

Those buying overseas prefer a stronger dollar, but a weaker dollar appeals to exporters, he said. “I have clients on both sides of the aisle. For anybody importing or exporting, the dollar affects your business.”

The strength of the dollar is a measure of how much of another currency it can “buy.” The stronger the dollar, the cheaper foreign goods are and the more expensive U.S.-made goods are overseas. And vice versa.

Americans buy toys from China, clothes from Vietnam, cars from Japan, cheese from Greece — you get the idea. Many of those products are brought in by American companies that have contracted with foreign factories or purchased foreign companies.

The market value of U.S. investments in China is well over $1 trillion, according to Robert Scott of the Economic Policy Institute. If the dollar weakens against the Chinese currency, “there would be winners and losers.”

The United States is still the world’s largest manufacturer. About 12 million Americans work in the sector — and much of what they make is shipped overseas where a weak dollar means more sales.

Exports account for more than 10 million jobs, according to a Commerce Department estimate.

A 10 percent weakening of the dollar would generate nearly 1.7 million jobs, Scott said. “What would be bad for some businesses based in China, or the U.S., like Wal-Mart, would be good for other U.S. companies and workers.”

While a strong dollar is not the only reason manufacturing has shed millions of jobs in the past dozen years, it is always part of the equation.

MyCelx Technologies Corp., of Gainesville, sells oil removal systems. More than half its sales are outside the United States, in the Middle East, Australia, Asia, Europe and Canada, said CEO Connie Mixon.

On one hand, a weaker dollar makes foreign materials more costly. But, on the other, “right now, with the dollar sinking and likely to continue sinking, it makes our equipment more affordable,” Mixon said. “It is probably a good thing. Any advantage you can garner in bidding, you are going to use it.”

Vystar Corp., of Duluth, manufactures latex in Guatemala, Malaysia and Thailand.

The company tries to minimize risk by using contracts written in dollars. That means the other party has to switch currencies when it is time to pay — at whatever the exchange rate is at the time.

Even so, the company tries to time its orders to get the best exchange rate, said Jack Callicutt, company chief financial officer.

In general, the weaker dollar means they must pay more for local labor and materials. But it's worth it, he said. "I think, for us, having a weaker dollar is better for sales. For our global customers, that's a good thing."

Even an unfavorable exchange rate may not hurt a company — if all its competitors carry the same burden.

Since 2006, the Chinese currency — the renminbi, or RMB — has gained about 20 percent of its value against the dollar. That is nowhere near enough to eliminate its unfair advantage, argue those who think the Chinese have long kept their currency weak to sell more in U.S. markets.

But that strengthening was plenty large enough for companies like BizChair.com of Canton, which sells office furniture. As the renminbi rose, so did the costs of workers and factories in China. Yet the company didn't lose any customers to competitors, because competitors were also using Chinese production and were unable to undercut their price, said Sean Belnick, founder and CEO.

"We are very sensitive to the exchange rate," said Belnick. "The factories would just say, every month, the price is going up. But everybody is pretty much in the same boat."

Still, higher costs and higher prices are not usually good for business.

The business of Benamy International is miniatures. An 11-inch 1955 Packard convertible sells online for $39.99. A tiny, five-light tulip chandelier for your dollhouse costs $29.99. Toward the top of the line, a 29-inch high finished blue Princess Anne dollhouse will set you back $584.

About 95 percent of what the company buys comes from Asia, and the lion's share of that is from China, said Dean Benamy, president of the Doraville company.

So when the company sent out catalogs and made arrangements with suppliers, it got squeezed, he said. "We have to give customers prices and honor them throughout the year. This situation, where the U.S. dollar is being forced down against the RMB, puts pressure on us. It is not like we can just pass it along."

Of course, the dollar's value can go up as well as down.

And, in fact, the dollar has actually picked up strength since the early fall. But importers and some other analysts fear that the dollar's value is doomed by Fed policies that pump money into the economy and push down lending rates.

"[Fed Chairman Ben] Bernanke has gone out of this way to say he is not trying to devalue the dollar, but I have to say, it doesn't really square," said Shawn Sanders, research analyst at Sanders Financial in Norcross. "By increasing the amount of dollars in circulation, the Fed can reduce the value of the dollar."

A weaker dollar not only hurts importers and consumers, it likely means more expensive oil prices, Sanders said. “The amount of jobs created by a manufacturing boom will not be enough to make up for the pain inflicted.”

But advocates of a weaker dollar argue that it is the best way to deal with one of the nation’s most troubling economic problems: the trade deficit.

The United States has bought more than it has sold every year since 1975. That long run of living beyond our means peaked in 2006, but is still nearly a half-trillion dollars a year.

In effect, the U.S. borrows about $1.4 billion a day, a debt that is held by some of the countries — like China and Japan — that are shipping us goods.

Those debts burden the economy and consumers, while closing the gap would add jobs here. And a weaker dollar is the quickest route to getting trade back in balance, said Dean Baker, co-director of the Center for Economic and Policy Research.

Import prices will rise, but it won’t be enough to burden the economy, he said. And importers also can look for other suppliers — ideally, suppliers in the United States, Baker argued.

Goods that are dramatically less expensive to make overseas will still not be made in the U.S. But when it’s a close call, a weaker dollar can make the difference.

For instance, Norcross-based Kigo Footwear contracted with a factory in China to produce its “minimalist” shoes. If the RMB rose enough to make U.S. production competitive, the company would shift to a U.S. factory, said co-owner Kristin Parker.

But it’s not only an unfavorable exchange that is trouble; uncertainty can be worse.

Travel executive Bram Majtlis has been in the business for 35 years — 20 of them in Atlanta — and said he has rarely seen the volatility in the dollar that he’s seen the past few years.

When he sets prices for upcoming trips, he is guessing at what things will cost him. If he sets it too high, he might chase away customers. But if he guesses too low, he risks losing money.

Trying to hedge, he buys euros months in advance of a trip. That protects him from a sudden fall in the dollar, but it also limits his profits if the dollar strengthens.

“Whether you want it or not, you are in the business of exchange rates,” he said.

Find this article at:

http://www.ajc.com/business/strong-or-weak-dollar-787350.html