

The Declining American Dollar and Impact on Exports

Over the past decade, economic patterns have resulted in the American dollar dropping in value compared to foreign currency, namely the Euro and the Canadian dollar. As the dollar falls, it becomes more expensive to import goods from abroad, raising prices for the domestic consumer. Conversely, it makes American exports an attractive option for foreign companies.

While the low value of the dollar is a problem for domestic consumers and those who import goods, it can be a boon for American companies looking to export their products and services. Traditionally, a weak currency has improved business for those in the manufacturing sector while hurting domestic retailers, who are forced to pay more to stock the imported goods that reside on many shelves in modern markets. Manufacturing companies who market expensive units and other goods to foreign clients will find that their prices are now more attractive. In periods of a strong dollar, these clients may look to other avenues for their needs. With a weak dollar, they can purchase high quality American products at cost effective prices. At the same time, American clients are more inclined to look at foreign goods when the dollar is strong, as imports gain a price advantage. With a weak dollar, theoretically, manufacturing companies are at an advantage both at home and abroad.

Theory, of course, is the key component. Some economic experts are pessimistic that a weak dollar will do much to stimulate the American manufacturing sector. They cite a wide variety of contributing factors that will work to hinder the price advantage that manufacturers enjoy during times of a weak dollar. They point to the continuing diversification of many firms as a main reason business will remain relatively stable. The claim is that since large manufacturing firms have opened up multiple branches and factories outside of the United States, they are no longer beholden to the dollar as much as in the past. Since they have a large base of operations outside the country, the effects of the currency exchange market are blunted and they do not receive the benefits of a weak dollar to the extent predicted, but they are also protected from swings based on the volatile currency market.

A sagging home economy further depresses the benefits of the weak dollar. As the American economy struggles, consumers at home are less likely to undertake expensive projects or increase their spending. Clients of manufacturing firms that are based in the US may also be less likely to update their equipment and make large outlays for new products. Domestic consumption is still a larger factor than foreign consumption for many firms, making the weak dollar less important until the American economy regains steam.

While large, multi-national manufacturing corporations will not see tremendous increases in business from a weak dollar, there will be American winners. Companies that purchase and produce their goods domestically, and then import to Europe or Canada, will see gains from the current situation. Those who export their products into Asian markets will not see as much benefit, as both Japan and China have actively tried

to keep their currency in line with the dollar. These smaller companies will be able to benefit due to their structure. By not being spread across the globe, they risk more with the American economy but can benefit in situations like this because they are not as diversified across different nations.

A strong currency encourages a country to change their modes of practice. In the case of Canada, this can mean looking to the United States for labor and supplies. When the American dollar was strong in the 1990s, US companies shipped jobs overseas and invested in globalization. As the dollar falls against the Canadian dollar, it is possible that Canadian companies will react in the same manner. To take advantage of the cheaper labor and supplies, Canadian manufacturers can begin farming work out to American shops on a contract basis if necessary. Supplies will be available cheaper from American companies as well. The goods will be less expensive than purchasing from within Canada, allowing the company to increase their profits.

Optimism for growth in the manufacturing sector is not unacceptable at this point. However, it is important that both firms and analysts recognize that a weak American dollar is not going to continually benefit manufacturing in the long term. Energy prices and manufacturing input costs will continue to rise with the fall of the dollar, which will eat away at profits made from exports. Over the long haul, manufacturing as a whole will not benefit from a weak currency. In the short term, small companies and those who produce their goods in the United States will see the chance to increase their revenue via exporting goods to Europe and Canada, which will boost job growth and firms.