WSJ: Sluggish US Economy Puts a Dent in Dollar

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By Dan Weil

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You might not have noticed, but after reaching multi-year highs against a range of currencies in recent months, the dollar has slid during the past few weeks amid signs of U.S. economic weakness.

After falling to a 12-year low of $1.0458 March 13, the euro has rebounded 5.4 percent to $1.1025 Monday, a huge move for the currency market.

As for the economy, it created only 126,000 jobs in March, and consumer spending rose just 0.1 percent in February, after dropping 0.2 percent in January.

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The Atlanta Federal Reserve's GDPNow model forecasts economic growth of only 0.1 percent, as of Thursday. And that's an improvement from Wednesday when the projection was zero growth.

The sluggish economic data has pushed out expectations of when the Federal Reserve will begin raising interest rates. Many economists expect the Fed to move in September.

Higher rates generally help a currency by making money-market investments denominated in that currency more attractive to traders and investors.

Combine stagnant economic news with slowness by the Fed to lift rates, and you have the recipe for a weaker dollar.

"The easy part of the dollar rally is definitely behind us," David Woo, head of global rates and currencies at Bank of America Merrill Lynch, told The Wall Street Journal.

To be sure, it's by no means clear that the U.S. currency's ascent is over. The dollar index, which measures the greenback against six major currencies, remains around a 12-year high.

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"Europe is not going to slow its easing, and U.S. rates are still set to go higher," said Christopher Stanton, who oversees about $200 million at California-based Sunrise Capital Partners. "That's not changing." Therefore, he noted, the dollar's long-term uptrend should continue against the euro.

For American consumers, the dollar's strength is largely a good thing. It makes foreign travel cheaper, as our dollars can now be converted into more foreign currencies.

A strong greenback also makes imports cheaper in dollar terms, so we should be paying less for some of our favorite consumer items.

On the downside, however, the rising dollar makes our exports more expensive in foreign currency terms and lessens the value of U.S. companies' foreign revenue when translated into dollars.

"U.S. exporters are being punished by these competitive depreciations, and this will lead to lower profits and less employment," said Campbell Harvey, an economics professor at Duke University's Business School and a frequent Newsmax TV guest, told the Los Angeles Times.

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"This stuff will come back to bite U.S. economic growth."

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