

## **The Tonge Telegraph**

### **December 2004**

#### **Lows and Highs**

We're hearing a lot these days about the weak dollar and about high oil prices. I maintain, as I have previously, that oil prices will decline. Turmoil in the oil producing regions is enough to explain the current pricing. We'll have high heating oil costs throughout this winter, and we may never see \$20 per barrel oil again. Still, I'm confident the price will be below \$40 in the foreseeable future, and that will have a pleasing effect on our economy.

But what about the weak dollar? What is it? How do we know it when we see it? At some future occasion, we'll discuss the complexities of deficits and currency markets. For now, we need go no farther than our grocery store for our economics lesson. Prices there are unsurprising until we venture into the aisles where one finds imported goods. Check out the wine department, for example, to discover a higher price for French or other imported wines, relative to the more stable U.S. product. Perhaps the clearest illustration for most of us of a weak vs. strong currency is the Canadian dollar vs. the U.S. dollar. Even if we have not traveled to Canada and experienced the U.S. dollar's purchasing power there, most of us have seen the signs in shops and even at our toll booths showing the discount on the Canadian dollar. Throughout our lives, the Canadian dollar has purchased less than ours.

The current situation has the U.S. dollar valued at a discount to the Euro that is similar to the Canadian/U.S. valuation. This creates an environment in which it is less expensive for Europeans and Japanese, with their strong currency, to buy U.S. goods than it was a year ago. Conversely, it is much more expensive for us to buy foreign goods, from wine to automobiles.

Now, is this a good thing or a bad thing? It depends on what you're doing and buying. If you are buying imported wine, your grocery bill is higher. If you're planning to travel out of the country, it's likely the price of your trip has gone up. On the other hand, if your business exports products, those products are now less expensive for foreigners to buy. The proverbial widget that you sell for one dollar used to cost the European buyer one Euro but now costs her or him 20 percent less. You still get one U.S. dollar but the buyer spends less of his local currency, a good thing for U.S. exporters.

There's been some discussion about whether the U.S. should support the dollar. Should our economic policy intervene to prop it up? The answer is a firm No. Our exporting manufacturers can certainly use the increased business created by lower prices, and our overall trade deficit can certainly benefit from an adjustment toward more exports and fewer imports. Our dollar will strengthen on its own when our economy is stronger in terms of both budget and trade deficits.

My warm best wishes to you for a safe and happy holiday season.