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Dollar Lifts Exporters, Blunting Housing Bust

Foreign Clients Buoy Hotels, Manufacturers; Splurging at Tiffany's

By **TIMOTHY AEPPEL**
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PITCAIRN, Pa. -- Gary Bence sees the impact of a weaker U.S. dollar every time he wheels his truck into the sprawling rail terminal in this gritty Pittsburgh suburb.

As a driver for AGX Intermodal, which hauls containers for local companies here, the 57-year-old has seen a surge in recent months of boxes filled with locally made products headed to customers overseas. Of about 15 loads he handles each week, 10 are for export, he estimates, including a shipment of mineral oil bound for Bolivia that he dispatched earlier in the day.

"I was in the scrap business for 30 years, and we exported nothing, and now we [in the region] export a lot," he says, just before he climbs into the cab of a Mack truck pulling a gray 40-foot container and kicks up a cloud of dust on his way out.



Mr. Bence is one of the people benefiting from one of the few bright spots in a slowing U.S. economy. While a weaker dollar hurts consumers by raising the price of imported goods, it also is helping the economy stave off a deeper slowdown, by making U.S. exports more competitive and influencing more foreigners to visit Disney World or the Statue of Liberty.


Yet currency rates are so intertwined with other crosscurrents in the economy that the impact varies from one individual or company to another, even within the same business. Someone who works for a company that relies heavily on foreign trade or a hotel catering to European visitors might get a plump raise or avoid a layoff because of the weaker greenback. An employee of a hotel getting less foreign business -- or one whose company has lots of foreign hotels catering to American tourists -- may fare worse.

If the dollar falls too far and too fast, it could spur a run-up in interest rates and shake the stock market -- which would be bad for the economy. A rapidly falling dollar would raise the price of imports, stoking inflation, and in an extreme case could prompt foreign investors to dump U.S. bonds, pushing their yields higher.

But as long as the dollar's decline is gradual, most economists see it as a modest plus overall. Joshua Feinman, chief economist at Deutsche Asset Management, wrote in a recent note to investors that the export upswing is one of the factors "poised to help cushion the impact of the housing correction."

Real exports have grown faster than real imports for nearly two years, notes Mr. Feinman, and he expects this trend to continue. U.S. exports rose 2.7% to a record \$137.68 billion in July, according to the Commerce Department. Mr. Feinman estimates stronger exports

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have contributed a half percentage point of added growth to gross domestic product since 2005.

How this all plays out at U.S. companies depends greatly on where they have their operations -- at a time when many have been moving them out of the U.S. to lower costs. Though the general shift of production to low-cost countries is unlikely to halt, some companies are giving more consideration to the U.S. For instance, at Joplin, Mo.-based EaglePicher Technologies LLC, the dollar's slide has raised questions about the future of the company's big Canadian plant, where it produces batteries for military radios. When EaglePicher bought the facility in 2000, the Canadian dollar was worth 68 U.S. cents.

"I was part of the transition team that bought that plant," says the company's president, Steven Westfall. "I never thought [the U.S. and Canadian dollars] would come close to par, especially not in just seven years."

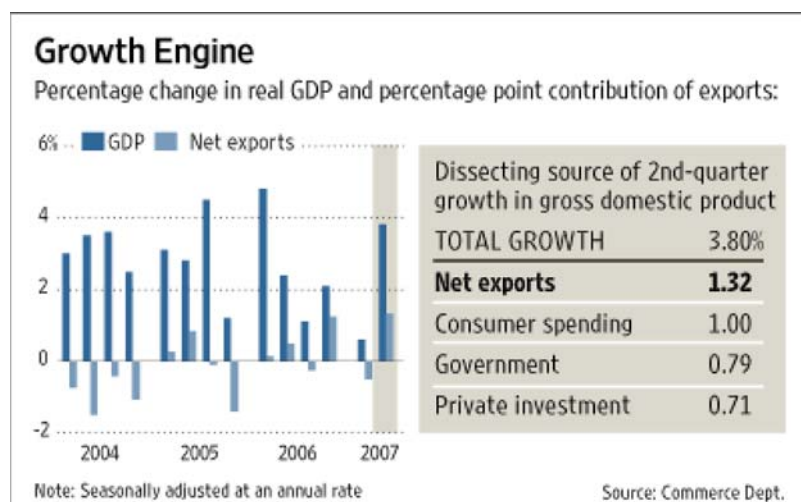
The company will decide in the next several weeks whether to move the production to the U.S., he says. In the meantime, EaglePicher's business in Europe is booming, with requests for bids up nearly 10% since the beginning of this summer.

Stihl Inc., the U.S. subsidiary of German chain-saw maker Andreas Stihl AG & Co. KG, recently opened a small addition to its huge factory complex in Virginia Beach, Va., partly for currency reasons. "It's a classic good-news, bad-news scenario," says President Fred Whyte. The price Stihl pays to import materials and components has gone up. But exports of its U.S.-made finished goods have surged, and Stihl now exports half its U.S. production to 79 other countries, up from 30% five years ago. "So what you lose on the apples you kind of make up on the oranges," says Mr. Whyte.

Many companies that produce for U.S. domestic consumption, rather than export, note that the weaker dollar has given them an edge against foreign competitors, too -- particularly those based in Europe. One such company is RomWeber Co., a maker of high-end wooden furniture in Batesville, Ind.

Not long ago, the U.S. furniture manufacturing sector was in a free fall as domestic manufacturers shuttered factories and shifted work outside the U.S., especially to China. Business also migrated to Canada, which has abundant wood supplies and a thriving furniture sector. But over the past two months, RomWeber has seen a surge of business from distributors looking for alternatives to factories in Canada and other countries that have seen their currencies appreciate against the dollar.

"Right now we're seeing retailers trying to source product that has been coming out of Italy and Europe and Canada, because of the cost of it," says Bruce Rippe, president of the company. He won't disclose sales at his family-owned business, but he notes that sales have virtually recovered all of the falloff the business had seen since 2004, when there was a clear acceleration in business moving out of the U.S.



The furniture business is a good example of why it's difficult to separate the influence of a weaker dollar from other forces at work in global industries. Many U.S. retailers, wary of the slowdown in domestic consumer spending, have cut inventories. That already has prompted many of them to reconsider the long supply lines involved in ordering from overseas, which require them to hold larger stocks -- thus increasing their appetite for domestic supply even if the dollar wasn't

cheap. At the same time, the remaining domestic furniture producers have revamped their operations to make themselves better able to respond more quickly to orders, making them more attractive to retailers than in the past.

Visits by foreign tourists to U.S. theme parks and other attractions are up, which means more bookings for hotels, restaurants and rental cars. The convention bureau in Orlando, Fla., forecasts a 3.9% increase in foreign visitors this year compared with 2006. Tiffany & Co. recently cited free-spending foreign tourists as a factor in the 31% jump in sales at its flagship New York store in the second quarter. The head of the world's largest public auction for thoroughbred horses, Keeneland Association Inc. in Lexington, Ky., says European participation surged this year for the same reason.

"There were more Europeans here, and they spent more," says Nick Nicholson, Keeneland's president. "I kept hearing from them: 'I feel like I'm getting a discount,' because they're constantly translating everything they spend back into euros."

The same dynamic is encouraging foreigners to snap up U.S. real estate and other assets. One example: The recent bid by the stock exchange in Dubai for a sizable stake in the Nasdaq Stock Market in New York. Nariman Behravesh, chief economist at Global Insight, an economic forecasting and consulting firm in Lexington, Mass., says, "We're going to see a continuing wave of foreign money flowing in to buy U.S. factories and companies, because U.S. assets are viewed as a bargain."

To be sure, there are big downsides to a weaker dollar. It makes foreign travel pricier for Americans and drives up the cost of German beer and Canadian lumber. It also pushes up the price of commodities, many of which are denominated in dollars, as the producers of those materials raise prices to offset their loss of buying power. That, in turn, could trigger more inflation.

Many multinationals have built factories all over the world at least in part to help insulate themselves from the ebb and flow of currencies. Their goal is to make most things in the region where they will be sold, allowing them to calculate production costs and their sales prices in the local currency. But that doesn't work for every company. Instead, many try to cut costs by concentrating production of certain items in one or two locations, then ship to the rest of the world from those places.

That's what Terex Corp. does. As one of the world's largest producers of construction equipment, it has a big factory in Europe that specializes in mini-excavators, which has been badly hurt by the slide of the dollar. Meanwhile, the company's factory in the U.S. making aerial work platforms has had to double its employment to 3,000 people, in part to meet surging overseas demand for its products, particularly from Europe.

"That's why, for us, the dollar is not a particularly good thing," says Ronald DeFeo, chief executive of the Westport, Conn.-based company. "If you're a global manufacturer, what you hate is [currency] volatility," because it makes long-term planning harder and can suddenly turn a profitable factory into an albatross.

David Dalquist represents the other extreme. As chief executive of family-run Northland Aluminum Products Inc., which produces all its Nordic Ware line of bakeware at one factory in Minneapolis, he loves what's happening. He expects his company's exports will be up 50% this year and the surge of new, foreign business is helping smooth some of the peaks and valleys in his production. In the U.S., baking is a seasonal activity, he notes, with most occurring between Halloween and Christmas.

"Exports are making it possible for me to keep more people working year-round," he says, because foreign demand is more consistent and takes up slack during the periods when U.S. demand drops off. The low point of his headcount this year, he notes, was about 200 workers -- about 10% higher than in

the past. At its peak, the company employs 400.

The weaker dollar may also be helping to make him more competitive against the Chinese, he says, although that element is difficult to measure. A weaker dollar tends to drive up the global cost of raw materials, such as copper and steel, which hurts manufacturers on both sides of the Pacific. But compared with a Chinese producer, a far smaller portion of Northland's total costs are the raw materials -- because labor costs are higher in the U.S. So the same increase in raw materials has a relatively bigger impact on the Chinese, he says, "though they're still ferociously competitive."

One question now is whether the dollar's slide will remain gradual. A J.P. Morgan index comparing the dollar with a basket of 16 currencies, weighted by their importance to U.S. trade, is near a 12-year low. Canada's dollar recently hit parity with its U.S. counterpart for the first time since 1976, which is why Disney recently ran ads north of the border urging Canadians to "enjoy the magic" of a strong currency by traveling to Florida.

How this plays out also depends on what happens in the rest of the world. At the moment, strong foreign economies are soaking up U.S.-made goods. But if key economies such as Europe or China stumble, the weaker dollar won't make much difference.

Meanwhile, foreign producers may hold down their U.S. prices despite the weaker dollar, giving up some profits to keep up their market share, especially in consumer goods. That may lessen the pain for consumers but also reduce the advantage for U.S. manufacturers. Germany's BMW AG, for instance, has reported declining profit margins in large part because of the weaker dollar. The car maker hasn't hiked prices, but recently announced a series of moves to blunt the impact -- including an increase in its output of vehicles in the U.S.

Dan Ariens, president of Ariens Co., a Brillion, Wis.-based maker of lawn mowers and snow blowers, says he isn't benefiting much from the dollar's weakness versus the euro. Instead, his European distributors are. Ariens sells to them at prices fixed in dollars, so they are the ones who see their margins growing. Mr. Ariens says he doesn't mind, since many distributors use that fatter profit to do promotions that expand sales. The situation is different in Canada, he notes, where Ariens's wholesale prices are fixed to the Canadian dollar.

People like James Mallon are seeing yet another dimension to the falling dollar. The 34-year-old native of Ottawa, who now lives in Ann Arbor, Mich., says he's gotten a flurry of phone calls in the past few weeks from friends in Canada who want to stay with him for weekend shopping excursions. Several asked him to accept mail-order shipments -- including a surfboard, cookware and bicycle parts -- that they'll pick up in the future.

"I feel richer for my friends," he says, "but poorer." Mr. Mallon, an engineering consultant who specializes in ergonomics, has his student loans in Canadian dollars that now cost more to pay back. And a loan of C\$25,000 that he took from his parents to buy his house in 2003 has suddenly grown far more onerous. "When I took out that loan, it was the equivalent of \$14,000 U.S., but now I owe them \$25,000."

--Kris Maher contributed to this article.

Write to Timothy Aepfel at timothy.aepfel@wsj.com³

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