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Weaker Dollar Has Yet to Spur a Boom in Exports

By DANIEL ALTMAN

The nation's trade deficit has narrowed slightly from record highs, the Commerce Department said yesterday, but the falling value of the dollar has yet to spur a boom in exports that could jump-start the sputtering economic recovery.

The trade deficit fell to $37.2 billion in June from $37.8 billion in May, thanks to a fourth consecutive month of rising exports, according to government data. Exports of capital goods — including machines, engines, semiconductors and telecommunications equipment — rose, but imports rose as well, led by consumer goods like pharmaceuticals, toys and sporting goods.

With the dollar having lost about 12 percent of its value against the euro and the yen since February, many politicians, most recently Treasury Secretary Paul H. O'Neill, have cheerily forecast a more drastic shift in trade favoring exports over imports. A weaker dollar makes it cheaper for foreign countries to import American goods and more costly for Americans to buy foreign-made goods.

Instead, "what we have so far is not really enough to bring about a robust recovery," said Frank Vargo, vice president for international economic affairs at the National Association of Manufacturers.

One reason lies in the vicissitudes of economic statistics: when adjusted for inflation and judged against the currencies of the United States' biggest trading partners, the dollar has fallen only about 7 percent. Judged against all trading partners, it has dropped only 3 percent.

The dollar settled at 118.69 yen in New York yesterday, up from 118.57 yen on Monday, while the euro traded at 97.89 cents, up from 97.62 cents. In February, the dollar traded around 134 yen, and the euro was trading below 88 cents.

Even for companies sending goods and services to or from the countries that use the euro and Japan, however, adjustments to the dollar's decline could be slow or slight.

"A lot of businesses have locked-in contracts," said Charles Engel, a professor of economics at the University of Wisconsin. Because prices and quantities of imports and exports are fixed in advance, it may take months or even years for companies to react to the dollar's downward drift.

Over short periods of a few months, import prices — the costs of bringing foreign goods to the United States border — reflect only one quarter of exchange-rate changes, according to recent research by Linda S. Goldberg, a vice president at the Federal Reserve Bank of New York, and Jose Manuel Campa of IESE Business School in Madrid. Moreover, Ms. Goldberg said in an interview, retailers might not pass changes in import prices on to consumers in their entirety.

Some companies may choose to vary prices but not quantities to maintain market share. "We will certainly not import less," said Bette Kahn, a spokeswoman for Crate and Barrel, the Chicago-based chain of home furnishing stores run by Euromarket Designs Inc. "We will have to negotiate harder with suppliers all over the world. Prices will go up, but in our 40 years of doing business in Europe and Asia, we have seen lots of fluctuations in the dollar's exchange rate, and we have always been able to work through it."

Yet small changes in quantities now, especially for imports, could herald big changes in the future.

Mr. Vargo posed the example of a company with a long-term contract setting the quantity of its imports. When the dollar loses value, he explained, "it takes more dollars to pay for your contract in foreign currency terms." Though the quantity of imports stays fixed, "the value of your imports looks like it has risen."

But once the contract expires, he said, "then the imports start to go down, and the trade balance at that point will start to improve rapidly."

Mr. Vargo estimated that the adjustment process could take 18 to 24 months, though it might be shortened by the increasingly electronic nature of global trade. "If the dollar continues to depreciate," he said, "then we will see a huge drop in the trade deficit."

Responses to exchange-rate changes have also diminished because of hedging behavior. Trading derivatives to minimize exchange-rate risk has insulated many multinational companies based in the United States from fluctuations in the dollar.

"Certainly, the Fortune 500 are aware of these strategies," said Perry Parker, a managing director at Deutsche Bank who heads foreign exchange trading for North America. "They might make a decision not to hedge, but I think that's rare."

Having assets spread across the globe also acts as an automatic hedge against exchange-rate changes. Archer Daniels Midland, the agricultural exporter, holds roughly 40 percent of its assets overseas, estimated Dwight E. Grimestat, the company's vice president for investor relations. All of those assets, Mr. Grimestat said, "are carried in local currencies."

"If it's carried in local currency," he said, "and the dollar is weakened, then our assets just went up on the balance sheet."

In addition to changes in the trade balance, economists usually look for currency declines to be associated with upward pressure on prices and a shrinking flow of overseas capital.

The economy's sluggishness seems to have quelled the first danger, at least. "There's no evidence that investors see an inflationary threat," said Kermit L. Schoenholtz, chief economist of Salomon Smith Barney. In that respect, he

added, "the retreat of the dollar is a gradual and benign one."

Yet foreign investment in the United States does appear to have suffered. Subtracting capital sent abroad from the United States, the net inflow into the country fell 83 percent, or $16.4 billion, in the first quarter compared with figures in the period a year earlier. Switzerland alone invested $11.1 billion in the United States in the first quarter of 2001; in the first quarter of this year, it withdrew $154 million worth of capital.

Mr. Schoenholtz said he viewed the dollar's decline as a signal of these retreating capital flows. The business climate in the United States, crippled by accounting scandals and faltering profits, makes investment in American securities less attractive. With less demand for American securities comes less demand for dollars with which to buy them, and the currency loses value.

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