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THE ECONOMY

GOING TO EUROPE? PACK PLENTY OF CASH

Diminished dollar's anemic buying power has given the euro more muscle.

By Larry Kirschner

How would you tolerate a price increase of nearly 25 percent in a 12-month period? If your answer is, "Not very well," I have bad news for you: The U.S. dollar has fallen almost 25 percent against the euro during the past year.

Last April, one euro was worth less than 88 cents. Now, one euro is worth about $1.08.

U.S. consumers have seen little or no change in the price of food, clothing or entertainment. But most of us have felt the impact in other ways. Global investors have seen the value of their dollar-denominated investments shrink as the dollar has weakened. They have responded by liquidating U.S. investments, most notably stocks. The Dow Jones Industrial Average fell from 10,600 to about 8,200 in the past year — a decline of just under 25 percent.

Coincidence? Probably not! To avoid the negative impact of a falling dollar, foreign investors have been selling U.S. stock positions and converting proceeds back into their local currencies. While the price of bread may not have increased, the values of our retirement accounts have certainly declined.

Travelers abroad should be prepared for high prices. The decline in the dollar has effectively increased prices nearly 25 percent. A 100-euro meal would have cost $88 about this time last year. The same meal will cost $108 today.

Locally priced hotels, souvenirs and tourist attractions all have effectively increased as well over the past year.

Even if you are not planning a trip abroad, you may be impacted by the value of the dollar. In February alone, the U.S. imported $40 billion more in goods and services than it exported. A falling dollar will eventually increase the price of imports. It is a relatively safe bet that retailers will try to pass these price increases on to consumers.

On a more positive note, for companies that export their products, a falling dollar can help stimulate international sales. As the dollar has weakened, prices for U.S. goods and services have fallen in global pricing terms. In theory, the export sector of the economy should see strong growth as the dollar weakens.

Global financial markets balance complex points of view. If the dollar is perceived as unattractive, foreign investment may decline, thus limiting global demand for U.S. assets. Slower demand may keep the stock market depressed and interest rates could ultimately increase in order to fund U.S. debt.

On the other hand, a depressed dollar and depressed financial markets may eventually attract foreign investors who view U.S. assets as undervalued. In the meantime, look for U.S. exporters to benefit from a weak dollar, and keep your eyes open for a wave of foreign tourists in search of U.S. bargains. And be prepared to spend more if you're going to Europe any time soon.

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