

Dollar slides again, and it's not over

Bush's administration appears prepared to let decline continue

BY CHERN YEH KWOK
Of the Post-Dispatch

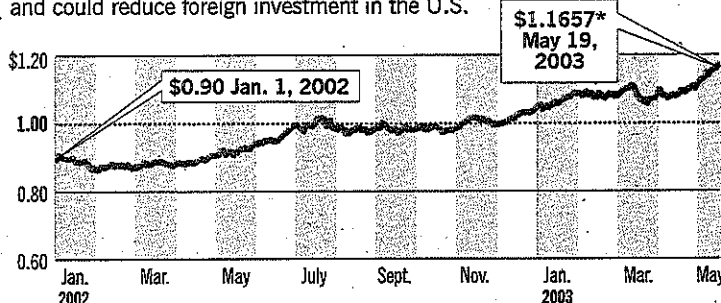
Manufacturers, rejoice. Importers and European vacationers, tough luck.

The dollar plunged Monday to its lowest level against the euro since the introduction of the 12-nation currency in January 1999 as the administration of President George W. Bush again appeared to signal that it would allow the currency to decline in value.

The dollar's depreciation came after Treasury Secretary John Snow dismissed its recent weakness as "a fairly modest realignment of currencies." Snow made the comments at a weekend meeting of the Group of Eight fi-

Euro vs. the dollar

The dollar on Monday fell to its lowest level against the euro since the 12-nation currency was introduced. The continuing decline of the dollar compared to the euro makes imported goods more expensive, and could reduce foreign investment in the U.S.



SOURCE: Bloomberg

*New York Composite Rate

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nance ministers in France.

Most economists believe a weaker dollar will aid the U.S. economy in the long run, but some have reservations about its impact.

Since a similar depreciation in 1995, the Treasury had advocated a "strong-dollar policy." But in recent weeks, Bush's administration seemed to indicate a shift in that

stance, although it continued to say otherwise.

Indeed, on Monday, a Treasury spokesman said there had been "no change in the policy."

Currency traders seized on the administration's statements as a signal that it had backed off from its initial stance. In trading Monday, the dollar fell another 0.6 percent, to \$1.1657 to the euro, after losing about

11.5 percent of its value against the euro since late March.

In the last year, the dollar has fallen 21 percent against the euro.

Moreover, the nation's trade deficit is at a record level, as American consumers keep gobbling up imports.

Firms are unprepared

Economists have said for at least the last two years that a correction in the dollar's value has been in order.

Still, the dollar's precipitous decline in recent weeks has left some companies gasping for breath.

"The move has been so quick over the last couple of weeks that it has caught importers and exporters off guard," said Larry Kirchner, who advises companies on currency markets at Wells Fargo & Co.'s office in Clayton.

"I think nobody was ready for so dramatic a move in this short of a time period," he said.

See Dollar, A8

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RAVINDRA DEEPATHA / THE ASSOCIATED PRESS

Villagers affected by floods and landslides cart away their belongings Monday in Ratnapura, Sri Lanka, about 60 miles southeast of the capital, Colombo. Floods and landslides swept through south-central Sri Lanka over the weekend, killing at least 200 people. Air force helicopters and police teams searched for survivors in remote villages Monday.

Ireland plans to limit alcohol ads, require health warnings on drinks

THE ASSOCIATED PRESS

DUBLIN, Ireland — Alarmed that Ireland has become one of the hardest-drinking countries in Europe, the government announced Monday that it plans to require health warnings on alcoholic beverages and limit liquor ads that invade every corner of Irish life.

Prime Minister Bertie Ahern insisted in a speech to European brewers in Dublin that young people shouldn't be exposed to saturation marketing of alcohol, which he said was fueling a new "drink to get drunk" culture.

To that end, he said, the government plans to ban alcohol ads from buses, trains, cinemas and sporting events involving young people, while no ads for beer or other alcoholic beverages would be permitted before 10 p.m. on Irish television.

Such ads currently face few restrictions — and adorn just about every public space and event brochure in Ireland, where more than 10,000 pubs serve a popula-

Efforts to put health warnings on beer, wine and liquor would require approval from the European Commission, part of the European Union, Ahern said. But Ahern said he expected the EU's support.

Anti-alcohol campaigners and Ireland's major pub owners association welcomed the moves, as well as Ahern's call for pubs to stop selling sweet, heavy-alcohol "slammers" and "alcopops," which appeal to novice drinkers.

The Irish have long been stereotyped as heavy drinkers, but past surveys have suggested that the reputation was undeserved and Ireland was actually one of Europe's more moderate drinking nations. However, figures show that has changed in the past decade and Ireland has become a leading alcohol consumer.

Skeptics of the government plan say restricting beer ads won't influence beer consumption, only the brands their customers prefer. Many consider the new government policy a public-

Dollar

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In the mid-1980s, the administration of President Ronald Reagan let the dollar slide. The economy improved, unemployment fell and the stock markets rallied.

Goldman Sachs & Co. senior economist Jan Hatzius, however, said he was unsure of the impact on the economy of the current administration's policy. "Our best guess is that the indirect effects broadly cancel out," he wrote Monday in a research note.

Besides, economists say, it could take at least a year before the effects of the dollar's decline work their way into the economy.

A weaker dollar affects the economy primarily through price changes. The cost of imported goods will rise, and U.S. goods will become more competitive.

The result is an increase in the

domestic and foreign sales of American goods, which will lead to a growth in the number of jobs.

There are some signs that the effects are beginning to show. Tom Duesterberg, chief executive of the Manufacturers Alliance trade group in Washington, said he had talked to a few U.S. companies that have received requests for price quotes on capital goods from companies in other countries. "It will certainly help exports from the U.S., and it will help stem the erosion of manufacturing going offshore," Duesterberg said.

Kirchner, of Wells Fargo, said some importers had been forced to raise prices, while some foreign firms have cut their prices, too.

The travel industry isn't affected so harshly by the euro's gain, said Norv Beffa, corporate travel director at AAA in Creve Coeur. "From a corporate standpoint, the increase in the value of euros doesn't really have any impact," Beffa said. Health and security fears weigh more heavily on the minds of business travelers, he said.

U.S. companies with operations overseas also will gain from the

shift in the currency's value.

Among St. Louis-area companies, Emerson and Solutta Inc. have said the weaker dollar has strengthened their business.

Another effect of the dollar's decline is inflation. While that could hurt consumer spending, it will lower the risk of deflation, a persistent fall in prices. For now, the Federal Reserve believes that deflation is a greater threat to the economy than inflation.

And as the Japanese and German economies — the second- and third-largest in the world — continue to slump, the dollar's decline could spur policymakers in those countries to take action, said Clare Zempel, chief economist at Robert W. Baird & Co. in Milwaukee.

Economists and analysts warn of another consequence of a weaker dollar: Foreign investors could pull money out of their U.S. investments and seek higher returns elsewhere. That could lead to higher interest rates — and crimp the recovery.

Post-Dispatch wire services contributed to this report.

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