Moving to a Competitive Dollar: Modeling the Impact on the US Economy

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Summary

- Capital inflows from surplus nations drive overvalued dollar
- Overvalued dollar drives US trade deficit and loss of competitiveness
- Adjusting dollar value by 27% balances US trade in six years
- Delivers massive economic benefits:
  - Job creation: 6.7M over baseline growth
  - GDP: 4.8% or $968B over baseline
  - Job quality improvements: job growth concentrated in goods producing industries
  - Agricultural prices and world trade increase

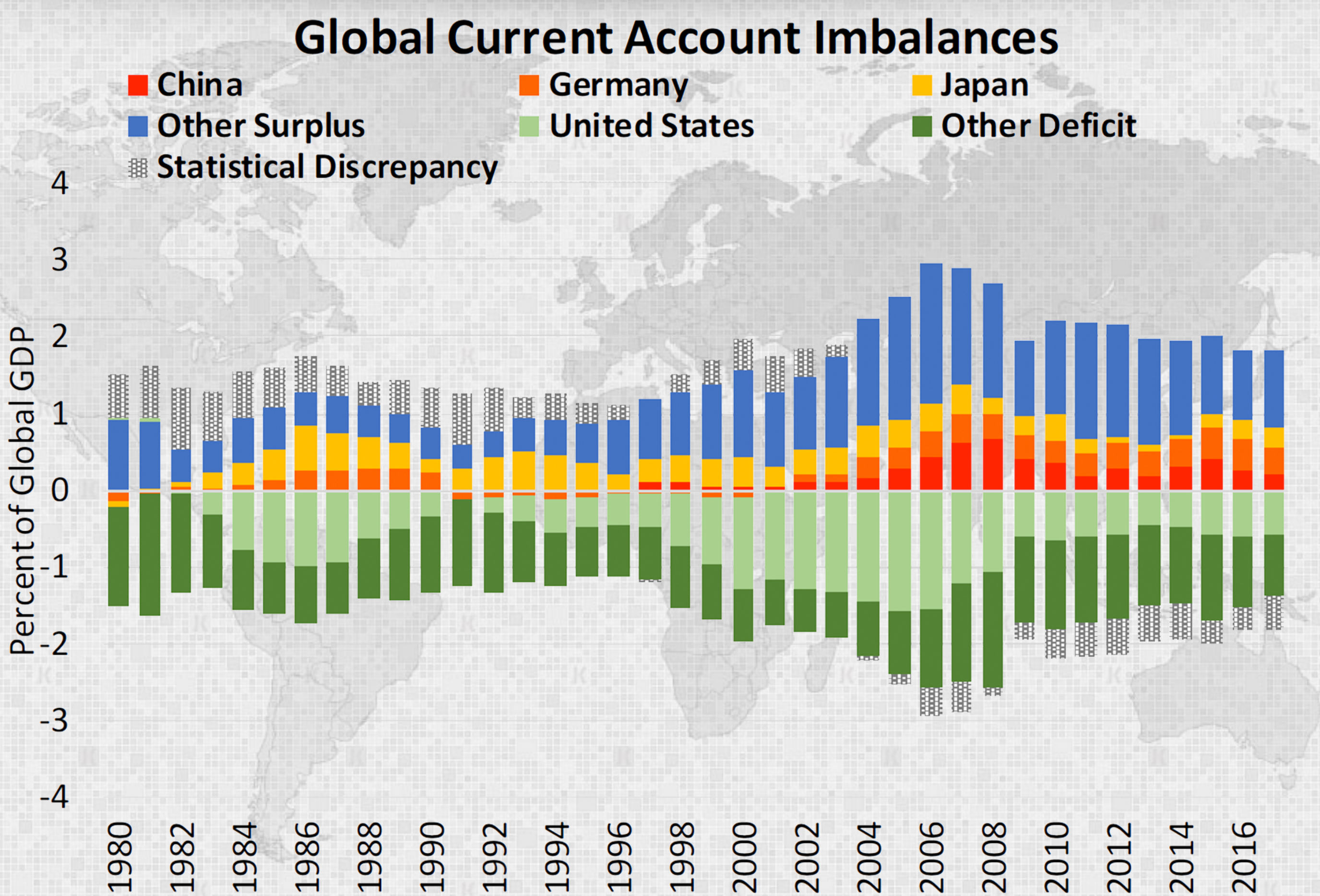
Capital Inflows Drive US Trade Deficit

- Surplus country (Asia/Eurozone) policies:
  - Intentional export surpluses
  - Consumption suppressed
  - Excess savings generated
- Key transmission mechanism:
  - Capital moves from surplus to deficit countries
  - Dollar appreciates to uncompetitive levels
  - US trade deficit widens
- US absorbs most global capital surpluses
  - Result: loss of competitiveness, industrial decline

Global savings glut widely accepted by leading economists:

- *"the saving flowing out of the developing world has been directed into dollar-denominated assets such as US Treasuries. The effects…have been felt on US interest rates and the dollar."* ***(Ben Bernanke, 2005)***
- *"a world plagued with excess savings...in which the excess saving in one country has strong negative externalities on its trading partner via current account surpluses."* ***(Larry Summers et al., 2015)***
- *"the world's unwanted savings pour into the US due to the dollar's role as the world's primary reserve and safe-haven currency."* ***(Michael Pettis & Ken Austin, 2018)***

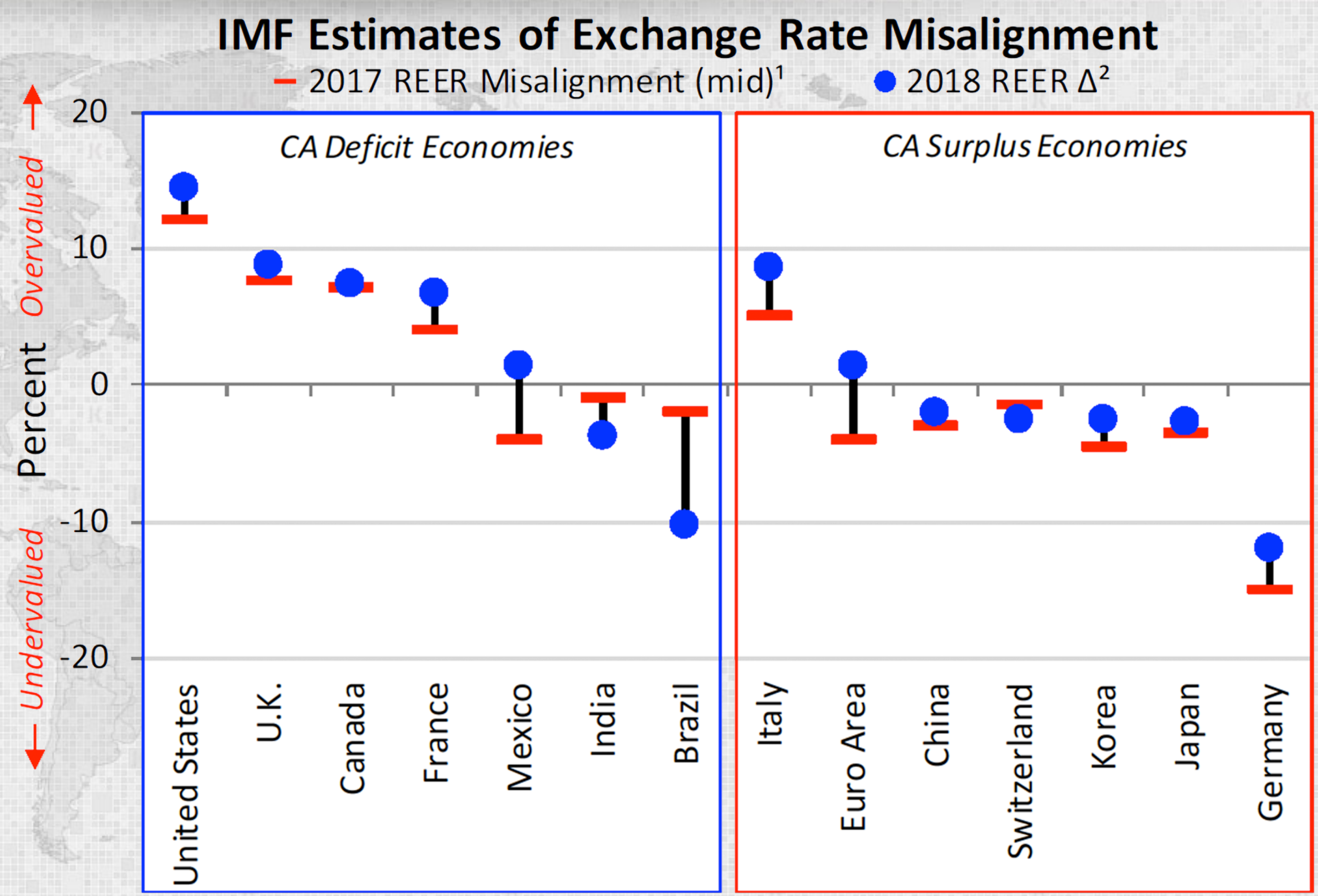
US Absorbs Global Oversupply of Goods



Sources: IMF WEO, Haver

Exchange Rates Do Not Move to Alleviate Imbalances

- In major deficit countries, currencies not moving to correct imbalances (up not down)



Source: IMF via US Treasury

US Magnet For Excessive Capital Inflows

- Open investment policy versus exchange rate management
- Global reserve status
- Investment/safe harbor currency
- International payments in dollars
- Tax free investment benefits for foreigners
- Perceived "sound" monetary policy and independent central bank (The Fed)

The Model

Baseline Projection

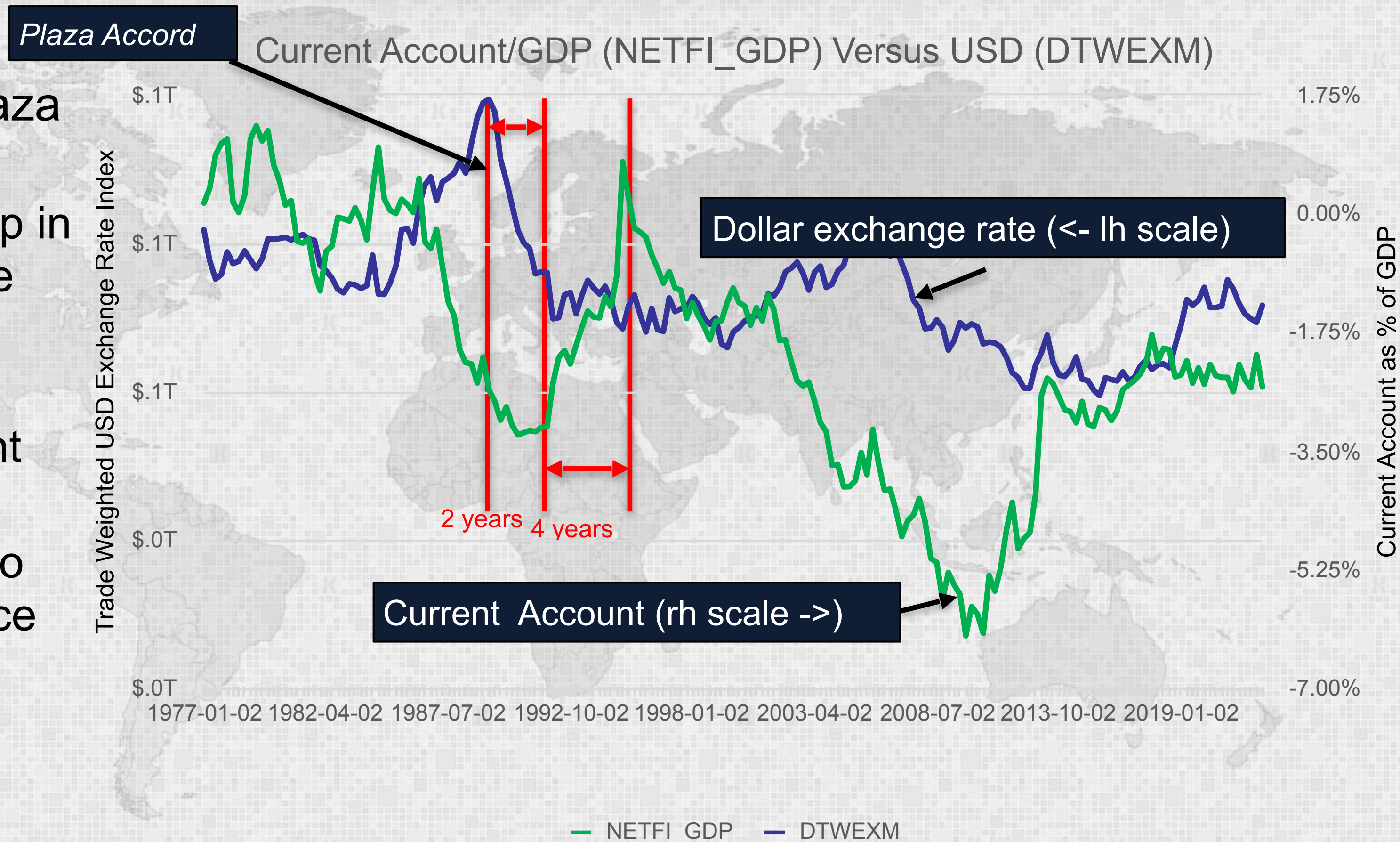
- CPA Economic Model:
  - Utilizes REMI economic model
  - Incorporates Congressional Budget Office economic forecast of August 2018 to create “CPA Baseline Forecast”
  - Six year forecast: 2019 to 2024

CPA Baseline Forecast 2019-2024	
	Avg. Annual % Change
Real GDP	1.7%
Employment	0.24%
PCE Inflation	2.24%
Exports	2.73%
Imports	2.44%

History Shows Dollar Impacts Deficit With 2-4 Year Lag

Lessons from Plaza Accord of 1985

- Immediate drop in USD exchange rate
- 2 year lag for current account impact
- 4 more years to achieve balance
- 6 years total

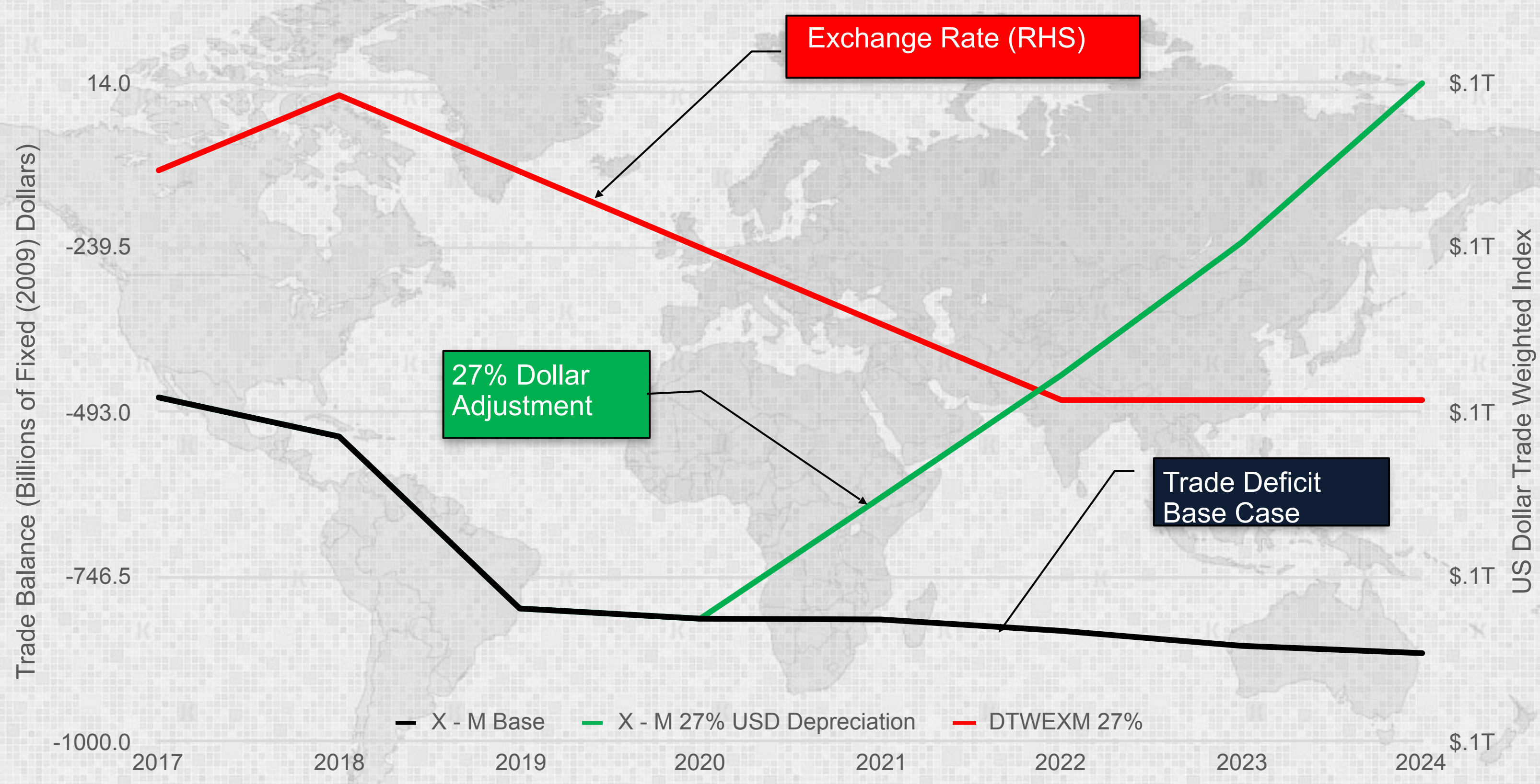


Dollar Value Changes Impact Exports More Than Imports

- Export prices more sensitive to dollar value
  - Dollar value decline of 10% -> export price fall of 7%
  - Dollar value decline of 10% -> import price increase of 3.2%
- Adjustment of 27% balances trade in six years

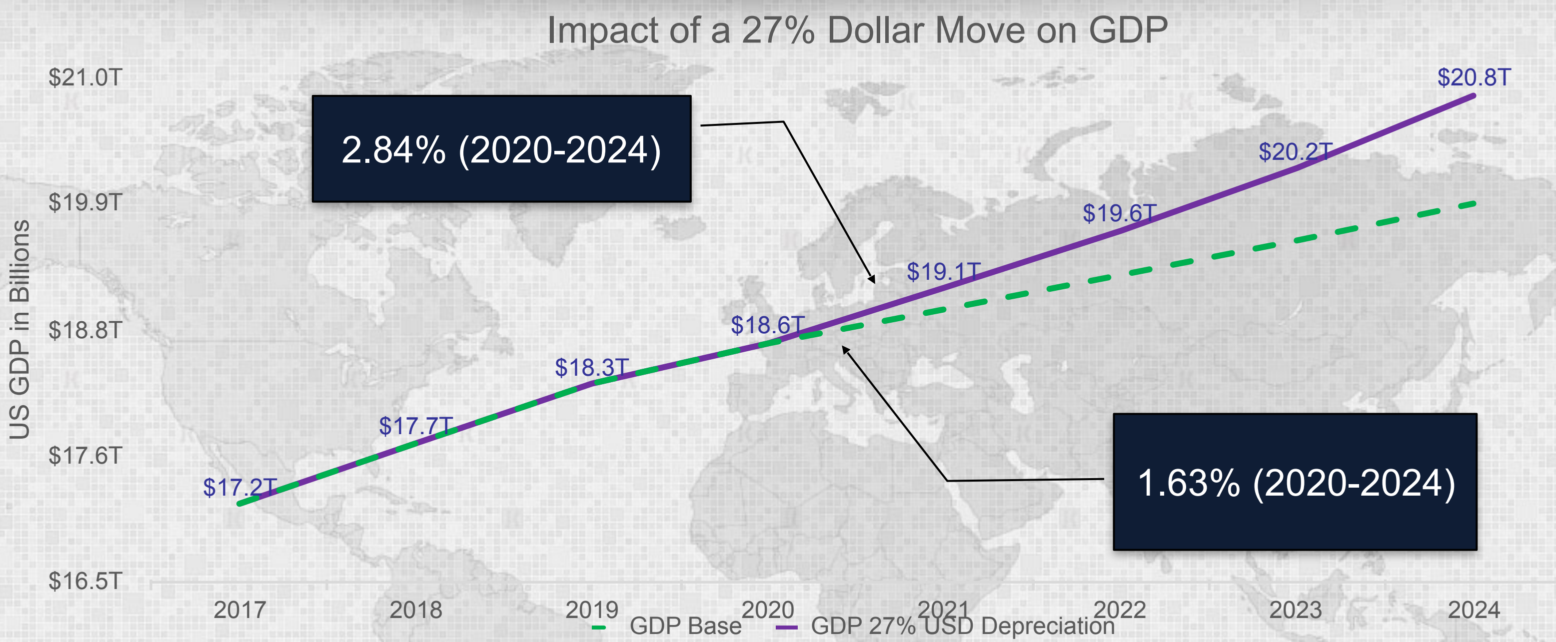
3.2% Import Pass-Through Rate, 7.0% Export Pass-Through Rate***				
USD Value Change	Δ Price of US Exports (%) Paid by Foreign Consumers	Δ Price of Imports (%) Paid by US Consumers	Δ Price of Exports % per year over 4 years	Δ Price of Imports % per year over 4 Years
2018 Base				
10%	-7.0%	3.20%	-1.75%	0.8%
24%	-16.8%	7.68%	-4.200%	1.920%
25%	-17.5%	8.00%	-4.375%	2.000%
26%	-18.2%	8.32%	-4.550%	2.080%
27%	-18.9%	8.64%	-4.725%	2.160%
28%	-19.6%	8.96%	-4.900%	2.240%
***Current Issues in Economics and Finance, Volume 13, Number 5 – June 2007: Federal Reserve Bank of New York				

Competitive Dollar Narrows Trade Deficit 27% Gets To Balance



The Domestic Economy Results

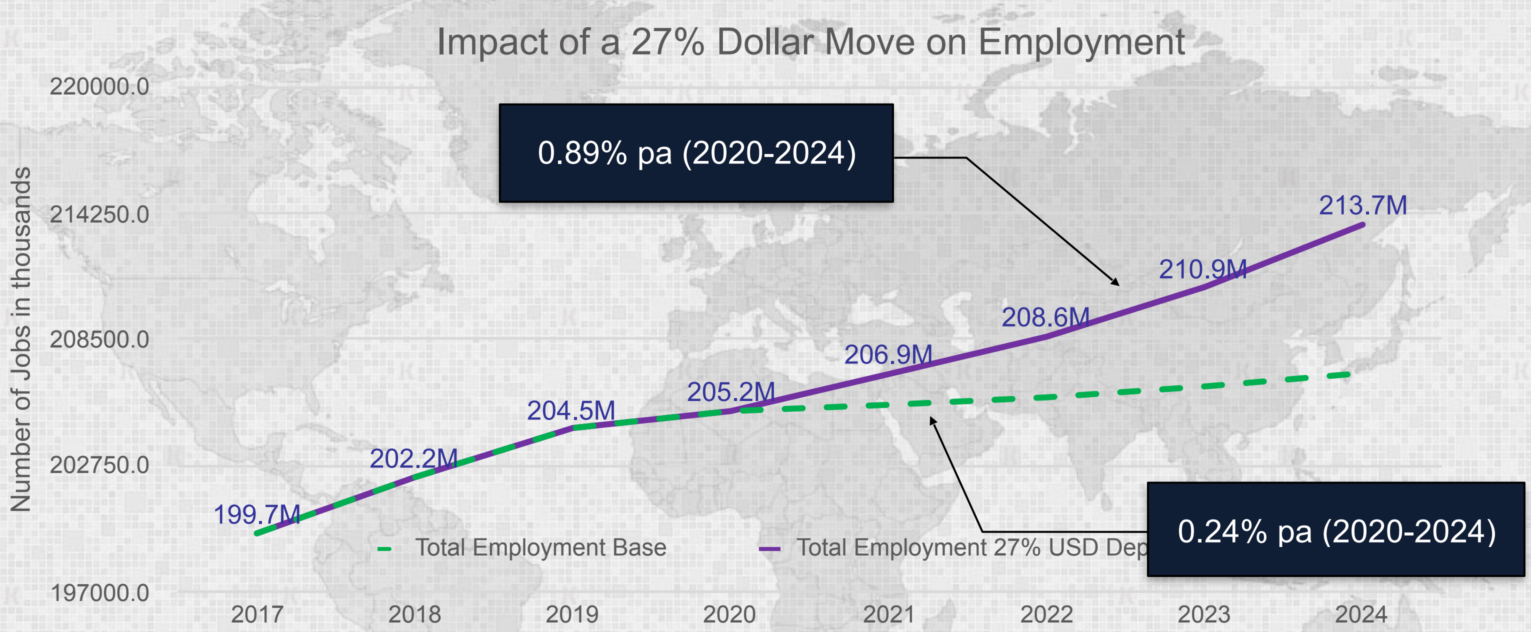
GDP Growth Rate 74% Higher
GDP Larger By Nearly $1 Trillion In 2024



- From 2020 to 2024 real GDP grows, on average, 74% faster than the baseline growth rate (2.84% vs. 1.63%)

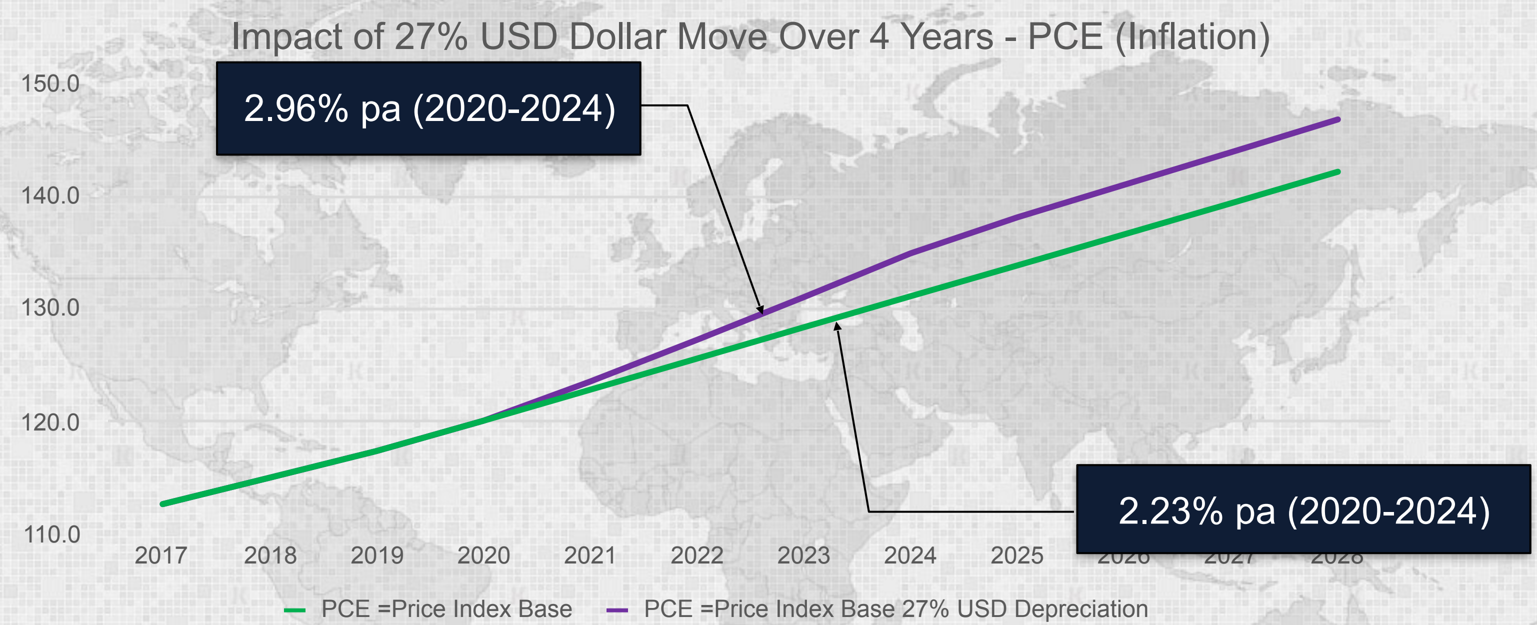
- In 2025, size of the US economy is $962.6 billion (4.8%) larger than in baseline (in 2009 dollars)

Job Creation: 6.7 Million Additional Jobs Over Baseline



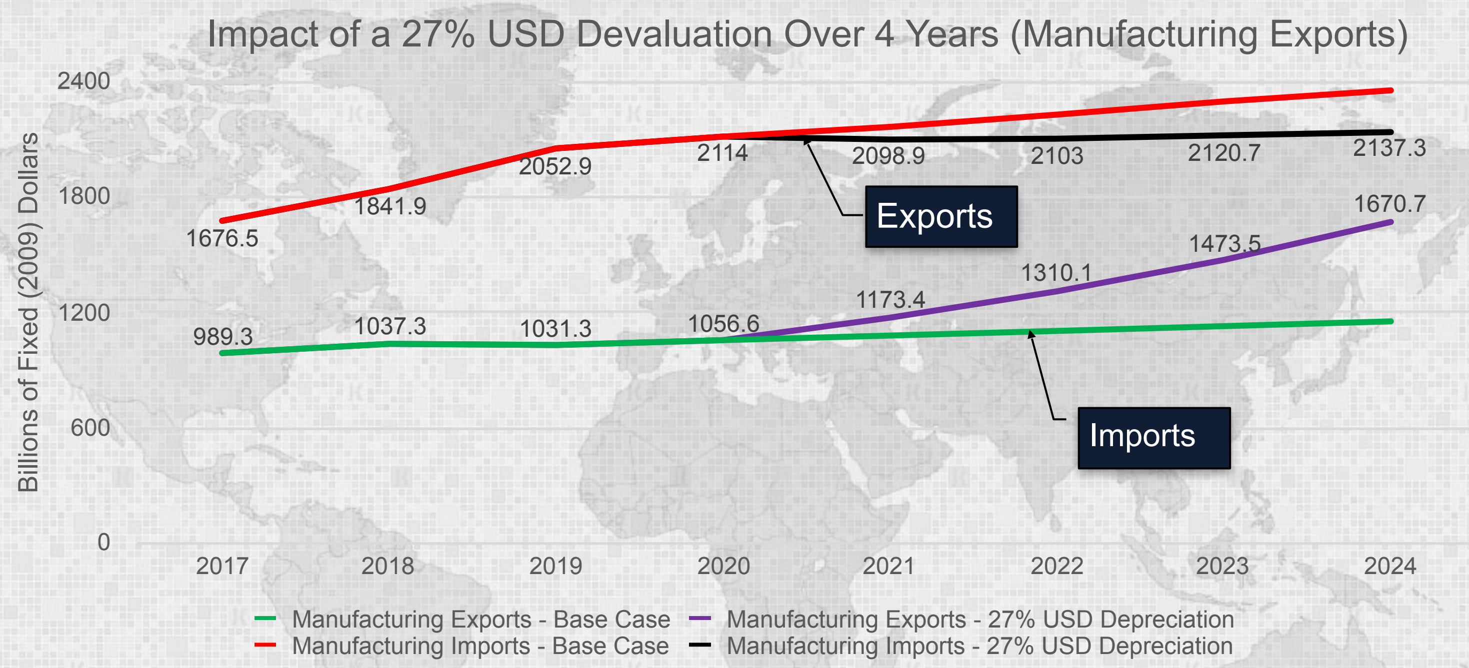
- Average annual employment growth rate more than triples from 0.24% to 0.89%
- After 6 years (end of 2024) US economy has generated 6.7 million more jobs over the baseline scenario

Inflation Increases Only Slightly



- From 2020 to 2024 average annual inflation rate is 2.96% vs. 2.23% in baseline (PCE inflation)
- Competition holds down price increases in imports

Manufacturing Exports Grow 5X Faster
Imports Grow More Slowly



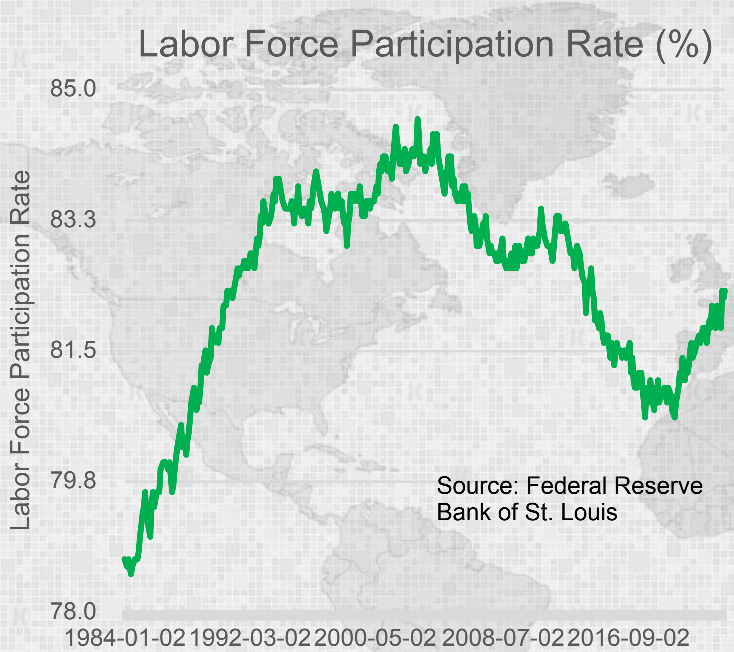
- Annual manufacturing export growth is five times faster: 12.14% vs. 2.23% in base case.
- Annual manufacturing import growth continues, but more slowly: 0.28% versus 2.73% in base case.

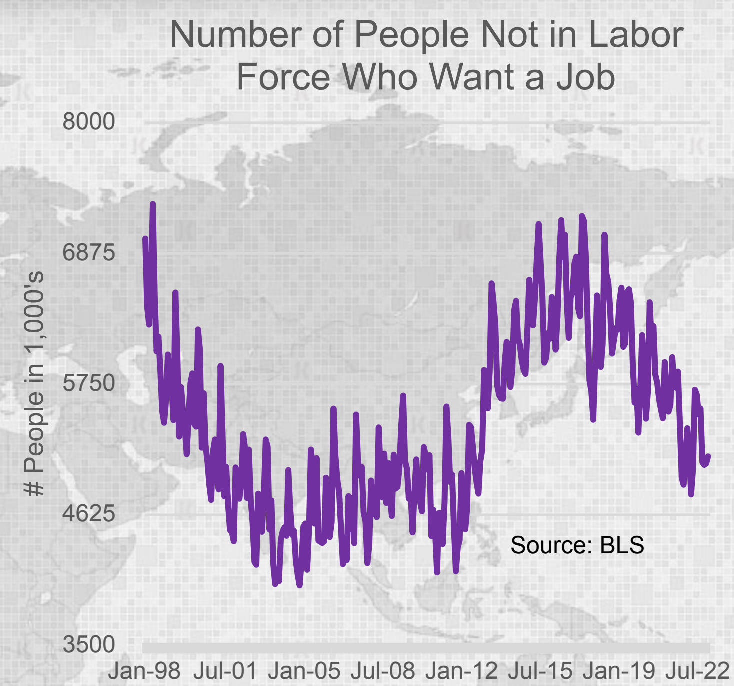
Job Quality Improvements

Growth in Employment Over 2020 – 2024				
	Base Case		27% Dollar Move	
Sector	Base Case pa	Growth in Employment – Base Case (1,000's)	Employment Growth pa	Employment Growth Relative to Base Case 2020-2024 (1,000's)
Natural Resources	0.45%	48.87	2.79%	310.31
Construction	-0.21%	-164.16	0.41%	334.61
Manufacturing	-1.07%	-573.39	1.81%	1,977.23
Retail and Wholesale	-0.03%	-92.01	0.08%	155.21
Transportation and Public Utilities	0.20%	58.7	1.52%	557.98
Finance, Insurance & Real Estate	0.39%	297.02	1.11%	739.61
Services	0.63%	2349.95	1.11%	2,328.18
Government	-0.11%	-165.52	0.18%	366.44

- Manufacturing jobs become larger share of total
- 1.97M manufacturing jobs created from 2020 to 2024, an increase of 10.46%
- In absolute terms, more service sector jobs are created than any other category due to increased economic growth.

Added Workers Come From Labor Force Dropouts and Part-Time Workers

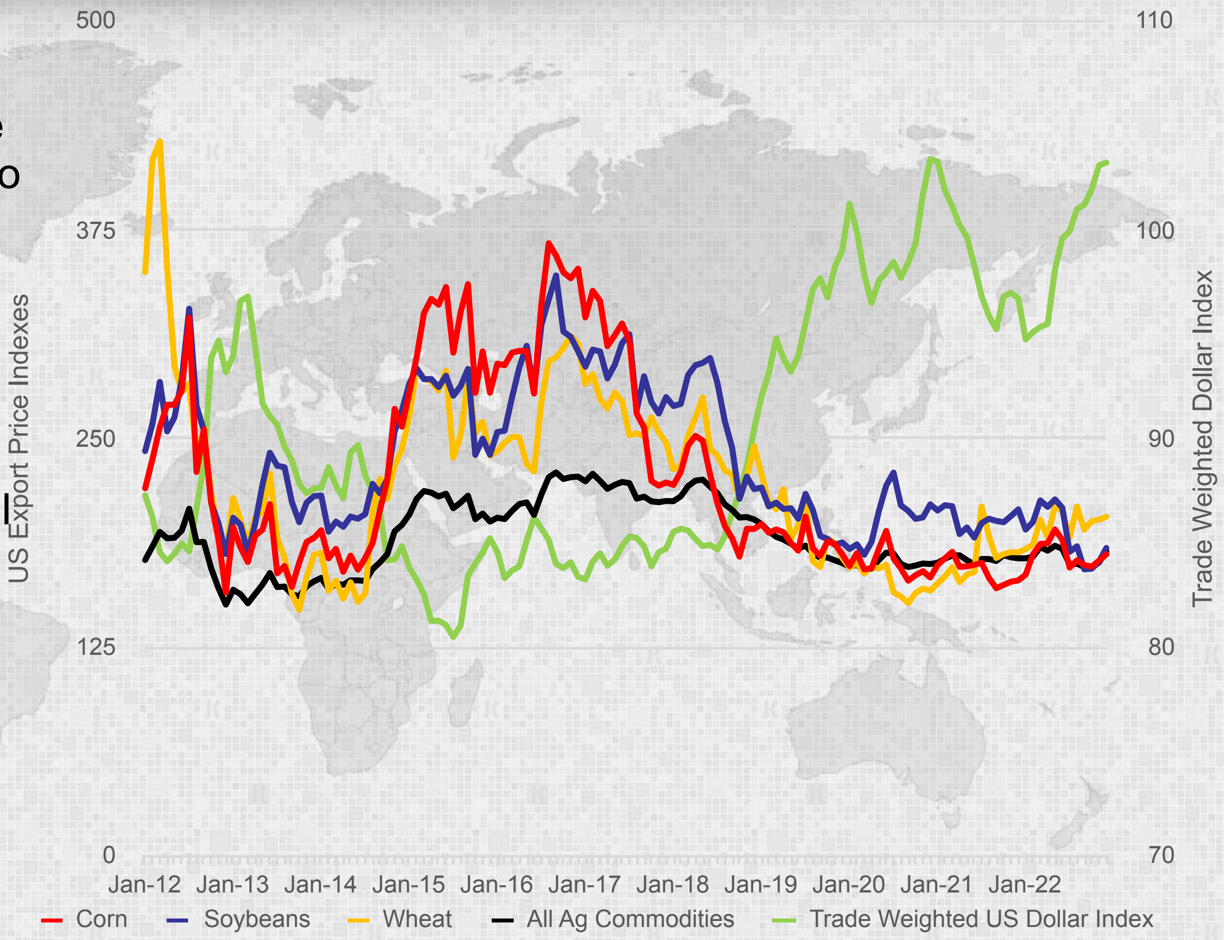




- Labor force participation still 2.4 percentage points below 1998 peak (prime age)
- 5.1M people not in labor force, but say they would “take a job”

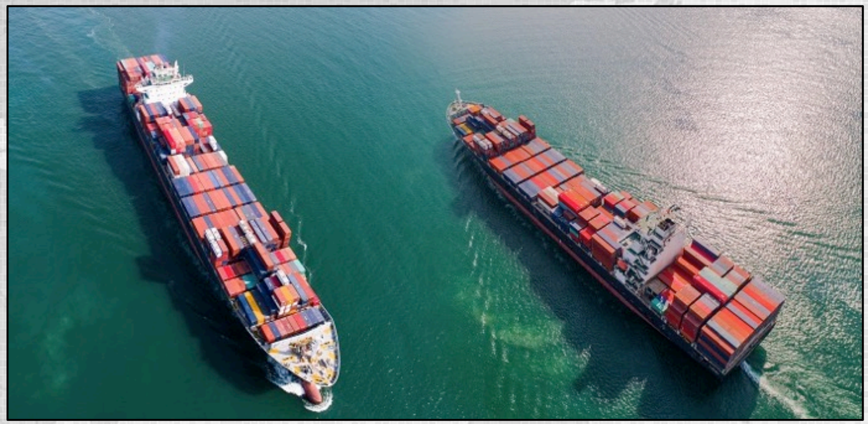
Agriculture Benefits From Competitive Dollar

- Research shows a 1% change in dollar exchange rate leads to 2.5% change in opposite direction in ag prices
- Graph shows the inverse relationship
- A 27% decrease in dollar exchange rate would lead to price rise of 67% in agricultural commodity prices



Global Trade Volumes Increase

- Historical data shows dollar decline of 1% leads to 0.6% increase in the volume of world trade
- Competitive dollar would stimulate growth in world trade



Conclusion: Competitive Dollar Adds $1 Trillion to US GDP

- Capital inflows drive overvalued dollar
- Overvalued dollar drives US trade deficit
- Competitive dollar must be 27% lower to balance trade
- Massive economic benefits
- US production, jobs, incomes on new higher growth path:
  - GDP growth rate increases 74%. US economy 4.8% ($960B) larger by end of 2024
  - Job creation growth rate more than triples adding 6.7M additional jobs
  - Job growth disproportionately benefits goods producing industries
  - Agricultural producers benefit from higher prices

Thank You

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