Dollars and “Sense”

John Nolan
Vice President
Steel Dynamics, Inc.
Fort Wayne, IN USA
The Dollar Crisis

- Common Ground
- History
- Direct Investment
- Solutions
- Risks
- Your Role
The Dollar Goes Up ... Manufacturing Profits Go Down

## Overvalued Dollar Devastates U.S. Manufacturing

<table>
<thead>
<tr>
<th>Change in:</th>
<th>Stable Dollar (‘91-’96)</th>
<th>Strong Dollar (‘97-’02)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Deficit</td>
<td>- $176 billion</td>
<td>- $468 billion</td>
</tr>
<tr>
<td>Imports</td>
<td>$800 billion</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>+ $204 billion</td>
<td>- $80 billion</td>
</tr>
</tbody>
</table>

“Six Years After” Coalition for a Sound Dollar  August 2003
## Overvalued Dollar Devastates U.S. Manufacturing

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<tr>
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<tbody>
<tr>
<td>Employment</td>
<td>18.5 million (‘01)</td>
<td>501,000 jobs added</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Manufacturing is 14% of USA workforce</td>
<td></td>
</tr>
</tbody>
</table>

“Six Years After” Coalition for a Sound Dollar  August 2003
Declining U.S. Industry

- Machinery
- Autos
- Textiles
- Lumber
- Chemicals
- Aerospace
Dollars & Sense

High Tech
High Skill
“Hi Ho!”

Dollars & Sense
# Overvalued Dollar Hits U.S. High Tech

<table>
<thead>
<tr>
<th>Change in:</th>
<th>Stable Dollar (’92-‘96)</th>
<th>Overvalued Dollar (’97-‘02)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>+ $25 billion</td>
<td>- $31 billion*</td>
</tr>
<tr>
<td>Imports</td>
<td>+ $17 billion</td>
<td>+ $50 billion</td>
</tr>
<tr>
<td>Trade Deficit</td>
<td>+ $35 billion (‘96)</td>
<td>-$17 billion (‘02)</td>
</tr>
</tbody>
</table>


“Six Years After” Coalition for a Sound Dollar  March 2003
Investments Are Down ...

$37 Billion
When the Dollar goes up ... so do US Steel Imports

Steel Import Share
(right scale)

Fed’s Broad Real Dollar
(left scale)

Steel Prices Devastated by Overvalued Dollar

Source: Purchasing Magazine
### Overvalued Dollar Hits U.S. Agriculture

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<th>Strong Dollar (‘97-’02)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports:</td>
<td>Up $20.9 billion</td>
<td>Down $2.6 billion</td>
</tr>
<tr>
<td>Imports:</td>
<td>Up $9.2 billion</td>
<td>Up another $7 billion</td>
</tr>
<tr>
<td>Trade Surplus:</td>
<td>Rose to $27 billion</td>
<td>Fell to $11 billion</td>
</tr>
</tbody>
</table>
Right-Sizing the Dollar
The 1980's

Trade Deficit

James Baker
Secretary of Treasury
The 1990's

Asian Crisis
Weak
2002

Dollar Peaks 30% above norm
(17-year high)
Overvalued Dollar:

- Low Inflation
- Low Import Prices
- Consumers Benefit
- Low Interest Rates
- Inflated Purchasing Power in Foreign Markets
10,000 Baht
Equals 1 ton of finished steel

30% Subject to FX
70% Constant
10,000 Baht or US$400 for 1 ton of finished steel
and 7,000 Baht are Constant!!

1 Baht = 4¢

Monthly Avg. Exchange Rates: Thai Baht per U.S. Dollar

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13,000 Baht for 1 ton of finished steel ...

and 7,000 Baht are Constant!!

1 Baht = 2¢

1 Baht = 4¢

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Steel costs up 30% to 13,000 Baht or US$260 from 10,000 Baht or US$400.

7,000 Baht remain constant!
Monthly Avg. Exchange Rates: Indonesian Rupiah per U.S. Dollar

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“Japan, Korea and Taiwan routinely intervene or manipulate currency markets to drive their currencies lower and thus gain competitive advantage against U.S. manufacturers.”

“Six Years After” Coalition for the Sound Dollar, March 2003.
The “Pegged” Yuan:

1. Subsidizes Chinese exports to the US
2. Taxes US imports to China
3. Displaces US exports in third country markets
4. Threatens all of US Manufacturing
"Go West" Strategy

10 New Cities!
Overvalued Dollar

- Depressing Capital Spending $37 Billion
- 58,000 more manufacturing jobs lost in May
- $100 Billion reduction in profits
- Reduced ability to compete
- Loss of Pricing Power
Plaza Accord
September 22, 1985
COORDINATION

Think Plaza
MONETARY POLICY
BACKBONE
DO IT NOW!
RISKS
REWARD

10% decline in $ = 6% increase in profits
What Can You Do?
Try www.sounddollar.org
“Let It Fall: The Effects of the Overvalued Dollar on U.S. Manufacturing and the Steel Industry” Robert A. Blecker, Ph.D., Professor of Economics, American University

“Six Years After” Coalition for the Sound Dollar, March 2003.


Nihon Keizai Shimbun, newspaper February 1, 2003
Questions?
Dollars and “Sense”

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Once again, thank you very much!!