Manufacturers take heart in the falling dollar

By Dean Poeth

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The rising price of oil has caused increased pain at the pump, and worse may be yet to come. Some analysts are now talking seriously about gas at $5 per gallon by Labor Day, which is going to make the summer driving vacation a white-knuckle experience. Just think, someday you may be able to smugly tell your grandkids, “I remember the good ol’ days when gas was just $2 per gallon.” On the other hand, better not; they probably won’t believe you.

Tough times are ahead, but there is a silver lining to this cloud. The same economic forces that have caused high fuel prices will also help improve the global competitiveness of many New York businesses, particularly those involved in manufacturing. This will generate local economic growth, helping future graduates find jobs in the area so they can stay in New York.

THE DEVALUED DOLLAR

A primary cause of rising fuel prices is the continued devaluation of the U.S. dollar, resulting in investors moving out of the dollar (treasury bonds, etc.) and into investments in oil. This has forced oil prices above what would ordinarily seem reasonable based on international consumption and simple supply-demand economics.

A devalued dollar, combined with high transportation costs (a consequence of skyrocketing fuel prices), means a higher “total landed cost” — the combined cost of making and delivering goods — for imports. This means, in the short term, higher prices for imported goods at discount department stores such as Wal-Mart. In the long term, however, it also means that these higher prices will make domestically produced goods more competitive, which is beneficial for local jobs.

This is the silver lining to the cloud of a devalued dollar and high fuel prices.

The days of low transportation costs, the magic carpet of offshoring, may be coming to an end. As shipping costs continue to increase, overseas production becomes less and less profitable. After all, fueling a container ship for the 6,200 mile ocean voyage from China to California isn’t cheap. These ships burn upwards of 1,800 gallons of fuel per hour.

Combine all this with the fact that all is not going well for China. Weakened U.S. demand for their products, in part due to concerns over product safety, combined with rising labor costs and rising raw material prices, are hitting Asian factories hard. One source claims as many as 20 percent of small factories in China may close by the end of this year.

MADE IN U.S.A.

The bottom line is that, in the coming months and years you will see substantially more “Made in U.S.A.” labels on goods sold in department stores. Asian and European consumers may see more of these labels as well, as the devalued dollar makes U.S. goods more cost-competitive in the global marketplace, and the volume of our exported goods increase.

This is good news for New York. More domestically produced goods means more local jobs, and increased prosperity for our state, if we capitalize on this opportunity.

Does this mean New York businesses can ignore the brutal rules of global competition and just wait for this windfall? Of course not. With or without a devalued dollar, the customer still demands a world-class product at a competitive price, and they don't much care where it is made. If we meet this challenge, we will have jobs. If not, we will suffer the fate we deserve.

Businesses need to re-evaluate their competitive position now. Trying to compete in this global economy using obsolete methods and outdated machinery from the 1950s is a recipe for failure. Likewise, using management strategies from the 1950s is unsustainable. Businesses need to leverage our key competitive advantage: the intelligence, creativity and innovation of American workers — an intellectual gold mine that remains sadly untapped. Are we willing to pay the price it takes to open this floodgate of new ideas?

Consider this: Workers at the Honda Accord factory in Marysville, Ohio, can receive (and many have received) a new Accord as a reward for identifying process improvements that reduced costs and improved quality. Are New York companies as astute?

HARDSHIPS AHEAD

The continued devaluation of the dollar means real hardships ahead in the form of higher prices for everything, from gas to food. Even taxes will go up as municipalities struggle to pay for the increased costs of fueling police cars and school buses.

But on the upside, New York manufacturers who have been bled white due to a devalued Chinese yuan will now find themselves with an unanticipated competitive advantage. Domestic manufacturing may begin a resurgence not seen in decades through increased domestic and international demand.

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