

Macro Roundup Article

Headline: [How to Manage the Dollar \(Part II\)](#)

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Tweet: .@GeneralTheorist and @jnordvig note that US dollar strength is comparable to its peak in the early 2000s; however, the current account deficit at about 3.3% of GDP is substantially smaller than in the 2000s, largely due to domestic energy production.

Summary: Overall, US dollar strength is comparable to the peak in the early 2000s, though the picture is nuanced. The bilateral RER against JPY is much stronger than at any time since the 1990s, other bilateral measures are much less extreme. Meanwhile, cost-based measures of US REER, such as unit labour cost measures, are as strong as any time since the 1990s. Turning to the US current account, the external deficit today is about 3.3% of GDP which compares to the pre-pandemic steady state close to 2% of GDP though still below the 4.1% of GDP through early-2022. The deficit today remains well below the 2006 peak, a lagged response to the previous REER peak in the early-2000s, though is close to the current account deficit in the mid-1980s. Though the external deficit is below previous highs, the composition of the deficit has shifted towards non-commodity goods as the commodity deficit has disappeared since the US shale boom. In fact, relative to GDP, the US non-energy goods deficit is higher than the experience in the 2000s.

Related Articles: [How to Manage the Dollar \(Part I\)](#) and [Will Trump Get His Wish for a Weaker Dollar?](#) and [The Changing Nexus Between Commodity Prices and the Dollar: Causes and Implications](#)

Primary Topic: Financial Markets

Topics: Financial Markets, GDP, Op-Ed/Blog Post, Savings Glut/Trade Deficit, Trade (not deficits), Weekly

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