ITR ECONOMICS

China devaluates currency - what does it mean for the US Macroeconomic Outlook?

The Chinese devalued their currency a few days ago. The change in policy appears to be an attempt to stimulate China's exports in light of the ongoing cyclical weakness in that economy. Two consequences to the currency change are 1) a stronger US dollar and 2) weaker oil prices. Neither consequence is helpful to the macroeconomic status in the US.The stronger US dollar has the potential to delay what we thought would be an improving capital goods new orders trend in the second half of 2015.

A stronger dollar could weaken export trends and is equally important for keeping imports priced cheaply relative to US goods, which includes capital equipment. WTI oil is down below $43/bbl. The lower oil price was made possible by the stronger USD. Cheaper oil is good for consumers (which in turn is good for the economy at large) but not good news for the oil patch and all those supplying the oil industry, from capital equipment providers to service providers.