The U.S. dollar is near its highest level in more than a decade. A strong U.S. dollar has many benefits to consumers. When traveling abroad, goods and services cost less in U.S. dollars, making foreign destinations attractive vacation options for many. Domestically, imported items also cost less in U.S. dollars, with some of these savings passed along to consumers.

At the same time, a strong U.S. dollar means that exported goods and services cost more in foreign countries, putting downward pressure on export sales. Compensating for this effect may require lower prices offered overseas and an associated lower revenue and earnings for U.S. companies.

So far, at least for large companies, this has not been the case. S&P 500 companies generate a significant portion of their revenue and earnings abroad. In fact, based on the first quarter of 2022, those that generated more than one-half of their sales domestically had weaker earnings growth than those companies that generated more than one-half of their sales abroad.

Conventional wisdom is not always accurate, which makes forecasting economic causes and effects so challenging. It also means that setting economic policies is an inexact science at best.

Take for example inflation, which is close to a 40-year high. Shouldn’t a strong U.S. dollar be buffering higher prices?

Surprisingly to some, it has, which means that prices would be even higher if the U.S. dollar were weaker. For example, inflation rates are higher in several other countries, including the United Kingdom, Germany, Italy and the Netherlands.

Oil prices have received significant attention. Gasoline prices are routinely between $3.50 and $4 per gallon in the United States. Given that crude oil is priced in U.S. dollars, a strong dollar obfuscates its actual cost. The current nominal, noninflation-adjusted price of oil has been comparable to the price of $80 to $90 per barrel back in 2011 to 2014. Taking inflation into account, prices are much lower today.

In contrast, oil prices are near all-time highs in Canada and Europe. As much as Americans are not pleased with gas prices at the pump and will not be with the cost of natural gas to heat their homes this winter, Canadians and Europeans are faring even worse. For example, Canadians are paying around $1.70 Canadian dollars for a liter of gasoline, equivalent to around $6.50 per gallon, or $4.80 in U.S. dollars.

What a strong U.S. dollar is doing is clouding the cost of oil that many other countries are paying. If the U.S. dollar weakens, as it inevitably will, the price of oil domestically will surge. This means that $4 per gallon of gasoline at the pump will look like a bargain.

As the Federal Reserve continues to raise interest rates to suppress economic activity, effectively cooling systemwide demand and placing less upward pressure on prices, higher interest rate investments become attractive to foreign investors. This means that demand for U.S. currency is increased, putting more upward pressure on the dollar.

It’s complicated. And rightly so. Every dial that is turned has unexpected consequences.

Now with Republicans in control of the House, bipartisan support will be needed to affect any legislation that could support the economy and temper inflation. Without such cooperation, gridlock is likely, with President Joe Biden

Sheldon Jacobson: Inflation is bad, but it could worsen if the US dollar weakens

forced to resort to executive orders, which have their limitations. Polls from the Pew Research Center show that people view inflation as a top issue of concern. What few realize is that the number of tools available to effectively manage a massive economy like that of the United States is limited, and those available are rather blunt with significant time delays to yield effects.

As bad as inflation may seem at this time, it could be worse. If the U.S. dollar weakens, it likely will be.

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