



Volatility of the Dollar: Who is at Risk?

International Trade and Investment Center
February 5, 2009

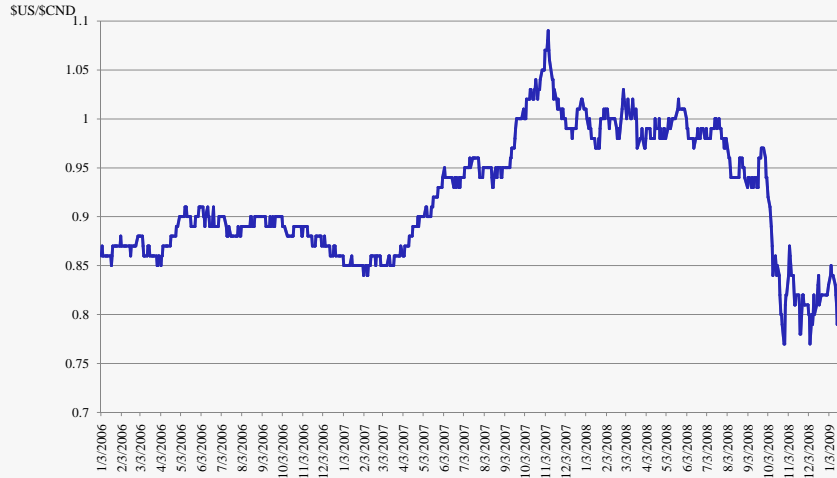
Louis Thériault
Director, International Trade and Investment Center

Is this Important?

- Current consensus is that manufacturing industries are the most vulnerable
 - Argument based on export dependence
- However, the manufacturing sector is not homogeneous
- Movements in \$CND have an impact via various channels
 - Services industries might be exposed
- Policies aimed at supporting sectors and regions require proper diagnosis



Daily Exchange Rate: Recent Volatility is Extreme



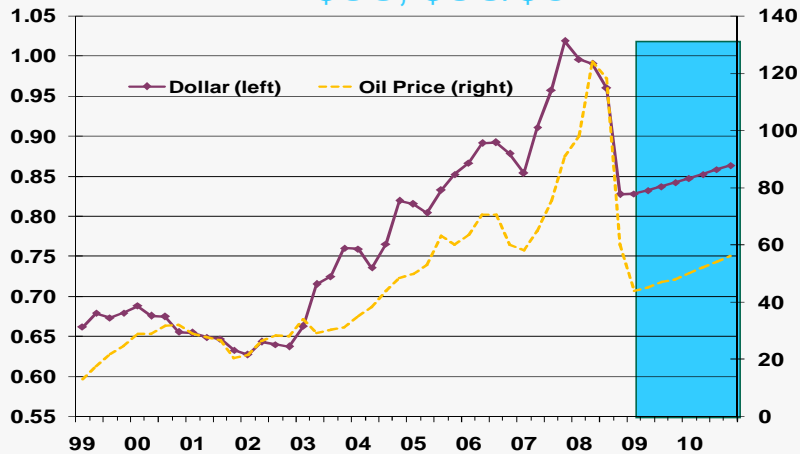
Sources: The Conference Board of Canada; Bank of Canada.

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The Loonie and the Oil Price WTI \$US, \$US/\$C



Sources: The Conference Board of Canada; U.S. Energy Information Administration; Statistics Canada.

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Methodology

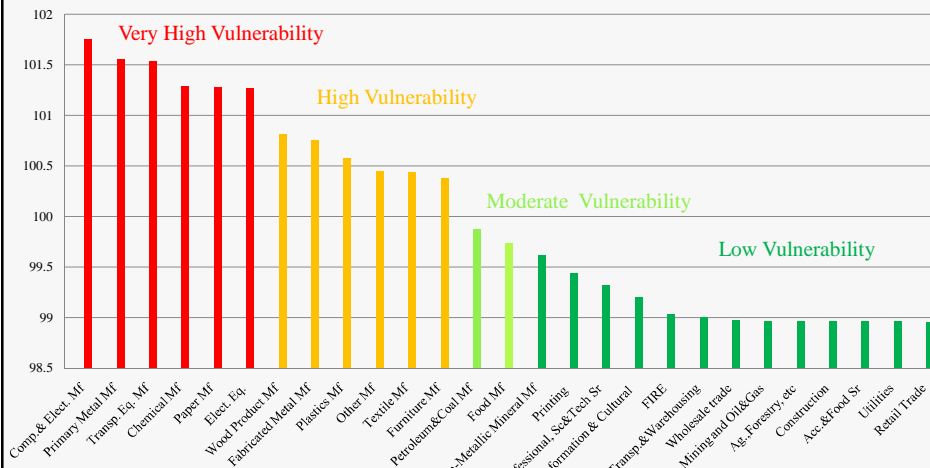
- Builds on *Performance & Potential* and *How Canada Performs* indexing approach
- 4 Indicators
 - Export intensity
 - Import intensity of inputs
 - Import intensity of M&E investment
 - CDIA intensity
- 27 industries
 - 20 good producing
 - 7 services producing

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PFX Vulnerability Index Component: Export Intensity



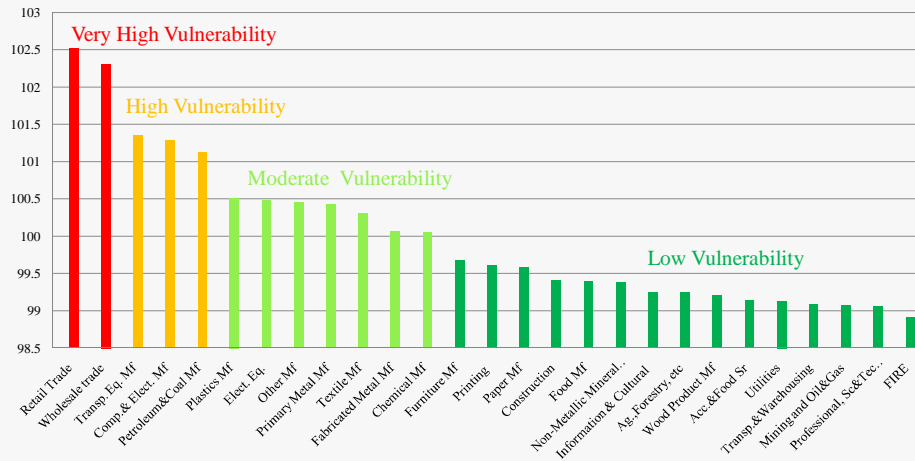
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PFX Vulnerability Index Component: Import Intensity of Inputs



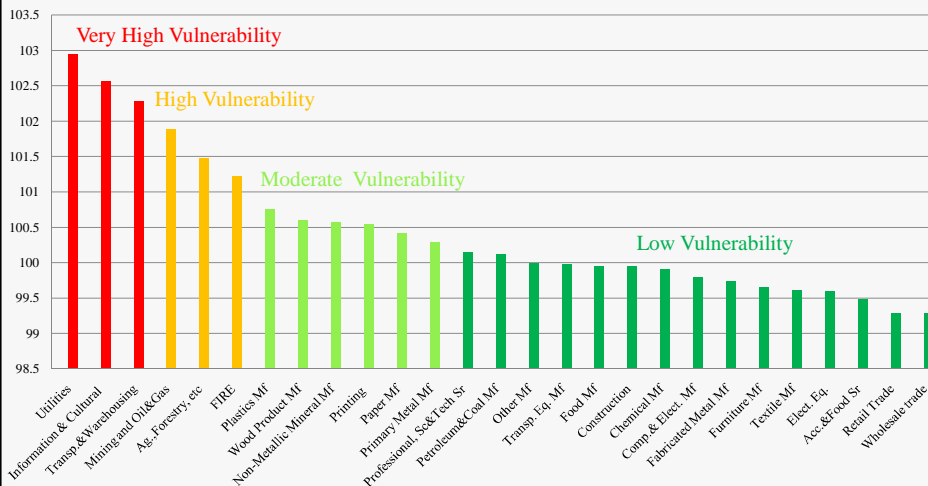
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PFX Vulnerability Index Component: Import Intensity of M&E Investment



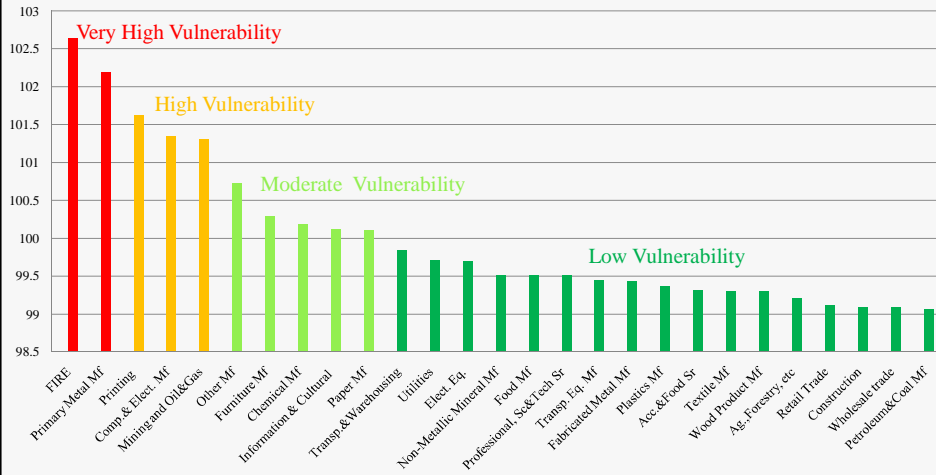
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PFX Vulnerability Index Component: CDIA Intensity



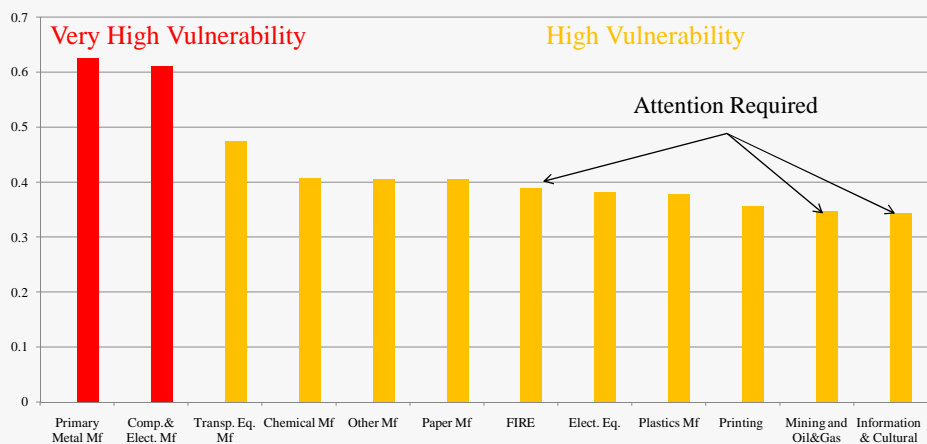
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Composite PFX Vulnerability Index: More than Manufacturing



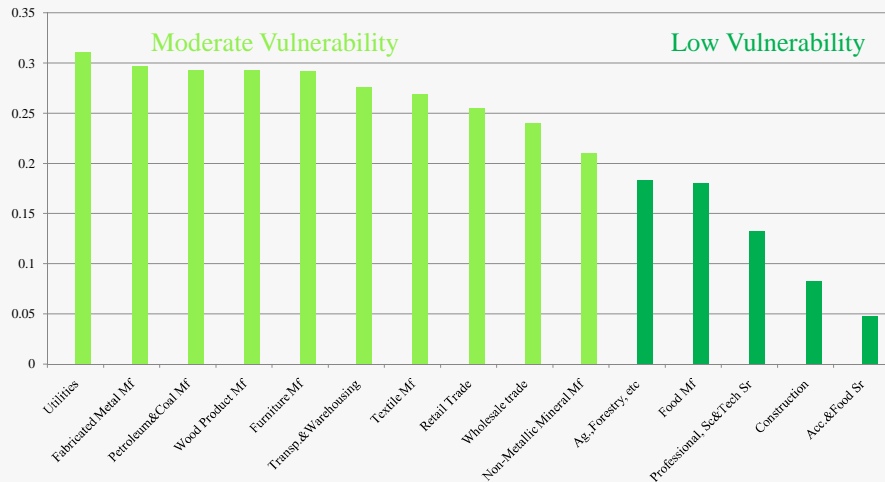
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Composite PFX Vulnerability Index: Lower Exposure is now a Boon



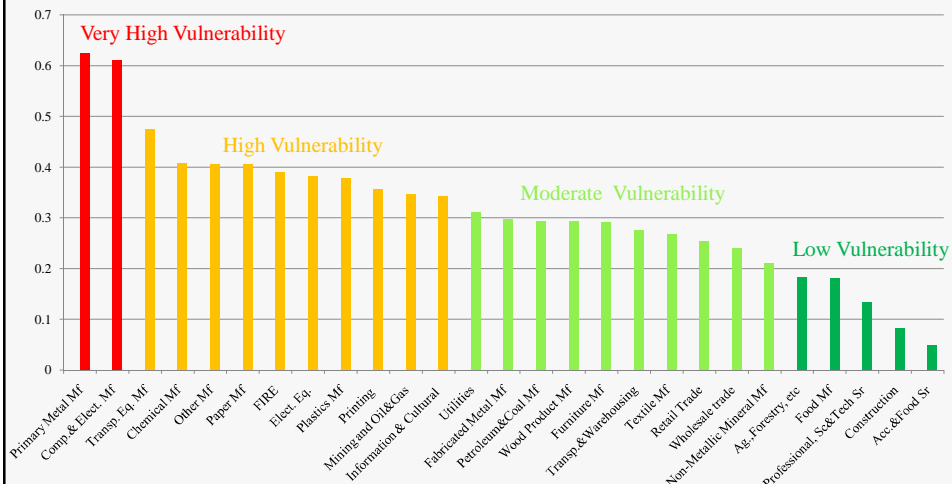
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Composite PFX Vulnerability Index



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Summary

- By indicator
 - Important concentration of industries in *Very High* and *High* categories
 - Notable exception is *Export Intensity* indicator
- Composite index provides a more balanced perspective
- Manufacturing still dominates but may be due to
 - The data which is more robust
 - The lack of breakdown of services industries

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Targeted Policies: Specific Industries to Consider

Industry	Extremely High (Number of Appearances)	Industry	Low (Number of Appearances)
Paper Mf	1	Utilities	3
Elect. Eq.	1	Non-Metallic Mineral Mf	3
Chemical Mf	1	Transp.&Warehousing	3
Information & Cultural	1	Wholesale trade	3
Primary Metal Mf	2	Retail Trade	3
Transp. Eq. Mf	2	Ag.,Forestry, etc	3
		Food Mf	3
		Construction	4
		Professional, Sc&Tech Sr	4
		Acc.&Food Sr	4

Sources: The Conference Board of Canada; Statistics Canada.

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Implications

- A flexible exchange rate regime remains paramount but
 - Industries at risk need particular consideration
 - Short term imperatives should not occult fundamental long term goal
- Short term stimulus package should target the low vulnerability industries
 - Low leakages offer largest domestic impact
 - Policies favoring direct spending initiatives appropriate
- More work is required to measure contribution of each indicator to the bottom line

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