



Dollar Volatility: Who Should Care?

International Trade and Investment Center
Webinar, February 24, 2010

Louis Thériault
Director, International Trade and Investment Center

Context

- Canadian dollar has hit an historic peak followed by a rapid decline
 - Added to extreme short term volatility
- Canadian industries are being more engaged in overseas trade than at any other time
- The exchange rate has become an integral determinant of input costs
 - It can directly affect industry pricing



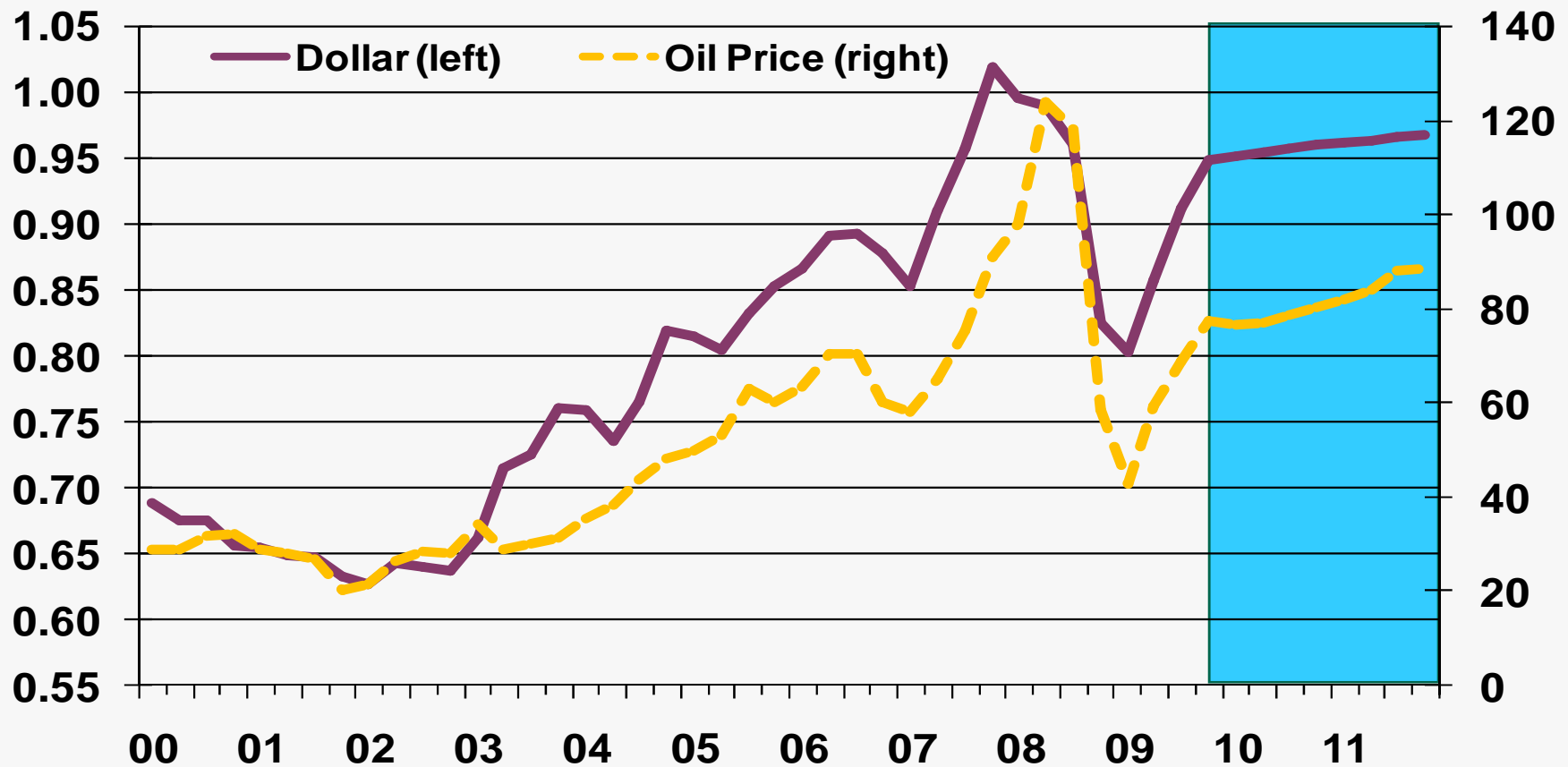
Why is this Important?

- Some industries are at risk
 - Difficult to develop a workable cost structure
 - Long-term financial and strategic planning is difficult
 - Management of supply chains becomes riskier
- Businesses need to understand the impact of the currency on all elements of their operations
 - Including exchange rate hedging strategies in business planning is more important than ever
- Policy makers can help to prepare for and mitigate exchange rate effects



The Loonie and the Oil Price

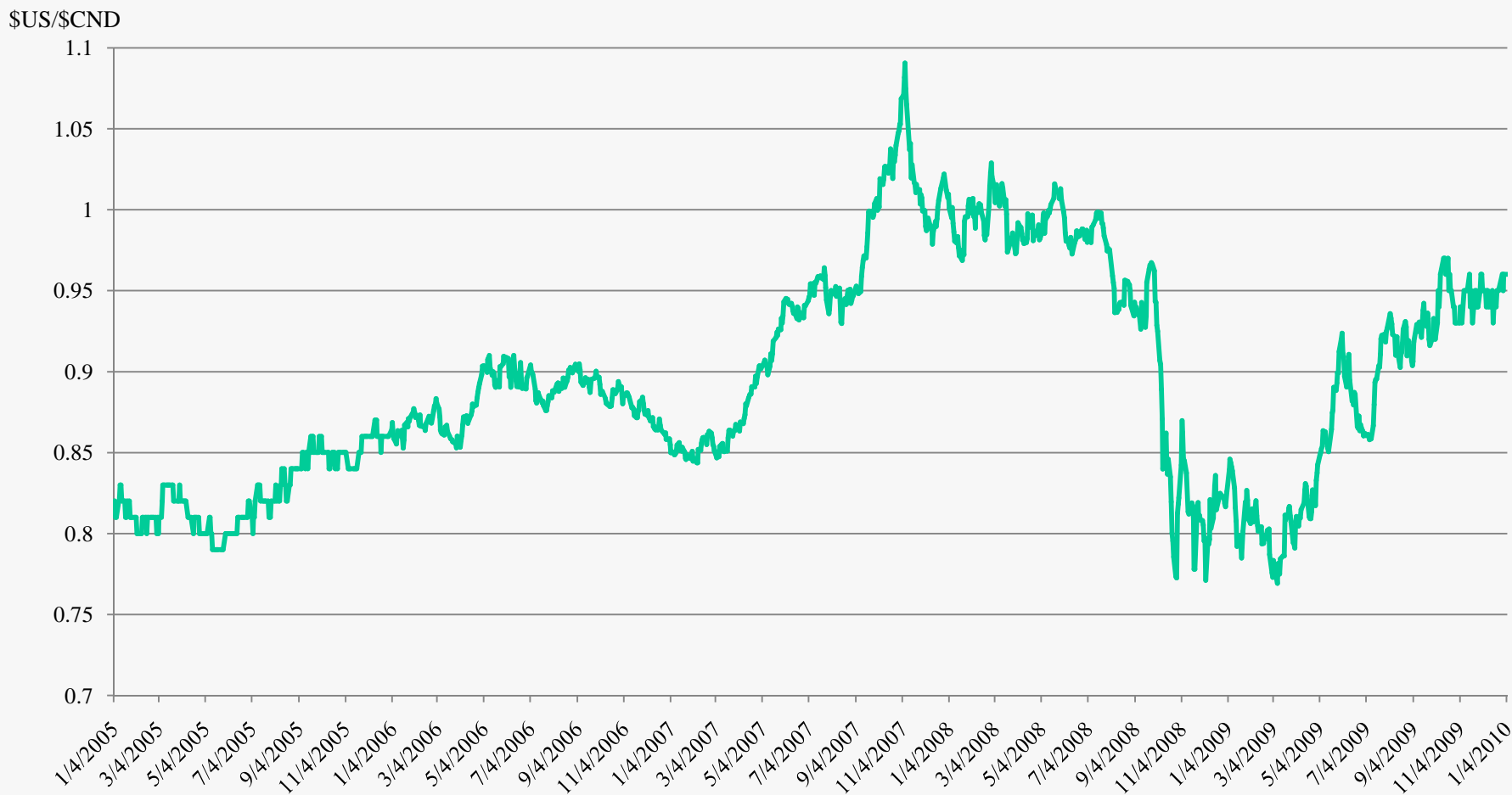
WTI \$US, \$US/\$C



Sources: The Conference Board of Canada; U.S. EIA; Statistics Canada.



Daily Exchange Rate: Recent Volatility is Extreme



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



Assessing Industry Exposure

- We developed four indicators to gauge the exposure of 27 industries to exchange rate movements
 - These are based on their potential revenue or cost impact when the currency fluctuates
 - Export intensity
 - Import intensity of inputs
 - Import intensity of M&E investment
 - CDIA intensity
- Business literature describes these indicators as components of operational hedging strategies



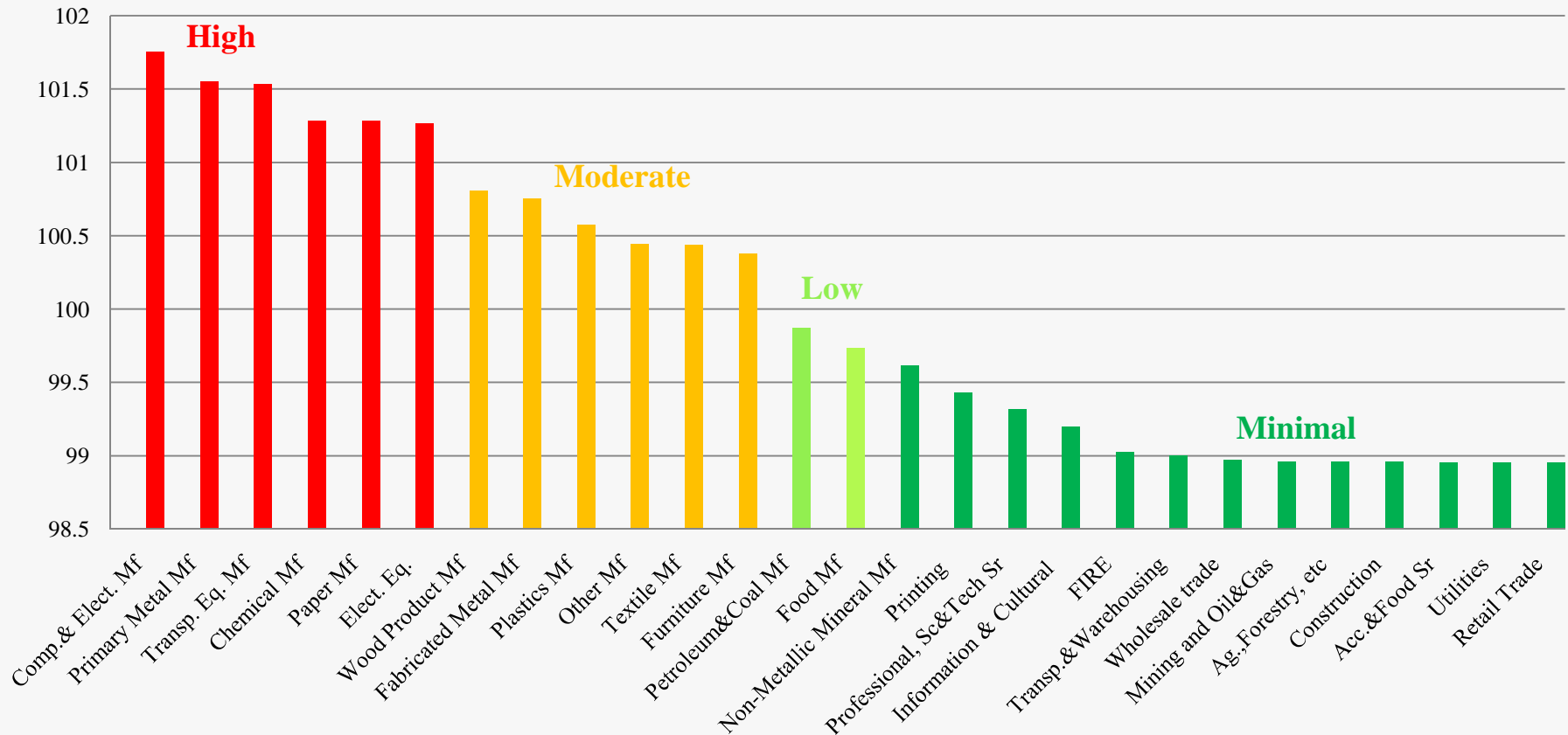
Aggregating Industry Exposure

- We developed a composite index, combining the results of each of the four indicators
 - Tells us which industries are broadly internationalized and have more flexibility in their operating structures
- High level of exposure across many indicators indicates that the industry is better positioned
- Industries that are narrowly internationalized on a single indicator are likely to be among the most vulnerable
- This provides insight on the degree of exposure to the volatility of the dollar, notwithstanding its direction
 - This is not a measure of absolute risk



Export Intensity Indicator: Manufacturers rely heavily on exports

Standard Score

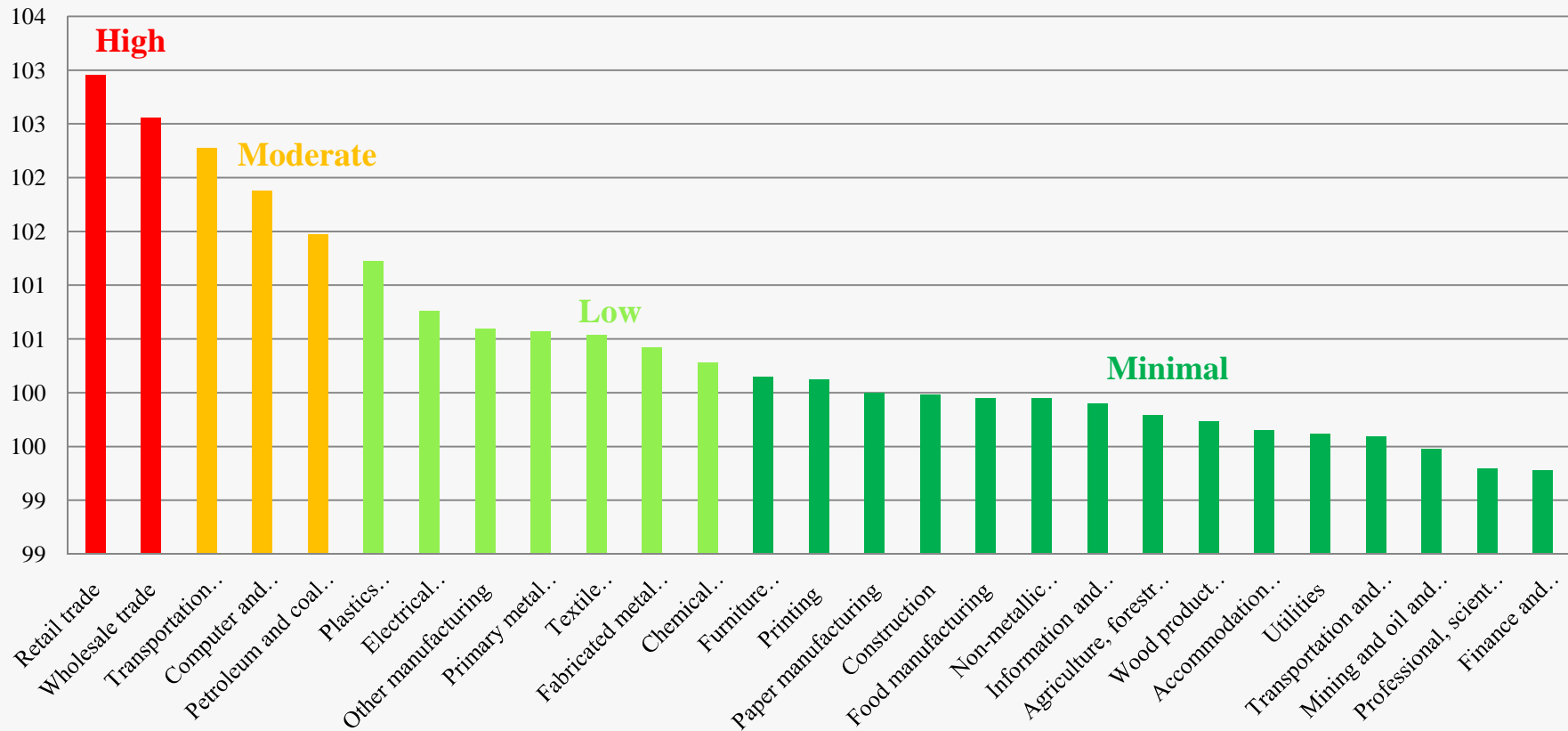


Source: The Conference Board of Canada.



Import Intensity of Inputs Indicator: Retailers and Wholesalers Most Import-Intensive

Standard Score



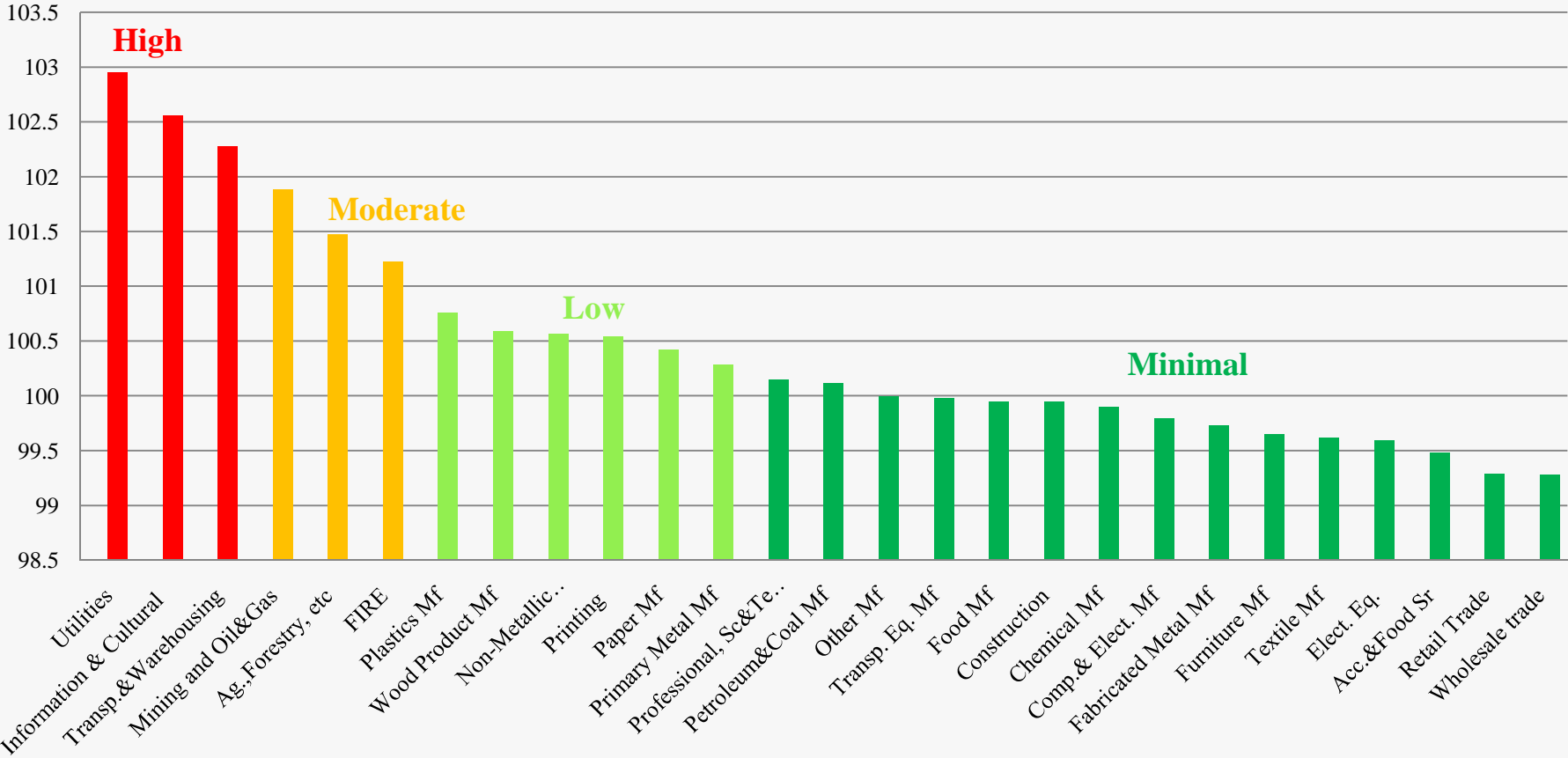
Source: The Conference Board of Canada.



Import Intensity of M&E Investment

Utilities and Services Rank High

Standard Score

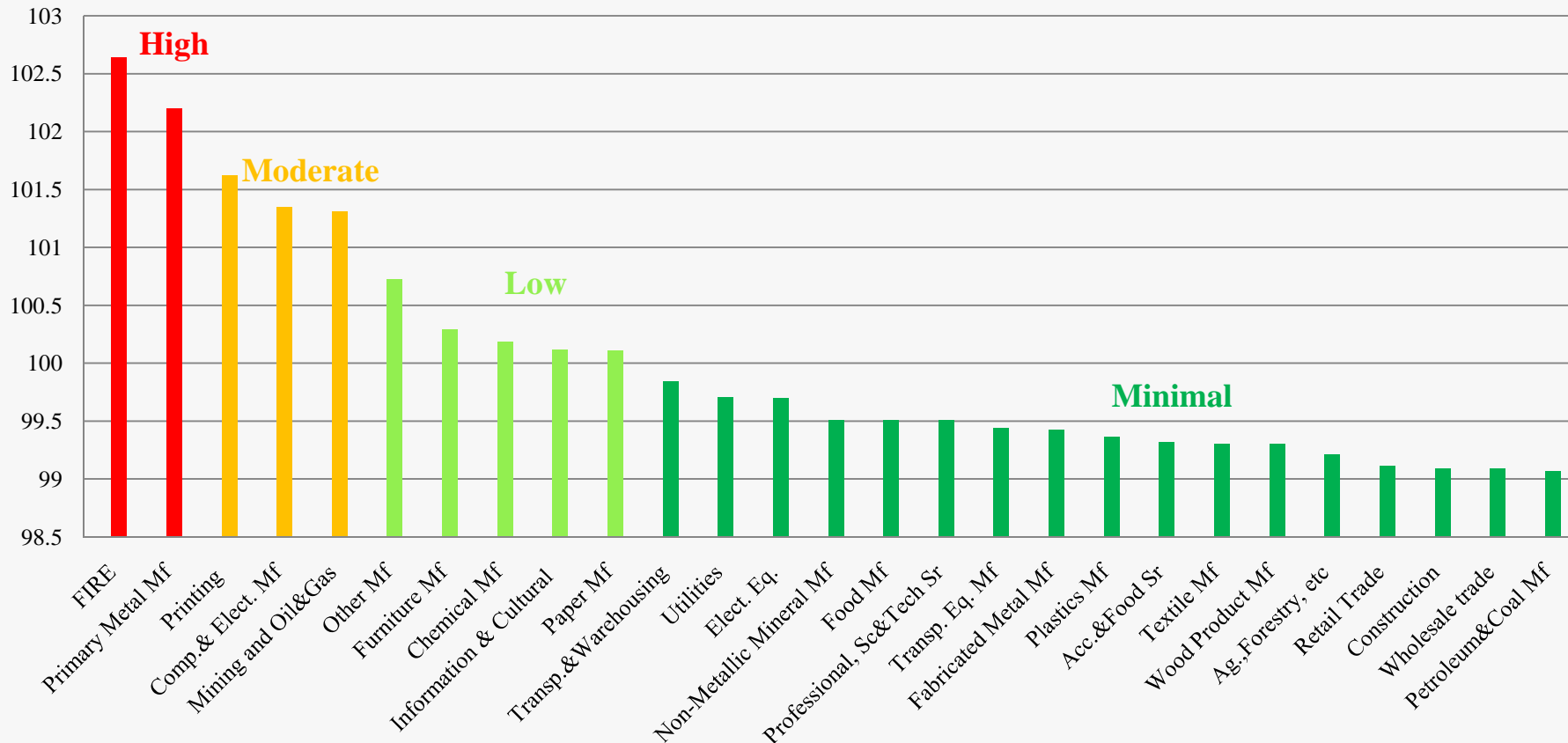


Source: The Conference Board of Canada.



CDIA Intensity Diversified Distribution

Standard Score



Source: The Conference Board of Canada.



Overall Industry Exposure

- Contrary to the general perception, services industries are more exposed to dollar fluctuations
 - Transportation and warehousing
 - Utilities
 - Retail trade
 - Wholesale trade
 - Information and cultural industries
 - Electric equipment mfg



Overall Industry Exposure

- Most manufacturing industries are highly integrated into global supply chains
 - Non-metallic mineral product mfg
 - Computer and electronic product mfg
 - Other mfg
 - Plastics mfg
 - Mining and oil and gas extraction
 - Primary metal mfg
- Three minimally exposed industries largely domestically oriented in terms of sales and sources of inputs
 - Professional, scientific, and technical services
 - Construction
 - Accommodation and food services



What is New?

- Our contribution is to measure for a comprehensive number of industries and using a series of indicators
 - The degree of operational hedging
 - Regroup these results in a single composite indicator
- Other factors also determine industry performance
 - global demand
 - world prices
 - fix versus variable costs structure
 - productivity gains



What Purpose Does this Serve?

- Those industries that are most internationalized have additional means of managing currency volatility
 - This ranking draws attention on the magnitude of internationalization
- Businesses that are most successful are those that can shift resources quickly
 - Canadian firms must continue to invest abroad, identify and establish new export markets, and source materials and services globally
 - SMEs need to be particularly vigilant
- Government's role goes beyond promoting the export of goods and attracting inward investment
 - Trade policies must first and foremost reflect the reality of integrative trade





Visit us at

www.conferenceboard.ca/ITIC

Louis Theriault: theriault@conferenceboard.ca