



GEORGE MORRIS CENTRE

News Release

Exchange Rate Impacts on the Canadian Beef Industry

Guelph, ON (March 22, 2006) A recently completed study sets straight some inaccurate preconceived notions about the impact of exchange rates on trade and competitiveness.

The study, *Exchange Rate Impacts on the Canadian Beef Industry*, was completed by Kevin Grier, Senior Market Analyst at the George Morris Centre, in conjunction with Informa Economics and Professor Kurt Klein, Department of Economics, University of Lethbridge.

According to Grier, the assumption that exchange rate has a big impact on trade flows is false. “There is simply no direct relationship between the value of the Canadian dollar and the volume of beef and cattle trade flows. The exchange rate has a direct price impact on the value of cattle and beef but it does not directly alter trade flows.”

As well, the study illustrates that, rather than making us more competitive, a depreciated currency has the opposite effect, in that it reflects our lack of competitiveness. Similarly, an appreciated currency does not make us less competitive; rather it exposes that lack of competitiveness and allows us greater opportunity to invest in capital. The strong correlation between exchange rate and productivity means the recent appreciation of our currency should encourage that investment opportunity, which results in productivity improvement.

The study also examines exchange rate risk management, including the use of hedging tools like futures and options. In addition, the study provides an important, in-depth analysis of the impact of the exchange rate on costs and margins through the beef supply chain. Although the beef industry was the

primary focus of the project, the findings easily translate to other commodity markets as well.

The complete report is available on the George Morris Centre website:
www.georgemorris.org

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The George Morris Centre is a national, not-for-profit think tank specializing in the Canadian Agri-food sector. The Centre provides perspective, critical information, strategic analysis, and planning, as well as education on issues affecting the sector.