

Exchange Rates and Their Impact on Trade Flows

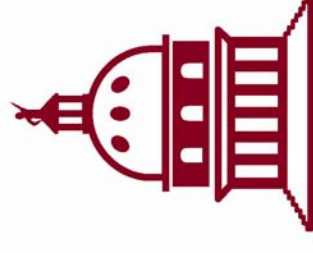
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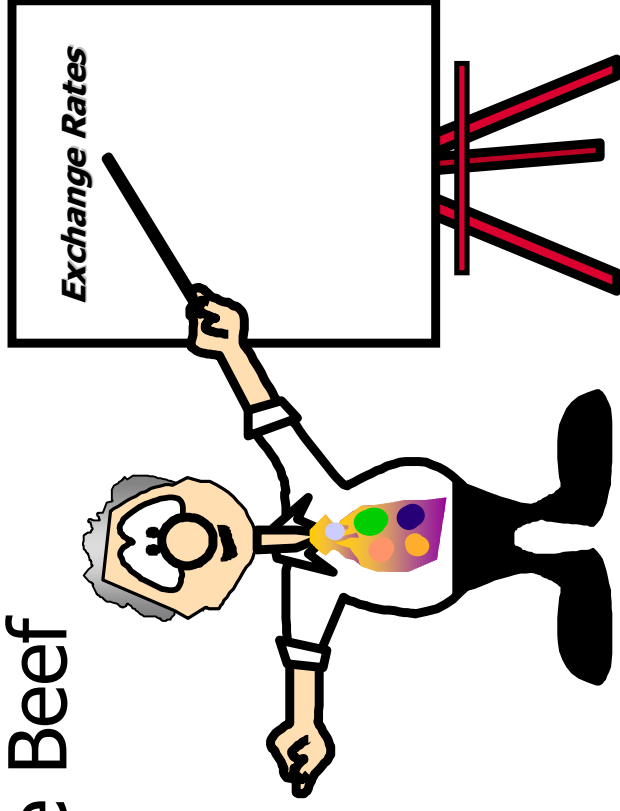
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Outline of Presentation

- A Little Economics
- Some Examples
- Where Exchange Rates Matter
- Some Evidence From the Beef Industry



A Little Economics

- Importance of Exchange Rates for Ag. First Researched in the Early 1970s
 - Overlooked cause of low prices, returns
- Lots of Ag. Research Since Then
 - Monetary policy, interest rates, inflation
 - Exchange rates

A Little More Economics

- Basics Are Easy
 - Currency appreciates
 - Imports are cheaper
 - Exports more expensive
- The Real Question is.....
 - How important are exchange rates when compared to other factors?

Past Research

- Research on:
 - Agriculture
 - Specific commodities
- Implications
 - Exchange rate impacts are found to vary from important to small impacts
 - Depends on commodity, time frame examined

Role of Exchange Rates

- Equilibrating Role When Markets Require a Movement in Relative Prices
- Flexible Exchange Rates are Less Disruptive to the Economy
- Exchange Rate Movements Matter, But They are Not Always Dominant
- Prices Adjust to Exchange Rate Changes

Some Examples

- Canada
 - Long-term change
- Mexico
 - Short-term change
 - Periodical economic problems
- Argentina, Brazil
 - Political instability

Why Exchange Rates Move

- Strong Economy (or vice versa)
- Interest Rates, Inflation
- Risk, Instability
 - Political
- Underlying Demands for Goods and Services
- Relative Changes
 - Rest of the world goes down the tubes
 - Evidence for this in the last 5 years

A Couple More Points

- The Economy is Complex
 - Policies to fix one problem often cause another
 - There is no silver bullet fix
- Appreciation vs. One Currency, Depreciation vs. Another
- We Import and Export
 - TVs, cars, electronics, apparel
 - Coffee, fruit, vegetables
 - Beef

Some Evidence From the Beef Industry

- Research on Exchange Rate Changes on North American Cattle and Beef
 - U.S. exports and imports of cattle and beef
- Results
 - Short-term impact on level of exports, imports
 - Long-term impact on price
 - Impact on price and trade levels was smaller than the change in exchange rate

Conclusions

- Exchange Rates Important
- Other Factors More Important
 - Structural economic changes
- Canada, For Example
 - Policy changes (WGTA)
 - Canadian cattle feeding has not expanded because of exchange rates
- Implications
 - Where to locate business investment?
 - Exchange rates go up and down
 - Short, intermediate, long run impacts