



IMPACT OF EXCHANGE RATES

Our Aussie dollar moves up and down against the US\$, euro, pound and yen daily – but what does it all mean and how does it affect everyday Australians? Here is a simple explanation of the impact of different exchange rates.

Imagine you wanted to buy a computer game and it is made in America. You have Australian dollars, so you have to make two purchases – firstly, you buy US\$ and then you buy the computer game. Let's say the game costs US\$100 and the exchange rate is 90 [JBL] cents. Ignoring transaction costs, you would have to spend \$111 (US\$100/\$0.90) to buy the US dollars before buying the game.

If the exchange rate of the Australian dollar rose to 95 cents, you would need to spend less Aussie dollars to buy the US dollars so the game would only cost \$105 (US\$100/\$0.95). Of course, if the exchange rate fell to 85 cents, the cost would go up to \$118 (US\$100/0.85). Therefore, to convert to Australian dollars, always divide other currencies by the exchange rate (DOC).

So a higher exchange rate means goods bought overseas cost less. This is good for consumers but puts pressure on local industries that have to compete with cheaper imported goods.

There's always another side

Movements in exchange rates work the other way for exporters – they like it when the exchange rate is lower. Let's imagine you write computer game programs and sell them in America for US\$100. Once you have sold a game you want to bring the money back to Australia. If the exchange rate were 90 cents, you would receive \$111 for the computer game. If the exchange rate rose to 95 cents, you'd only get \$105, but if it fell to 85c you'd end up getting \$118.

This is why farmers and miners who sell their products overseas are generally not happy to see exchange rates rising – their incomes will fall as exchange rates rise.

However, nothing is this simple in practice, though in general terms there are always winners and losers from an appreciating Aussie dollar. In a global economy, there are many forces impacting on exchange rates and the experts say no country can control the ups and downs. The movements and the impacts are something governments, consumers and industries have to learn to live with.

Impact of an appreciating Aussie dollar

Winners

Consumers of imported goods like cars, computers and clothing.
Motorists - from lower petrol prices.
Australians travelling overseas.

Losers

Exporters like farmers and the mining industry.
Local tourism operators because the relative cost of Australian holidays will rise for overseas travellers.
Australians investing overseas because their returns will be worth less in Aussie dollars.

We hope we've made this much easier to understand.

Helping you build yours.

