

Executive summary: UK competitiveness and exchange rate movements

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Introduction

Earlier this year, UK Film Council commissioned an external consultant to examine trends in exchange rate competitiveness. Here follows a summary of the findings.

Exchange rate movements

Over the past 25 years, there has been no clear trend in most currencies against the US dollar, however, since 2000, there has been a marked depreciation (reduction in value) of the dollar against most currencies relevant to international filmmaking. The territories we have studied are: the UK, the Euro area, New Zealand, Canada, Australia, South Africa and the UK.

The extent of this movement varies markedly between different bilateral exchange rates. **Our research shows that there is more stability in the US dollar: sterling exchange rate than in the US dollar exchange rate with other currencies.**

This exchange rate consistency and predictability between the dollar and the pound is key when planning future productions in a business where currency exchange rates may vary widely **during** the production period of a film.

The largest appreciation (gain in value) against the dollar has been in the Czech Republic, where the koruna has gained over 40% since the beginning of 2000, followed by the New Zealand dollar at just under 30%.

The pound, euro, Australian and Canadian dollars have all appreciated by around 20% over this period. The South African rand has bucked the trend with a depreciation of 14%, but that has been partly offset by high South African inflation and masks huge swings since 2000.

Purchasing power

However, movements in exchange rates do not tell the whole story about relative competitiveness. Our analysis adjusts exchange rates by labour cost inflation in various territories to give a more realistic picture of the purchasing power* of the US dollar since 2000.

As the chart overleaf shows, since 2000, the purchasing power of the US dollar has decreased LEAST in the case of the UK.

Although the purchasing power of the dollar has generally diminished in all territories – it has diminished the least in the UK. This means that a US company working overseas has maintained its dollar purchasing power in the UK more than in any of the other territories we studied.

The purchasing power of the US dollar has decreased MOST in the cases of New Zealand, South Africa and the Czech Republic.

Conclusion

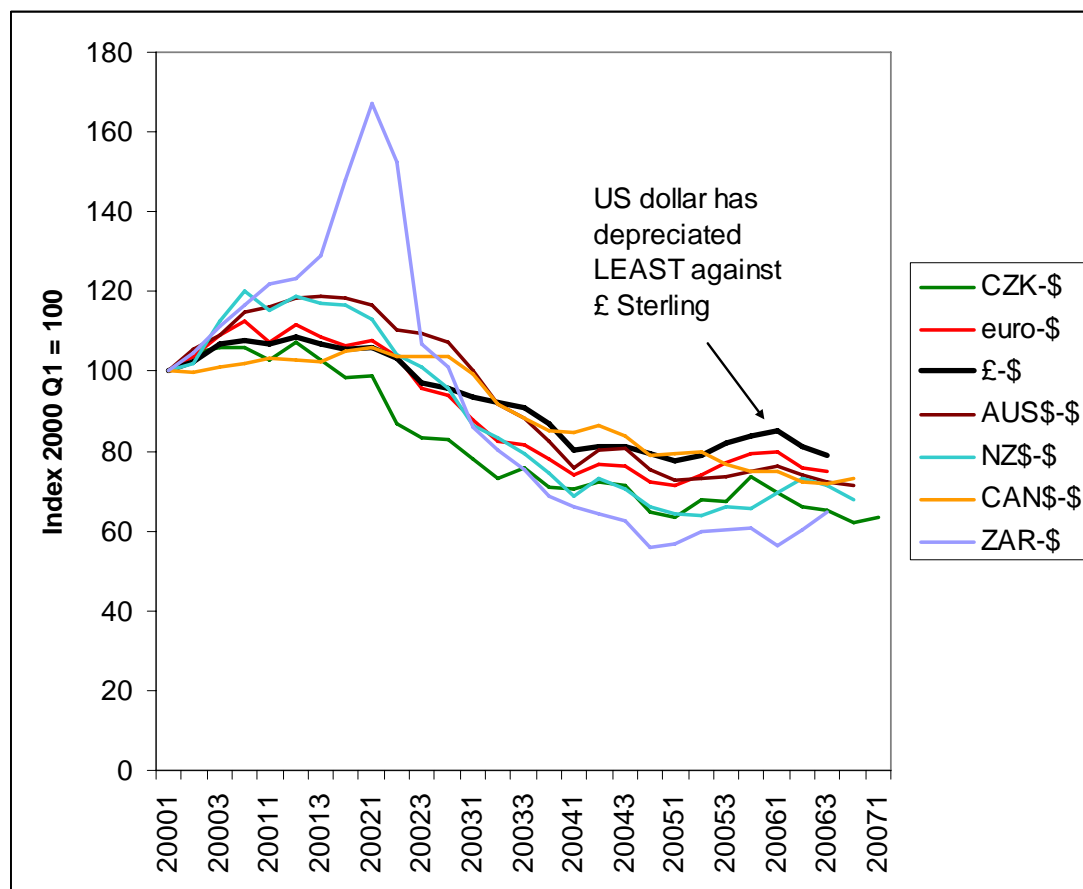
In the past 25 years the sterling: dollar relationship is the most stable and predictable when compared to other currencies.

When examining the purchasing power of the dollar, in real terms, the UK has suffered the least loss in competitiveness against the US since 2000.

More recently, since the middle of 2005, there has been some dispersion of relative competitiveness – Canada has become less competitive with respect to both the US and the UK; South Africa and New Zealand have become significantly more competitive against all currencies; the UK has become somewhat less competitive against the US; the Czech Republic and the UK (so far as we can tell) have stayed roughly equal.

We will continue to monitor exchange rates and their impact on purchasing power in the future.

Purchasing power of the US dollar in selected currencies 2000–07



Source: UK Film Council.

ZAR = South African Rand

NOTES TO THE CHART

1. The real value of a currency is calculated by taking the nominal exchange rate and adjusting it for the different unit labour cost inflation rates in different countries. Therefore it measures relative PURCHASING POWER over time.
2. To adjust nominal exchange rates, the Unit Labour Cost (ULC) index has been used for the Euro area, UK, Australia, New Zealand, Canada and South Africa (ZAR). The ULC is not available for the Czech Republic, so the Cultural Services Price Index has been used instead.
3. The Chart is based on Figure 9 in the UK Film Council paper: *Long-run trends in exchange rate competitiveness*, Hasan Bakhshi, May 2007, a copy of which can be obtained from the British Film Commissioner on request.

*Note on purchasing power.

Purchasing power is calculated by adjusting the nominal exchange rate by an appropriate price index. That is, it calculates the real value of a currency after taking account of the movement in costs in each territory. We have used the following indices:

- Nominal exchange rates
- Average consumer prices
- Cultural service prices
- Unit labour costs