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## Canada's economy

**The loonie takes wing**

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Illustration by Claudio Munoz



**A strong currency reflects booming commodity exports and sound public finances. But not everyone is cheering**

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IT HARDLY came as a surprise when, on September 21st, the Canadian dollar crossed a symbolic threshold and overtook its American counterpart in value for the first time since 1976. Since January 2002, when Canadians needed C\$1.61 to buy a greenback, the loonie (so nicknamed after the aquatic bird depicted on the dollar coin) has been pushed up by world demand for Canada's commodities. Yet even hard-bitten currency traders cheered out loud as the loonie inched towards parity, and then beyond. David Watt, a currency strategist at RBC Capital Markets, likened the moment to the decisive seventh game in an ice-hockey final. The feeling is that "Canada is back", he said.

The celebrations went beyond the trading rooms. Newspapers trumpeted the vigour of a currency once derided by *Barron's*, an American financial weekly, as the "northern peso". Students held parity parties, as did some business groups. Shoppers jammed border crossings last weekend, confident of finding bargains on the other side. There were complaints, too, especially from manufacturers. But they were drowned out by nationalist glee. "When the [Canadian] dollar was trading just above 60 [American] cents, people thought there was something wrong," says Darrell Bricker of Ipsos-Reid, a polling firm. "Now it seems that we are doing something right."

That and good fortune: the industrialisation of China has boosted the world price of Canada's exports of oil, gas, minerals, metals and farm products. But the country has also done its housework: ten years of federal budget surpluses and a current-account surplus contrast with the twin deficits in the United States. In the

end it was the “subprime” mortgage woes south of the border that elevated the loonie over the sickly greenback (or should that be the “Yankee lira”?).

But a strong loonie is not problem-free for Canada, whose economy, like that of Mexico (see [article](#)), is tightly integrated with that of the United States by the North American Free-Trade Agreement. Ontario's carmakers, tied into American supply chains, were already struggling with high energy costs and a weak market across the border; the province's pulp and paper exporters face similar difficulties. According to Jayson Myers, who heads an association of manufacturers and exporters, “the real problem isn't the [exchange] rate, it's the rapid rise”.

Or perhaps it is Canada's weak productivity and unambitious businessmen. Company profits are healthy but investment remains sluggish. Because of the exchange rate, the price of capital goods fell by 10% over the past year, but purchases rose by only 5%, according to Philip Cross of Statistics Canada.

In the 1990s Canadian politicians laboured to rebrand their country as glitzy and high-tech. There are a few such companies: Research In Motion, an Ontario company, makes the BlackBerry; CAE of Montreal produces flight simulators; Bombardier manufactures regional jets. Now the mainstay is the familiar one of natural resources, especially oil and mining—an “underground economy”, quips Mr Cross, though he adds that much of this is technologically sophisticated. In the west, where many of the natural resources lie, manufacturers who cater to local markets are doing fine. For several years, the economy has looked distinctly lopsided: the GDP of energy-rich Alberta expanded by 6.8% last year, compared with Ontario's 1.9% and Quebec's 1.7%.



Exporters have begun looking for farther-flung markets (see chart). Many commodity exporters are focusing on Asia, but Stephen Harper, the prime minister, has also tried to strengthen Canada's traditionally neglected ties with Latin America.

Last time the loonie flew this high, in 1976, it quickly lost altitude again. A separatist government was elected in Quebec, and worries about national unity undermined the currency. Nowadays, support for separatism in Quebec is much weaker. As long as Chinese demand keeps commodity prices high, the betting is that the economy and the loonie will stay aloft (see [article](#)). David Dodge, the outgoing governor of the central bank, says he thinks that prices for minerals and energy will remain strong for the foreseeable future.

If he is right, that will help Canada ride out a looming recession south of the border. But *Schadenfreude* is a dangerous sport. Although Canada has withstood mild American slowdowns in the past, a deeper slump across the border might well bring the loonie, and Canadian pride in it, down to earth with a bump.