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Don't loathe the lofty loonie

By David Rosenberg
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A strong dollar is good for our purchasing power and living standard

If there is one thing that Canadians are never happy with (in addition to their local hockey team) it is the Canadian dollar. When it was flirting near that record low of 62 cents nearly a decade ago, everyone lamented the future of the loonie. It was too expensive to buy anything that was imported, it was too costly to make that annual trip to Florida, and tickets on Broadway were prohibitively expensive. We felt poorer. We must have been doing something wrong.

But we did nothing wrong back in those days because it was 100 per cent a U.S. dollar story. The U.S. was home to the Internet mania - and all the global capital flow that came with it - and Robert Rubin, treasury secretary at the time, was carrying out an overtly strong dollar policy partly to keep inflation at bay. I recall all too well telling clients that the loonie was actually either holding its own or appreciating against the global basket of non-U.S. dollar currencies. People would just roll their eyes.

Today, Canadians are fretting about a strong currency. After all, it is going to crush our manufacturing sector, kill our export base and undermine our domestic competitiveness. Even the Bank of Canada is saying the strength in the Canadian dollar is dampening our growth prospects.

Let's all step back and take a deep breath. For years when the Canadian dollar was trading around 60 cents, exporters did indeed reap the rewards, while importers were hit hard by rising costs. Our exports to the U.S. did improve, but we needed that source of growth as an antidote to the pain from the budget belt-tightening during the 1990s. Of course, there was no shortage of complaints from snowbirds headed south.

Today's strong Canadian dollar is obviously a tremendous challenge to our exporters, but hopefully they were getting their house in order when they were sheltered by those years of Canadian dollar depreciation.

While Canada is a large exporter, we also are a huge importer. At \$400-billion annually, we import as much as we export, and the cost of those imports are now going down - a very good thing for profit margins.

While it may be a roadblock for our manufacturing sector, the loonie's ascent is good in many respects. Our purchasing power and standard of living are actually going up.

Now, why is the Canadian dollar back near parity against the greenback? There are valid reasons for the strength of the Canadian dollar, and they are likely to persist for the next several years.

Just as Canada had to rely on a soft currency in the 1990s, cleaning up the budgetary mess in the U.S. is going to require a similar strategy. I would contend that the Obama administration is already carrying out a policy of 'benign neglect' when it comes to the U.S. dollar.

Moreover, commodities have resumed their upward trend, accentuated by the growth in emerging Asia, which was merely dented amid the worst of the credit crisis.

Canada has three times more exposure to commodities than the U.S. and while this was an albatross during much of the 1990s, it is helping to lift the Canadian dollar now.

Finally, according to Moody's and the World Economic Forum, for the second year in a row, Canadian banks are ranked No. 1 in the world. During this cycle, no Canadian bank failed, went cap-in-hand to the government, or even cut its dividend. While we did experience a housing mania (2003-07), our banks never suffered what their counterparts in the U.S. did. Call it good luck. Call it good management. Call it a combination of the two.

On the policy front, it goes without saying that Canada's pro-market Conservative government is more likely to follow policies that attract global capital than a left-leaning government south of the border. Indeed, Canada is witnessing a boom in capital inflows. Foreign investors plowed \$5.1-billion into the Canadian markets, and year-to-date, have added a record \$67.4-billion of Canadian securities to their portfolios. The fact that Canada is now a beacon for global capital flows is something, I think, we should be proud of.

For its part, the Bank of Canada has said that "persistent strength in the Canadian dollar" is going to "slow growth and subdue inflation pressures." So, in return for softer growth, what we get back is lower "inflation pressures." The winner here is anyone who needs to borrow money - a strong loonie will prevent the Band of Canada from taking the interest-rate punchbowl away any time soon.

For Canadian businesses, the silver lining is that it will be easier to attract talent than it was when the loonie was sinking - a reverse brain drain of sorts. Whatever it is, it is a good thing from a productivity standpoint, which is the cornerstone of our standard of living. That is why I think we should embrace this new era of strength for the loonie.

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