Economic News

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CANADA

Loonie at an 11-year low: will exports have free rein?

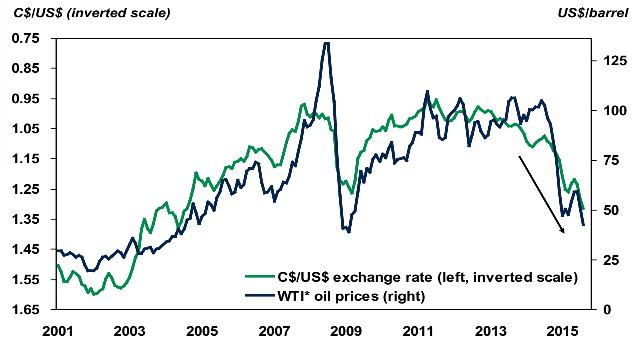
Even though Canada is in a technical recession, many business leaders may actually be smiling. Why? Because the weak Canadian dollar and strength of the U.S. economy are hinting to good things for exports.

The loonie's clear downtrend since 2013 has recently brought it below US$0.75 (C$1.33/US$), an 11-year low. Three factors essentially explain this movement. First, there is the weakness in commodity prices, particularly oil, to which the Canadian exchange rate has been strongly correlated for more than a decade. Next, the lower interest rates ordered by the Bank of Canada have made investments denominated in Canadian dollars less attractive. Lastly, the strength of the U.S. economy argues for a raise in key interest rates in the United States, to the benefit of the greenback. The strength of Uncle Sam's economy seems to be built on a solid foundation, with, among other things, sustained job growth.

Nevertheless, competition is expected to be fierce for exports to the United States, as Canada is not the only country to benefit from a weak currency. Since 2013, the Canadian dollar's depreciation is comparable to many other currencies. There are many reasons for this concerted movement. For example, structural difficulties seriously penalized several emerging countries. Energy and commodity producing countries such as Canada also watched their currencies dive alongside the prices for their main exports. Lastly, the currencies of Japan and several European countries suffered the repercussions of significant monetary easing.

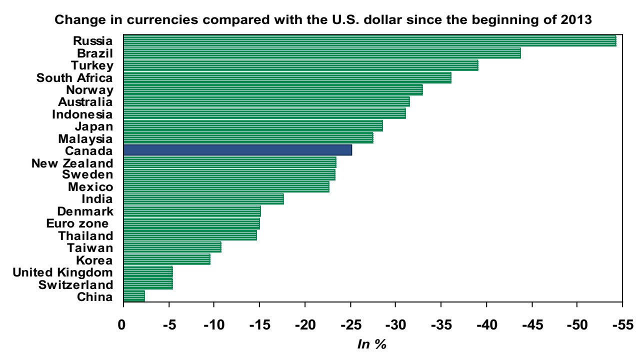
Implications: It is a challenge for the planets to align perfectly for Canadian exports. That said, the potential of what is currently in place should not be underestimated, however. Even though Canada risks having difficulty gaining additional market share in the United States because of foreign competition, the increase in U.S. demand should provide for strong growth by Canadian exports. The proximity of the U.S. market, the free-trade agreement and long-standing business relationships south of the border are also assets not to be ignored.

The Canadian dollar falls in tandem with oil prices



* West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

Many other currencies depreciated significantly in recent years



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