

# Canadian Dollar's Rise Not a Spectator Sport; Government Must Show Leadership and Urgent Action, Says FPAC Chief Executive

Reacting to the Canadian dollar's record setting flight to over \$1.06 U.S., the head of the Forest Products Association of Canada (FPAC) urged the federal government and Bank of Canada to show strong leadership in addressing the unprecedented and unchecked rise of the Canadian dollar.

The dollar has risen 64% in the past 5 years placing enormous pressure on Canada's forest products industry and Canada's manufacturing sector more broadly. Since 2002, nearly 280,000 jobs having been lost in Canada's manufacturing sector, including 32,000 jobs in the forest sector. It is perhaps not surprising therefore that Canada's overall business sector productivity growth has slowed markedly over the past 9 to 12 months, as forest products mills and other high productivity sectors of our economy have been driven out of business. This year to date, Canadian mills have announced 54 instances of capacity closure, resulting in the loss of over 6,500 jobs.

## U.S to Blame?

"It is becoming increasingly clear that the uncontrolled appreciation of the loonie has little to do with strength in the Canadian economy, but rather is driven by economic problems south of the border," said Avrim Lazar, president and CEO of FPAC.

"Some argue that a strong currency will prove to be good for Canada in the long run because it will ultimately drive us toward the economists' holy grail of faster productivity growth. Whatever the textbook merits of this argument, the textbooks clearly weren't written with the current situation of the Canadian economy in mind: our currency has appreciated by 64% in over 5 years and by 22% this year alone against that of the country that buys 30% of our GDP. It doesn't add up," Lazar said.

The evidence so far paints a very different picture and has been anything but positive for productivity in Canada. Canada's forest industry has had a very strong productivity record in relation to its U.S. counterparts and the Canadian economy as a whole. For example, the wood products sector in Canada had led all Canadian industrial sectors in labor productivity growth over the past 6 years, recording a rate of growth more than double that of its U.S. counterpart. However, it has not been enough to counter the appreciation of the Canadian dollar. Propelled by the loonie's rise, the wood fiber costs of Quebec's lumber industry have gone from being the



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lowest in North America five years ago to being the highest of any major producing region today. Across Canada, even world-class forest products facilities are struggling to survive while the Canadian dollar is a gift to less efficient operations in the U.S.

Clearly, the value of the Canadian dollar is influenced by many factors beyond the control of government or monetary authorities. The industry also appreciates that it needs to be ready to do its part to adjust to a higher Canadian dollar.

## Government Must Get Engaged

"We don't expect government to make everything right for us," says Lazar. "We do expect though that they think carefully about what the long-term implications of a dollar at parity and beyond are for our economy and show some leadership in working with affected industries and regions.

"Around the world, policy-makers seem to understand that centrality of exchange rates to economic and competitive strength—except, until recently at least, in Canada. Despite the weakness of the U.S. dollar, exchange rates with trading partners like China remain a key political issue in Washington for the Administration and Congressional leaders alike," added Lazar.

"In Europe, political and financial leaders have been very vocal in regard to the problems that the strengthening Euro is causing for Airbus and other industries of strategic importance to their economy. While the Euro is at historic highs against the U.S. dollar, Germany has seen its currency appreciate by only about 10% in trade weighted terms over the course of this decade," Lazar pointed out. "In Canada, we have seen our trade-weighted exchange rate increase by over 40% with little discussion or debate about what it means for our economic future.

"We are encouraged, however, by Minister Flaherty's acknowledgement [in late October] of the difficulties the dollar's rise is and look forward to working with the government on this issue," he concluded. ■

## About Canada's Forest Industry.

Canada's forest industry is an \$80 billion dollar a year industry that represents 3% of Canada's GDP. The industry is one of Canada's largest employers, operating in over 320 Canadian communities and providing nearly 900,000 direct and indirect jobs across the country. Source: FPAC