

Canada keeps a steady course

Colin Read: Everybody's Business

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— We live in a region that celebrates its proximity to Canada. Our cousin to the north is a strategic partner in our economic well being. But while we peer to see a light at the end of the recessionary tunnel, Canada seems less worried. Why is its experience so different than ours?

An explanation may go back 250 years. This colony was divided between loyalists and revolutionaries, with the balance steadily shifting away from loyalists. Many loyalists made their way to Canada, a colony that was very similar to its southern counterpart in many ways, but which remained more closely tied to its colonial rulers.

Canada still retains artifacts of its colonial heritage, a heritage long ago cast off by the United States of America. Even today, the British monarch's representative must, at least nominally, approve every federal law in Canada.

Canadians spend little time fretting over that artifact of colonialism, and actually spends much less time preoccupied with a mistrust of government. Canadians, by and large, are confident in its leaders and expect a quality and quantity of governance that many Americans would not support.

This different outlook is shown in sharp contrast between U.S. and Canadian mottos. While the U.S. has the principle of "Life, Liberty and the Pursuit of Happiness," and New Hampshire purports to "Live Free or Die," the Canadian motto is "Peace, Order and Good Government." As a consequence of this greater faith in government, and greater expectation of public servants, there is a strong sense of social responsibility among Canadian institutions. This responsibility manifests itself in a sense of institutional conservatism. Canadian institutions do not fly high, and, by and large, do not fail miserably. Canada has an admiration of Yankee exuberance, but little desire to imitate it.

The approach of this land of steady habits is most stark in our two countries' response to the current economic downturn. Large U.S. financial powerhouses flew close to the sun, and we all paid the price. At the same time, huge Canadian banks remained profitable.

The Royal Bank of Canada, Toronto Dominion Bank and the Bank of Nova Scotia have names that all hearken back to Canada's colonial past. And these three largest banks in Canada, and some of the largest in the world, also remained profitable last quarter, despite the downturn afflicting world economies. They did so by maintaining a culture of financial prudence, in ways similar to our own regional banks and indeed to a culture shared in the North Country.

As an example of Canada's more tightly administered banking industry, the vast majority of mortgages in Canada still adhere to a 20 percent owner equity requirement, a requirement that was mostly abandoned by its U.S. counterparts more than a decade ago.

This is not to say that Canada is immune to the U.S.-led global financial meltdown that was precipitated, in part, by subprime mortgage shenanigans. When America sneezes, Canada catches a cold.

Our two countries are the largest trading partners in the world. But while the U.S. also trades significantly with Japan, Europe, China, Mexico and others, a larger bulk of Canadian trade is with its one major trading partner. When the U.S. is in financial crisis, the contagion cannot help but affect Canada. This effect is further magnified because trade represents a much larger share of the Gross Domestic Product in Canada than in the United States.

Many countries experience an improvement in their currency when their economy falters. This is because people naturally cut back on imports in troubled times. The U.S. currency has been improving for another reason, too. It is ironic that a global crisis that began in U.S. debt and equity markets has directed more dollars toward the purchase of U.S. government securities, deemed to be the safest in the world. As a consequence of this flight to quality, the U.S. dollar has actually risen significantly in this time of economic crisis.

A strengthening U.S. dollar is broadly perceived as a weakening of the Canadian dollar. However, in terms of the Euro, the Canadian dollar has not budged a bit throughout this global financial meltdown.

On one level, it does not really matter whether the Canadian dollar has weakened or the U.S. dollar has strengthened. In the last year, North Country goods, services and properties have become 25 percent more expensive to our Canadian cousins. However, just as the U.S. dollar strengthened quickly as financial markets unraveled, it will return back to its previous value as global economies stabilize and investor confidence in equity markets returns. We have already seen the beginnings.

Stocks usually start to turn around about six months before the economy bottoms out and starts its cyclical upward march. If pundits are correct about a recovery in the last quarter of this year or the first quarter of next, the recent market rise may be an early indicator of a light at the end of the tunnel.

This improvement in investor sentiment has also caused the U.S. dollar to fall somewhat of late as global investors take their dollars out of money markets and begin to think about investing again.

Interestingly, Canadians are not so troubled by a weak Canadian dollar. To trade-oriented Canada, a weak dollar means cheap exports and increased market competitiveness. As a matter of fact, Canadian economic policy is directed almost exclusively at containing price movement, including exchange rate movements.

This prudence in keeping the Canadian economy on the most even of keels is part of the Canadian identity. It is also a recognition that a trade-oriented country must produce a steady and reliable product at a consistent price. And a country that has the second largest land mass, after Russia, and a commensurate endowment of commodities, benefits most when the economy can chug along with steady momentum.

Such economic stewardship is expected by Canadians. At times like these, the relatively robust and sustainable Canadian economy is the envy of the First Economic World. To be steady and predictable is not always a bad thing!

Colin Read runs Economic Insights, a local economics consulting firm, and has taught economics and finance for 25 years. He values your feedback and ideas, and can be reached at economicinsights@gmail.com.

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