

Loonie's rise 'makes sense,' Flaherty says

OTTAWA -- The rise in Canada's currency "makes sense" because investors are snapping up the country's assets and the economy is growing nicely, Canadian Finance Minister Jim Flaherty said on Thursday.

It's a different world from the heady days of 2007, when the Canadian dollar zoomed up to a high near US\$1.10, Mr. Flaherty said. Then, speculators were at the heart of the rise, he said, while this time he credits the strong economy.

"There's more demand for Canadian investments. So the upward pressure on the dollar to me makes sense," said Mr. Flaherty, who previously voiced concerns about the "loonie's" rapid rise.

The currency was trading just above 98 U.S. cents on Thursday.

"It would have to go significantly above parity. And that would be a concern for Canadian business, and therefore a concern of mine," Mr. Flaherty told Reuters in his Parliament Hill office.

Mr. Flaherty, the "eminence grise" among finance ministers of the Group of Seven big economies with four years on the job, also is focused on prodding China and other Asian economies to let their currencies rise — a perennial discussion point at finance minister meetings.

"We feel that there's room to move ... more flexibility in the Asian currencies," said Mr. Flaherty, who treated his G7 colleagues to a dog sled ride and meal of seal meat at a February conference in Canada's Far North.

"At the same time, I'm pleased to see a restoration of a degree of flexibility with the Chinese currency," he said. "We'll continue to press on the subject."

Mr. Flaherty's Asia focus fits with Canada's drive to stimulate trade with emerging markets, particularly resource-hungry China.

“We know that the world trade picture is changing. You can see it in the countries that sit around the table at the G20 summits,” he said, his voice almost drowned out by the stand-alone air-conditioning unit cooling his office in the Gothic Revival building.

The share of Canada’s exports going to the United States has steadily declined in the past decade, but still stands at three-quarters. Mr. Flaherty sees it going down to as little as 60% in the next five to 10 years on more Asia business and a possible trade deal with the European Union.

All the same, the state of the U.S. economy is always front of mind. And Mr. Flaherty, who mostly uses job figures and consumer confidence to gauge economic conditions, is pretty upbeat.

“My two significant worries about the American economy are the relative weakness of the job recovery ... and weak U.S. consumer confidence,” he said, adding the risk of the U.S. economy sliding back into recession is “modest”

“The more likely course is a modest gradual recovery,” said Mr. Flaherty, who studied at Princeton University before getting his law degree in Canada.

The “track is good” for Mr. Flaherty’s own budget, due early next year, as analysts are ratcheting up expectations of economic growth to 3.5% this year. One issue clouding the picture: how to account for payments to provinces adopting the harmonized sales tax, or HST, which combines federal and provincial sales taxes rather than collect them separately.

Number crunchers are now figuring out whether to take the hit in one go or spread it out over several years, Mr. Flaherty said, adding: “We don’t have fun with figures here.”