

Sujet: La perception du Canada en hausse / « Boring » Canada turning into a star

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### The Goldilocks recovery

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Strict financial regulation and a new commodity boom have turned "boring" Canada into an economic star



THEIR economy is so intertwined with their neighbour's that when the United States plunged into recession, Canadians assumed they would be dragged along for the ride. Newspapers took to illustrating their economic stories with pictures of Depression-era bread lines. Yet whereas the United States has still not officially declared its recession over, Canada is nine months into recovery from its mildest and shortest downturn in recent history. Unemployment has been falling since last August, and proportionately fewer jobs were lost than south of the border.

Jim Flaherty, the finance minister, attributes Canada's strong performance to its "boring" financial system. Prodded by tight regulation, the banks were much more conservative in their lending than their American counterparts. Those that did dabble in subprime loans were able to withdraw quickly. This prudence kept a lid on house prices while those in America were soaring, but it paid off when the bust hit. The volume and value of home sales in Canada are now at record highs. In some areas the market looks downright frothy: a modest house in Ottawa listed at C\$439,000 (\$435,000) recently sold for \$600,000. "A lot of homes are selling in one day, and often for over the asking price," says David Cullwick, a local estate agent. Rising prices have bolstered the construction industry and sellers of furniture and building materials.

True to form, the authorities are moving to halt the party. During the recession the Bank of Canada cut its benchmark interest rate (to 0.25%), injected extra liquidity and bought up mortgage-backed securities. At its April policy meeting the bank withdrew its pledge not to raise rates. Analysts expect an increase in June. The government has ended tax credits for first-time house buyers and for renovations, which were granted in 2008 to stimulate demand.

For the other component of the country's resilience—resurgent appetites for its exports of oil, gas, and minerals—Canadians have to thank policymakers in Beijing more than those in Ottawa. At their low point, prices for Canada's commodity exports were still 50% higher than in previous recessions. Since then, they have rallied strongly. The impact is illustrated by the fortunes of Teck Resources, a Vancouver-based mining firm. It staggered into the recession loaded with a \$9.8 billion debt taken on to buy the assets of a coal-mining company. For a while its survival was in doubt. Last month Teck not only announced that it had repaid the debt but also that it would pay a dividend.

The energy industry is coming back to life, with new investments planned for in Alberta's oil sands. Last month Sinopec, a Chinese oil company, announced it would pay \$4.65 billion for a 9% stake in Syncrude Canada, the largest operator in the sands. Such investments are controversial because of their environmental impact. But they are welcome in Alberta, where the government posted an unprecedented budget deficit last year.

"Our regional economies are so diverse that there is always something leaning against the wind," says Philip Cross, the chief economist at the government statistics agency. But the combination of commodity revenues and investors seeking safety in Canadian assets has caused the currency to take off. After falling as low as 77 American cents during the recession, the Canadian dollar has now returned to rough parity with the greenback.

That is a tribute to the country's success. But the central bank warns that a strong loonie, as the currency is known, will slow the recovery. It would be particularly harmful to manufacturing exporters, who were battered by the recession (car production fell by 31% in 2009). That might lead to further specialisation in natural resources. For now, concern about the loonie is muted, because most companies adapted to a stronger exchange rate during its previous run-up in 2007. Many of those that did not went bust. But if the currency continues to rise, the squeals will surely grow.

The government of Stephen Harper, the Conservative prime minister, might have expected to receive more praise for the economy's robust performance. If it has not, that may be partly because it insisted that the recession was imported from the outside world. Much of the country's resilience stems from policies—such as bank regulation and sound public finances—which predate Mr Harper. The Bank of Canada can share some of the credit too. But Britons might note that Mr Harper has managed to govern for four years without a parliamentary majority, and that this has not prevented Canada from sailing through the recession.

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