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Canada’s non-energy exporters need to seize their currency opportunity

The country’s non-energy exports have been seriously lagging since the turn of the millennium. A lower loonie offers an opportunity for manufacturers to use the added cash flow to increase capital spending and boost their productivity

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Canada is well known as an export-oriented country. After all, we produce a lot of oil from the oil sands and export the lion’s share to our southern neighbour, making Canada one of the world’s net energy exporting countries.

While our energy exports are doing very well and are even gaining market share in the U.S. despite that country’s brewing energy revolution and booming shale oil and gas production, it is our non-energy exports that have been seriously lagging since the turn of the millennium.

A recent discussion paper by the Bank of Canada shows that over the past decade, the growth rate of Canadian non-energy exports has fallen below the pace suggested by its foreign activity measure. In plain English, other countries are turning less and less toward Canada as a source of imported goods, making our exports grow at a slower rate than the global import market. The bank’s paper adds that “the share of U.S. non-energy imports coming from Canada has fallen by about six percentage points since 2000 to 11.4 per cent in 2013, and roughly 30 per cent of this decline has occurred since 2008. This implies that in aggregate we are losing out to other exporters in the U.S. market.”

There are mainly two reasons why our non-energy exports are lagging: Our product mix is less relevant than before and Canadian businesses are lacking innovation. As Tiff Macklem, former deputy governor of the Bank of Canada, so eloquently **said in a speech last October**: “From 2000 to 2007, strong growth in advanced and emerging economies created strong global demand for machinery and equipment and consumer goods. This shift in the composition of global demand did not play to Canada’s strengths.”

And this issue is clearly not only rooted in the strength of the dollar, as it started to materialize years before the dollar went to parity. In fact, the bank estimates that a significant part of our loss in competitiveness comes from low productivity growth. The World Economic Forum’s latest **Global Competitiveness Report** shows that Canada ranks 21st in the world in the “innovation” category, with a score ranking below the median of other advanced countries. This is supported by our country’s even lower rank (29th) in the subcategory of “company spending on R&D.”

According to Deloitte, private sector firms invest only the equivalent of 1 per cent of Canada’s gross domestic product in research and development, less than half the percentage U.S. companies spend. Per worker, Canadian companies invest 65 cents per dollar spent by U.S. firms on new machinery and equipment and 53 cents per dollar on information technology.

The fall of the loonie experienced since last fall will surely help our businesses’ competitiveness, making their products relatively more affordable on the export market. However, businesses will now have to seize the opportunity to innovate and make this effect permanent. A lower currency has an immediate effect on exporting businesses’ bottom lines, making the coming years a good time to pick up capital spending and at least try to catch up with their U.S. competitors. If the opportunity is not seized, Canada might lose out to up-and-coming competitors in the arms race that is investment in productivity.

One thing to keep in mind as well is that a larger and larger exposure to energy exports will contribute to making the Canadian dollar an increasingly volatile currency, as commodities cycles are sure to persist in the future.

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