

# Cad usd exchange rate



The Canadian dollar has significantly appreciated against the U. S. dollar since the beginning of 2000. The CAD/USD exchange rate (currency in USD) increased from 0. 686 to 1. 015 as of March 18, 2011. There was a trend of CAD appreciation in 2003-2008, followed by a rapid depreciation in the second half of 2008. Since the beginning of 2009, CAD has risen sharply and has been trading about at par with USD for the last two years. The recent CAD appreciation was caused by a number of factors and lead to certain economic consequences, which are discussed next. Causes of the Canadian Dollar Appreciation

Appreciation of the Canadian dollar in the last years can be explained by internal factors, such as performance of Canadian economy and interest rates, and external factors, such as commodity prices and weakness of the U. S. economy. State of Canadian economy. Canada has been quickly recovering from the recent recession. For the year 2010, real GDP grew 3. 1%, following a decline of 2. 5% in 2009. Strong economy makes Canada an attractive target for investors who seek secure returns. This raises the demand for the Canadian currency and, therefore, pushes the exchange rate upward.

This argument is supported by the exchange rate fluctuations in the above graph. The Canadian dollar was rising as the economy began to recover in the late 2009. State of the U. S. economy. Rise in CAD/USD exchange rate can be largely attributed to depreciation of the U. S. dollar. The U. S. dollar has historically been a safe investment target for many investors. However, now this situation is changing and demand for the currency is falling. The U. S. economy has been facing serious difficulties in the recent years. The

country's trade deficit was almost \$500 billion in 2010, a 33% increase from 2009.

The U. S. is also the world largest borrower with a \$4, 453 billion of foreign debt. Weak economy and high uncertainty are turning investors away from the American dollar, which is supported by its depreciation against other major currencies. Commodity prices. As Canada is a large producer and exporter of raw materials, the Canadian dollar is strongly affected by commodity prices. Many commodity prices, especially gold and copper, have been rising recently, making the associated industries more profitable and strengthening the Canadian economy. Strong economy, in turn, attracts more investor, and the Canadian dollar appreciated due to increased demand.

Interest rate differentials. The U. S. Federal Reserve has lowered the interest rate to current 0. 25% since 2008 in order to stimulate the economic growth. Canada currently has a higher interest rate of 1% and thus attracts more investors for its short-term assets. Demand for the Canadian dollar increases and puts an upward pressure on the exchange rate. Consequences of the Canadian Dollar Appreciation Effect on trade. The exchange rate has an important impact on Canadian trade performance, especially with its largest trading partner, the U. S.

The Canadian economy significantly relies on its export activity, but stronger Canadian dollar makes the country's exports more expensive to foreigners and can decrease the trading volume. According to Statistics Canada, exports to the U. S. fell in 2009 by 36. 4%. Exports then increased slightly in

2010, but still the amount was around C\$73.6 billion under the 2008 level.

To prevent their exports from falling and keep their market share, Canadian companies have to lower their price and sacrifice some profit. However, decline in exports should not be attributed only to the currency appreciation.

The U. S. economical health and trade agreements also affect the trading activity between two countries. On the other side, Canadian importers benefit from the currency appreciation. Canadian manufacturers can acquire materials, machinery and equipment at a lower cost, which leads to increased capital investment and productivity growth. Thus, strong currency is harmful to exporters and beneficial to importers. The dollar appreciation decreases Canadian export and increases imports, which negatively affects the trade balance and lower GDP's growth.

However, lower import costs offset negative consequences of export decline, and the total effect of the currency appreciation becomes muted. Effect on industries and provinces. Not all industries are affected evenly by the currency appreciation. Manufacturers that heavily depend on exports of their production are affected the most. Such industries include forestry, transportation equipment, and machinery. Imported inputs, however, should also be taken into account when assessing the total effect of the appreciation.

Industries that use high imported content in their production are less hurt by the rising dollar. For example, transportation equipment industry highly depends on export, but it also has high ratio of imports to production and can profit from cheaper imports. On the contrary, industries that heavily rely

on exports but use low foreign content in production, such as forestry, are affected most adversely. The same logic applies to Canadian provinces.

Highly export-oriented provinces such as Ontario, Quebec and British Columbia are influenced significantly by the currency appreciation.

Effect on unemployment. Rising Canadian dollar makes labour costs comparatively higher and increase the total production costs in export-oriented industries. Profit margin falls, and manufacturers decrease their labour force. They also add more machinery and equipment as the imported capital become more attractive due to the appreciating dollar. For example, in 2010, manufacturing sector experienced a loss of 37, 000 jobs compared to 2009. This decrease in employment can be partially explained by the stronger dollar. Effect on productivity.

Stronger Canadian dollar can have a positive impact on the country's productivity. Productivity greatly affects the country's living standard. Improved productivity results in higher output, profits, wages and, eventually, the standard of living. As exchange rate increases, Canadian output becomes relatively less competitive in international markets, and domestic companies start to lose their profits. Competition among manufacturers gets more intense, and companies try to retain their profits by increasing their productivity through investment in more efficient machinery and equipment.

Companies' capital to labour ratio rises due to lower cost of imported equipment, and increased use of capital leads to improved productivity in the long run. With lower exchange rate, Canadian firms are more profitable

and have more money for capital investment, but with stronger dollar, imported capital and materials become relatively cheaper. On the other hand, higher exchange rate makes Canada less attractive for foreign direct investment because of relatively higher labour costs. The extent of this effect is limited, but the country still loses potential productivity gains.

It is important for Canada to increase its productivity and relative competitiveness for the long-run strengthening of the economy in order to make the effects the currency appreciation less severe. To conclude, the appreciation of the Canadian dollar caused by a number of factors has a considerable effect on the country's trade balance, industries, employment and productivity. However, these causes and consequences should not be considered in isolation but rather interdependently, and fundamentals such as economic performance of Canada or the U. S. should be taken into account.