

Breaking News

Limping loonie has silver lining

By: Dave Connors

Updated: October 24, 2008 at 05:03 PM CDT

The loonie, like all birds, goes up and down.

Almost exactly a year ago, the Canadian dollar was soaring to a modern high of \$1.06 US (it eventually hit \$1.10 during trading on Nov. 7). This was right around the time you were flying to North Dakota to do some pre-Christmas cross-border shopping, no doubt.

But in the last month, it's been all down, hitting a four-year low of just over 78 cents Friday.

This is not necessarily bad news.

"A lot of economists will tell you even the 97-cent dollar (the level at which it hovered for much of the summer) was overvalued. Now, of course, it is undervalued. We economists think it should be in the middle 80s," said Michael Benarroch, dean of the faculty of business at the University of Winnipeg.

Why is it so low now? "Ignorant traders," Benarroch said. Traders outside of Canada see us as just a commodity-rich country, and they are ignoring the fact that our economic fundamentals are strong and we have nowhere near the debt problem the U.S. does.

Bottom-line is, since commodity prices are way down (oil is 63.47 a barrel. Remember when it was over \$140 in July? You can bet Alberta does), our loonie is down too.

While we wait for our dollar's true value to reappear, here are some benefits the limping loonie will give us.

Gas prices

Prices at the pump are down because the price of oil is down. So, even though the loonie is not worth what it was a month ago, it is buying you more gas for less.

"It's a petro-loonie," says Roger McKnight, senior petroleum adviser for En-Pro International Inc. A week ago, he predicted prices would be around a buck by this weekend. And, in Winnipeg that's exactly where they were on Friday.

"I'm pretty good, aren't I?" McKnight said.

Challenged to come up with an equally good prediction for next week, he said he expects pump prices will be down another four cents per litre by Tuesday, based on the plummeting price of a barrel of oil.

Food prices

If the dollar remains low, "the price any imported product will go up, whether we're talking TVs from China or commodities like food," said John Graham, public affairs manager of Canada Safeway in Winnipeg.

But right now, he said, low fuel prices are offsetting the low loonie, meaning it's cheaper to truck food to Manitoba, and there has been no real effect on food prices.

"The low loonie is just one piece of the puzzle," he said.

Book prices

About a year or so ago, there was a crusade to get Canadian booksellers to lower their prices to match U.S. prices. That was when our dollar was worth more than the U.S. dollar.

"Canadians were upset that the book publishing industry was lagging behind in adjusting Canadian prices," said Paul McNally, co-owner of McNally Robinson Booksellers.

Now, he says, we will benefit by that same tardiness. Prices were slow to go down, and he says they will be slow to go up.

McNally has 80,000-100,000 books on his shelves, all priced competitively with books in the U.S., and the prices you see now will be the price you pay for your Christmas gift books.

"At this exact moment, buying the same book in the U.S. would cost you more (because of the low loonie)," McNally said.

Cross-border shopping

You can probably answer this one yourself. Are you going to shop in North Dakota when your dollar is suddenly worth 15 per cent less than it was in the summer?

"It's going to have an immediate effect on decisions to travel abroad," said Benarroch. "We'll see what long-term effect it will have."

Manufacturing

In a perfect world, Manitoba manufacturers who export their products should have a competitive advantage because of the low loonie, "but there is not a lot of money going around right now" because of the tanking worldwide economy, says Benarroch.

So firms like Loewen Windows and DeFehr Furniture, two manufacturers who between them have had to lay off more than 1,000 workers recently, still face a tough fight, especially since they both rely on a healthy housing market, the very thing that caused the economic woes in the U.S. in the first place.

- © 2008 Winnipeg Free Press. All Rights Reserved.

Powered by McClatchy Interactive