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FINANCIAL SOLUTIONS

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> It is time to rethink the 1% gap or risk Canada being a single industry.
> Welcome to the tar pit!

The focus of this week's update is Canada. Our Loonie has been flying high for a longer than ever period. Our standard of living and purchasing power have soared with it. Unfortunately, the very indicator of our financial success is eroding the engine keeping our economy strong, corporate Canada. Global competition for market share is at its fiercest. We have already seen business and jobs leave Canada citing our high flying Loonie as the main cause.

The Bank of Canada needs to step in and take measure to cool the Loonie. Shortly, the ECB will announce further rounds of debasement of the Euro in order to spark growth in manufacturing and lower overall borrowing costs. America will either act in unison or immediately after to avoid a slow down or disruption in their fragile economic recovery.

Early this year, Switzerland realized the highflying Swiss Franc was harming economic growth and could lead to economic instability due to Swiss companies being unable to compete. Both the Swiss government and the Central Bank intervened and pegged the Swiss Franc so that it would not increase beyond one Swiss-Franc for one Euro thus ensuring Swiss corporations would not lose their competitive edge.

Canadian corporations are in that very danger. Business in Canada will struggle to remain competitive and without a doubt business and jobs will move to south of our border were a cheap dollar waits. Canada definitely has the most competitive environment for business. We have the lowest taxation rates in the G20 and overall government benefits programs allow for the lowest unit cost for skilled labour in the developed world.

Could it be that the higher the Loonie goes the more money (greenback) oilmen out west get per barrel of oil they sell?

Ontario is at risk of losing more industry and jobs as the Loonie goes unchecked.

After the great recession of 2009, the Bank of Canada drew a line in the sand representing the gap between Canadian and American interest rates of 1% higher in Canada. Looking back, that was a very smart play on Governor Mark Carney's part allowing our economy more wiggle room if things got worse. Well things are worse globally. Countries like Korea, Taiwan, and even China have taken specific measures to cool their currencies in order to preserve economic performance and stability. Korea and Taiwan are Canada's biggest and most aggressive competitors in advanced skills manufacturing. After decades of lowering labour unit costs, improving productivity and the knowledge of workers, we are leaving untouched the easiest tool in preserving competitive business advantage. Have our leaders forgotten that an ultra low Loonie was responsible for a quicker than thought recovery from the 1990 recession?

A reduction in the gap of interest rates from 1% to 0.5% would drop our long-term bond rates and with it our Loonie would fall between $0.89 to $0.92. In the business world, what it would translate to is an immediate 10% gain in margins allowing business to hire, expand and reinvest. The amount of dollars and number of people paying into taxation would climb and we would see a reduced drag on government social safety nets.

So why the reluctance, inaction and hesitation? The very same reason focus has been taken of corporate Canada's needs and put on consumer debt levels. Banks sounded the alarm bells stating debt levels are out of hand and could lead to a subprime type crisis. The Big 4 Banks are preserving their interests. None of the banks in Canada thought that interest rates could go so low around the globe for so long. A recent change in bond yields and the action of central banks around the world indicate interest rates will be entering a negative period for an extended timeframe.

Since Governor Mark Carney's stance on a 1% gap, banks have been making a large profit milking the 1% *cash cow*. By reducing the 1% gap, you kill the *cash cow* and give opportunity for Canadians to restructure not only long-term debt but also short-term debt to unusually low levels.

If this continues unaddressed and our Loonie does not lose some altitude the simple synopsis is this:

Corporations leave, jobs leave! Countries like Greece, Portugal, Spain, and Italy are in their current economic mess because they all lack a conducive business environment. Constant erosion leads to economic devastation.

Maybe our politicians think that the tar sands will be able to employ everyone once industry leaves. Ontario has always been the hub of innovation and industry. The constraints corporations have endured under a high-flying Loonie will only multiply and trickle down economically.

It is time to rethink the 1% gap or risk Canada being a single industry. Welcome to the tar pit!