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Elevated Commodity Prices "Unambiguously Good" for Canada, Says Bank of Canada Governor Mark Carney

Calgary, Alberta—The global commodities boom drives enormous benefits for Canada, including higher incomes and greater economic security, Bank of Canada Governor Mark Carney said today in a speech to the 2012 Spruce Meadows *Changing Fortunes: Global Economies* Round Table.

"Most fundamentally, higher commodity prices are unambiguously good for Canada," Governor Carney told delegates. "The strength of Canada's resource sector is a reflection of success, not a harbinger of failure."

The Governor addressed the diagnosis of Dutch Disease for the Canadian economy that suggests an ephemeral commodities boom is causing permanent losses in the manufacturing sector. He countered with three arguments.

First, despite the current strains on global growth, commodity prices are expected to remain elevated, primarily driven by a sustained increase in demand, much of it stemming from the rapid urbanisation of emerging markets.

Second, the decline in importance of the manufacturing sector is "part of a broad, secular trend across the advanced world," Governor Carney said. This trend reflects major forces of globalisation and technological change.

Third, while rising commodity prices account for about half of the appreciation of the Canadian dollar over the past decade, other factors, such as the multilateral depreciation of the U.S. dollar and the fact that Canada is "a rare safe haven," have also contributed to the increase in the value of the currency.

Bank of Canada analysis shows that regardless of the cause of a commodity-price increase, the resulting improvement in Canada's terms of trade causes income, wealth and GDP to rise. This is the case whether the source of the increase is stronger U.S. demand, stronger demand from emerging Asia—which is behind the current boom—or a transitory reduction in supply.

The Governor also addressed the argument that the Bank of Canada should lean against a commodity-driven exchange rate appreciation. Bank of Canada analysis shows that, over time, such a move would cause wages and inflation to rise, resulting in an appreciation of the real exchange rate and leaving non-resource exporters faced with the same competitiveness challenges. "The cost of this misadventure is lower output of about 1 per cent and higher volatility in inflation, output and employment than when the exchange rate is allowed to do its work," the Governor said.

To conclude, the Governor said policy can help minimise the costs of an inevitable, difficult structural adjustment associated with the resource boom and maximise the benefits of such an adjustment for all Canadians. Efforts should be focused on facilitating adjustment, developing new markets at home and abroad, and increasing investments in skills and productive capital.