Loonie surges, economy steams ahead

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OTTAWA — The loonie soared nearly a cent early Tuesday to nearly 96 cents US, on further evidence of domestic economic strength, including a pickup in housing construction even as new-home price increases moderated, and record spending on imports by Canadians armed with their relatively strong currency.

“Both reports released this morning continue to depict a strong domestic economy,” said National Bank of Canada economist Eric Dube on Tuesday, noting that the U.S. economic outlook remains the main downside risk to the Canadian economy.

But even some of the news from that front was positive Tuesday as the U.S. trade deficit eased, thanks to a rise in exports fuelled by the deprecation of the U.S. currency, although that didn’t stop the greenback from losing ground against the loonie, and most other currencies, on expectations that U.S. interest rates are coming down.

Here, housing construction starts in August rebounded a more than expected 5.1 per cent to an annual seasonally adjusted pace of 226,500 from 215,000 in July, with all regions but Quebec posting increases, Canada Mortgage and Housing Corp. reported.

“The Canadian housing sector rebounded nicely in August, ending two consecutive months of decline,” noted TD Securities economist Millan Mulraine. “Needless to say, in contrast to its U.S. counterpart, Canadian residential investment continues to add to (economic) growth as the housing sector remains in very good shape, though we expect some moderation in the sector for the remainder of the year.”

Despite the increase, led by the volatile multiple housing sector, the pace is in line with expectations that home construction will moderate, said CMHC chief economist Bob Dugan.

Meanwhile, Statistics Canada reported that new-housing prices rose 0.9 per cent in July to 7.7 per cent above a year earlier, down a notch from June, the 11th straight month that the year-over-year increase has eased from a 12.1 per cent peak.

Housing, however, remained hot in Saskatchewan where prices set a record year-over-year increase of 51.4 per cent, followed by 38.4 per cent in Edmonton, 23 in Regina, 15.7

in Winnipeg, 9.8 in Calgary, 9.2 in Vancouver, and 6.8 in Halifax. In contrast, Windsor, Ont.'s new-home prices were down 3.5 per cent form a year earlier, reflecting the depressed market in the auto-manufacturing city.

On the trade front, meanwhile, Canadian merchandise imports set a new record high in July, another reflection of domestic economic strength, and what has become a much stronger currency.

"Since April, the Canadian dollar has appreciated eight per cent against the U.S. dollar, making imported goods cheaper," Statistics Canada noted. "Simultaneously, the volume of imports has increased."

Imports jumped 3.5 per cent to $35.7 billion, the second consecutive monthly gain being led by auto-product imports, while exports edged up 1.4 per cent to $39.3 billion, led by autos and industrial goods and materials.

The greater increase in imports than exports reduced the trade surplus with the world to $3.7 billion, with the surplus with the U.S. slipping and the deficit with the rest of the world widening.

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