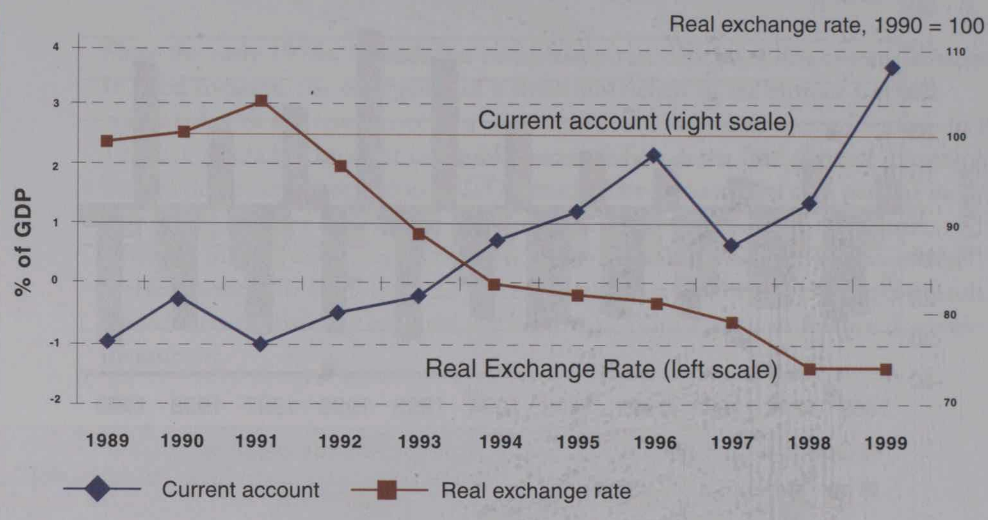
As can be seen from Figure 12 below, the improvement in Canada's bilateral balance with the U.S. from deficit to surplus in 1994 was inversely related to the depreciation of the Canadian dollar in real terms over this period;[9] other factors, such as the stronger cyclical recovery in the U.S. were also important influences.

Figure 12: Canada's Real Exchange Rate vis-à-vis U.S. Dollar and Current Account Balance with the U.S., 1989-1999



Sources: Statistics Canada, *Canada's Balance of International Payments*, Catalogue no. 67-001-XPB, 1st Quarter 2000. Bank of Canada, *Banking and Financial Statistics*, February 2000.

[9] In Figure 12, Canada's real exchange rate vis-à-vis the U.S. is calculated as the price of U.S. goods in terms of the price of Canadian goods (as the term "real" implies). This calculation shows that a bundle of Canadian goods that could buy one bundle of U.S. goods in 1990 could buy only 74 percent as much in 1999.