

of the Canadian dollar versus the U.S. dollar. This depreciation, the authors argue, has allowed Canadian firms to delay or avoid rationalization of their business operations.

A recent study by Industry Canada, *Keeping Up with the Joneses*, concludes that Canada's sound macroeconomic fundamentals (low inflation and interest rates, healthier fiscal situation, improved business confidence) have significantly improved the business climate in Canada. Yet it also notes that we are lagging behind the United States on key microeconomic fundamentals (including R&D investment, innovation, technology intensity and diffusion), which is contributing to a lower level of total factor productivity in Canadian manufacturing industries. The study points to the need for greater efforts in Canada on R&D, innovation and the use of knowledge. Of interest, however, is the study's finding that the better-performing industries in Canada are those that are the most active in export trade to the United States.

