

Canada's overall economic growth will be sluggish

BY JOCK FINLAYSON, VANCOUVER SUN JANUARY 7, 2012

The past year was unkind to economic forecasters. At the start of 2011, most Canadian and United States economic prognosticators judged that the seemingly robust recovery from the 2009 Great Recession that materialized in 2010 would carry into the following year. Instead, rising oil prices linked to political unrest in North Africa and the Middle East, Japan's devastating earthquake and tsunami, and mounting concerns over sovereign debt and banks in Europe resulted in the world economy growing by 3.5 per cent last year, versus almost five per cent in 2010.

What does 2012 have in store? Let's begin with the 17 European Union countries of the eurozone, with its common currency, single monetary policy and plethora of shaky banks. Collectively, the 27 nations that make up the EU represent almost one-quarter of the global economy, and the eurozone alone some 16 per cent, so economic conditions there matter to the rest of the world. Unfortunately, there is every reason to expect an outright contraction in eurozone economic activity in 2012, as well as a "double-dip" recession in the United Kingdom. Under this scenario, the world economy is destined to lose momentum over at least the next two or three quarters.

The United States, the destination for 70 per cent of Canada's exports, has had a lacklustre recovery for two years, as debt-burdened Americans come to grips with an \$8-trillion drop in household net worth since 2006 (mainly courtesy of an epic slump in home prices).

But the U.S. is apt to be pulled down by a eurozone recession, further balance sheet repair by newly frugal American households and the impact of fiscal austerity by state and local governments. Look for the U.S. economy to expand by perhaps two per cent this year, similar to 2011 but not enough to make a material dent in the nation's high unemployment rate.

The picture is brighter in the key emerging markets. Despite some slowing in China and India, Asia as a whole should post GDP growth in the vicinity of five per cent in 2012, with Latin America not too far behind. Africa is also showing surprising economic strength. As a group, the emerging markets now generate some 45 per cent of world GDP, and they are growing two to four times faster than the so-called "advanced" economies.

From a Canadian perspective, 2012 is shaping up to be nothing to cheer about. A more lethargic world economy will limit export gains and lead to softer commodity markets - the latter being particularly important to Canada, considering that resource-based goods still account for three-fifths of the country's merchandise exports (rising to three-quarters in the case of British Columbia).

At the same time, consumers in Canada are tapped out, after years of avid borrowing and aggressive home-buying amid muted advances in incomes and dwindling personal savings. The ratio of household debt to income in Canada now exceeds the levels in both the U.S. and the U.K. Households are even more stretched here in British Columbia, where debt-to-income ratios are the highest in the land.

Nor is the job market likely to support anything more than very modest gains over the next 12 months.

On top of this, governments in Canada are taking action to rein in budget deficits that were pushed higher by the 2008-09 recession and the subdued recovery that followed. A shift to tighter fiscal policy is needed to put public sector finances on a solid footing, but this will detract from economic growth.

By any measure, the underlying fundamentals for household spending have deteriorated in Canada. Since consumers fuel two-thirds of economic spending, this is bound to weigh on growth. Economic activity in Canada is likely to inch ahead by no more than two per cent in 2012, down a bit from last year, and weaker than in 2010. Annualized job growth is likely to be closer to one per cent. We expect broadly similar top-line results for British Columbia over the coming 12 months.

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