

Canada's growth outlook is optimistic

JEREMY TOROBIN - The Globe and Mail

Knock on wood, but the North American economy seems to be holding up in the face of Europe's worsening debt crisis – for now.

Capital Economics, a London-based firm that is one of the more bearish forecasters out there, recently lifted its outlook for Canadian growth in the third quarter to an annual rate of 3 per cent, a full percentage point higher than the Bank of Canada's latest estimate.

We'll know for sure on Nov. 30, when Statistics Canada publishes third-quarter gross domestic product figures. But Tuesday will bring a good hint of what to expect, when the U.S. Commerce Department releases its second of three estimates for third-quarter growth in Canada's chief export market. Data from both sides of the border are fuelling optimism that the recovery will stay on track, if the European situation doesn't degenerate into a full-blown banking crisis.

Canada's fortunes depend heavily on how things play out elsewhere, so here is a look at growth trends in three key areas:

United States

Claims for unemployment benefits in the U.S. fell to the lowest level in seven months in mid-November and housing starts in October were better than anticipated, the latest signs the world's most important economy is getting back on its feet. Businesses have been flush with cash for several months, but may soon be more willing to open the coffers and add staff, reducing the 9-per cent unemployment rate. That would ease one of the biggest obstacles to higher consumer spending, which makes up almost 70 per cent of U.S. GDP. Still, the Bank of Canada predicts the U.S. economy could grow at an average annual pace of only 1.25 per cent through mid-2012, underscoring how difficult it is to fully recover from downturns when households and governments are preoccupied with trimming debt.

Europe

Almost every forecaster predicts a recession in the 17-country euro zone, which accounts for 15 per cent of global GDP, with the only questions being how long and how deep. As Bank of Canada Governor Mark Carney has noted, the main influence on the severity of a recession would likely be how banks in the region choose to repair their balance sheets, because this will affect whether lending grinds to a halt. A big problem facing the region, and non-euro neighbours such as the U.K., is that efforts to overhaul public finances through brutal belt-tightening are squeezing economic growth. "The global economy so far seems capable of withstanding a mild euro-area recession," economists from Credit Suisse wrote last week in a monthly assessment. "A more severe and disorderly outcome in Europe could still overwhelm the rest of the world."

China

The slowdown is also affecting emerging powerhouses such as China, whose biggest market is the European Union. Overseas sales by Chinese exporters grew at the slowest rate in almost two years last month, and housing prices are moderating in China's biggest cities. The tamer house prices show that Beijing's 18-month fight to bring the property market, and living costs in general, to more sustainable levels is bearing fruit. Still, China is expected to clock growth rates of around 8 per cent in each of the next two years, because the government is expected to loosen lending conditions to keep activity humming. Analysts warn that a bigger drop in home prices would constrain development and could cause a hard landing for the economy as a whole, having an impact on commodity exporters from Canada to Australia, as well as struggling goods exporters such as the U.S. and Japan.

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