

November 14, 2014

BMO's Doug Porter: Ten reasons to cheer Canada's economy

By Michael Babad

Plus, Greece (finally) out of recession

These are stories Report on Business is following Friday, Nov. 14, 2014.

Follow Michael Babad and The Globe's Business Briefing on Twitter.¹

10 things

Canada's economy is hardly firing on all cylinders, Bank of Montreal's chief economist says, but there's a lot to like.

Despite what the Bank of Canada tells us.

"By many metrics, Canada has long since returned to normal," Douglas Porter says in a report he's releasing today.

"In fact, we may look back on current conditions as the good old days."

Mr. Porter cites 10 reasons to "appreciate" the current economic climate:

1. At 6.5 per cent, the jobless rate is at its lowest level in 40 years, but for a "three-year slice of Nirvana" from late 2005 to when the recession whacked the country and the commodity boom was ending.
2. Consumers have "barely blinked." Note that car and truck sales are "easily on track" to best last year's record.
3. The housing market is "unstoppable." In Toronto, Vancouver and Calgary, anyway. But "that doesn't detract from the broader picture that housing has surprised – yet again – to the upside this year." Canadian home prices should rise 5 per cent this year.
4. Okay, household debt is at about record levels, but so is net worth when measured against disposable income, or \$5.40 in assets for each \$1 of debt.
5. The federal government is on track to slay the deficit. Many of the provinces, not so much.
6. Much of the developed world is struggling with inflation "that's too low for comfort," but in Canada it's bang on the 2-per-cent target.
7. Canada appears headed to bounce back to a trade surplus this year.
8. Financial conditions are "close to the strongest" in 15 years thanks to low interest rates, tight bond spreads, the sinking Canadian dollar, solid house prices and lending conditions.

9. Business sector labour productivity is up by 3.3 per cent, the best showing since "the heady days of the tech boom."

10. Not only that, but there's labour-management peace. In the last four years, days lost to labour disputes has been running at the lowest since the Beatles topped the charts. (That would be the mid-1960s.)

Having said all that, Mr. Porter notes that the economy is hardly "blemish-free."

Canada needs more full-time jobs, higher pay increases, a smaller current account deficit and a better showing from the provinces on balancing their books.

Add to that sinking prices for oil and metals that are hitting the Canadian dollar and the economy in general.

"But, it is to suggest that this cycle is a lot more mature than many give it credit for (including, it seems, the Bank of Canada), and we shouldn't overlook the many economic positives that are already staring us straight in the face."

- David Parkinson in ROB Insight (for subscribers): Healthy GDP doesn't mean a health economy²
- The problem with Ottawa's 'live long and prosper' message³

And then there's Europe ...

And if that doesn't do it for you, compare Canada to Europe.

As our European correspondent Eric Reguly reports today, the latest numbers show the euro zone's economy expanded in the third quarter by 0.2 per cent, meaning it skirted a recession.

Across the wider European Union, according to the Eurostat agency, the economy grew by 0.3 per cent.

Notable were the showings of Germany and France, which had everyone worried but whose economies expanded by 0.1 per cent and 0.3 per cent, respectively.

Italy, though, sank back into recession as gross domestic product contracted by 0.1 per cent.

Of note, too, was Greece bouncing back into the black, with growth of 0.7 per cent after a six-year slump that highlighted the troubles of the region.

For the euro zone as a whole, of course, growth of 0.2 per cent is really nothing to cheer.

"The reality is that the growth rates we're seeing in the euro zone right now are woeful and none of the data we're seeing suggests there's going to be any improvement," said market analyst Craig Erlam of Alpari in London.

"On top of that, the low level of inflation in the region is not going to support growth going forward and despite the [European Central Bank's] best efforts, the latest CPI reading remained at 0.4 per cent, which is dangerously close to deflation territory," he added.

"The ECB has a massive job on its hands and appears to still be in denial."

- Eric Reguly: Euro zone skirts recession but weak growth leaves questions for ECB⁴
- Brian Milner in ROB Insight (for subscribers): Deflation looms over Britain, Japan⁵

Factory sales rise

Canada's factories continue to pump it out.

Manufacturing sales climbed 2.1 per cent in September, to \$53-billion, to mark the eighth increase in nine months, Statistics Canada said today.

That also marked a rebound from August's loss of 3.5 per cent.

September's gains were driven largely by the transportation equipment sector, without which factory shipments would have been up just 0.6 per cent.

Inventories dipped 0.5 per cent, the inventory-to-sales ratio slipped to 1.34 per cent, unfilled orders rose by 1.2 per cent, and new orders climbed by 4.6 per cent.

"September's shipments were much better than expected," noted senior economist Krishen Rangasamy of National Bank.

"The increase in real factory volumes, will give a boost to September GDP," he added.

"The quarterly picture is also good with the 8.6-per-cent annualized increase in real shipments in Q3 (after an 11-per-cent advance in the prior quarter)."

- Canadian factory sales rise 2.1% in September on aerospace⁶

Obama hasn't changed his mind

With the U.S. House of Representatives poised to approve the Keystone XL pipeline today, President Barack Obama says he's staying the course on TransCanada Corp.'s controversial project.

The House, led by the Republicans, will vote today, and is expected to pass it, The Globe and Mail's Paul Koring reports. It could then head to the Senate next week.

"Understand what this project is: It is providing the ability of Canada to pump their oil, send it through our land, down to the Gulf, where it will be sold everywhere else," the president said in Myanmar.

"It doesn't have an impact on U.S. gas prices."

- Paul Koring: Obama unmoved as U.S. House set to back Keystone⁷

Streetwise (for subscribers)

- Jeffrey Jones: Falling oil price takes its toll on patch financing⁸

Rob Insight (for subscribers)

- Eric Reguly: The man who called \$75 oil⁹

Business ticker

- IEA sees new era, no quick rebound in oil prices¹⁰
- U.S. retail sales expand at healthy rate in October¹¹
- 'Bond King' Bill Gross pocketed \$290-million bonus in 2013¹²
- Onex profit slips as buyout firm turns seller in tough market¹³
- CPPIB partners with Hermes on \$329-million U.K. real estate project¹⁴

References

1. <https://twitter.com/michaelbabad>
2. www.theglobeandmail.com/report-on-business/rob-commentary/rob-insight/healthy-gdp-doesnt-mean-a-healthy-economy/article21561283/#dashboard/follows
3. www.theglobeandmail.com/report-on-business/top-business-stories/the-problem-with-the-canadian-governments-live-long-and-prosper-message/article21570365/#dashboard/follows
4. www.theglobeandmail.com/report-on-business/international-business/european-business/euro-zone-skirts-recession-but-weak-growth-leaves-questions-for-ecb/article21584612/#dashboard/follows
5. www.theglobeandmail.com/report-on-business/rob-commentary/rob-insight/deflation-looms-over-britain-japan/article21563537/#dashboard/follows
6. www.theglobeandmail.com/report-on-business/economy/canadian-factory-sales-rise-21-in-september-on-aerospace/article21585544/#dashboard/follows
7. www.theglobeandmail.com/news/world/obama-unmoved-as-us-house-set-to-back-keystone-today/article21585797/#dashboard/follows
8. www.theglobeandmail.com/report-on-business/streetwise/falling-oil-price-takes-toll-on-oil-patch-financing/article21582583/#dashboard/follows
9. www.theglobeandmail.com/report-on-business/rob-commentary/rob-insight/the-man-who-called-75-oil/article21572789/#dashboard/follows
10. www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/iea-sees-new-era-no-quick-rebound-in-oil-prices/article21584762/#dashboard/follows
11. www.theglobeandmail.com/report-on-business/economy/us-retail-sales-expand-at-healthy-rate-in-october/article21585672/#dashboard/follows
12. www.theglobeandmail.com/report-on-business/international-business/us-business/guess-how-much-money-bill-gross-made-last-year/article21585161/#dashboard/follows
13. www.theglobeandmail.com/report-on-business/onex-profit-slips-as-buyout-firm-turns-seller-in-tough-market/article21585504/#dashboard/follows
14. www.theglobeandmail.com/report-on-business/international-business/european-business/cppib-partners-with-hermes-on-329-million-uk-real-estate-project/article21584863/#dashboard/follows