



economy

“Don't expect business as usual,” economist predicts

By Julia Kuzeljevich

Speaking at a recent Toronto forum for shipper and carrier logistics professionals, Warren Justin, chief economist of ScotiaCapital, offered predictions about the state of the US economy and how Canada's will fare in the coming months.

While a decade-long government-mandated philosophy of “borrow to buy” served to fuel consumer growth in the US, with the financial sector the biggest enabler of this trend, the US economy is now moving toward retrenchment and deleveraging. It also must adjust to lower housing prices and slower growth.

“The core message is that 10 years ago in the US, 3% growth was thought to be sustainable. Now in the next five years this will be closer to 2%. Most of the major world growth will be in emerging markets, such as China, which itself is slowing to an 8% or 9% growth range (from a recent 11%)” said Justin, at the DTA Services-sponsored event designed to provide both shippers and carriers with advice on budgeting for transportation expenses into 2009.

The US has lost one million jobs in the last few months, and is going to see more job losses as the country moves towards managing “event risk,” noted Justin.

Some aspects of the country's borrow to buy model remain in place as the US borrows to finance its deficit. On Wall Street, there are a good number of deals being done even on weekends to inject some \$3.5 trillion in support into the economy, noted Justin.

On the proverbial Main Street, meanwhile, where confidence levels once encouraged expansion and consumption, “Americans have stopped buying cars in large numbers. We're talking a one-year restructuring with continued challenges ahead,” said Justin.

What sort of picture does this paint for Canada as the US's major trading partner?

“In Canada, if you look at the housing market, it's night and day. We have less subprime exposure, and more insurance. The financial system has been less impacted. Canadians also have more equity in housing than they did one decade ago, while Americans have less,” said Justin.

Even so, with a slower economy Canada will see an inevitable drop in housing prices.

Commodity prices have also gone down because of a drop in consumer demand, especially from the world's largest car market, China.

“But don't be fooled by this relief we're seeing now in commodities. Canada is a resource-rich country in a resource-short world. Long-term, commodity prices will rise. There's a tremendous demand for gold, copper and zinc,” said Justin.

Economic forecasts do a good job of chasing current prices, he added.



Crude oil prices, for example, are forecast at \$85-95 a barrel for 2009, and although there has been a lot more efficiency in oil use of late, “The best indicator of oil prices is seen in emerging markets. The marginal cost of bringing in a barrel of oil is moving up into the \$80 range,” noted Justin, which means that a few years down the line a \$100-150 barrel price wouldn't be a reach.

The Bank of Canada, meanwhile, is taking an “accommodative stance,” said Justin. At press time (Oct. 21) the BoC had lowered its prime short term interest rate one-quarter of a percentage point to 2.25% ahead of mild recession fears. But the Canadian dollar faces

unprecedented volatility. With commodity prices moving down, it has been losing value.

“At the end of the year, we wouldn't be surprised to see a 90 cent dollar because the fundamentals are stronger here. The US fiscal deficit has to be financed by foreign borrowings as does the US trade deficit, so the currency will decline. Long term, we predict the US dollar will be weaker,” said Justin.

Demographics and environmental stewardship will also make for major challenges and opportunities in the Canadian economy, he noted. A tighter labour market resulting from an aging population will result in some long-term inflationary trends. “We will not be able to import those skills,” added Justin.

“Environmentally, even if we do all that we have been talking about in terms of carbon taxes, cap and trade, 20 years from now we'll still have more GHG emissions than now. One of the fastest-growing industries is that of environmental remediation,” he said.

An area of lower growth in Canada, meanwhile, will be the manufacturing sector. “Manufacturing in North America will have fewer employees in 5 to 10 years than it does now,” said Justin. He added that manufacturers could continue to do well in Canada, but in more specialized niche markets.

“I see a lot of manufacturers in Canada doing things that don't put them on the radar screen but are very niche markets. The Internet is their friend,” said Justin.

Canadian productivity numbers are “a statistic from hell” to measure nationally, said Justin, but trends in Canada “remain abysmal.” The country hasn't kept up with US productivity levels since the 1980's.

“We've been adding jobs in Canada by hiring labour but our productivity performance has been lower. Part of the lag in productivity (is related to) some of the major projects we're involved in, such as oil sands. The better number to examine in Canada is sustainability of income/wealth. Income distribution is less diverse,” he said.

The overall take-home message is “Don't expect business as usual,” said Justin.

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