

Canada faces a bumpy ride, TD forecasts

Bank predicts slowdown due to U.S. pullback 'Sub-par' growth seen in Canada but no recession

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The Canadian economy will be in for a bumpy ride as its U.S. counterpart loses momentum over the next year but it isn't expected to mirror that marked slowdown, says an economic forecast released yesterday by TD Economics.

The report, entitled U.S. Slowdown Underway, Canada in for a Bumpy Ride, predicts that U.S. economic growth will hit the brakes and dip to a modest pace of 2 per cent before recovering.

This will have a direct impact on Canada – particularly upon forestry and automotive manufacturers – resulting in a four-quarter period in which economic growth hovers within a “sub-par” 2 per cent to 2.5 per cent annualized range.

Nevertheless, Canada is still expected to fare better than the United States.

The report estimates the Canadian economy can grow at a sustained pace of about 2.8 per cent without causing inflation to rise or fall.

“It is not going to be like a 1980s or early 1990s recession by any means,” said chief economist Don Drummond, adding that

central bankers can drop interest rates when it is apparent the economies are weakening.

He said “the accumulation of economic slack will be far less in Canada (than in the U.S.) and this demonstrates the relative outperformance of the Canadian economy.” That's partly because Canadians don't typically carry debt levels on their homes as high as Americans do, making Canadians less vulnerable to softening housing markets.

Consumer spending will also be sustained by solid income growth and continued low unemployment.

Meanwhile, business investment is expected to remain strong, as machinery and equipment imports become cheaper thanks to the higher Canadian dollar.

With U.S. exports representing nearly 30 per cent of Canadian real GDP, weakening U.S. demand is expected to spur a pullback in commodity prices.

The Canadian dollar is expected to trade between 87 cents to 90 cents (U.S.) in 2007, the report said.