10 Reasons to Appreciate This Economy

Douglas Porter, CFA
Chief Economist, Managing Director
BMO Financial Group

December 1, 2014

We're not suggesting that there is an overarching tendency to focus on the negative in Canada. But let's just say that the surprisingly powerful October jobs report was met with widespread skepticism, while its few flaws were bandied about freely. Meantime, the Bank of Canada relentlessly highlights the downside risks and any areas of economic underperformance, while anxiously awaiting a return to "normal". Yet, by many metrics, Canada has long since returned to normal. In fact, **we may look back on current conditions as the good old days.** Consider the many positives already at play:

1. The job market: This is probably the most oft-cited component of the economy's underperformance, with many pointing to persistent underlying slack (e.g. part-time workers who want to work full time). But the simple fact is that **October's 6.5% unemployment rate** is the lowest in the past 40 years, aside from a three-year slice of Nirvana from late-2005 to late-2008 (at the tail end of the commodity boom). While some highlight the fact that the employment-to-population ratio is still close to its post-recession low, this is largely due to demographics (the early baby boomers retiring). The employment rate for 15-64 year olds has been steadily grinding higher since the 2009 low, and was only above current levels during the 2006-08 spell.

2. Consumer spending: While the U.S. consumer is finally getting back to normal, the Canadian consumer barely blinked this cycle. **Auto sales are easily on track to shatter last year's record** high in 2014, headed for 1.86 million units. That's roughly 13% above the already-frothy pace in the six years prior to the recession.

3. Housing: Another area responding in spades to persistently low borrowing costs is the unstoppable housing market. While the big gains have largely been confined to the big three cities (Toronto, Vancouver, and Calgary), that doesn't detract from the broader picture that housing has surprised—yet again—to the upside this year. National home sales and values are both headed for roughly 5% gains, with **average prices hitting yet new record highs** in recent months. Note that Canadian home prices are now on track to rise faster than U.S. home prices in 2014—it's likely that no forecaster in the world called for that at the start of the year.

4. Household balance sheets: The nasty stepsister of record home prices is record household debt, which many have highlighted for years. What doesn't get nearly the attention is the rapid rise on the other side of the ledger—assets. Rising home ownership rates, strong home prices, robust equity markets, and good old-fashioned savings have driven **household net worth to a record high** as a share of disposable income (i.e. after netting out the record levels of debt). Put another way, households have $5.40 in assets for every $1 of debt.

5. Government finances: While the U.S. is celebrating the fact that Washington's budget deficit has dropped below $500 billion, Ottawa is on track for a budget surplus in 2015. Even with the pinch of lower oil prices and the cost of the recent tax relief for parents, the **federal government is on course to balance the books.** Of course, many provinces still face important medium-term challenges, but overall net government debt is slowly receding again. And, at around 50% of GDP, it is much lower than most of the rest of the OECD.

6. Inflation: Even as much of the industrialized world grapples with inflation that's too low for comfort, **Canada's rate is above-target at 2.4%.** The steep slide in oil prices is likely to pull that lower, although the good news for consumers will be blunted by the falling Canadian dollar. Note that concern over "lowflation" is very much a rich world problem, as inflation in developing economies is approaching its highest level in nearly two decades (aside from the oil-related spike in 2008).

7. Trade surplus: After dipping into the red for four of the past five years, Canada's merchandise trade is **headed for a surplus in 2014.** True, the black ink is a fraction of the pre-recession level, but an improving U.S. economy and a falling Canadian dollar point to further export gains in 2015. We look for the current account deficit to recede to a manageable 2% of GDP next year.

8. Financial conditions: Even with the early-fall swoon in stocks, Canadian **financial conditions are close to the strongest in 15 years** (topped only by the 2009 bounce out of the recession). Despite the drop in energy and materials, the TSX is still up 7% so far this year, slightly better than the Dow, thanks to widespread strength in consumer shares, financials, industrials, and some of the smaller sectors. Also contributing to strong financial conditions are low rates, tight corporate bond spreads, a lower loonie, strong home prices, and easier lending conditions. According to Bank of Canada surveys, businesses find that credit conditions in the past two quarters have been the easiest in 13 years of data.

9. Productivity: Often cited as the weak spot of Canada's long-term economic performance, there is even good news on this front. In the past year, **business sector labour productivity has vaulted 3.3% higher,** the fastest pace since the heady days of the tech boom in 2000.

10. Labour peace: Workers have not only been much more productive recently, but they have also been much less likely to strike. While this is not a particularly new development, it seems to be becoming even more obvious—the **number of days lost to work stoppages over the past four years has been the lowest in Canada since the mid-1960s.**

The list of good news stories is not to suggest that the Canadian economy is blemish-free; there are still many areas where improvement is needed. For instance, more full-time jobs, firmer wage growth, a narrower current account gap, and stronger provincial finances would all be more than welcome. As well, sagging oil and metals prices are a drag on the Canadian dollar and the broader economy. 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.

BMO Nesbitt Burns®