Canada still top economic dog, IMF finds

October 7, 2010 Paul Vieira, Financial Post
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OTTAWA - Despite the recent slowdown, the International Monetary Fund said yesterday it still forecasts Canada to be the leader in economic growth among major industrialized countries this year and next.

The finding is contained in the group's latest world economic outlook, which suggested growth in emerging markets would be three times faster than in rich nations in 2011.

The IMF forecast indicated the Canadian economy is set to grow 3.1% this year and 2.7% in 2011, which would be tops among major industrialized economies. Next year's expected advance would be ahead of the average 2.2% growth anticipated for the other big industrialized economies, such as Japan, the United States and Europe.

The updated IMF forecast for Canada is down from the group's previously envisaged 3.6% advance in 2010, and just a shade off the 2.8% gain anticipated in 2011.

As for global growth, the IMF trimmed its forecast for 2011 to 4.2% from a July projection of 4.3%. For this year, it expects the world economy to grow 4.8%, up from an earlier forecast of 4.6%.

Growth in emerging market countries will slow to 6.4% in 2011 from 7.1% this year, it said. In contrast, it sees advanced economies expanding just 2.2% next year, a slowdown from the 2.7%it expects in 2010.

The Bank of Canada had anticipated 3.5% growth this year and 2.9% in 2011, although those projections are expected to be revised downward when the central bank releases its updated economic outlook on Oct. 20.

Jim Flaherty, the Minister of Finance, has also warned that Canadians must adjust their expectations for the economy as the "boom times are over' and the outlook is mired in uncertainty.

The IMF said the Canadian economy has been "relatively buoyant," citing household balance sheets and a banking system that are in far better shape relative to their industrialized peers.

This has allowed the Bank of Canada to begin raising its benchmark rate from 0.25% to 1% as of last month. But most analysts believe the bank is about to hold off on rate increases for the foreseeable future as U.S. growth weakens, and the U.S. Federal Reserve contemplates additional liquidity injections through asset purchases, or quantitative easing.

The IMF largely concurred, noting recent data indicated a "moderation" in growth, although still operating above its potential.

"Risks to the Canadian economy are mainly external," the IMF said in its brief commentary on Canada in the report. "The economy is vulnerable to a dip in commodity prices, particularly for minerals and energy, and a slowdown in the U.S. economy, which buys about three-quarters of its exports."

Should conditions worsen unexpectedly, the IMF said, the federal government could respond, given its fiscal position is healthier than its peers.

In the past week, Ottawa has taken measures that would conceivably leave additional stimulus in the economy in the wake of a slowing U.S. market. Mr. Flaherty signalled his government's intent to "protect" the recovery and said it may allow some stimulus to flow past March 31, 2011, when taps from the two-year $48-billion stimulus program are set to be turned off and a deficit-cutting program begun.

Under pressure from business and labour groups, the government also opted to limit proposed increases in employment insurance premiums to just 5¢ per $100 earned in 2011 and 10¢ in later years. The move was made to strike a balance between supporting the recovery and ensuring the EI program breaks even over time.