



Region will see growth in 2012 despite economic headwinds, top economist says

By Rose Simone, Record staff
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KITCHENER — Canada will certainly feel headwinds from economic storms pummeling Europe and the United States, but the country, and Waterloo Region, will sail through more easily than most, one of Canada's top economists told a Kitchener audience Thursday.

The economy will grow, albeit at a more "gradual pace," and Waterloo Region "will outperform the Ontario average," said Craig Alexander, senior vice-president and chief economist at TD Bank.

He was delivering the economic outlook for 2012 at an event put on by the Laurier Centre for Economic Research and Policy Analysis at the Digital Media Hub in Kitchener.

In an interview prior to the talk, Alexander said he spends a lot of time travelling in both the United States and Canada, and "Canadians don't know how good we have got it." At the same time, "we are not an island and we do get affected by what happens outside our borders," he said.

Alexander didn't soften the dire risks ahead. "In my opinion, Greece is bankrupt and it is going to default on its debt." The possibility of contagion with other countries following suit has grown enormously in recent months, he said.

It is one thing for a small country like Greece to default. But if Italy, which has the third-largest debt market in the world, does the same, the impact is huge, he said. "There isn't enough money in Europe to bail out Italy."

Alexander said if European leaders can't find a way to stop the contagion, "we could have a financial crisis that will look a lot like 2008."

The United States is not Greece and does have the ability to implement measures to pay down its debt. But the U.S. has a highly polarized political environment making it impossible for the Democrats and Republicans to compromise.

"You have to see everything in the United States right now through the lens of the 2012 presidential election, which is already underway," he said.



Craig Alexander. Craig Alexander, senior vice-president and chief economist at TD Bank (shown here in a 2010 photo), delivered an economic outlook for 2012 in Kitchener on Thursday. Philip Walker/Record file photo Source: Record file photo

Even though the United States is solvent and could solve its debt crisis, the bigger problem is the high unemployment and the housing market woes, with huge numbers of foreclosed homes still on the market. A shocking 25 per cent of homeowners in the U.S. have been delinquent on their mortgage payments at some point, which means they will have trouble getting credit, he added.

So even though the U.S. Federal Reserve has set interest rates at rock-bottom zero, "money is not circulating normally," Alexander said. "What does it matter that the interest rate is zero if no one is willing to give you a loan?"

In many ways, the economic stagnation in the United States looks a lot like what Japan faced in its "lost decades," Alexander said. But the saving grace is that unlike Japan, the United States still has a growing population that isn't aging as fast. So the U.S. economy will still grow at a very moderate rate of around two to three per cent, and Alexander sees Canada reaping some benefit from that.

Some people are worried China's growth is slowing down, which could affect prices for such commodities as oil, but Alexander said even if that is the case, oil prices will still go up over the longer run. He also foresees the Canadian dollar moving back to above the American dollar as global economic fears subside.

So Canada is in better shape than most, but will nevertheless need to deal with the problems of household debt and government debt, Alexander said.

Federal and provincial politicians need to cut expenses in a gradual way over time, he said.

"If we don't do it now, it is going to get more problematic because we have an aging population in Canada," Alexander said. "If we are going to be able to provide health care and social services that Canadians want in the future, we have to put our fiscal house in order."

Individual Canadians also have too much debt. In fact, the household debt in Canada is now higher than in the United States, he said.

Alexander has repeatedly warned Canadians that interest rates will go up. It hasn't happened yet, "so I feel like the boy who cried wolf, but people need to remember that at the end of the story the wolf does show up," he said. The current low interest rate environment "is a bit like an open bar at a wedding," he added. "You really hope people will behave responsibly."

He said Ontario's growth will be slower than in Western Canada, but he expects in Waterloo Region's growth will be about a half a percentage stronger than the Ontario average.

"It will be a challenging environment for the manufacturers who make up about 24 per cent of the local economy, but I do think you are going to see the local economy deliver moderate growth and continued employment gains," he said.

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