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Canada's Fourth-Quarter Economic Growth Is Fastest Since 2000

By Greg Quinn – March 1, 2010 Bloombergreport.com

March 1 (Bloomberg) -- Canada's economy expanded at a 5 percent annualized rate in the fourth quarter, faster than predicted by the Bank of Canada, raising pressure on policy makers to increase interest rates later this year.

Gross domestic product grew at the fastest pace since the third quarter of 2000, Statistics Canada said today in Ottawa. The median estimate of 23 economists surveyed by Bloomberg News was for a 4.2 percent expansion, and the Bank of Canada had projected a 3.3 percent gain.

The figures come a day before Bank of Canada Governor Mark Carney will keep his key lending rate at 0.25 percent, all 21 economists surveyed by Bloomberg predict. Today's report and other recent indicators will prompt Carney to raise the key policy rate quickly once his conditional commitment to keep it unchanged through June expires, said Warren Jestin, chief economist at Bank of Nova Scotia.

"There are a lot of signals out there that a shift in monetary conditions is near at hand" said Jestin, who predicts an increase of 2 percentage points between July and next March. "Inflation isn't an issue on a near-term basis, but almost everything we have seen coming out is stronger than expected."

The economy's fourth-quarter growth was supported by consumer spending, capital investment and trade, Statistics Canada said. Government spending also contributed to growth.

Consumer spending increased 0.9 percent in the quarter, led by durable goods such as furniture and cars. Investment in housing rose 6.5 percent.

Exports Increase

Exports rose 3.7 percent in the October-through-December period, led by a 13 percent jump in automotive products, while imports rose 2.2 percent. Fixed-capital investment rose 1.6 percent.

On a monthly basis, the economy grew 0.6 percent in December, the fastest in three years. Economists predicted output would grow 0.4 percent on the month, according to the median estimate of 21 economists surveyed by Bloomberg News.

Statistics Canada revised its estimate of the third-quarter growth rate to 0.9 percent from the earlier reading of a 0.4 percent pace. The agency also revised its earlier figures to show the country's first recession since 1992 was deeper than thought, with a 7 percent annualized contraction in the first quarter of last year.

The economy shrank 2.6 percent in 2009, the most since 1982 and the third annual contraction in figures dating back to 1961.

Record Low Rate

Carney cut the benchmark lending rate in April to the lowest since the bank was founded in 1934 and pledged to keep it there through the first half of this year unless the inflation outlook shifted.

"Monetary policy has worked very well," said Sebastien Lavoie, an economist at Laurentian Bank Securities in Montreal. The Bank of Canada estimates consumers will account for more than half of a 2.9 percent expansion this year.

When the bank raises rates “it won’t be baby steps; it will be major jumps,” Lavoie said. The first increase could be three-quarters of a percentage point, he said, and the rate could reach 3 percent next year, he said.

The return of growth still hasn’t brought unemployment down much from the highest in more than a decade and exporters are still struggling with a strong currency and weak U.S. orders.

The economy “is nowhere near recovery” said Louis Lepine, operations manager at TPG Pritchard Metalfab Inc. in Winnipeg, Manitoba, a contract manufacturer to agricultural, mining and transport companies.

‘Cautious Expansion’

“We have seen quite a decline in business, but we have been fortunate enough to retain most of our staff,” he said. “We will be doing some cautious expansion this year, some capital expenditures.”

Lepine said he’s also struggling with a high Canadian dollar.

Canada’s dollar appreciated 21 percent against the U.S. dollar over the past 12 months to about 95 U.S. cents. The currency traded at about 63.6 U.S. cents at the end of 2002, and manufacturers have been squeezed by its gain, along with increased competition from emerging markets such as China.

The strength of the currency and weak U.S. orders will slow economic growth this year, the Bank of Canada said in January.

Companies tied to consumers are more optimistic. Wal-Mart Stores Inc., the world’s largest retailer, said Feb. 23 it plans to open 35 to 40 stores in Canada in 2010, adding to the current total of 317.

“Even with excess capacity in some industries, there are enough that are going to be ramping up that there will be pinched areas in the economy,” Jestin said. “Those are signs the Bank of Canada will be paying quite close attention to.”

In a separate report, Statistics Canada said that factory prices rose 0.3 percent in January from December, and manufacturers’ raw materials costs increased 3.3 percent. Economists predicted factory prices would rise 0.5 percent, and material costs would gain 2.2 percent, according to the median estimates of economists surveyed by Bloomberg News.