

ECONOMICS: CANADA PERSPECTIVES—FEBRUARY 5, 2010

What Has Stronger Asian Growth Done for Canada Lately?

■ **James Barrineau**
 Senior Economist—Global Economic Research

Asia is leading the world out of recession but has yet to make much of an impact on Canada. Our GDP forecasts for the country—and those of most analysts—rely on a pickup in Asia exports kicking in soon.

Most analysts expect stronger Asian growth to be a significant driver of future Canadian GDP growth. In 2009, Asian economies excluding Japan grew 4.9%, far surpassing the 2.2% decline for the world as a whole. We expect more of the same in 2010. AllianceBernstein is forecasting Asian GDP growth of 7.7% for the year, more than double projected global growth of 3.5%. While we also expect booming emerging-market economies to play a leading role in Canada's economic recovery this year, there is scant evidence of any impact so far. For our forecasts to be right, however, this will have to change soon.

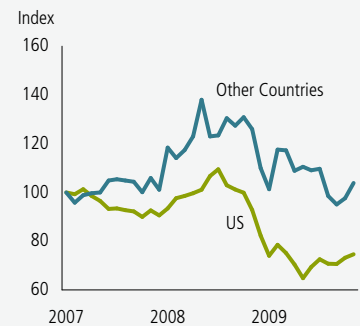
We measure the impact of Asia on Canada's economy in two ways—export growth and trends in Ontario, the province with the least exposure to Asia. Exports to the US accounted for 73.7% of the total in November, down from 76.5% two years ago. In that same period, the share of total Canadian exports to the “other country” category, which includes China and most of Asia ex Japan, rose from 8.7% to 10%, accounting for most of the growth in exports outside of the US.

However, when we examine these trends from the recession trough through the present recovery, the story becomes less clear. Canadian exports to the US actually began to recover in early 2009, well before those to the “other country” category, which only started to rebound in November. While a strongly positive indicator for future GDP growth, it is still only a single data point. We see this trend in **Display 1**, which compares the two series indexed to the beginning of 2007.

Another way to measure Asia's impact is to compare economic developments in Ontario, which is joined at the hip to the US, with those in the rest of Canada, particularly in the more resource-driven western provinces. Here the evidence is mixed. Ontario's unemployment was 9.2% in December, down from a peak of 9.5% in May but still well above the 8.4% rate for the country as a whole. In British Columbia, where we would expect to see the earliest signs of the Asian effect, unemployment has continued to deteriorate, rising steadily to 8.3% in December from 6.3% at the beginning of 2009.

Display 1
Are Exports to Developing Asia Picking Up Steam?

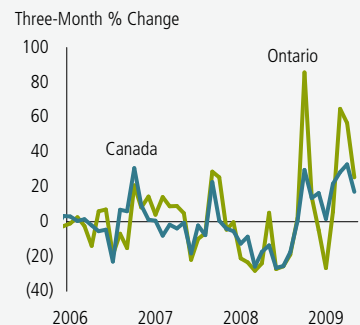
Canadian Exports to US and Other Countries



Source: Haver Analytics and Statistics Canada

Display 2
Housing Surge in Ontario Exceeds Rest of Country

Building Permits for Ontario and Canada



Source: Haver Analytics and Statistics Canada

Ontario has also participated in the country's housing resurgence. Though growth slowed in December, the rebound in building permits in the province has significantly outpaced growth nationwide (**Display 2, previous page**). The stronger rebound of Ontario's housing market suggests that the US is having a much bigger influence on the Canadian economy than any other global influence—at least so far.

But there are some promising signs of strength from the western provinces. Retail

sales in British Columbia rose 0.6% in November, following gains of more than 1% in each of the previous three months. They fell 0.4% in November, following more muted gains in the previous three months. If retail sales in British Columbia continue to grow at a faster rate than the rest of the country, stronger job growth should follow. This would confirm that Asian exports are beginning to make their mark on Canada's recovery and will significantly bolster economic prospects for the year.

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