

Consumer gloom spreads in both Canada, U.S. over economic slowdown

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OTTAWA - Fears of an economic slowdown or worse are draining consumer confidence in both Canada and the United States, increasing the chances of a double-dip, two new surveys suggest.

Stock markets retreated in New York and Toronto after the release of the two reports, from Conference Boards in both countries, underlying the importance of consumers to the recovery.

Consumers represent two-thirds of the American economy and as the Bank of Canada has noted, consumers were the linchpin in Canada's relatively strong performance both during the global recession and current recovery.

The concern, said economist Pedro Antunes of the Canadian think-tank, is that growing skittishness among consumers will cause them to delay or cancel purchases, further depressing economic activity and production.

"It can be a vicious cycle," said Antunes. "(Confidence) is that intangible that we know has an impact on consumer behaviour."

In Canada, consumer confidence fell for the second straight month in July to 80. Prior to the recession, the index hovered around 100.

The U.S. also saw a second straight pull-back, bringing the index to 50.4, the lowest since February.

Antunes said the two indices are comparable in their methodology, meaning that Canadians remain far more upbeat than their American counterparts, even if that confidence is wavering.

Analysts said the major difference between the readings is the disparate employment situations in the two countries. In recent months, Canadian job growth has been far greater than expected — including a 93,000 pick-up in June — while the U.S. has seen its job growth stall and even fall back with a 125,000 loss during the same month.

A more telling indicator is the gap between the countries' employment ratio. In Canada, 62.1 per cent of working age individuals were working in June, compared to only 58.5 per cent in the U.S., despite less stringent criteria.

"The recent pullback in confidence (in the U.S.) doesn't flag a double-dip recession but until job growth strengthens, consumer spending and overall growth will remain subdued," said economist Sal Guatieri of BMO Capital Markets.

The confidence readings are more likely the effect of fears about a possible double-dip, rather than a potential cause, said CIBC chief economist Avery Shenfeld.

In recent weeks, both the Bank of Canada and the U.S. Federal Reserve have both scaled back their future growth projections, and the Fed has entertained the possibility it may have to announce new stimulative

measures.

The CIBC's newest Recession Probability Index showed little chance of a double-dip in the United States over next two quarters.

But Shenfeld said the odds increase next year when the U.S. economy may hit the wall of withdrawals from stimulus and possible new fiscal spending restraints.

"Clearly the Canadian economy on its own has quite a head of steam and the greatest risk of losing that is if the U.S. goes back into recession," he said.

"I hope we learned a lesson in 2008 and 2009 that when the U.S. tumbles, it doesn't take too long to pull Canada down with it."

Continuing the trend to gloomier outlooks, a survey of corporate executives from the Canadian Institute of Chartered Accountants and the Royal Bank suggested optimism among Canada's business community is also levelling off.

Overall confidence in the economy over the next year dropped from 61 per cent to 57 per cent but that should be read as a levelling off of confidence that had been on the rise rather than an outright drop, said Doug Baker, chairman of the Canadian Institute of Chartered Accountants.

Still, Baker said, there's significant concern among Canada's business community that, just like in 2008, they will be sideswiped by global problems like the European debt crisis and U.S. economic weakness.

He added that the bearish consumer confidence polls don't improve the situation.

Particularly discouraging about the surveys is that individuals on both sides of the border expressed worries that the employment picture will deteriorate.

In Canada, only one-fifth of those surveyed were confident there would be more jobs available in six months time than currently, while in the U.S. there was an increase in those who said jobs are "hard to get."

The other major change for Canada was that while in June, bearish sentiments were confined to Ontario and British Columbia, in the latest survey all regions of the country reported lower confidence.

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