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Consumer confidence drops in July

Fears of an economic slowdown or worse are draining consumer confidence in both Canada and the United States, two new surveys suggest.

The Conference Board of Canada said Tuesday that its survey of consumers showed Canadians becoming less bullish about their prospects, with confidence dropping for the second straight month in July.

And unlike in June, when gloom was restricted to Ontario and British Columbia, the think-tank says this time all regions are more bearish, particularly on the question of future job prospects.

The results were the same in the U.S. reading, as confidence also fell for the second straight month.

In a relative grading of where the two economies stand, however, the latest softening pushed the Canadian index to 80, compared to the 50 level south of the border.

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Analysts said the major difference in the readings is the disparate employment situations in the two countries. In recent months, Canadian job growth has been far greater than expected – 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.

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 levelling off.

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

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.

"As you go into these different cycles, they can be self-fulfilling," he said.

"You look at the U.S., when you've got very high unemployment, high deficits, the fear of increased taxes, all create a psychology of concern and a lack of willingness to go out and spend."

All three surveys point to a darkening mood in North America following two strong quarters of growth both in Canada and the U.S.

The Bank of Canada and the U.S. Federal Reserve have both scaled back their future growth projections in the past two weeks, however.

CIBC chief economist Avery Shenfeld said the U.S. and Canadian economies are heading into a period of sharply lower growth, but not yet into double-dip territory.

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

But Mr. 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."

Although Canada has made progress in diversifying trade, about three quarters of all exports head into the U.S. market.