

Ontario slowdown feared

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NIAGARA-ON-THE-LAKE, Ont. — Ontario faces the greatest threat from the economic slowdown in the United States and will likely underperform the rest of the country until 2008, Bank of Canada Governor David Dodge said Wednesday.

The integration of the Ontario and U.S. economies means the province “will feel a significant impact from the U.S. downturn,” Dodge said in a televised speech to delegates at the Ontario Economic Summit.

“It is clear that the cyclical pullback in the U.S. housing and auto sectors is causing particular difficulties for Ontario,” said Dodge.

“When you consider that automotive products made up 44 per cent of Ontario’s merchandise exports last year, it is clear that the U.S. downturn will likely affect Ontario more severely than the other provinces.”

In its latest monetary policy review, released last week, the bank lowered its growth predictions for the country as a whole, but remained optimistic that strong domestic demand would continue to buoy the economy.

While Ontario will likely fair worse than the other provinces, its strong service sector means “modest growth should persist,” Dodge told an audience of some 200 business, labour, education sector, and political leaders.

“Roughly 70 per cent of Ontario’s economic activity comes from the service sector, and that sector remains in good shape...the prospects for many service industries, including those with high value added such as financial and business services, remain very positive.”

Ontario Premier Dalton McGuinty, heading into an election year, conceded the slowing economy would impact provincial revenues but said his government is well positioned to weather the downturn.

“We can manage it, we can manage it...I don’t believe it’s a cause for panic,” McGuinty told the summit during an afternoon session.

“I think what Ontarians want first and foremost is, they want their government to act responsibly given the circumstances that they find themselves in...and that’s what we’ll keep doing.”

Dodge made the predictions on a day when federal Finance Minister Jim Flaherty, who spoke at the conference on Wednesday, warned that a softening economy — particularly in Ontario and Quebec — would likely eat into the federal budget surplus.

The latest figures show Ottawa collected \$6.7 billion more than it spent between April and August, \$2 billion ahead of the pace set last year and nearly double the \$3.6-billion annual surplus Flaherty predicted in his spring budget.

"It has massive surpluses and those could be used to the benefit of the Ontario economy," said McGuinty, who is waging an ongoing campaign to wrest more funds from federal coffers.

"We look forward to resolving that issue."

While growth in Ontario and Quebec has slowed because of the squeeze on the manufacturing sector, caused in part by rising energy costs and a high Canadian dollar, oil and natural gas-rich western provinces such as Alberta and British Columbia are growing above the national average and face worker shortages while generating soaring retail sales.

B.C. is also benefiting from a resurgence in the mining sector, which is cashing in on high prices for nickel, copper, zinc and other base metals.

While Ontario will bear the brunt of the U.S. slowdown, "this slowing should not be prolonged," Dodge said.

"The real challenge for policy makers is to address the long-term structural issues facing the Ontario economy."

Dodge cited the example of Ireland, which turned its economy around by focusing on human capital and developing a skilled and adaptable workforce, as a model for the province.

Investment in infrastructure, such as highways, public transit, power, and waterworks, will also be key to addressing Ontario's long term economic success, he added.

Public-private partnerships, which have proved politically controversial in Ontario, would also be a useful tool to promote infrastructure improvements, Dodge said.

The bank's latest review, a twice-yearly economic forecast, says growth this year should hit 2.8 per cent, down from the 3.2 per cent predicted in the last review in July. Growth next year was revised down to 2.5 per cent from 2.9 per cent.

Dodge conceded those forecasts could be off, however, if consumers decide to start spending even more. And they might.

"Household income continues to grow, consumer credit growth is currently quite high and house prices have been rising sharply," he said.

"These three factors could lead to higher consumption than we expect, which would put upward pressure on inflation."

Despite the gloomy economic forecast, Dodge indulged in a moment of levity when asked to predict the future value of the Canadian dollar.

"Well the Canadian dollar will either go up, down, or remain where it is," Dodge said to laughter from the audience.

"That I can say for sure."

