

# **Today's boom, unlike the eighties, expected to last**

## **Low unemployment, job growth and prosperous West should keep consumer numbers healthy, economist says**

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OTTAWA -- You have to go back almost 20 years to find another era of consumer-led prosperity like the one propelling Canada these days.

In the late 1980s, the economy was burning hot, with jobs aplenty, the currency rising and consumer spending growing by about 4 per cent a year.

Then, like now, consumer spending was the sustaining force in the Canadian economy, propped up by wage gains, healthy job prospects and strong global demand for Canadian products.

The similarities end there.

The good times of the late 1980s all came to an unseemly end when inflation bounded out of control and the Bank of Canada stepped in with Draconian interest-rate hikes.

The lucrative Toronto housing bubble popped.

Inflation was wrestled to the ground, but not without a deep recession in the early 1990s.

In contrast, today's consumer-led prosperity seems uniquely sustainable.

"At a time when we haven't over levered ourselves like the U.S., at a time when we have a very low unemployment rate, and reasonable job growth, and a boom going on out west that is nothing short of phenomenal, all of those suggest that the consumer numbers are going to stay pretty healthy," said Warren Jestin, chief economist of the Bank of Nova Scotia.

Consumer spending makes up about 60 per cent of Canada's economic growth. Since the Canadian dollar started to rise quickly in 2003, consumer spending has climbed, too: 3 per cent in 2003, 3.4 per cent in 2004, 3.8 per cent in 2005, 4.2 per cent in 2006 and on track to outpace 2006 this year.

Consumption is strongest in Western Canada, thanks to the oil and gas found there, but it is healthy in Central Canada, too. And demographics will make sure the big spenders across the country - generally, people in their 20s, 30s and 40s - keep shopping, Mr. Jestin said.

That's because as more of Canada's aging population retires, the middle-age, middle-class people left in the work force will be almost guaranteed steady, well-paid employment.

And those are the people who traditionally spend the most, as they buy new houses and amenities for their growing families.

Demand for natural resources is not expected to dissipate much over the next decade, Mr. Jestin added, and that, too, will keep consumers with a ready hand on their wallets.

The consumer boom of the new millennium is also unique in history because of the fiscal context, said Peter Dungan, professor of economics at the University of Toronto.

Two decades ago, rampant consumption was strangled by rising interest rates, and then trampled by a federal government that had to quickly rein in spending to eliminate its budget deficit and avoid fiscal crisis. Today, governments are expansionary - generous with their spending as well as their tax cuts.

The culture of spending has also changed dramatically, said Don Drummond, chief economist of the Toronto-Dominion Bank.

"People are much more ready to go into debt to buy something. They want it now, and they're not willing to wait."

That's sustainable, because interest rates are relatively low, even if they are climbing. Plus, consumers are playing both sides of their household balance sheets, beefing up assets even as they increase their debt loads to buy their new home theatres.

It's not just the shoppers who have changed their way of thinking.

Suppliers, too, are far quicker to react than they were 20 years ago, said Finn Poschmann, research director at the C.D. Howe Institute.

They use information technology to make sure inventories are low and to respond quickly to even small changes in demand and fleeting fads. So a softening of consumer demand today causes only a ripple among suppliers, not the tidal wave of 20 years ago.

There's no doubt, Mr. Jestin said, that globalization has been a boon for Canadian shoppers. It has brought variety and lower costs to the malls - and economic growth and jobs to many Canadian companies.

But globalization has also left a chunk of the Canadian economy behind: the manufacturing sector, which has had to shed hundreds of thousands of jobs in the past few years.

"It's a golden age, if you have the right skills, and you're at the right place at the right time," he said.

Then and now

Tavia Grant shows why in both 1989 and 2007 it was best of times for the Canadian economy: Lots of jobs, booming real estate market, a rising loonie and surging consumer spending.

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## 1989

**In the news:** The Berlin Wall, which symbolized the Iron Curtain that separated East from West, collapses, signalling the fall of Soviet-style totalitarian governments in Eastern Europe.

**Dollar:** 85 cents (U.S.)

Range for much of the year.

**Jobless rate:** 7.5 per cent

A seven-year low and improved from a year-earlier rate of 7.8 per cent.

**Stock market:** Toronto market sits around the 3,700 mark, and rises for much of the year.

**Technology:** Nintendo's original Game Boy introduced in Japan.

**Economic growth:** Gross domestic product growth rate of about 3 per cent.

**Inflation rate:** 5 per cent

With most of the price increases in tobacco and alcohol.

**Movies:** *Driving Miss Daisy* wins the Academy Award for best picture.

**Interest rates:** The Bank of Canada's key lending rate was about 13 per cent.

**Consumer sector:** Spending on consumer goods rose at 4.3-per-cent annual pace in the first quarter, fuelled by Toronto's red-hot real estate market and strong performance by Canada's manufacturers.

**Population:** 26.3 million

**Manufacturing:** Factories are a key driver of Canadian economic growth, with 2.11 million jobs in the sector.

**Trade:** The Canada-U.S. free-trade agreement, which came into effect on Jan. 1, removing trade restrictions in stages over a 10-year period, and resulting in a dramatic increase in cross-border trade.

## **2007**

**In the news:** Wars in Iraq and Afghanistan continue to rage.

**Dollar:** 96-cent mark

Rose this week to 30-year high.

**Jobless rate:** 6.1 per cent

A 33-year low, buoyed by healthy job creation.

**Stock market:** Benchmark index hits a record in July and closed above the 14,000-mark yesterday.

**Technology:** Apple's iPhone introduced in the U.S.

**Economic growth:** 3.7 per cent in the first quarter. The economy has expanded in five of the first six months of the year.

**Inflation rate:** 2.2 per cent

Currently.

**Movies:** *The Departed* wins the Oscar for best picture.

**Interest rates:** 4.5 per cent currently. They were raised earlier this month, and the Bank of Canada is expected to raise its key rate at least once more this year.

**Consumer sector:** Spending on consumer goods rose at 4.1-per-cent annual pace, fuelled by strong demand for Canada's commodities, and strong job creation.

**Population:** 32.8 million

**Manufacturing:** The factory sector is in decline, with total employment in June sitting at 2.02 million.

**Trade:** Canada announces that it will seek to open free-trade talks with South American and Caribbean nations.

*Sources: Canada Year Book, 1992, Statistics Canada,*

*CIA World Factbook*