Canadian economy tracks 
U.S. decline

But, help comes from Canadian consumers’ reserve 
of personal savings

The third quarter report of the Market Analysis and Forecasts Division of the Canada Mortgage and Housing Corporation indicates the economy in that nation is tracking closely with the recession in the United States.

Concludes the report, major slumps in Canadian housing starts have depressed the overall construction outlook and a turnaround will depend heavily on what happens south of the border in the American economy.

“Costly mortgage money, poor consumer confidence, low rental profitability, builders’ reluctance to carry speculative inventories and the prospects of serious economic contraction pushed the seasonally adjusted annual rate of starts down further from 173,000 units in the first quarter to 140,800 units in the second quarter,” the report says.

The housing statistics are considered to be a major indicator of future construction outlook, because of their long-range impact on other segments of the building industry.

Also of significant importance were the report’s forecasts of future construction, mortgage interest rate levels and materials prices. The report made no secret of the fact that any further weakening of the U.S. economy will have a decided impact on the Canadian outlook. It noted, however, that as long as the recession is short lived, Canadian contractors have an advantage over their U.S. counterparts.

Says the report, “The first quarter downturn would have been far more severe had it not been for the comparatively strong financial position of Canadians. In contrast to the U.S. situation, consumers in Canada have built up a considerable cushion of liquid assets which can permit their savings rate (at present about three times that of the U.S. level) to drop in order to sustain current consumption. American consumers simply have no such savings reserve to draw on, and have overspent their income for many months.”

Despite that advantage, however, the report admits that Canadians are now experiencing a major squeeze between income and prices, so the pros-

Here are some highlights of other forecasts:

- **Construction outlook:** “Real expenditures will remain weak in the foreseeable future.”
- **Unemployment:** “The unemployment rate in the construction sector, which steadily deteriorated as the housing cycle moved toward its trough, worsened to a seasonally adjusted rate of slightly above 16 percent in May and June. With... fewer dwelling units under construction at the end of March and June compared to a year ago, and a projected slow recovery in house-building activity in the second half of 1980, employment prospects remain bleak.”
- **Compensation:** “Despite rising unemployment rates, wage settlements for 1980 and 1981 are near 9%, and these agreements are mostly for two years, with three years the rule in Nova Scotia. With the exception of Newfoundland, where negotiations are still going on, wage negotiations have been strike-free.”
- **Mortgage rates:** “Despite the record decline in U.S. interest rates, where the prime lending rate has sustained an unprecedented drop from its April peak of 20% to a recent (August) level of 11%, the Bank of Canada has demonstrated a policy of considerable monetary stringency in moderating the downward movement of Canadian rates.” Those rates are expected to fluctuate as much as a half a percentage point around a level of 13.50% over the remainder of 1980.
- **Material prices:** “The tremendous slowdown in the rate of price increase (of materials) was connected to the slump in construction in both Canada and the United States. However, as housing starts pick up toward the end of the year, prices are anticipated to climb much faster. Higher energy prices on petroleum-based construction materials will push costs up.”

- **Mortgage Money Outlook:** “While some mortgage lenders were reported to have withdrawn from five-year mortgage commitments because of tight profit margin in the first quarter, the improved spread provided by current deposit and lending rates have ended the retreat. As 1980 progresses, it is expected that the volume of mortgage commitments in both new and existing housing will pick up as it becomes increasingly apparent that mortgage rates have stabilized.”

Editor’s Note: For further information, or copies of the full report, interested persons should write to Christopher Terry, Manager, Industry and Economic Studies, Market Forecasts and Analysis Division, Canada Mortgage and Housing Corporation, National Office, Ottawa K1A OT6.