

The trauma of September 11 brought an entirely new meaning to the notion of uncertainty for economic forecasters. Befuddlement would be more appropriate.

The core issue for the outlook for Canadian exporting companies is the U.S. economy, which will be driven by its consumers. In the aftermath of September 11, the great unknown

Fog gradually lifting

Post-September 11

by Stephen S. Poloz, EDC Vice-President and Chief Economist

was the impact the terrorist attacks would have on consumer psychology and willingness to spend.

U.S. consumer confidence plunged in October, by about 12 points, and it declined a further three points in November, to 82. Fortunately, the drop in confidence so far has been much less than the 20 points it fell after the bombing of the World Trade Center in 1993, which led to a short retrenchment in the economy, or the nearly 50 points it fell during the Gulf War, which spawned a deep and difficult recession. Still, the U.S. labour market is being hammered — 800,000 U.S. jobs were lost in October and November. This has people worried about a second wave of the economic downturn, which could drag consumer confidence down further and hold back the recovery. In other words, it is too soon to break out the champagne.

Falling confidence but solid spending

Nevertheless, U.S. households have been doing a lot of shopping, for houses, cars and most other things. What this combination of falling

confidence and solid spending tells us is that the stimulative fiscal and monetary policies that have been put in place are actually working. Falling confidence would normally cause consumers to boost their savings. True, the latest statistics show that Americans have increased their savings significantly. But they can do this while actually spending more because their purchasing power has risen —

their lows. These markets indicate that a broad range of investors, who vote with their portfolios as well as with their wallets, are becoming increasingly confident that the worst is behind us.

These signals are encouraging, but it still may be several months before it all adds up to something real for Canadian exporting companies. Although the U.S. economy may be starting to mend, Europe, Canada and Japan are just now dealing with the echo effect of the earlier U.S. slowdown. A generalized global upturn will probably take at least until mid-2002 to emerge. But if the U.S. situation continues to mend, other economies will not be far behind.

The bottom line? The economic signals remain mixed, and the outlook still uncertain, but the news could easily have been much worse by now. Aggressive monetary and fiscal policies are laying the foundation for the next expansion, and the fog should be lifting noticeably, soon. *



EDC's Stephen S. Poloz

directly, through tax rebates, and indirectly, through lower interest rates. Every household with a mortgage is saving a considerable sum on debt

service today, and that money can be saved or spent — and most people are doing both.

People who have lost their jobs obviously do not have this choice. However, the outlook for the economy depends not on the 0.7% of the population that has been laid off, but

on the psychology of the 94% of the population that still has a job. People may travel less, leading to layoffs in the airline and tourism industry, world-wide. But the money that was originally earmarked for the family vacation is being partly saved, and partly spent on other things, boosting those sectors of the economy.

Encouraging signs

Financial markets are taking their cue from these signs of economic encouragement. Most of the major stock markets are back up to August levels, and the major bond markets have retreated back to August levels. Also, the Canadian and Australian dollars, traditional bellwethers of the global economy, have both recovered from

Team Canada West

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provincial agencies, they knew they would get their product."

Calgary-based Fusion Media Group's star is rising after signing lucrative contracts on the mission and laying the foundation for millions of dollars in future business. "While some dot-com companies are disappearing," says the company's Director of Business Development, Reuben Segelbaum, "by being with the Prime Minister and the Premier of Alberta, we said to the world: we're here and we're real and we have real people backing us up."

For more details about the Team Canada West Trade Mission, visit: www.tcm-mec.gc.ca/welcome-e.asp and click on "Completed Missions!" *

(For the unabridged version, see www.infoexport.gc.ca/canadexport and click on "The U.S. Connection".)

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Third Quarter of 2001

Trade Indicators

Annual Rates	Third Quarter 2001
Real GDP (percent)	-0.8
Real GDP (annual change)	12,300
Consumer Price Index (percent)	7.1
Core Inflation (annual change)	2.7
Core Inflation (quarterly change)	2.3
Unemployment Rate	0.6468
Trade Balance (billions of dollars)	-21.4
Current Account Balance (billions of dollars)	-10.3

Third quarter was 2.7%, down from 2.7% in the second quarter, and core inflation (annual change) remained unchanged from 7.1%. Thus, inflation remains between 1% to 3% that has been the case in Canada.

Real GDP in the third quarter was 12,300 from C\$0.649 in the previous quarter.

Trade and current account balances are adjusted for seasonality and are in billions of dollars, with the exception of investment