OECD Slashes Canada's Economic Forecast: Prepare for the Worst

Description

According to the Organisation for Economic Co-operation and Development (OECD), the volume of world trade is declining this year and will fall short of expectations.

The latest collapse in trade growth has caused many analysts to believe, after many decades, that globalization is finally stalling. This is just one many factors contributing to the flattening of world economic output.

"Trade growth rates have deteriorated dramatically since the financial crisis," commented OECD chief economist Catherine Mann. "Some people might say this is a good thing. No, this is damaging and it shows up as a decline in productivity growth."

With its latest warnings, the OECD lowered its global growth expectations by 0.1% this year and 0.3% next year. While those numbers seem small, it represents hundreds of billion in lost economic potential.

The OECD also lowered its growth forecast for Canada to a measly 1.2%, lower than its last forecast in June. Growth expectations for next year were lowered by 2.1% from 2.2%.

The growth forecast for Canada's largest trade partner, the U.S. were also lowered dramatically. Its GDP for 2016 is now expected to rise only 1.4%, a significant trim from June's forecast calling for 1.8% growth.

These revised forecasts couldn't have come at a worse time for Canada.

On the brink of disaster

The dramatic fall in oil prices has caused economic turmoil in places like Alberta and Saskatchewan. Other regions such as British Columbia and Ontario have survived thus far due to rapidly rising real estate markets in their biggest cities, Toronto and Vancouver.

Those tailwinds are now coming to an end.

According to the Canadian Real Estate Association, sales of existing Canadian homes fell in August–the fourth straight month of volume declines.

The drop–the largest monthly decline in two years–was preceded by a tax on foreign buyers in Vancouver. House purchases in Vancouver declined by 26% in August compared with the same month a year earlier.

Benjamin Tal, an economist at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), believes that Toronto will inevitably have to enact a tax too, likely putting an end to a multi-year housing market rise. “Policymakers have to use demand tools to deal with what is essentially a supply problem,” he said. “Ontario will have little choice but to do the same.”

A triple whammy

Low oil prices, peaking real estate markets, and falling growth forecasts could push Canada over the edge.

Canadians themselves are mired in more debt than ever. In June, Statistics Canada reported that the debt-to-disposable income ratio for the average Canadian is 165%–near record highs. For every $1 of disposable income, the average person now has $1.65 in debt.

Canada has seen the largest increase in household debt relative to income of any major developed country since 2000.

The parliamentary budget office also released a report predicting that debt levels will continue to rise over the next five years as interest rates normalize.

“Household debt-servicing capacity will become stretched further as interest rates rise to ‘normal’ levels over the next five years,” the report said. “Based on PBO’s projection, the financial vulnerability of the average household would rise to levels beyond historical experience.”

Trouble may be coming for the Canadian economy.

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