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Canada enters technical recession before elections

Richard Blackden in New York and Simon Doyle in Ottawa

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Mountain to climb: Canada is now in recession

Canada's economy contracted at a 0.5 per cent annualised pace in the quarter to the end of June, a report from Statistics Canada showed on Tuesday.

That was better than the 1 per cent squeeze forecast but, with gross domestic product having also shrunk in the first quarter of the year, the country is now in a technical recession.

This is not helpful to Canada's Conservative prime minister Stephen Harper who is seeking another term when voters go to the polls on October 19.

As the global credit crisis unfolded, fears about the economy helped Mr Harper win re-election in 2008 and 2011. With Canada emerging from the downturn less battered than the US and Europe, he gained a reputation as the most trusted economic manager among Canadian political leaders.

"The Canadian economy is back on track," Mr Harper said at a campaign event in Burlington, Ontario on Tuesday, referring to data showing economic growth of 0.5 per cent in the month of June. "Now more than ever, it is time to stay the course."

Negative news may not work for Mr Harper this time around as, amid a close three-way elections contest, his reputation is under threat by a recession and a popular challenger.

Tom Mulcair, leader of the leftwing New Democratic party, was leading the race in the opinion polls with 33.5 per cent support, compared with 29.1 per cent for Mr Harper's Conservatives and 27.3 per cent for the Liberal party, according to polling aggregator ThreeHundredEight.com.

"[You have] an opposition leader seen as more competent than a sitting prime minister," said Greg Lyle, head of polling firm Innovative Research Group, who referred to a new NDP ad that laid blame on Mr Harper for Canada's economic circumstances. "They're taking a frontal attack on the enemy's strength."

While June's output of 0.5 per cent showed signs of recovery, Mr Lyle believed Mr Harper could benefit if the global economy turned even worse, as voters still viewed his party as strongest on economic issues.

The Bank of Canada has struggled to predict the impact that the crumbling in the oil price will have on the country's energy-exporting economy. Policymakers at the BoC surprised investors by cutting interest rates in January and did so again in July.

Canada's first recession since the 2008-9 crisis has raised fiscal stimulus as a central issue in campaigns.

Justin Trudeau, leader of Canada's Liberal party, has pledged to use deficit spending to almost double federal infrastructure funds to nearly C\$125bn (US\$95bn) over 10 years, taking advantage of low interest rates and promising to rebalance the books by 2019.

The pledge contrasts with the balanced-budget approaches of Mr Harper and Mr Mulcair. Mr Harper promises a low-tax, low-spending plan while Mr Mulcair plans to increase corporate taxes to help pay for a national childcare plan.

Kevin Milligan, an economist at the University of British Columbia who has advised the Liberal party on economic matters, said Mr Trudeau's plan to go into a deficit of up to C\$10bn should be seen as reasonable, representing only about 0.5 per cent of GDP.

"Aligning himself with the mainstream of economic thinking, it's going to make his job easier to defend it," Mr Milligan said. "He's trying to change the conversation. We'll see if he's successful."

According to Tuesday's GDP report, Canada saw a 4.6 per cent fall in investment in machinery and equipment by companies in the quarter.

But while businesses pulled back, Canadian consumers did not. Spending climbed 0.6 per cent in the quarter, though some of this came from Canadians saving less. It is a reminder that BoC policymakers are grappling with a weaker business backdrop alongside a consumer sector that is more resilient, buoyed by rising house prices.



Justin Trudeau
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