

Innovations in Business Banking

InterAction



Warren Jestin,
Senior Vice President and Chief Economist,
Scotiabank

Canada's Great Divide – East vs. West

Scotiabank's Chief Economist's economic outlook for 2007

InterAction met with Warren Jestin to discuss his economic outlook and his view that the performance of the Canadian economy will continue to show an East-West divide.

IA: How will the Canadian economy perform overall in 2007?

Jestin: For 2006, Canadian growth should come in a little over 2½ per cent. In 2007, it is projected to be slightly below that level. The drivers of the economy are expected to be similar, and performance will again vary dramatically across the country.

IA: What sort of regional economic differences are we seeing?

Jestin: In Western Canada, performance has been “red hot”.

Alberta is benefiting from high energy prices, demand for oil and gas, low tax rates and government spending on infrastructure supported by unprecedented fiscal surpluses. A construction boom is also underway.

British Columbia is benefiting from infrastructural investments in ports, transportation, natural gas resources and facilities for the 2010 Olympics. The province is positioned to take advantage of rapidly-growing Asian markets. As well, consumer spending and residential construction are fuelled by buoyant labour markets and migration to the province.

While activity may moderate in 2007, these provinces will continue to set the pace for the rest of Canada.

IA: What factors are keeping Central and Eastern Canada more subdued?

Jestin: Economic activity remains relatively buoyant in Southern Ontario, Quebec and parts of Atlantic Canada, where manufacturing and other industries are adjusting to intense international competition and the rise in the loonie.

While the Canadian dollar has moved off its recent highs, it may again take flight in 2007. Earnings from our commodity exports will continue to be supported by Asian demand at a time when the U.S. dollar is burdened by big fiscal and trade deficits.

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Canada's Great
Divide > continued

The Canadian dollar won't alleviate competitive problems, so focus on improving efficiency, productivity and effectively integrating into truly global markets will be key.

Industries in Western Canada, such as energy and mining, have provided an offset, cushioning the impact of heightened global competition.

IA: How will the slowdown in the U.S. forecast affect Canada?

Jestin: The slowdown in the U.S. is a key reason why Canadian growth will be moderate in 2007. The drag will be more evident in Central Canada and in the manufacturing sector than in Western Canada and in the resource sector.

IA: How long do you expect this economic East-West divide to persist?

Jestin: I wouldn't be surprised if the differences in overall performance remain wide over the balance of this decade.

IA: How will the unprecedented growth in China and India affect Canada's economy?

Jestin: The emergence of Asia as an industrial power – and the increasing importance of producers in low-cost countries in Eastern Europe and Latin America – will provide a strong underpinning for the commodity sector and change the global landscape. To compete globally, our industries must focus on adding more value to products and services. There may be opportunities to re-orient activity to markets in which location is a strategic advantage and the buyer's needs cannot easily be serviced from halfway around the world.

IA: Overall, how does Canada's economy compare on the world stage?

Jestin: Canada will continue to perform very well compared to the U.S., Japan and major European industrial nations. But the real standouts will be in emerging regions, with China and India likely to continue leading global growth. Mexico and Latin America should also outpace trends in traditional industrial countries.

While Canada faces competitive challenges, we have produced fiscal and trade surpluses that are the envy of most other developed nations. Our great endowment of natural and human resources, and our well-developed national infrastructure should keep our country on a solid-growth, low-inflation trajectory over the balance of the decade.

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