Canadian economy faces sharpest quarterly contraction since financial crisis

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The second quarter of 2016 is set to witness the sharpest contraction of Canada's economy since the depths of the global financial crisis in 2008-9.

Announcing late last month that it would maintain its base interest rate at a record low 0.5 percent, the Bank of Canada projected Canada's economy would contract between April and June. While much of the projected downturn can be put down to the estimated 1.25 percent knocked off economic growth by the Alberta wildfires and resultant halt to oil production, a number of key economic sectors continue to deteriorate. Researchers at BMO Capital Markets have predicted that this will result in a second-quarter contraction of more than 1 percent.

The gloom deepened further when Statistics Canada revealed May 31 that the economy contracted in March by 0.2 percent, even though overall first-quarter growth was at an annual rate of 2.4 percent. The main drag on growth was a poorly performing energy sector, which fell 1.5 percent in March alone.

Subsequently, the Alberta wildfires cut oil production by an estimated 1 million barrels a day—a cut that translates into $70 million in daily losses for producers.

Canada is expected to have the lowest growth among the G7 in 2016 and among the lowest among the 34 OECD (Organization for Economic Cooperation and Development) countries. Among OECD states, only Switzerland, Norway and Greece have experienced less growth than Canada during the past year.

Canada has been hard hit by falling commodity prices, especially the collapse in oil prices from over $100 per barrel in 2014. Tens of thousands of oil workers have lost their jobs, and Canada's oil-producing provinces, particularly Alberta and Newfoundland, are in deep recessions. Provincial governments, including the Liberal government of Dwight Ball in Newfoundland and Rachel Notley's NDP government in Alberta, have responded by slashing spending in austerity budgets.

To the surprise of many analysts, May's job figures, which were released yesterday, showed a slight decrease in unemployment to 6.9 percent, but there were major regional variations linked to the crisis in the energy sector. When discouraged workers are included, the jobless rate is closer to 10 percent.

The Bank of Canada (BoC), in the semiannual review of the financial system it issued Thursday, made a strongly worded warning of the danger posed by overinflated housing markets in Vancouver and Toronto and the sharp downturn in resource-dependent regions. "Strong regional divergence persists among housing markets," it wrote. "Job losses have increased financial stress for highly indebted households in the regions most affected by low commodity prices."

Housing prices have repeatedly set new records over the past year, and several reports, including one from the OECD, have warned of the possibility of a major correction—that is, a sharp fall in housing prices. At the same time, the market in Calgary is plunging due to the troubles facing the energy sector.

The latest figures show that the price of an average home in Toronto rose 15 percent over the past year, while in Vancouver the increase was 30 percent. Statistics show that a relatively small decline in house prices would leave a significant section of homeowners with negative equity (i.e. owing more money than the worth of their homes), a development similar to that which took place in the United States in 2008.

Statistics point to steadily rising household debt. With wages stagnating or declining, Canadians have borrowed ever-larger sums to cope with rising prices for housing and other necessities. By the end of 2015, average household debt was equal to 165 percent of household income, making Canada the country with the highest ratio of household income to debt in the G7. The BoC noted in its review that "economic fundamentals" would not "justify continued strong [house] price increases," a tacit admission that they are unsustainable.

The BoC's review also pointed to challenges arising from the economic slowdown in China and other emerging economies, as well as the prospect of persistently low

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commodity prices.

A further mounting cause of concern for the ruling elite is the disastrous decline in business investment. In the first quarter, gross fixed capital formation, which includes company outlays on machinery, structures and equipment, fell by 1.5 percent. It was the fifth quarter in a row that such investments contracted. Also down were business inventories, shaving 0.3 percent off the annualized growth rate.

Economists now expect that the BoC will not increase interest rates from their current record low until well into 2017. This creates a major problem for the financial elite because the US Federal Reserve may move ahead with plans to increase its rates this year. A divergence between interest rates in Canada and in its largest trading partner would result in a sharp drop in the value of the Canadian dollar, stoking inflation.

The first quarter also saw Canadian corporations post their worst quarterly profits in five years. Profits were down 4.6 percent from the fourth quarter of 2015, continuing their decline for a third straight quarter and reaching their lowest level since the fourth quarter of 2010. The poor performance was led by energy corporations, which suffered their worst quarter since the oil price crash, with collective losses totaling $4.8 billion. Manufacturers of petroleum and coal products made their first quarterly loss in 23 years.

Overall, half of the 22 sectors surveyed registered quarter-to-quarter declines. Manufacturing profits fell 7.8 percent, their sixth straight quarter-to-quarter reduction, quarrying and mining profits 9.5 percent, their fourth straight quarter-to-quarter drop, and finance and insurance profits 7.1 percent.

The Liberal government came to power pledging an economic stimulus program to boost growth. In reality it is preparing for major attacks on the working class, with the aim of boosting corporate profitability and attracting investment by improving "competitiveness," while upholding the reactionary fiscal framework brought about by decades of social spending cuts and tax breaks for big business and the rich implemented by successive federal Liberal and Conservative governments.

The closest allies of Justin Trudeau and his federal Liberal government at the provincial level, the Liberal governments of Ontario and Quebec, continue to implement ruthless austerity measures, slashing public services and imposing concessionary contracts on the workers who administer them.

Last month, federal Finance Minister Bill Morneau declared that action has to be taken to encourage labor market "flexibility," i.e. to make it easier for companies to shed workers. The multimillionaire former Bay Street pension executive declared, "The ability to grow a business by hiring people would seem like a positive thing, but if you're unable to actually resize your business one year or four years later with changes in the economy, that presents a real challenge for business managers to actually take the decision."

The consequences of such policies can be seen in France, where the Socialist Party government is seeking to force through a right-wing labor market "reform" to deregulate the jobs market in the face of mass popular opposition.

The appointment of Dominic Barton, a director at the global consultancy firm McKinsey, to head the government's council of economic experts exemplifies the government's anti-working class agenda. McKinsey recently published a report warning the world's biggest firms that they need to prepare for a profit "squeeze" and growing resistance within the working class to their cost cutting.

In his first budget, tabled in March, Morneau announced that the government would record $110 billion in budget deficits over the coming five years, due to the rapidly deteriorating economy and the Liberals' attempt to stimulate growth by spending on infrastructure. Such spending is aimed above all at boosting corporate profitability, as shown by the government's commitment to find $6 billion in annual budgetary savings by the end of its first four-year term in office.

The Liberals' stimulus plans are a drop in the bucket in the face of the deep-going crisis confronting global capitalism. Moreover, the greatest crisis of world capitalism since the Great Depression of the 1930s is fueling militarism and great power conflict, as well as a turn on the part of all the rival national bourgeoisies, Canada's included, to economic nationalism and protectionism.

The utter impossibility of the major capitalist powers coordinating their economic policies to stanch the crisis was demonstrated by last month's G7 summit meeting. While Trudeau declared that he would be pressing for language in the summit statement committing the world's seven largest imperialist powers to stimulus spending instead of rigid austerity, the end result was a communiqué that sanctioned each government pursuing its own course.

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