U.S. growth rate to hit 2.8% by end of 2013: BMO Economics

By Editor Test *Sat, Sep 8, 2012*

Because of elevated unemployment, "we now expect the Fed will delay any rate hikes until mid-2015," said Sal Guatieri, senior economist at BMO Capital Markets.

The North American economy should grow at a rate of two per cent in 2012 and improve during 2013, with a strong performance from residential building in the U.S. and commercial construction in Canada, according to the North American Outlook released by BMO Economics last week. The details, by country, include:

United States
The modest growth of 2% predicted for 2012 in the U.S. will pick up in 2013. Improved household finances and a strengthening housing market will help the economy accelerate to a growth rate of 2.8% by the end of next year.

"Home sales and starts have picked up from depressed levels, supported by record-low mortgage rates, pent-up demand and investor interest," said Sal Guatieri, senior economist, BMO Capital Markets.

"House prices are rising, lifting household wealth and encouraging first-time buyers to take the plunge. Rising house and equity values should allow households to soon recover the rest of the $16 trillion in wealth that was lost during the Great Recession," he said.

Residential construction is now leading the expansion, he added, noting that housing starts are about 40% below demographic needs. Because of elevated unemployment, "we now expect the Fed will delay any rate hikes until mid-2015," said Guatieri.

Canada

Canada's economy should grow 2% this year, reaching 2.4% by the end of 2013. "Business investment, though moderating, continues to lead the expansion," Guatieri said. "Commercial construction is supported by low vacancy rates, and companies are taking advantage of the strong loonie [Canada's dollar] to buy productivity-enhancing equipment."

Elevated commodity prices will continue to drive investment in Alberta, Saskatchewan, Newfoundland and Labrador, he added. Central Canada and the other Atlantic Provinces will face challenges because of the strong currency and weak global demand. With the exception of autos, consumer spending has moderated in the face of high household debt, tepid job growth and rising cross-border shopping.

Personal loan growth has slowed the most in two decades, and the trade deficit continues to widen due to a strong dollar and weak external demand. The Canadian dollar is expected to trade close to parity against the greenback in the year ahead, benefiting from elevated commodity prices and steady capital inflows.

Recent mortgage and credit rule changes will restrain household debt growth, leading to a further moderation in consumer spending and housing market activity and a stabilization of home prices in most regions, Guatieri said. Exceptions will be British Columbia and Toronto, where high valuations point to weaker prices ahead.

Modest growth, low inflation, a strong currency, and tighter credit rules will encourage the Bank of Canada to maintain the current low-rate policy. “Further Fed easing should encourage the Bank of Canada to hold overnight rates steady at 1% for somewhat longer than we previously thought, likely until autumn 2013,” added Guatieri.

The eurozone breakup, pending spending cuts and tax increases in the U.S., a sharp correction in the Vancouver and Toronto housing markets and the potential for a hard landing in China still pose potential risks to the North American, he cautioned.