

Economist predicts less painful recession

By Dan Jensen

There's reason to believe the recession of 2009 won't be as painful as the ones in the past, says ATB Financial senior economist Todd Hirsch.

"The economy will probably be growing again by 2010," said Hirsch, speaking to members of the Rotary Club of Camrose May 4.

Hirsch compared look and shape of the current recession to the Nike swish logo.

"We saw this very dramatic downturn in October, November and December of last year," he said. "Things are bottoming out now and I think we are in for a long and steady climb.

"We are not going to get back to the growth levels that we were at in terms of Alberta's economy or the national or continental economy for another two years."

Hirsch sees three positives with the economy right now, the first of which is a very low rate of inflation.

"That actually is something really to be celebrated and something that will provide a really good tonic to a lot of Canadian households and Albertans who might be experiencing some income disruption. Back in the recession of the early 1980s inflation was 10 or 12 per cent. Now we have inflation of less than two per cent. In fact, the bigger threat really is deflation, particularly for the U.S. economy. I don't think we will have to worry about any inflation because of all this money supply increasing probably for another, you know, at least two years."

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The second positive, said Hirsch, is the low cost of borrowing.

"Mortgages are low. Again, compare that to the early 1980s when mortgages were twenty per cent. Now they are three and a half per cent."

The third positive Hirsch sees is a more realistic labour market.

"Alberta's labour market is coming back into better balance,

and that is a good thing. I don't want to talk about layoffs as if they are positive because clearly they are not, but we have been living in this province for the last two or three years with a job market that has been too tight and that has created labour shortages. Right now we have a balanced labour market with an unemployment rate of 5.8 per cent. When I graduated from high school it was 12.8 per cent. That's not a balanced job market but 5.8 per cent is."

Hirsch is encouraged when he looks at the falling costs of oilsands projects.

"Two years we had companies saying projects were only economic at \$90 oil. Now that the costs are falling they are thinking they can make a go of a project at \$60 oil. We're only \$6 away from that right now, so things are not too dismal, at least with crude oil. Natural gas is a little bit tougher because those prices have not recovered yet."

Hirsch said housing starts have undergone a correction in Alberta, dropping from 48,000 in 2007 to 13,000 today.

"A lot of the home builders in

2007 kind of got ahead of themselves," he said. "They were building and building and building, and in the meantime consumers were starting to hold off a little bit, so we ended up with too many homes on the market. That is starting to change a little bit. We are seeing sales now that are starting to rise. In fact, Calgary realtors are actually starting to see some pretty good numbers for sales of existing homes and new homes in the city."

Hirsch said while prices for homes have softened from their peaks, they (prices) shouldn't get much worse.

"I think prices are basically stabilizing now, and I am expecting that some of those prices will start to climb. It is a very good environment now for buyers to get into the market."

Hirsch noted that the amount of spending in Alberta on infrastructure, such as hospitals, schools and colleges is holding up very nicely in 2009.

"It is not rising like it had been; it is basically levelling off. It hasn't taken a big dip. There is still a lot of non-residential construction spending in Alberta and that is going to be a nice kind of offset to the softness we are seeing in residential construction."

