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# 5 Minutes for Business

## The Return of Crisis: What it Means for Canada's Economy

*July 14, 2015*

Dark storms are gathering over the global economy. Greece is once again at the precipice, insolvent and in need of another €85 billion to stave off collapse and recapitalize its shattered banks. At the same time, China's stock market is in a 1929-style meltdown. Either one of these events would be a big shock to the global economy, but to have both at the same time is an economic earthquake.

Poor Stephen Harper. He would dearly love to be talking about how Canada had the strongest growth in the G-7, which it did up until 2012, and to tout his government's sound management. But the economy isn't cooperating and, worse, it's being hammered by international forces that are beyond our control.

Let's start with Greece, a country that is insolvent with 26% unemployment, collapsing banks and a debt-to-GDP ratio of 180%. This is now its third bailout as it already received some €240 billion in support. The problem is the bailouts came with tough conditions: brutal spending cuts and tax increases that pushed the Greek economy from a recession into a downward spiral. The country's GDP has contracted by 27% since the start of the crisis, more than the U.S. during the Great Depression.

That's why many believe Greece would be better off if it exited the euro. The government could print drachmas, the former Greek currency, to spend on public works. This currency would plummet in value making Greece competitive in exports and a dream for tourists. But the country would default on its debts, and the financial system would collapse.

The point is either Europe spends limitless sums backing insolvent banks and a bankrupt government in exchange for half-hearted austerity that probably won't work. Or Greece exits the euro. Both scenarios are bad news for European growth prospects.

The other economic superpower is China, where shares have plummeted more than 30% since June. A staggering US$340 billion has been lent out by brokers for stock purchases, and the downturn is forcing shareholders to sell in order to cover losses. Share prices would be down even further except the government halted trading in 1,300 companies and directed state-owned financial institutions to buy shares. This is likely to have ripple effects, hurting confidence and further slowing China's economy.

What does it all mean for Canada? The outlook for commodities depends very much on global demand. Collectively, the European Union is the world's largest economy. The world's largest consumer of commodities is China. Both are showing signs of weakness, which is why commodities are in retreat and oil prices have dropped back to $52 a barrel.

Canada's GDP has fallen four months in a row and its exports will decline again in the second quarter. On September 1, Statistics Canada will release the latest quarterly GDP number, which is likely to be negative, meaning Canada will officially be in a recession.

For the federal political parties, this is earth-shaking because it makes the status quo much less acceptable. More importantly, leaders will have to explain what they will do about Canada's weak economy. Stimulus spending is helpful but short-lived. A much better option would be to make the Canadian economy more competitive so that business can win more sales and create more jobs. The Canadian Chamber of Commerce has a plan to turn Canada into an export and innovation powerhouse. It's available here.

**For more information, please contact:**

Hendrik Brakel
Senior Director, Economic, Financial & Tax Policy
613.238.4000 (284) | hbrakel@chamber.ca