# Paltry increases now pass for real economic growth

By Ian McGugan
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Do you feel that surge? This is what now passes for an economic rebound.

When Statistics Canada unveils gross domestic product figures on Friday, forecasters expect the number for July to demonstrate a continued bounce back from May, when Alberta wild fires devastated national output.

The problem is that “Canadian economic recovery” is now beginning to rival “Maple Leafs rebuilding program” as one of those trends that is always in progress, but never with a noticeable payoff.

Economists at Bank of Nova Scotia estimate that Canada’s GDP edged ahead by 0.2 per cent in July from a month earlier. The Bank of Canada predicts gains will continue through the rest of the quarter. However, after deducting all the setbacks in the first half of the year, the central bank expects real growth for all of 2016 to amount to only a paltry 1.3 per cent.

To put that in perspective, this year’s plodding pace of expansion is about half the level that was considered typical a decade or more ago. Compared with the standards of the past half-century, the current rate of growth is feeble indeed – but we better get used to it, according to policy makers.

Stephen Poloz, the governor of the Bank of Canada, warned in a speech last week that “powerful, slow-moving global forces” will “keep the growth of potential output around 1.5 per cent for the next number of years.”

The single biggest culprit, Mr. Poloz asserts, is an aging population. An enormous wave of baby boomers drove economic growth for 50 years.

Those boomers are now retiring and the economy is slowing as a result.

This is not the first time Mr. Poloz has chanted a dirge for growth. However, he is delivering his gloomy message with special gusto these days and underlining the stark implications for everyone from corporate executives to retirement savers.

For instance, he suggests that companies are living in la-la land if they still insist upon assurances of a double-digit payback before investing in a project. In today’s climate “4 per cent will probably turn out to be a pretty good return,” he says.

Savers, too, better factor in the impact of low returns on their retirement plans, he warns. They should count on putting away more money, or working longer, or both.

For a central banker, this is unusually straight talk and Mr. Poloz should be commended for it. But his remarks do raise the question of how ordinary Canadians are supposed to conduct their lives.

By Mr. Poloz’s logic, we should compensate for low rates and dismal returns by stashing away even more loonies for our golden years.

Simultaneously, of course, we must find the money to buy homes that are soaring in price because of the central bank’s low rate policy, which reduces the carrying cost of large mortgages.

No wonder many families have decided that the only way to get ahead is by borrowing heavily to bet on a continued rise in home values. Statistics Canada reported earlier this month that Canadian household debt soared to a new high of 167.6 per cent of after-tax income in the second quarter. For the first time in the country’s history, household debt exceeded GDP.

The new personal-borrowing record neatly inverts the dire math of a generation ago. Back in the mid-1990s Canada had a heavily indebted federal government and relatively unencumbered citizens. Now we have a relatively unencumbered federal government and heavily indebted citizens. See what economic policy can achieve?

Mr. Poloz isn't promising a turnaround any time soon. Instead, he is urging modest measures to nudge up growth, such as spending more on infrastructure and encouraging trade agreements.

Neither move is a game changer, he acknowledged last week, but "bearing in mind that we start our analysis with a projection that Canada's economic potential is likely to grown only around 1.5 per cent, which is not very inspiring, we need to take every decimal point of potential growth more seriously than we have in the past."

His message seems to be that we should focus on small victories. Perhaps so, but it might also be a good time to examine why we are surrendering to slow growth so placidly.

And here's another question: If it's all so clear now that aging boomers are slamming the brakes on the economy, why did nobody warn of the impending slowdown years in advance? Perhaps Mr. Poloz can address those questions in his next speeches.