



When is it a “recovery”?

Having shed depression fears, markets are now abuzz with talk of a "recovery". For economists, a recovery is when GDP (Gross Domestic Product: the size of our economy) begins to grow again—not just for a single quarter, but on a trend basis. The US now looks like it may already have crossed that threshold, and we see the Canadian economy growing in the third quarter as a result. So economists will soon be declaring that a "recovery" is at hand.

But for many Canadians, it's not a recovery until they start getting their jobs back. And on that score, we could still be in for a long wait. Even if the growth in GDP over the next couple of quarters is larger than we project, it likely won't be enough to lower the unemployment rate. US house prices and credit markets remain challenged, Canadian and US consumers are still cautious given their earlier wealth losses, and businesses are hoarding cash rather than buying equipment.

For many Canadians, it's not a recovery until they start getting their jobs back.

On the bright side, we've raised our forecast for Q3 to reflect auto plant restarts and the recovery underway in the housing sector. Moreover, inventory replenishment in the US will breathe new life into Canada's export sector and lead to a rebound in economic activity in the current and fourth quarters. But a still-weak global economy will ensure that Canadian growth remains subdued in 2010, with unemployment creeping beyond 9%. This suggests that both Canada and the US might have to adopt further, small stimulus bills to prevent too much fiscal tightening from stalling the recovery in 2011.

As for interest rate hikes, they won't be timed to when economists declare "recovery", but to when the unemployed see a recovery too. With the core inflation rate staying well below 2% throughout next year, the Bank of Canada has the latitude to avoid interest rate hikes and create an opportunity for above-trend economic growth in 2011.

Signs of Stability in Housing



About FirstLine® Mortgages

As a leading Broker Lender in Canada, **FirstLine Mortgages** excels at providing our broker partners with the tools and support needed to achieve success in today's competitive environment. Recognized as an industry leader in product offering, broker value proposition, and service, **FirstLine Mortgages** is committed to building long-term mutually beneficial relationships with our broker partners.

Questions/Suggestions? Please contact FLMSalesEffectiveness@firstline.com

For Registered FirstLine Brokers only, do not distribute. The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice. FirstLine Mortgages is a division of CIBC Mortgages Inc. © FirstLine is a registered trademark of CIBC Mortgages Inc.