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Numbers don't support our gloom

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OTTAWA -As the bank commercial has it, you might be richer than you think. The headlines have been dominated by stories of economic slowdown in recent months, but new inflation numbers suggest the picture is nowhere near as gloomy as you might expect.

A new poll by Nanos Research suggests that nearly one in two Canadians thinks the economy will weaken in the next six months. At the same time, 42% think interest rates will increase, which speaks more to the limited knowledge of most citizens than their pessimism-- rates usually fall during slowdowns. But the country seems to be gathering its brows at the prospect of an economic storm: a welter of worry and fear over rising gas prices, skyrocketing unemployment and plummeting net worth.

But the numbers don't necessarily back up such an analysis. New inflation figures confirm that high gas prices did indeed see the all-items consumer price index rise to 1.7% between April, 2007, and April, 2008, up from 1.4% in March, the first acceleration in the index since November. There is no doubt that an 11.6% year-on-year rise in the price of gasoline is not welcome news for consumers; neither is the 37% surge in prices for fuel oil. But these increases have to be balanced by downward pressures that are far less publicized. Food prices rose much less than the pace of the all-items index, while fresh-vegetable prices actually fell. The prices for cars, clothing, footwear and computer

equipment also dropped, while the core rate is well within the Bank of Canada's 2% inflation-control target.

While we read about plant closures in the auto and forestry sectors on a daily basis, employment in the wider economy rose last month by 19,000 jobs.

There is no doubt that the manufacturing industry is hurting-- the number of factory workers has decreased by 112,000 since this time last year --but the construction industry alone has more than made up for those losses. During the past 12 months, employment has increased by an estimated 348,000 jobs, with full-time jobs growing twice as fast as part-time. The idea that we are losing high-paying factory positions for McJobs in the fast-food industry is disputed by the fact that the average hourly wage increased by 4.3% year on year.

People may feel they are worse off, but a number of other indicators suggest the reality is at odds with perception. For one, the S&P/TSX composite index this week broke through the 15,000 barrier -- a record high. Interest rates are close to historic lows and seem destined to drop further still when the Bank of Canada reveals its next move next month. And the average Canadian has just received a tax rebate sent out by Revenue Canada that is 14% or \$179 higher than last year.

This is not to suggest these are the best of times. Real GDP moved into negative territory in February and some private-sector analysts have suggested the economy could contract in the first quarter of this year, for the first time since 2003.

Our biggest customer continues to face its woes because of a downturn in the U. S. housing market and the consequent crunch in credit markets, which has hit Canada's exports. Our own housing market is cooling off, with the volume of existing home sales down 6% on a year ago and the rate of growth in house-price rises slowing dramatically. The slowdown in manufacturing, particularly in the

auto sector, where the high Canadian dollar and soaring energy prices are proving to be a double whammy, has hit GDP growth.

But, despite these challenges, the consensus among most economists is that the fundamentals of the Canadian economy are sound, with the federal government and every province in the black for the first time in around 60 years.

Prime Minister Stephen Harper made this point yesterday at a press conference in the Niagara region, where he said he recognized that some families were having their budgets squeezed but that this should not obscure Canada's continued strong performance, particularly in comparison with other major Western economies.

This is not good news for Liberal leader Stephane Dion, who would be as happy as a dog with two tails if the economy slid into deficit. This wishful thinking reached new levels of desperation yesterday in an article by Ralph Goodale, the Liberal House Leader, in the Regina Leader-Post, in which he suggested the Conservatives are deliberately hurting the economy to weaken the federal government. "[Stephen] Harper wants that deficit threat hanging in the air to hobble the Government of Canada, to diminish its relevance in the lives of ordinary Canadians. That's the consequence of his right-wing ideology," he wrote.

That's as much clap-trap as the contention by Finance Minister Jim Flaherty that the economy has been saved by the personal and business tax-cut package he introduced last October.

The bottom line is that when you are a major exporter of oil and grains, and prices for those products are at record highs, you have an economy of incredible resiliency. William Lyon Mackenzie King was never more wrong than when he said: "If some countries have too much history, we have too much geography."