Canadians are the lucky ones

William Hanley, Financial Post · Friday, Oct. 8, 2010

As you tuck into the organic, range-fed turkey with all the trimmings this weekend, you can give a quiet, low-key, typically Canadian thanks for living in this quiet, low-key country. Sure, unemployment remains at high levels and the economic recovery is slowing. But Thanksgiving 2010 will be a good one, relatively speaking, for the great majority of Canadians.

Having spent last week in England — my second visit there in a month — I can offer up my own quiet thanks for being able to return to this country, which some English friends refer to as "the Great White Bore." The dwindling number of British Christians who still attend church have recently been staging harvest festivals, their version of Thanksgiving in which rich tableaux of food are presented next to altars, a thanks to their God for nature's bounty.

This year's celebrations just happened to coincide with the new government unveiling plans for a festival of cuts that eventually might carve back government spending by a massive 40%, making for a bitter harvest of decades of excess.

Compared with Britain and any number of countries, including the United States, Canada is in not-so-bad shape. Of course, you can't eat relative performance, as the Bay Street saying goes, only the absolute variety. Yet most of us will be able to sit down to a lunch or dinner this weekend that finds us in finer fettle than we might have hoped at Thanksgiving 2009, with the unemployment rate down in the past year, house prices staying firm against the odds, the stock market around a 52-week high and government budget deficits beginning to fall as tax revenues rise.

Just this week, the International Monetary Fund forecast Canada's economy to grow 3.1% this year and 2.7% in 2011. Though those numbers are down from July projections of 3.6% and 2.8%, respectively, and are not typical of an economy in the early years of recovery, they are respectable given the even slower comeback for the United States, and remain "above potential," according to the IMF, a circumstance that has us leading the G7 nations, however modestly.

Nevertheless, while most of us are giving thanks this weekend for our good fortune in finding ourselves in this particular corner of the world, some of us can't help but wonder what we might be offering up thanks for a year from now.

One of the things missing from this recovery and something many of us savers of a certain age will be hoping for by next Thanksgiving is a rise in yields on fixed-income investments. Though the Bank of Canada has raised its overnight rate twice to 0.75% in recent months, GICs and the like are still paying the square root of squat.

Unfortunately, the decelerating recovery here and in the United States will likely put the BoC on hold in the months ahead. While it might seem selfish to wish for a more substantial interest rate increase, such a rise would signal an improvement in the economy and for economic prospects. The BoC and governor Mark Carney would like nothing more than to have to raise rates from their historic lows to guard against a rise in inflation, but will do so only in a substantial way if the U.S. economy shows stronger signs of recovering from its Great Recession.

Meantime, conservative investors – twice bitten by the stock market in the past decade and still shy of getting back in – will be monitoring the progress of equity prices, wondering whether it's too late to begin buying or to buy more.

That question may be the centrepiece of some Thanksgiving table talk this weekend. Years ago, our Thanksgiving weekends were spent at the family cottage, where parlour games around the dining table were side orders to the lashings of food and drink. We played Scrabble, Monopoly and all manner of card games.

This year, your parlour game might consist of making forecasts for Thanksgiving 2011, writing them down and seeing where they stand a year from now.

I make the following predictions for a year from now: the S&P/TSX composite index will be around where it is now, or a little lower, as earnings advances become scarcer in still-struggling economies; interest rates will be a little higher, but not much; Canadian house prices will be 5% to 10% lower; gold and other commodities will hold their value as the U.S. dollar continues to weaken and emerging economies continue to grow; the loonie will be modestly over par against the greenback; and, finally, the Toronto Maple Leafs will once again have fans fantasizing about making the playoffs and winning the Stanley Cup.