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October 08, 2014 - The United States And Canada Are Now The Exception - By Jeffrey Hagenmeier



Yesterday the International Monetary Fund (IMF) reduced predicted world economic growth for 2014 from 3.7% to 3.3. There has been a major slowdown in many areas around the globe, from developed countries to larger emerging markets. These developing countries have provided much of the world's projected growth equaling 4.4% as a group. It should come as no surprise. Growth is declining faster in China than was expected. It has dropped this year from an expected rate of 7.8% to 7.4%. This is important because it is the second largest economy in the world, after the United States. Russia after a difficult year as a result of sanctions and hostilities in the Ukraine, is ready to tip into recession. Growth in Europe is continuing to stagnate. Germany the largest economy on the continent, and 4th largest in the world saw factory orders decline by 5.7% in September. This was the largest drop since 2009.

The news from Japan is no better, growth is simply not occurring. The country saw the largest downgrade among the world's largest economies. The new forecast for 2014 has been downgraded to a mere 0.9%. Even in South America growth is slowing, with Brazil being the biggest disappointment there. As the largest economy in Latin America and the 7th largest in the world, growth has slowed from 2.5% in 2013 to a projection of just 1.4% next year.

The major exceptions to this decelerating pattern of growth are the United States and Canada. In contrast to elsewhere, forecasts for economic expansion are being raised. In the United States, the prediction for economic growth has been raised from 1.7% to 2.2% in 2014. Anticipated growth for 2015 has also been increased, to 3.1%. This will mean that the American economy will be growing at a faster clip than other major industrialized countries and will even beat many countries, that are emerging markets. Traditionally developing countries will as a rule, grow faster than more economically advanced nations. However, there will be a number of



challenges facing the American economy.



In Canada, the IMF has raised expectations of growth to 2.3% for 2014. This is the same estimate being made by the Bank of Canada. As the largest trading partner of the United States, Canada will no doubt benefit from an improving economic situation with their neighbor to the south. Unfortunately, a general recovery of the Canadian export market has yet to take place. Business investment has not picked up as much as expected either.



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Other challenges for Canada include, the present low world prices for commodities. Another concern, is the high level of household debt and the continuing problem of excessively high housing prices. Investors in Canada like the United States, have also become too dependent on historical low interest rates. When rates finally do increase it will have a major impact on the financial and stock markets in both countries.

In the United States economic growth is being fueled by a number of factors. Fracking has revolutionized the energy market, turning the United States into the largest natural gas producer in the world. In 2015, the United States may well become the largest producer of petroleum as well. The housing market has also recovered somewhat, in a number of geographic areas of the country.



There was also a better than expected job creation report for September. A total of 248,000 were added for the month. Job growth although slower than past economic recoveries, have been constant since the end of the recession in 2010. This will allow the economic expansion to continue. Confidence in the American economy is growing, as can be evidenced by the past 12 week increase in the value of the United States Dollar.

International investors should consider new investments in Canada and the United States in particular, at least in the short to medium term. Companies will be more profitable in an expanding economy. Therefore, American stocks will be a better buy than the corporate shares of other leading countries.