

## Improving outlook for the U.S. bodes well for Canada

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In June, the Organisation for Economic Co-operation and Development (OECD) stated “a recovery is likely to be weak and fragile, and the economic and social damage caused by the crisis will be long-lasting.”

In its recently released September [Interim Assessment](#), the OECD indicated that the recovery “is likely to arrive earlier than had been expected a few months ago but the pace of activity will remain weak well into next year.”

In the case of the U.S. economy, the OECD revised its projection of third quarter growth from no change to +1.6% quarter over quarter at annual rates, and for the fourth quarter it now expects growth to be +2.4% versus its previous projection of +0.5%.

This stronger-than-previously-projected growth profile is consistent with the latest [U.S. index of key indicators](#). In July it increased by 0.6%, its fourth consecutive increase. The more positive OECD outlook is also reinforced by the latest [Institute of Supply Management \(ISM\) Purchasing Managers Index for Manufacturing](#).

In August the index hit 52.9, its highest value since July of 2008. Moreover, based on the fact that the index breached the critical 50 level, the ISM announced that “the year-and-a-half decline in manufacturing output has come to an end.”

In addition to the positive signals being sent by these two “leading” indicators, there is more tangible evidence of a U.S. recovery.

According to the [National Association of Realtors](#), pending sales of existing houses have increased for six consecutive months while new home sales, up 9.6% on a year-over-year basis in July, have increased steadily for the past four months.

According to S&P/Case-Shiller, June U.S. house prices exhibited their first monthly increases since June 2006.

Looking forward, although the recovery is still in its infancy and in delicate health, it should continue to benefit from the effects of record low interest rates and the increasing impact of fiscal stimulus.

As the chart illustrates, the stronger outlook for the U.S. will give a much needed boost to Canada's exports and our overall output through the remainder of this year and into 2010.

### U.S. Purchasing Managers Index vs Canadian GDP



Data sources: Institute of Supply Management and Statistics Canada/Chart: Reed Construction Data – CanaData.