

Your Interview

The global economy and Canada

Comments (16)

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Canadian and U.S. stocks fell sharply at the opening of trading Monday as the bankruptcy filing by U.S. investment bank Lehman Brothers Holdings Inc. and cascading fears about the stability of other major financial institutions rattled global markets. The central banks of the major industrialized economies also moved quickly Monday to shore up an ailing global financial system in the wake of the seismic restructuring among Wall Street banks and brokers houses that took place the same day.

How will these global economic factors affect the Canadian economy? What does it mean for your investments? How worried should Canadians be?

On Thursday, September 18, economic trend expert Jim Carroll took your questions.

Read his answers below.

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Chat Questions (16)

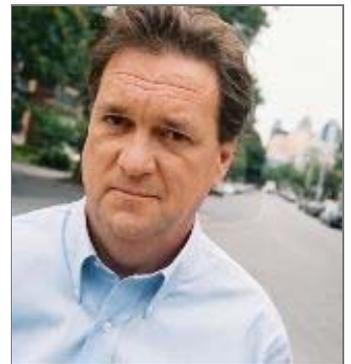
Bentley G.

What do dramatic changes in the stock market mean for the average person, like me?

Jim Carroll: Over the long run, probably not too much. I remain quite the optimist about the potential for economic growth worldwide. There are 650 million people worldwide entering middle class through the next decade, and there are a lot of growth markets that emerge with that. Health care, the environment, energy — all of these industries are immersed in very rapid scientific advancement and fast paced innovation, with new discoveries, and hence new markets.

I'm dealing with global manufacturing companies who are moving beyond market commoditization and the impact of Asia, by focusing on more sophisticated product and higher-value skills. I spend a lot of time with a variety of global companies that seek my guidance, and certainly see that despite financial market turmoil, there's a lot of growth out there.

Think about it another way — we've had quite a few "large scale economic hits" which have whacked the stock market over the last ten years. The Asian currency collapse in 1998 caused havoc with global markets. Then there was the dot.com implosion in 2000. There was a lot of concern with the telecom meltdown a few years later — remember Nortel and the hit to the pocketbook of many Canadians? Not to forget the huge market downturn which occurred with 9/11.



Jim Carroll

The thing is, markets are volatile. They always have been. They always will be. If you believe that there are growth industries out there, and a lot of growth oriented economies, then you see that over time, there are regular, short, sharp economic shocks, but overall and over time, an upward trend.

Alex P.

Why is the world economy in a panic over a 30% drop in real estate prices, which would still leave intact most of the gains of the last 8 years?

To have negative equity, you'd have to have bought extremely recently. So why the panic?

Jim Carroll: Why the panic? I don't want to try to downplay the serious and rapid pace of events in which we are surrounded today, particularly on Wall Street, but we should put things into perspective. Here's the thing : I spoke at a conference a few months back for senior executives of a major global financial association, and put up a bunch of news headlines:

- American banks face financial meltdown if their reforms fail.
- Mortgage Meltdown!
- Bloody and Bowed — Money Managers Remain Badly Shaken by the Meltdown.
- Market Cap Meltdown — Billions in Blue Chip Stock Values Have Been Blown Away.
- Congress caught in a bind over bank crisis.
- Crisis Looming As Realty Slump Becomes Global
- Scary stuff!

But then I revealed the date these headlines appeared.

- Banks face financial meltdown if their reforms fail, The Times, December 1990
- Mortgage Meltdown, Toronto Star, December 1989
- Bloody and Bowed — Money Managers Remain Badly Shaken by the Meltdown, Barron's — December 1987
- Market Cap Meltdown — Billions in Blue Chip Stock Values Have Been Blown Away, Barron's, October 1987
- Congress caught in bind over bank crisis, Independent, November 1990
- Crisis Looming as Realty Slump Becomes Global, American Banker, October 1990

Maybe it's that the news media is being environmentally responsible and is recycling news headlines?

Seriously, though, the stock market, and hence the economy, has always been subject to volatility, and sometimes it's extreme. It goes in cycles. In all likelihood, this is just another cycle. The market was on an upward trajectory for a long, long time, and it is usually brought back to earth by a series of dramatic events that puts a reality check into the system, and draws in excess.

Having said that, perhaps the intensity of today's news cycle also tends to drive our focus to a greater degree on what is going on. There's a lot more coverage of every single instant of every single stock change. People are Blackberried up; they are glued to CNBC; they live and breathe their entire working day tracking the market. They are doing their own trades. They are a lot more involved in their financial affairs compared to years ago; being wired has its disadvantages?

So when we get extreme volatility — as we have in the past and will in the future — people are much more immersed in what is going on.

AW

Toronto

My mutuals investments (a range of consolidated holdings) have been declining steadily in value for the past year and a half. I make automatic and regular monthly contributions to my funds, but the current market instability have given me pause. While I am not considering selling, would now be a good time to put such contributions on hold? Or would switching to stock investments be wiser, given a favourable buyers market? (I am a student, with only a small amount of disposable income available for investment.)

Jim Carroll: It's always best to lock money away for the future, isn't it? Just put the money into something that is less subject to volatility. Not equity funds, but government bills, stable stuff. A lower return, but less risk.

Sterling Wells

My wife and I have invested in mutual funds and right now we are a little worried. How do you feel about the future of mutual funds in the short term?

Jim Carroll: It depends upon the type of mutual funds and your tolerance for risk. If you are heavily weighted in equities, then volatility could impact you. If you are in a lot of cash or government investments, then you don't have much to worry about. It all comes down to your mix. And if you are heavy into equities, then you could decide to sit back and wait this out. The market might go up through the next year. It might go down. Over a ten year period, it's probably more likely to be up than down. Those who sold at 9/11 lost value. Those who sat with their equities saw them return to their pre-9/11 value pretty quickly.

Mark Hall

In July I took my pension money out of International and Canadian equities and put it into money markets in order to stop the bleeding for my intended retirement in 3 years. What signs will tell me to get back into the market and where would you think the best places to put it would be?

Jim Carroll: I'm not a financial advisor, but I think most of them would tell you that if you are three years away from retirement, you probably want the majority of your retirement monies to be in safe, solid, low risk money — treasury bills, government paper, etc. Now is not the time to be taking a lot of risk. You want a guarantee at this point, not necessarily growth. I'm sounding like a broken record here, but it is simple : it's a volatile time for equities. If you can't handle the risk, move into less volatile investments.

Christopher Hylarides

Toronto

What's your opinion on Canada's protectionism, particularly "yesterday's industries"? By this, I mean foreign ownership restrictions on telecommunications (especially mobile phones) and similar traditional industries. However, this leads to higher prices in Canada and leaves newer companies at an international competitive disadvantage.

Jim Carroll: There is no doubt that we have long had barriers, legal and otherwise, some of which remain, which isolate and protect our industries. Cellular is a great example, because we all know we pay much

higher rates than elsewhere. And I believe that there is still a lot of traditional, old school thinking out there that we need to have “special protections” over some industries.

Consider how the cell phone companies are appealing to Industry Canada over the recent spectrum auction — which is allowing a new cell competitor to enter the market — complaining that the process, particularly with respect to ownership issues, was unfair. Are they using the same old tricks to keep a new competitor out of the market? I’m not an expert on the industry, but I do know that a lot of studies indicate that we have less competition, and much higher rates in this country than elsewhere. How much of that is because of old thinking?

I spent quite some time with the BBC, helping them to focus on the opportunities emerging in this massive new digital world. They are doing some extremely innovative things today. And yet, in this country, we had Ivan Fecan, chief executive officer of CTVglobemedia Inc, tell an industry conference that “the digital industry probably made their biggest error, a fundamental error right in the beginning by not finding a way of charging even a fraction of a cent for an e-mail.” How can anyone be so clueless? I made the comment to an industry publication that it’s “ kind of appalling that someone running a big content engine still even thinks this way. Anyone with half a clue knows that before there was a digital industry, there was free email. The future wasn't being created by the "digital industry" back then, and it still isn't today. Until such thinking retires out the door — which I think is just about the most significant trend to play out through the next decade — a good chunk of the advertising world still won't get it.”

So are we unique in Canada. Sadly, yes. And I’m not a big believer in trying to shield our industries from the reality of globalization: I’m dealing with a wide variety global clients, and see the pace of change occurring with telecom, media and entertainment, and other industries. If we don’t pick up the pace and compete and innovate in various industries as the rest of the world, well, ultimately, we’re losers. But you can make a choice too. While in Australia on business and holiday, I didn’t use my Canadian cell carrier and Blackberry to check the office voice mail; that would have cost me \$1 a minute. Instead, I made heavy use of Skype, and probably paid about fifty cents for what would have otherwise cost me in excess of \$100.

Trevor Heywood

I won't be as rude as to ask your views on each political party's platform, but what kind of economic policies should Canadians be listening for in the election campaign?

Jim Carroll: I won’t venture into politics, other than to say that Canadians, and our leaders, need to recognize that old style policies of shoveling money around won’t work, and yet they are all probably guilty of that.

It might sound like a cliché, but we’ve got to restructure; we’ve got to go for higher value industries, we’ve got to innovate. We need to focus on growth markets, and transition the industries that are challenged. Look, we can’t compete with Asia and low cost manufacturers on price. Or, we can choose to move up the value-chain, enhance our skills, and take on more complex, higher value products.

And we can’t do that through platitudes and empty slogans. I think Canadians have to realize the scope of the global competition that is out there, and realize that we’ve got to abandon a lot of our old style thinking and get moving with a different frame of mind. We can’t protect ourselves from the world — we have to go out and compete in the world.

Eric

ottawa

In the long term, what does this mean for people who live off "intangible" sectors such as the arts and academia in Canada ?

Jim Carroll: Let's start with education. I'm spending time in January sharing my insight with a group that includes Chancellor's, Presidents and admissions officers from one hundred of the top colleges and universities in the US.

My message is that the concept of "education" is changing at a fast pace: the "velocity" of knowledge is leading us to a world of "just-in-time knowledge"; the result being the reality that the relationship between educational institutions and students will change; primarily, from a period of short term, concentrated knowledge delivery, to one more related to the lifelong, ongoing replenishment and rejuvenation of knowledge.

That's a pretty fundamental change, and we'd do well to understand what it means, and begin to innovate from there. The challenge for institutions is how to change their ingrained thinking / behavior / structure to adapt to this reality. That's a big issue, and one that's bigger than the current economic correction. We need to rethink the role of secondary education, and how we restructure for a world of regular knowledge replenishment.

The arts? I've never understood why I have to listen to a certain number of Anne Murray songs to maintain my Canadian identity. I've never understood Canadian content rules, and I believe it's the thinking around such things that holds us from innovating at the pace of the rest of the world.

Look, take the copyright bill that was on the table until the election was called. At a fundamental level, it would take away the right of Canadians to do what they've always had the right to do: that is, record a TV show to watch it later; to copy music from a CD to their iPod. The proposed bill would make such activities, if they involved encryption technology, illegal. You could be thrown in jail for doing this — I'm not making this up, and wrote about it in a fairly widely-circulated article, "Do You Copy?" And I think silly legislation like this comes from an industry that is hugely driven by lobbyists, and by governments that are beholden to those lobbyists, and by a system that is funded, and everyone is all in the same boat together. As the boat sinks, they all try to bail out, but look -- the water is coming in too fast.

The world of the arts is evolving at a furious pace, and leading edge artists are discovering that you can use the power of global connectivity to open new markets, earn new revenue, and reach audiences you haven't touched before. And the fact is, innovations within the entertainment sector are moving forward at an astonishing pace. We miss out on the birth of new industries and generally, become the next century's loser.

Is that where we want to be? Is that the type of innovation environment we want in this country? I don't think Steve Jobs could have created iTunes in Canada; we simply don't have an environment that encourages such off-the-wall innovation.

If you think about that, and why, then you realize we've got some really dinosauric-thinking here. We need to change that. We're a pipsqueak in the global economy, and so we need to try harder.

Kathy Classen

What role will Canada's oil reserves play in moderating our economic swings?

Jim Carroll: Last time I wrote in this space, I commented on the fact that the price of oil price will continue

to be volatile. I think we've all seen that. And in the future, oil will go up, and it will go down. I think the fact that prices have moderated is good — not only because of the impact on our pocketbook, but also that it will help to moderate what is occurring out west. Longer term, the fact that 650 million people around the world are transitioning to the middle class bodes well for Canada's oil patch.

Edgar Governo

Winnipeg

What would be the effect on the economy if we all just paid what we owed, i.e. if there were a massive cultural shift among individuals away from taking on new personal debts and towards paying off existing ones?

Jim Carroll: Debt isn't a bad thing, if it used responsibly. Most homeowners wouldn't be if there wasn't a mortgage system. There are people who are over-extended; yet, there were people in the same straights 5, 10, 15, 25 years ago.

C. Mourtos

Oakville

What does this global financial crisis mean to those who call for greater oversight and/or regulation of financial markets and those who contend that the free market will return to equilibrium on its own? Are we witnessing the historical precedent to the collapse of neoliberal economic ideology?

Jim Carroll: I suspect we will see an increasing call in various quarters for more economic oversight. We saw that with the Enron collapse. Just as the economy is volatile and subject to swings, so is the degree of oversight.

A big part of what has happened here is that the financial world was working with very sophisticated, complex financial instruments — hedge funds and derivatives and the like — which, in the end, I think few people understood. The industry was buying and selling these tremendously complex financial vehicles, and there was widespread recognition that a lot of it was happening too fast to be understood or regulated. Go back and read old issues of Fortune, Forbes and BusinessWeek, and you'll see coverage and concern about how some of these markets were operating in grey areas.

As for the “collapse of ideology,” no, I don't think so. Put the headlines into perspective; we've been here before, we'll be here again, and inevitably, the economy marches on.

Kyle S.

Mr. Carrol:

What kind of regulatory reform do you expect to see from the next American Administration in the wake of these latest bankruptcies on Wall Street caused by the subprime meltdown?

Jim Carroll: I suspect will know that after the next US election is over; until then, I think we'll see a lot of rhetoric.

Ben Crawford

Alberta

If the Canadian economy is in better shape than the US economy, why has the CND dollar soften recently in relation to the US dollar?

Jim Carroll: The value of the Canadian dollar is directly linked to the price of oil and commodities. These had a huge market run-up, and so the value of the Canadian \$ went up. As they come down, so too does the dollar. There are dozens of other factors, but in a nutshell, that's the big one.

J

Halifax

What can an average homeowner with some RRSPs, relatively low debt and an average paying job but without major liquid cash reserves do to ride this out when putting tens of thousands into gold stocks isn't an option?

Jim Carroll: Put it in context, and don't make any moves based on panic. Keep in mind my comments about previous "meltdowns," and keep it in perspective.

Betsy

Quebec

Has there ever been a recession of this magnitude whose primary causes are the same as what we are seeing today (as I understand it, over-investment in bad mortgages)?

If not, has something changed in the past few years that encouraged this behaviour?

Jim Carroll: Has anyone defined that we're technically in an actual "recession." Not yet, as far as I know, but we're likely to see that pronouncement soon. So it's likely we are in a recession, but it sure doesn't look like 1991, or 1979, or some of the other dramatic years that we've seen. So far we're in relatively good shape — but we have to realize we're in the *global* economy, and we should be relentlessly turning our minds out there to figure out what and where we go next in terms of economic opportunity.

Ed Esslinger

Why do gold prices rise when there is an economic down-turn? How does this help, when in effect more money is taken out of the loop?

Jim Carroll: A century ago, you could hoard gold. You could hold it. You could hide it. It was the invincible investment, and it has maintained an aura of being the ultimate safe investment. That aura remains to this day.

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