

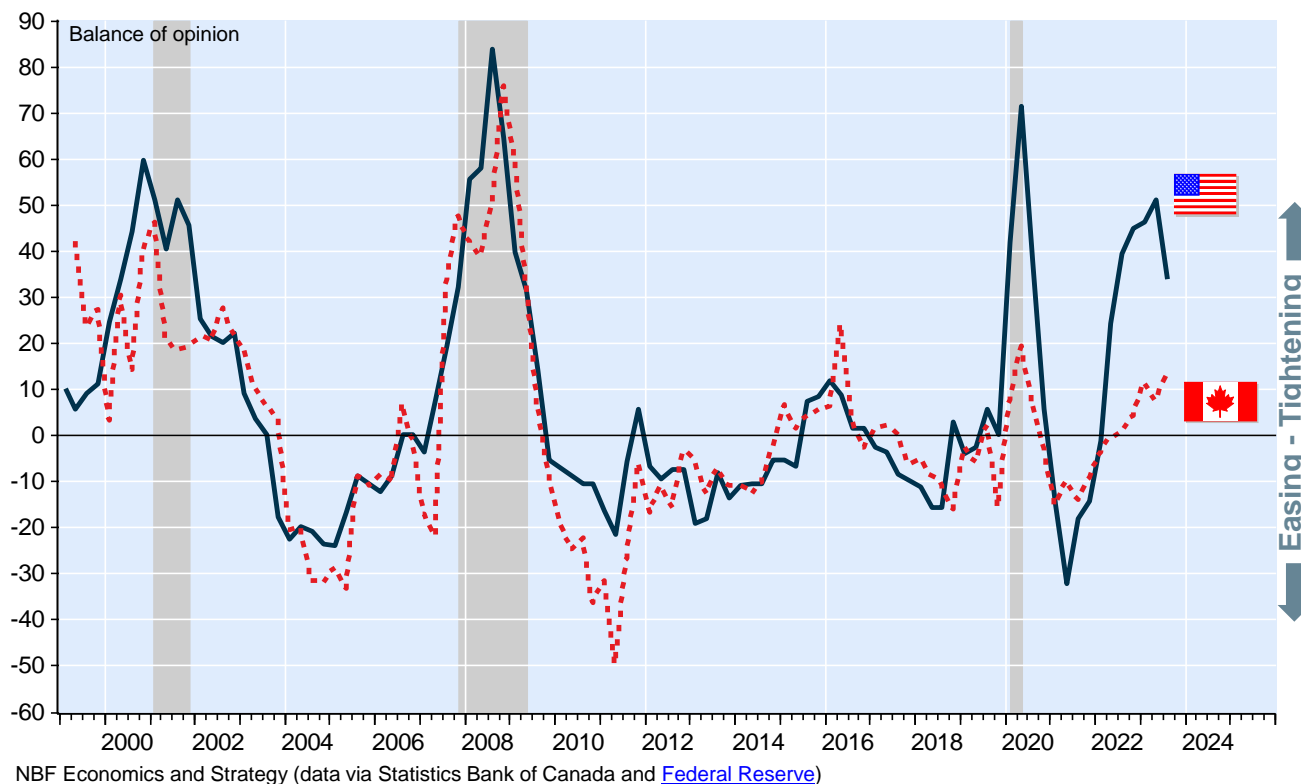
Canada Watch

By Matthieu Arseneau

Signs of an economic slowdown are much more evident in Canada these days than in the United States. GDP has been stagnating for several months on this side of the border, while the US economy is coming off a quarter of spectacular growth thanks to an energetic (reckless?, [link](#)) consumer. This is not surprising, as the transmission of monetary policy is faster on this side of the border due to the structure of the real estate market with shorter-term mortgages. Despite these economic headwinds, we give Canada the edge on one point. This morning, the Bank of Canada released its Senior Loan Officer Survey for Q3, which measures the credit appetite of major financial institutions. As today's Hot chart shows, when it comes to commercial lending, credit conditions in Canada have tightened only slightly in recent quarters, in stark contrast to the situation south of the border, where a large majority of lenders have tightened credit conditions for six consecutive quarters. There is reason to believe that, in the wake of the banking crisis earlier this year, fragilized regional banks in the US are much less inclined to extend commercial credit, especially in the context of the current economic uncertainty and commercial real estate exposures. Furthermore, large banks may be cautious in light of the regulatory proposal to increase capital requirements announced this summer. In these circumstances, our view is that the US economy is in for a significant period of weakness in the months ahead.

Canada: Less tightening of credit conditions on this side of the border

Overall business lending conditions: Balance of opinion



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