U.S. Recovery – Gaining Traction

M&A Article by Cal Cochrane
January, 2014

The long-awaited economic recovery in the U.S. is now showing clear signs that it has taken hold and will continue to strengthen through 2014. Looking back to the beginning of the recession that started in late 2008 with the sub-prime meltdown, it has been a much longer and more difficult recovery than most had imagined. The massive housing loan defaults and political in-fighting combined to lengthen and deepen the recession and rippled through virtually every sector. While there were a few false signs of recovery at different stages of this 5 year plus ordeal, recent economic data and trends suggest a sustained upturn and return to prime health for the world's largest economy.

The U.S. GDP increase for the third quarter of 2013 came in at a very healthy 4% and the fourth quarter is trending to a 3% increase. After much delay Congress passed a budget late last year which funds the government for the next two years and increases discretionary spending. This alone will help boost GDP in 2014. Most analysts predict the improvement in GDP to continue at or close to the 3% rate for 2014 versus 1.91% for 2013 (e.g. Wells Fargo has the 2014 increase pegged at 2.8%). The housing situation has stabilized with new housing starts expected at 17% in 2014, auto sales are back to pre-recession levels and other real consumer spending increased at a 5.5% pace in the fourth quarter.

Summing up, 2014 looks very much like a breakthrough year for the U.S. recovery and as we have seen many times in the past an economy on the rebound will drive deal activity as confidence returns and both buyers and sellers recognize these conditions as the best time for conducting deal transactions.

Canada – Positive Signs

Global signs are improving with the November OECD report targeting global growth to increase by 3.6% in 2014, up from estimated growth of 2.7% in 2013.

Canada did not suffer during the recession to the same extent as the U.S. and Europe but the Canadian economy has been slowed down in the past 12 months mainly due to lower commodity prices. RBC predicts fourth quarter 2013 growth to be 2.6% and to maintain that level in 2014. The dramatic fall (or correction) of the Canadian dollar from near par at the beginning of 2013 to the mid-January 2014 level of $.92 U.S. will be a direct boost to exports, predominantly to Canada's largest customer, the United States. Overall, the Canadian economy is expected to be on a similar, although somewhat lower, track as the U.S. economy during 2014.