A construction worker works on building new homes in Calgary, Alberta, May 31, 2010. *(Todd Korol/Reuters)*

Canada’s economy grew at a modest pace in the latest quarter as business investment rose faster than expected while debt-laden consumers curbed their spending.

Canada’s Gross Domestic Product rose at a 1.8 percent annualized rate, Statistics Canada said Friday.

That was a bit higher than economists’ projections and nearly in line with the Bank of Canada’s 1.9 percent forecast.

Still, it was the third quarter in a row Canada's economic growth remained sluggish as the financial crisis in Europe and political deadlock in the U.S. continue to loom over global growth.

"The Canadian economy did slightly better than expected in the second quarter, but the pace was still nothing to write home about," Doug Porter, deputy chief economist with BMO Capital Markets, wrote in a note to clients.

While Canada is outperforming its peers in terms of output and job growth, as an export-oriented nation it remains challenged by events beyond its borders, federal finance minister Jim Flaherty told reporters at a press conference in Toronto.

Canada's growth so far this year has been "modest and softer than expected by private sector economists" at the time the federal government released its 2012 budget last March, Flaherty said.

"The key risk remains the situation in Europe and the pressing need for European leaders to firmly and permanently deal with their sovereign debt and banking crisis," he said.

The U.S. is also a concern, he added.

Flaherty didn't rule out taking future action to stimulate the economy "if we ran into a serious world economic crisis."

However, he said, at the moment Canada is "on track."

Friday's GDP report is the last piece of major data before the Bank of Canada prepares to hold its regular rate-setting meeting on Wednesday.

Few economists expect the central bank rate to change any time soon, despite recent warnings by bank governor Mark Carney that it can’t stay this low forever.

“With inflationary pressures already subdued, this second-quarter (GDP) figure supports our long-held view that interest rates are likely to remain low for a long time,” David Madani, an economist with Capital Economics, wrote in a note to clients.

The Bank of Canada’s trend-setting rate has been unchanged for nearly two years at an ultra low 1 percentage point.

North American markets, meanwhile, responded positively to signs the U.S. Federal Reserve would be willing to take more action to boost job creation and economic growth.

The U.S. economy grew just 1.7 percent in the latest quarter, while the unemployment rate, though down from its post-recession high of 10 percent, is currently 8.3 and has been stuck above the 8 percent level for three years.

Canada’s jobless rate, by comparison, is 7.3 percent.

The Fed has already ploughed more than $2 trillion into two rounds of bond purchases that helped lower long-term interest rates, measures that Federal Reserve Board chairman Ben Bernanke said had helped the economy recover from the worst downturn since the Great Depression.

In a nod to more action, Bernanke noted that the economy could suffer years of damage if unemployment remains high.

In Canada, the GDP data provided business with another opportunity to dispute Carney’s statement last week that companies are sitting on too much cash, instead of investing in growth.

Business investment in machinery, plant and equipment rose a hefty 9.4 percent and was the main growth driver between April and June, Statistics Canada said.

“These results show that recent concerns that businesses are preferring to hold cash rather than to invest in new technologies and facilities are greatly exaggerated,” Jayson Myers, president and chief executive officer of Canadian Manufacturers and Exporters, said in a statement.

Canada’s debt-laden consumers, meanwhile, slowed their spending for the second quarter in a row.

Consumption rose a tepid 1.1 percent, somewhat faster than the 0.7 percent rate in the previous quarter, but still well below historical norms.

At the same time, real personal disposable income grew by 3.5 percent, while savings rose to 3.6 percent from 3.1 percent in the previous quarter.

Businesses inventories surged by $15.2 billion in the second quarter, $7 billion more than in the first three months of the year, Statistics Canada said.

But demand for exports slowed and imports rose substantially, dragging down overall growth.

In June, GDP grew 0.2 percent from May, propelled by output in the mining, oil and gas sector.

Output declined in the wholesale and retail trade sectors, as well as manufacturing.

The sluggish economic growth prompted a warning from Ottawa.

The Finance Department recorded a shrinking deficit for the first three months of the 2012-20113 fiscal year, but cautioned that the fiscal outlook is at risk of deteriorating.

In its monthly Fiscal Monitor, the department said the deficit for the first three months of the 2012-13 fiscal year was $2 billion — less than half the $4.2-billion recorded for the same period last year.

The department said that’s consistent with its plan to reduce the 2012-2013 deficit to $21.1 billion.

But it also warned that a weak economy poses a mounting risk for the fiscal situation.

From April to June, federal revenues rose 4.7 percent because of higher income tax payments and a hike in the Employment Insurance rate, while expenses rose at a more modest pace.

For the month of June alone, the deficit was $1.1 billion, compared with $2.3 billion for June 2011.

(With files from The Canadian Press)