



Canada's Economic Outlook

The Post-Election Road to Recovery

Webinar: October 28, 2021

Kristen Trevisan (0:01)

Hello and welcome everyone to today's webinar, Canada's Economic Outlook: The Post-Election Road to Recovery. My name is Kristin, and I am the convening manager at The Conference Board of Canada. As our team at the Conference Board is located and hosting this webinar from Ottawa, I would like to begin today's session by acknowledging that the land on which we gather is the traditional unceded territory of the Anishinaabe Algonquin nation. And as this webinar is being held virtually, we would like to acknowledge all nations across Turtle Island.

Before we get started, just a couple of housekeeping items for everybody. If you do have any questions during today's webinar, you can submit them through the Q and A tool on the screen in front of you to myself, and we will get to as many questions as possible at the end. There is also a speaker section which you can read Pedro's bio and connect with him and our [...] staff there. There are also a couple of engagement features across the bottom of your screen. We have a chat feature that you can talk with one another, as well as a resource section for any additional information. Finally, all of the windows in front of you can also be moved and resized minimized to suit your visual preferences. If you do have any questions, feel free to pop them in, and we'll be happy to get back to you. So, without any further ado, I would like to pass it over to Pedro Antunes, our Chief Economist at the Conference Board. Pedro, over to you.

Pedro Antunes (1:23)

Great. Well, thank you, Kristen, and good afternoon, everybody. I have, yeah, I think an interesting story. We've kind of just completed our fall forecast cycle. We've, in fact, just completed the provincial outlook, following the Canadian and I, upon reflecting, as I was putting together this presentation, I was thinking that, you know, the good news kind of is almost in the past. In other words, you know, we have seen the economy recover from the depths of the closures that we saw back in 2020. We just got good news for September that labor markets have recovered, and we're kind of fully back to where we were in pre-COVID days. You know, obviously the economy isn't fully recovered overall, but you know, we're closing the gap. And you know, as we look to 2022 of course, we've got a fair bit of built in growth, and we're going to continue to see some of those gaps close up with fairly strong growth in 2022.



The reason I was a little bit, how should I say, a little bit concerned, was that I think when I when I look beyond 2022 and we start thinking about the medium term, we start worrying about the fundamental drivers of Canadian of Canada's Economic Outlook or performance beyond that, and it's not looking very, very solid, And so I just wanted to prelude, before we get going on this that there is, you know, I think some concern when we're looking down the road. The cost of this recession, of this pandemic, has been heavy, and I think we're starting to see that this is going to be painful as we get beyond these recovery years. So unfortunately, that's the prelude to our presentation today.

Let me start though, however, with a little bit of good news. Certainly, on the title here, Bumps on the Road to Recovery, you know, we're really talking about some of the things that have held back growth in the last few months. Certainly in Canada, we've seen the supply constraints that we're hearing about, chip shortages, transportation bottlenecks, all sorts of issues globally, as we've seen this surge in demand cause these strains that's taken a toll in Canada. In fact, we saw the second quarter with a slight decline, if you might recall, in 2021 largely due to our inability to get exports to the US, in particular transportation and vehicle exports. So, you know, we are seeing these bumps. Obviously, there's been the fourth wave, and had that's had impacts in certain provinces. We've seen some reclosures, and now I'm really hopeful that we're seeing a lot of that kind of behind us in terms of the pandemic effects, and we'll see a more fulsome reopening of the economy as we go forward.

But let's, let's take a look and start with kind of the picture outside of Canada. What's going on? You know, certainly what we're seeing in Canada, we're seeing in the rest of the world, in the sense that the economies are reopening. This is driving essentially a surge in demand, and I think part of the problem, and part of the strains that we're seeing with supply chains, with transportation bottlenecks and others, are essentially that we shut-in demand in 2020 we also shut in production in 2020, and now demand, essentially, given all the support programs that are in that have been put in place, demand is picking up very, very quickly, and supply isn't keeping pace. And we're seeing that essentially, in the in the energy market, especially with oil and natural gas, we've seen major increases in prices there and those having their own problems and causing their own hiccups, I guess, in in terms of the global outlook. We're really living through an energy price shock, which, you know, is muted in Canada in comparison to many other parts of the world.

Nonetheless, you know, 2021 I keep saying, is almost in the past, really, but the world economy has expanded and will expand about 5.7% in 2021, and you know, we're really stepping off of a high level as we go into 2022 with continued growth in next year, 4.1%. And essentially what we're seeing is most economies, most developed economies, anyways, kind of regaining their pre-COVID levels, either late this year, early next year, for the most part, is the is the kind of general story. Asia-Pacific region has done well. China, in fact, didn't see a decline in growth in 2020 it's done quite well on the rebound. But of course,



we're also starting to see some major problems in China related to shortages of electricity. I mean, there's some factories that are being shut down because of the lack of coal, essentially shortages of coal to drive electricity. And of course, we've heard lots about residential real estate linked to the Evergrande crisis, so we'll see how that pans out. Certainly, you know, if Evergrande was too big to fail, the government, the Chinese government, has a wherewithal and capacity to be able to rescue them. Whether they will or not is a whole other, a whole other question. We're seeing the impact of Brexit on the UK economy in particular. In fact, the UK economy is really hurting in terms of, you know, I guess these supply pressures and bottlenecks and labor shortages well above or well beyond what we're feeling in many other parts of the world. So, the UK really, really hurting and really held back in terms of its ability to fully get back to normal.

A few other points here, but really around the natural gas prices, oil prices, I think we are seeing an energy stock shock. I was just contemplating, this may be the last energy price shock, at least with respect to oil and gas, if we are really going to see long term kind of peak demand for oil. But right now, we're essentially feeling the strains of again, just like we've seen in many other goods, or for many other goods, this essentially the economy reopening, really expanding demand, while the supply has just not come back. So, oil production out of the US, for instance, has been has declined sharply and is not coming back as quickly. Obviously, we have to get the rigs back in operation, but it's mostly OPEC. OPEC reduced production by about four or five million barrels a day during the worst of the crisis in 2020 and they're ramping up production very, very slowly. I think in some cases, some countries unable to ramp up production because of missing disinvestment in maintenance, but other producers also kind of just essentially benefiting from these ramp up in oil prices and not willing necessarily to increase production. So, there's the picture for the global economy.

This is real GDP growth. You see over the past three decades, very strong performance in general, especially over the mid-2000s. A few recessions in here, you certainly see the 2008 2009 recession, where growth essentially stalled was held at zero or flat in 2009, and when we look at in comparison to what happened in 2020, where we see a steep, steep decline in overall economic activity. Remember, real GDP is just real income, and we saw steep decline in real incomes in what the economy is producing in terms of wages and profits, steep decline in 2020. So, we're rebounding 2021–2022 rebounding to get us, as I mentioned, kind of back to pre-COVID levels.

Now in general, and it's interesting, because almost every time I read something about a developed economy, you know, you hear the same stories as we're living right here in Canada. That is, you know, essentially households and businesses, their balance sheets in really good shape. We hear about, you know, the economy's rebounding and held back by some of these supply constraints. We hear about labor shortages in many developed economies. So essentially, you know, what's happened for most developed economies is



kind of similar in the sense that governments were able to borrow and put in place many, many support programs, or massive support programs that really have held up, you know, essentially balance sheets for households and businesses. So as the economy reopens, there's a lot of capacity, there's a lot of wherewithal in the economy, to get consumption back and get investment back, and we're hopeful to see those growth rates pan out. Developing economies, for the most part, didn't have the support programs in, or it's certainly not to the same extent. They typically didn't close the economy as much as we saw in advanced economies. So, we saw less of a heat hit in 2020 and in some cases, you know those, the potential in those economies is typically stronger, so we should expect to see better rebounds in 2021 and 2022.

So, in Latin America, a little bit of a different story, though, that those economies were generally hard hit. Of course, you can think of some of the mismanagement that happened, especially, I'm thinking in Venezuela or especially in Brazil, where there was a kind of denial of the impact of COVID. And we saw the repercussions there. But Latin America also very dependent on resources, so those economies, in general, harder hit than perhaps most developing economies around the world, and the rebound really quite slow in in the next couple of years, the is the expectation for that part of the world.

Just a quick look at China. And I think this is really important, because, of course, China in the past, certainly in the early 2000s we kept hearing about the BRIC economies. But even through the last decade, China was still managing this very, very strong growth from a much bigger pie. Now that China's economy has gotten much bigger it, you know, it's starting to rival the US economy in terms of its size, but it's still a region that, over the past decade, was growing at a pace of six 7% even in 2019 we saw 6% pace of growth for again, that large economy. 2020 China did manage to do fairly well, not see a recession, not see a decline in economic activity in that year. But when we look ahead, the rebound is there. When we look ahead to 2022 2023, we're starting to see some of these issues and problems emerge that suggests that China's growth may be slowing down on an ongoing basis beyond this recovery period. Obviously, a concern, because China is, you know, one of the major economies driving overall economic growth, and it certainly had been a supporter of much of the strength in activity that we see in the Asia-Pacific region.

So, for the US, you know, and again, the US, like many other developed economies, lots of support put in place. We're seeing the effects of the reopening of the economy, very strong rebound in consumer spending and in the US, just like in many other parts of the world, this has been exposing some of the supply constraints that we keep hearing about. So real GDP growth of almost 6% this year and another good, strong recovery year in 2022, 4.1%. Inflation, of course, striking US consumers, and in many ways, you know, this is that same story, the economy reopening more quickly than supply can muster, and we're starting to see, or seeing the impacts of that, not only in energy, but in food prices and in the price of many other retail goods. Overall inflation in the US in the last few months has been running



above 5%. If you take out the impact of the effects of energy, still inflation is running at well over 4% in that economy. Labor markets have improved, but again, there's some strange things happening in the US. You know, despite the fact that employment seems to keep rising, and we are seeing, you know, hearing about labor shortages everywhere, we are seeing a lack of labor force participation rate as well. So, it's a bit of a mystery in the US. And I'll talk about some of the, some of that mystery as well that we're seeing here in Canada, and I think we have an explanation for it here, north of the border, but you know, it's a bit of a strange beast that's happening around the world in many developed economies, where, even though we're just barely catching up on employment levels from essentially a year and a half ago or two years ago in, it seems that we've exhausted the supply of labor, and participation rates aren't coming back where they should.

Well, the trillion dollar deficits, I'll talk about that in a second. But let's take a look here at some of these supply shortages. And we keep hearing about, you know, in the UK, they may not have they may not have Christmas. I just read the other day that there's going to be a shortage of Christmas trees, or there may be a shortage of Christmas trees just for lack of supply. These are first world problems, obviously, if that's our biggest concern, but certainly, you know, we're seeing some of these supply and transportation bottlenecks really having an impact here and again, leading to higher inflation. And I think the big concern is, and the question that most economists or forecasters at least are dealing with is, how long are these supply bottlenecks going to affect our ability to get product to market and affect inflation rates? And I think we're starting to believe that, you know, I certainly believe that markets adjust, and they adjust fairly quickly, but this is just such a big surge in demand that we're just not seeing these problems necessarily go away very quickly. So, you know, the certainly around the transportation bottlenecks and the difficulties around shipping across, around the world, we see some of these problems, perhaps lasting well into 2022. And this, I think, is why we're hearing more and more from our central bankers that, you know, perhaps the impact on inflation is not just transitory or it's transitory, but it'll last a little bit longer transitory, a little bit longer than we might have expected earlier on.

Nonetheless, despite these constraints, you know, the US is rebounding strongly. It had a decline of only three and a half percent last year in comparison to Canada. I'll show you that we declined by 5.3% I'll show you that in a minute. So, the US still fairly resilient economy, of course, and also massive support programs helping consumers to rebound in that economy. The economy is doing better on the investment front, and that certainly, that's a positive, and that's why we think growth will stay above the 2% even in the medium term, be on this rebound period. So fairly good news. Never, really, never, you know, never give up on the US economy. It always seems to do well on rebound. But some of the fundamental issues that we're living here in Canada, of course, they're also living in the US, especially with respect to the fiscal situation. And, you know, just in the last couple of years, the US has added, you know, these numbers, \$3 trillion this is roughly 12 to 14% of GDP, depending on which year you look at, particularly the recession year. But even as we look



over the medium term, we're seeing the US, the US fiscal situation, with deficits in the in the 4% range, even in the outer years of the forecast. So, 4%—these are sizable deficits. The US debt to GDP was already at 80% pre pandemic. So, this is going to pressure, certainly, the ability of the federal government in the US to do a lot or to do any more, and I think certainly we're going to likely see some fiscal restraint. And I should mention too, we're still waiting to see which if the Biden social infrastructure program will pass. We certainly have some of a portion of that into in our forecast over the medium term, with equivalent tax hikes that hopefully will make Canada a little more competitive on the business tax front with the US.

Alright, so when we get to Canada, here's where I want to kind of focus on the agents of our economy. So, we're going to talk about what's driving the near term growth, but we're also going to look at a little bit of what are the repercussions of this pandemic on, kind of the central drivers of economic growth in Canada, and that is the consumer. What does consumer spending look like post pandemic? What's the situation for households? We're going to look at the same thing for businesses. You know, are we expecting that, even though you know the situation again has been good for businesses through this cycle, will we see businesses do well post pandemic, once, especially once, all of these support programs start to come off. And lastly, we're going to look really quickly at the fiscal situation, which I'm sure everyone knows it is problematic. And you know, another major component and driver of economic activity, the government sector in Canada also restrained in this post pandemic period.

So, this is where the kind of good news of the rebound has to mix in with this kind of more, how should I say, concerned view around where we will be post recovery. Like no other recession, certainly, you know, this has been, and I'll show you some of the numbers, but this has been like no other recession, in the sense that in a typical recession, we see profits come down, we see household disposable income drop, or at least flatten out, and we tend to see bankruptcies come up. We've seen just the opposite through this cycle, essentially, business bankruptcies, household bankruptcies have come down. Incomes are through the roof in 2020, savings is through the roof, and business profits are doing very well as well. And I'll show you some of these things now. The only one that's already in trouble are governments. And governments have borrowed massively through this pandemic. Essentially, if you look at federal provincial we've borrowed about 20% of GDP. In other words, we've borrowed from the future 20% of our annual income to put back into the economy over these last two years. And so, the situation going forward is going to be challenging, I think, for governments.

So, here's the recovery you see, just comparing Canada and the United States here in terms of economic growth, or GDP growth, the recession in 2020 hitting Canada harder than in the US. And the rebound not as strong going forward. But you know, the rebound is still sizable, you know, 5% growth for Canada this year, just above that. We're still expecting



4.4% growth in 2022. But look beyond that, and you see our expectation for Canada's economy is quite weak relative to the US, where, you know, we're sitting at economic growth of 1.4% for example, in 2023 and just above that in 2024 whereas the US is well above 2%. And you know, again, the reasons for that we're going to take a look at, when we look at these various agents.

So, let's start with households. And if you've listened to one of my webinars since post, since we've been hit by this pandemic, this is the kind of same chart you might have seen this before, but essentially, it looks a little complicated here, but what we're looking at is essentially the growth in real after tax household income, so what we call disposable income, and that's in the blue bars, aligned with that, especially over the historical period, here 2012 to 2019, is our real spending. And typically, consumers spend in line with their with their income. So, if the growth in income has been, you know, two or 3% in a good year, perhaps three or 4% real spending kind of typically keeping up with that. In fact, prior to the pandemic, we'd been very concerned that real spending was outpacing after tax income, and we were actually seeing the savings rate, which is the red line, decline from that 5% rate to well below 2% in recent years. Jump to 2020, and despite the fact that this was a massive period of reduced employment, when we look at the losses in labor income, they were more than offset, in fact, much more than offset by the support programs like the CERB and others. And this meant that despite this recession, after tax income grew over 9% in 2020, this is real inflation adjusted income, and we were unable to spend in that year, unable or unwilling to spend, so our real spending fell sharply in 2020 and that allowed our savings rate to really skyrocket in 2020. Households put away over \$200 billion in 2020 and we have most of the numbers for 2021 we know they're going to put away another massive amount in savings this year.

So, I'm going to talk about those savings in a little bit, but as we look ahead, you can see we actually are going to correct for this as support measures come off. We're going to see real after tax income declining or very weak, even though we are seeing employment recovered. In other words, you know, the benefit of the CERB and other programs that was greater than the loss in labor income is being reversed. But very long term, what I'd like you to notice is that we're essentially thinking that the savings rate in Canada will stay a little bit higher in that four and 5% range over the medium term. So, with real incomes quite weak, real spending, we think will remain quite weak through that period. We saw the same thing, by the way households prudence goes up post-recession, we saw that in 2008 2009 after the recession, we saw household savings rates really ramp up to around the 5% so I think we're prudent in our assumptions around consumer spending. Interest rates came down very low. And of course, we just heard from our central bankers yesterday that the quantitative easing program is now ended. The bank is still holding massive amounts of bonds [...] but at the same time keeping short term interest rates low. I looked very quickly to see if bond yields had come up. I think for the most part, markets have already priced in the fact that The Bank of Canada was going to essentially quit on the quantitative easing piece for the bank is no



longer buying government, long government bonds, and I think what we're going to see is this upward pressure on yields, on government bond yields coming up ahead of increases in in the bank rate itself. So no matter what, we are going to see interest rates coming up, even if we if we are to wait and see for the Bank of Canada to increase rates, and this is going to put pressure not only on government, but of course, also on households.

So where, where is all this savings gone? And certainly, we've seen some good news, and that is that households reduced their credit card debt and their credit balances by \$10 billion and \$12 billion respectively. So that was good news. We're moving away from our credit card, holding debt in our credit cards. But we did, in fact, take on a whole lot more household debt. As you know, we saw this surge in demand for housing. And I think a fair bit, I don't have the numbers, and I've asked around, it seems it's difficult to get at, but I think that a fair portion of the savings that \$200 billion and another \$100 and so billion that we're saving in 2020, and 2021, is probably going into real estate. And this is what part of what has been driving real estate prices so high. Now that's really just inflationary. You know, we still have the same stock of housing. We still live in the same homes. Just the value, the asset values have gone way up. But of course, if we're just putting more money into these assets, we're not really gaining any more in terms of the utility from these assets. This is very much an inflationary impact of this massive addition to the money supply, I would argue.

So how does the household balance sheet looks like? So, as I mentioned, savings rates were very high. Delinquencies are, in fact, at rock bottom. I just got the latest data to July from the Canadian Bankers Association, so this is, I mean, it's obviously very good news. The question is, going forward, we have taken on a lot more debt. This is the debt acceleration, and I'm going to show you this. Well, sorry, these, these are the home prices and the inflationary impacts. And there you have it. In the last month here to September now, Toronto's home prices have doubled in just six years from the beginning of 2015. So again, this inflationary impact in real estate is not necessarily a good thing, especially for new entrants into the market. It's really very much inflationary. And I often, I mean, certainly I used to talk a lot about how when we looked at the interest, you know, households have been very rational over the last number of years, taking on more mortgage debt because the interest portion of that debt had been at rock bottom levels. If you look, you know between 2008 2009, that blue shaded area, you can see that we used to pay well at the peak in 2008 2009, 10%. But even if you go back further, you can see we used to pay a fair bit of our disposable income in terms of servicing the interest on mortgage debt. Fast forward to 2017, 18, and that had been at record low levels up until just very recent years where we've taken on even more debt. The big difference, though, is that that green shaded area, which is taking up a bigger and bigger piece of the pie. So, when interest rates were high, you know, the principal payments were low relative to our total debt burden. Today, though, the principal payments are just massive in comparison to the total burden. But it doesn't take away from the fact that households, in general, are putting an awful lot into their real estate.



They've committed an awful lot to this real estate. Now the reason that the prices, sorry, that the debt servicing costs as a share of income have come down in that gray bar 2020, 2021 is because, as I showed you a minute ago, household disposable income just took off. It grew at a record pace and allowed us to drop that servicing as a share of income. But that's going to come back very quickly. And when we look ahead, it's the interest payments that start to gather and take away from, you know, essentially disposable income for households. So that portion, growing over the forecast, I think, I mean, it's not a crisis, but it is a challenge for households and their ability to spend on other things.

Just quickly on the workforce, a couple of points. Yes, you know, in September, we saw employment recover back to where it was prior to pandemic. And there it is. This is the level of employment in Canada. We were at 19 million just prior to the pandemic, and we essentially recovered almost one for one back to February 2020 levels, employment is back there. Nonetheless, we are feeling labor market pressures. And I think part of the reason, at least in Canada, we have seen participation rates do better in Canada, especially for young people. We'd heard a lot about how the pandemic had hit the young workers 15 to 24, especially women, but we have seen participation rates for those cohorts come back up. I think the big difference, and the reason we're seeing such an outcry around labor shortages is because of the change in immigration that's happened over the last couple of years, and that's having a huge impact on population growth. And these are the numbers. Essentially, immigration was cut by not quite half in 2020, but we also saw a decline in non-permanent residents. Now non-permanent residents are essentially temporary foreign workers and students, and if you add up both of those components, back in 2019 we saw a net addition of both immigration and non-permanent residents of 533,000 people. Fast forward to 2020 and even in 2021, but in 2020 specifically, that number was less than 100,000 so a net difference of 433,000 people in coming into the population numbers, I should say, in between those years. So that's having a massive impact on our ability to grow our workforce, just because the immigration numbers aren't there.

Now, just as an aside, we're hearing a lot about immigration numbers picking up and the government trying to hit targets that are very ambitious in 2021 and 2022. I certainly think we can do that further out, but right now, those immigration targets are being hit by converting, essentially, people with Canadian experience, and in fact, these are temporary foreign workers and perhaps students that are already in the country, and they're already counted in the labor force and population numbers. And that's why, if you take essentially those folks and just make them citizens, they're not really adding to the way Statistics Canada calculates immigration or to the way we calculate our population growth. And thus, you know, we end up with this challenge with job vacancies.

Now this is just really quickly a total all occupations. Remember 2019, was a year where labor markets were very tight. We hit record low unemployment rates in in Canada in that year, on average for the year, and in fact, in some months in that year, I think, the



unemployment rate internationally fell the 5.4% in one or two months. And back in 2019 the job vacancies for all occupations were at 540,000 as you see the number there. Fast forward to where we are right now. In the last three quarters, we're at 615,000 job vacancies. So, a 14% increase, and you can see knowledge economy of workers, you know, having the biggest gaps or the biggest increases in job vacancies, especially obviously in healthcare that we keep hearing about. But even in sales and service occupations, job vacancies are, I would say, quite strained, in line with 2019 levels. And what we're also seeing is the now, it's a small proportion of all wages, but the offered wages among these job openings are coming up quite strongly in a year and a half, essentially, or two years overall, rising by nearly 7% percent, 6.8% nationally. So that is putting some pressure, and that is a concern for inflation. In our baseline forecast, you can see here, all I want to show you is that, you know we do think the consumer price index, the inflation area period, will last through 2022 but not settle into necessarily inflation expectations, and we'll we will see wages kind of lining back up with inflation in the outer years. But there are risks. There are risks that we do see wages, you know, the kind of expectations around wages and prices building, and this is obviously a concern that the central banks don't want to hear about and would have to deal with if we start to see them.

All right, so I want to take, I guess, the next 10 minutes or so, and we'll go through the, you know, essentially what's happening for businesses. And it's a similar, story. This is that second agent in the economy, businesses invest in Canada right now, though, we're not seeing a lot of that investment. And I worry about what's going to happen in the coming quarters, as some of the support programs come off and some of the strains of essentially structural changes that are, you know, eminent here, are that are already here in Canada start to have their impact on especially small and medium sized businesses across Canada. Let me, so a delay, I think in Schumpeter's creative destruction, if you've heard that term before it, it's essentially that, you know, a typical business cycle, a typical recession, will lead to creative destruction. It will shake up things, and it will allow for new businesses to come in and perhaps do better than some of the ones that weren't doing so well. Right now, what we're fearing is that we have a lot of what's called, I hate these terms, but zombie firms in the sense that you know, they're perhaps not really viable, given the structural changes that that we've endured through this. And, you know, they're essentially being supported by government support programs.

Here's some evidence of that. You know, despite a recession, what we saw is profits really taking off there. This is the level of profits in Canada in the second quarter, they're nearly at 300 billion, which is pretty much double what we've seen in years prior to the pandemic. So, profit levels very high. When we look at business bankruptcies, they're at record low levels. The business counts for small, medium sized businesses are very high. They have dropped in the most recent data, but still remain very high. So, all of these things, due to, I think, or at least certainly in part, due to the support programs that we've seen that have been very generous. You know, nearly 900,000 businesses, mostly, most of, I think the number was



somewhere over 800,000 small businesses approved for CIBA and CIBA expansion loans, that was \$49 billion program. The wage subsidy program, Canadian emergency wage subsidy, the CEWS, you know, we know that it's backed, I mean, we're only 19 million employees in Canada in total, but over different periods, the program backed over 36 million employees. And the total value of the program, small, medium sized businesses, 52 billion; total value of the program, 95 billion, up to mid-October, the data up to just the middle of this month.

So these programs all coming to an end. You know what's going to be the impact on small businesses and large businesses across Canada, especially if we do have some of these major, important structural changes that the economy is going to have to face, one of them, of course, being telework, all of those businesses that service those downtown workers. But even in things like that, in industries that have done very well through this pandemic, you know, we may see some correction going forward. I keep thinking of things like residential construction. We saw a big boom, you know, renovation spending, as people start to normalize their spending, we're going to see some of these things coming off going forward. Sporting goods retailers, another one that I think will see some decline. So, some of the things that have come up very, very strongly may, in fact, see some declines going forward. Some, of course, some of these changes probably being permanent, in a sense, non-store retailers or ecommerce really taking off. The cannabis sector, which was a new segmented or recently new segment in the economy, is growing over close to 50% since pre COVID levels, and that's unlikely to change.

But here's the real concern, you know, I think this rough patch will continue for many industries going forward. I mean, air transportation at the worst was hit down 90% this is in the latest data, July, it's doing a little bit better than that, but it's still running at essentially less than 20% of what is normal for that industry. And how quickly that recovers, and how quickly you know, demand for air transportation equipment comes back, is another, another concern I have, transportation equipment manufacturing here also decline. This includes, you know, essentially, our aerospace sector in Canada, which is a very important sector for many of our provinces. And of course, you know, tourism, accommodation services, urban transit systems, personal laundry services. This goes to that downtown, you know, service sector, and even things like gasoline station or car dealerships. I know we've seen a surge in demand for cars, because people have that, you know, I think drive for that bubble during COVID times where you can, you know, get in your car and at least see the world a little bit. I think there was a bit of an increased demand for cars. But long term, it seems to me, telework would should bring a reduction in demand for car and certainly for gas.

And the problem is that we're already starting from a fairly low point. So, if business is despite their profits, start to see this shake up in business investment, it may not occur. The concern may be to hang on to cash and not necessarily invest in the economy, if you're concerned about if your confidence is eroded. If we look at business investment in Canada,



and this is another topic that the Conference Board has talked about for a long time now, but we're just not competing with the US. There's been a lot of strain, certainly, and certainly we saw a big decline in energy investment, which happened at the end of 2014 that shows up clearly here. But as a share of GDP, we've continued to see investment erode, and we were harder hit in terms of our investment during this recession than the US, for instance, which, by the way, also has an important energy sector. So, you know, commercial real estate is just one concern. Investment in machinery and equipment, we just haven't seen that coming back. IP investment is weak. We just don't and certainly energy investment, we think, will remain muted, given the way the economy is headed in terms of greening our world. Some of the things we ask in our consumer business confidence index, we ask, you know, why aren't you investing? To our survey respondents, and you know, this has popped up time and time again, shortage of qualified labor. It's now at a record high, over 50% of respondents saying they're not investing because they're concerned about having, it's not a shortage, but a shortage of qualified labor. Apologies for that. And the other piece, of course, the supply chains are having impacts, not only on consumer goods, but also on capital investment goods, and we're seeing that showing up here in the last, in the last few queries. So overall, when we think about the business side, that second agent that we've been talking about, it's both the investment piece that's a little concerning. And of course, because we haven't invested, we really don't have the productive capacity to see our exports contributing strongly either, but to, you know, essentially longer term growth. So we do have a rebound in exports, but you can see how deep the decline was in 2020 and the rebound, you know, essentially gets us back to where we were by the end of 2022 but fairly muted growth we expect going beyond that.

All right, so I shouldn't take more than a minute, but probably, probably maybe a minute or two, just on our fiscal situation. And this is again, something we've been very concerned about since we've taken on such a, you know, such a massive stimulus into the economy. And I think that when we look ahead again, the story really is here for this agent of the economy, the government sector, it's one of combined federal and provincial addition to debt, deficits. And essentially, I think both those levels of government are going to be struggling to bring their fiscal situation back in order. And what that means going forward is essentially either going to be increased taxes, which are a strain on the economy, obviously, or fiscal restraint, in some way or another. So just in the two years that you're seeing here, 2020, 2021, and sorry, [2019] and 2020, 2021 we're seeing fiscal deficits at the federal level of around 500 billion. I think the good news is that when we first did these estimates, we had about 160 billion total deficits for the provinces over those two years. But what we're hearing now is that the provinces may be in slightly better shape than we might have expected. And I think part of that is that the massive addition to profits to household incomes, which of course, is taxable at the provincial level. So, in a way, it's almost an indirect transfer from essentially the federal government, from these massive programs that are finding their way a little bit into the books of the provinces. So, we're looking forward to the next round of budgets. We'll get a better handle on where we are overall, but I still think that down the



road, we're going to see a problem, which is, you know, massive addition to debt driving up our ability to finance that. In other words, the cost of financing that debt for both federal and provincial governments, this is in essentially just in billions here, but more or less doubling the amount that we're going to be putting in at the federal level on debt financing, and not quite doubling that at the provincial level. Overall, it's about three percentage points for federal and provincial governments added to their share of debt financing costs as a share of total revenues. So, if you think about it, your total revenues are essentially being eroded by about 3% over the coming four or five years. Again, with our assumptions around interest rates coming up.

And I think even more importantly, is longer term. We need to, you know, we need to bring some sort of a new fiscal anchor that would see a decline in the debt to GDP ratio. And you may recall that the federal government actually has that in their plan, despite the fact that they've taken on this massive debt, and that's in the blue lines. But if you look at in the blue shaded area, but if you look at both federal and provincial, especially with the provinces and the burden of health care, we're going to see overall, in a status quo scenario, continued increase in the total debt to GDP ratio. We need to get this turned around and actually see that declining so that we have the wherewithal and capacity to fight the next business cycle, the next downturn.

All right, so thanks for thanks for your attention. I know there's a lot of data that we went through today, but just to kind of recap, I do think we have, you know we are going to see a few bumps on the road to this economic recovery, but the recovery is here. I'm so pleased every morning when I read the newspaper and I don't see COVID 19 in at least not in the front page anymore. It seems to me and hopefully, that we are finally going to put this completely behind us. And if that's the case, we will continue to see the economy reopen, borders reopening and things normalizing in terms of our consumer spending. The concern, of course, is that right now, you know the demand, the demand is there, but the supply isn't coming as quickly. So that is eroding, in a way, it's a natural erosion of this excess demand through higher inflation. So, we need to be aware of that longer term, of course, it's those three issues around households, businesses and governments. Prudence over the longer term may be the case, especially as we start to see the support programs come off and how this shakes out, especially in terms of small, small and medium sized businesses. I won't go through the government again, but I think this is going to be a long period of balancing or scrambling to balance books again once the pandemic is behind us. And just to finish, on perhaps a little bit of a positive note, there is, you know, we I mentioned that [...] creative destruction that Schumpeter put out. I think this has been a major shakeup. We have seen businesses adopt technology very, very quickly through this, we have seen, for example, things like telehealth, the benefits of that. So, there may be some longer term benefits through productivity increases, through our ability to reduce costs, perhaps for provincial governments [...] delivering health care. So, there may be some benefits longer term, on productivity and on our ability to generate income or GDP. The question is still very much



uncertain. And I could tell you that on the on the discussion camps, there's economists very much on both sides of that, of that issue, I'm a little hopeful that we will see productivity gains post pandemic kind of entrenched in the way we do business. So, Kristen, thank you very much. And perhaps we can go to our question period.

Kristen Trevisan (49:58)

Yeah, absolutely. And thank you, Pedro, that was wonderful. Some great information. So just a reminder to everyone, if you do have some questions, post them into that Q and A box, and we'll get to what we can. But let's start with, let's start here. Was asked, could you tell us a little bit what you think? Sorry, try again. Could you tell us about where you think the Canadian dollar is headed? Heading?

Pedro Antunes (50:21)

Oh, yeah, no, fair enough that I didn't touch on the dollar. I touched a little bit on energy. Sometimes I put a little more information around the energy sector for our audience here. But essentially, you know, I do think that you know what we talked about in terms of this excess demand that we're seeing for many goods globally is happening very much for oil, and for oil, in particular, in Canada's case, affecting the dollar. So what we what we do expect is that, you know, production will ramp up, you know, above \$80 US, price of oil, I think, is going to be a short term effect that has driven our dollar, by the way, to some pretty good heights as well. You know, the dollar trading in around 80 cents US. But we think that the pressure will come off of oil prices, the interest rate differential, not so much an impact, I think, when we look at monetary policy between Canada and the US, so the differences in interest rate policies are probably very similar and not going to have an impact on the value of the Canadian dollar. It's more so around commodity prices and easing oil prices that we think will take a little bit of heat off of the Canadian dollar, but generally speaking, you know, calling for oil energy prices, it's a tough forecast to do, because we never quite know what the producers are going to do, OPEC countries and others. And you know, so it's, it's a risky, it's a risky call, but I think essentially flat to declining is where we're headed with both oil prices and with the value of our currency.

Kristen Trevisan (52:08)

Yeah, wonderful. Thank you so much. Jeff asks, are you predicting any major geographic disparities in the recovery?

Pedro Antunes (52:18)

Well, in the recovery, perhaps, well, interestingly, actually, I've just mentioned we're doing, I assume we're talking about Canada here. You know, we're, interestingly enough, you know, we are seeing some stronger population growth heading to the to the eastern and western provinces. So, we've seen the Atlantic provinces actually doing quite well in terms of population growth because of interprovincial migration. So, there's certainly something going on in terms of telework, allowing people to kind of migrate back to the Atlantic provinces and



to BC. So, there's that fundamental piece, I think, the other, the other piece, which, which is cause for kind of a difference in growth across Canada's regions, has been dealing with the pandemic, and essentially the fourth wave that we saw. So Western provinces harder hit, and so perhaps their recovery is a little bit delayed. So, for instance, in Alberta and Saskatchewan, we were looking for a stronger recovery, perhaps a quarter ago, for 2021 in particular. Now we're thinking those recoveries will be more delayed until 2022. And certainly, in terms of the depth of the hit, you know, the energy producing provinces were hardest hit. So, Alberta and Saskatchewan and Newfoundland Labrador very hard hit because they had the double whammy, not only of closures, but also of oil prices. You may recall, oil prices actually went negative in 2020. So, in general, I think you know, for the most part, households, businesses, have done well across most of the regions. But there are some variances, largely due to some of the factors that I just mentioned, the delays in how quickly the recovery comes, the energy sector and resource sector having a big impact, perhaps delayed until 2022 in some of those resource provinces. That's great question. Thank you.

Kristen Trevisan (54:18)

Fantastic. And another one coming in from Nicholas. Are you expecting any major housing price decline in any Canadian region, or perhaps, like a drop in real estate prices or in equity markets?

Pedro Antunes (54:31)

Oh, that's a good question too. Well, I'm certainly worried about what might happen in equity markets once this frenzy, this kind of frenzy, with the support programs and the savings that we've seen I talked about in Canada, it's very similar across the world. I do worry about what might happen down the road once that starts to near reach its end. In terms of real estate markets, we actually have made a brave call. We had not in, I can tell you, in the last decade, we had not called for a turnaround in real estate prices, just because, you know, I thought all the conditions were there. Low interest rates, you know, households quite rational and taking on more housing and very strong immigration. But right now, we are seeing record levels of new construction. The construction is being delayed like we're not seeing the completions happen because of the supply constraints. We had lumber constraints earlier on this year. We have labor constraints right now. So, I think, you know, the market has reacted in the sense that supply is coming on. Developers are building. It's going to take a little while before all of that gets into market. At the same time as we've seen a massive decline, I mean, a population growth is the third what it was in 2019. So, the call that we have right now is a peak to tropical correction in housing prices of about 10% but I have to tell you that every time I look at the data coming out of CMHC, we see another, another rise. So, you know, when that happens is a hard call, and across which centers, you know, we're not making a call very specific to each city, just more of a general call, you know, essentially to deflate markets across the across the region.



Kristen Trevisan (56:18)

Fantastic, fantastic. And maybe, maybe a chance for one or two more here. We had one that came in: Can you please talk about the household incomes outside the mean. They are growing income gaps and disparity in mature economies. What are the issues lower income households are faced or faced post COVID, macro and macro and micro thoughts. I can say that one again if you'd like.

Pedro Antunes (56:43)

Well, let me talk a little bit about, sorry, Kris, which question is, maybe I can see it.

Kristen Trevisan (56:49)

Teah, from yeah, absolutely. Scroll down and you see there, yeah.

Pedro Antunes (56:53)

Yeah, I do see it now, yeah. So, well, I guess first of all, on income inequality, I think we have to be careful, because if you look at after tax income inequality in Canada, it's actually been declining. It's been stable for 20 years, and it's been declining in the last five years. I know inequality, income inequality, is growing in some countries, in the US, for instance, but in Canada, in fact, we've had old age security and the child benefit. And I think in 2020 with the CERB and other programs, we're actually going to see income inequality decline in Canada even further. There are issues, obviously, because we do know that, despite this decline in after tax income inequality, we do know that, you know, top, top of the top point 1% of earners. Or if you look at wealth inequality, I think these are issues that Canada has to grapple with, especially if you look at home owners. You know, essentially your, you know wealth, wealth inequality in terms of home ownership versus not. I think these are important issues for Canada. How you how you address those I, you know, it's very difficult. I think there's more and more talk about wealth taxes. We're hearing a lot of that from the Biden administration south of the border. These have not been very successful in the past, because, you know, money, money seems to move away from areas where, where, where there is this. But I do think that, you know, perhaps in a more organized, concerted way, we can have kind of these minimum taxes that allow us to deal with these issues a little bit more thoughtfully and effectively. It's a really good question. I don't know that I have an answer for it, so I apologize for that, but I think it's an important issue that we'll continue to follow on.

Kristen Trevisan (58:42)

Wonderful. Absolutely. Well, I think we've come up to Yes, just at the just at the hour here, Pedro. That was a wonderful presentation. Thank you so very much. Any final comments before we close off of the day?

Pedro Antunes (58:55)

Well, no, I think I appreciate everybody listening in and and thank you very much for joining us today.



Kristen Trevisan (59:03)

Wonderful, wonderful. Thank you all so very much, and we'll have a good one. Thanks so much. Bye.

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