



Economic Outlook with the Chief Economist

Inflation, Pandemic and War: Forecasting in a Time of Uncertainty

Webinar: May 31, 2022

Kristen Trevisan (0:01)

Good afternoon, everybody, or good morning, depending on where you are joining from. Welcome to today's our webinar today. My name is Kristen Trevisan. I am the convening manager here at the Conference Board of Canada, and I'm excited to have you join us for our webinar as our team at the Board is located, or is where, as I am located in Ottawa, I'd like to just begin today by acknowledging that the land on which we gather is the traditional unceded territory of the Anishinaabe Algonquin nation, and as we're being held virtually, also acknowledge the all lands across or all nations across Turtle Island.

I'll keep things short and sweet, but just a few housekeeping things. If you do have any questions, do use the Q and A feature on the page in front of you. We'll be monitoring questions, and we'll have time at the end to get to as many as possible. So do use that there. And there is an option to chat with one another during the session. And if you wish to, you can increase the size of our video player or the slide area if you need to to make it fit the screen a little bit better for yourself, I won't take up any extra time. So, without further ado, I will pass it over to Pedro Antunes, our chief economist here at the Conference Board of Canada. Pedro over to you.

Pedro Antunes (1:18)

Great. Thanks so much, Kristen and good afternoon, everybody. I guess these last few weeks, we've been getting more and more interest on the economy. Every time things start to head south a little bit; it seems that there's more interest in what we're doing. So hopefully we'll shed a little bit of light on essentially, some of the numbers that we're getting where the economy is headed, kind of very near term. Certainly, I think the concerns that are out there are legitimate. I mean, there is a lot of anxiety around whether we can handle, properly handle the inflation surge that we're seeing, and of course, with the implications of the war in Ukraine, and the impact of that on not only inflation, but essentially global supply chains and essentially purchasing power of most economies. This is obviously things to watch.



But to just put things in a little bit of perspective to start, I do want to remind us all that we are still kind of coming out of what was a very deep recession in 2020 we just got some information from Stats Can today, around where the economy is today, we're seeing some strong numbers through the first quarter and into the into the the early months of this year. And that's just telling us that, you know, essentially, for a lot of sectors in the economy that haven't fully recovered, they're still still going to be providing some strength. So, we're still very much in that recovery phase. I think 2022 will be a strong year for recovery. We're hopeful that that will be the case for 2023 as well, as we continue to see the economy kind of fully normalized, but the risks really are more so, I think, for the latter half of this year and into next year. So, we'll talk a little bit about all these things. Kristen mentioned that if you have any questions, you can put them in the chat box along the way, and we'll have some time at the end of the presentation for for addressing questions.

So we'll start with kind of the kind of global snapshot, really, and we'll focus in a little bit later on what's happening here in Canada, but the implications of this war is really, are really broad. Obviously, it essentially is resulted in a massive global commodity price shock, and that takes away from purchasing power, essentially for most economies, especially those economies that are that are dependent on natural resources, that are dependent on energy here, I'm thinking Europe in particular, they are hard hit by this essentially increase in commodity price and inflation. So, in fact, we've seen about a percentage point taken out of most of the projections for economic growth in 2022 now some of that, if this war does end, we're all very hopeful for that, and we start to see some of these stresses and supply chain impacts come off a little bit. We're hopeful that we'll see that rebound kind of play itself out into 2023 again, risks, not surprisingly, as I point out here, and mostly on the downside for Canada, and I'll talk a little bit about that later.

Of course, we're going to see the benefits, really, of a commodity price shock offsetting some of the negatives that the implications that are negative on inflation and purchasing power. Of consumers and purchasing power of our trading partners, but the biggest, I think, risk and concern going forward is the difficult policy choices. And tomorrow, the bank Canada is going to announce or going to see the announcement for the interest rate policy decision. We're all, I think most economists are expecting another 50-basis point rise in interest rates. And of course, this is the same kind of challenge that most central banks around the world are dealing with, the Fed European Central Bank and the Bank Canada and many others, in the sense that they are essentially trying to tone down inflation expectations, really trying to be convincing, or convince folks that inflation is going to be coming back down to to that, to those target levels here in Canada, around 2% to essentially allow us to see a soft landing in the economy, and not something that sees inflation accelerating and monetary policy forced even tighter.

There is a dark, darker scenario. And of course, you know, in the last day or so, we've seen, perhaps, how should I say, some hints of of what this darker scenario could look like. And



you know, essentially, if we do see tighter sanctions, tighter restrictions. We do see European countries decide that they're going to put a halt on Russian imports of oil or natural gas. You know, obviously this would have an even greater impact on commodity prices, and especially an energy price shock for Europe, more so than perhaps the rest of the world. But that kind of scenario is one that is even more concerning. And again, we see the challenge here as one where it would add further to inflation numbers in coming months. And we're really hopeful that we see the reverse happening that month to month, we start to see inflation numbers easing, and we have seen some of that in the US. But again, this hit that we just saw oil prices yesterday. WTI, hitting \$117 a barrel. Brent, even higher. You know this just causes concern that we'll see another ramp up in inflation in coming months.

And last and this, in fact, had gone kind of the other way in the last day or so is we've seen some of the safety or health restrictions easing a little bit in China. So the markets taking a little bit of a positive hint from that. But you know, China really has mismanaged through this, certainly this part of the year, this, this, this year, last number of months, with that very contagious Omicron wave, they've just not been as successful and containing the virus. And this has led to a massive shutdowns in some major cities in the Chinese economy. So further concern, further concern for supply chains and further concern for prices.

So, there's the kind of you see it there in 2022 and 2023 the revision downward and economic growth in 2022 and that's essentially halting that recovery year that we were hopeful for seeing playing out this year. And you know, more of that pushed into next year, so perhaps a little bit bigger rebound next year again, depending on what your assumptions are with respect to this war, and perhaps more stability and commodity prices and inflation going forward. And that's just a few years of forecast, 24 to 26 with the last bar there, you can see that kind of the general sense of underlying economic growth at the global level is a little weaker, certainly, than it's been in the past. And this is due essentially to, you know, I would say for the most part, the Chinese economy kind of maturing back into a slower pace of growth. It's just a bigger economy, even in just 10 years, the Chinese economy has close to doubled, and so you can only expect that the growth from such a big base will continue to ease as it has over the last two decades. So that's part of the picture. The other part of the picture of slower slower global growth overall is really associated with more government debt, less private investment, and perhaps easing in the capacity of many developed economies as well.

So, it's not a bad news story here in terms of the overall outlook, but again, this is the baseline forecast, and there are many risks and concerns as we keep hearing about and seeing the news on a daily basis. So there's China's economic growth. Now don't discount China. Yet the numbers here for 2022 are still pretty strong, despite the concerns that we just talked about with respect to the outbreaks of the virus. But China, you. Year, time and time in and time again, has been very successful at managing economic downturns,



and really it has the wherewithal to be able to stimulate the economy when needed. We saw that in 2008 and 2009 you know, when the world economy essentially came to a halt, China's economy barely, barely took a slight step back from its typical very strong growth. Fast forward to 2020 when the global economy fell by three and a half percent, China's economy, in fact, China was one of the few economies that continued to grow in 2020 again, because they were able, early on, to manage the outbreaks, and they just essentially kept the economy going through stimulus. Big rebound here in 2021 for China, of course, but going forward, much more modest growth in line, kind of that weaker underlying How should I say potential for the Chinese economy.

Now for Russia. I mean, the story is changed drastically. Of course, when the war first broke out, nobody really knew how impactful the sanctions would be. We saw a very, very quick and steep depreciation in the ruble. And you know, we were expecting some forecasters who were calling for, you know, Russia's growth to come down by as much as 15% what's happened, though, is, course, commodity prices have come up, and this is part of the double edged sword that European economies and other economies are living with, is that they want to continue to buy and at least import some Russian oil, some Russian natural gas. They don't want to harm their economies too badly. They do want to have the sanctions hurting. But while they're doing that, of course, prices for all of those things that Russia exports have just skyrocketed, and so that has helped kind of stabilize Russia's economy. And in essence, as we keep hearing, helped really maintain Russia's ability to continue the war, in some respects,

I think the point that's important here, though, is that you know it is going to be a tough year, no matter what, for Russia and the the impact is expected to be kind of ongoing. In other words, even if we do see an end to this war, even if we do see an agreement that sanctions would come off, we think that Russia has really harmed its trade relations in a permanent way, unless there's a change of regime. We are going to see, if not, you know, if not, specific sanctions on the economy, we are going to see a lot of businesses and countries move their supply chains away from that economy, so the pain will continue, and we don't see a rebound in Russia's economy. In other words, a net loss to GDP that will be lasting through through the next few years. Of course, again, so much uncertainty around this, but this is the underlying piece that we're assuming in our forecast, and that also means that as sanctions are maintained, or as supply chains continue to move away from Russia, that also means that we expect a commodity price shock not to be, perhaps as sharp as it is right now, but to be lasting. In other words, we do expect to see commodity prices, like oil and resources stay elevated through the medium term, at least, much more elevated than we were calling for prior to this war.

So, this is a tragic situation. It's devastating to see what's going on in Ukraine. I mean, we're seeing infrastructure and cities devastated, essentially being turned to rubble. And of course, all of the people's lives lost through this and the economic fallout, as I just



mentioned, for Russia and of course, for Ukraine, is going to be devastating for most other economies. You know, for instance, Canada, we do very little direct trade with Russia or Ukraine. It's the same for the US, but for most other economies, the impact is going to be felt, as I mentioned, through this commodity price shock, this massive rise in inflation, broad based in inflation, adding to what was already really hot inflation coming out of the pandemic. So, our trade partners will be affected. But for Canada, net impact, and I'll show you in a minute, is more or less neutral, because we also benefit from the price increases for raw materials, oil, natural gas and others.

Now post pandemic, you know, in a way, there's a lot of uncertainty, but I think we are going to see bigger deficits as a result for many developed economies, if we can manage that, and that's a big question mark as to whether we can continue to fund debt deficits and debt financing, and whether interest rates will come back to kind of their low levels that I would argue are still here with us right now.

So just quickly on, on the commodity price. Well, I mean, you know, I remember back 2007 2008 a huge spike in commodity prices. And, of course, the this is the Bank of Canada's index monthly in Canadian dollars, so denominated in our currency. But the last two years through 21 and 2022 now we've essentially seen a commodity price shock like we've never seen before, especially if you're considering the base in 2020 or the low levels that we saw in 2020 massive commodity price shock. Oil prices, as I mentioned yesterday, reaching \$117 a barrel from WTI. You know, we're right back to where we were in in terms of oil prices, to those very high levels that we saw through 2011 and 2014 but overall, when we look at the basket of goods that have been affected with very high prices, they're essentially the goods or the products that Canada very much aligned with the products that Canada produces, wheat, potash, nickel, not so much corn, but oil seeds, certainly, and you know, certainly Ukraine and Russia are big producers of sunflower seeds, which is an oil seed. So, these, these products, are seeing really tremendous increases, and this will benefit the income side of the economy in Canada, for oil in particular.

You know, what's interesting this time around is usually we would see, with such a stark appreciation in oil price, a similar appreciation in \$1 but because of the Canadian dollar, vis a vis the US, but because of the war, we actually saw a flight to safety that we typically see when there's risk and uncertainty in the global economy. We we typically see the US dollar appreciating. So, this means an even bigger benefit for Canadian producers, as oil prices have really taken off in Canadian dollars, they're actually stronger than they they then certainly reflected in this chart. This is in US dollars. So, I think there's two pieces to this. That one is that, as things stabilize, perhaps if that should happen, we may see the Canadian dollar appreciate a little bit more. We do think, as I mentioned, that oil prices will stay high, but perhaps not as high as they are right now. We have in our forecast an average price of oil for this year for 2022 at \$94 a barrel, and for next year averaging about 80, sorry, \$84 a barrel for next year. So still very high, certainly in comparison to where we



were prior to this war, but easing perhaps a little bit, and this is where there's hope for those inflation numbers to start to ease up if we do see a little bit more stability in oil prices and hopefully in food prices and many of the other commodity prices that are now driving such strong inflation.

So, this is the impact from our Conference Board US, which ran their their international model, the impact on the world economy of the of the Ukraine war itself. So, this commodity price shock specifically taking almost a percentage point out of overall growth this year. And you can see the impacts across the board with, of course, very dependent, energy and resource dependent economies like France, German Italy, taking the bigger the bigger hit. I should say, there's not a lot of reference here to developing economies. But of course, the wheat price shock in particular is, is affecting, of course, developed, developing economies very, very severely as well. And we hear about it in terms of food prices, you know, in Northern Africa and in Africa and across the world. So that's certainly another implication of this, of this war.

For Canada, and just like every other country, we will also suffer the impact of higher inflation, and this is eroding away at our purchasing power, and so on a net basis, it will have an impact on sectors like real estate and retail sales. But on on the other end of the spectrum, when we think about the primary sector, really, the shock is one of prices. It's not necessarily of volumes. In other words, we affect our profitability. We affect the price we're getting for our exported goods. But that will eventually translate into more investment, more construction activity, and certainly hoping to see more essentially investment and resource extraction, I suppose, and certainly agricultural production in these resource sectors.

So, I'm going to turn to just keeping a tab on an eye on on the time, but turn to the US economy, and just very quickly, talk about the US economy, in essence, the story. Around the US, for Canada and for much of the developed world is very similar in the sense that we've had essentially government support really kick in very, very strongly through the pandemic. And I'm going to focus in on when I talk about Canada, on that aspect, more so than in for the US. But that's typically been, been the story we we had, you know, trillion dollar packages, \$3 trillion packages in the US. And we have very, very strong, essentially, savings. We had a real estate market that kicked up in the US economy. And as the economy reopened, as the pandemic started to subside. We've saw the US economy really take off as well. I think the big difference, when I think of the US versus Canada is in the sense of its longer term potential. I'm just seeing a little bit of a time lag here with my with my slide.

Kristen Trevisan (21:02)

Mm, yeah, I see the weaker, but still solid growth is up. Oh, that's one you're looking for.



Pedro Antunes (21:12)

Not popping up for me, so I'm just gonna, I don't know if you could take the slides for me.

Kristen Trevisan (21:19)

Yeah, for sure. So we're looking to go to this one. Have you seen a change in front of us?

Pedro Antunes (21:24)

Outlook, yeah, it's not changing for me. So, I'm I'm just seeing what I'm trying it up somewhere else. Sure, I'm getting a spinning wheel. Yeah? So, if you're on slide, the US. Outlook, slide, the word Slide, Slide 13. Yes, yeah. Okay, great. So sorry about that. I'll just keep going on that slide.

So essentially, I think, for the US economy, what we're looking at is, you know, a fairly strong rebound, obviously the US economy, not a big direct exporter or importer with Ukraine and Russia, but impacted by the inflation, the inflation eroding household incomes, as we've talked about. Nonetheless, still pretty strong growth for GDP this year, 3.6 and 2.8% in 2023 as that rebound continues, we don't, you know, we didn't see a lot of impact from Omicron on the US labor market, unlike what we saw in Europe and perhaps in Canada as well. So, we are seeing the labor market in the US very tight, and we don't think again that labor markets will be impacted by this, by this pandemic. I sure. Sorry, I'm just just realigning myself with my slides here.

Inflation has eased a little bit. We saw inflation at eight and a half percent. It's come down a little bit. So that's been very good news. And I think that's a least leave the markets a little bit if we are talking about equity markets and the hit that we've taken over the last few months, or, sorry, a few weeks, I think that's been very much related to concern about fed being able to handle and beat back inflation expectations. So again, the big crux, the big uncertainty, is around that piece, and nowhere does it matter more than in the US and how the US Fed handles the situation. I mean, it'd be great if, if Canada were a success, but if the Fed isn't a success, on inflation, I can tell you that we're going to feel the root the implications of that, on interest rates, on bond yields, and on our own economy, of course. And so to date, and you know, we keep hearing about it, consumers are being able to, are able to dip into that savings that was collected through the pandemic and the shutdowns, and continuing to spend and so things are really despite the fact that we're hearing so much about, you know, concerns on the economy, the jitters that we're seeing in the markets, the fundamentals really are pretty solid labor markets are, you know, just gangbusters. And it's really this concern around inflation and around our capacity that is, that is driving these hiccups, I guess, in labor market, in equity markets and and financial markets.

So, there's our outlook for the US economy, and where I wanted to mention the difference is, really we have a couple of rebound years. Inflation very high. We're expecting inflation to come back, and that's our baseline forecast. But what's different about the US and Canada



is the growth in 2024 25 and I'll talk a little bit more about why that is, and it's really related to our capacity and investment. So never count out the US economy. It tends to be very resilient. It tends to be an economy where investment happens, and that is continuing to be the case even through this pandemic. So, oh, sorry, Kristen, I'm not telling you which slide we're on. I. Mine is still spinning, but I'm on Canada's outlook now the red slide.

Okay, so let's just move to Slide 16, I guess, like no other recession, and what we're seeing for Canada is, again, this story around, well, I'm starting to call it story around excesses, because, of course, through the pandemic, you know, we saw the federal government in particular, but federal and provincial governments really react very quickly put in, you know, I never thought we would be able to see programs like the CERB and essentially what was a basic income support program put in place so effectively and so quickly. But of course, it was also very generous. And what we're what we're starting to understand, is that all of that, all of those excesses, are starting to get eaten away by inflation. In other words, inflation is in some respects correcting the the excesses that we had in the economy through through these through these programs. Household balance sheets, I mean, one example certainly is that a lot of the savings that we were able to sock away in 2020, and 2021, I think, went into real estate markets. And I'll show you some slides in a second on that. And it's not just households, but businesses also saw very strong support through the pandemic. We saw the business counts increasing. We saw bankruptcies for both households and businesses declining, and we saw coming out of this recession, business profits soaring even prior to this boom in commodity prices. So exports, resource prices bolstered by the global recovery. You know, we know households are in good shape, and we know businesses are in good shape. The big question mark is, will we see them spending and investing, especially on the business side.

So, if we move to the next slide, now, this is record growth in household income. This is a complicated slide, and I've I've shown this before. I think it's just so important. But this just goes to show you what, what's typically happens with real incomes and real spending. And thus, those are the green and blue bars from 2012 to 2019 you see that most of the time, our real income is growing two or 3% and our real spending is growing at about that same pace. And in fact, we were a little worried, because real spending tended to outpace income. And we seen the savings rate, which is a red line, actually declining from about 5% to in fact, below 1% or 2% in the last couple years prior to the pandemic. There's a lot of concern about the amount of debt that households were taking on. Now fast forward to 2020, real, real incomes, which we would have expected to see decline. They actually after taxes and subsidies, in fact, the subsidies portion is the story, but after subsidies like CERB and many others, we actually saw real incomes increase at a record pace in 2020 much to the contrary of pretty much every other recession we've had where incomes tend to decline. Now, at the same time, we were unable or unwilling to spend. So our real spending actually declined really sharply in 2020 and we saw aggregate savings rates just skyrocket.



So, you know, fast forward, things are now normalizing. We're going back to work. The support programs are ended. You know, tax deferrals for businesses are also ending in July, so things are getting back to normal, which means that essentially, we're going back to our wages. And despite the fact that employment and wage growth is pretty hot, it doesn't offset the decline or the losses in those support programs. So real incomes will decline, but there's so much capacity to keep spending going, and that's what we're seeing in the numbers these days. So real spending continuing to grow, and the savings rate still in very good shape. And we I mentioned, we just got the national accounts data for the first quarter of this year from Statistics Canada. We're seeing exactly that pattern, consumer spending driving growth and the savings rate, in fact, doing quite well in the first quarter, above 6% in first quarter of this year that we just saw. So it's a prudent forecast, and I think it does suggest that despite the fact that we're seeing all this inflation, we are still seeing consumers going out and spending, perhaps going to draw more from their savings to be able to keep spending. But that's the underlying story of that rebound that continues.

So, let's go to the next slide. This is just very quickly, the the amount of savings that we've socked away in billions of dollars, household balance sheets swell. You can see 210 billion in 2020, and another 100, and I think was close to 160 billion in 2021 that's more than we put away in those two years, more than we put away in the prior 12 years heading into the into the pandemic years. So the capacity is there, household balance sheets in good shape. And in the next chart, we see what that means for consumer spending, and in fact, through this pandemic, and one of the things that is normalizing right now is the fact that we were unable to spend on services. We were unable to spend on travel and accommodation and food, but we were able to spend on durable goods, recreational vehicles, on home furnish furnishings, renovation spending. So, a lot of these things took off during the pandemic, and things are starting to normalize. In other words, we're seeing some of those sectors that didn't do so well, so recovering, and those sectors that really were bolstered through this pandemic coming back to normal. We're seeing again, that in the kind of monthly numbers that we're getting from Statistics Canada.

So, tourism, accommodation, services, other sectors are going to do well. We see that in the next chart, economic rebound by industry transportation continuing to rebound. That's another sector of air transportation, for instance, at one point, was operating at 10% of normal levels. So, these segments are still recovering. Some others that have done very well, especially wholesale and retail are starting, essentially to stabilize as we spend less on some of those durable goods. So, things are normalizing. Hopefully this will help take some of those inflationary pressures down as well, because a lot of that inflation is in the good side of the economy. Where I worry is, of course, on the service side. Now we're starting to see pressures around around availability of workers, and even if the economy is not fully come back in some of those segments, that continues to be, or is starting to be, a very real challenge.



So, on the next slide, we just talk a little bit about telework. But I really just want to point out that, you know, households took all that money. They did at first pay down. They're kind of more, how should I say more, their credit card balances. They reduced credit card debt. They paid off these kind of, how should, how should I say not so healthy places to borrow, but they did take on a lot more mortgage debt. There was just a, you know, a fervor for more housing. Limited stock of housing that we have in this country. We've added all this savings, we've added very cheap credit, and we added this, you know, this, how should I say this demand for more housing, just because people were working from home, wanted to have those those office spaces, and that just drove up a huge inflation in the housing market. And so we see that in the next slide here, which is home price boom starting to subside, but certainly before it subsided, which is just in the last month, which we're starting to see some of these numbers ease, huge increases in home prices. This is an index of all of these cities over the last seven years, but some markets actually saw prices double in just the last two years. So very fervent behavior and very inflationary behavior through this period. I don't know that this is really good for anyone to see home price inflation increasing by so much. And we're in our forecast, actually expecting home prices to settle in, actually peak to trough, lose about 10%. It's very hard to know where this will land, but we're already seeing the impacts of, you know, essentially, people looking ahead, people thinking about much higher mortgage rates going forward, easing up on that demand for housing, at least in some of the markets that you're looking at here.

This is the household debt, and this is where I wanted to make that point, that again, it's not just the amount of savings that I think a fair portion of that went back into real estate markets. We also added a massive amount to our debt load. So even if we were paying off credit card debt, we were amassing mortgage debt through this period. And by the way, in the latest numbers, credit card debt is starting to come up again. So, a little bit of concern here as to the financial viability and capacity of households going forward.

In the next chart, I just have delinquency rates, so I keep looking at this, this is data from the Canadian Bankers Association, you know, I just worry about, you know, when we'll hit a point where households are going to start to have trouble. Interest rates are coming up slowly certainly. You know, I think we have seen big increases in in bond yields and in in mortgage rates, but before all of this stock turns over and we start to see this having a real impact on households. Because it's going to take some time, but it will happen and still right now, delinquency rates, this is mortgages in arrears, are at rock bottom levels even currently. So that's good news, but it's something that you will want to keep an eye on to make sure that you know the pressures aren't getting to households, and certainly in our projections, interest payments as a share of total disposable income, even though our debt is very high, interest payments have never really been lower.

Now there's two things going on here in 2022–23 first of all, disposable income is actually going to shrink a little bit because all of the support programs have come to an end, and



we're back to the reality of, you know, working at our more typical salaries for in the in the coming years. So even if employment and wage growth is solid, it does mean that overall disposable income is declining. So that's one thing adding to this sharp rise. But of course, the second piece is, is the amount of debt we're taking on and interest rates rising, and this tells us that we're going to see very quickly, a lot more pressure on households in terms of, you know, maintaining and financing their debt load.

So, the next slide is just quick, you know, kind of just a caption here. Structural challenges erode growth potential. So, I'm going to focus in on two pieces. When we think about, kind of longer term, what drives our capacity or drives our economy, we can think about, well, essentially, three things, if you, if you have your your mind, of how an economy looks similar to that of a firm. You can think of the economy being able to generate output or generate its capacity with the number of workers it has and the amount of capital it has. So those two pieces are really important. And of course, the third piece is the efficiency or the productivity that labor and capital work to you know how efficiently they work together to produce output.

So, we're going to talk about two of those pieces, the labor component and the capital component more specifically. But let me start with the labor component. Well, in fact, let me start with this chart, which is Rory Roaring 20s. Recovery was short lived. Essentially, the problem for Canada is that we are capacity constrained. I think we are already, in many respects, capacity constrained across many industries, and when we look down the road, we're just not investing enough to keep our economy growing. So, a couple of good rebound years, we still feel we're going to get and 2022–23 but when we look beyond that, 24–25 we see very weak economic potential based on essentially the investment numbers and the capacity that we're seeing being built right now, and that, you know, compares poorly to the US. And I'll show you exactly why that is when we get to the investment numbers in the next slide, just on the workforce.

Essentially two things happening. We had a decline in immigration and in non permanent residents coming into the country, a significant change in the numbers in 2020, and 2021, and at the same time, now that the economy has recovered, and we've seen employment fully back to where it was pre-pandemic, you know, we just haven't seen those immigration numbers recover as quickly. And so, we're very tight on the labor market, despite the fact that we're not fully back in a number of industries in this country. So just in comparison to where we were in 2019 you can see it in the next slide, just there's where we're at. This is, you know, I used to show this chart, employment recovers. This is a chart slide 29 I used to show this as the difference in employment, which was telling but now that we the difference in employment through the pandemic was essentially 3 million jobs lost. You know, the scale of this is just massive. What happened in that, in the closure during the pandemic, is something that we could have never imagined we'd see in the economy. The good news was that, as we did reopen the economy, we saw employment recover quite quickly, and over the last year and a half, we have fully recovered. In fact, in some segments in the



economy, we're doing really quite well, as I showed you, on on the industry side, similarly on the employment so employment has recovered. We had a hiccup early this year, but it's recovered in the last few months.

And here's where, essentially immigration has hurt. Essentially our labor supply. Population growth was cut by a third through 2021 mostly because of what happened in 2020, but we cut the amount of immigration, the difference, the net difference in immigration in. 2020 compared to 2019 is about 430,000 people. In other words, in 2019 we took in 430,000 more, not just immigrants, but net non-permanent residents, than we did in 2020 and so that's just dampened our population growth numbers for both 2021 22 and we see that catching up slowly as we get into the medium term forecast. So the result of all of that very tight labor markets, job openings and job vacancies everywhere, even in those segments where the economy hasn't fully recovered, we're seeing labor shortages and job vacancies when we think about sales and service occupations, this is a 41% increase the average job vacancies over where we were in 2019 and remember, 2019 was already a very tight labor market offered wage increases starting to climb, and actual wages also starting To climb in those numbers.

So, I'm on a chart, sorry, chart 32 here. Labor markets tight, many provinces, and this just goes to show you, in fact, that the unemployment rate in Canada at 5.2% today is the lowest it's been since the modern labor force survey has been done in since 1976 monthly, monthly data. So, we've never been this low. In Quebec, the unemployment rate reached below 4% so 3.9% if I remember correctly. And you can see that labor markets are tight across the board when we're comparing to to the numbers in 2019, again, a labor market that was already tight in that year, with a couple of exceptions, like Alberta and Newfoundland Labrador and perhaps Saskatchewan as well. So, what's going on? Well, on top of the challenges with immigration, and yes, immigration will catch up, and we'll see those numbers recover, but the other piece is the demographics, and it's the retirements. You, I'm sure, have all heard the story about the aging boomers? Well, there's the aging boomers in the dark blue lines that you see there, and those folks at the peak of the aging boomers, the nose of that cohort, if you'd like, is still very much in the workforce, but they will be leaving in the next five to 10 years. For sure, they'll be out of the labor market.

And what's happened through this pandemic. This is in the next chart here, 2022, the year of the retiree. What's happened in the pandemic is we have actually postponed retirement. We didn't see a, you know, we didn't see people essentially resign in 2020 or 2021 but what we did see was people hold off on retiring. There was a lot of people let go, but it wasn't really a great resignation. It was a great I'm holding off on a retirement. What can I do that I can't travel. Why would I retire? This year we saw the number of retirees drop significantly in 2020, especially 2021, now you can only delay retiring for so long. And I would argue that with real estate prices and nest eggs that were but rest, even through this, through this pandemic, we're going to see the number of retirees really take off in 2022 it's our call for



this year, not the year of the is it the year of the tiger? This year, it's not the year of the tiger, it's the year of the retiree, and we see those numbers going from about 228,000 retirements last year to over 300,000 this year, is the estimate we're looking at. So the point is that that will maintain that labor market pressure, even if we do start to see those immigration numbers pick back up.

So, bear with me here. Just a few more slides, but let me just talk about this one, inflation not expected to carry in the wages. And I got to say that the more I look at this, the more nervous I get. We do a lot of work on HR issues and compensation at the Conference Board, and we're starting to see those surveys that we had from our employers across Canada early on the year saying they were holding wages and they were holding salaries. We're starting to see those surveys inching up and up and up. And so, there is real concern about the inflation spiral that sees wages having an impact on prices, etc, in our forecast currently, and we're about to get started on a new forecast, but in our forecast currently, we're still very much expecting our, how should I say our inflation expectations to be contained? In other words, as we start to see, hopefully, month to month, those inflation numbers ease, we'll start to see, you know, essentially, those pressures on wages realign, essentially with, with inflation, sorry, realign with with, kind of the past growth in wages. And it's not that, you know, we don't want to see real wages increase. Everybody would like, like to see those. The problem is, if wages are only increasing to compensate for higher inflation and there's no productivity gains, then this just adds to the pressure for firms and organizations to increase prices, and that's where you get into that vicious cycle that really nobody wants to see.

So, the next slide will just turn to the private investment story, and let's just go straight to slide 37. Business bankruptcies are down, yeah, just all of these programs that were put in place through the pandemic. We talked about the support for households a similar, really a similar story, through the wage subsidies, the forgivable loan programs for for businesses. And in fact, we saw a lot of businesses do quite well despite the stresses that that the pandemic brought. They were holding on essentially. Now a lot of these support programs are now done. The tax holidays, for instance, will end in July, as far as I understand. And I think we're going to start to see the repercussions of this pandemic, of this crisis, playing and playing themselves out on businesses, and small businesses in particular. And one of the reason we're one of the areas we're worried about this is on the next slide, slide 38, is really around the impact of telecommuting.

So, these lasting changes from COVID 19, the impact that they will have on those businesses catering to the office to the downtown office workers in Canada's major centers. So, we did do a little bit of an exercise around you know what teleworking would would do to the number of people coming into downtown offices, and it's massive. Well, our sense is that, you know, we'd see anywhere from a 12 to 32% opening of office space in Canada's 10 major centers. So, you know, even if we are seeing, you know, perhaps organizations



use more space per employee, and, you know, eat up some of those excesses. It still, you know, for the number of people coming into downtown to work on a daily basis, it's going to be very impactful. And Ottawa, the town where Kristen and I are in, is no exception. You know, in fact, the public service is dealing with, you know, essentially how to move forward with a fairly large portion of its workforce being virtual.

So, on the next slide, Kristen, we're just on slide, 39 profits hit a record. But will investment follow? So, this is the numbers we're seeing. I just mentioned we have the numbers now for the first quarter. I haven't looked at them yet, but I suspect they'll be quite strong, especially given that we're seeing this ramp up in commodity prices that will add to our profitability, and it stays profitable through the medium term. So these are very good numbers. These are the level of profits in Canada on an aggregate basis. We're talking about, you know, 300 billion at the peak. Here we're seeing in 2023. It's massive. The question is, do we take those and spend them and spend them on investment?

Business counts, actually, small business counts actually peaked during the pandemic. They've come down a little bit, but they're holding kind of stable. So small businesses thus far have done fairly well. Business bankruptcies again, this is another monthly indicator that I track, it's up to February. We have it now from the Office of the Superintendent of Financial Institutions. Is that starting to end? Chubb, I don't know yet. Does an observation make a trend? You know, I still think we're at fairly low levels here. So, the news thus far has been pretty good, but there is concern going forward from these lasting changes.

The next slide is the index of business confidence. This is where we keep surveying, asking businesses in Canada when and whether they're willing to invest. And this is, you know, a real challenge for Canada. The index fell again in the latest quarter. That's the first quarter of 2022 and we're just not seeing the levels of investment to recover even the losses that we had earlier through this, this pandemic so very concerning when we ask businesses, this is on the next slide, cost of capital and labor holding back investment. When we ask businesses about why they're not investing. You know, there's a lot of reasons that pop up, but these two have really skyrocketed in the last little while, cost of capital goods and rising labor costs. So in a way, you know this inflation is hurting business investment, and the lack of qualified labor, that's another question that we ask is also up there rising labor costs. These are challenges now that are holding back investment, and that's a very difficult pill to swallow, in a sense, because if we look at the next slide, this is where our investment is relative to to the US. This is investment as a share GDP. It's non-residential investment. So, it includes only that productive capital. And when we compare to the US, you know, we're at 10% the US is at 15% when we compare to other OECD countries, Germany, France, they're running 13, 14% of their GDP in terms of investment. So, a very poor performance. And part of the reason, I think, if you remember, just prior to the federal budget, the OECD had put out a report putting Canada last in terms of its long term economic growth per capita, per person, economic growth, real incomes per person was a weakest in their kind of



long term perspective, and this is the reason why, essentially, it's this lack of private investment that we're seeing productive investment that we're seeing in Canada.

So, the bottom line, don't forget, I started with this, but we are rebounding, so the growth will be strong this year. There's no doubt we're coming off a very solid footing into 2022. The concern I would have is further down the road, as we look to the end of this year and into next year, what is that play on inflation? Will the central banks be successful. And to me, the most important indicator that you can kind of check on a monthly basis is inflation. We're going to hear about it mid-month again, I have no doubt. But inflation numbers, if we can start to see those be contained and starting to come down, as they have in the US, I think that would be very good news for us being able to skirt any kind of implications or spiraling inflation, our long-term prospects are concerning, as I just mentioned. And I think when we think about our debt levels for households, when we think about the fiscal situation for federal provincial governments, all of these things are going to be a challenge going forward, especially if we're going to make efforts to, you know, essentially, to reinvest in Ukraine and to spend more on military spending. For instance, we have those ongoing challenges with health care and other and infrastructure and green transitions, as you all know.

But to finish off, Kristen, I just sorry. I was just at the bottom line. But to finish off, are there any silver linings? I do think there's some real important things that are very positive for Canada. One of them is that, in fact, that the fact is that we have seen a turnaround in our productivity. Our productivity is improved. And when productivity improves, that means that, you know, our real incomes are able to grow, even if we're not seeing that private investment as strong as we'd like. And I think that the the truth of the matter is, we're not investing as much in physical capital, but we have invested a whole lot more in human capital. In other words, the workforce is a knowledge-based workforce. We've seen employment in professional services really bolstered through this pandemic, and very strong growth even prior to the pandemic, but continuing through the pandemic, employment for people with university and education is in strength and increased strongly through the pandemic. And remember, our workforce, about 30% now has a university degree, so we are a knowledge economy. That's what's driving our incomes and our employment, and that's certainly a very positive outcome, and I think it's part of the reason we've been able to pull off a better productivity performance, perhaps, than that the OECD might anticipate. So that's been good news. I think we've seen a massive acceleration in tech adoption, if we can see that continue continuing, and if we can see tech adoption continuing in the public sector, that might help us deal with those fiscal challenges as well. So on that note, Kristen, I'm going to pass it back to you and see if we have any questions. And thank you very much for your.



Kristen Trevisan (54:05)

Wonderful, awesome yeah, thank you so much, Pedro. We do have time, probably five, six minutes, for a couple of questions. So, I will start with this one here. Do you think we are headed for a recession?

Pedro Antunes (54:19)

Oh, that's yeah. No, that's a very good question. And I think that's what's keeping us busy these days at the Conference Board, for sure. And I you know; I suspect there's a number of things that are of concern more. Most recently has been the fact that equity markets have plummeted so so much, especially in the US, and globally, we've been a little bit exempt from the biggest declines here in Canada. On that front, again, I think partly because of what's happening with resource prices, kind of having a bit of an offset. So that's one of the indicators. The other piece, I think, that's concerning, is the inflation piece that we. We've, we've talked about, and really, that's the crux of the question. So how to answer, you know, we're when we look at the kind of leading indicators that tell us, you know, on recession is just around the corner. You know, things like building permits, things like employment, things like, sorry, the yield curves and inversions of yield curves, I think most of that is still telling us that we're going to skirt a recession, that we should be able to see the economy continuing to grow. I think the implication of inflation right now is really eating away at those excesses. So unfortunately, all of that savings that we were able to sock away in the last two years that's getting eroded and eaten away very, very quickly. A lot of it went into housing, and that's essentially been eaten away completely. I mean, we all feel better that our houses are worth more, but it's the same house, right? It's the same place you're living in. So, I think we've seen, unfortunately, a lot of the borrowing that we've done to sustain the economy through the pandemic kind of eaten away by inflation. But it doesn't mean that we can't that we're not in a fairly good shape going forward to at least see consumer spending continuing to drive some growth, the resource sector is really strong. The concern I have, really, is around, is around those inflation numbers, hopefully, fingers crossed, starting to see those come off, so that we don't get into a panic and a self-fulfilling prophecy of recession. So if you're asking me the risks, I would say, you know, maybe there's a 25% risk or so for next year that we could see not, perhaps not a recession, but a really more severe slowdown in Canada. But, you know, it's tough. It's a tough call at this point. Thanks, Kristen, thank you for that.

Kristen Trevisan (56:51)

Yeah, for sure. For sure. We maybe have time for one more here. There was one that came in. How long do you think it will take for current supply chain challenges to be resolved, like get back to normal. Do you have a clue on that one there?

Pedro Antunes (57:07)

Yeah, I you know, that's a question that we're all asking ourselves. And we participate in the federal finance survey that goes towards the budget, and they're asking us that same



questions. It's really hard to know, because, of course, you know, we're first of all living through this, this war that is having an impact on all sorts of, all sorts of supply chains. I think, as I mentioned, the the war will essentially whether or not the sanctions are in place or not. The war will accelerate the move away from Russia, and trust has just gone there. And so, these challenges will continue in terms of the resource sector, in terms of agriculture, in terms of a lot of the metals and minerals we're looking for. You know, the the other thing that's may come from this war is an acceleration towards greening the economy. And if that's the case, then more challenges to come, I could tell you, on batteries, and you know, the minerals are required for batteries, these are going to be massive challenges. Every budget I hear about from our provinces and federal government talks about, you know, critical minerals and critical mineral strategy, but we know that it takes years and years before we get mines in operation, in place. So, I think in the resource sector, because of the war in Ukraine, we're going to have challenges on supply chains for a long time to come. On the other side of the coin, though, when we think about durable goods, you know, the chip shortages and those, I do think some of that will come off. The economy is normalizing, people are spending less on retail and on durable goods and more on travel. So hopefully we don't see too many challenges. There are challenges. I mean, if you're there's 2,000 flights canceled, you know, on an almost daily basis in the US. So, there's still a lot of challenges to getting those segments back and going, but I think it will at least take some of the supply chain pressures off of off of durable goods. And by the way, US, auto manufacturing is ramped up in the last few months. So that's a sign.

Kristen Trevisan (59:14)

Great question. Yeah, thank you so much. I am conscious of our time, so we just have a minute here. I will, I will leave us there for today. If we didn't get to any and or all of the questions, we will reach out to those. But Pedro, I did want to thank you for your time, and it was a pleasure. Any last comments?

Pedro Antunes (59:34)

No, well, thank you everybody. And you know, if you do have questions, you can send me an email. It's antunes@conferenceboard.ca and Kristen. If there's questions that we didn't get to, maybe we can try and send back a note. So thank you very much. I really appreciate your joining us for this today. Wonderful.

Kristen Trevisan (59:53)

Thank you everyone for so much for joining and have a great afternoon. Thank you. Bye.