

The Economic Outlook:

Canada's Economy to Navigate Rough Seas

Pedro Antunes, Chief Economist

March 23, 2020

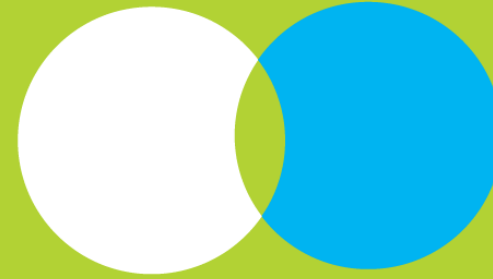




Today's Presenter

- Pedro Antunes
- Chief Economist,
- The Conference Board of Canada





Global Outlook

COVID-19 Driving Synchronized Global Slowdown

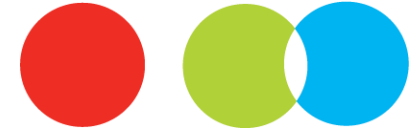
COVID-19 Impacts



- Direct impacts through production shutdowns and steep drop in consumer spending
- Global tourism spending will take a hit but it's a net zero
- Halt to air and other passenger transportation lowered fuel demand and oil prices
- Impact on global supply chain will be noticeable
- Fear factor, consumer and business confidence, can exacerbate impacts
- Risk to financial markets, especially if outbreak is not contained quickly



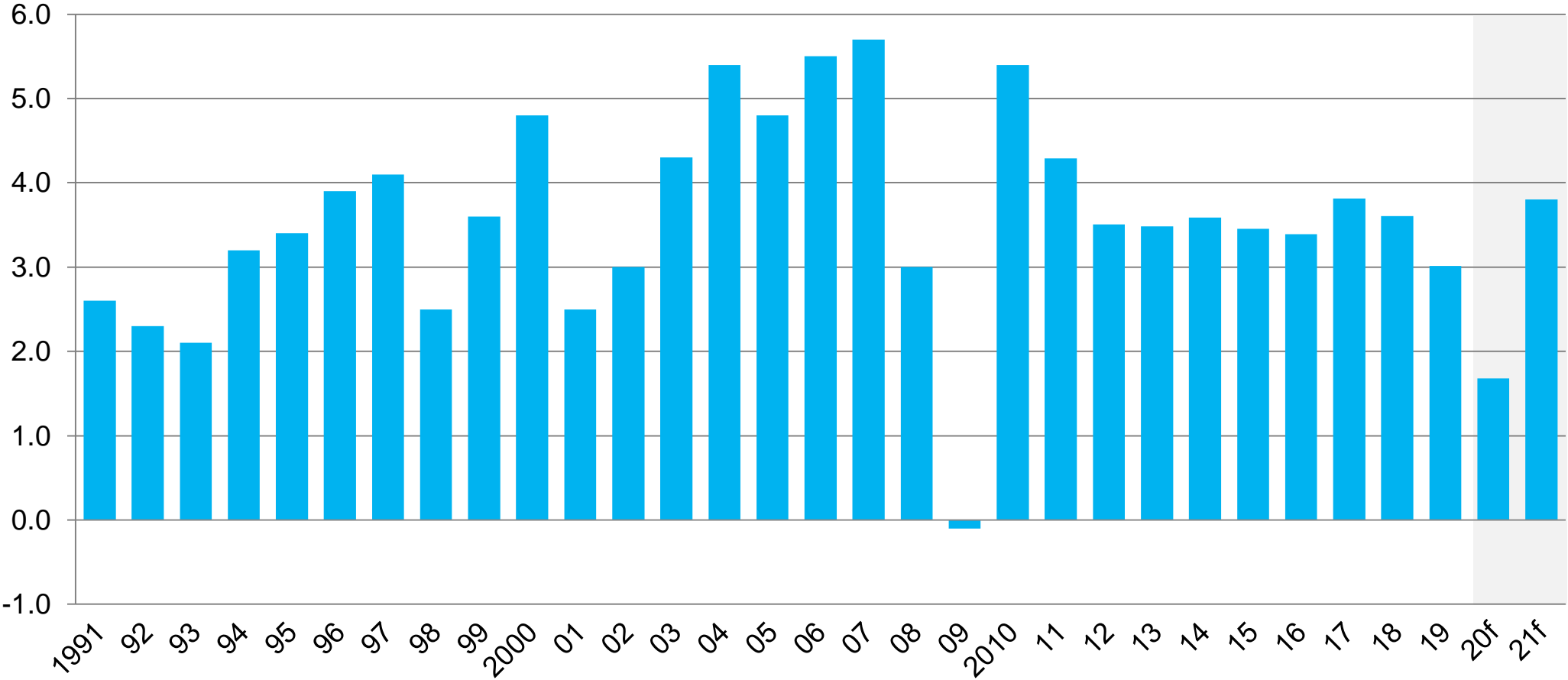
World Economy in the Grips of a Major Downturn



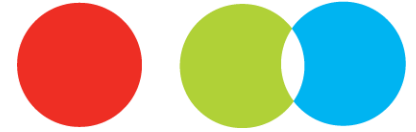
- In January we expected global GDP to expand by 2.6 per cent—close to potential growth
- Devastation caused by coronavirus and steps to limit the spread will lead to a gain of only 1.7 per cent this year
- Output in China contracted sharply in January and February—real GDP growth for the entire year will be less than 4 per cent
- Italy, France, Germany, Spain and Japan likely to experience recessions in 2020
- All governments engaging in massive fiscal and monetary stimulus—will it be enough?

Global Growth Takes a Hit

World real GDP per cent change



Sources: International Monetary Fund (IMF); The Conference Board of Canada.

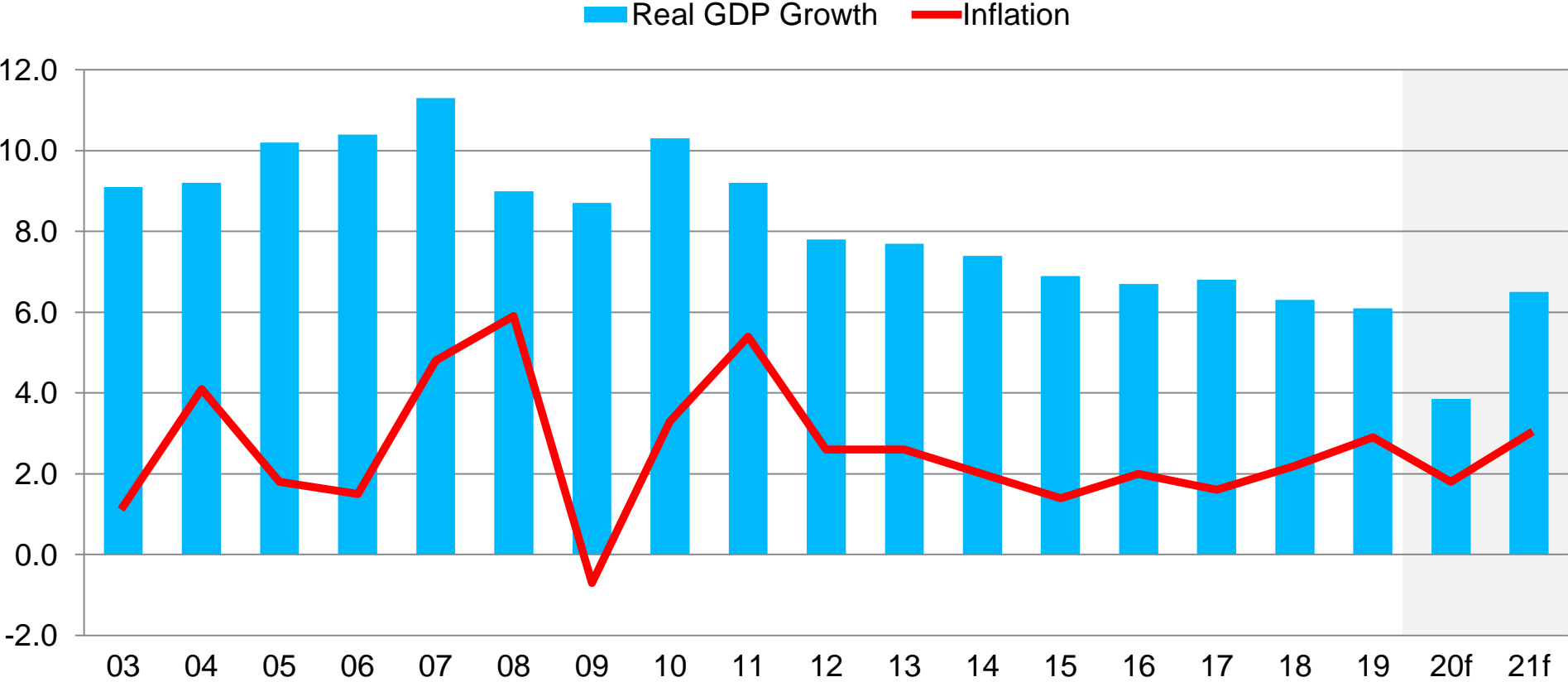


China's Economy

A ray of hope in containing the outbreak

COVID-19 will Cut China's 2020 Forecast

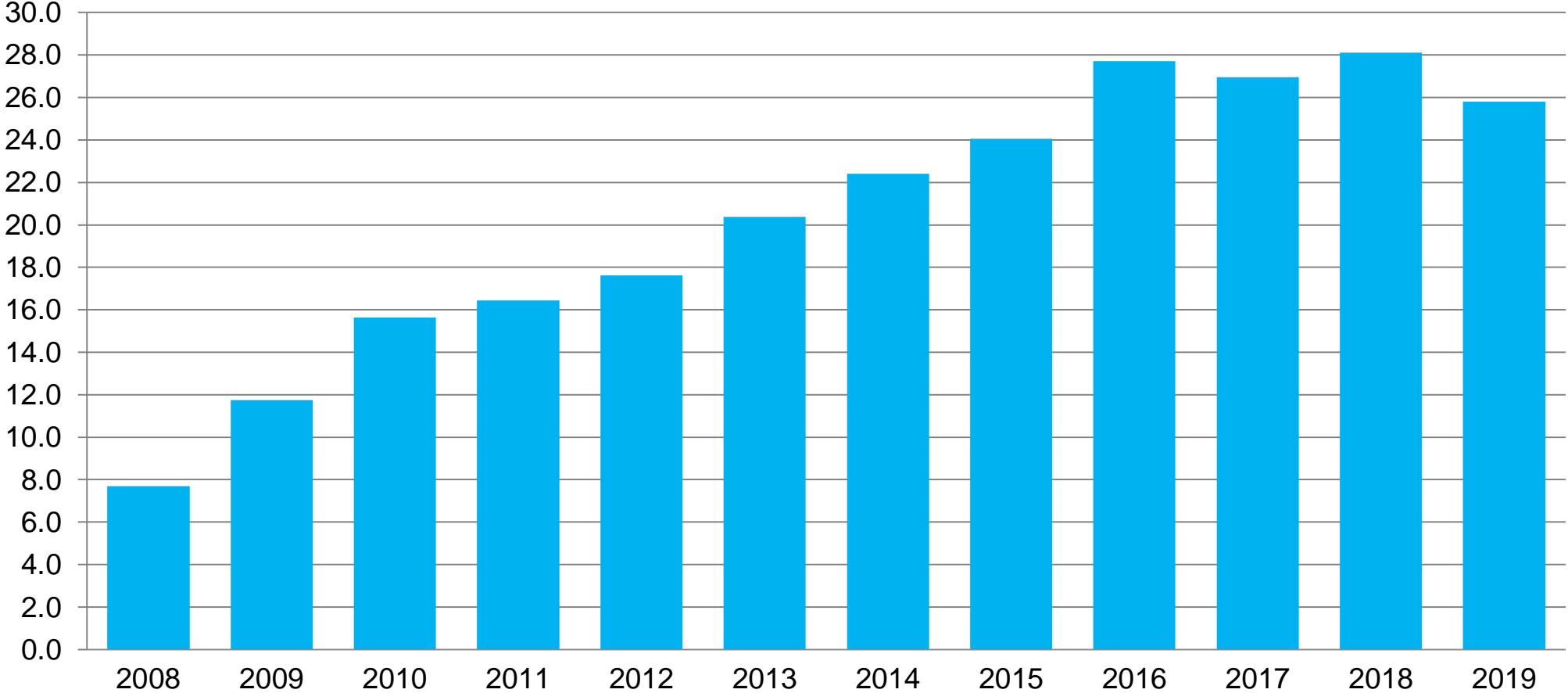
real GDP, per cent change



Sources: Consensus Economics; The Conference Board of Canada.

Auto Sales in China

millions, passenger vehicles



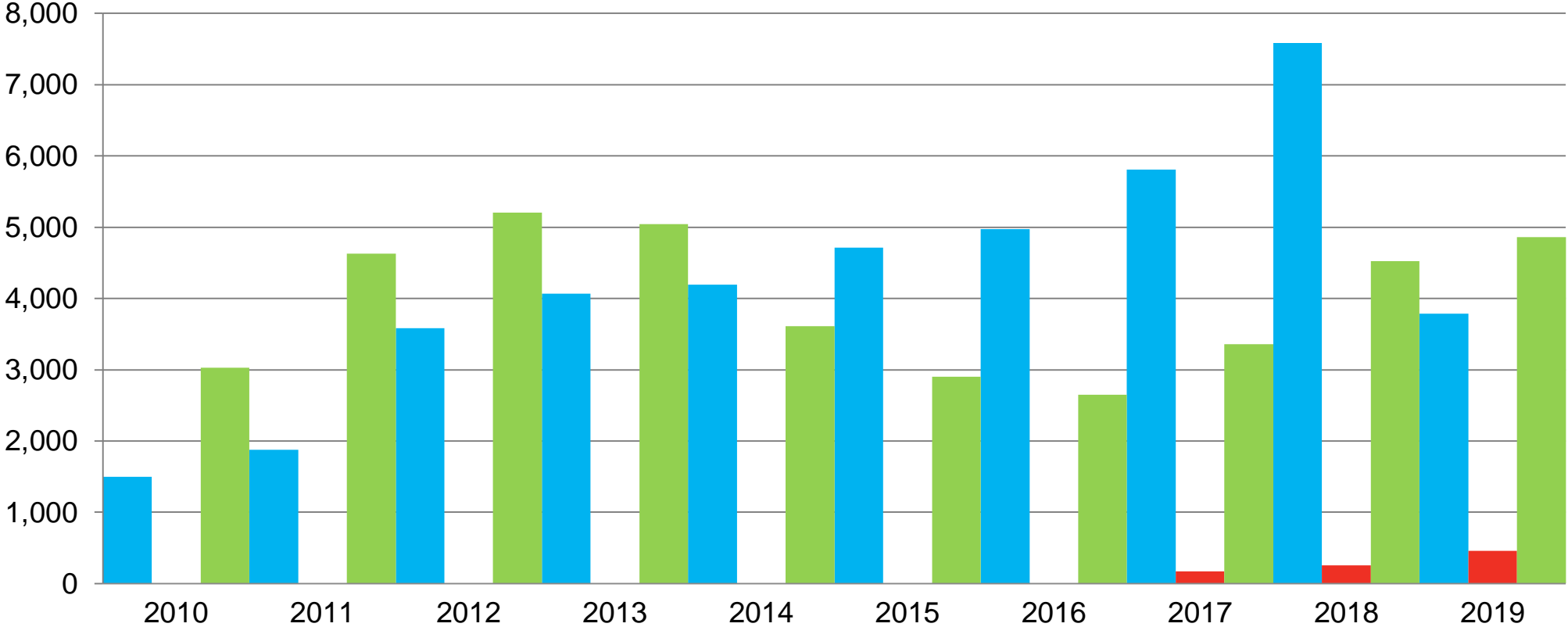
Source: China Association of Automobile Manufacturers.

Canadian Exports to China

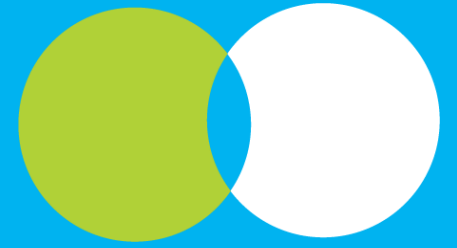
millions of current \$



■ Primary sector ■ Live or fresh Lobsters ■ Mining & energy



Source: Statistics Canada.



U.S. Outlook

Unprecedented fiscal stimulus to avert election-year recession

Recent indicators Capturing Devastation in U.S. Economy



- U.S. box office sales for top 10 movies 50 per cent below averages in 2018-19
- Seated diners in restaurants down 80 per cent from a year ago
- Weekly jobless claims increased by 70,000 to 281,000 for week ending March 14
- Declines in equity markets have wiped out all the gains since President Trump took over
- Major auto manufacturers have shut down operations

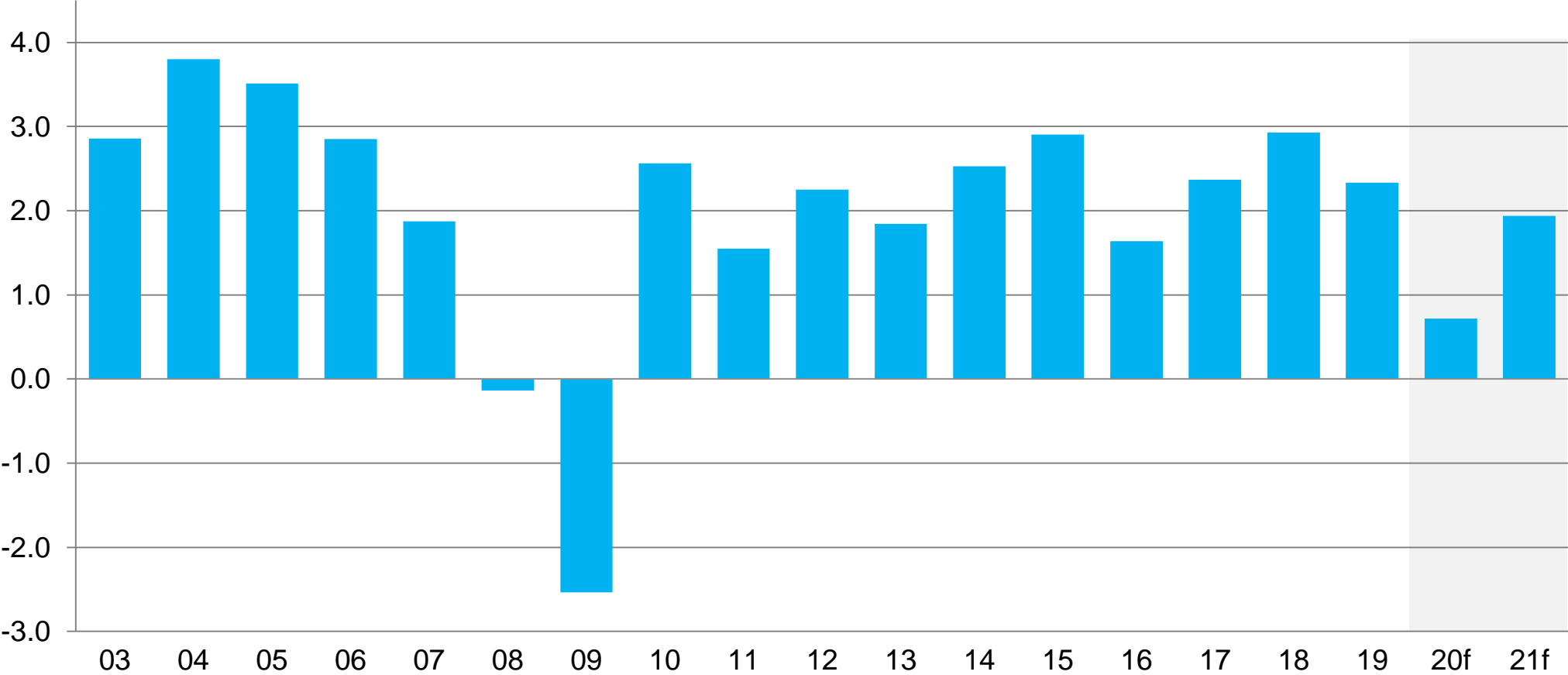
U.S. Fiscal Response



- Congress ready to pass a \$1.3 trillion stimulus package
- \$50 billion for the airlines
- \$300 billion for small businesses
- \$150 billion for other sectors like energy devastated by plunge in oil prices
- \$500 billion direct payment to all Americans—roughly \$1,000 each
- Deferred tax payments for businesses and individuals

Consumption Shock will Hurt U.S. Economy

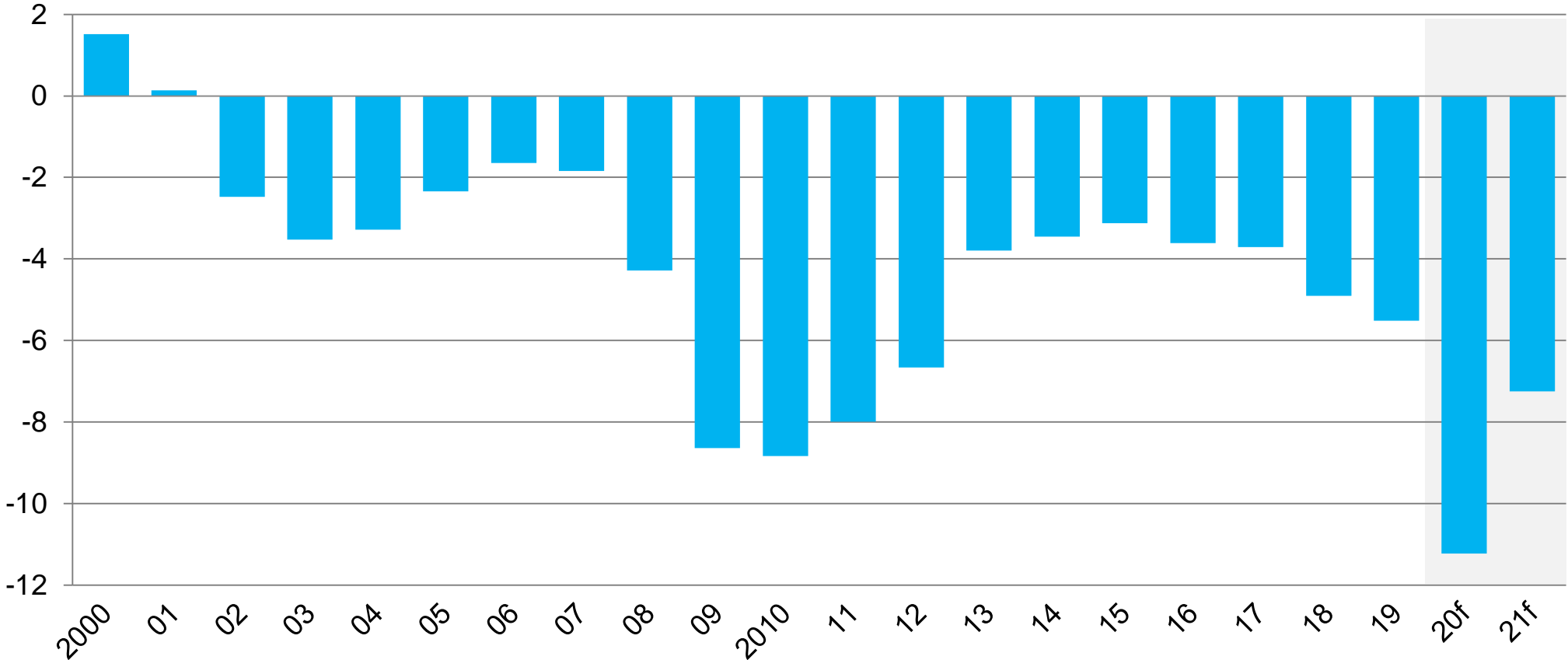
U.S. real GDP growth, per cent change



Sources: Bureau of Economic Analysis; The Conference Board of Canada.

Where will the U.S. Federal Deficit Land?

NIPA basis, billions of current \$



Sources: Bureau of Economic Analysis; The Conference Board of Canada.



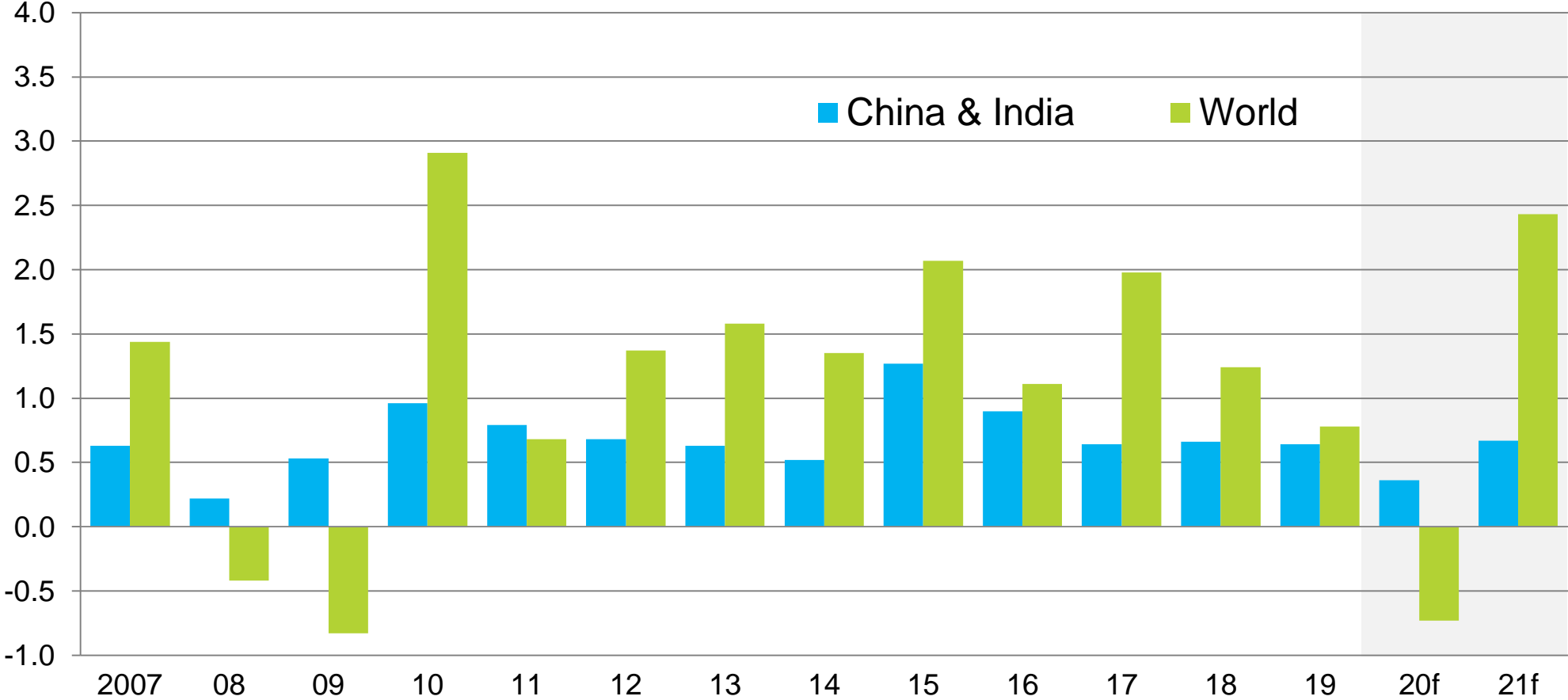
Oil Story

**It is always dangerous to
prophecy, especially about
the future.**

Danish Proverb

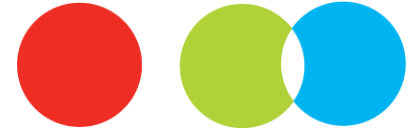
Annual Change in Global Liquids Consumption

millions of barrels per day



Sources: U.S. Energy Information Administration; The Conference Board of Canada.

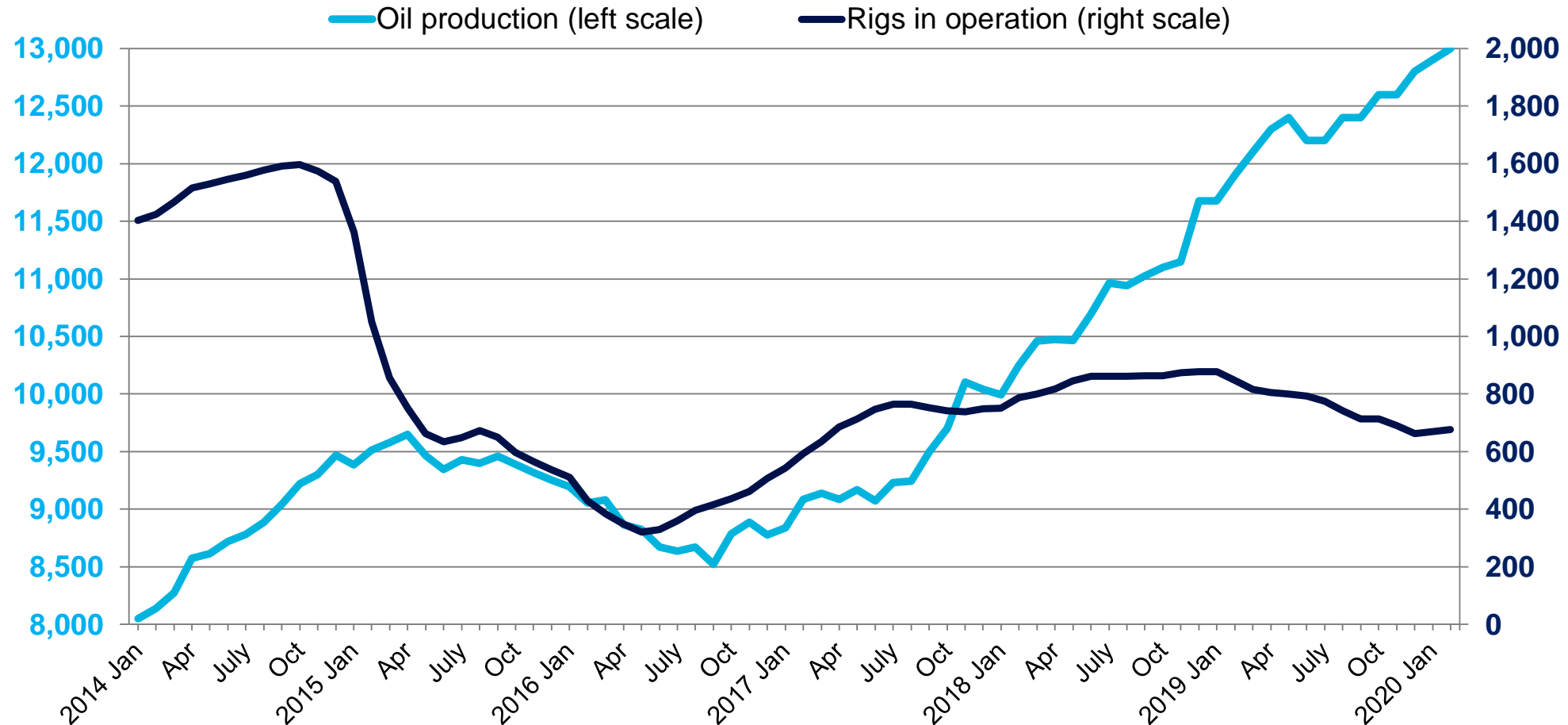
World Oil Prices in Freefall



- Combination of collapsing demand linked to coronavirus and Russia and Saudi Arabia fight for market share sent world oil prices plunging to US\$23 per barrel—in January WTI was as US\$63 per barrel
- Russia has promised to boost production by 500,000 bpd while Saudis plan to bring full excess capacity of 2.3 million bpd online—incredible excess supply on global markets in midst of collapsing demand
- Saudis offering Russia's customers steep discounts in Europe and elsewhere
- Russia may be able to outlast Saudis—government says it could survive on \$25-\$30 oil for six years, but should we believe Putin?
- Saudis need at least \$80 oil to balance budget
- Shale producers need around \$40 oil so many won't survive unless big bailout rescues them

U.S. Oil Production and Rig Counts

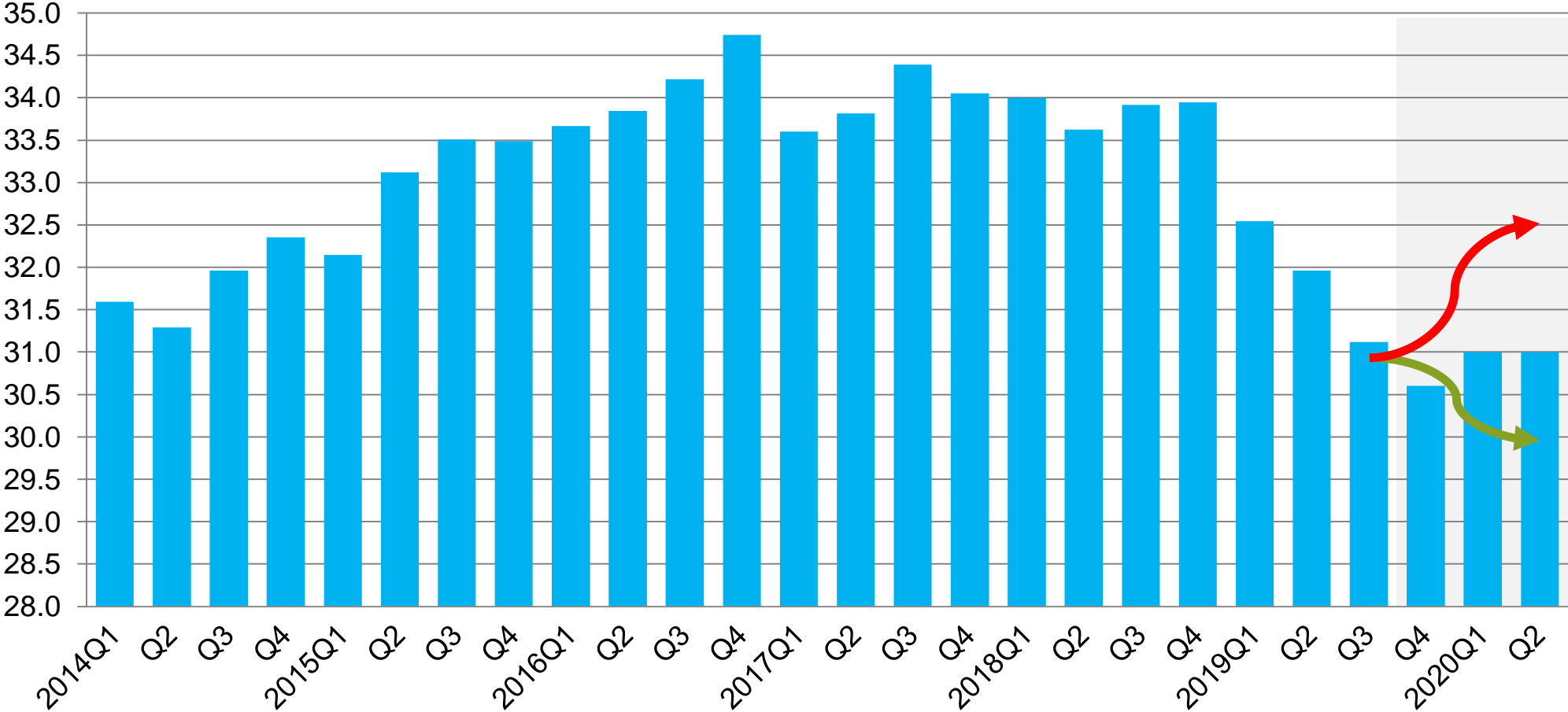
000s of barrels per day; number of rigs



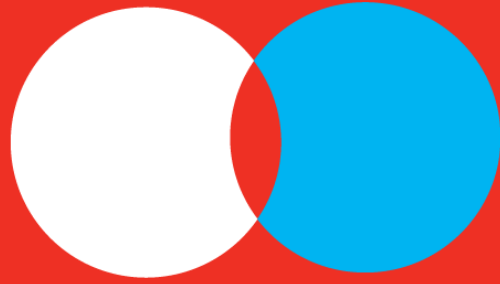
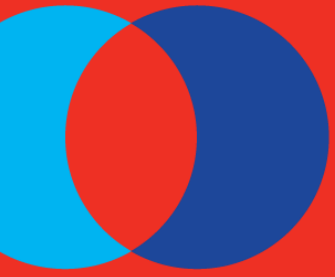
Sources: U.S. Energy Information Administration; Baker Hughes Inc.

Will OPEC Adjust?

OPEC crude oil production, millions of barrels a day



Source: U.S. Energy Information Administration.



Canada's Outlook

How Long to Flatten the Curve?



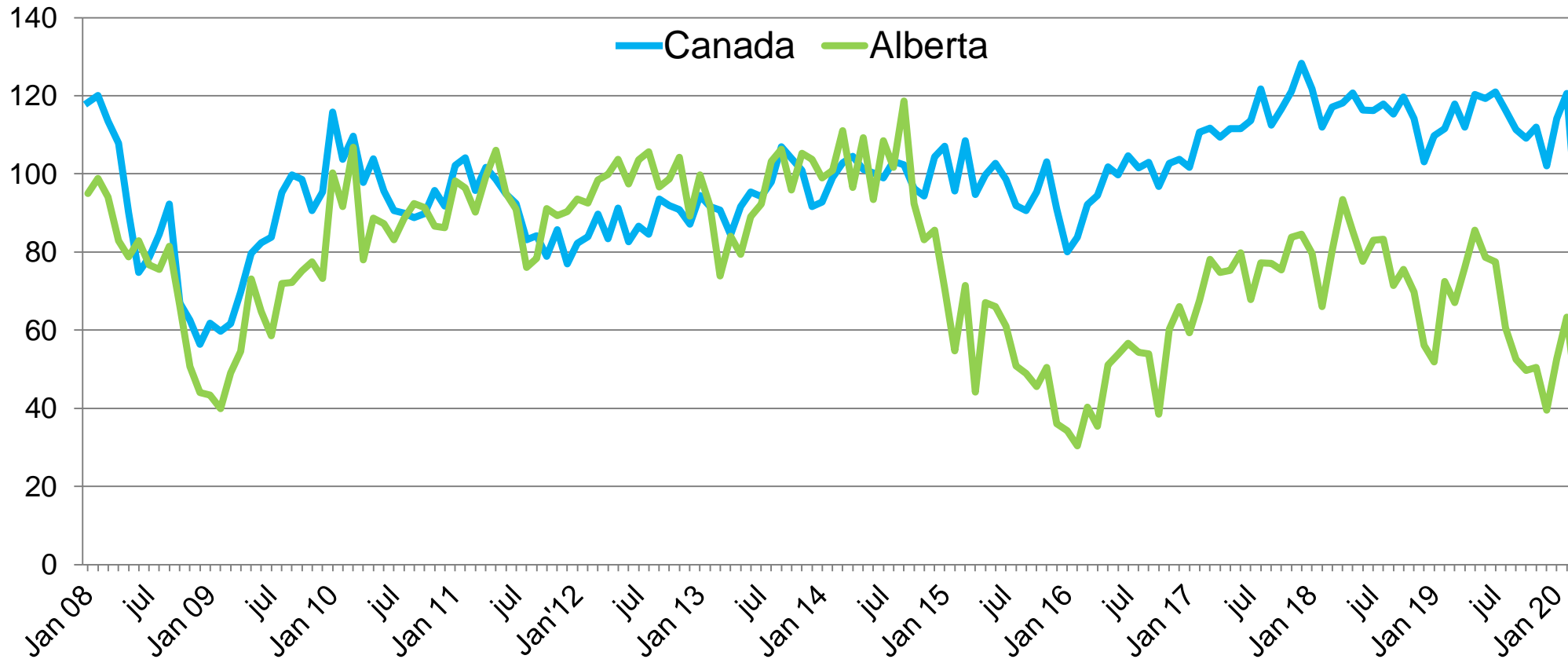
Flattening the Curve

Baseline forecast—6 weeks

Alternate forecast—24 weeks

Consumer Confidence Plunges in March

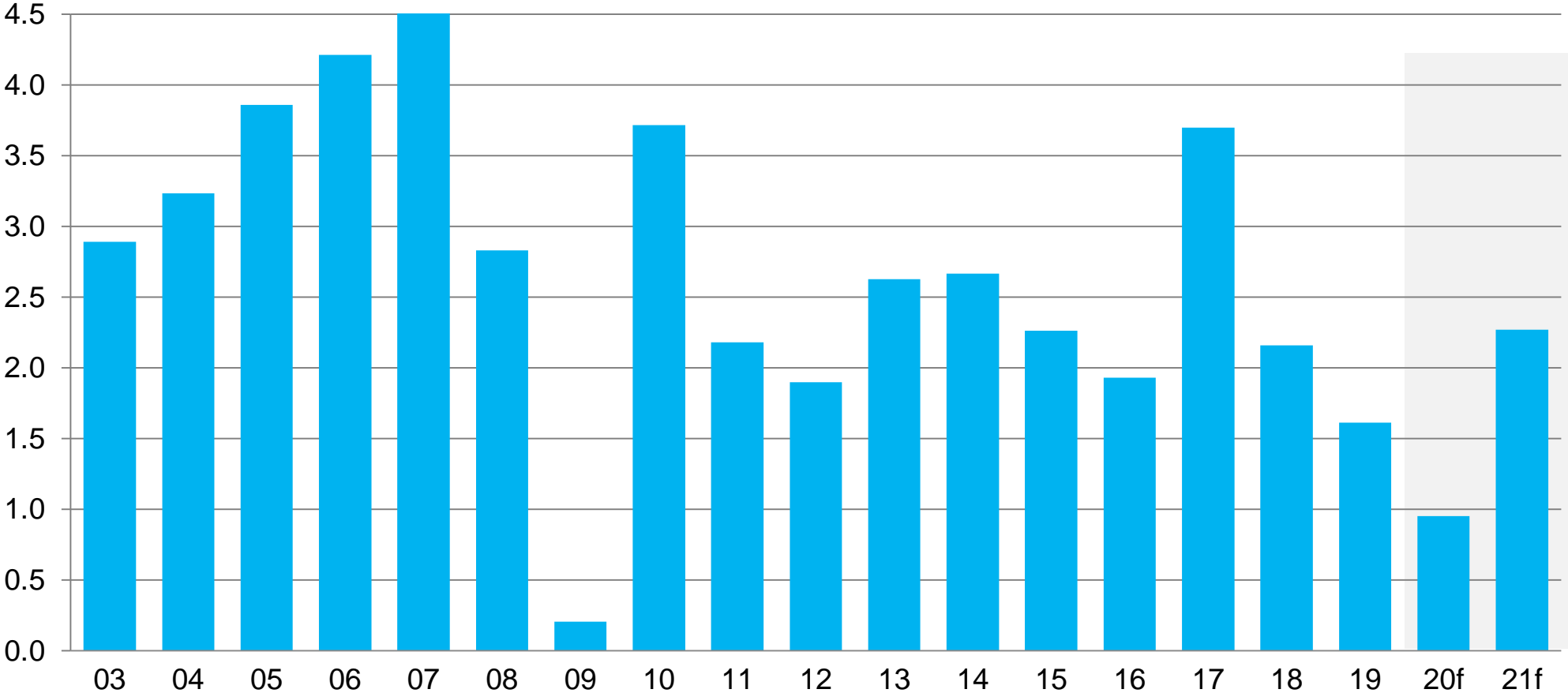
Index, 2014 = 100



Source: The Conference Board of Canada.

Household Spending had been a Pillar of Growth

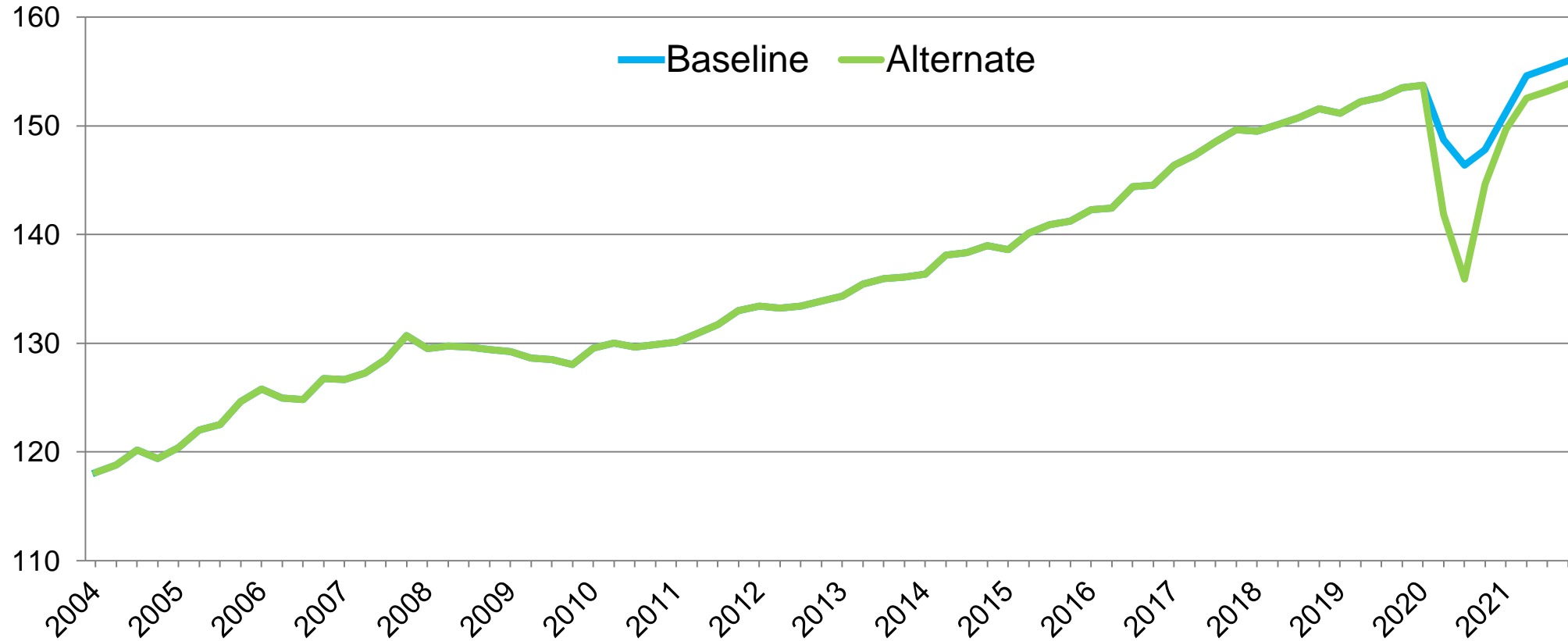
real consumer spending on goods and services, per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Real spending on accommodation, food & beverage services, arts and entertainment

billions of \$2012



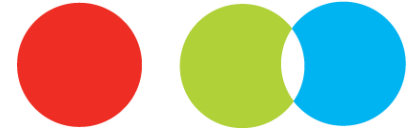
Sources: Statistics Canada; The Conference Board of Canada.



Labour Market

Coming off a Record Year

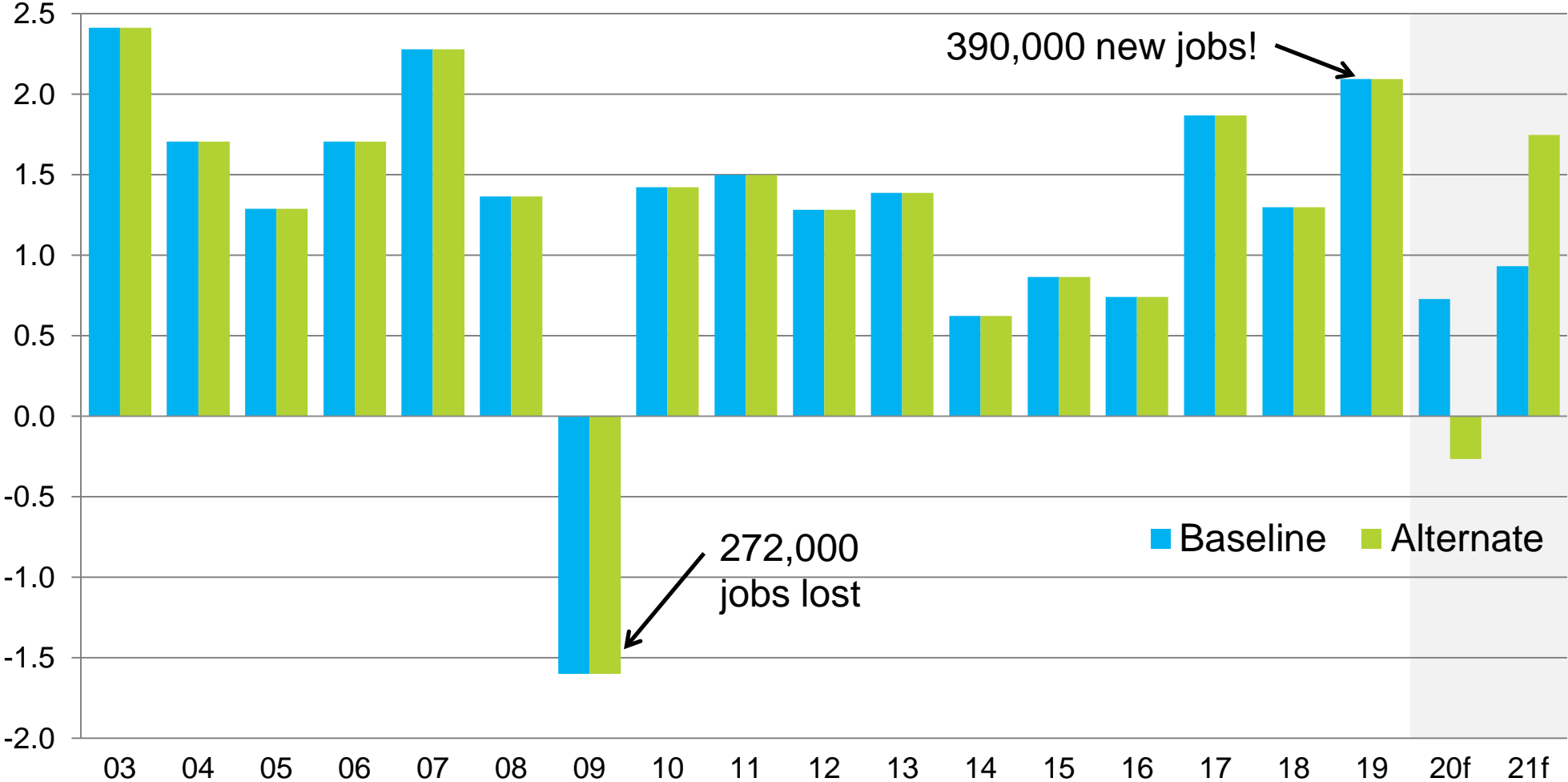
2019—A Boon Year for Labour Markets



- Many developed economies are feeling the pinch of labour constraints and Canada is no exception
- 390,000 jobs were created in 2019, growth of 2.1 per cent
- In May 2019, Canada's unemployment rate bottomed out at 5.4 per cent, a record low since the current labour force survey was launched in 1976
- Over the entire year, the unemployment rate averaged a record low of 5.7 per cent
- Job vacancies swelled to 563,000 in the third quarter
- Despite record immigration levels and rising labour force participation, the private, non-farm average hourly wage soared by an estimated 4.7 per cent—2.8 percentage points above inflation!
- Employment growth was strong through to February 2020...but March EI claims topped 500,000

Will Employers Hold on to Their Workforce?

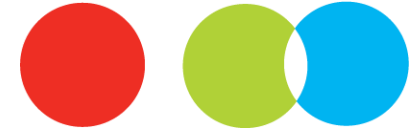
employment, per cent change



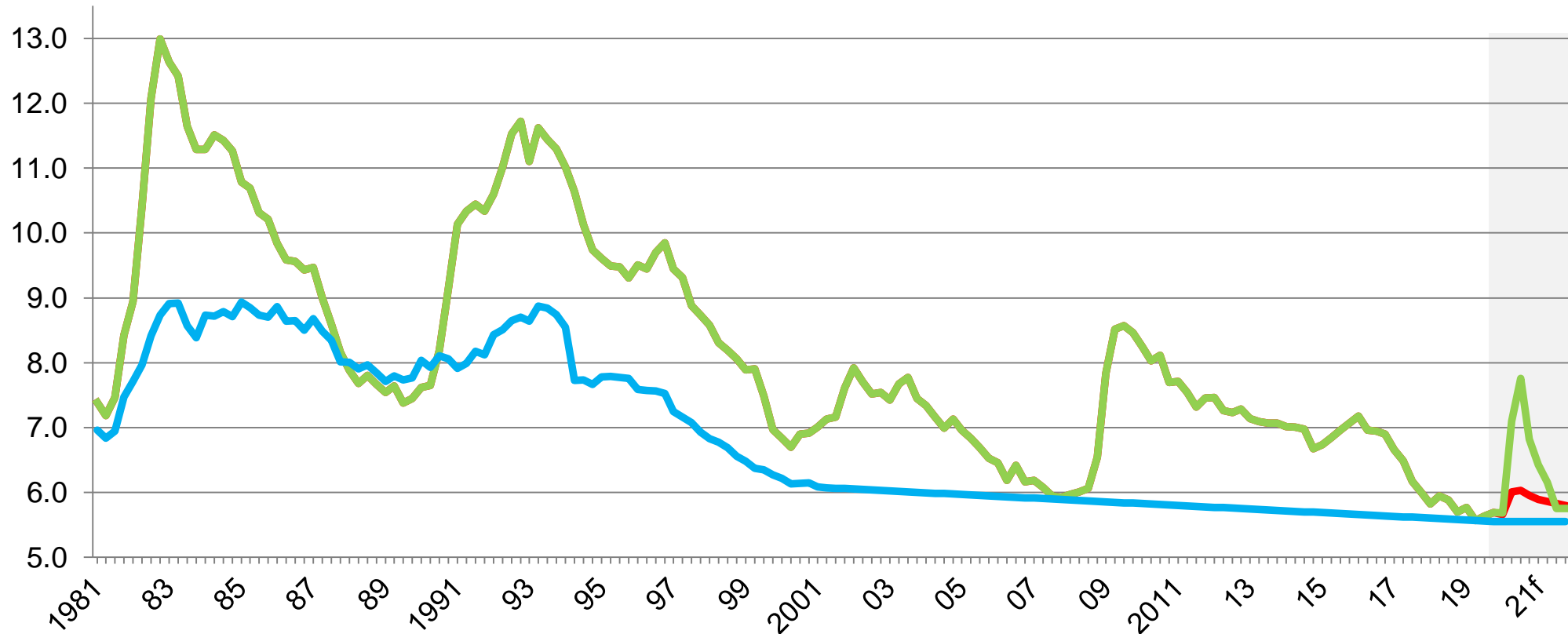
Sources: Statistics Canada; The Conference Board of Canada.

Labour Market Could Slacken Quickly

per cent



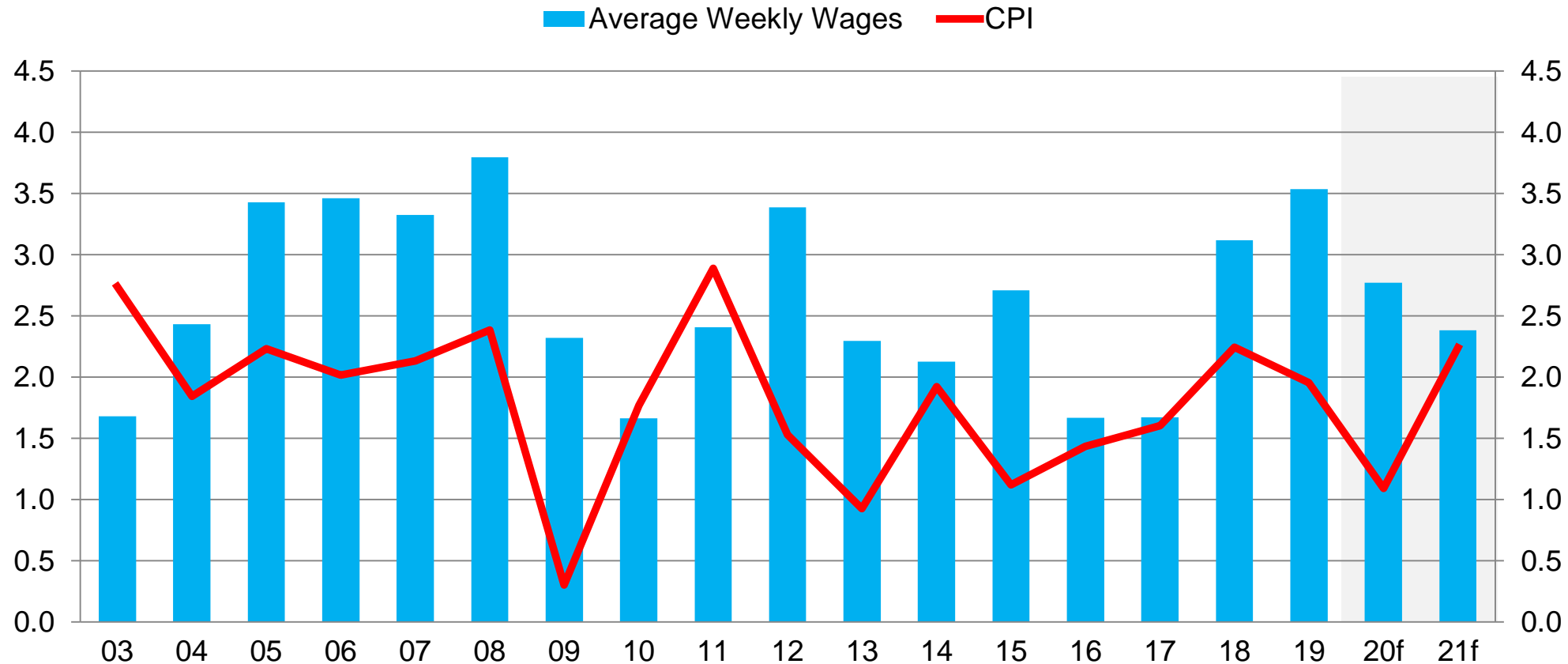
— Baseline — Alternate — Natural Rate



Sources: Statistics Canada; The Conference Board of Canada.

Robust Wage Gains Continue

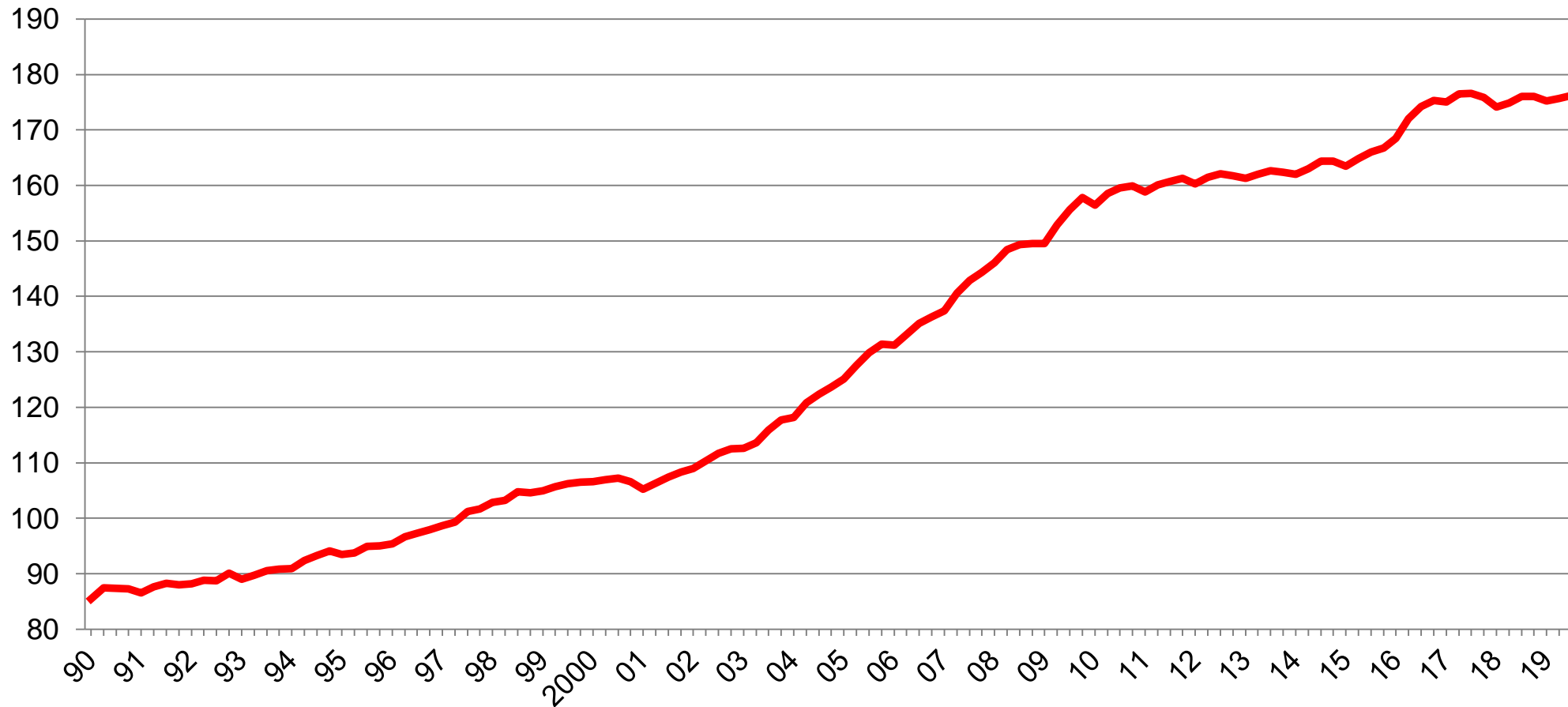
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Household debt at peak levels but....

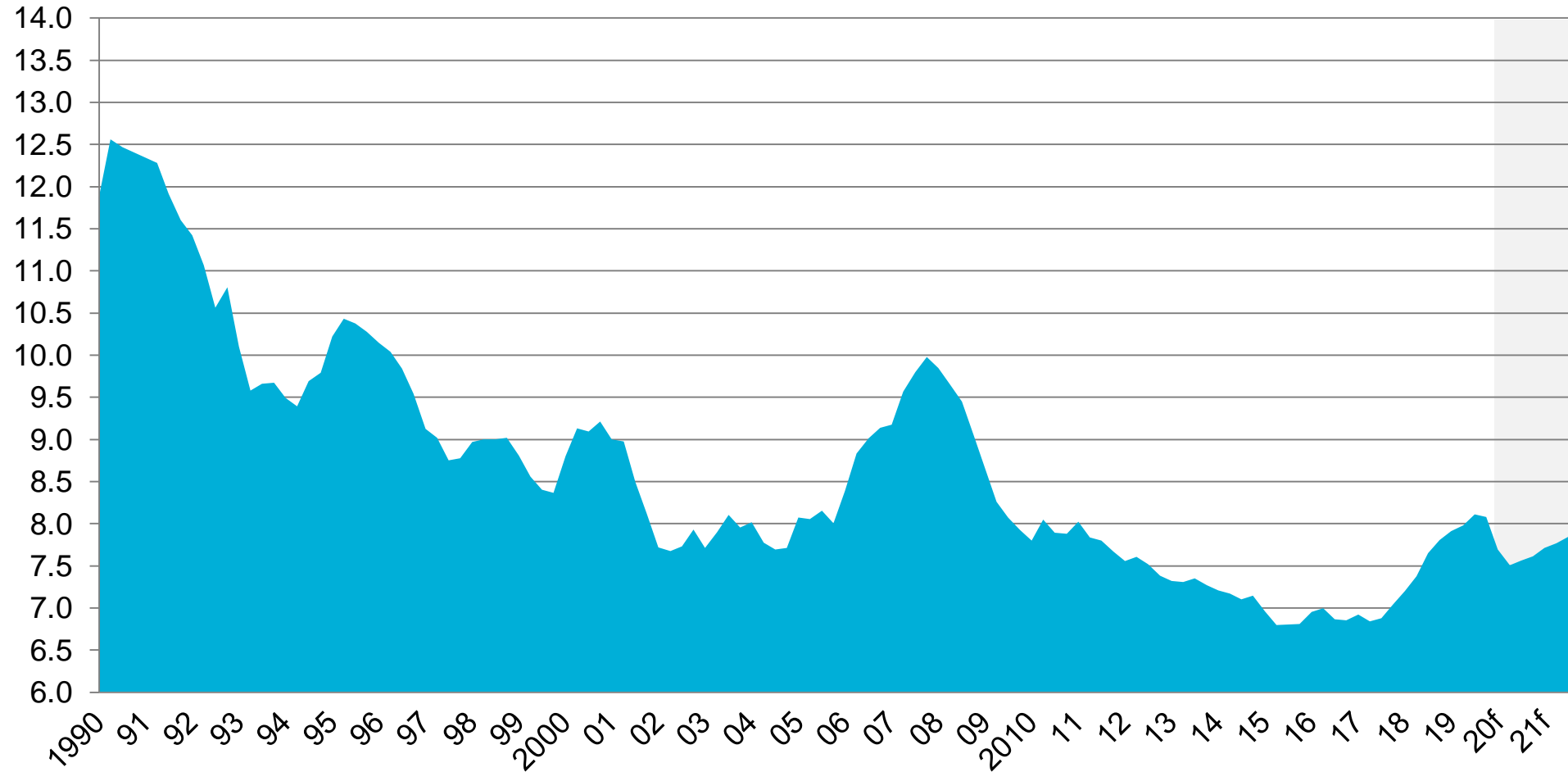
total household debt and net worth, ratio to disposable income, per cent



Source: Statistics Canada.

... debt service burden remains low

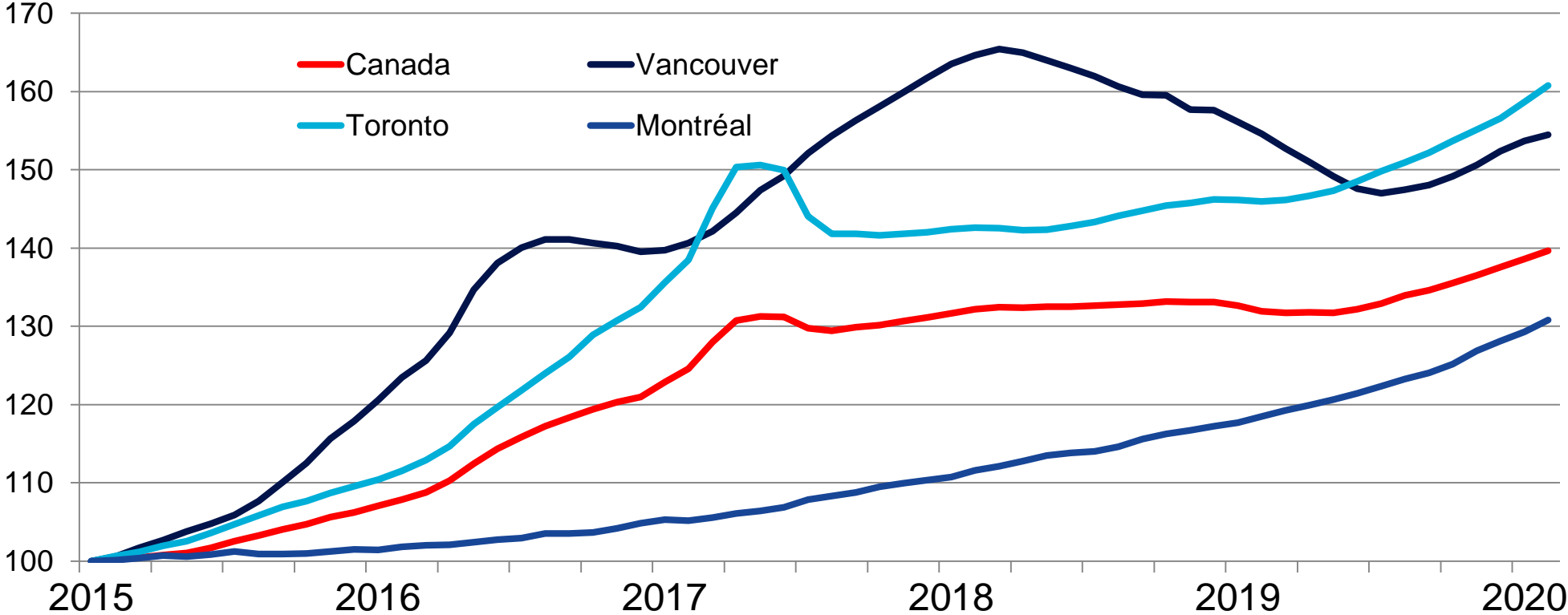
mortgage and consumer debt service as a share of disposable income, per cent



Sources: Statistics Canada; The Conference Board of Canada.

Toronto, Vancouver Markets on the Mend

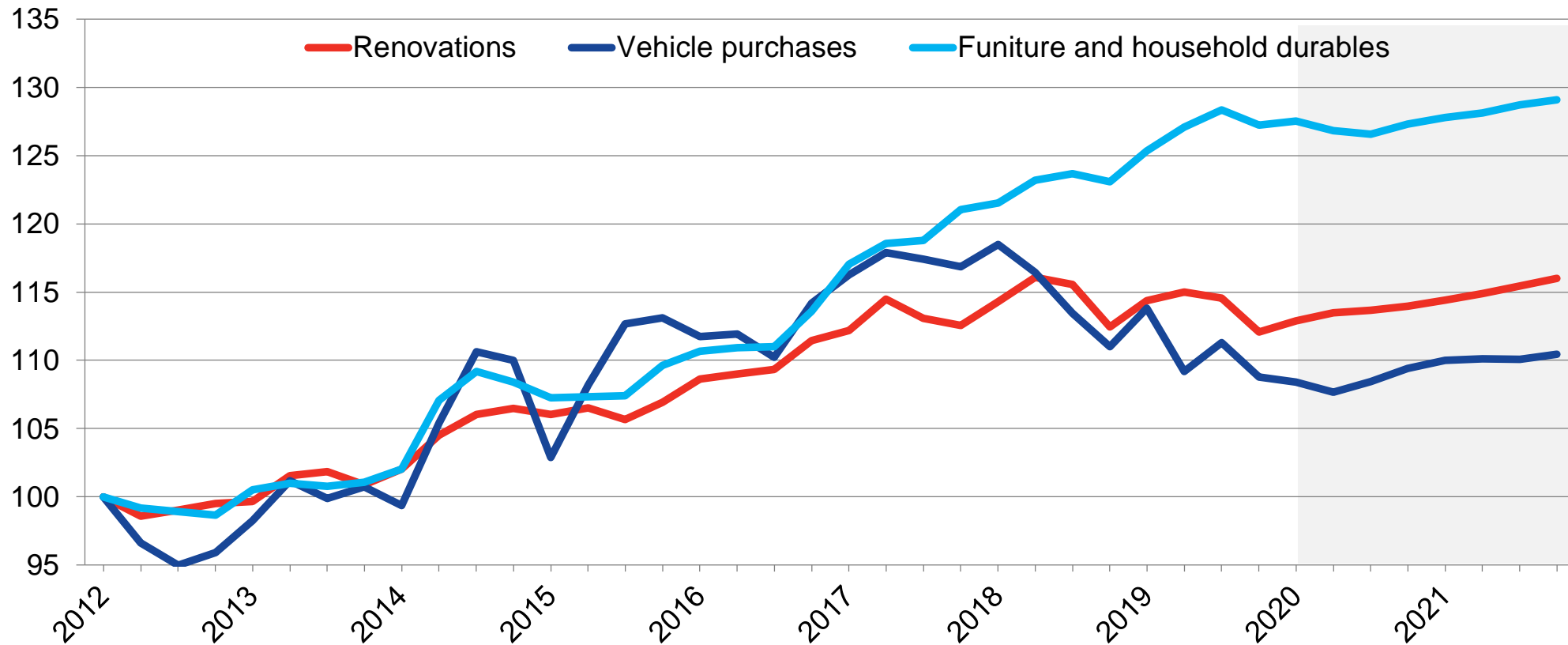
MLS HPI; January 2015 =100; monthly to February 2020



Source: Canadian Real Estate Association.

Purchases of Interest Rate Sensitive Items

real spending on interest sensitive categories, index 2012Q1=100



Sources: Statistics Canada; The Conference Board of Canada.



Policy Measures to the Rescue

Pulling back the slingshot

Monetary Stimulus Leans on Easier Credit



- Bank of Canada cuts its overnight rate by 50 basis points on March 4th and then another 50 basis points on March 13th
- OSFI dropped its *domestic stability buffers*—essentially reserve requirements—creating an additional \$300 billion in lending capacity.
- The GoC re-introduced the Insured Mortgage Purchasing Program (IMPP) to buy up to \$50 billion of insured mortgage through CHMC to ensure banks and mortgage lenders remain well funded
- The BoC will also purchase CMBs (Canadian Mortgage Bonds). Plans to buy up to \$500M in CMBs per week
- GoC announced \$10 Billion in additional loans through EDC and BDC and another \$7.1 billion in loans to businesses

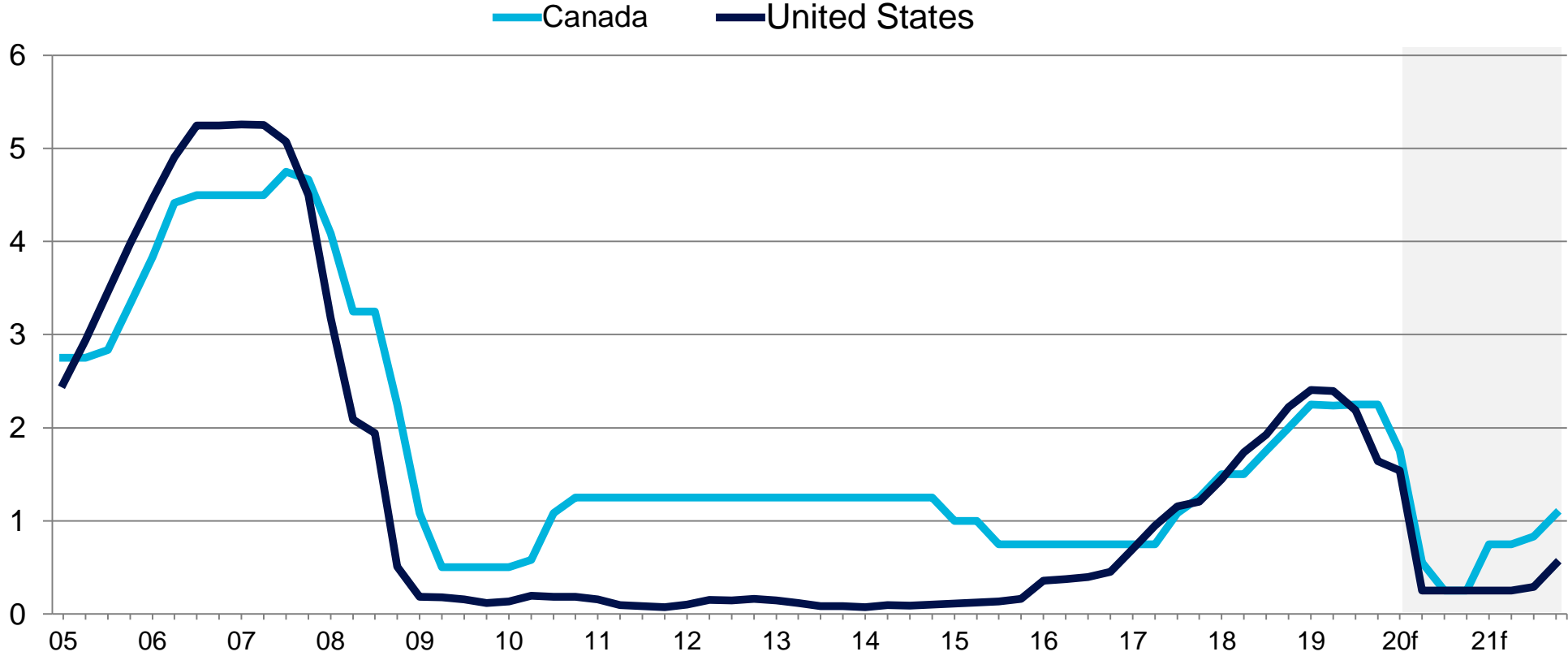
Fiscal Measures to top 3 Per cent of GDP



- On March 18th, the Federal Government announced an \$82 billion rescue package amounting to 3.3 per cent of GDP
- \$27 billion in direct support to workers and businesses
 - Boost EI payments and insure those that do not qualify (\$900 weekly)
 - Top up child benefits \$300 per child and GST credit for modest income families (\$400 individuals, \$600 couples)
 - Small businesses will get a 10% wage subsidy for three months
- \$55 billion in tax deferrals for businesses and households—taxes deferred to August and student loan payments deferred for 6 month, no interest
- Provincial/Territorial/Municipal governments and crown corps also providing support

Central Banks Push Hard on the Gas Pedal

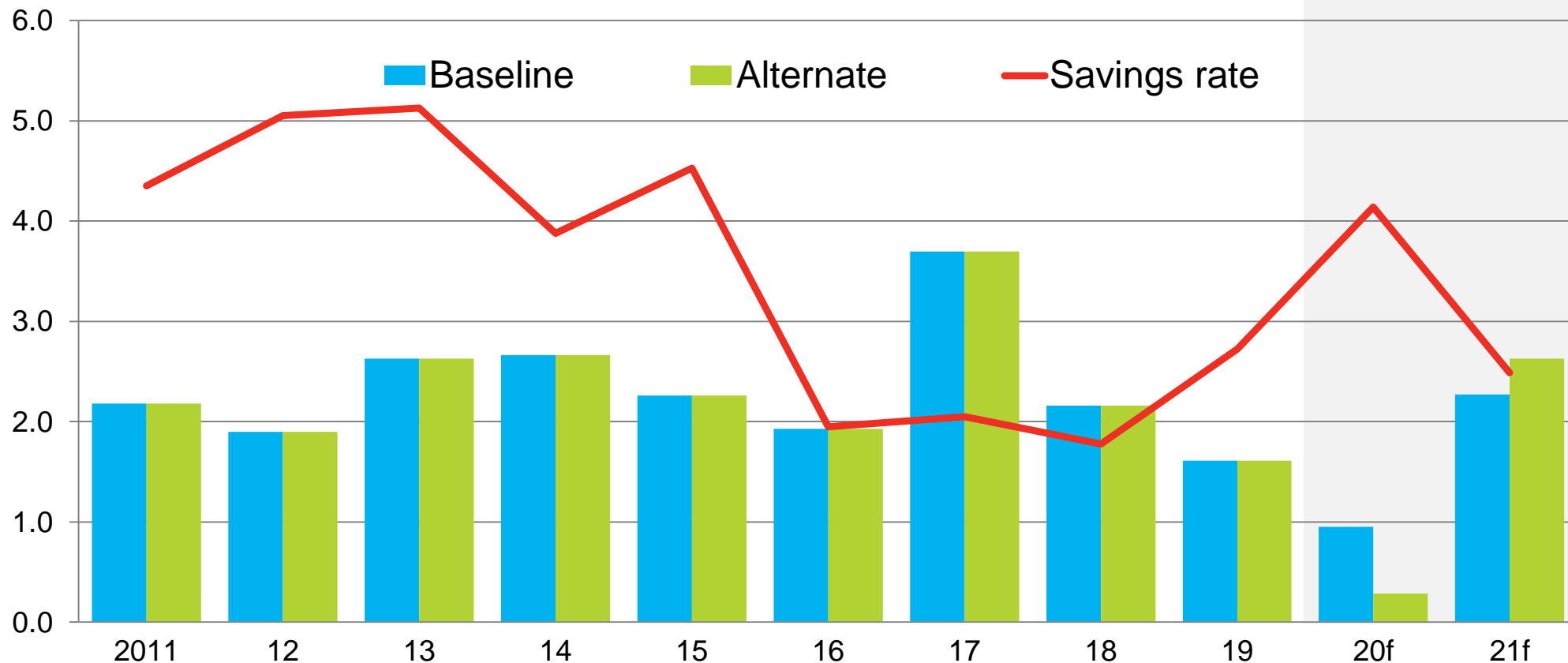
Canadian Bank Rate and U.S. Federal Funds Rate



Sources: Statistics Canada; The Conference Board of Canada.

Household Spending Had Been a Pillar of Growth

real consumer spending, per cent change



Sources: Statistics Canada; The Conference Board of Canada.

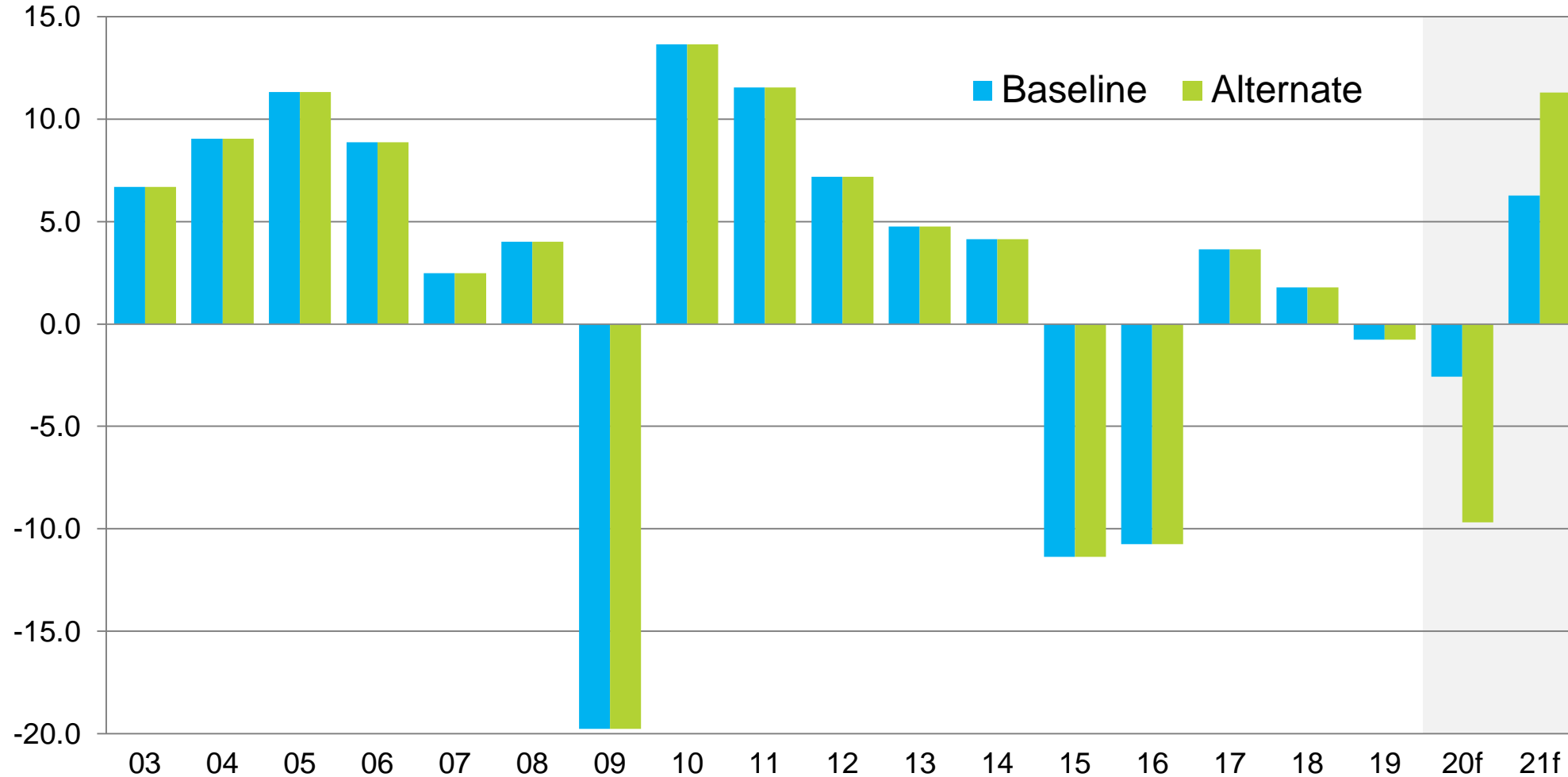


Canada's Trade Outlook

Prospects were already dim...

Real Non-Residential Private Investment

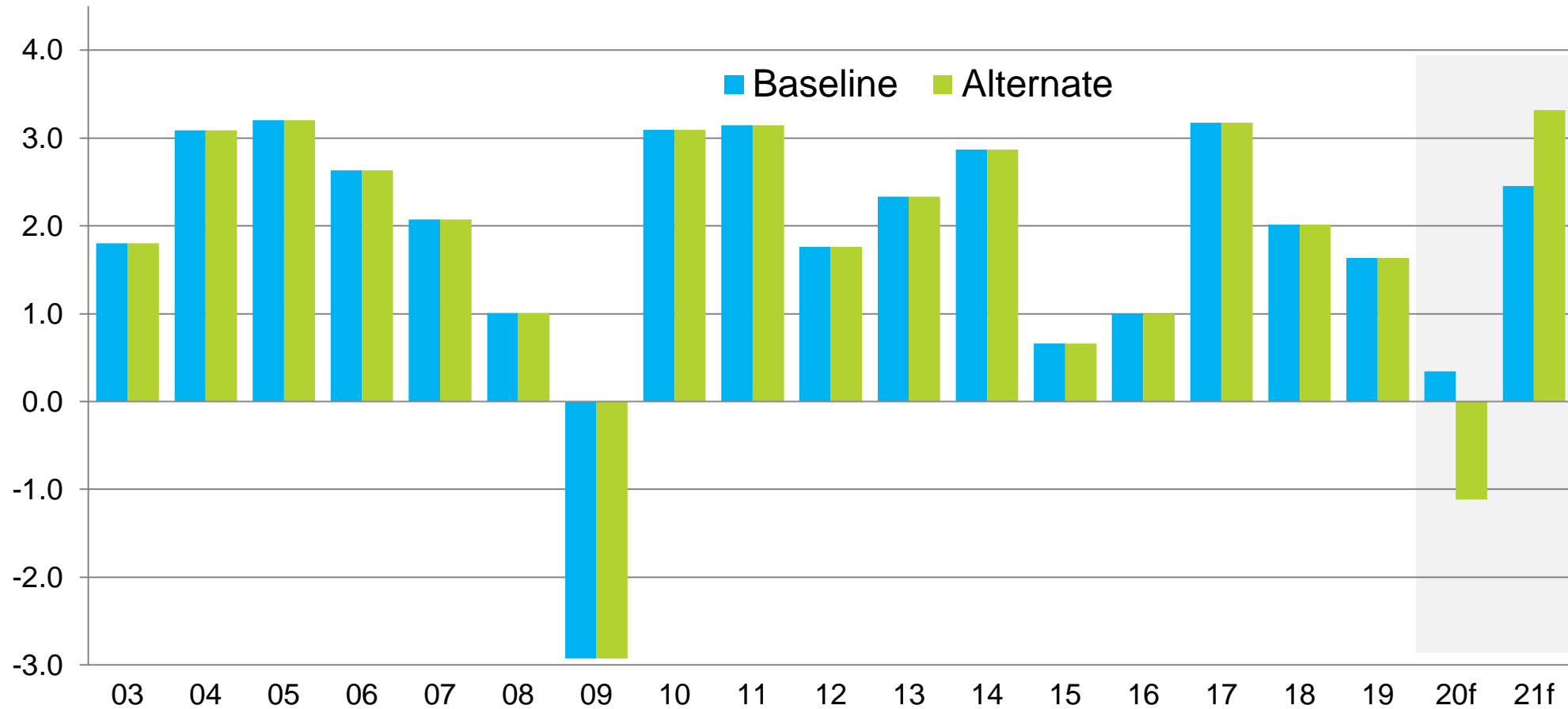
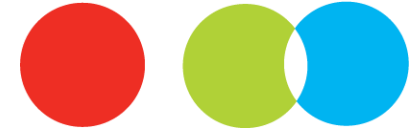
per cent change



Sources: Statistics Canada; The Conference Board of Canada.

Real GDP Will Take a Hit

Canada's real GDP, per cent change



Sources: Statistics Canada; The Conference Board of Canada.

The Bottom Line...



- Global economy will feel the effects of COVID-19—a recession is likely in many countries
- Canada and the United States went into February 2020 on a solid footing but things have deteriorated precipitously
- Economic impact will depend entirely on our success (in Canada and the United States) at containing the outbreak
- Tourism, accommodation and food, entertainment and recreation, oil patch and manufacturing will suffer sharp declines
- Consumer spending, especially on durable goods, should rebound quickly once the crisis is over

How might COVID-19 change the world...



危机



- *Weiji*—turn a challenge into an opportunity
- Using technology for education, doctor visits, telecommuting
- Permanent boost to online sales and the digital economy
- Supply chains shortened—kept within the domestic economy
- Deeper debt for households, governments and businesses—re-emergence of sovereign debt issues

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