

Canadian Outlook:

Bumps on the Road to Recovery

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World Outlook

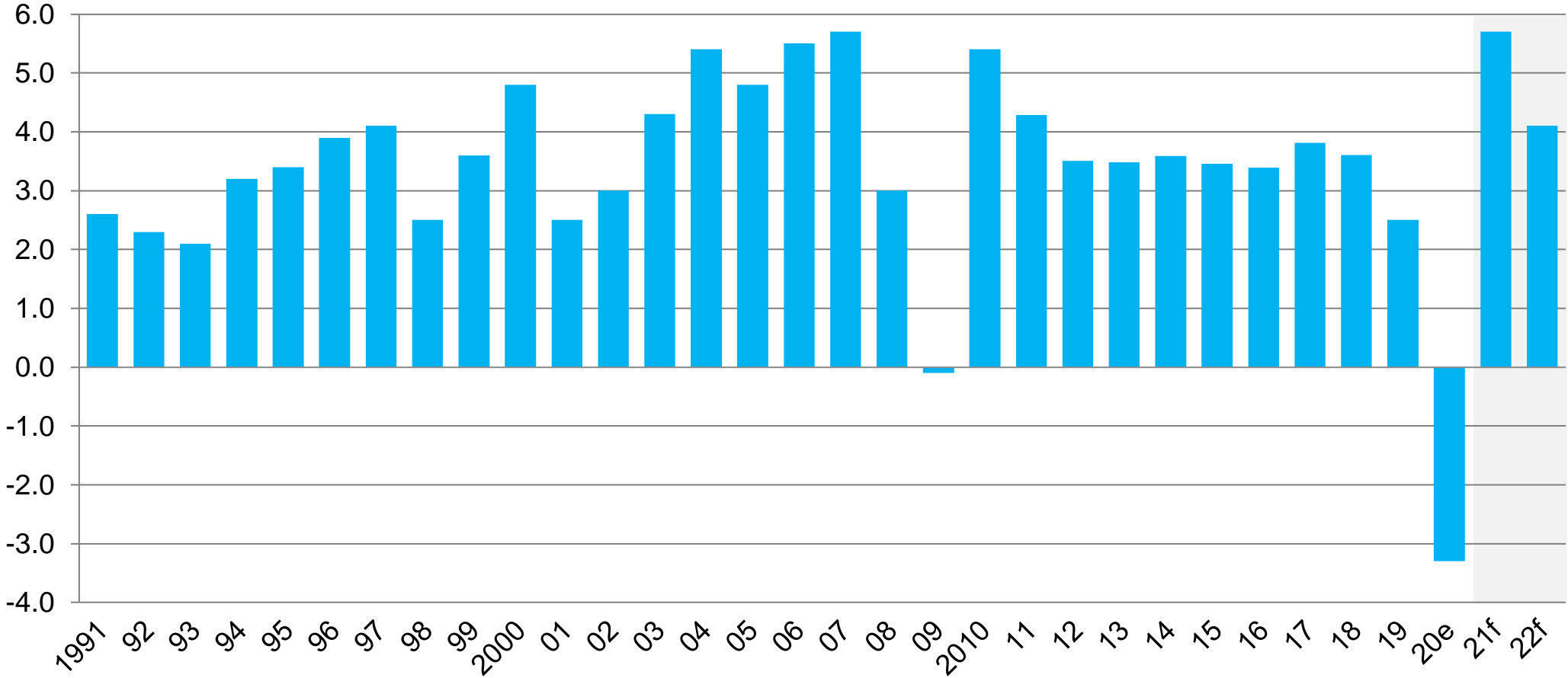


- The world economy will expand by 5.7% this year and 4.1% in 2022 mainly due to the re-opening of the world's major economies that has led to a rebound in labour markets
- The Asia Pacific region will continue to lead the world in growth over the near-term—the region is benefitting from the strong rebound in global trade
- Economic growth has recently declined in China, and this is a downside risk for the Asia Pacific region. Factors behind the slump include ongoing shortages of electricity and the problems in residential real estate linked to troubled Evergrande
- Past warnings about the dangers created by Brexit have hit home as the shortage of truck drivers and nurses has hurt the U.K. economy. Many of these workers returned to mainland Europe following Brexit due to stricter visa requirements
- Surging natural gas prices in Europe are linked to several factors including a lack of supply from Russia and ramped up demand in China due to a shortage of coal. Could Vladimir Putin come to the rescue?
- Plus \$80 oil is due to rapid increases in demand as the global economy re-opens and OPEC+'s decision to hold the line on production.....for now

Global Economy Reopens



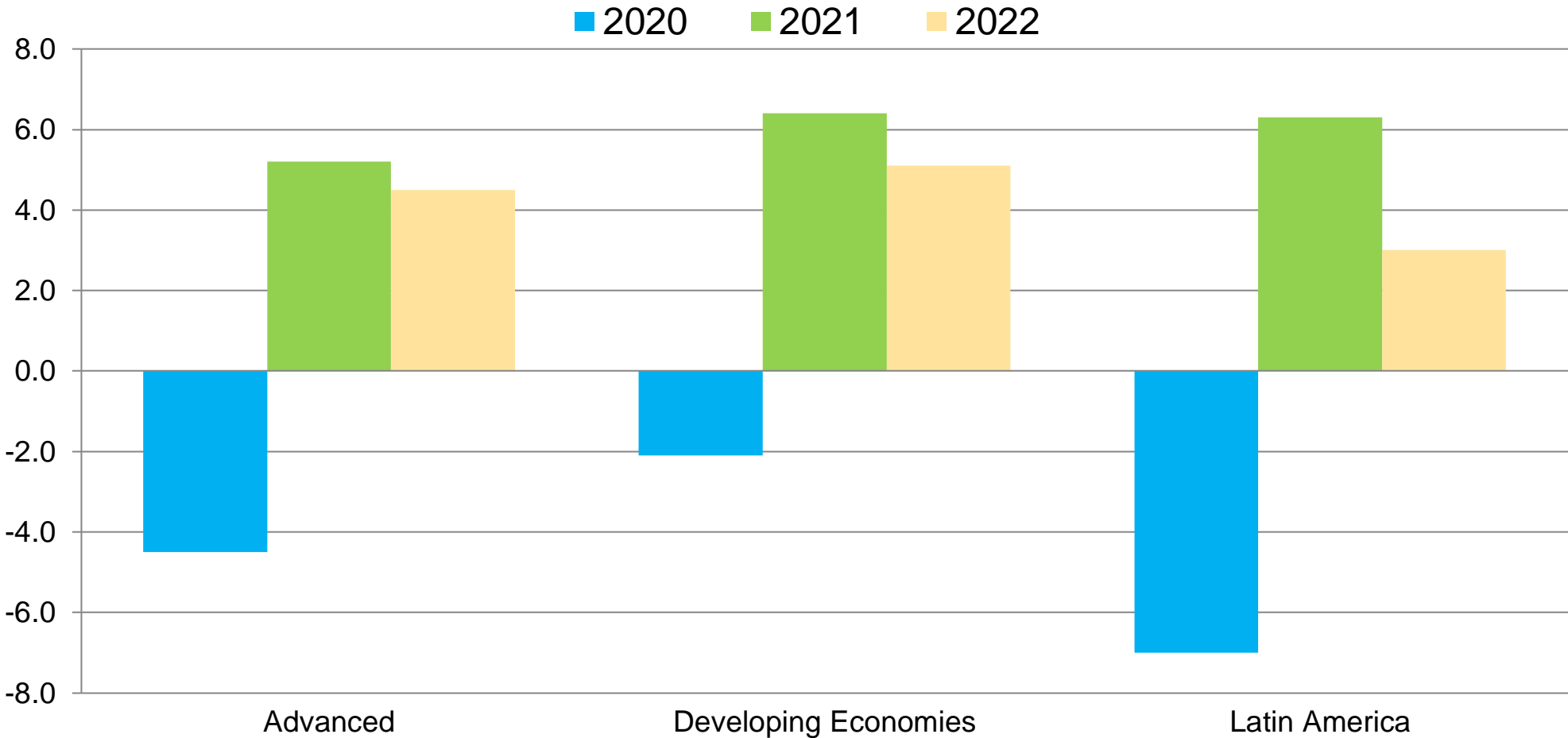
world real GDP growth, per cent change



Source: IMF.

Tough Times for Latin America

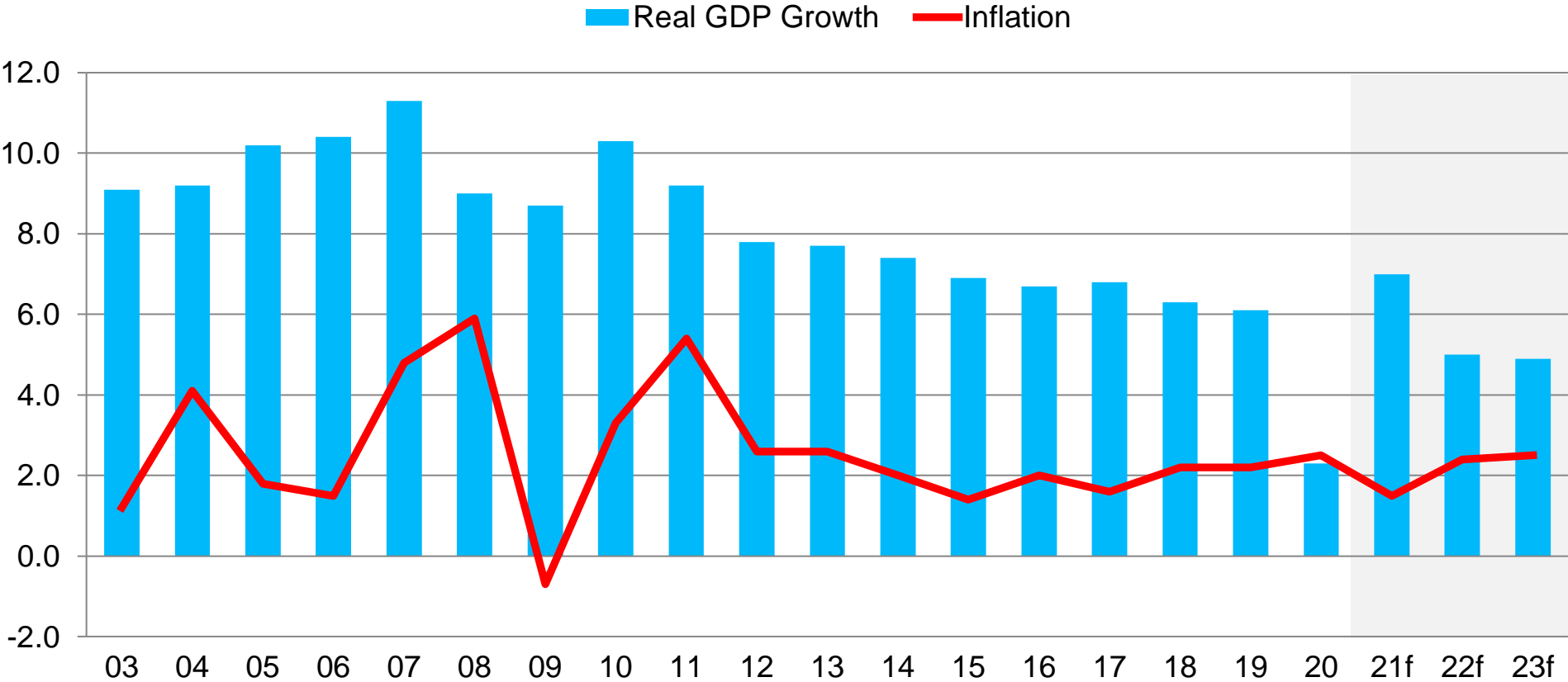
real GDP, per cent change



Source: IMF.

China's Economic Slowdown

real GDP, per cent change



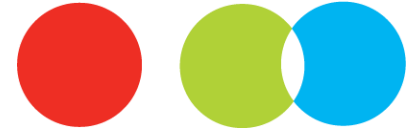
Source: Consensus Economics.



United States Economy

Rebound Exposes Supply Constraints

U.S. Outlook



- The U.S. economy is expanding at a pace that should enable it to return to pre-pandemic levels sometime towards the end of this year. Real GDP is expected to increase by 5.9 per cent this year and 4.1 per cent in 2022
- Inflation has been increasing at a 4-5 per cent pace since the spring due to soaring gasoline prices, higher food prices linked to drought conditions in the Western part of the country and, most importantly, the ongoing disruption in global supply chains
- The shortage of numerous goods has, not surprisingly, led to higher prices at the retail level. Inflation likely won't fall back to the Fed's 2.0 per cent target until mid-way through 2022
- Labour markets have made significant improvements since last year but the participation rate, especially for women, remains well below pre-pandemic levels. In September, about 200,000 women unexpectedly left the workforce, possibly due to difficulties in finding daycare
- Plus \$1 trillion deficits will persist right through the medium term. The Biden administration will likely get its infrastructure and social policy initiatives through Congress with a potential price tag of more than \$3 trillion over ten years. It is possible that a new wealth tax could help pay for part of these programs

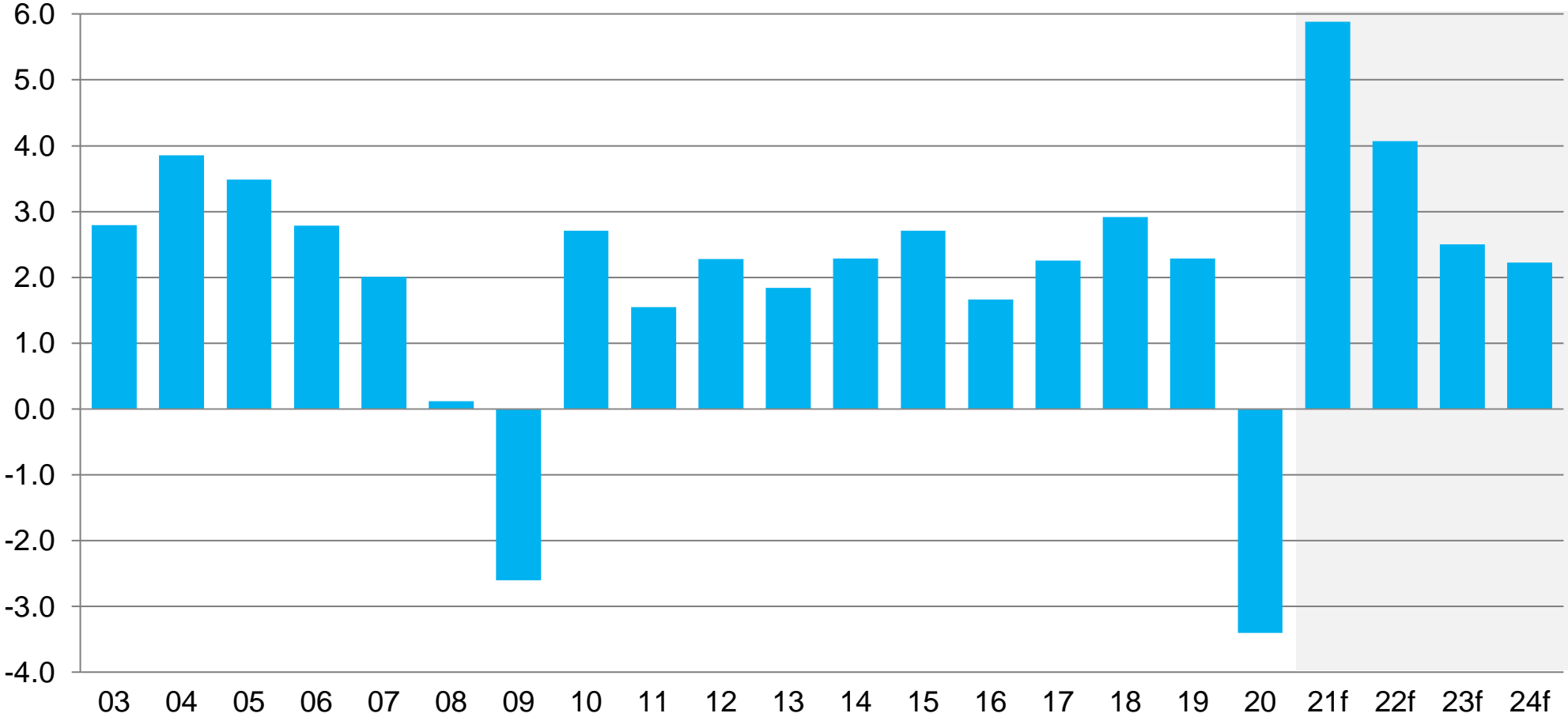
A Lump of Coal for Christmas?



- Shortages of durable and other goods in America are closely linked to the 60 plus container ships mainly from Asia sitting in L.A. harbours waiting for days or even weeks to unload – everything from bicycles to computers to washing machines on board
- Part of the delay in unloading the ships is linked to a shortage of dock workers, truck drivers and warehouse workers some of whom retired during the pandemic or found other work. Working conditions for truck drivers in America, for instance, are less than ideal
- The long delays, not surprisingly, have led to higher prices at the retail level
- To cope with the problem some companies are leasing their own ships to move product from Asia to the U.S. at a cost of plus \$150,000 per day!
- A potential solution would involve using the ports in Miami to unload container ships but that could encounter tricky logistics issues
- Problem could be around well into 2022

Strong Rebound Despite Constraints

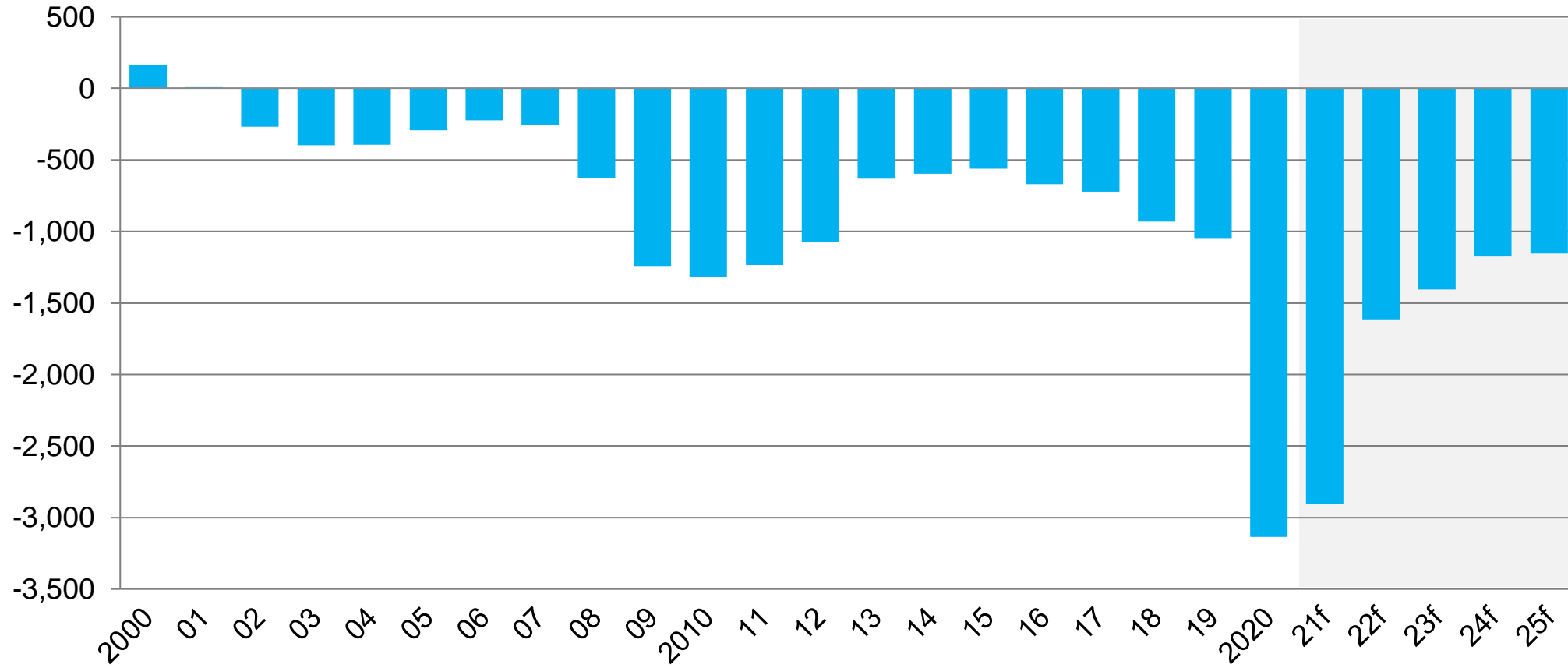
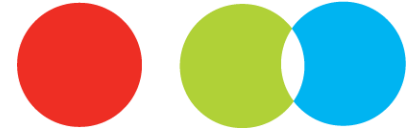
Real GDP growth, per cent change



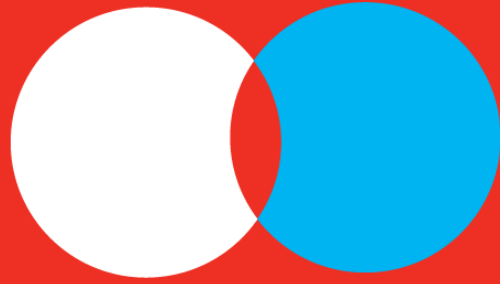
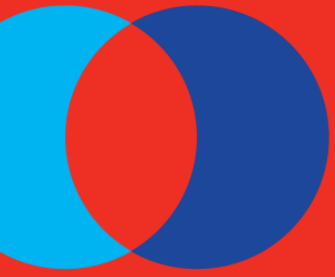
Sources: NBER; The Conference Board of Canada.

U.S. Federal Deficit Explodes

NIPA basis, billions of current \$



Sources: BEA; CBoC.



Canada's Outlook

Post-Recovery Concerns Abound

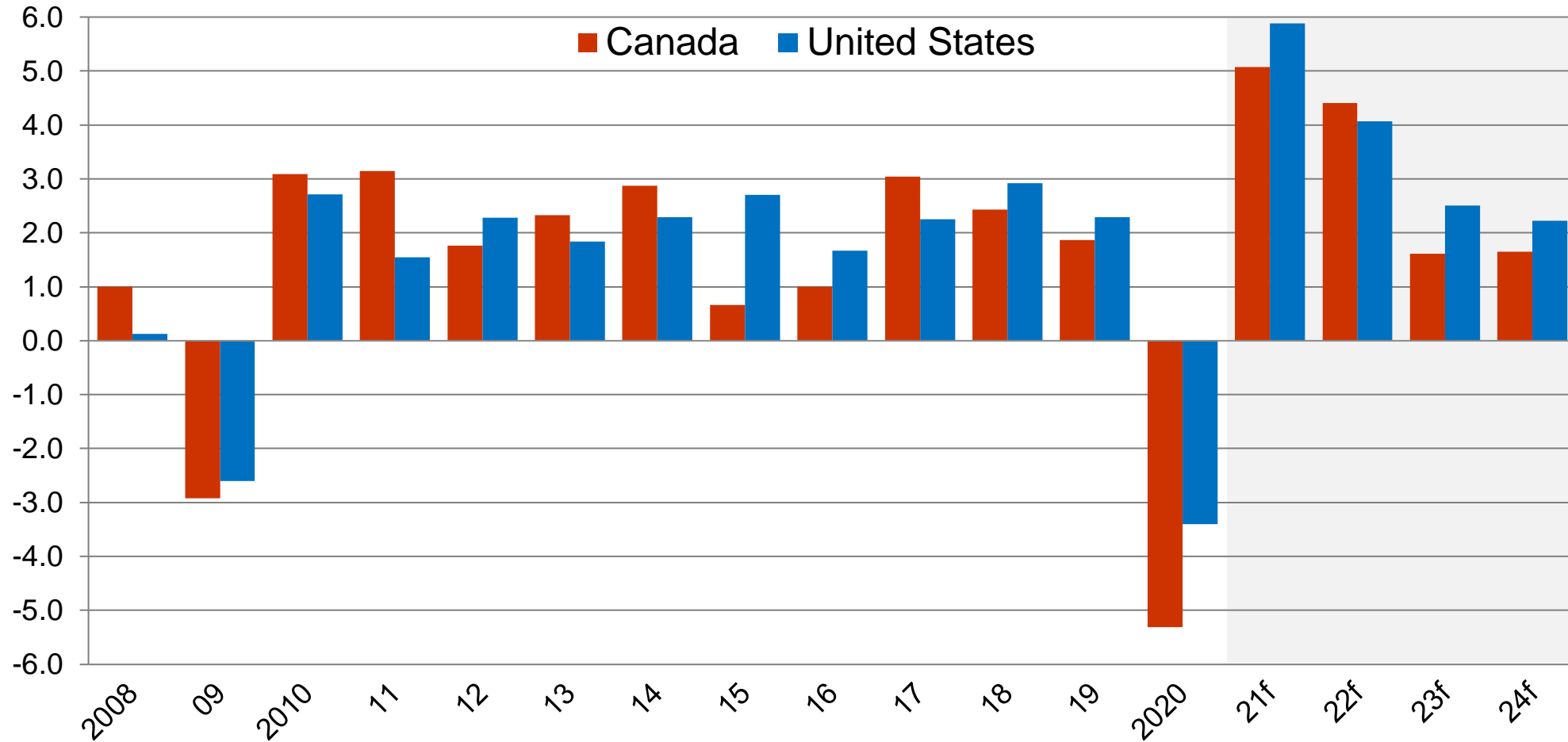
Like no Other Recession



- Households and businesses have come through the pandemic mostly unscathed despite the deep recession and job losses
- Household balance sheets are in great shape—labour market recovery will boost consumer spending
- Business counts and profits soar to peak levels but spending on structures and machinery is lagging
- Governments have borrowed vast amounts to sustain the economy through the closures—fiscal restraint is bound to be around the corner
- Beyond the recovery there will be lasting implications for governments, households and businesses

Roaring 20's Recovery could be Short Lived

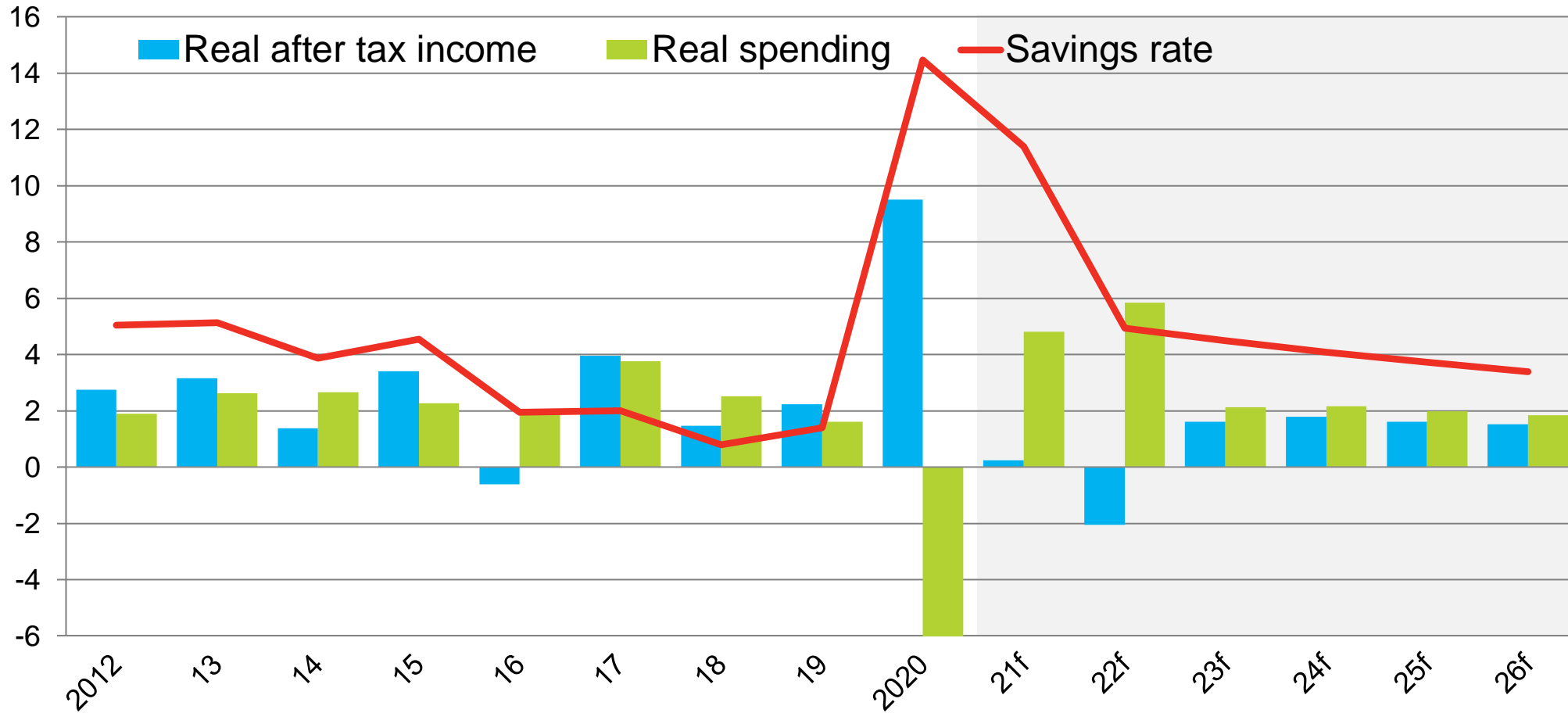
Real GDP growth, per cent change



Sources: Statistics Canada; NBER; The Conference Board of Canada.

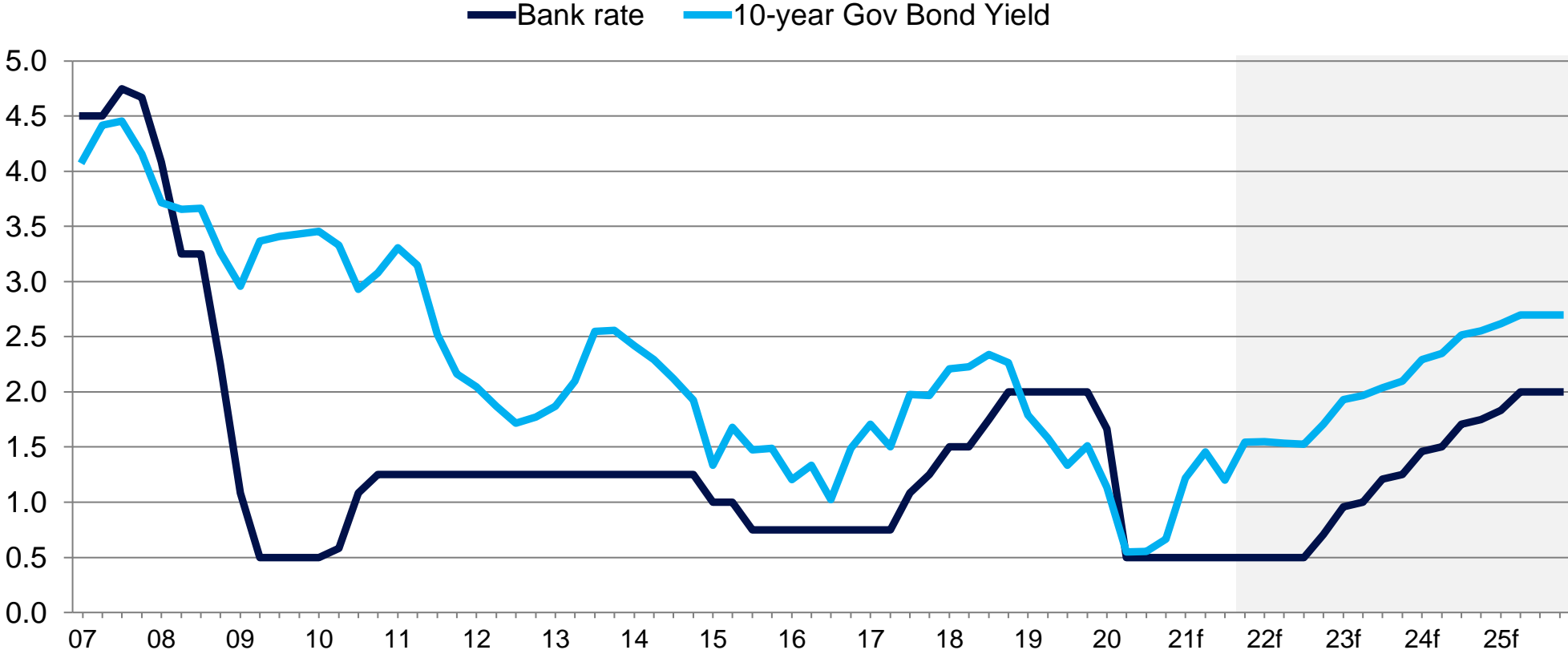
Record Growth in Household Income

per cent change, per cent (savings rate)



Sources: Statistics Canada; The Conference Board of Canada.

Central Bank to Keep Rates Low but Bond Yields on the Rise



Sources: Statistics Canada; The Conference Board of Canada.

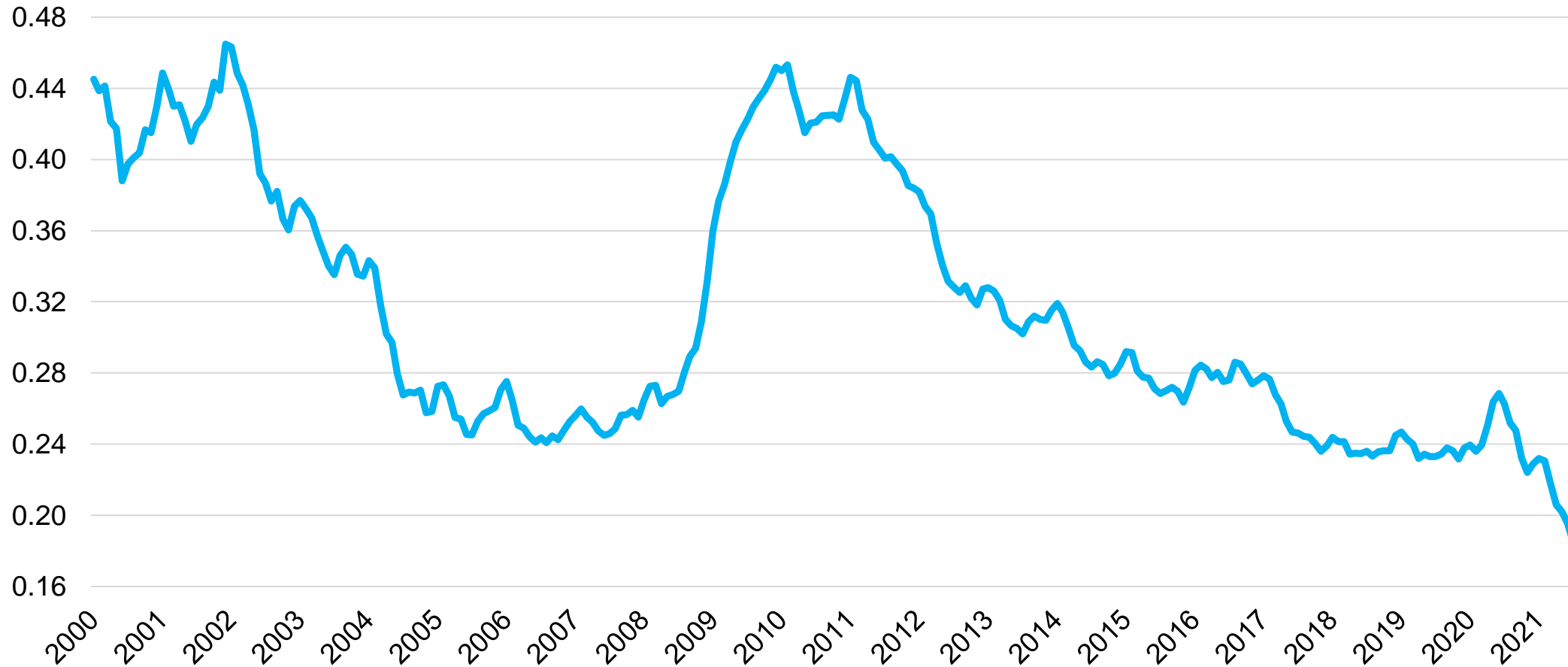
Telework and Frothy Real Estate Markets Prompt Homeowners to Take on More Debt



- Households reduced their credit card and line of credit balances by \$10 billion and \$12 billion respectively
- They, however, took on more mortgages and home equity line of credit (HELOC) debt, causing total credit liabilities to increase by \$143 billion between the second quarter of 2020 and 2021
- The inevitable rise of interest rates and drying up of government support, may pose a threat to household financial health as more disposable income is needed to service debt payments
- This will become evident over the next three to five years as mortgages come up for renewal

Delinquency Rates Are at Rock Bottom

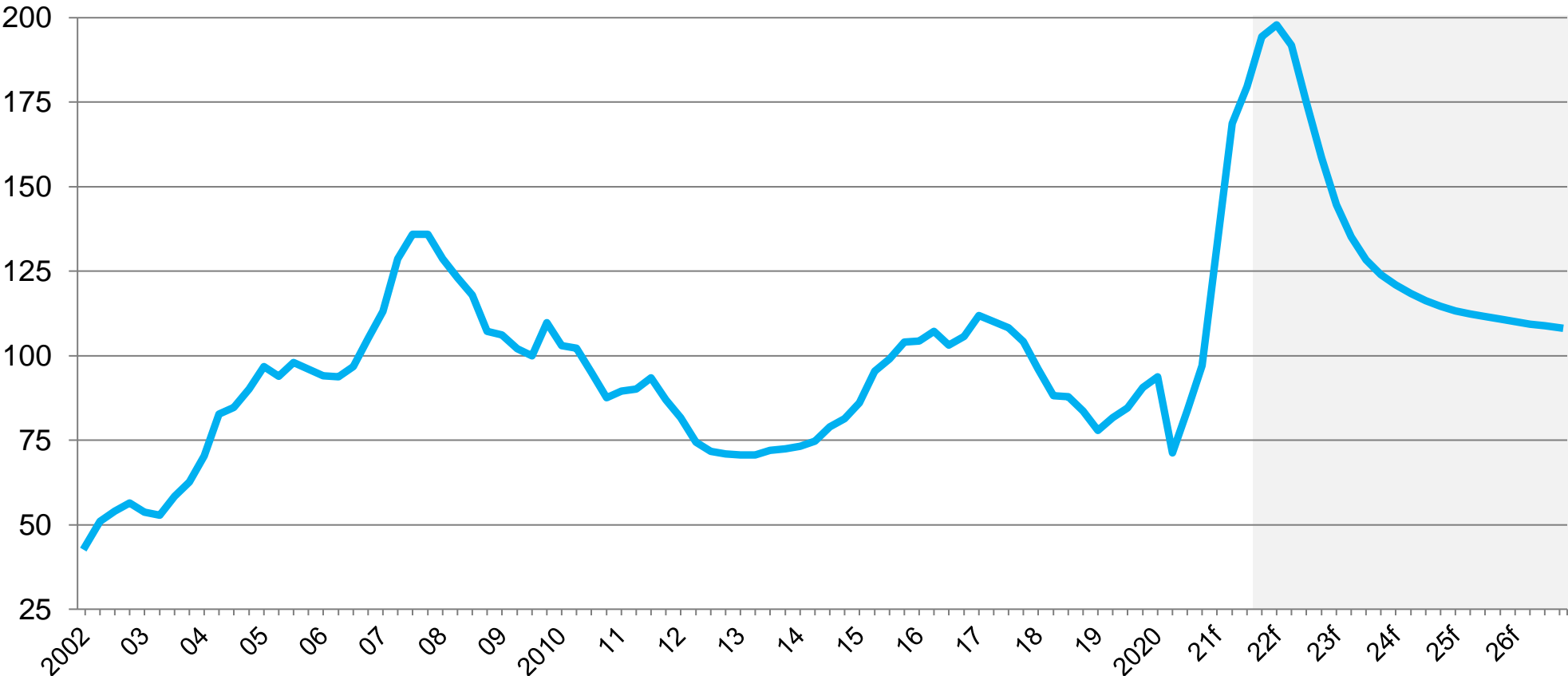
Mortgages in arrears, monthly to July 2021, per cent



Source: Canadian Bankers Association.

Total Household Debt Accelerates

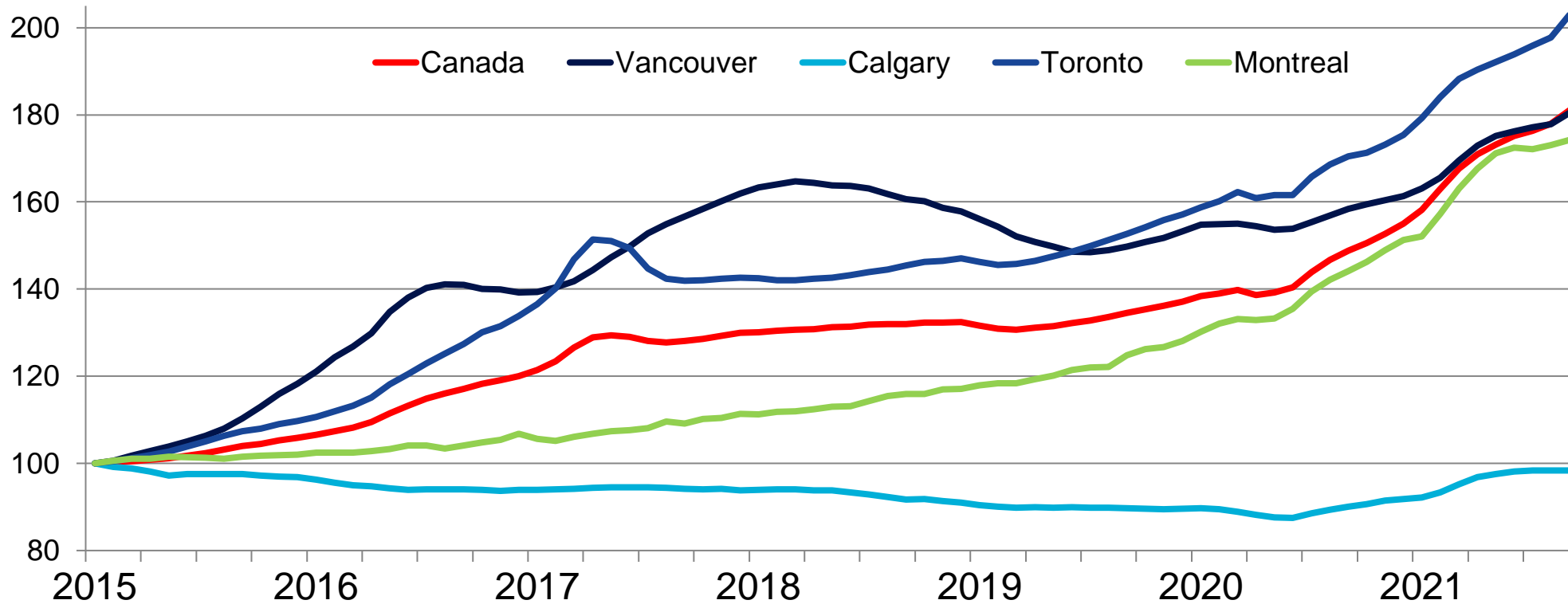
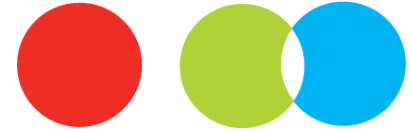
year-over-year change in the annual stock of debt, quarterly, \$ billions



Sources: Statistics Canada; The Conference Board of Canada.

Home Price Inflation Skyrockets

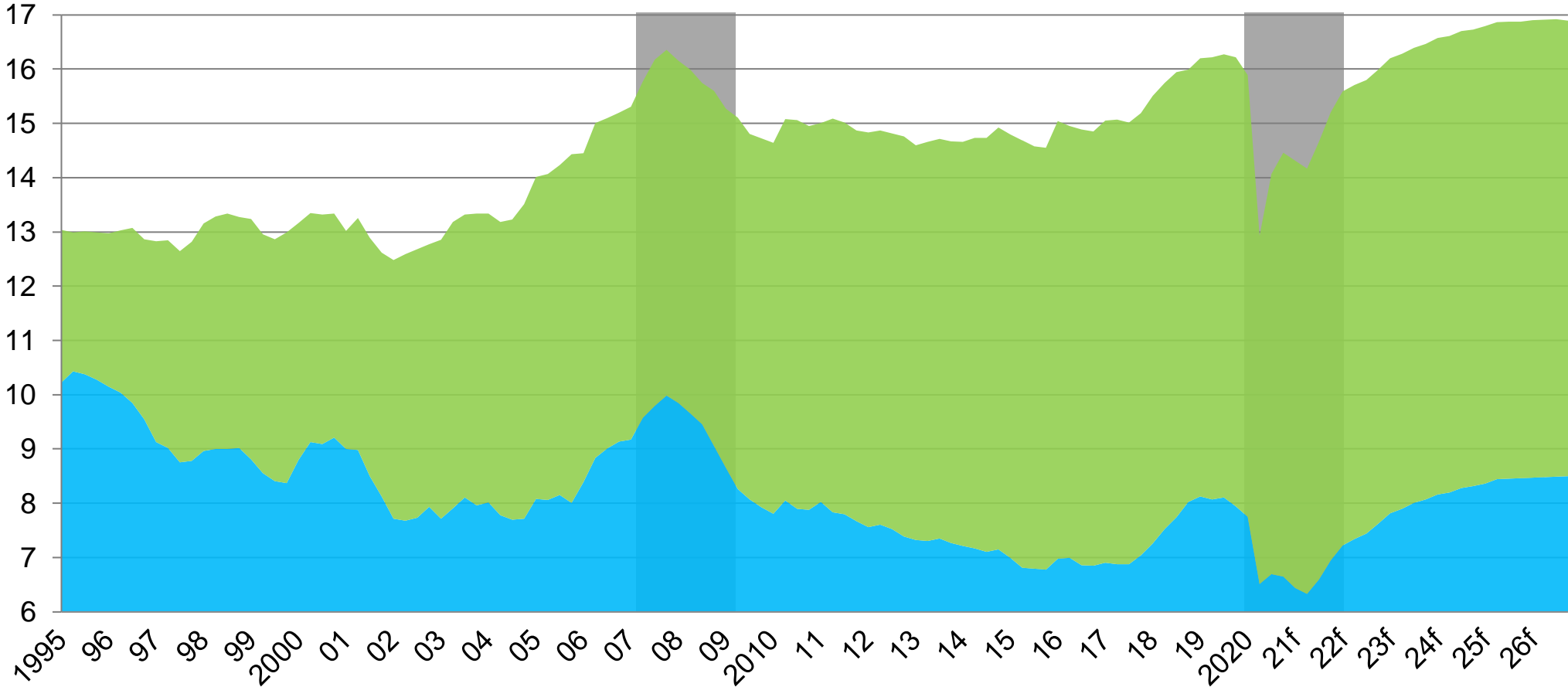
MLS HPI; January 2015 =100; seasonally adjusted; monthly to September 2021



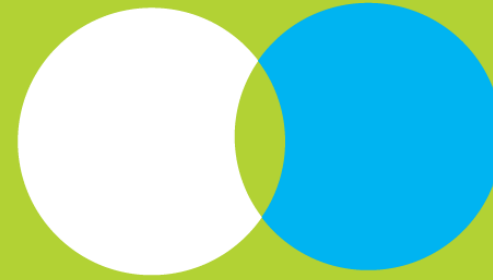
Source: Canadian Real Estate Association.

Total Households Debt Servicing at a High

Debt service as a share of disposable income, interest (blue) and principal (green), per cent



Sources: Statistics Canada; The Conference Board of Canada.

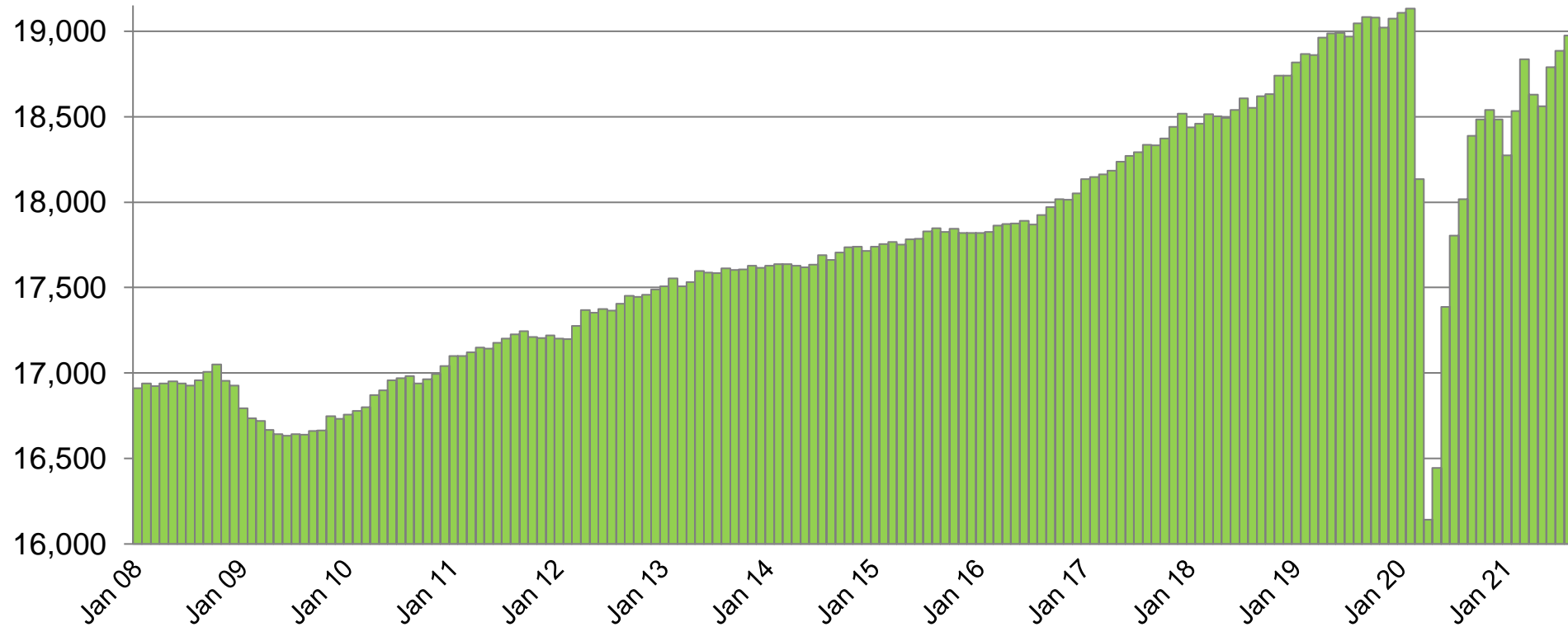
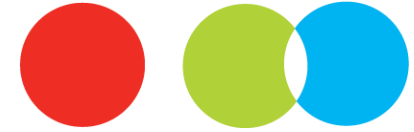


Workforce Implications

Labour market pressures will vary across industries and occupations

Employment Back to pre-COVID levels in September

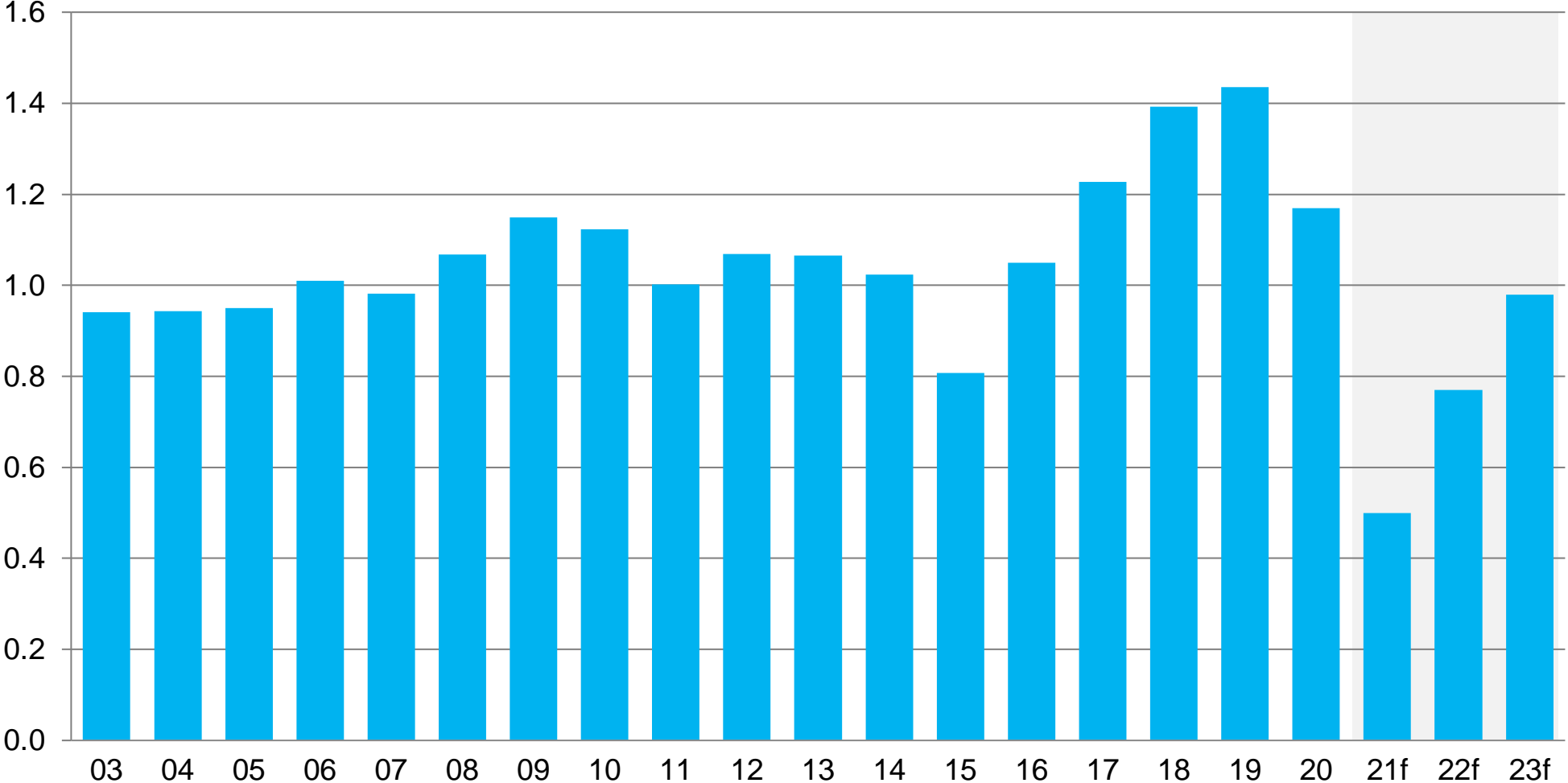
Canada's employed, thousands



Sources: Statistics Canada; The Conference Board of Canada.

COVID-19 put a Halt to Immigration

annual population growth



Sources: Statistics Canada; The Conference Board of Canada.

Job Vacancies On the Rise Especially for Some Occupations



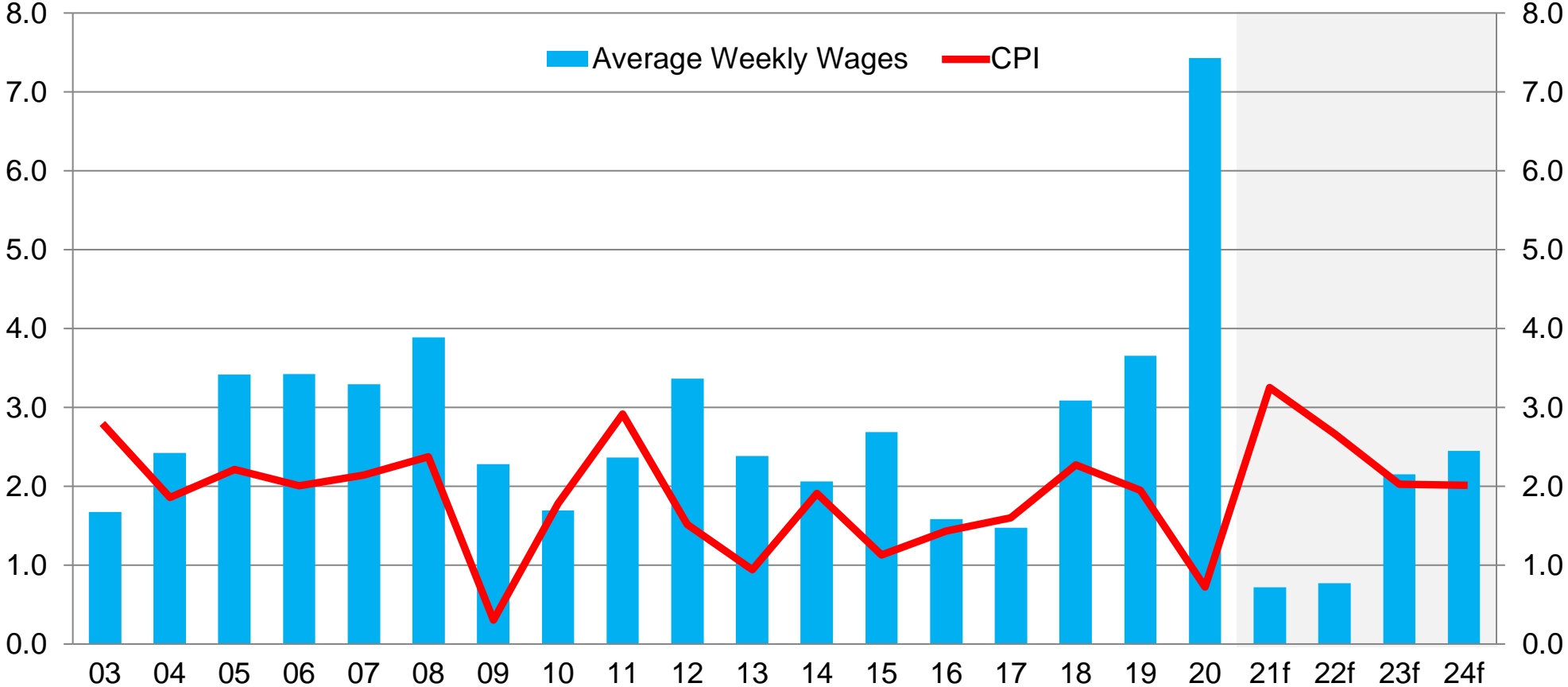
Selected job vacancies, number of vacancies and per cent change from 2019 to 2020-21

	Average 2019	Average 2020Q4 to 2021Q2	per cent change	Offered wage increase
Total, all occupations	539,809	615,200	14.0	6.8
Business, finance and administration occupations	58,294	68,128	16.9	2.0
Health occupations	39,235	67,033	70.9	3.8
Occupations in education, law and social, community and government services	34,201	45,202	32.2	1.8
Trades, natural resources and manufacturing	142,635	165,083	15.7	6.2
Sales and service occupations	181,594	180,653	-0.5	5.7

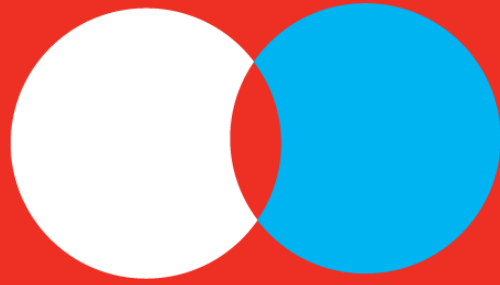
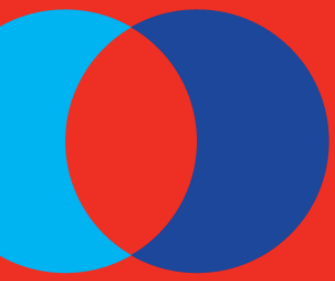
Sources: Statistics Canada Table 14-10-0356-01; The Conference Board of Canada.

Inflation not Expected to Carry into Wages

per cent change in consumer prices and wages



Sources: Statistics Canada; The Conference Board of Canada.

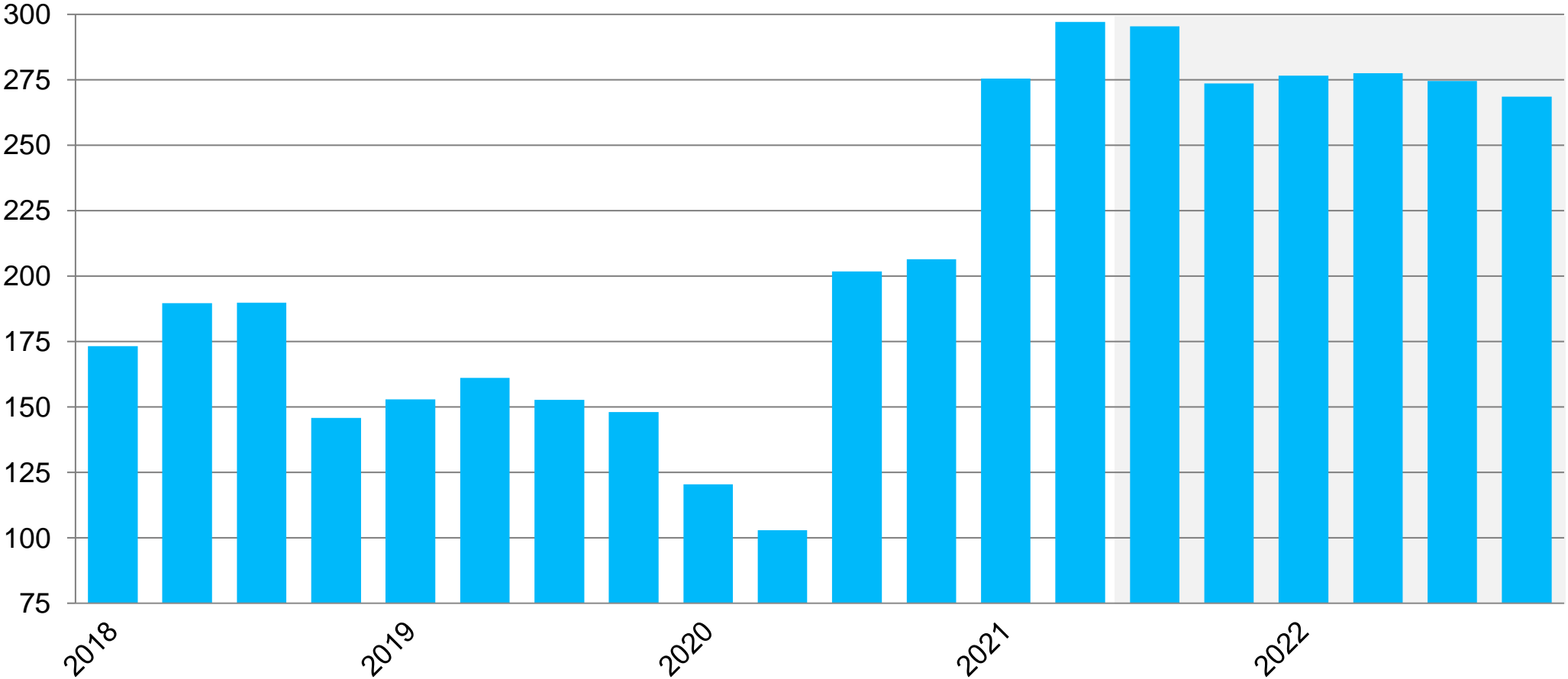


What Comes Next for Canada's Business Sector

A delay in Schumpeter's creative destruction?

Profits Hit a Record but will Investment Follow?

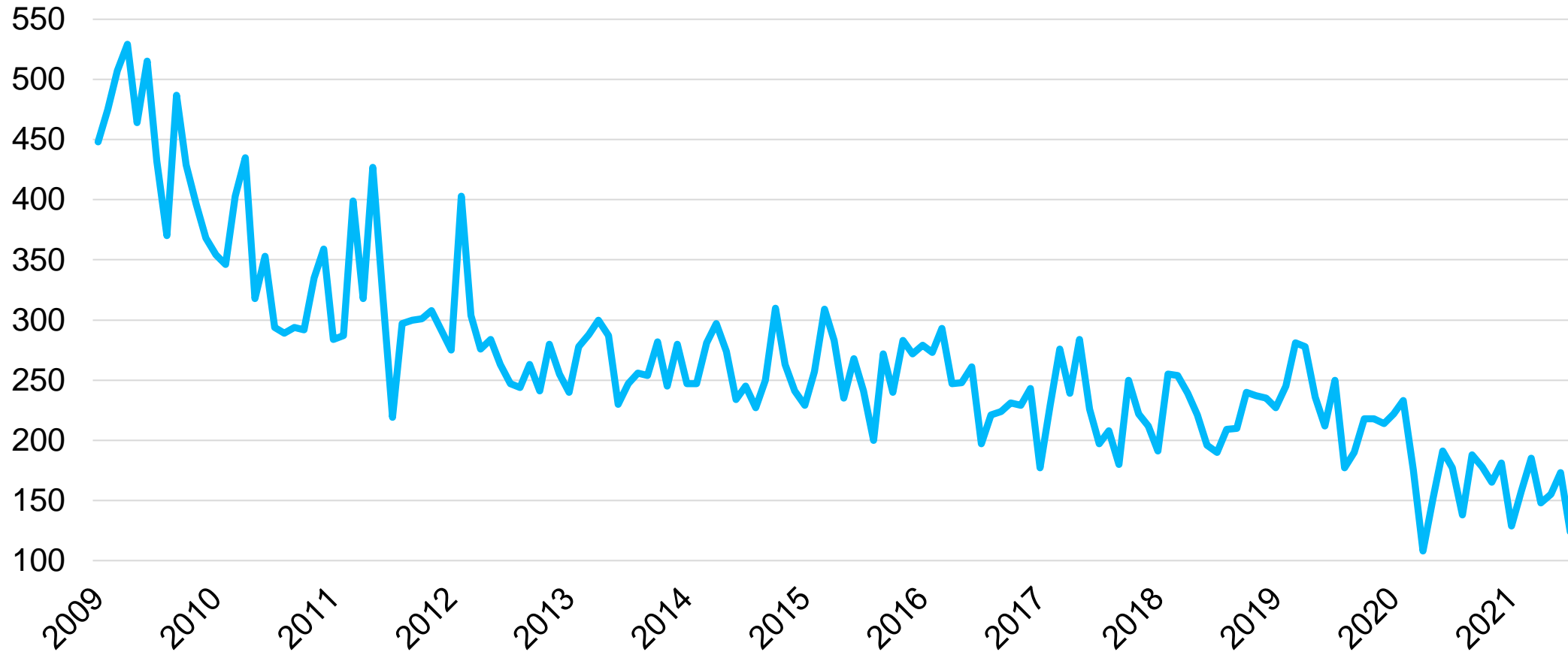
corporate profits before taxes, \$ billions



Sources: Statistics Canada; The Conference Board of Canada.

Business Bankruptcies Dropped During COVID

Business bankruptcies, monthly to July 2021



Source: Office of the Superintendent of Financial Institutions (OSFI).

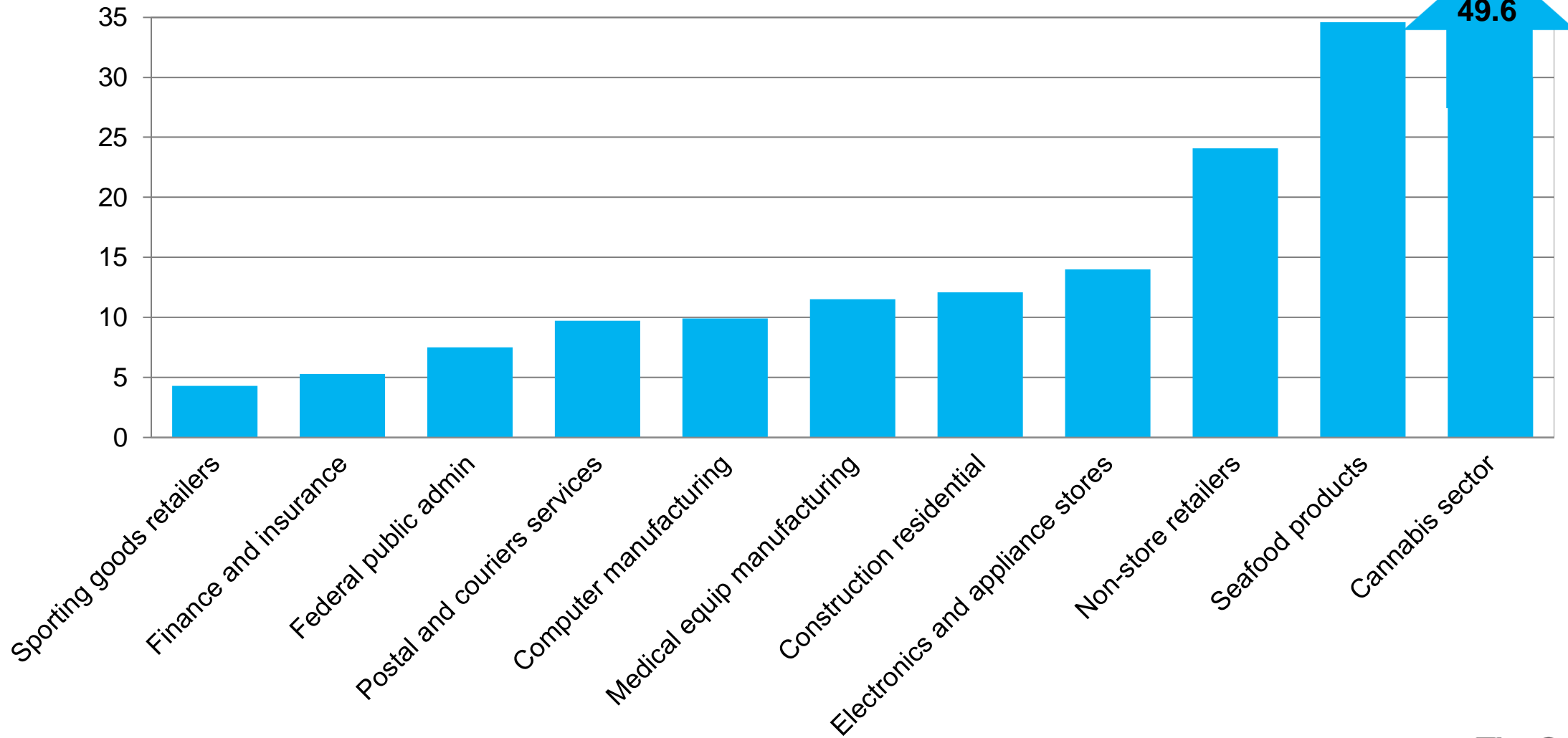
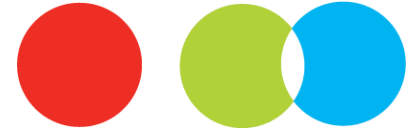
Business Bankruptcies are Down but Structural Changes will Weigh on Finances for Many



- Decreased sales have left a higher proportion of small businesses in a particularly fragile position
- Support was provided to small businesses through CEBA and CEWS, among other programs
- Nearly 900,000 businesses (mostly small) were approved for CEBA and CEBA expansions loans for a total of over \$49 billion
- The CEWS program supported more than 36 million employees of small and medium sized businesses, who received over \$52 billion—the total value of the program is over \$95 billion to mid-October
- Once government support programs run their course, loans come due for repayment, and interest rates begin to rise, we expect to see an elevated rate of default

Quickest to Recover

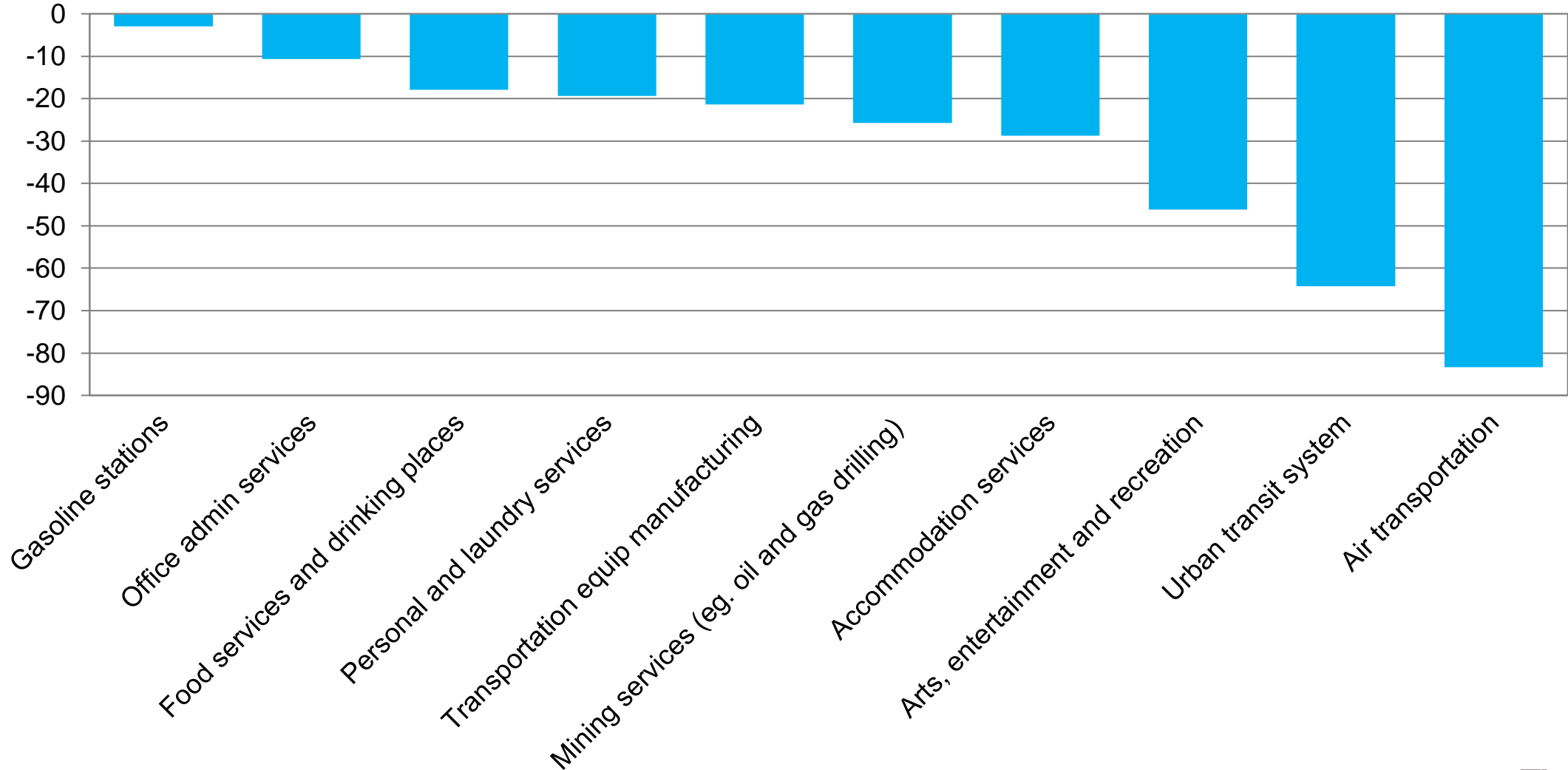
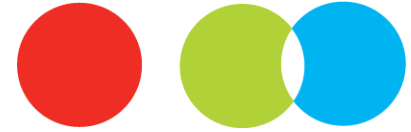
real GDP, July 2021 per cent change over February 2020 (pre-COVID), selected industries



Source: Statistics Canada. Table 36-10-0434-01

Rough Patch Ahead for Some Industries

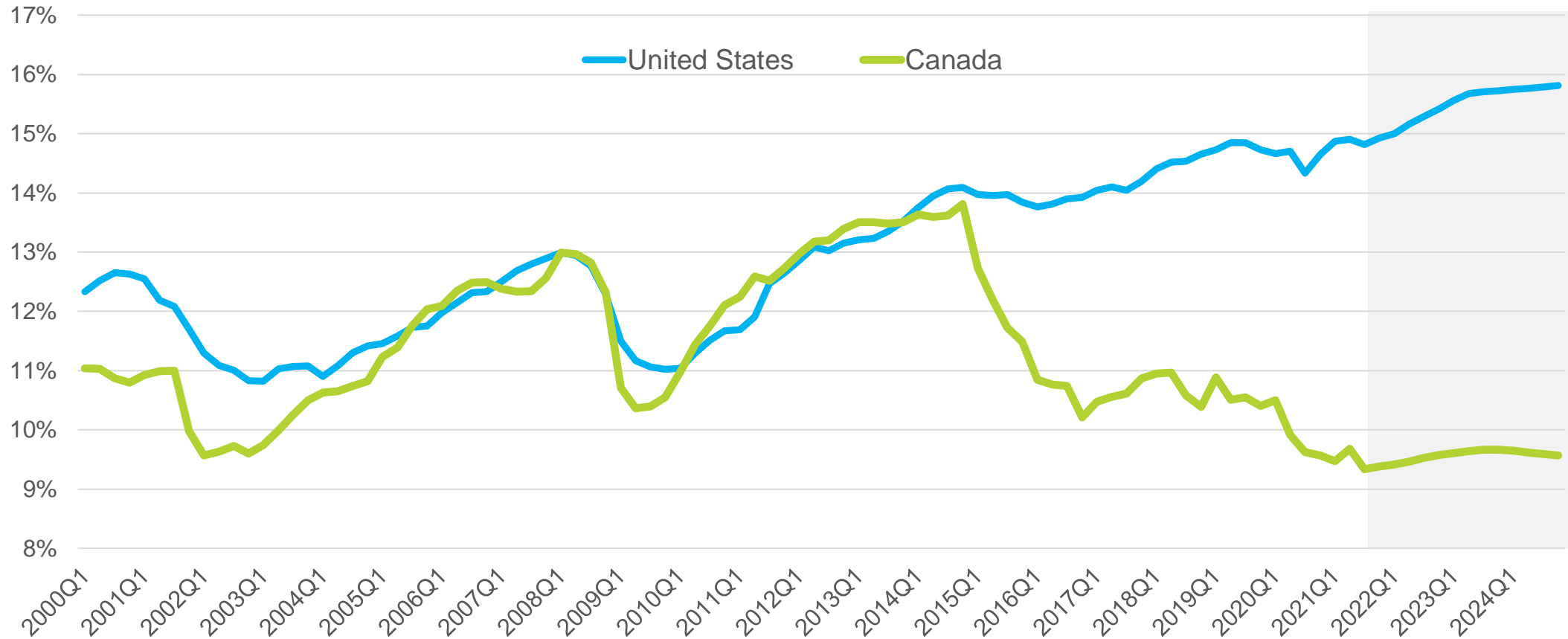
real GDP, July 2021 per cent change over February 2020 (pre-COVID), selected industries



Source: Statistics Canada. Table 36-10-0434-01

Canada's Investment in the Doldrums

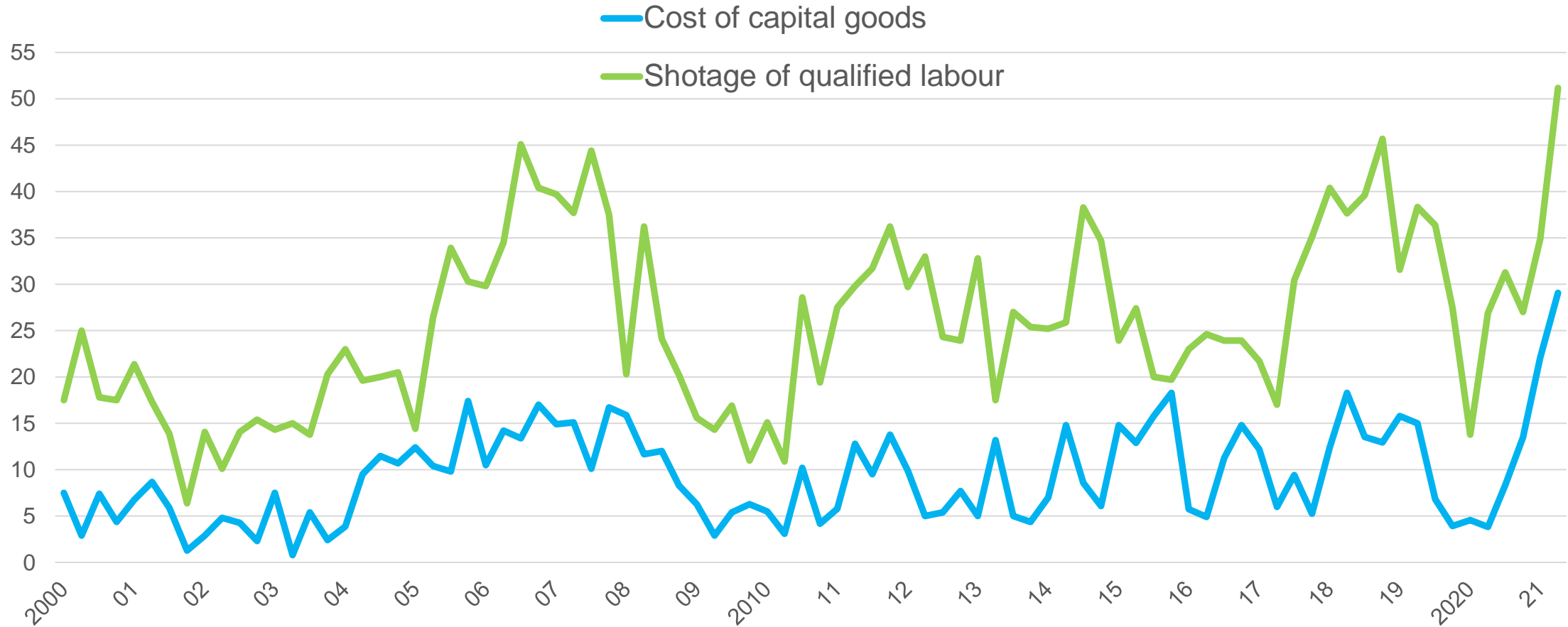
real business investment as a share of GDP; per cent



Sources: Statistics Canada; Bureau of Economic Analysis.

Qualified Labour and Cost Holding Back Investment

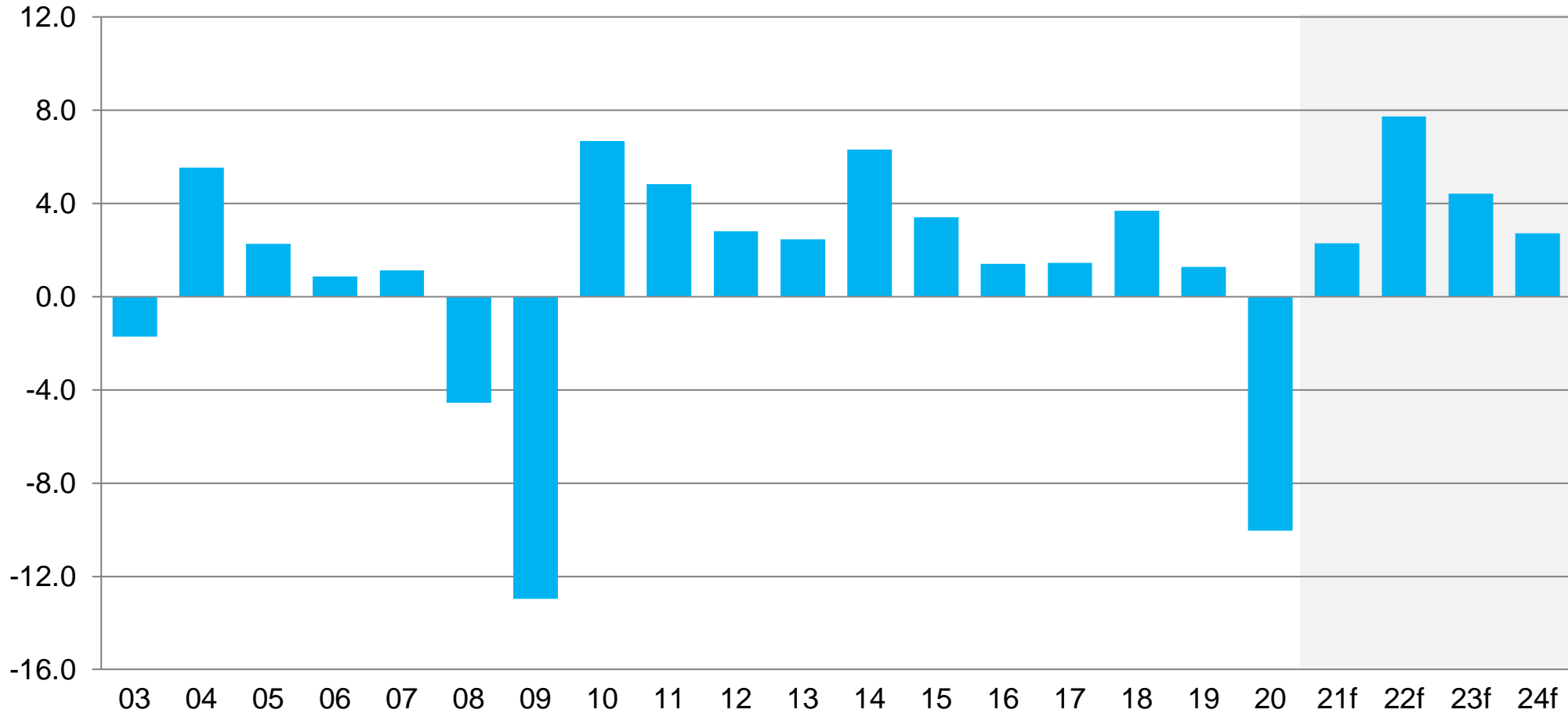
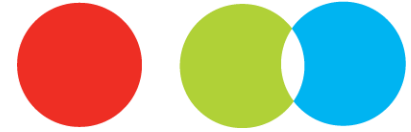
factors, if any, currently adversely affecting the level of your planned expenditures in Canada; per cent



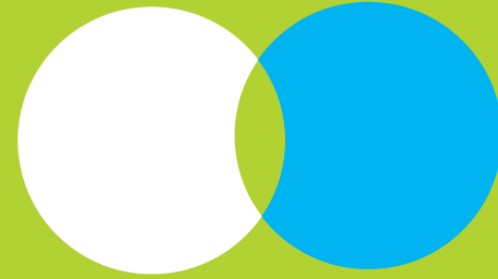
Sources: Statistics Canada; Bureau of Economic Analysis.

Exports' Contribution to Growth Stalled

Real export volumes, per cent change



Sources: Statistics Canada; The Conference Board of Canada.



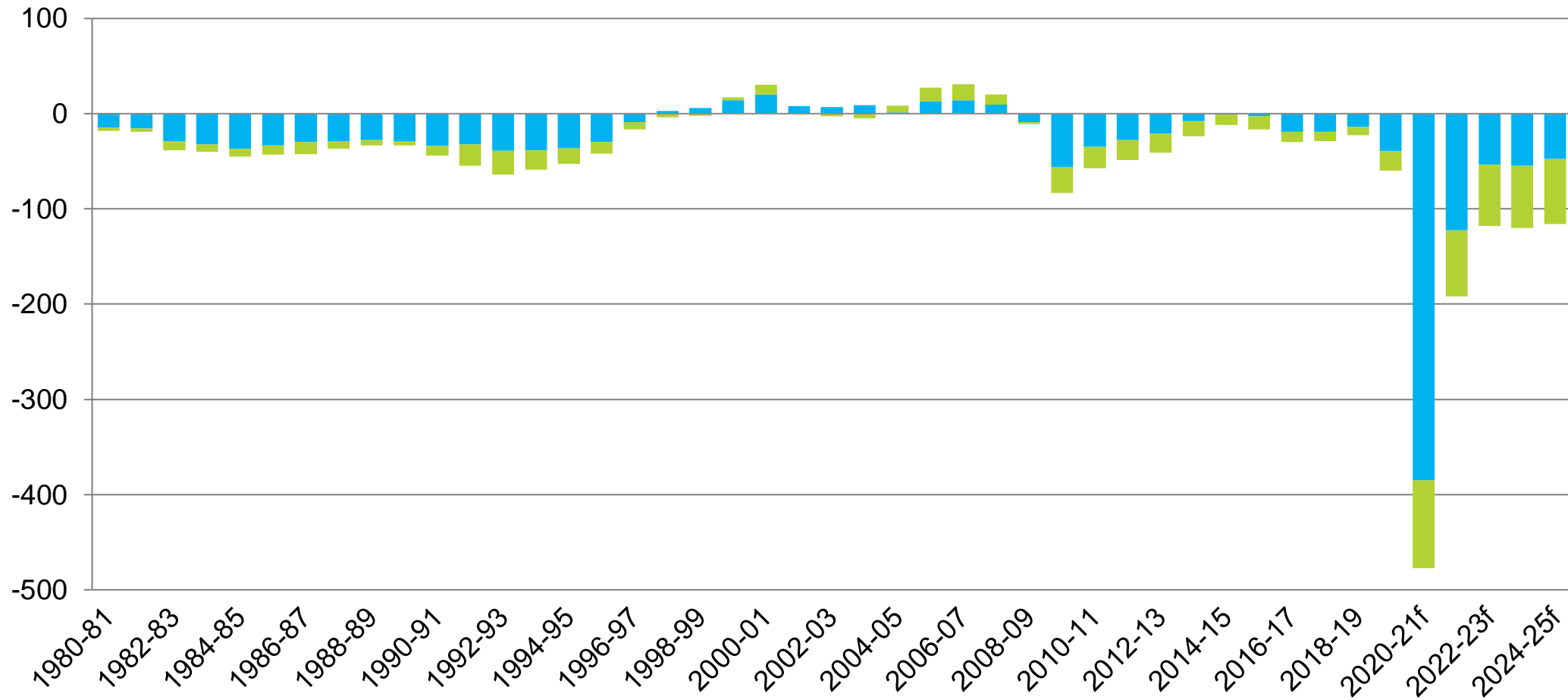
Fiscal Situation

Government's will struggle to rein in spending

Uncharted Territory: Deficits Explode



federal (blue) and combined provincial (green) deficits, billions \$

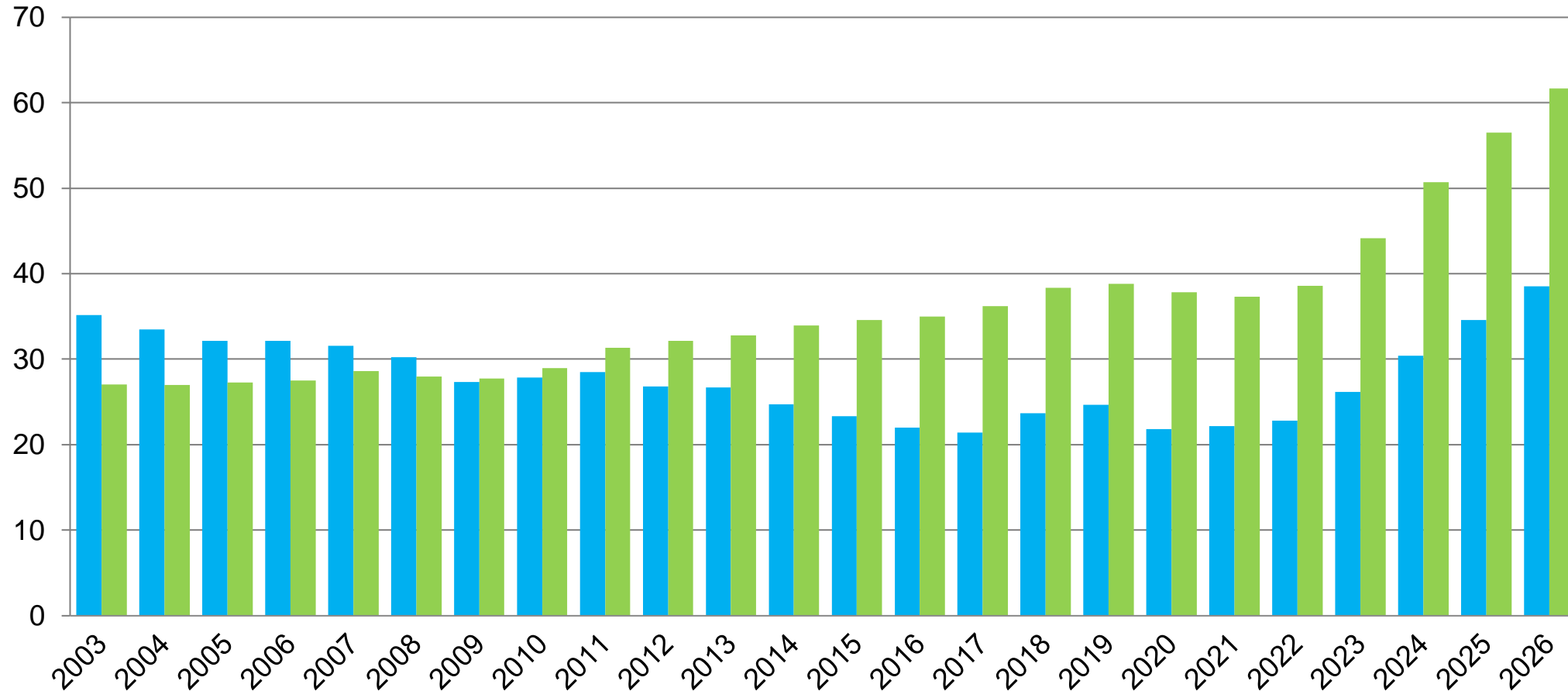


Sources: Statistics Canada; The Conference Board of Canada.

No Free Lunch as Rates Come Up



federal (blue) and combined provincial (green) debt servicing costs, billions \$

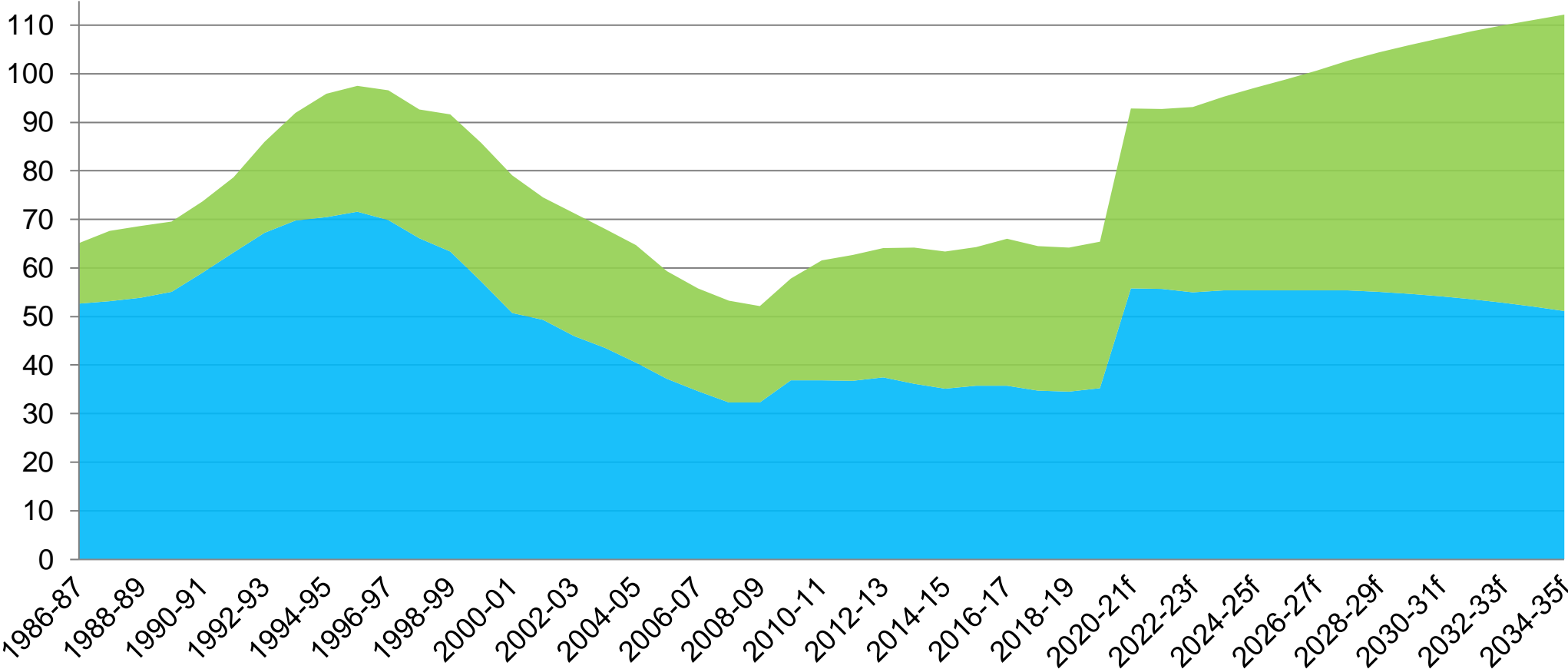


Sources: Statistics Canada; The Conference Board of Canada.

What Will be the New Fiscal Anchor?

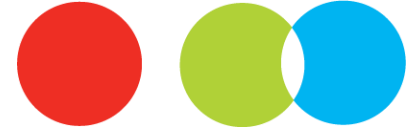


federal (blue) and combined provincial/territorial (green) debt as a share of GDP, per cent



Sources: Statistics Canada; The Conference Board of Canada.

The Bottom Line...



- Road to economic recovery is hitting a few bumps but strong GDP growth is expected this year and next
- Households and businesses holding plenty of cash to spend and invest but they may remain prudent over the medium term
- As government support dries up, business failures will rise, especially for many small businesses that service sectors that will be slow to recover
- Once COVID-19 is past, federal and provincial governments will be scrambling to balance their books, holding back spending or raising taxes
- The Pandemic has accelerated tech adoption in some sectors, this provides an upside risk to Canada's medium-term economic performance

The Conference Board of Canada

conferenceboard.ca