



APRIL 4, 2019

TURBULENT TIMES:
ECONOMIC OUTLOOK FOR CANADA AND B.C.

**PRESENTED TO THE
2019 COFI CONVENTION**

Jock Finlayson, Executive Vice President and Chief Policy Officer

jock.finlayson@bccbc.com



Business Council of
British Columbia
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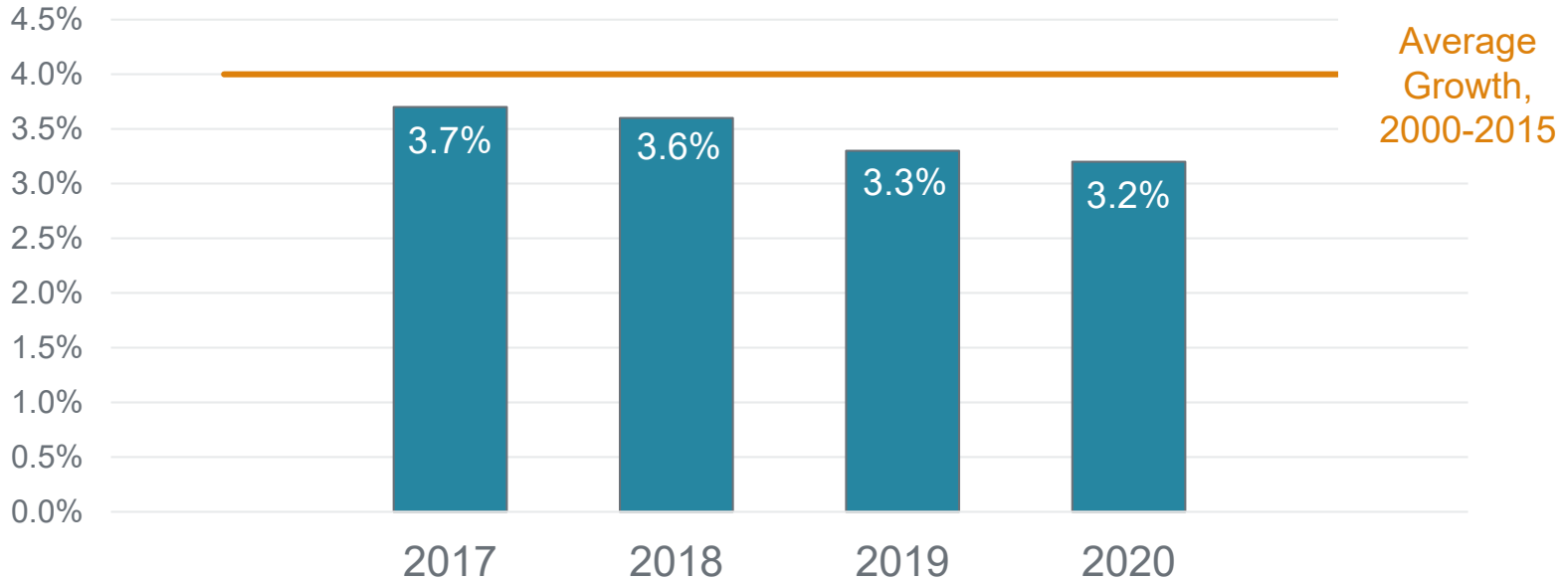
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MACRO AND CANADIAN OUTLOOK: MAIN THEMES

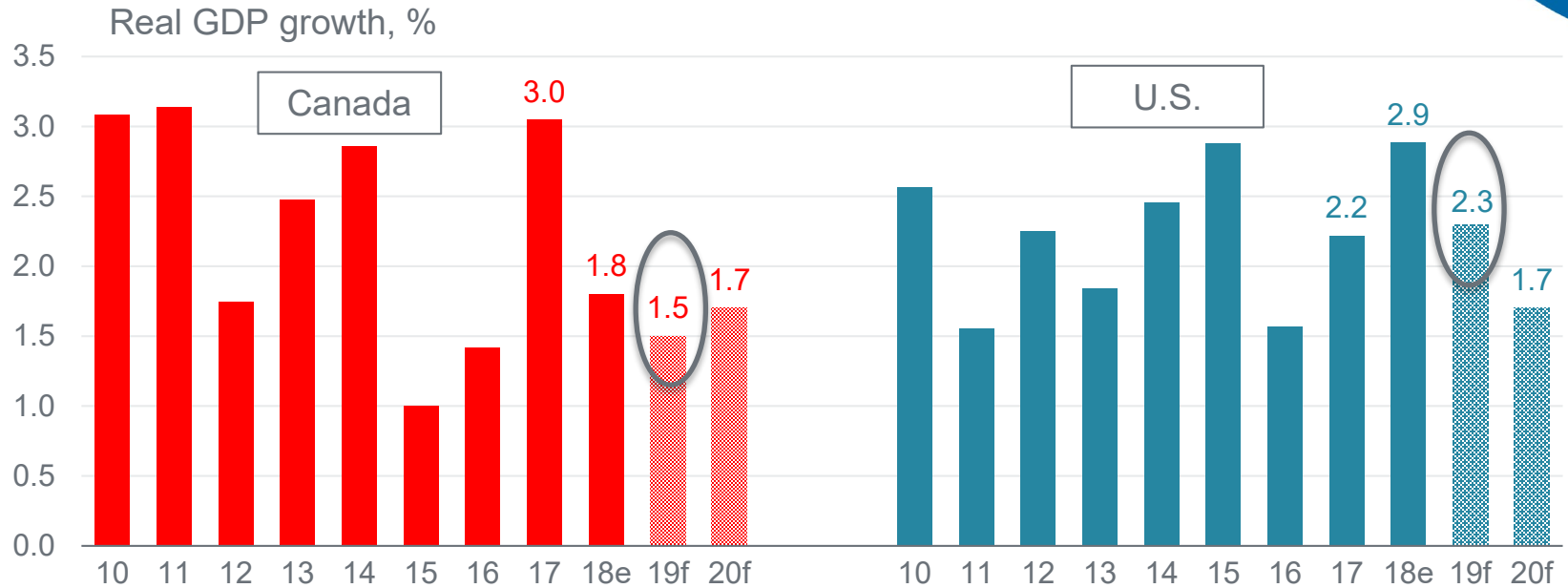
- Overall global growth is softening
- Slower growth in store for U.S./Canada, with some risk of recession by 2020
- Further interest rate increases in U.S./Canada are likely to be very muted
- Weaker housing markets, eroding competitiveness, persistent energy sector woes, and high levels of household debt...economic headwinds for Canada
- Demographic growth, low interest rates, low dollar, expanding tech economy, and strength in tourism and other tradable services...positives for Canada
- We expect B.C. to be near the top of the Canadian growth charts in the next 2-3 years, provided the \$40 billion LNG Canada project proceeds

THE GLOBAL ECONOMY IS COOLING

Growth in Total Output



GROWTH MODERATING IN CANADA AND U.S.



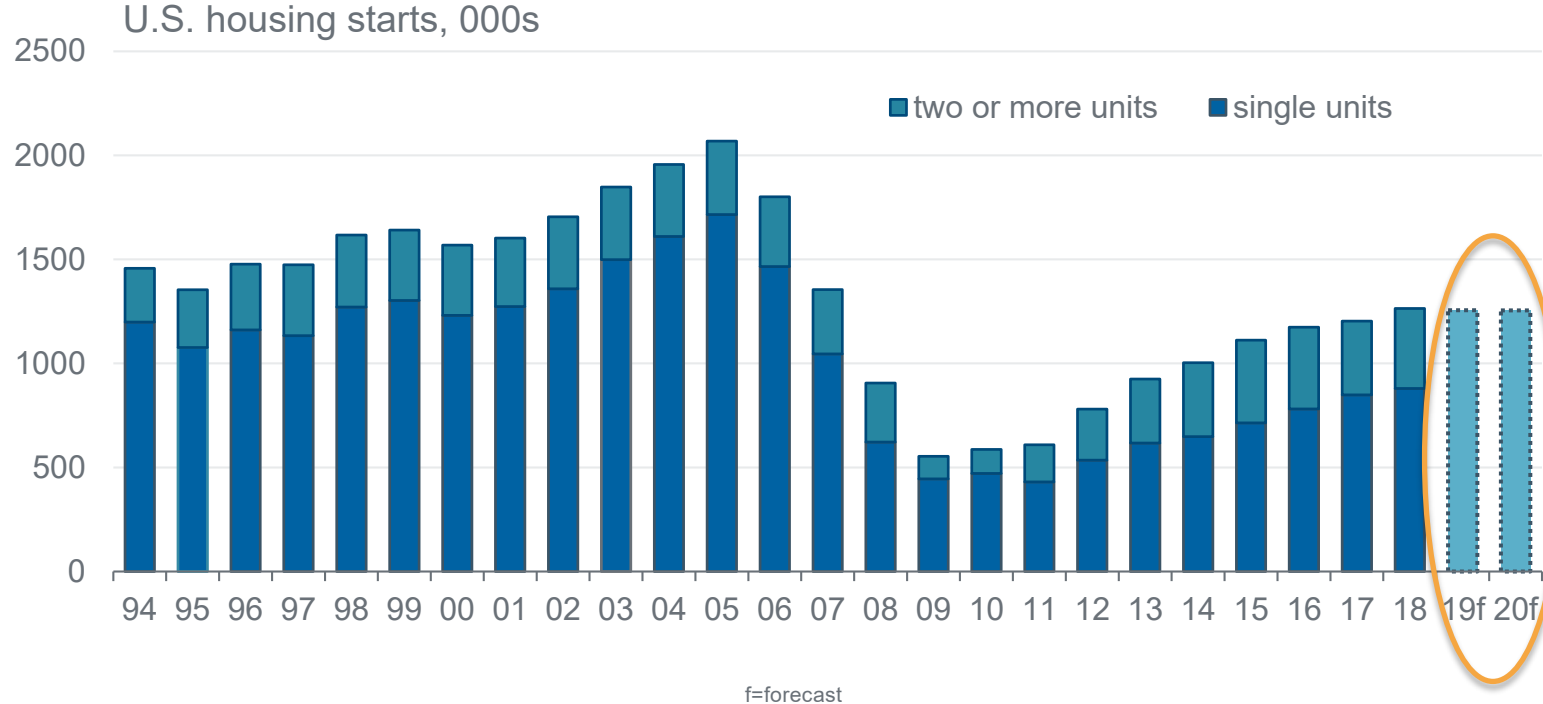
e=estimate f=forecast

Source: IMF World Economic database for history, BMO Economics (March 29, 2019) for forecasts.

U.S. ECONOMY HEALTHY, BUT SET TO SLOW IN 2019-2020

- Growth projected at ~2.3% this year, down from almost 3% in 2018
 - current expansion is the 2nd longest on record
- Employment continues to climb... as the labour market tightens further
 - unemployment rate near a 40 year low – heading for 3.5% in 2019
- Housing starts have been choppy...amid higher prices, escalating building costs, and relatively sluggish household growth
- Business investment is increasing – aided by recent tax cuts/reforms
- The Federal Reserve has (suddenly) grown more dovish, suggesting at most 1-2 additional interest rate hikes over 2019-20

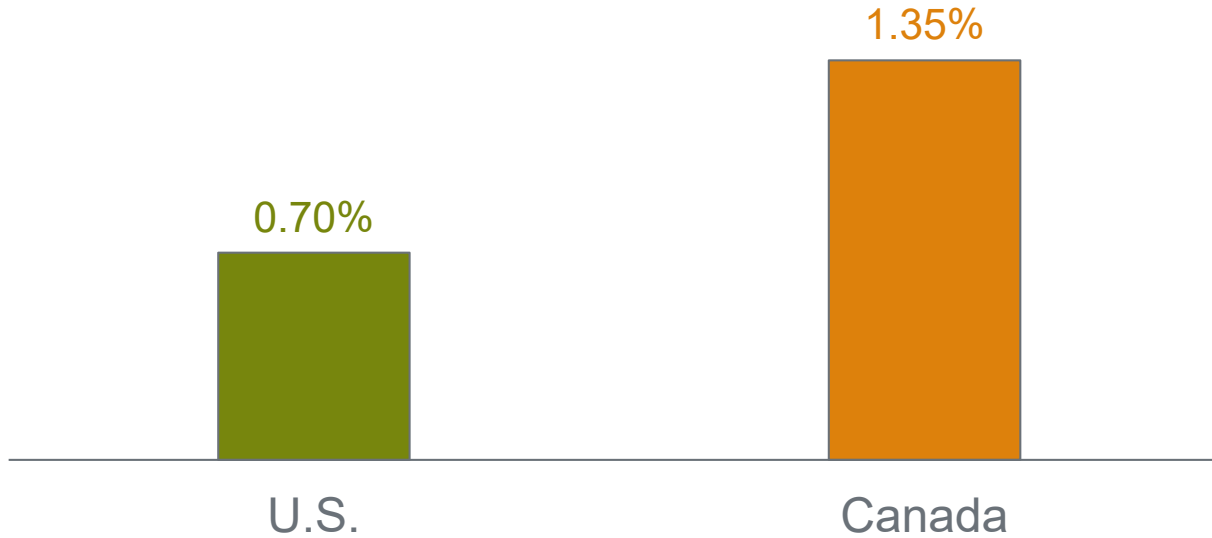
U.S. HOUSING STARTS WELL BELOW 1997-2006 LEVELS



Source: U.S. Census Bureau, Department of Housing and Urban Development, average of forecasts from BMO, CIBC, TD, RBC & Scotiabank for projections.

U.S. POPULATION GROWTH THE SLOWEST SINCE 1937!

Annual Population Growth, 2016-2018

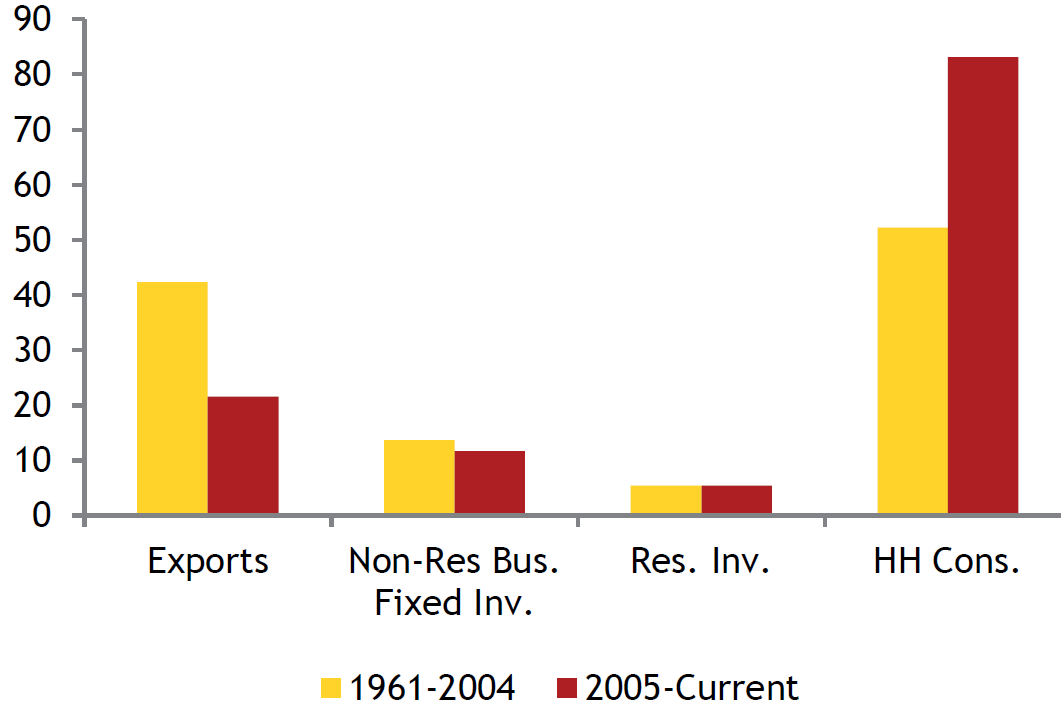


CANADIAN ECONOMY: BUMPS AHEAD

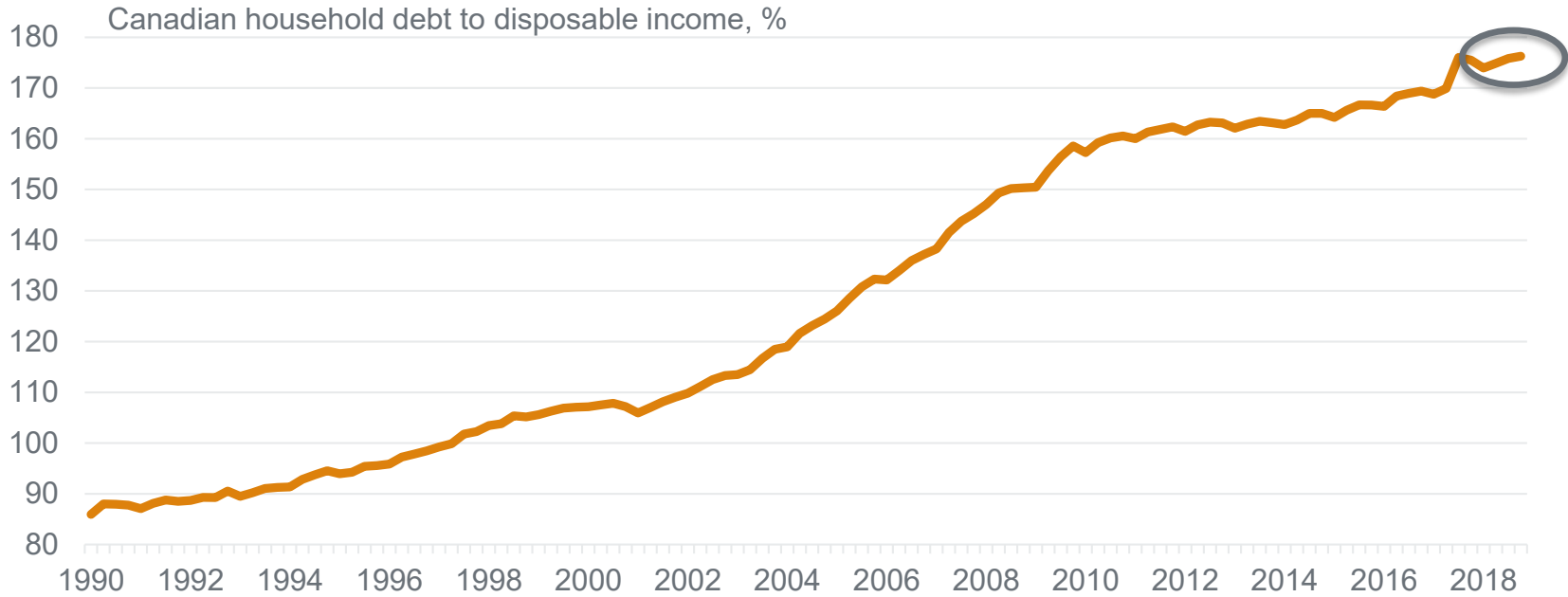
- **Growth essentially stalled in Q4 2018**, although conditions improved in January 2019
- Solid **job creation and low unemployment**
- **Household consumption and high levels of housing starts** (214,000 last year) have been the key factors sustaining aggregate demand – **but both are expected to lose steam in 2019-20**
- Don't overlook **population growth!** Canada leads the G7 and is near the top in the OECD, fueled by international immigration
- **Lots of downside risks** – softening global economy, household debt, loss of industrial competitiveness, oil prices, uncertainty about USMCA – will the US Congress ratify...and what will Trump do if it doesn't?

HOUSEHOLD CONSUMPTION HAS FILLED THE GAP FROM CANADA'S EXPORT AND INVESTMENT UNDERPERFORMANCE

Share of Canadian Real GDP Growth By Category (%)



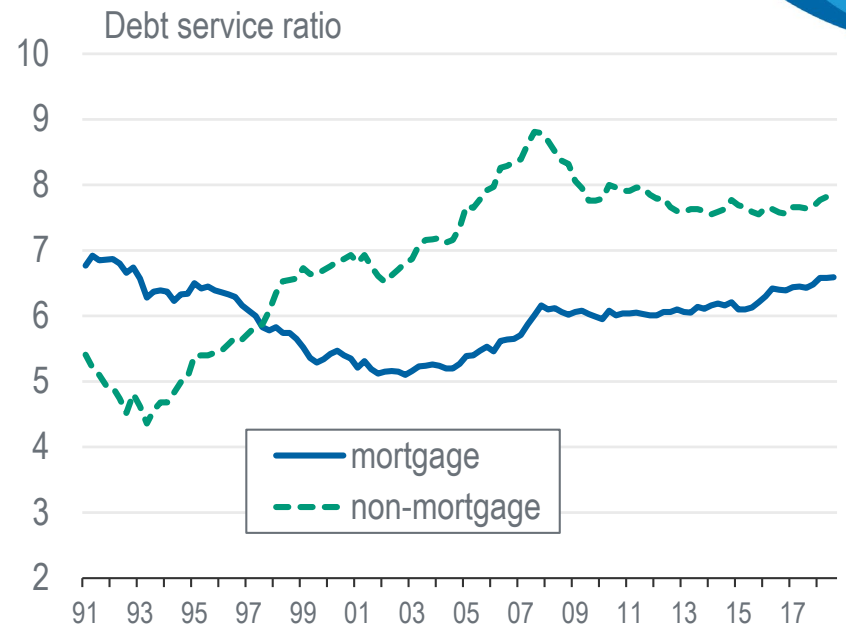
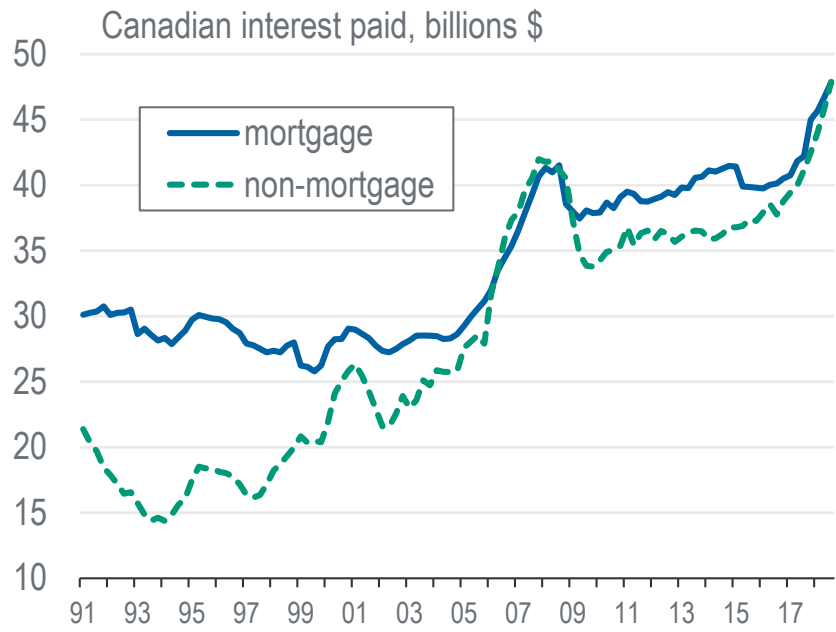
RECORD HOUSEHOLD DEBT ACCUMULATION



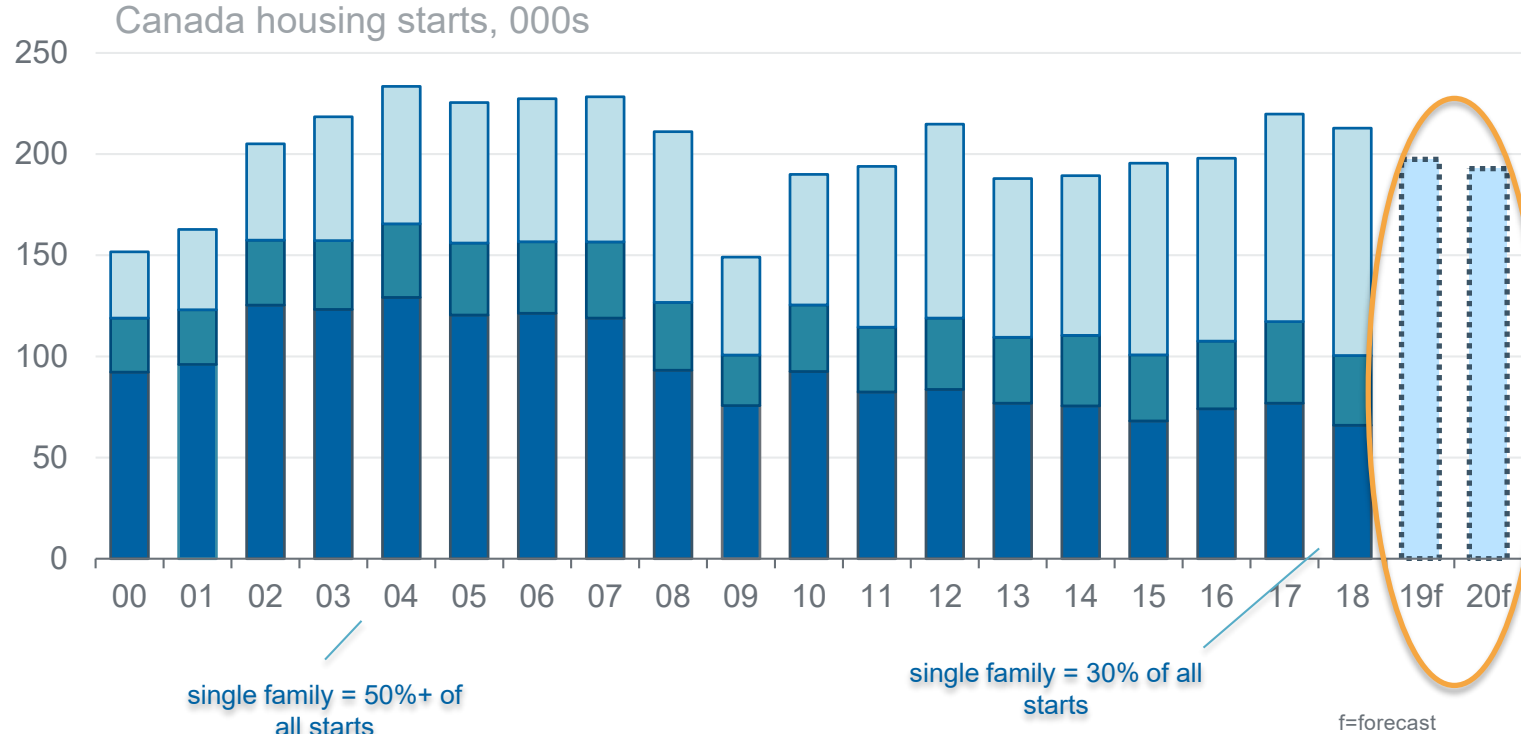
Latest Q4 2018.

Source: Statistics Canada, CANSIM table 378-0123.

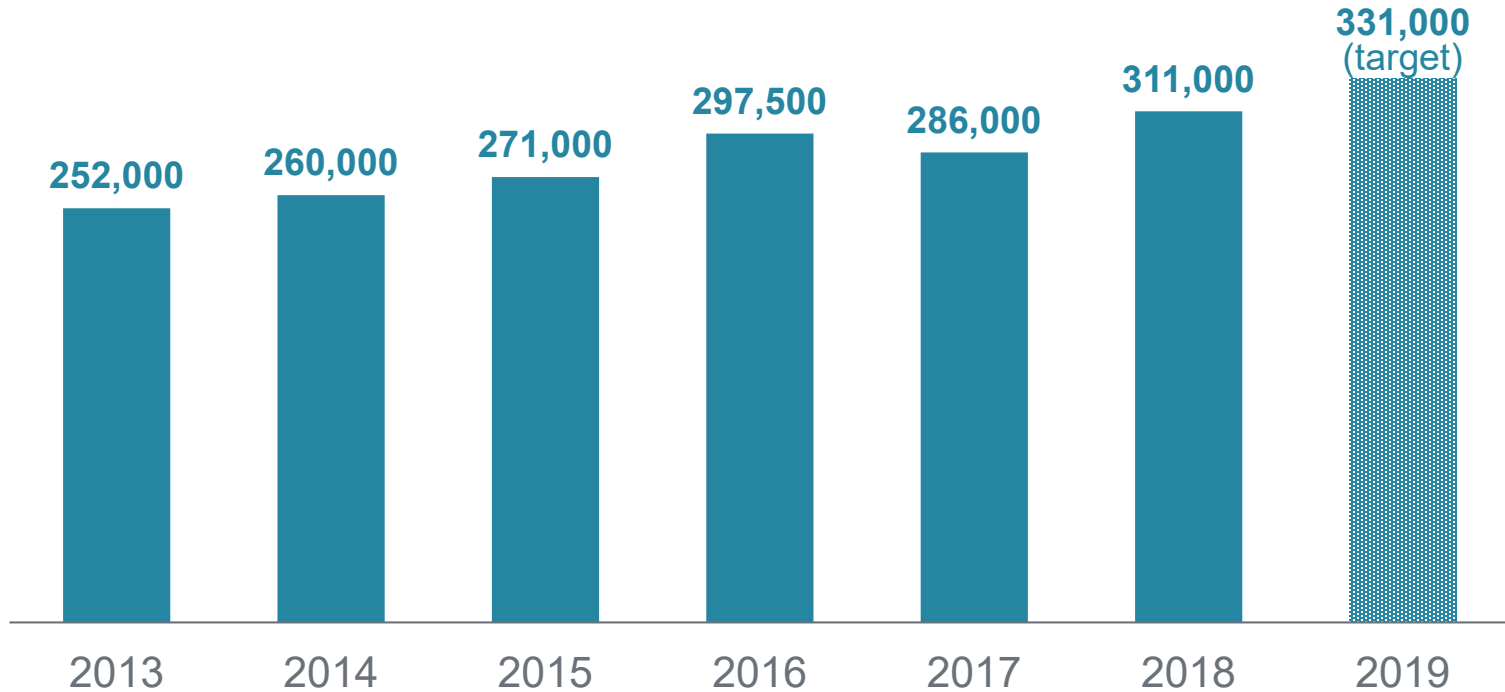
BUT...EVEN WITH RECORD DEBT, *DEBT-SERVICE RATIOS* LOOK MANAGEABLE



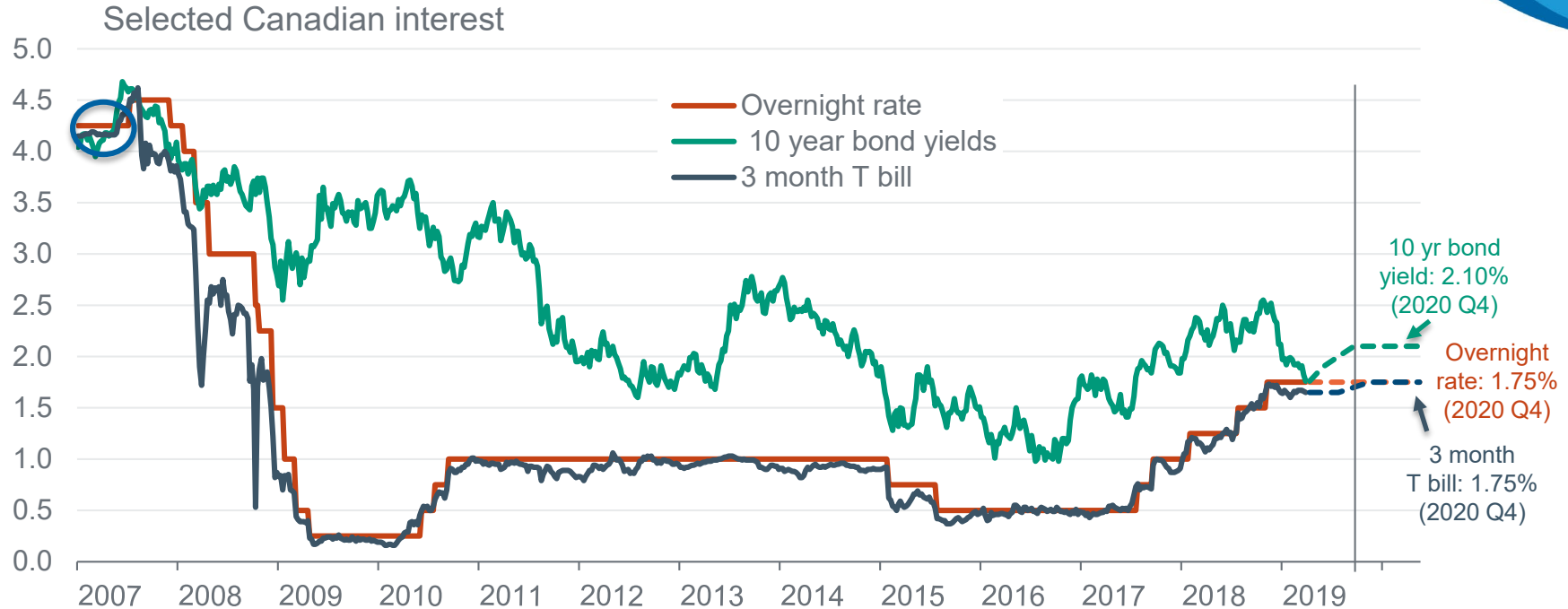
HOUSING STARTS IN CANADA HAVE PEAKED



CANADA: IMMIGRANT ARRIVALS*

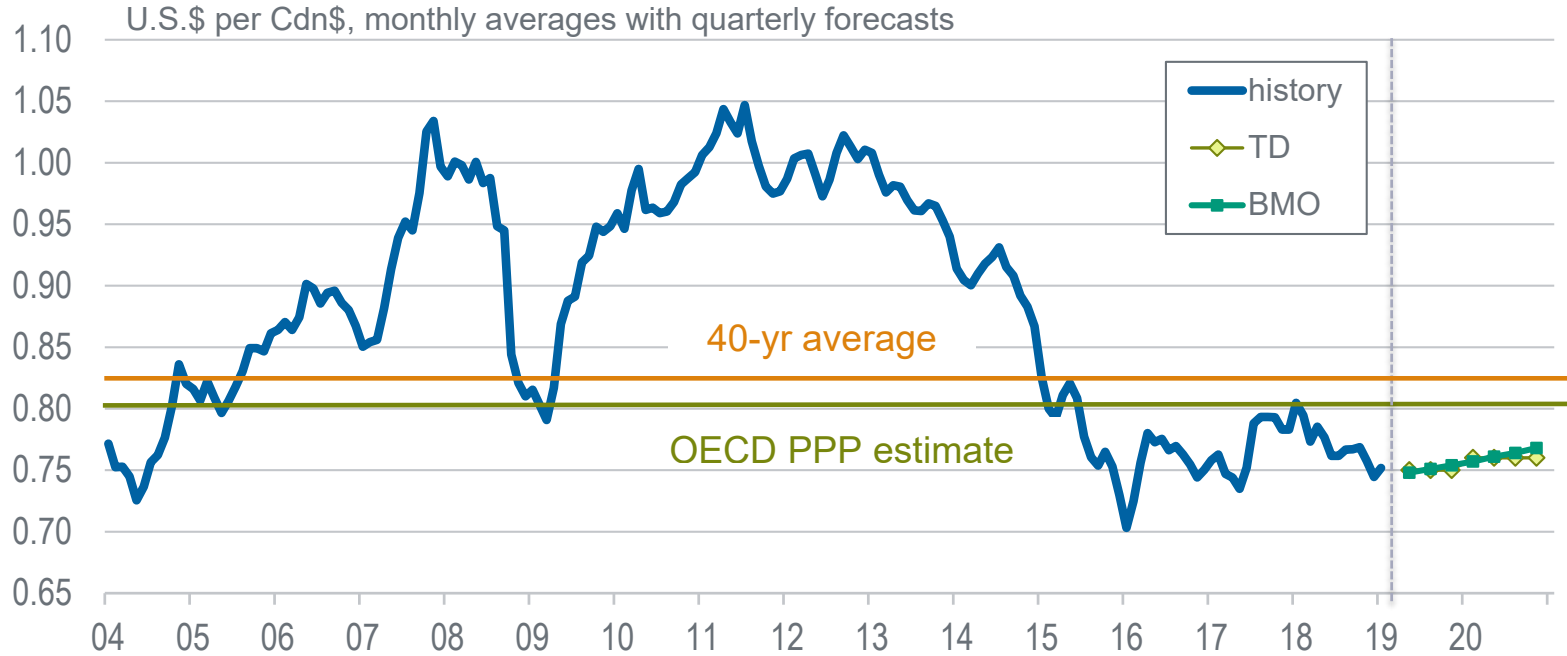


CANADIAN INTEREST RATES...VERY LITTLE 'UPSIDE'



Source: Bank of Canada; TD Economics for forecasts.

OUTLOOK FOR THE LOONIE

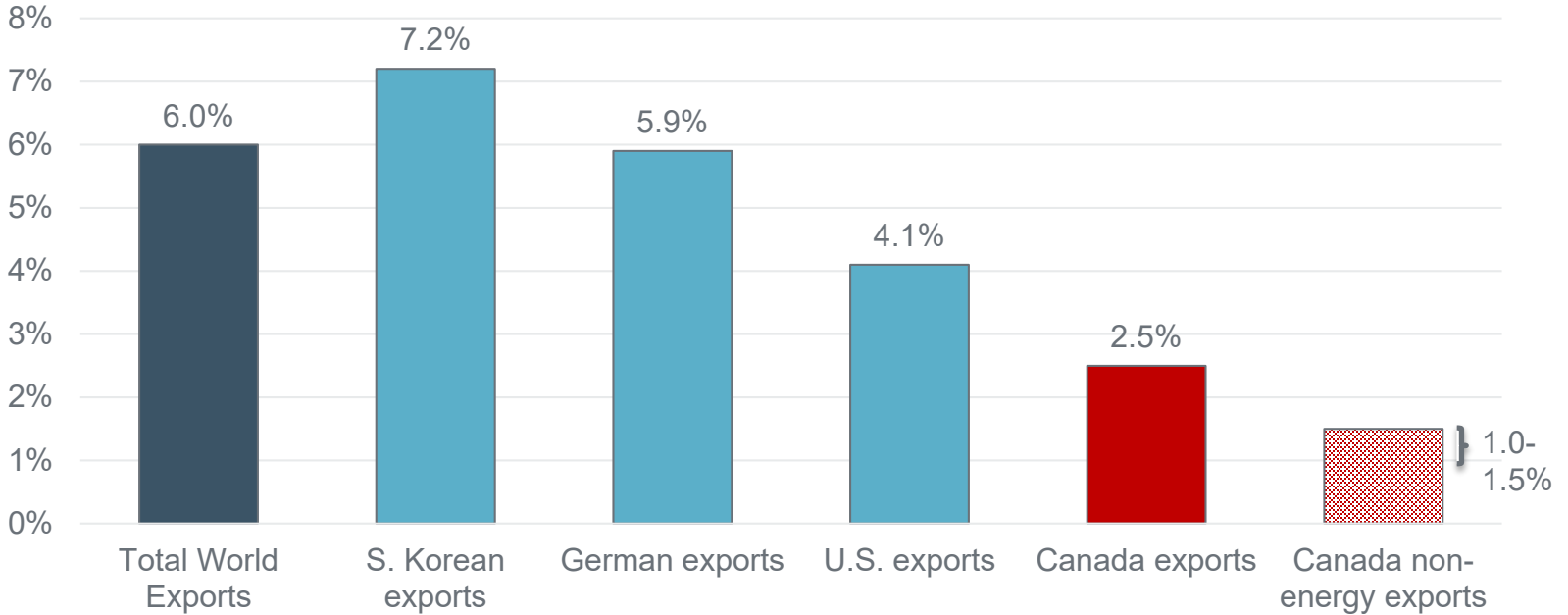


Latest: March 2019

Source: Bank of Canada, noon rate. TD Economics and BMO Economics for forecasts

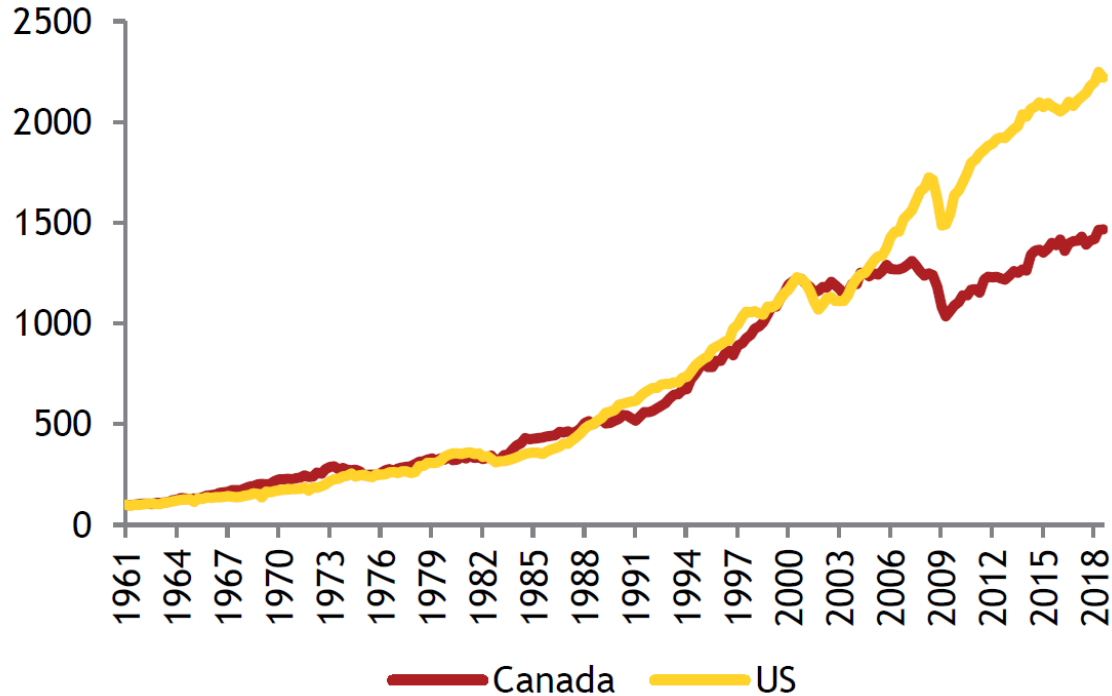
CANADA EXPORTS UNDERWHELM

(AVERAGE ANNUAL INCREASE IN THE VALUE OF EXPORTS*, 2000 TO 2017, MEASURED IN U.S. DOLLARS USING PPP EXCHANGE RATES)

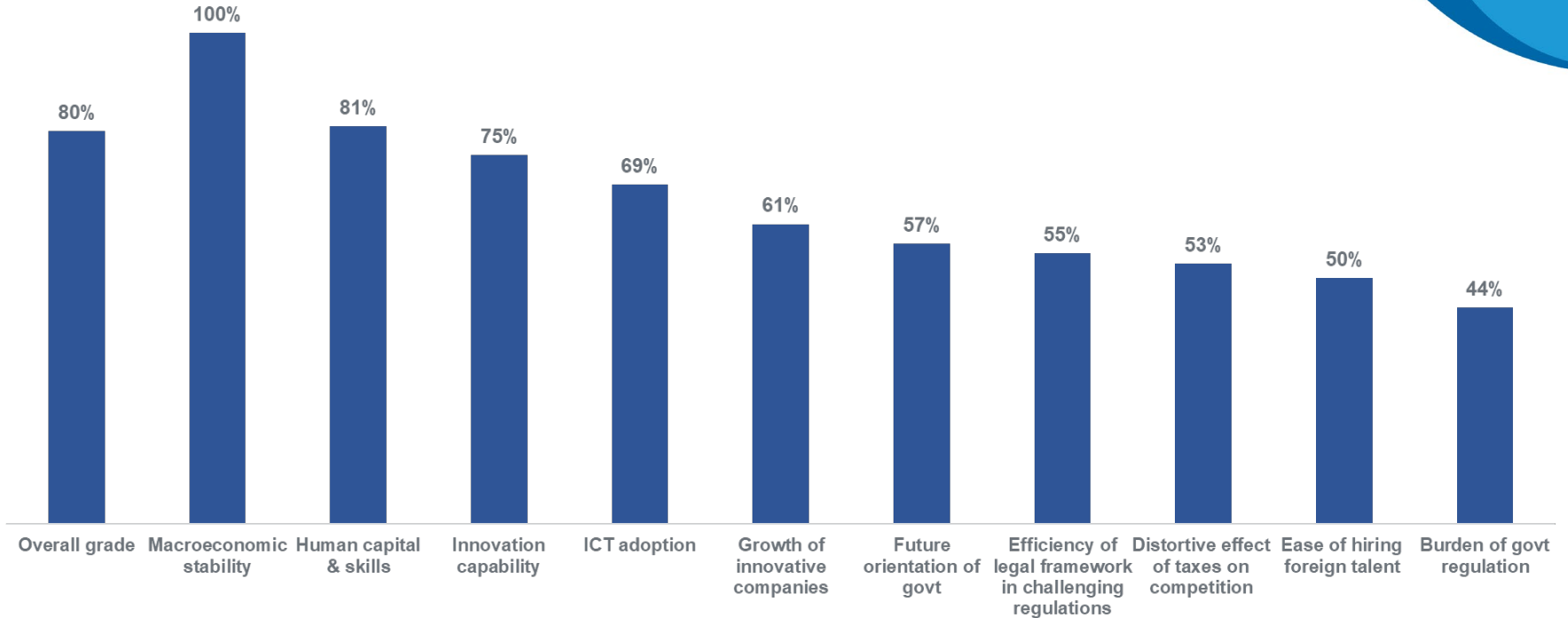


OUR EXPORT MALAISE BEGAN AROUND 2005

Total Export Volumes By Country



CANADA'S PERFORMANCE IN THE 2018 WORLD ECONOMIC FORUM "GLOBAL COMPETITIVENESS REPORT"

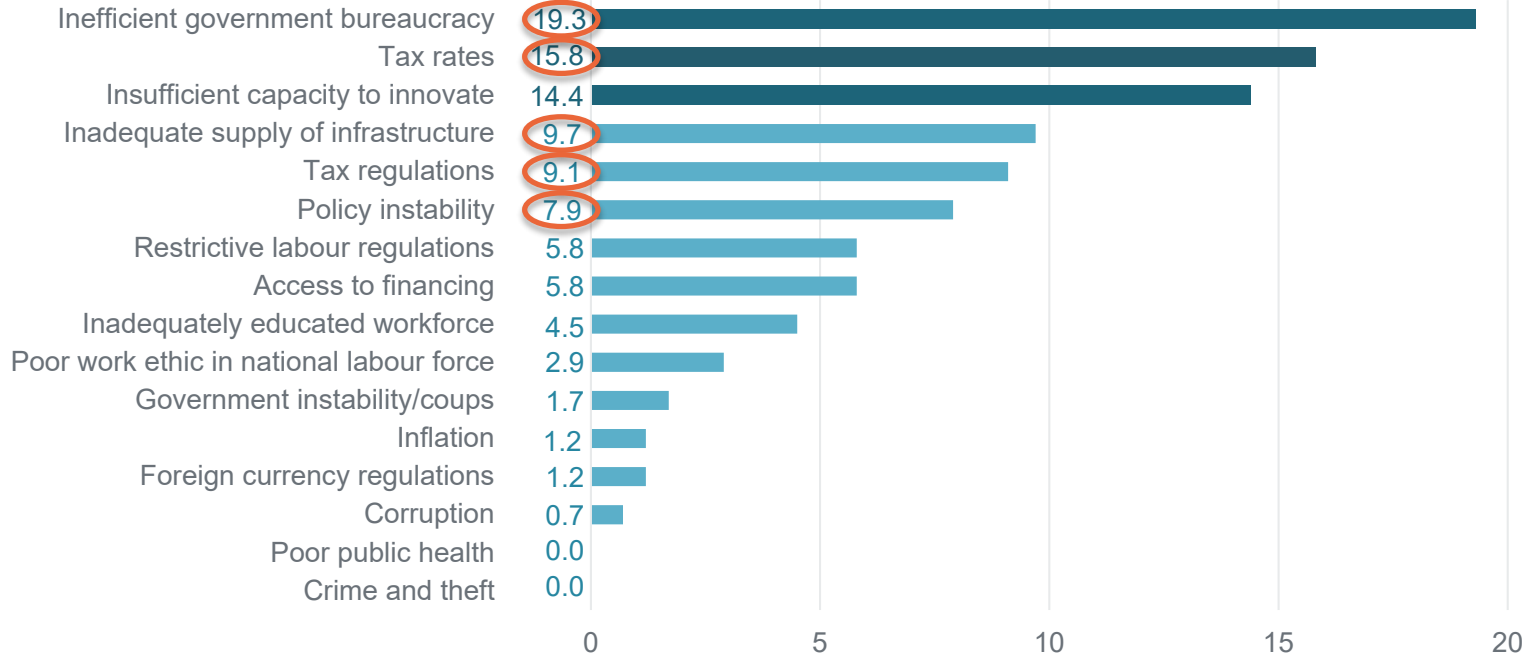


World Ranking



Source: World Economic Forum, *The Global Competitiveness Report 2018*.

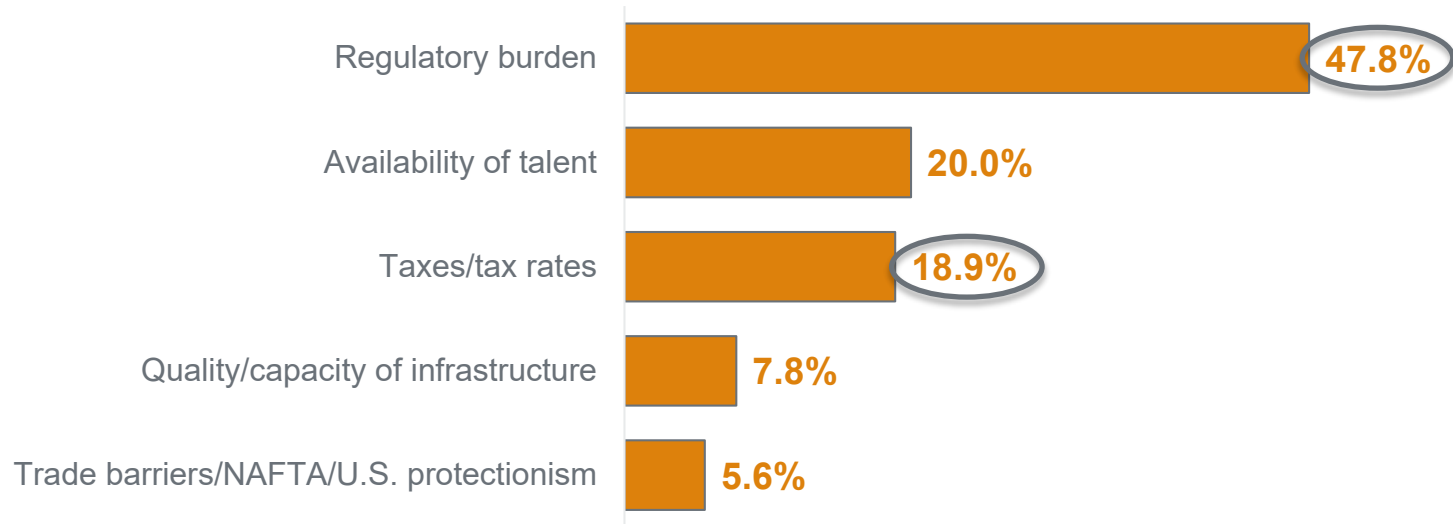
“MOST PROBLEMATIC FACTORS” FOR DOING BUSINESS IN CANADA (BASED ON A 2017 SURVEY OF CANADIAN EXECUTIVES)



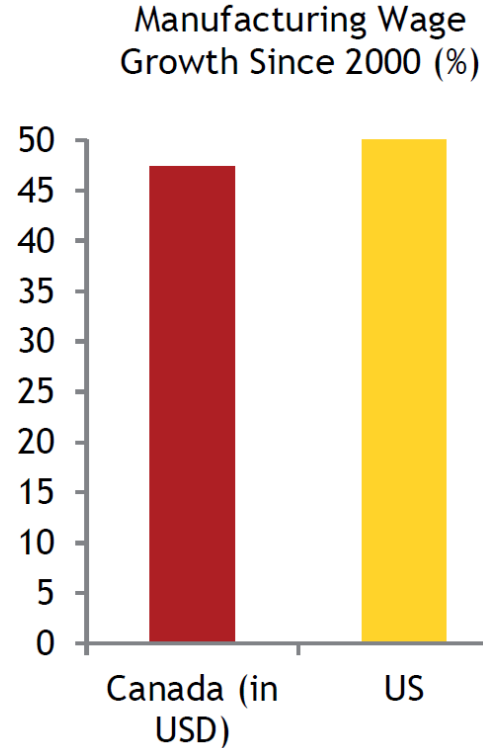
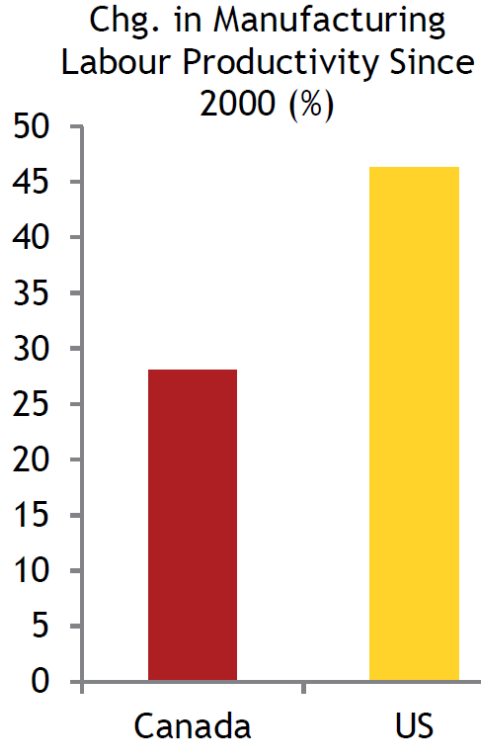
Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the response weighted according to their rankings.

ASSESSING CANADA'S COMPETITIVENESS (DRAWN FROM A 2018 SURVEY OF CANADIAN CEOs)

Of the following factors, which is most likely to affect your company's Canadian investment plans?

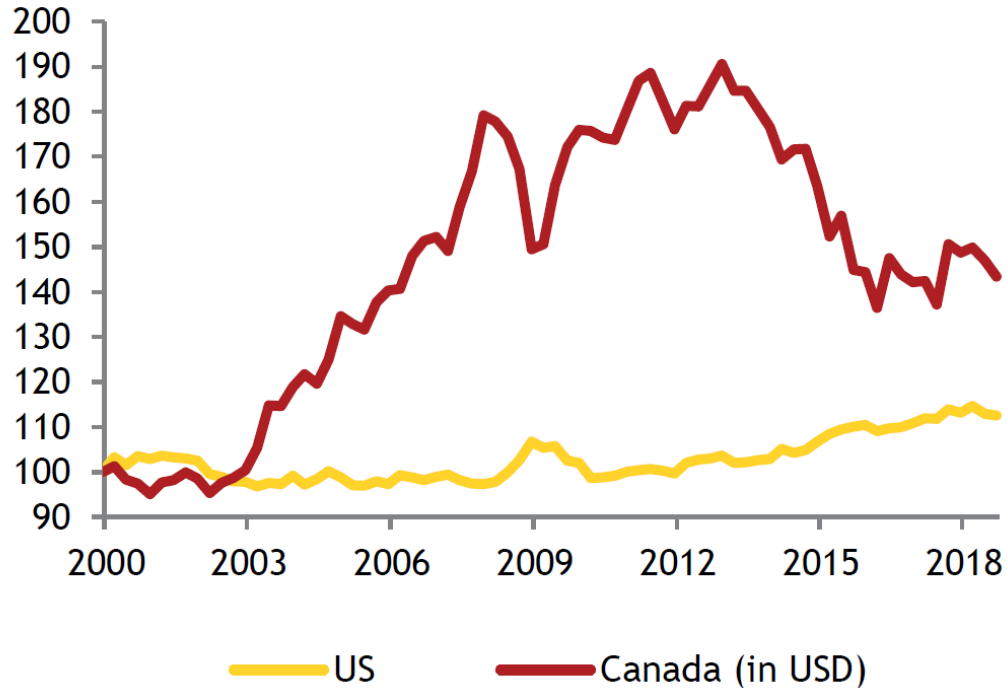


PRODUCTIVITY, NOT WAGES, IS CANADA'S PROBLEM



THE “CHEAP” C\$ STILL HASN'T RESTORED RELATIVE UNIT LABOUR COSTS TO THE 2000 LEVEL

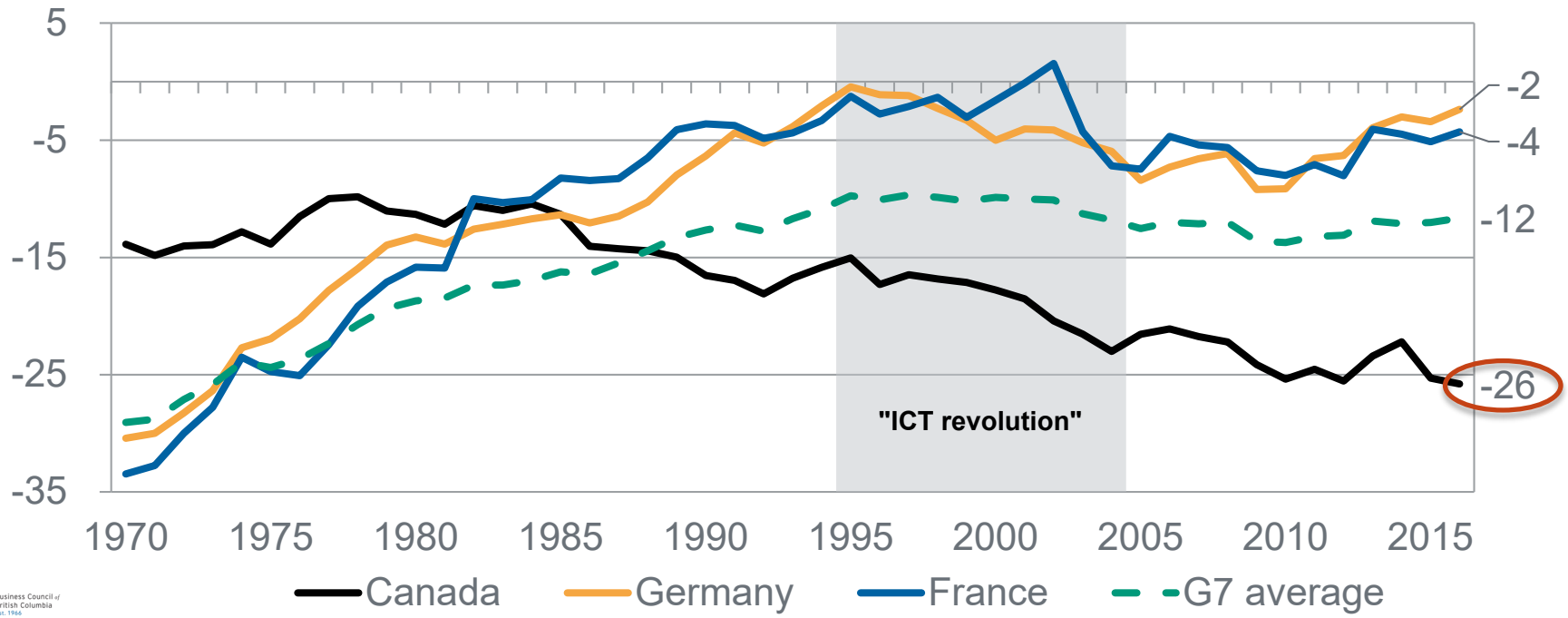
Manufacturing Unit Labour Costs (2000=100)



CANADA'S LABOUR PRODUCTIVITY HAS STEADILY DETERIORATED RELATIVE TO MOST COMPARATORS

Labour productivity gap with U.S. in percentage points, GDP per hour worked (total economy)

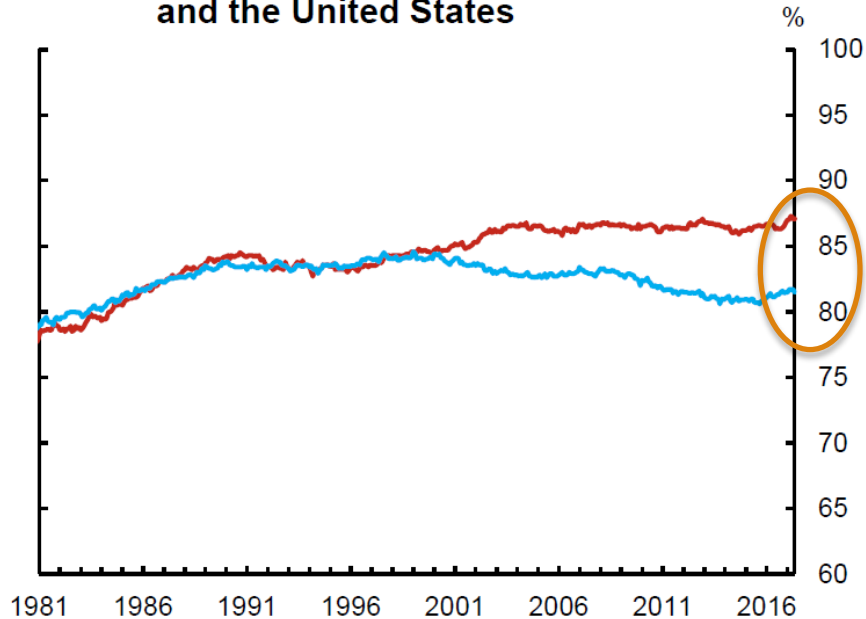
Gap in % points



CANADIAN PRIME-AGE LABOUR FORCE PARTICIPATION IS HIGHER THAN IN THE U.S.

Labour force participation rates for persons aged 25-54 years

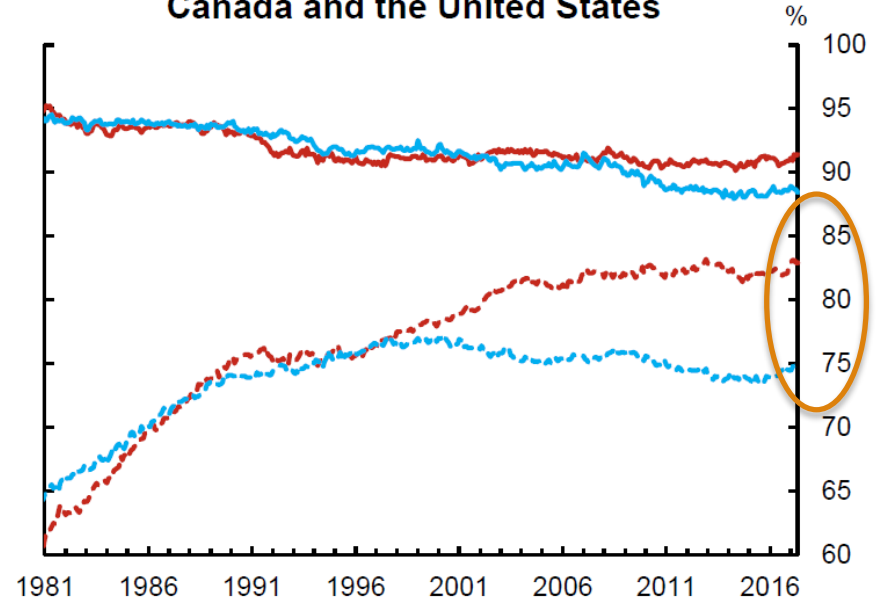
Prime-age participation rates in Canada and the United States



— Canada

— United States

Prime-age participation by gender in Canada and the United States



— Males, Canada

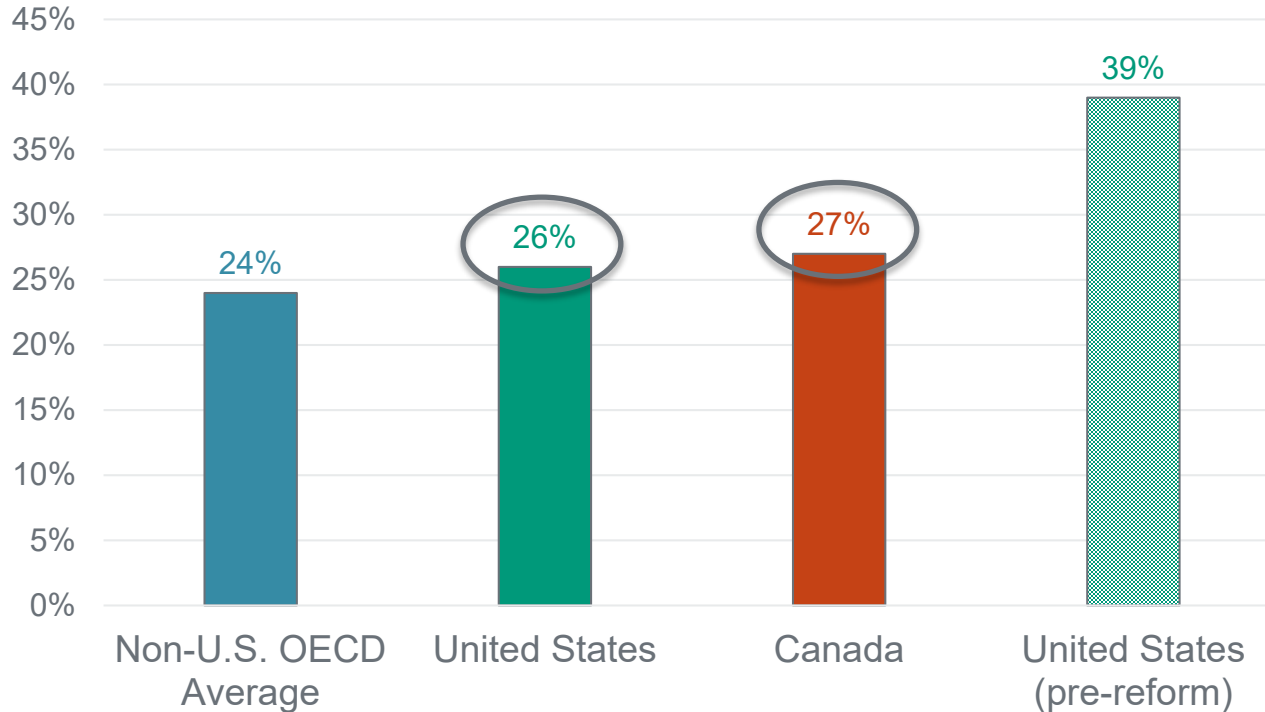
- - - Females, Canada

— Males, United States

- - - Females, United States

CANADA HAS LOST ITS PREVIOUS BUSINESS TAX ADVANTAGE OVER THE U.S. (COMBINED NATIONAL + AVG.STATE/PROVINCIAL)

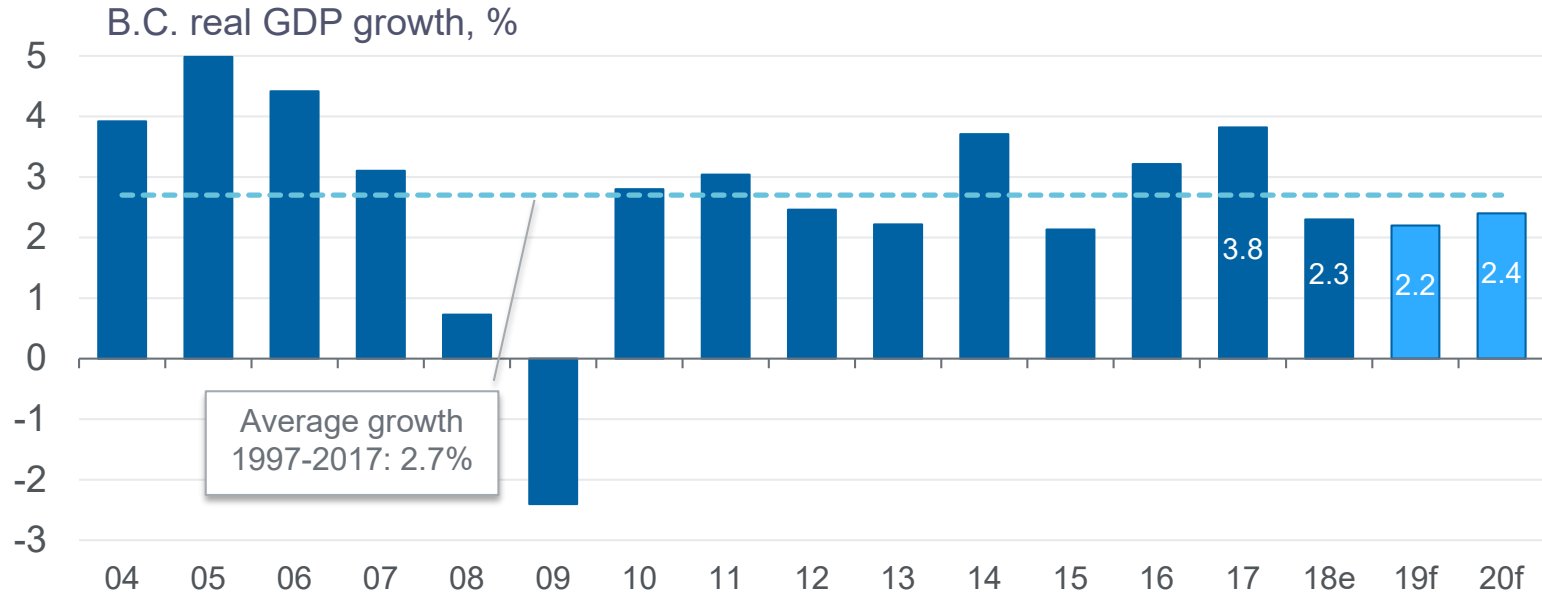
Statutory Corporate Income Tax Rate, Combined, 2018



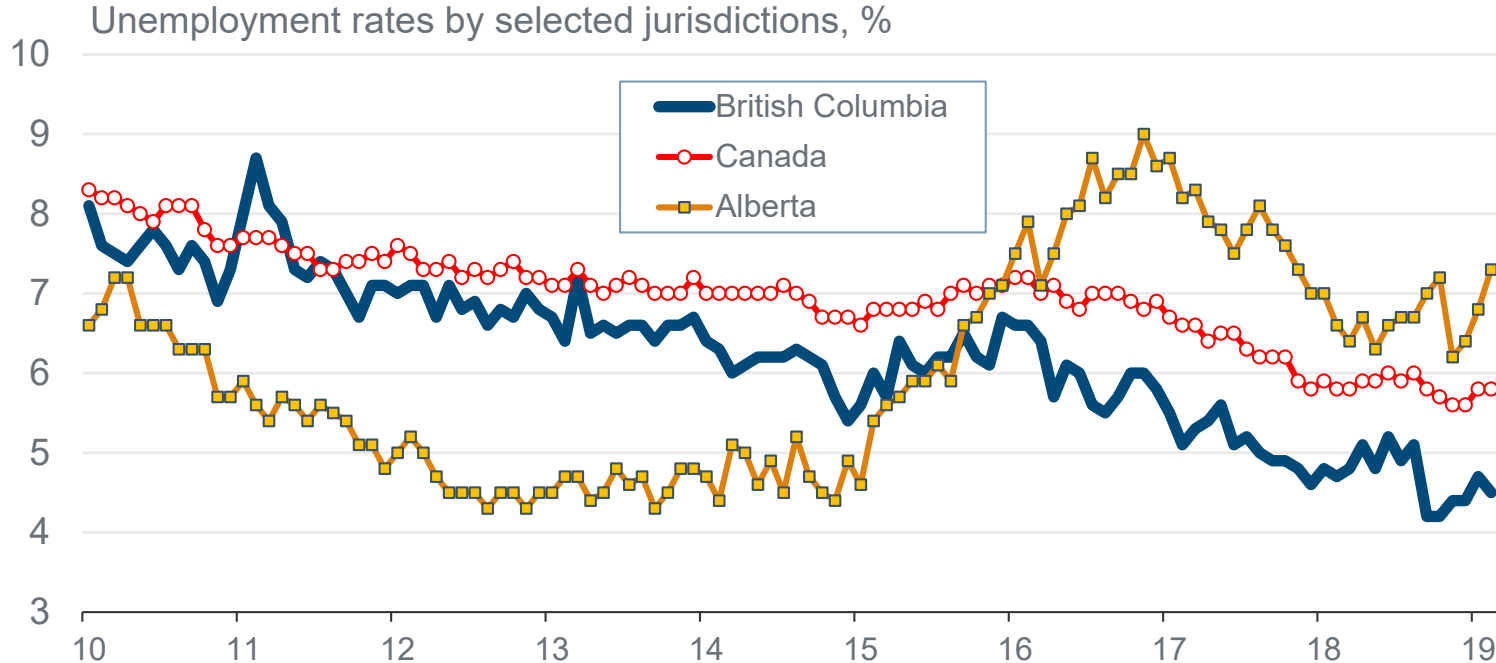
B.C. ECONOMIC PICTURE

- B.C. an economic leader in Canada over the past 5 years
- Growth has been running above long-run potential and is set to downshift
- Rising population, strong consumer outlays, and robust housing-related activity underpinned the economic expansion in 2014-2017
- Higher interest rates, tighter mortgage lending regulations, and new housing-related policy measures are weighing on home sales/prices
- LNG Canada project will provide a multi-year boost, offsetting the effects of weaker housing markets and more muted increases in consumer spending
- Most of B.C.'s 'traded industry clusters' – forestry, mining, energy, and most segments of manufacturing -- face significant competitiveness challenges

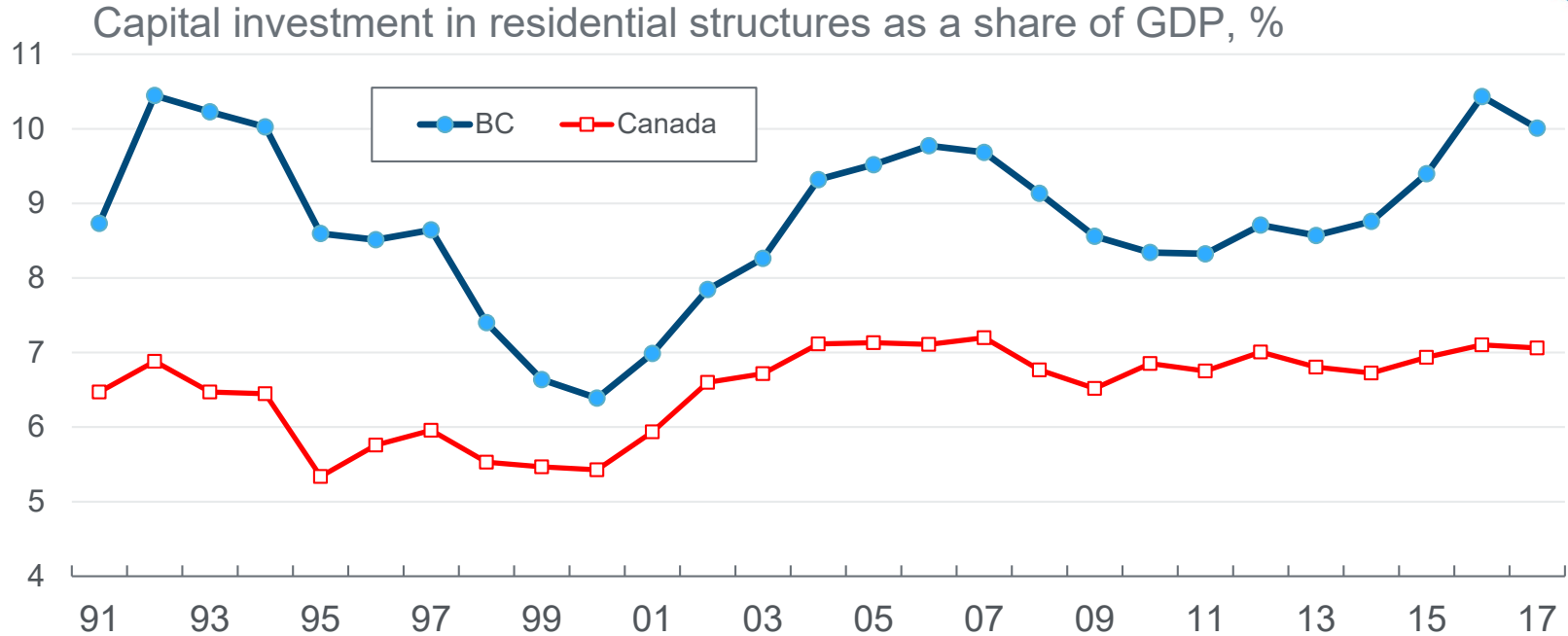
DOWNSHIFT EXPECTED IN B.C. FOLLOWING A PERIOD OF STRONG ECONOMIC GROWTH



B.C. HAS THE COUNTRY'S LOWEST UNEMPLOYMENT RATE



INVESTMENT IN RESIDENTIAL STRUCTURES...

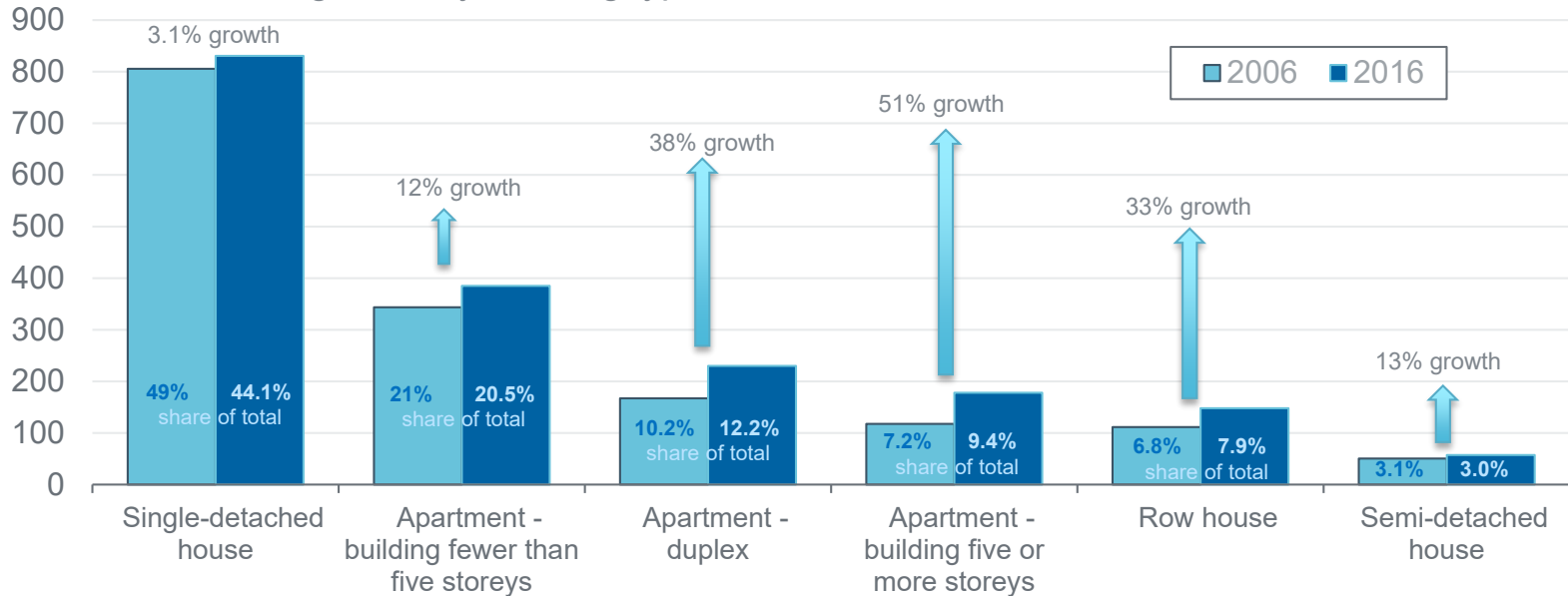


Source: Statistics Canada, Table: 36-10-0222-01.

Note: 2012 chained \$

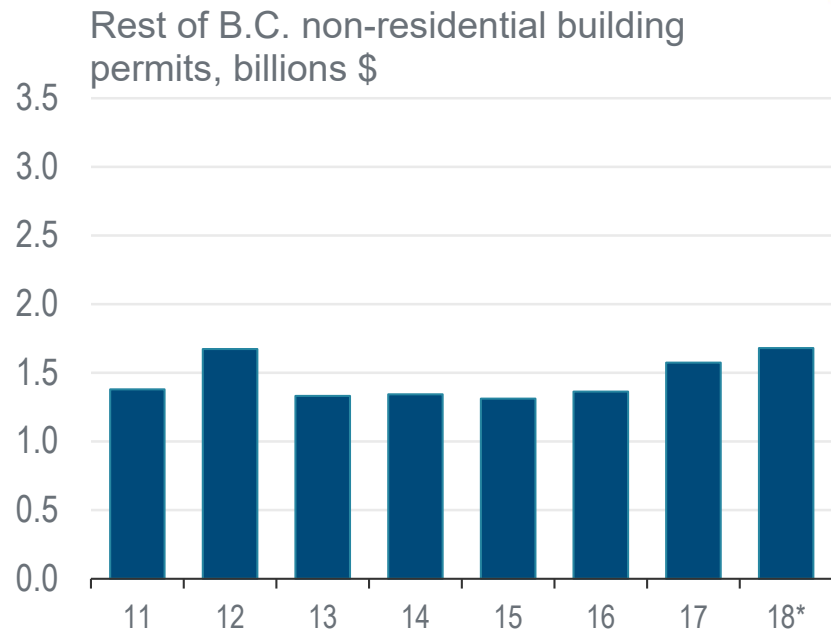
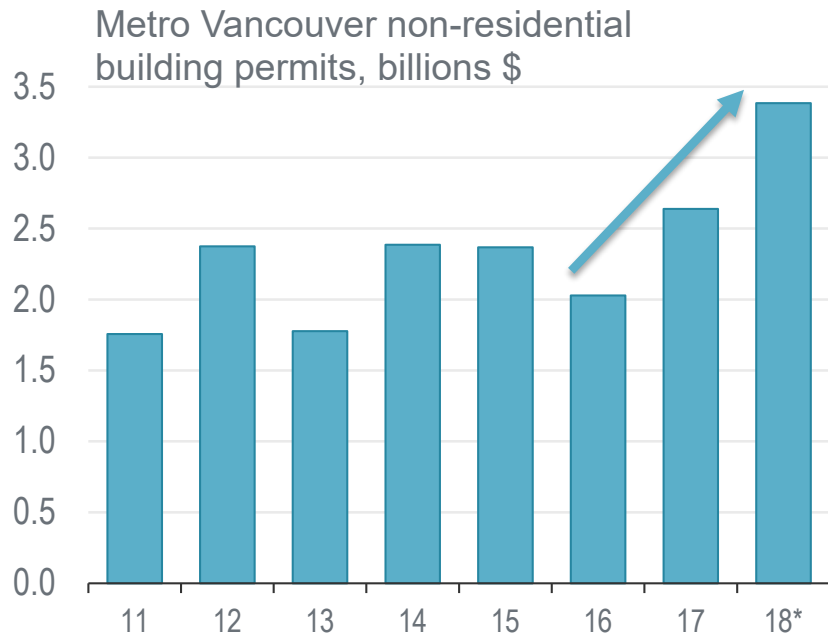
MULTI-UNIT DWELLINGS ACCOUNT FOR MOST OF THE INCREASE IN B.C.'S HOUSING STOCK

B.C. housing stock by dwelling type, 000s units



Source: Statistics Canada, Census 2006 and 2016.

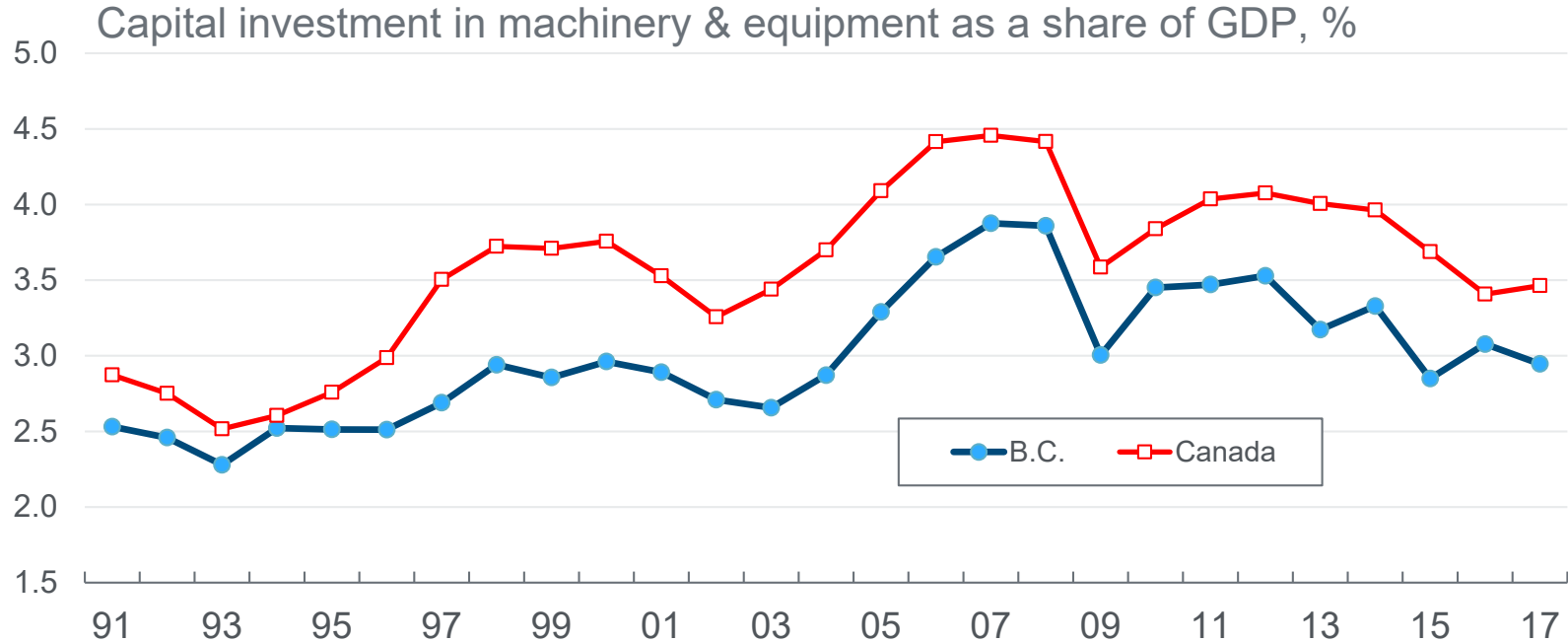
RISING PERMIT VALUES POINT TO MORE NON-RES CONSTRUCTION – ESPECIALLY IN METRO VANCOUVER



Source: Statistics Canada, CANSIM table: 34-10-0066-01

* 2018 estimate based on January to November data

B.C. INVESTMENT IN M&E CONSISTENTLY BELOW THE NATIONAL BENCHMARK



Source: Statistics Canada, Table: 36-10-0222-01.

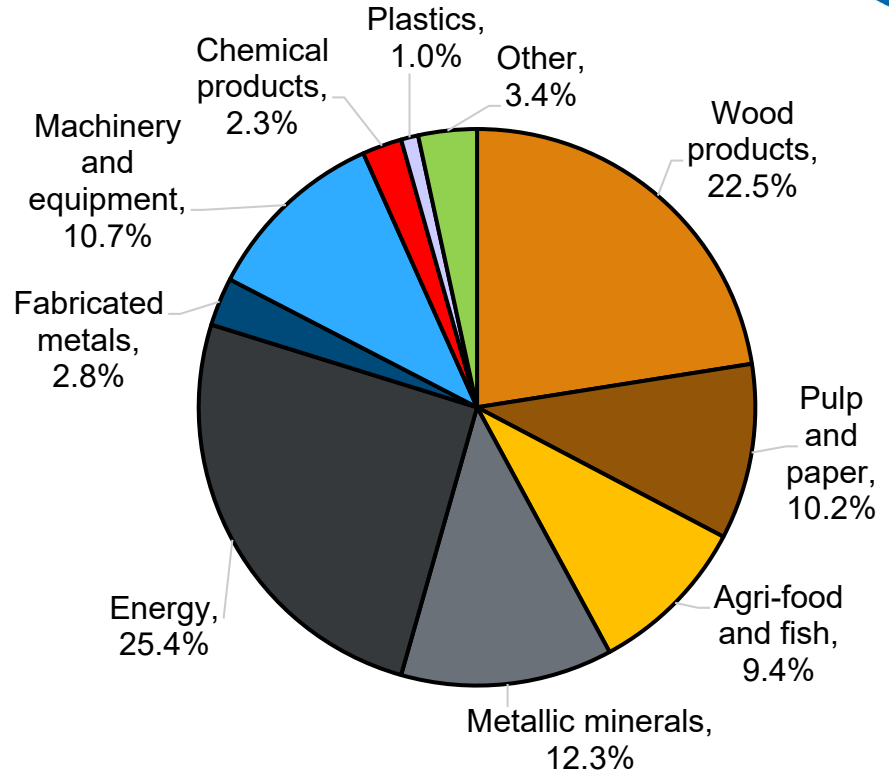
Note: 2012 chained \$

MERCHANDISE EXPORTS CLIMB TO NEW HIGHS



B.C. MERCHANDISE EXPORTS (2017)

- Natural resource products made up almost $\frac{3}{4}$ of B.C.'s \$43.4 billion of merchandise exports in 2017
- Forestry = 31-35% of B.C.'s goods exports, depending on the year
- The data reported here does **not** include exports of services (e.g., tourism, education, finance, transportation, etc.)



B.C. ECONOMIC OUTLOOK (BCBC FORECAST)

(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2017	2018	2019f	2020f
Real GDP	3.8	2.3	2.2	2.4
Employment	3.7	1.1	1.2	1.0
Unemployment rate (%)	5.1	4.7	4.4	4.6
Housing starts (000 units)	40.1	41.0	36.0	37.0
Retail sales	9.0	2.4	4.0	3.9
B.C. CPI	1.7	2.7	2.3	2.2

e – estimate f – forecast

Source: Statistics Canada and BC Stats; Business Council for forecasts.

B.C.'S BUSINESS ENVIRONMENT IS BECOMING LESS COMPETITIVE AND MORE UNCERTAIN

- True for most industries, including many exporters
- Return of Provincial Sales Tax in 2013...rising corporate tax rates... highest carbon tax in North America...increased PIT rates on the most productive workers...Employer Health Tax (2019)...municipal property taxes
- New Environmental Assessment Act...next stage of B.C. climate policy... overhaul of 'professional reliance' regime governing qualified professionals in natural resource sectors...Water Sustainability Act (2016)...Coast forest 'revitalization' plan
- Expected changes in Employment Standards legislation, Labour Code, and WorkSafe BC regulations, benefit levels, and assessments
- Adoption of UNDRIP into provincial policy and decision-making