Happy New Year? 2019 will put Canada's economy to the test

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What will 2019 bring for the Canadian economy? The latest RBC Economics report explores the bigger trends that may shape the year and beyond.

The world sailed into 2018 on the winds of confidence, with markets surging and growth abounding. It crash-landed at the close. The Dow Jones ended down for the first time since the financial crisis, and lost ground for only the second time in a decade.

Will the new year bring new resolve? Or new fear? A little of both, most likely, but we think there's still hope for some good times ahead.

At RBC Economics, we used the recent market volatility to step back and look at some of the bigger trends that may shape 2019 and beyond. Our report, Navigating 2019, offers hope for a continued expansion, although we still harbour concerns over trade and investment.

Here are the trends we think will shape the year ahead:

1. A consumer squeeze

How will rising interest rates impact heavily-indebted consumers? A lot. With two rate hikes expected in 2019, the average household will pay $1,000 more to service its debts. Some good news: we expect household incomes to rise more than that. But let's not get too Pollyannaish. Expect some belt-tightening in 2019 as households cut back on big ticket purchases like new cars and trucks.

2. Stronger housing prices

Low interest rates went hand-in-hand with rising house prices. But just because rates are now rising, don't expect a major decline in 2019. We see prices in Canada's major cities holding steady in 2019, thanks to Canada's lowest unemployment rate in more than 40 years and the fastest-growing population in the G7. A soft landing is in the cards. Not welcome news for potential homebuyers, as affordability will only worsen in the year ahead.

3. More labour shortages

They're here to stay. Tough for employers, and good news for job-seekers, especially highly skilled ones. Many employees this year may be enticed to demand pay increases – a rarity in recent years – or switch employers to get the same result. Employers should start thinking long-term about staffing needs. Through the 2020s, more than 270,000 people are expected to retire – every year.

4. More government debt

Households aren't the only ones carrying big debt loads. Governments will also see their spending options dwindle as rates rise. Over the next half decade, debt charges will be the second fastest-growing spending item for the federal government, after seniors' benefits.

5. Better oil market conditions

In the energy sector, the price gap between Canadian and international oil that dominated headlines last year will be smaller in 2019, after the Alberta government's production cuts and purchase of rail cars to ship crude.

6. Better business conditions

Can Canadian businesses compete on the world stage? The answer has tended to revolve around taxes, but an equal challenge may be red tape. Consider this: It takes longer to get construction permits in Canada than in any other G7 country. Ottawa's Fall

Economic Statement included both tax measures and a deregulation plan. If there's progress on the latter, it could go a long way to closing Canada's competitiveness gap.

7. Trading hope

Trade tensions between the U.S. and China will loom large over the global economy, with Canada caught in the crossfire. As worrisome as that bigger dispute may be, we shouldn't lose sight of the fact it touches only a small fraction of total trade for the U.S. and China. Of course, a full-blown trade war would lead to more stock market volatility, more uncertainty over business investment, and potentially higher prices for consumers. Anything less won't eat heavily into global growth.

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