



2019 economic outlook: **What's ahead and what does it mean for entrepreneurs?**

Pierre Cl  roux
Vice President, Research
and Chief Economist, BDC

April 2019

Agenda



- ① **World economic outlook**
- ② **Ontario economic outlook**
- ③ **Three major questions for 2019**



The world economy will grow at a more moderate pace

Real GDP global growth (%)



Note: GDP 2010 constant prices; f = forecast.

SOURCE: International Monetary Fund. World Economic Outlook Update. January 2019

The expansion will remain unbalanced in 2019



Europe
1.3% ↓

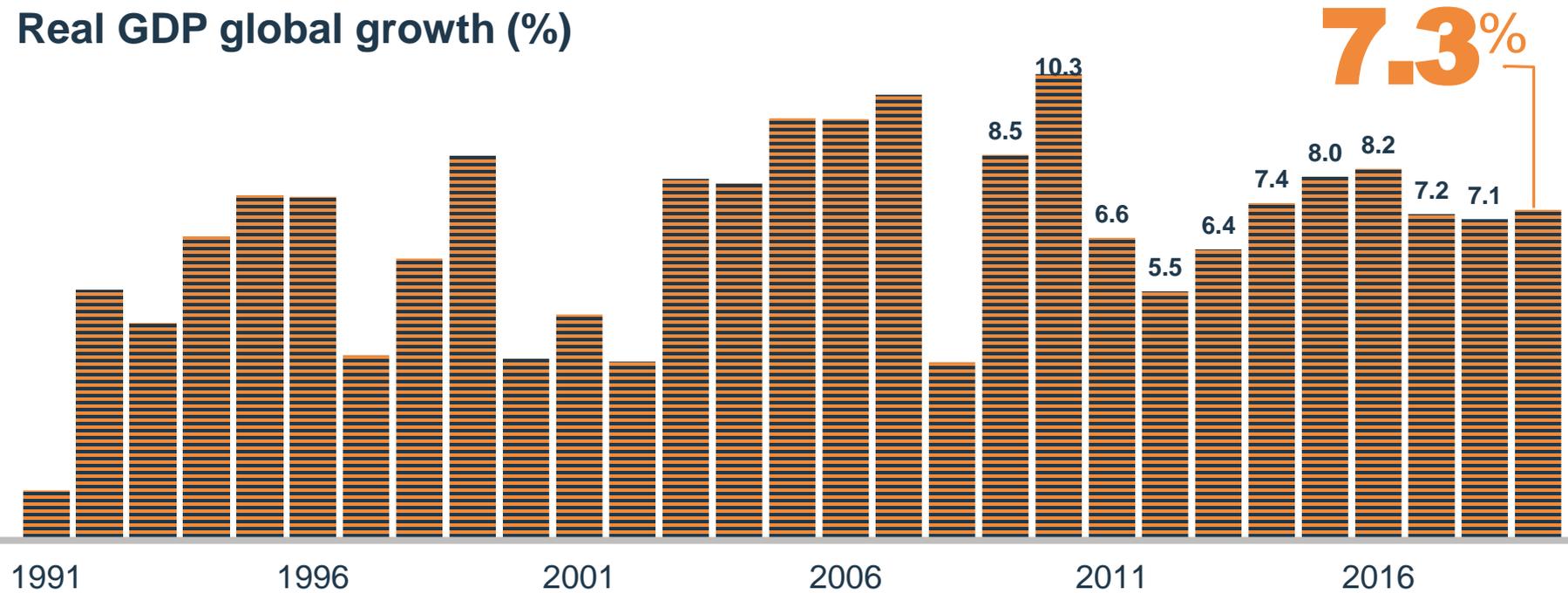
India
7.3%

China
6.3% ↓

Japan
1.0% ↓

India's economy continues **to be solid** *

Real GDP global growth (%)



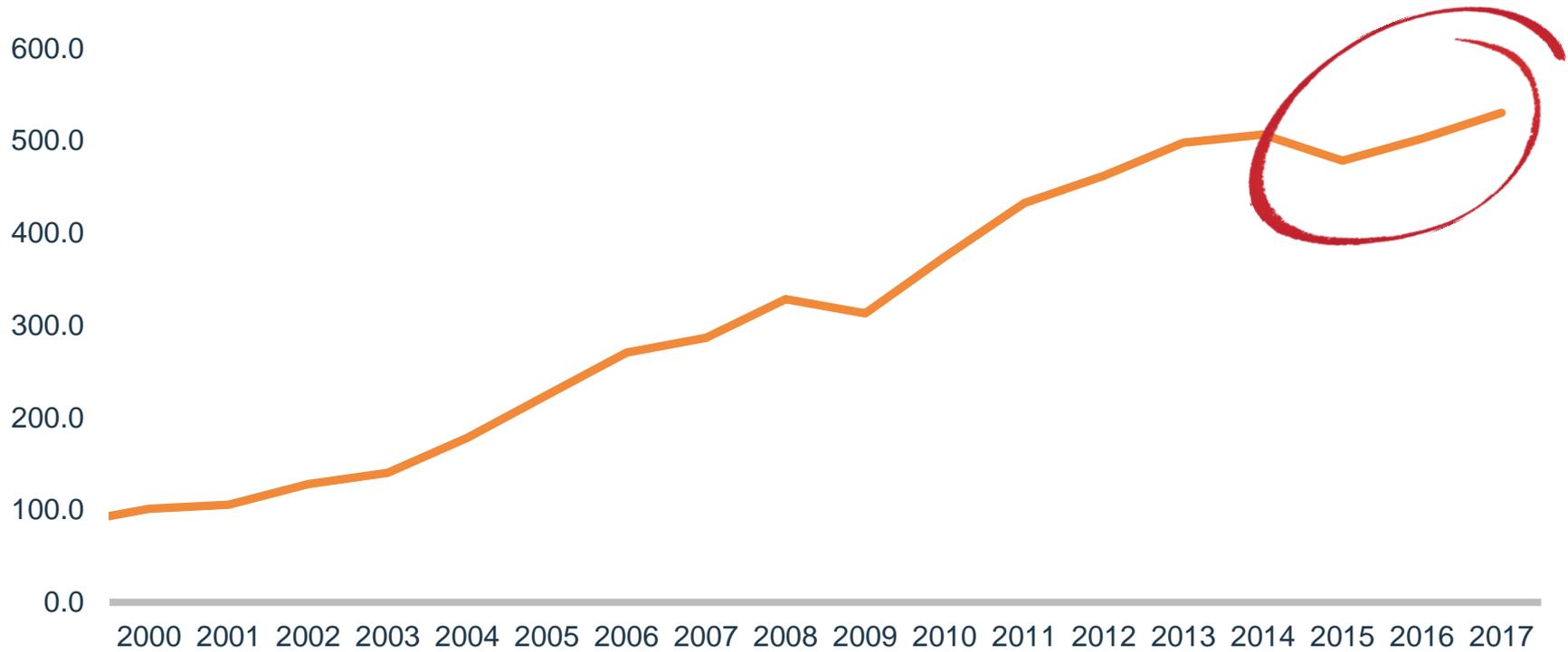
Note: GDP 2010 constant prices; f = forecast.

SOURCE: International Monetary Fund. World Economic Outlook Update. April 2019



Exports are rebounding

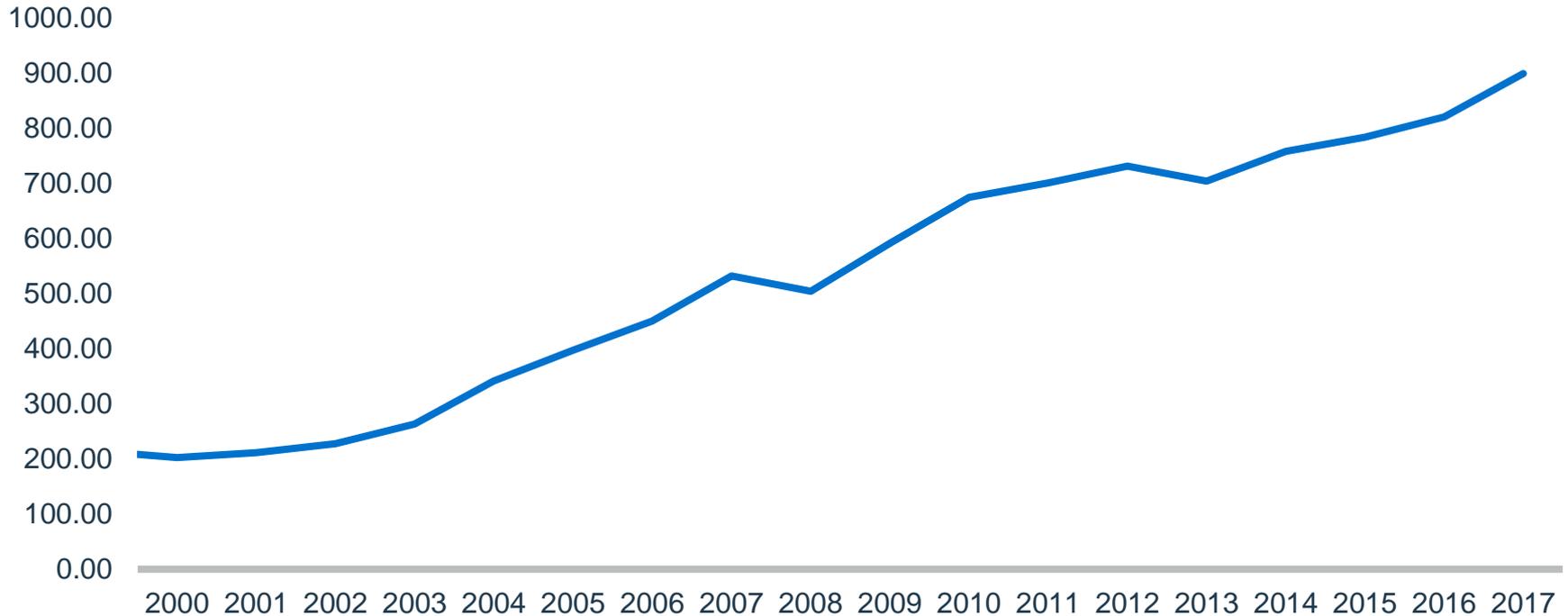
Exports of goods and services (constant 2010 US\$)





Investment is growing steadily

Gross capital formation (constant 2010 US\$)



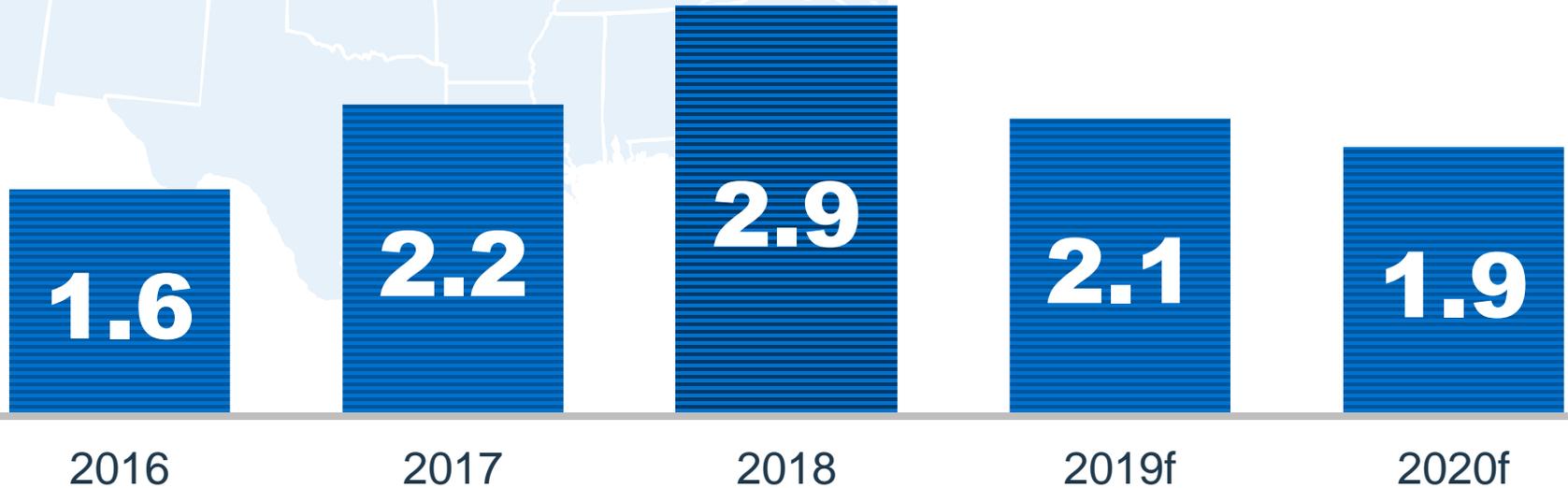
A light gray map of the United States with white state boundaries, serving as a background for the title text.

U.S. Economic Outlook

The U.S. economy continues to roll



Real GDP growth (%)



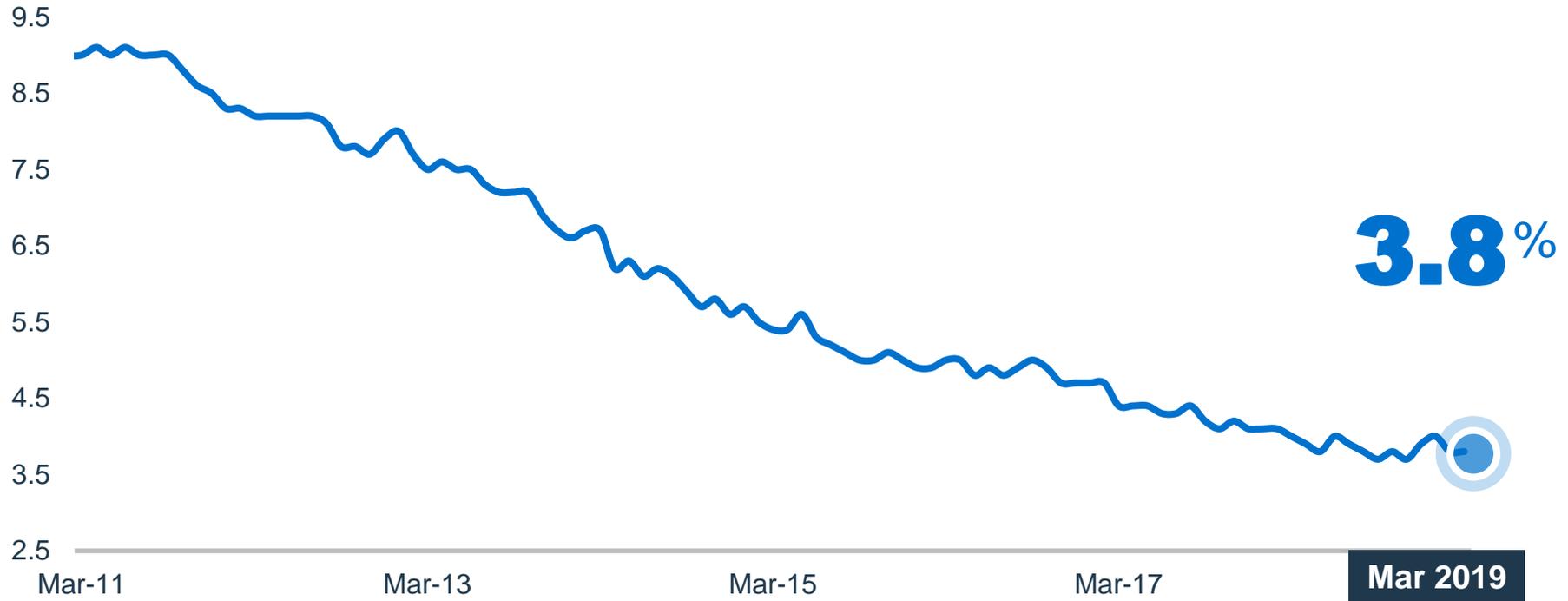
Note: f = forecast

SOURCE: U.S. Bureau of Economic Analysis and Economic projections of Federal Reserve Board members and Federal Reserve Bank Presidents (20 March 2019)

Unemployment rate remains at a historic low



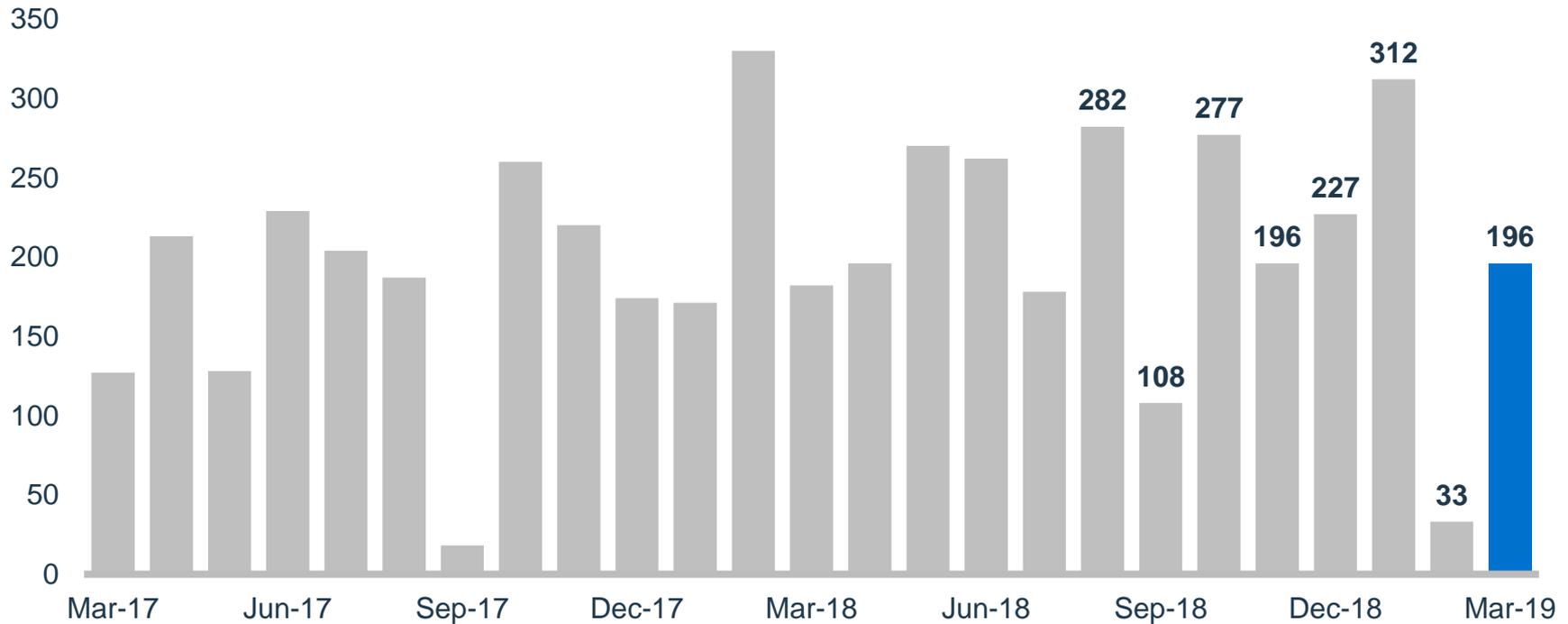
Unemployment rate (%)



Job creation had been stellar in the past few months



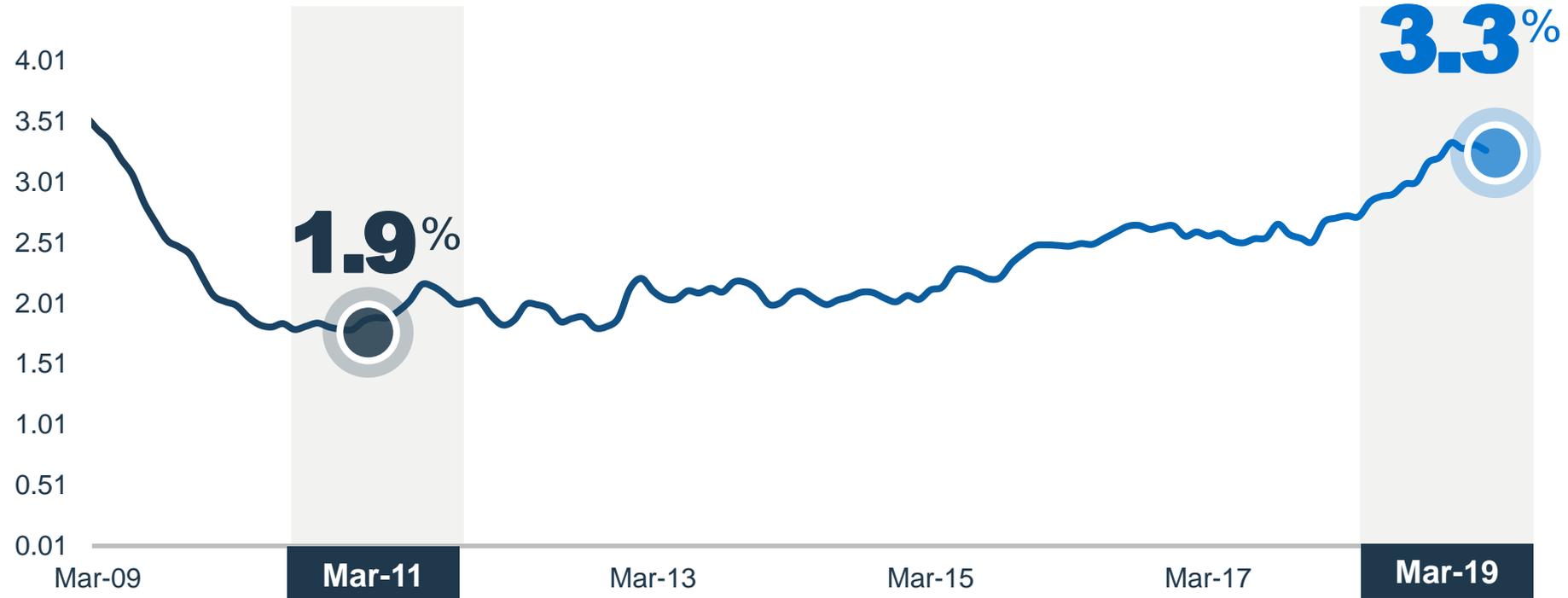
Monthly net new jobs in thousands





A tightening labour market is pushing up salaries

Wage growth (%)



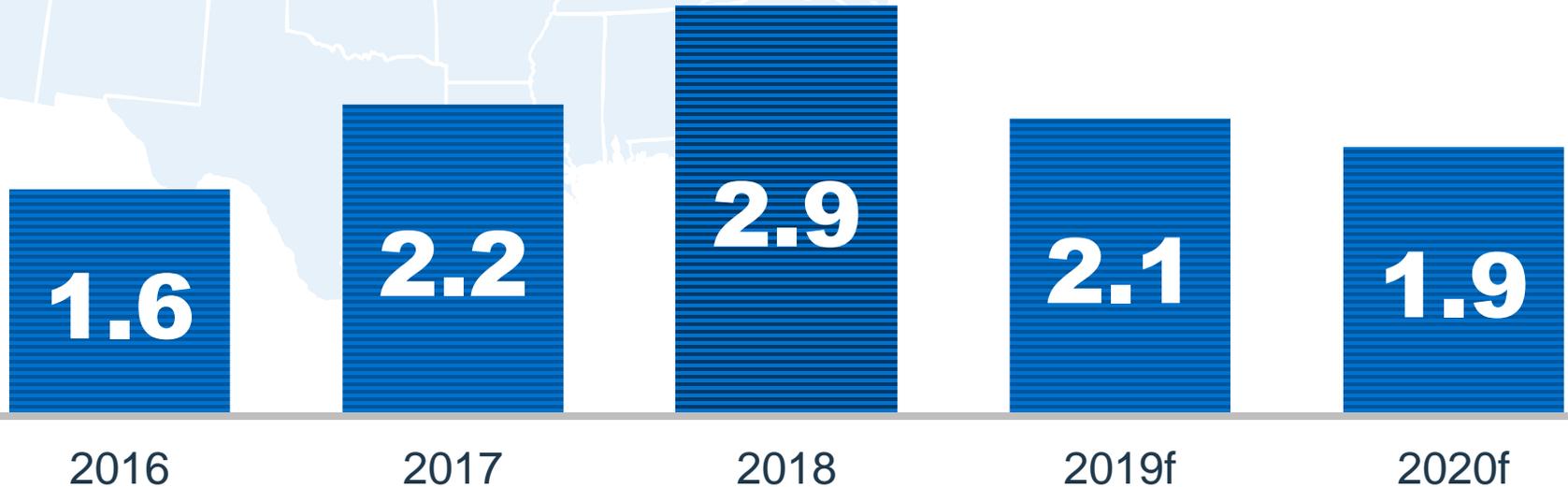
Note: Annual change in 3-month moving average of hourly earnings

SOURCE: U.S. Bureau of Labor Statistics

The U.S. economy continues to roll



Real GDP growth (%)



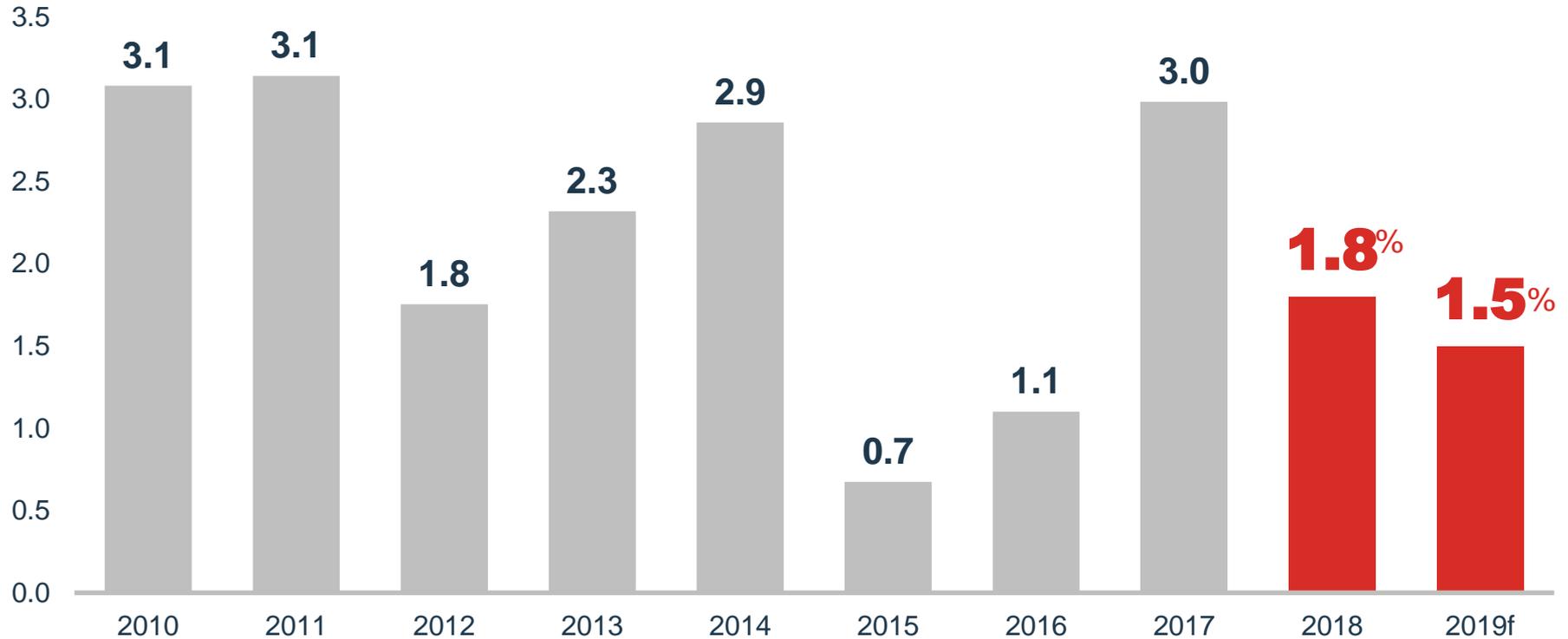
Note: f = forecast

SOURCE: U.S. Bureau of Economic Analysis and Economic projections of Federal Reserve Board members and Federal Reserve Bank Presidents (20 March 2019)



Canadian economic outlook

Canada's GDP growth is decelerating



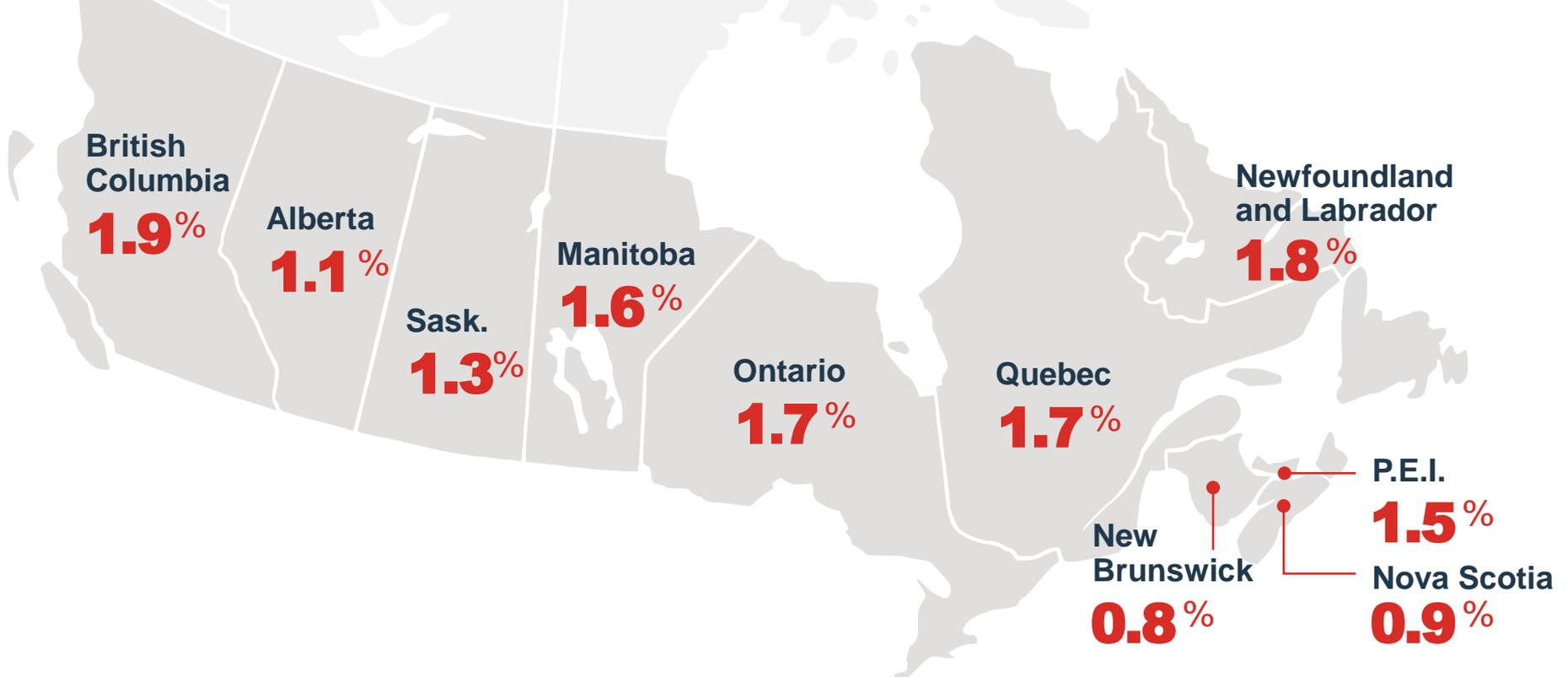
NOTE: f=forecast

SOURCES: Statistics Canada, average of chartered banks forecasts and Consensus forecasts, April 2019



Growth is slowing down from coast to coast

Forecasted GDP growth by province in 2019 (%)





Why is Canada's economy slowing down?



01_

**Commodity prices
are struggling**

Oil prices are slowly recovering from their last drop



WTI, \$US/barrel





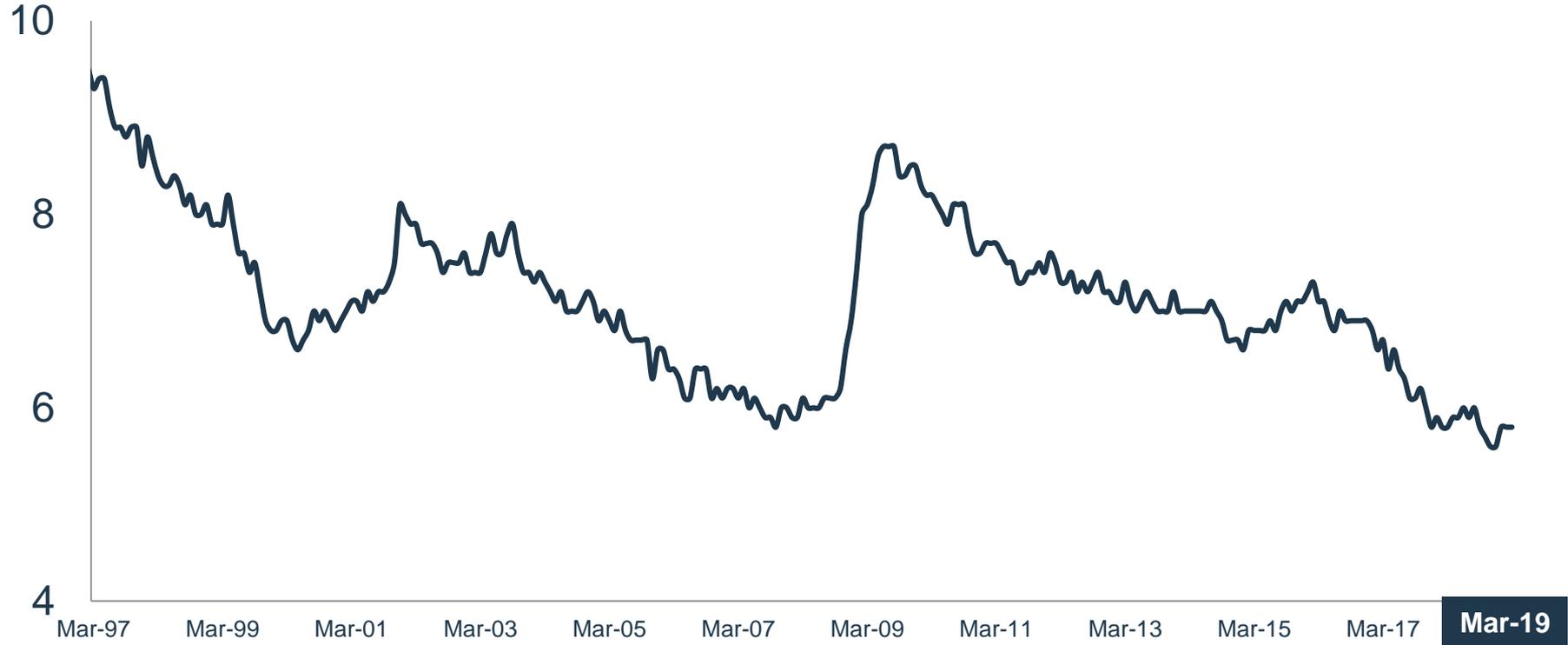
02_

**The labour shortage
is limiting growth**

Canada's economy is close to full capacity

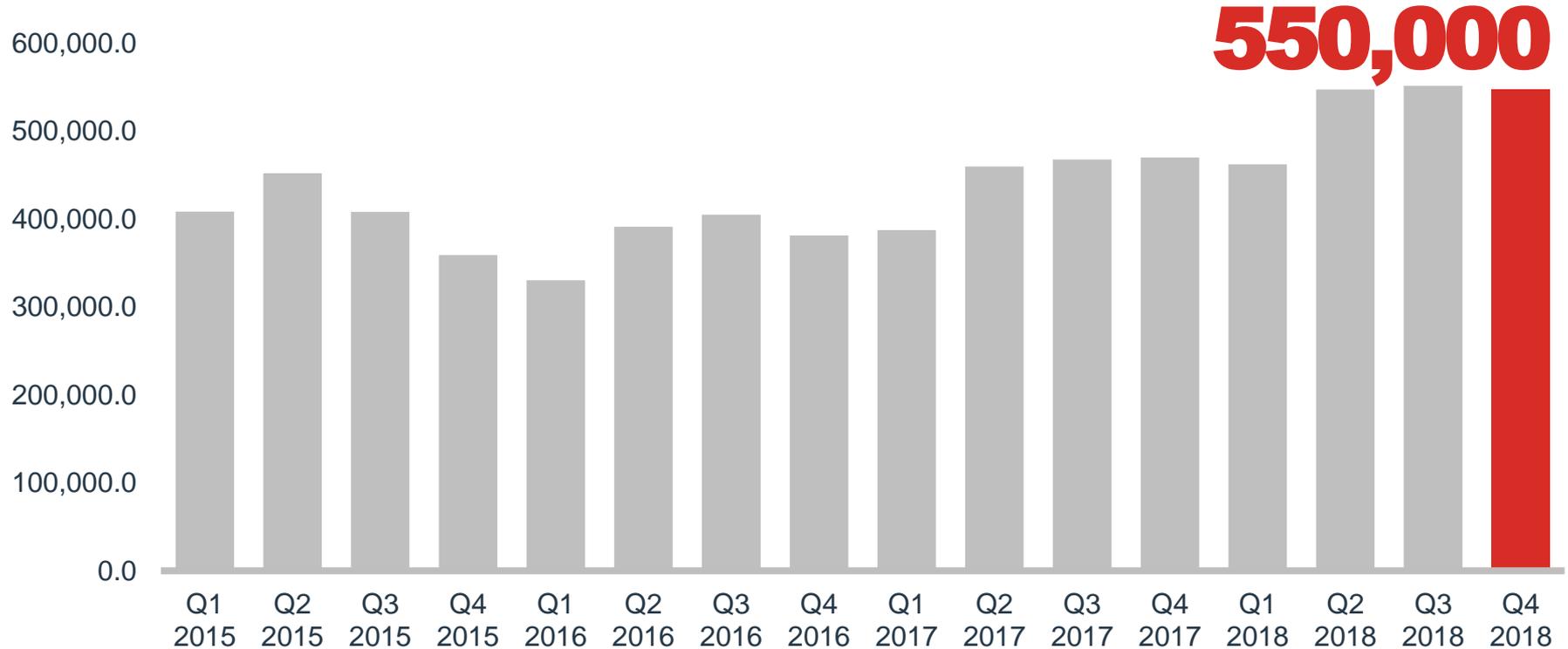


Unemployment rate (%)



There are more than half a million vacant positions in Canada

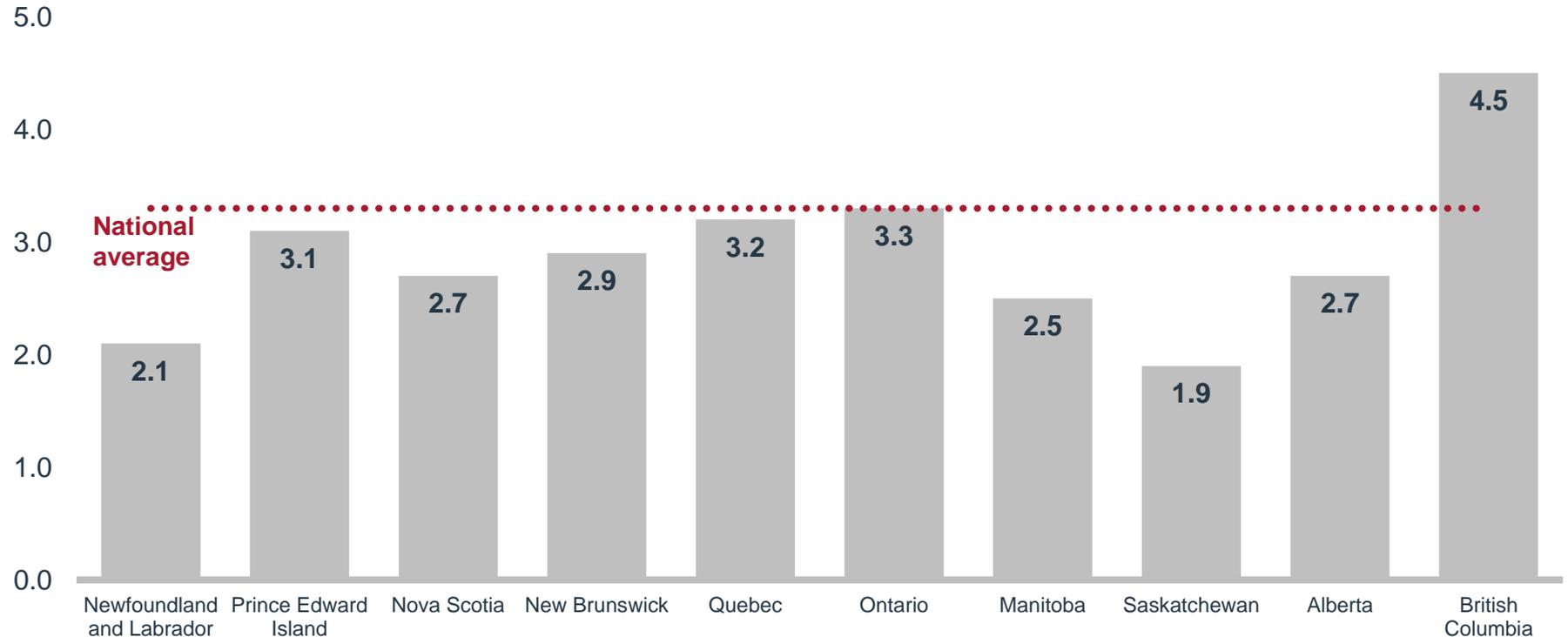
Total number of job vacancies



Labour constraint differs across provinces



The number of job vacancies expressed as a percentage of labour demand (%)



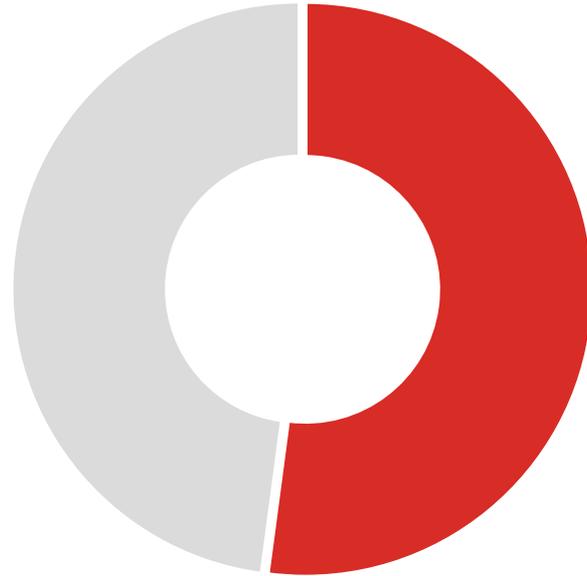
NOTE: Latest data available (Q4-2018)

SOURCE: Statistics Canada



53%

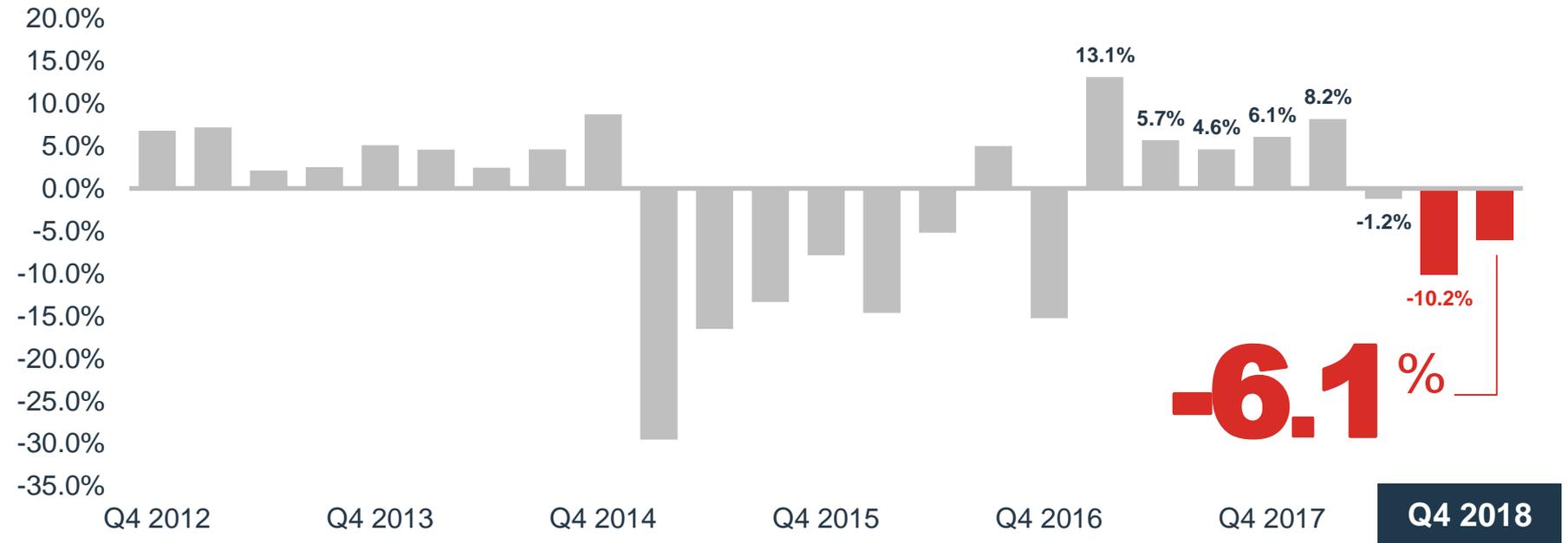
**of SMEs are holding
back investment
because of a labour
shortage**





The impact on investments is already felt

Annualized quarterly growth rate, %



NOTE: Investment include non-residential structures, machinery and equipment and intellectual property.

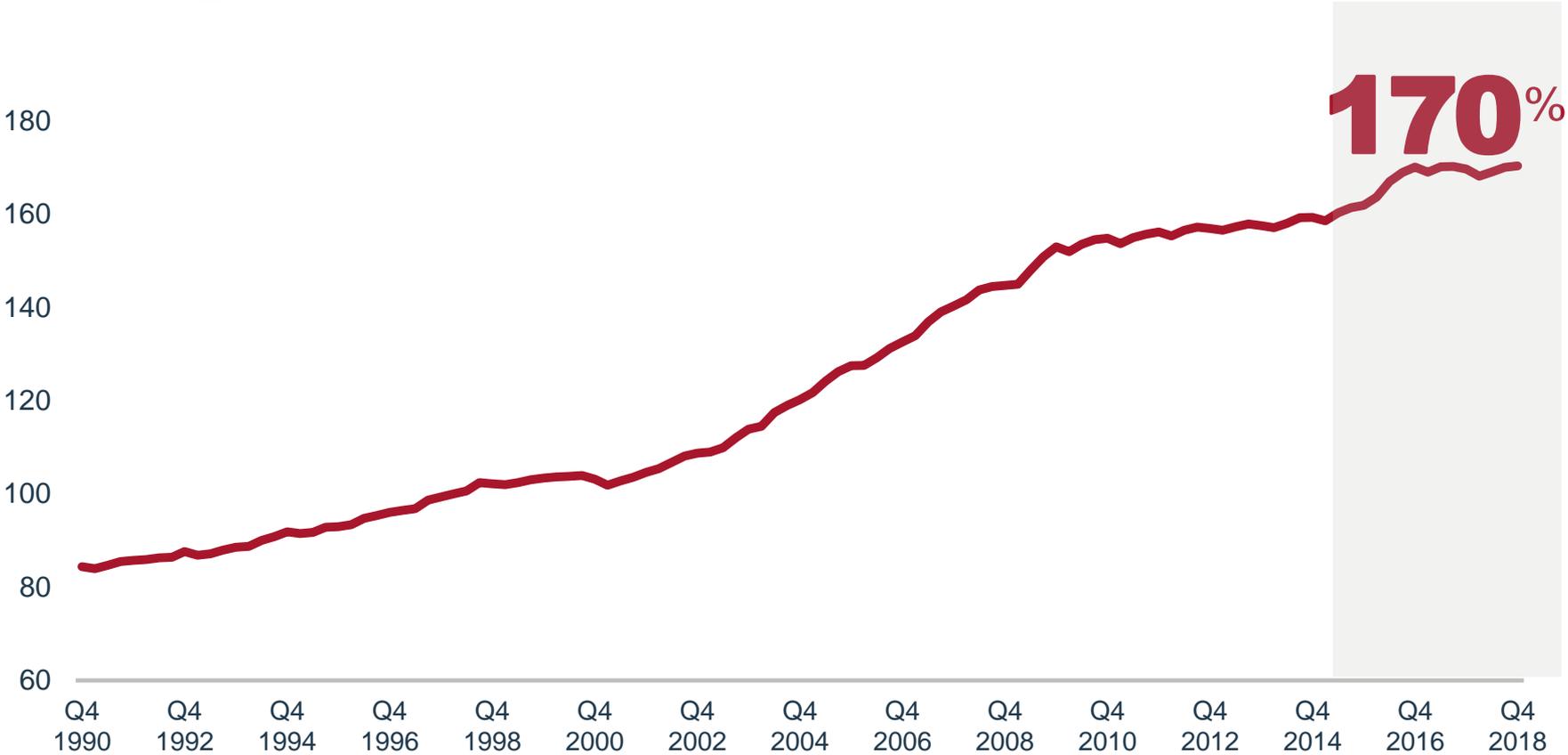
SOURCE: Statistics Canada



03__

**Interest rates
are going up**

Canadian households' debt ratio* is high



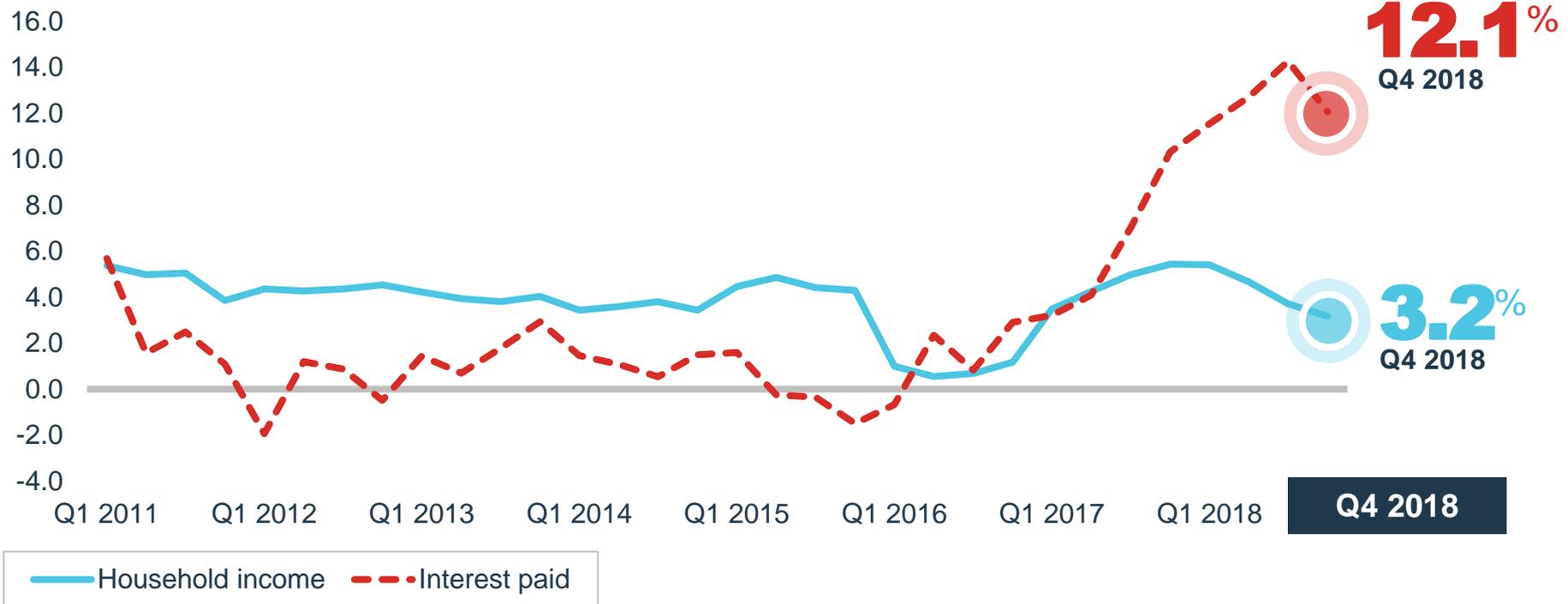
Note: Households and non-profit institutions serving households credit market debt to disposable income

SOURCE: Statistics Canada



Interest payments are rising faster than household income

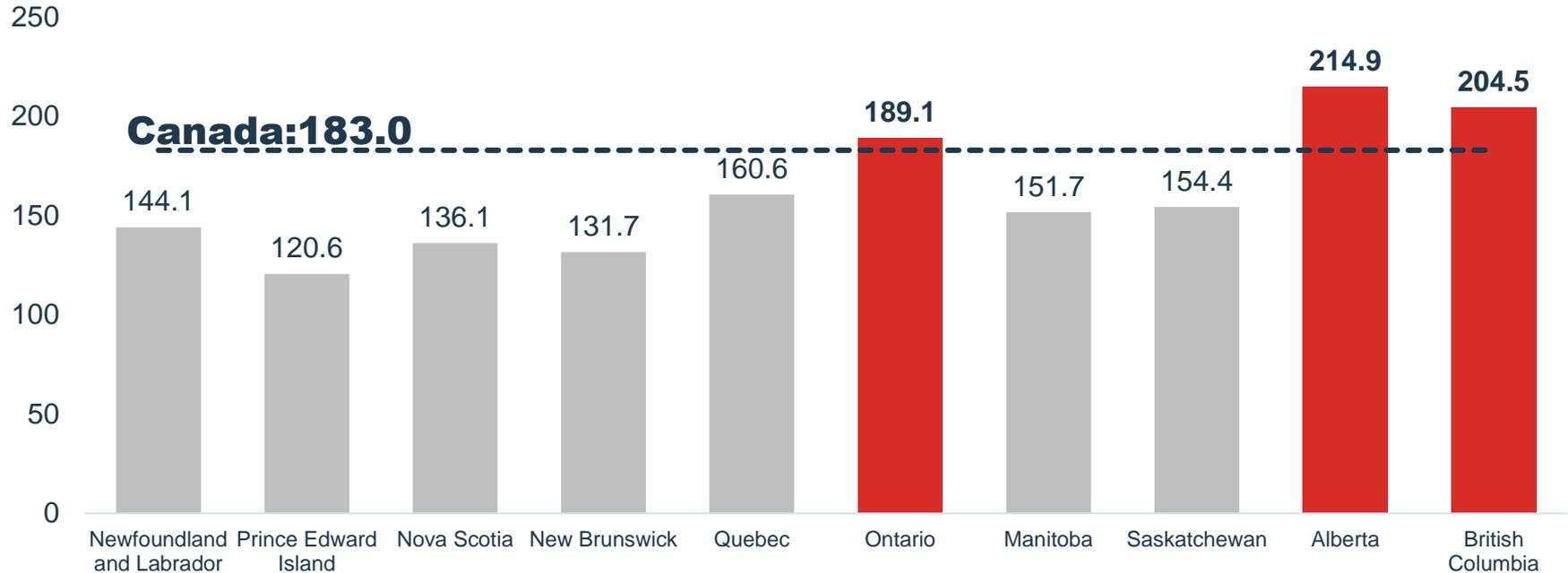
Annual change (%)



Some provinces are more vulnerable to interest rate hikes than others



Debt to disposable income (%)

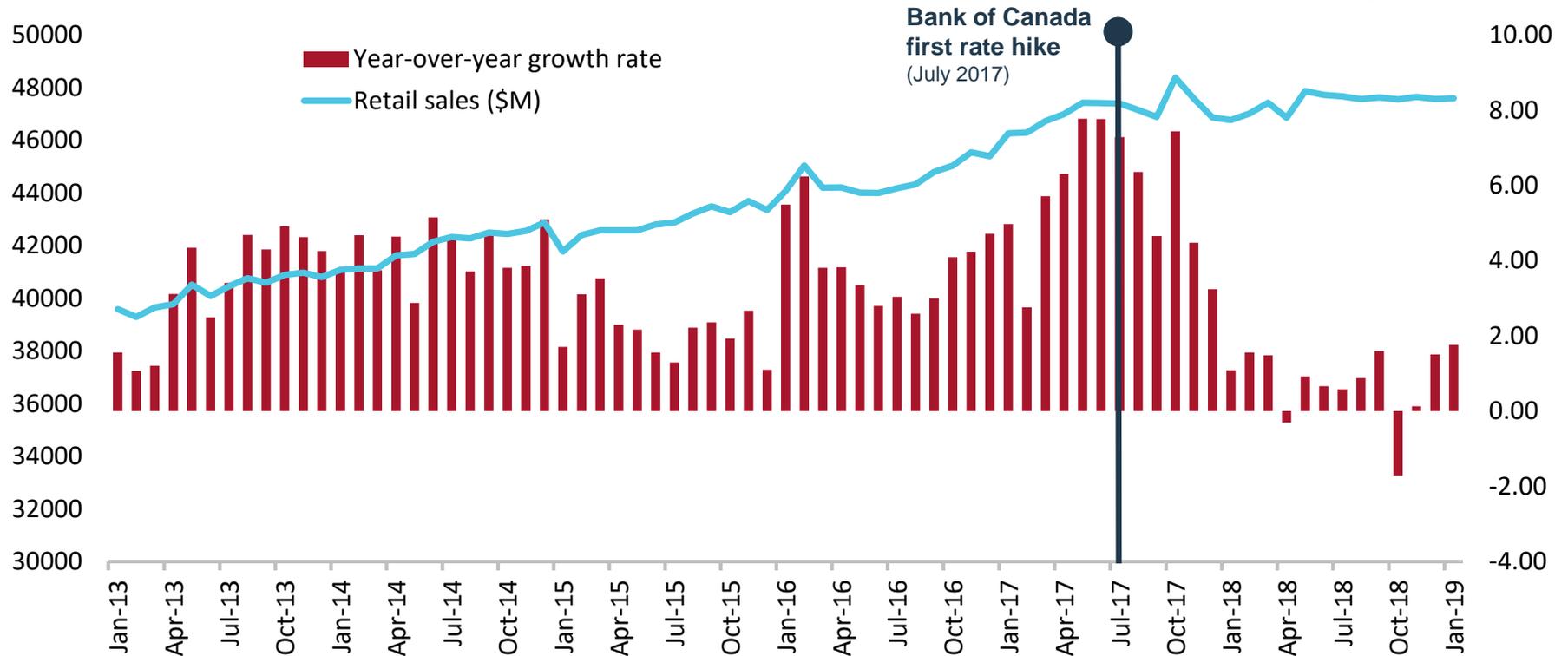


Retail sales are weakening



Total retail sales, seasonally adjusted,
constant 2012 million of dollars (\$M)

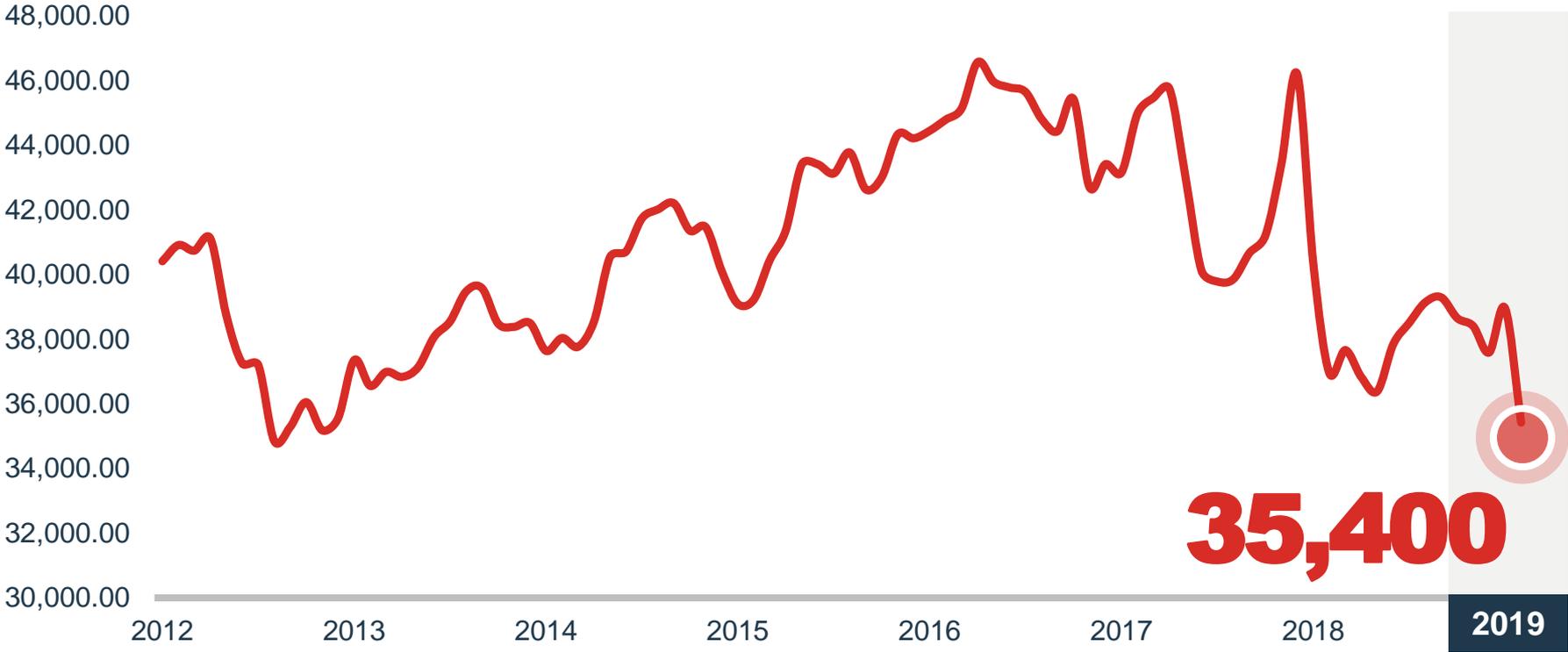
Year-over-year
growth rate (%)



Home sales are falling



Monthly home sales in Canada, seasonally adjusted

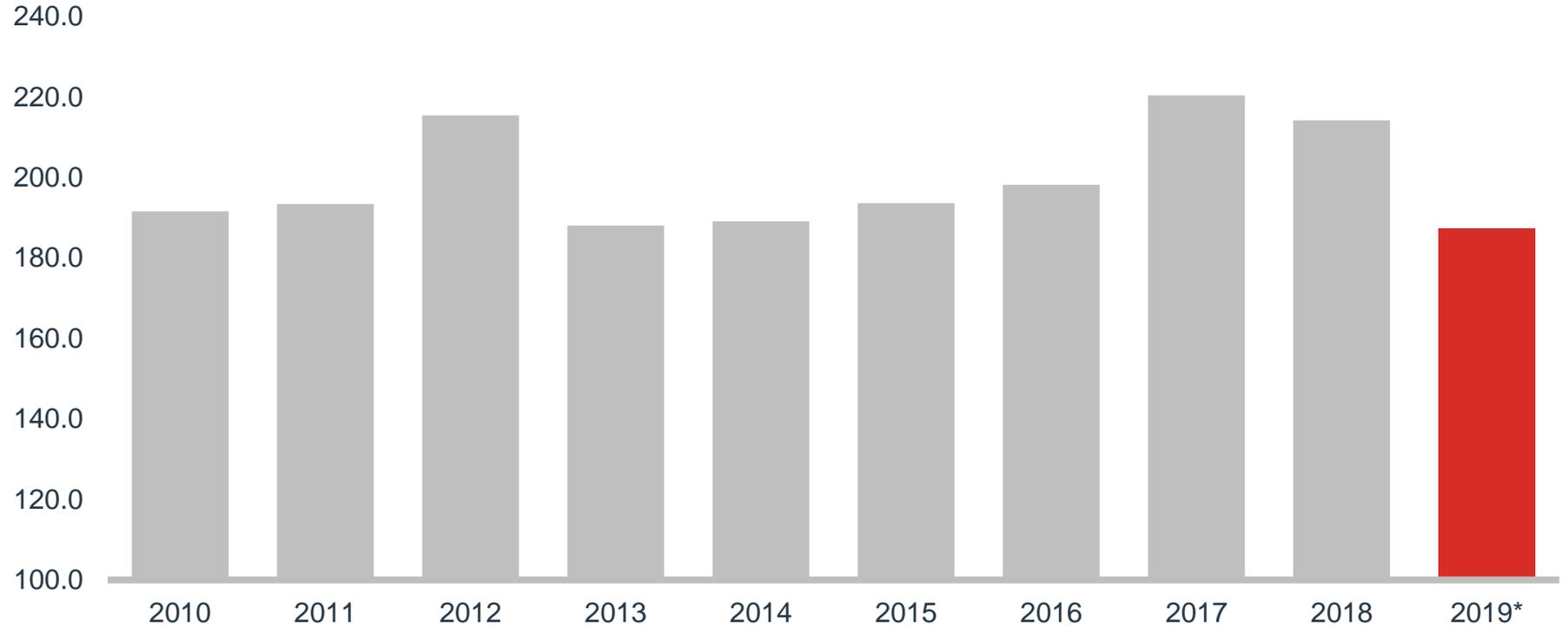


NOTE: Latest data, Feb 2019
SOURCE: Canadian Real Estate Association

Canada's housing starts are softening



Thousands of units(%)



NOTE: *Average of monthly data, Jan to Mar 2019

SOURCE: CHMC & Statistics Canada

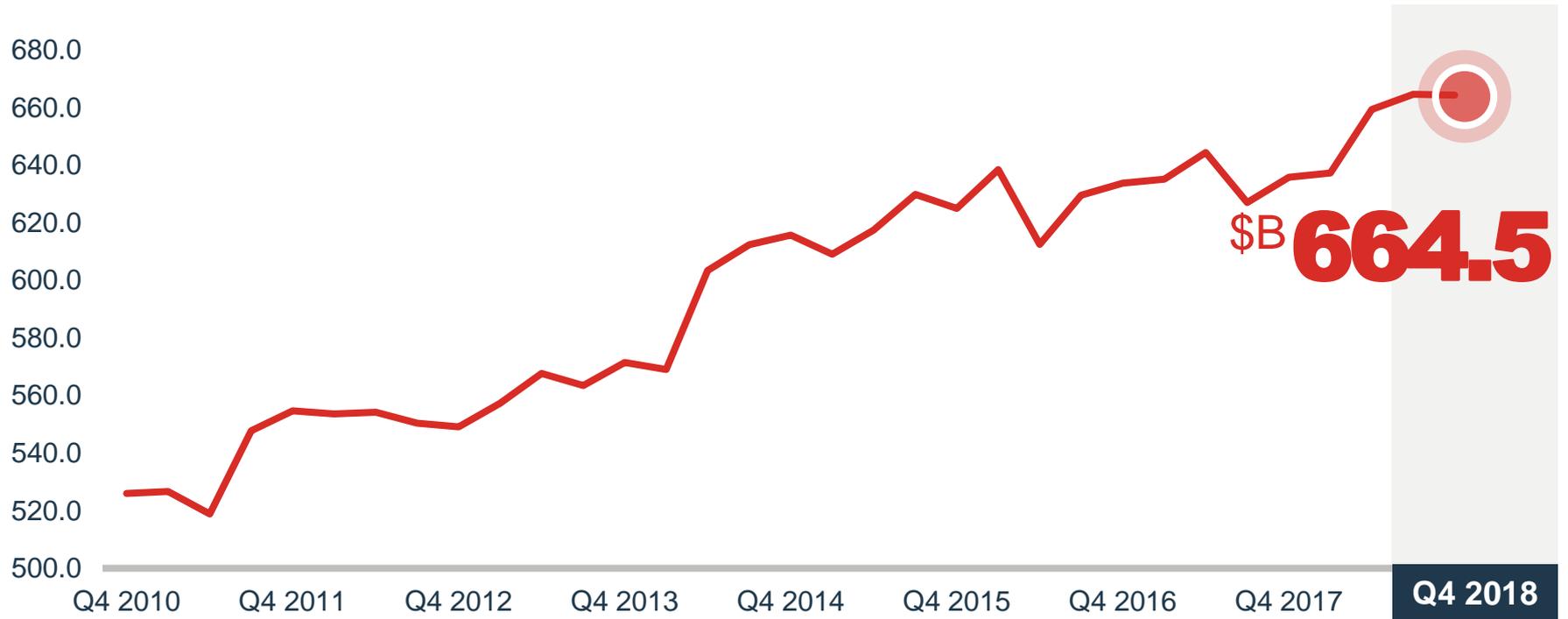


**However, some factors
will support Canada's
growth**



Canadian exports are maintaining their upward trend

Export of goods and services, \$B



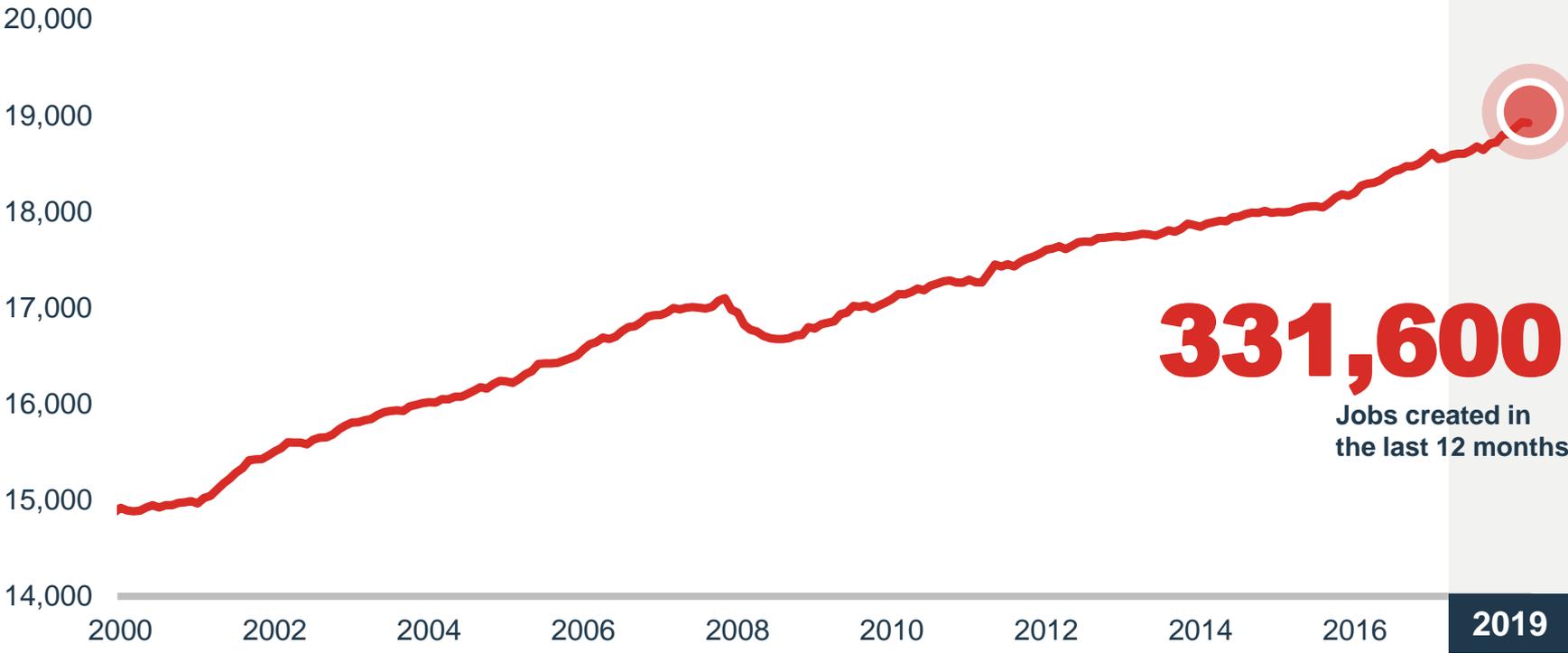
NOTE: Exports of goods and services, real chained \$2012

SOURCE: Statistics Canada

Employment is solid



Thousands of people employed in Canada, seasonally adjusted





**Canada's economy
will continue to grow,
but at a slower pace**



The loonie will remain low

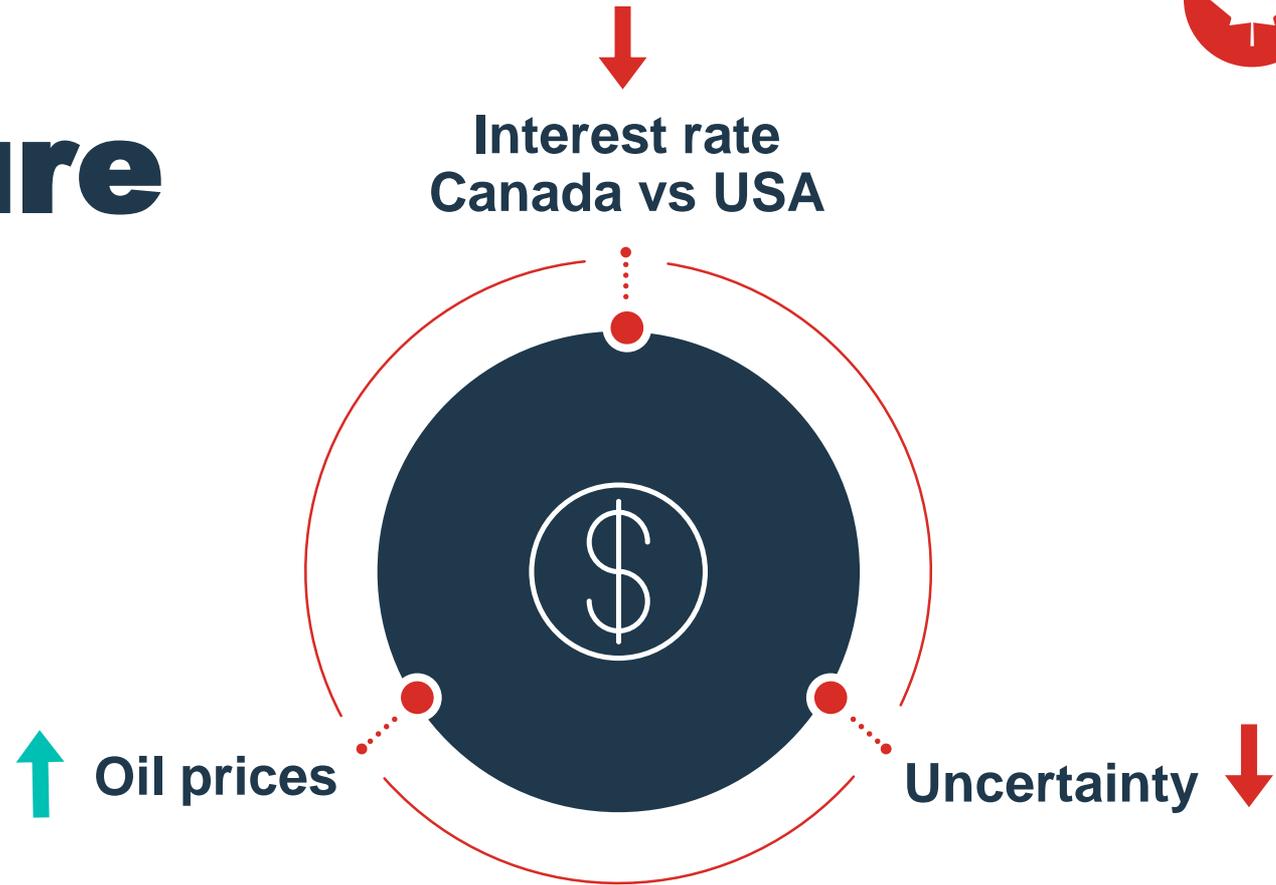
Exchange rate Canada-U.S.



NOTE: Monthly average (\$US) 2008-2018
SOURCE: Bank of Canada



Pressure on the loonie





What it means for entrepreneurs



U.S. economy is on a roll

- Good for firms selling to the U.S.
- New CUSMA agreement to provide stability for Canadian companies

Low Canadian dollar

- Advantageous for exporters

Interest rates still low

- Cost of borrowing remains affordable.



Interest rates are rising

- Consumption will grow at a slower pace, putting pressure on retailers.
- The construction industry will be negatively affected by the slowdown of the housing market.

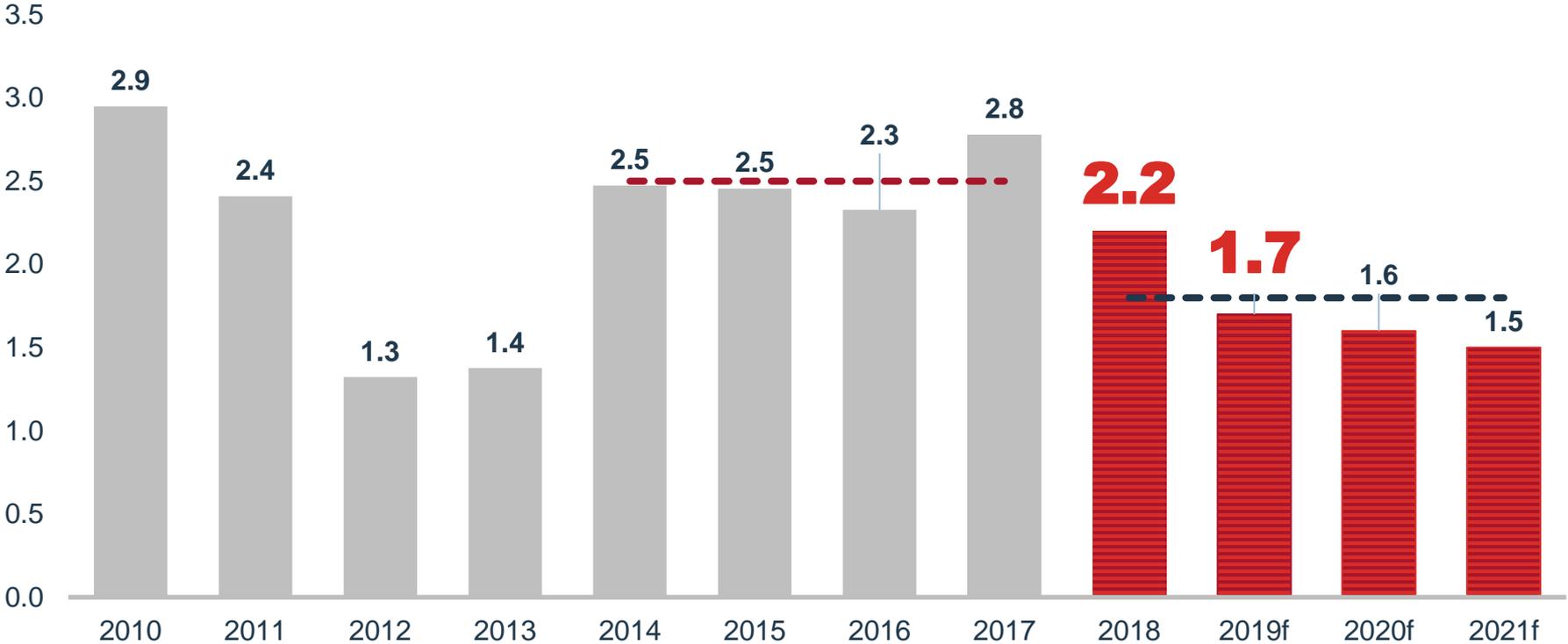
Low commodity prices

- Commodity-dependent Canadian firms will suffer from low prices.

A stylized map of Canada is shown in the background, with the province of Ontario highlighted in a bright red color. The rest of the map is in a dark blue color. The text '03. Ontario economic outlook' is overlaid on the right side of the map.

03.
**Ontario
economic
outlook**

Ontario's economy is entering a more mature period of growth



NOTE: f=forecast

SOURCES: Statistics Canada, average of chartered banks, BDC and Ontario Ministry of Finance forecast (12 April 2019)

Household consumption is slowing down



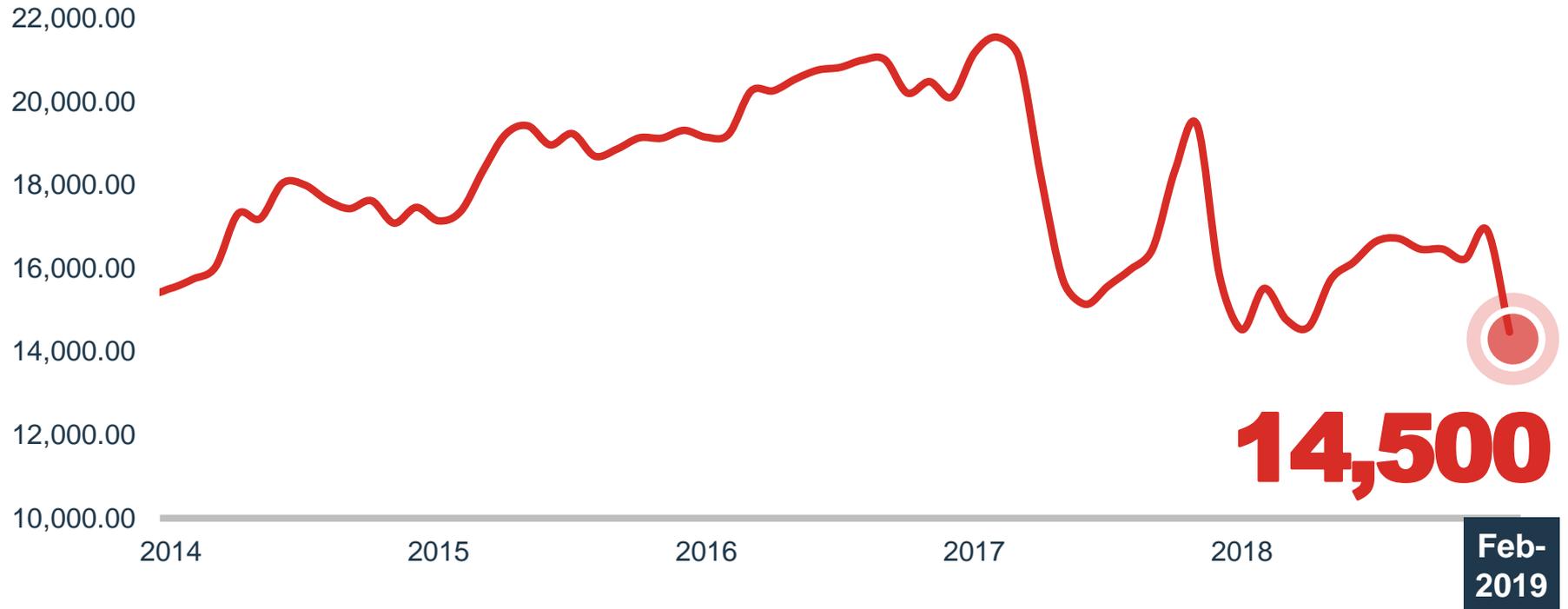
Real household consumption growth, year-over-year (%)



Ontario residential market is struggling



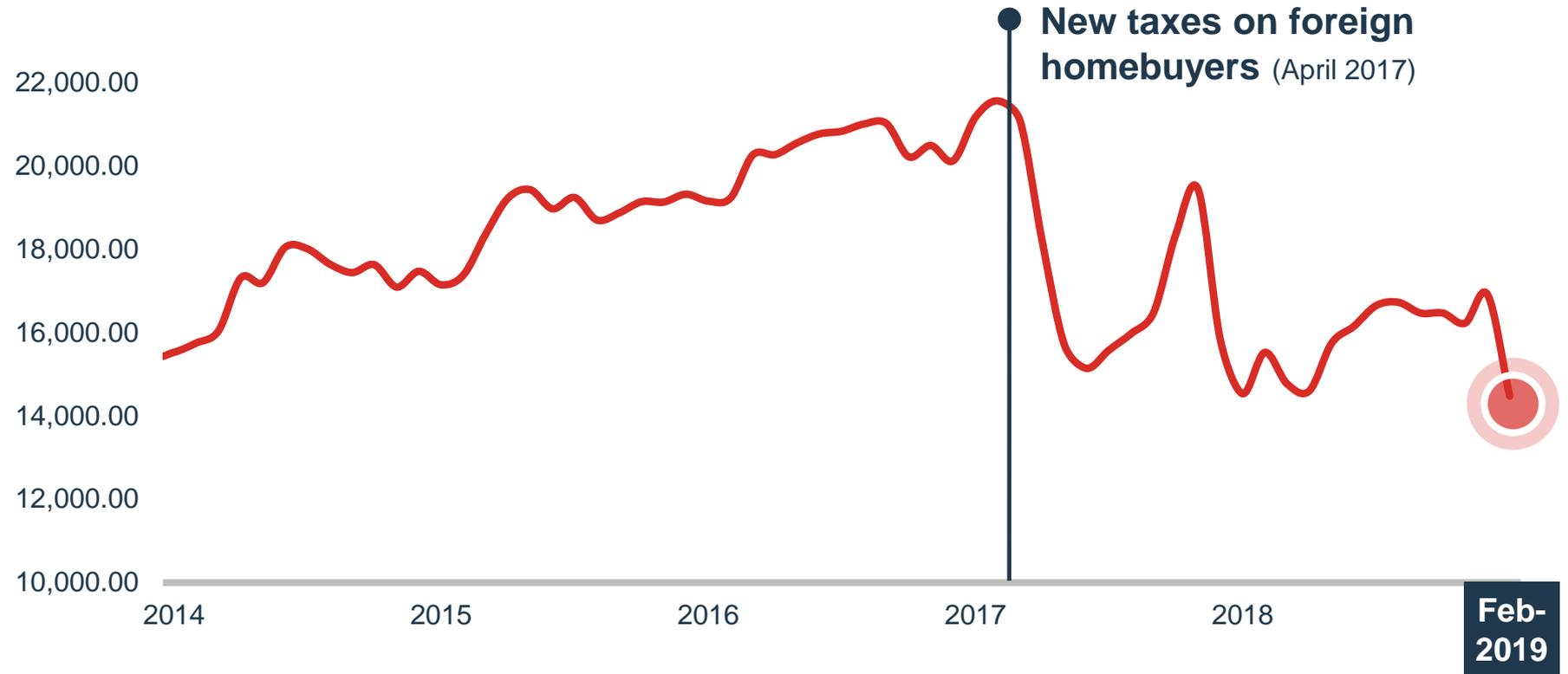
Monthly home sales in Ontario, seasonally adjusted



Ontario residential market is struggling



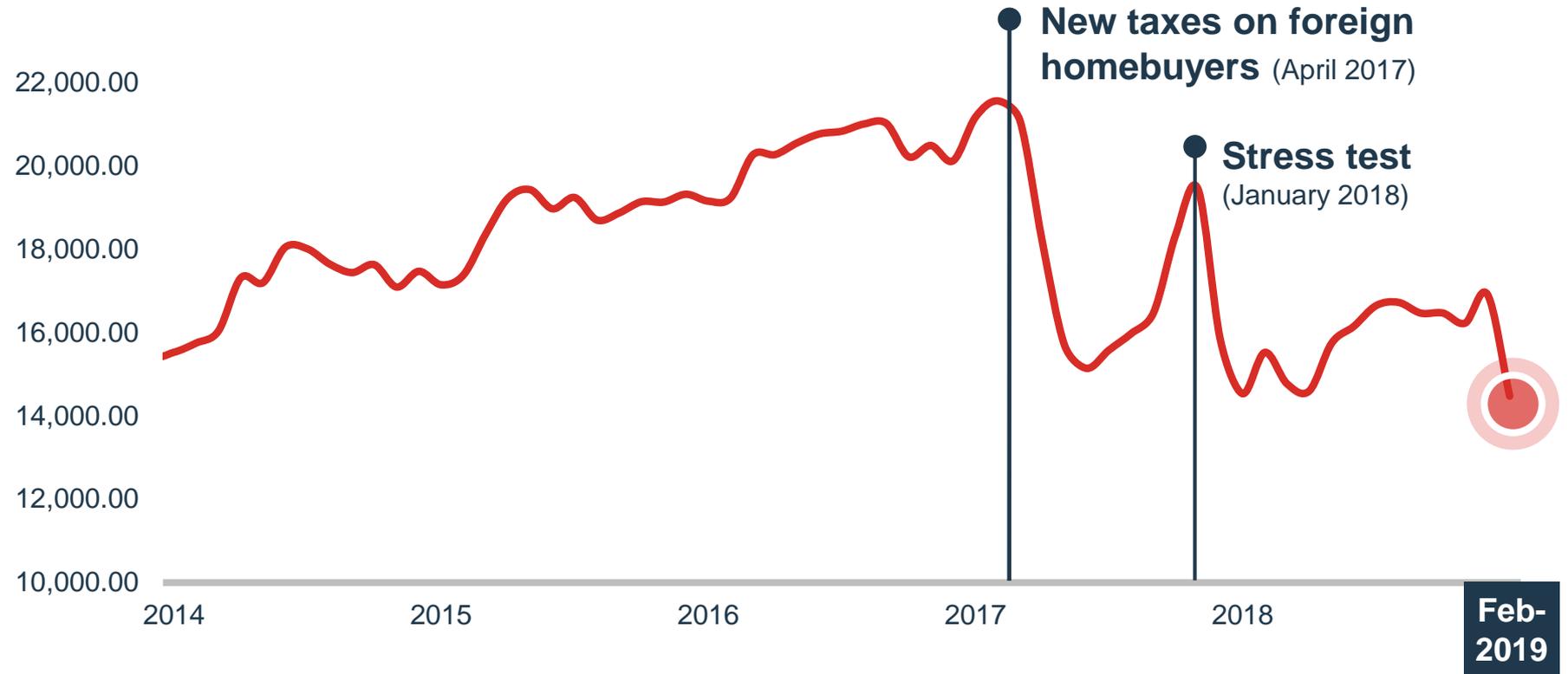
Monthly home sales in Ontario, seasonally adjusted



Ontario residential market is struggling



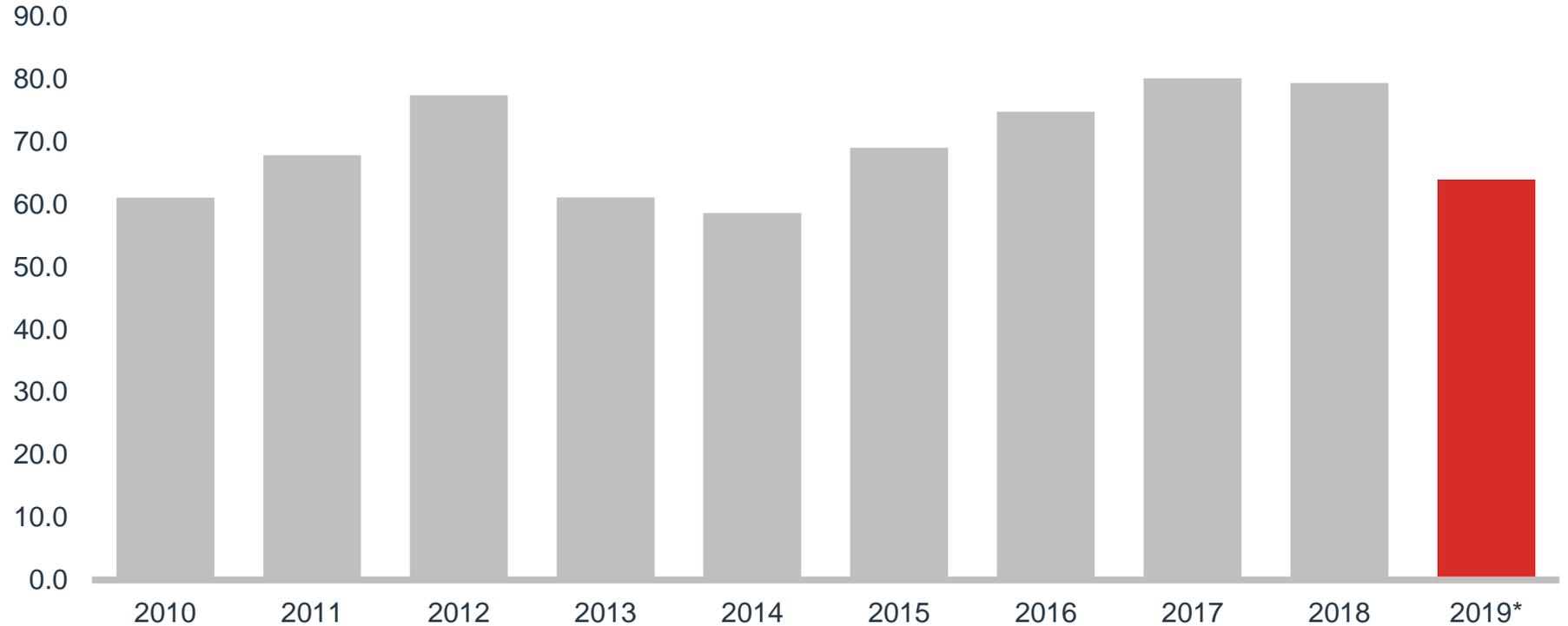
Monthly home sales in Ontario, seasonally adjusted



Ontario's housing starts are softening



Thousands of units(%)



NOTE: Monthly average, *Jan-Mar 2019

SOURCE: CMHC & Statistics Canada

03.

**Three major
economic questions
for 2019**

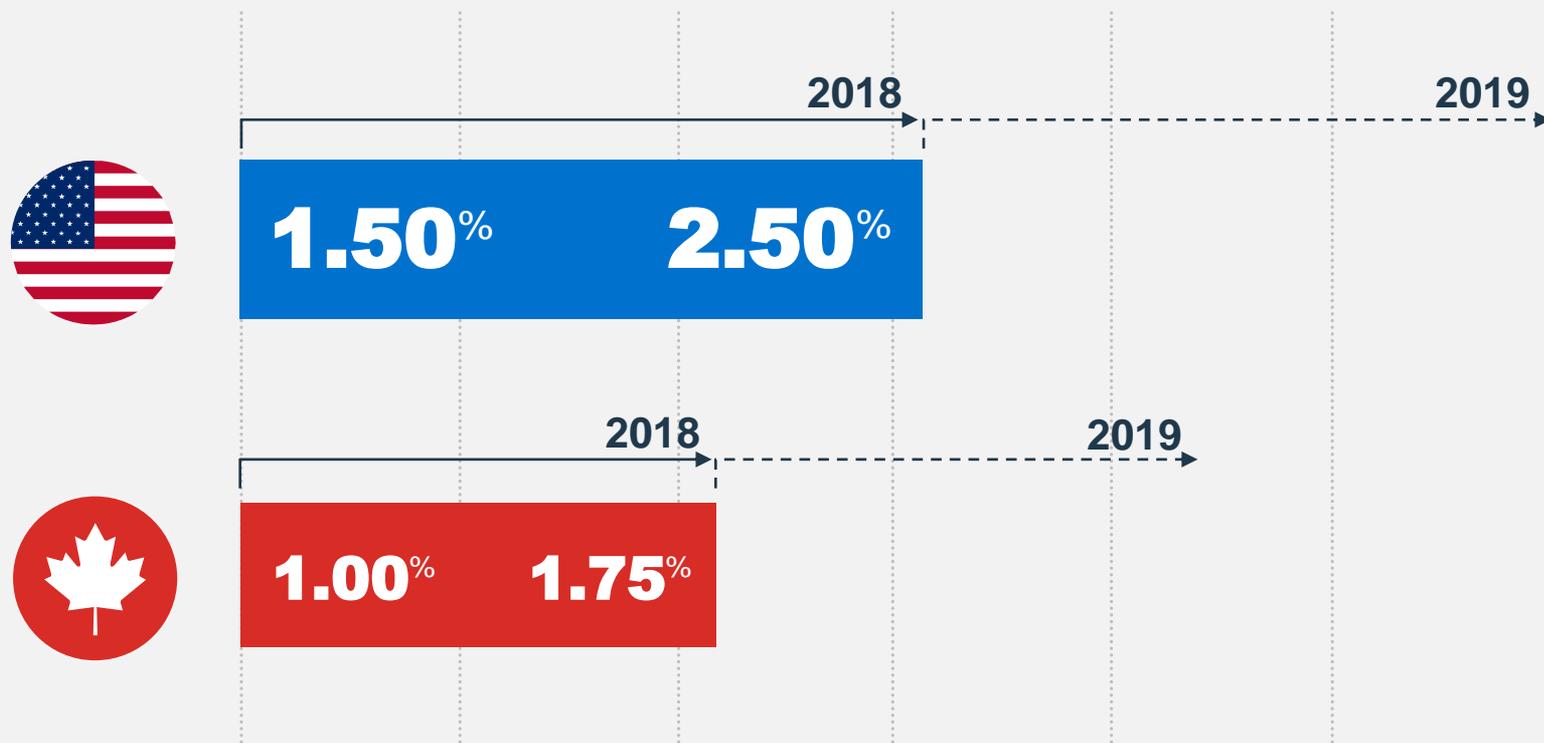


Q1—

**Are interest rates
going to be higher
in 2019?**



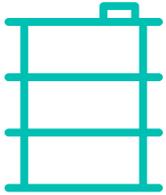
Policy rates in Canada and the United States





3 factors

on Bank of Canada's radar



**Crude oil
prices**



**U.S. – China
trade relations**



**Residential
Market**

**Are interest rates going
to be higher in 2019?**

Probably not!

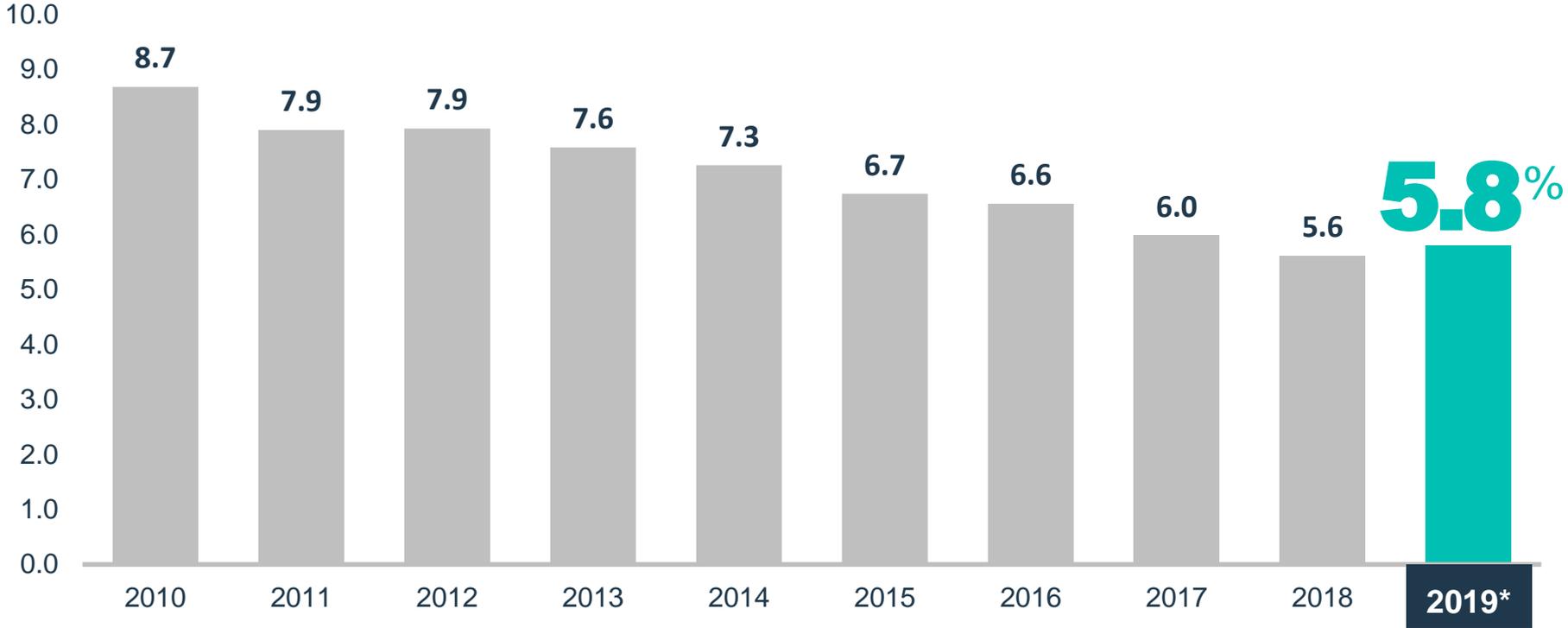


Q2—

**When will
the labour shortage
come to an end?**



Unemployment rate is low



NOTE: Average of monthly data, *Jan to Mar 2019

SOURCE: Statistics Canada

Share of the population aged **65 years** and over in Ontario

13%



2000

17%



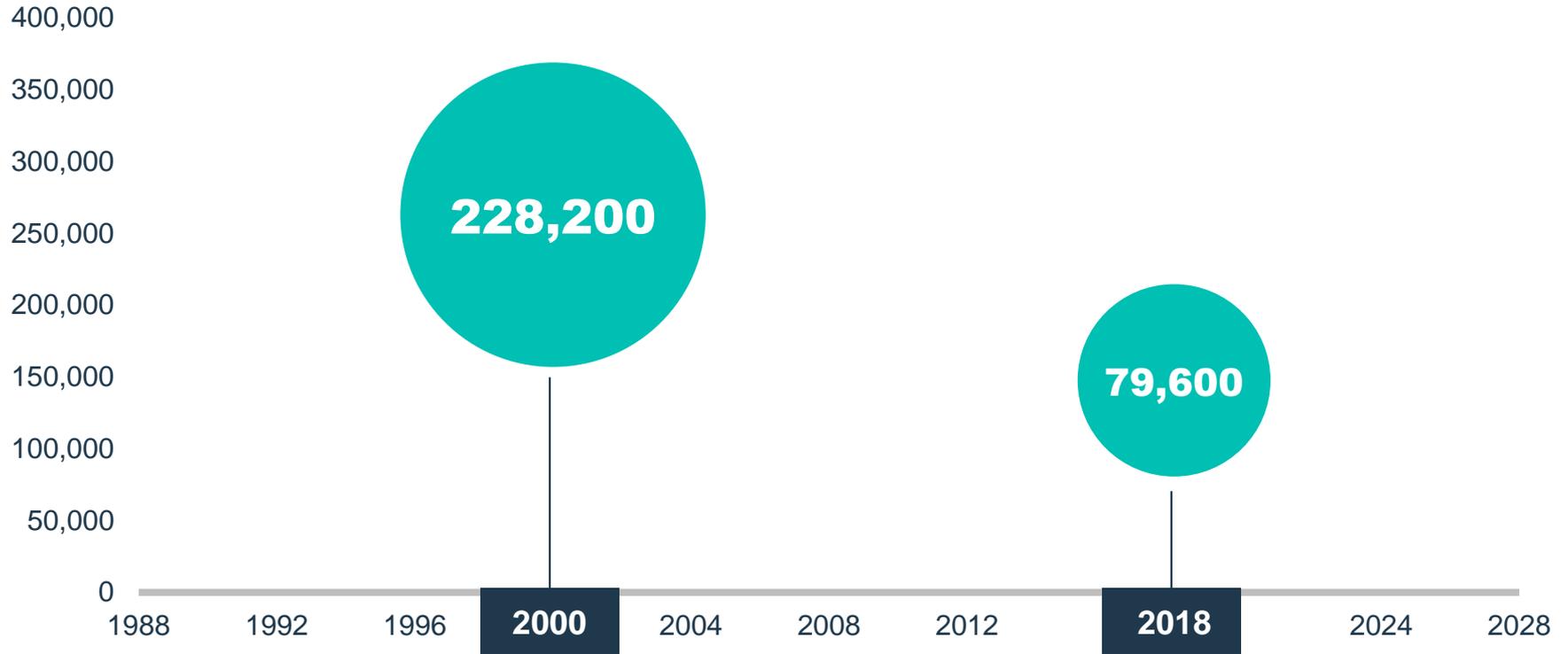
2018

24%



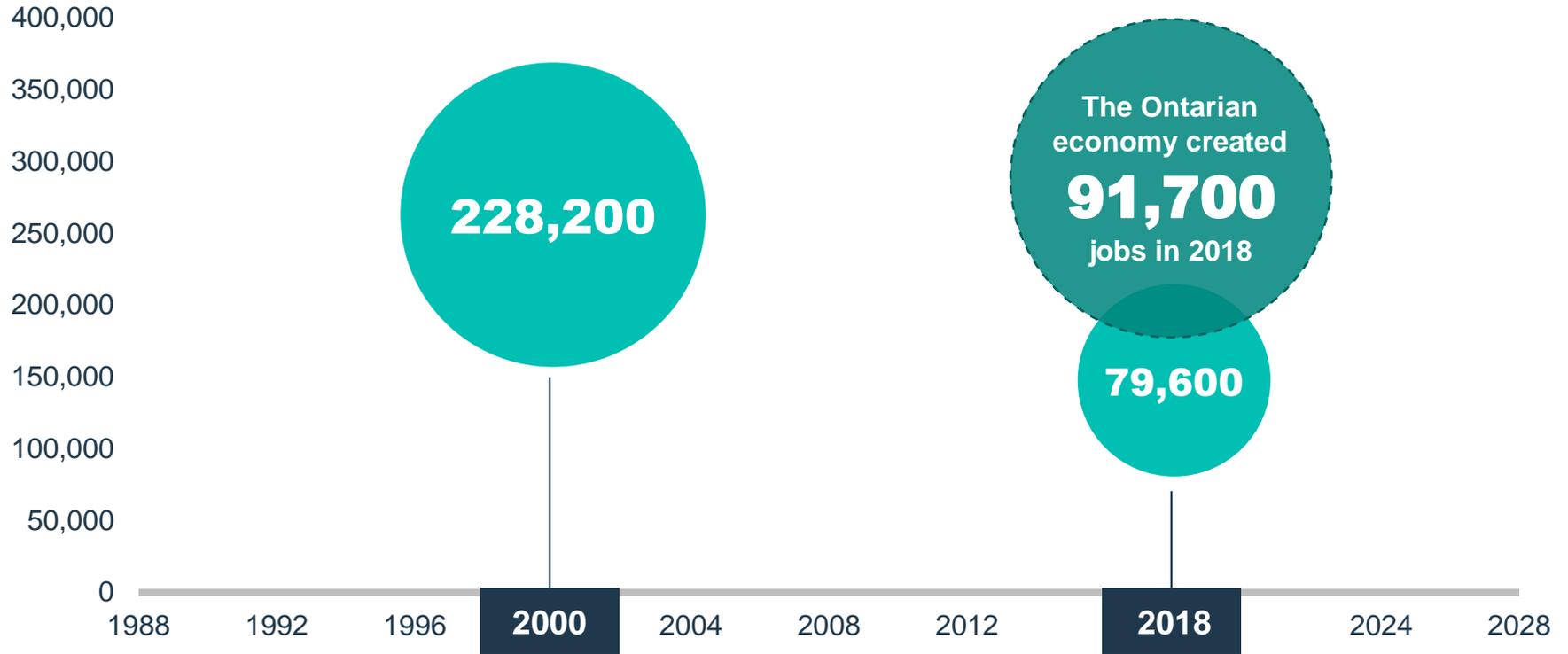
2030f

Less people are entering the job market

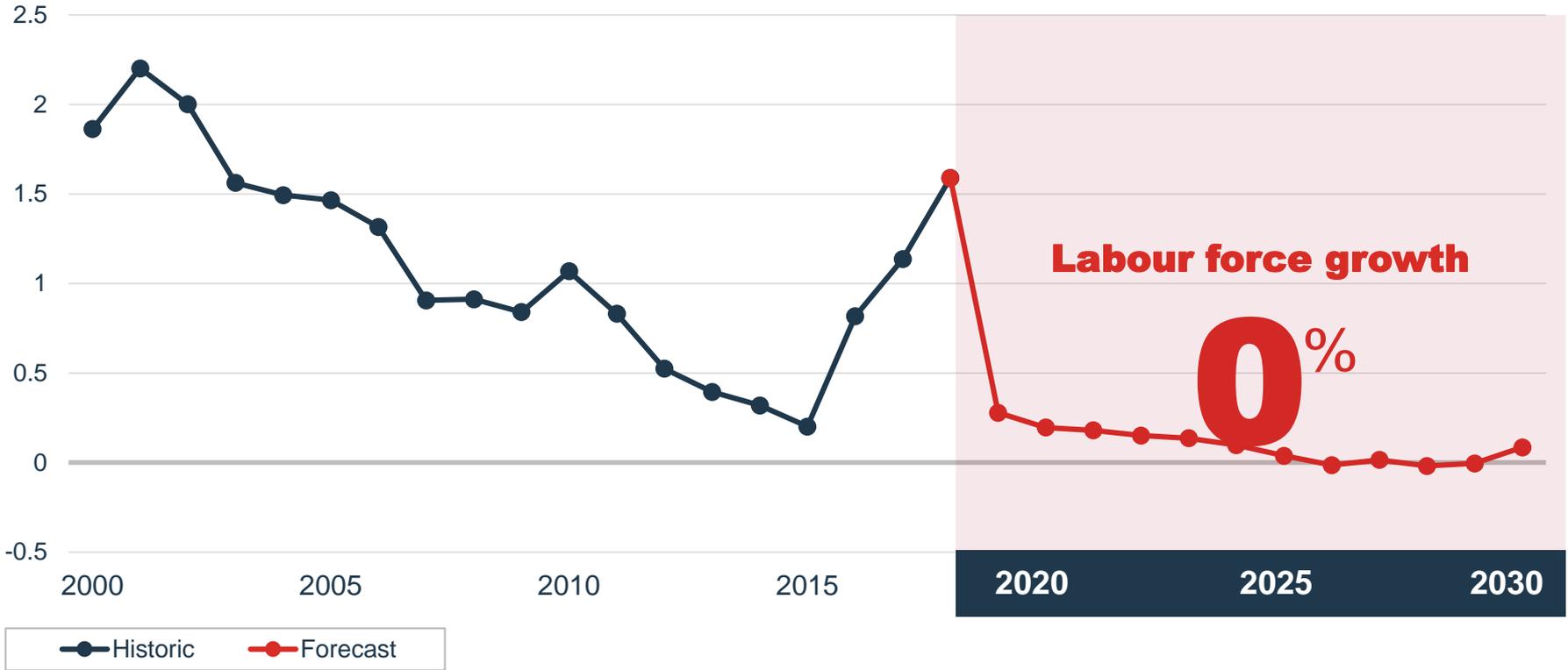




Too many jobs, not enough workers



Ontario's labour force growth rate will remain low



SOURCE: Statistics Canada, BDC calculations



3

strategies to mitigate the labour shortage

- ① Develop an employee value proposition
- ② Target underused segments of the labour force
- ③ Use technology to automate operations

**When will the labour shortage
come to an end?**

**No relief in sight
for at least 10 years.**



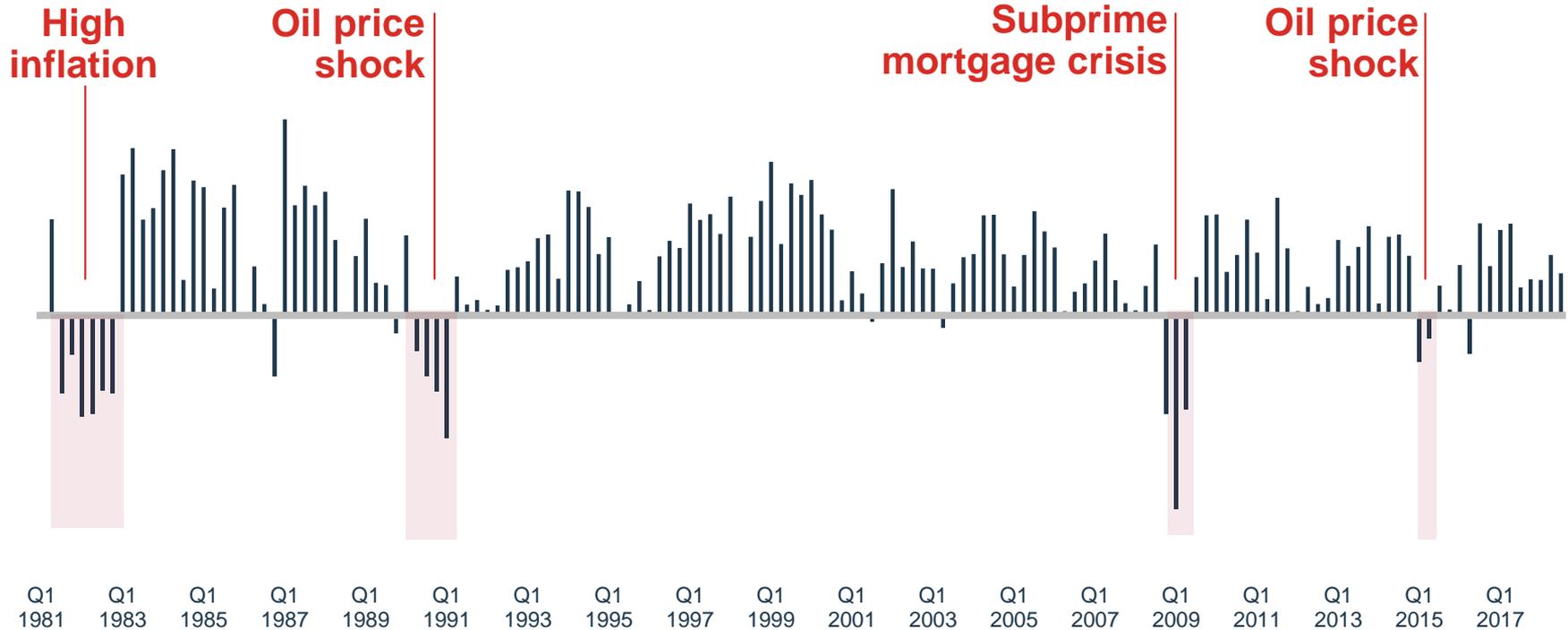
Q3 —

**When will the
next recession hit?**

Recessions don't just happen – they require an unanticipated shock



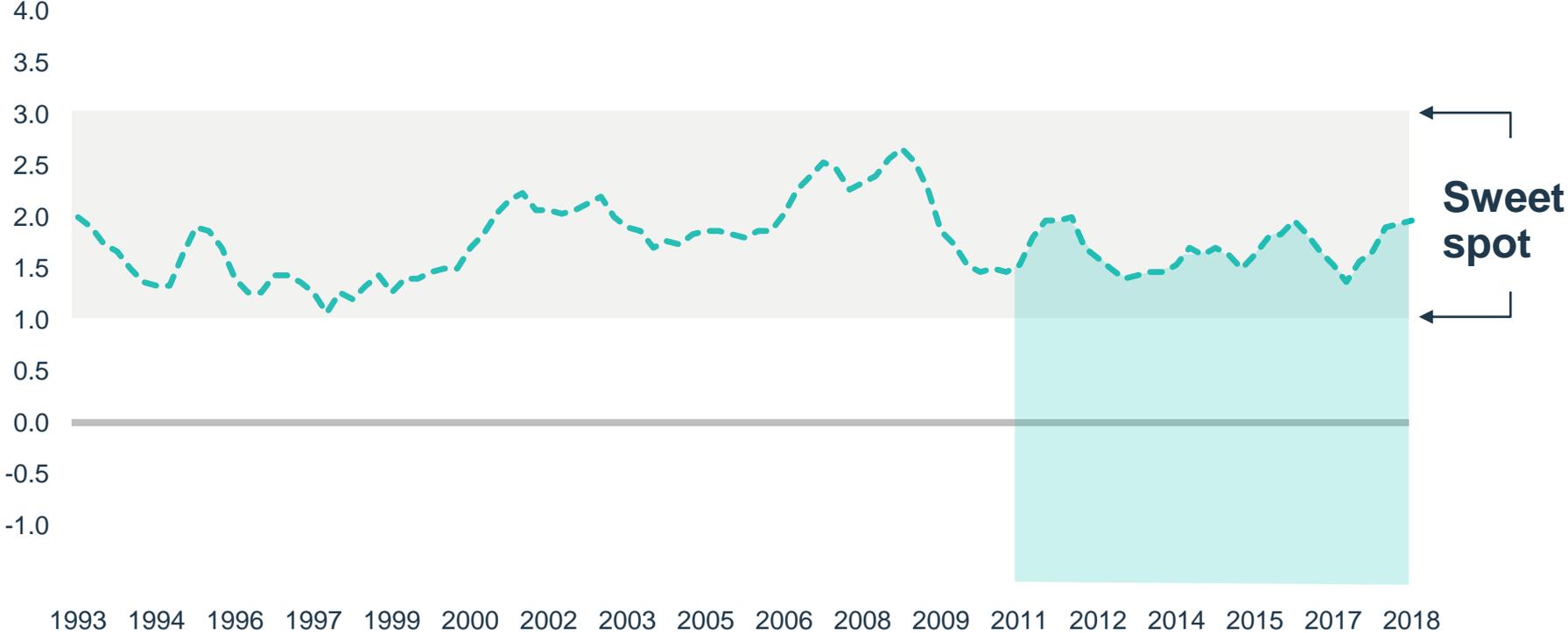
Canada's GDP quarterly growth (%)



Inflation remains around target



Year-over-year percentage change (%)



--- Average of core inflation measures

There is no foreseeable shock in the economy



Household debt

Canadian household debt ratio is high

Solid employment and low inflation should partly off-set the impact of rising interest rates

Oil prices

Oil prices are slowly improving but challenges in the sector remains

The proportion of investment of the oil and gas sector in the Canadian economy is half of what it was in 2014.

U.S. and China trade dispute

Negotiations have resumed and are well underway.

When will the next recession hit?

**Growth is slowing down,
but there are no signs
of recession in sight.**

Conclusion



Canada's economy is still growing, but at a slower pace.

Interest rates have risen, but remain historically low

Consumption and residential market are slowing down amid rising interest rates

Labour shortage = No.1 issue, limiting business growth.

Thank you.

BDC 

BDC_ca 

BDC 

Pierre Cl  roux,
Vice President Research and
Chief Economist, BDC
 @PierreCleroux

bdc.ca | 1-888-INFO-BDC