CPA CHARTERED PROFESSIONAL ACCOUNTANTS ONTARIO

ECONOMIC CLUB OF CANADA

CPA Ontario Executive Summary Economic Outlook 2018

On January 5, CPA Ontario was proud to present Economic Outlook 2018. With approximately 700 business leaders in attendance, Canada's top economic forecasters shared insights and predictions for 2018. CPA Ontario President and CEO Carol Wilding opened the Economic Outlook by setting context and providing an overview of 2017. Ms. Wilding was also pleased to welcome attendees and introduce moderator Pattie Lovett-Reid, CTV's Chief Financial Commentator.

In the wake of 2017, a year marked by the tumultuous arrival of a new U.S President and instability in countries around the world, Canadians are relieved that our country has managed to sustain solid growth bolstered by a strong American economy.

But, as we enter 2018, storm clouds may be rolling in. International trade and globalization are under assault by protectionists. The U.S. pulled out of the Trans Pacific Partnership (TPP) and Canada has yet to ratify the new TPP deal. Economists are calling for Canada to diversify. In support of this, it looks like our government will continue exploratory trade talks with China in 2018 but there is no sign of a free trade agreement between our two countries any time soon. Hovering over all of this is the disruption of the North American Free Trade Agreement (NAFTA), which would carry serious economic implications for its signatories: Canada, Mexico and the United States. Add to the mix the very real and constant changes in the business environment, and it's easy to see that 2018 will bring a fascinating year of change, opportunity and challenge.

With this context, the Economic Club of Canada and CPA Ontario were pleased to host business leaders and hear from Canada's big five banks chief economists on the topics of our economy, prospects for business in the U.S. and around the globe, with a special focus on capital markets. Our chief economists did not disappoint - they provided keen insights and solid data regarding the upcoming year.

What's next for 2018?

A summary of thoughts from this year's Economic Outlook.

JEAN-FRANÇOIS PERRAULT
Chief Economist & Senior Vice-President,
Scotiabank

Global Outlook

"This time last year, we were far less optimistic than we probably should have been. We were focused on risks … a range of things that scared a lot of us. As it turned out, 2017 was really, really good year from a global perspective."

- Strong growth in Europe and the global economy as a whole last year.
- Negative news in 2017 did not affect household or business confidence as much as we thought it would.
- In 2018, the factors we saw driving global growth last year are very much in play. We foresee global growth in the 3.5% to 4% range, possibly higher.
- Inflation remains low but demand remains strong.
- The risks: trade protectionism, including threats to NAFTA; geopolitical concerns, especially North Korea. These could have significant effects on recovery.

CRAIG WRIGHT
Chief Economist & Senior Vice-President,
RBC

U.S. Outlook

"From the Canadian perspective there is one risk that trumps them all and that's the US. On that note, we thought we'd call our U.S. forecast 'Fire and Fury'."

- Transition from deflation concerns to inflation concerns possible.
- Three consecutive years of growth has pushed the US economy into excess demand and it's operating well beyond its capacity.
- Expect 2.6% U.S. growth in 2018 with labour markets tightening (4% unemployment or lower).
- On the fiscal policy front, we foresee 0.7% lift over the next two years from the latest fiscal policy package.
- We're going in the wrong direction when the US is getting more competitive and we are not (raising personal and carbon taxes). When you consider possible disruption from NAFTA, Canada must do better in terms of competitiveness.

DOUGLAS PORTER
Chief Economist & Managing Director,
BMO Financial Group

Canadian Outlook

"I think there is a real chance that we may be underestimating just how strong underlying growth is in 2018. Longer term, I am worried about the demographics of basically the Western world and the impacts on the economy."

- Surprisingly strong year for Canada: The Canadian economy added over 400,000 jobs in 2017 with 5.7% unemployment in December – the lowest total since the 1970s.
- Last year, we thought growth would be 2.2% but it was closer to 3%.
- We predict 2 per cent growth in 2017 with Bank of Canada rate hitting 1.75%, the highest rate in more than a decade.
- Three big risks: fate of NAFTA; housing market softening, and; competitive challenge with US aggressively cutting taxes while Canada moves in the opposite direction.
- If NAFTA is terminated, it would lead to a loss of economic output in Canada of about 1% and higher consumer prices due to a lower Canadian dollar.

AVERY SHENFELD
Chief Economist & Managing Director,
CIBC Capital Markets

Capital Markets

"If you actually look at growth in the US over the past several years, the variation in year-to-year growth has been remarkably low ... Our forecasting job has been pretty easy because, if you just pick the number two, you've done a pretty good job for the U.S. every year."

- U.S. Equities should see a good year but the good news is largely priced in already. Equities should outperform bonds. By the end of the year, total returns should be in the high single digits – 7 or 8 per cent.
- Doesn't look to be the most exciting year for Canadian equities, as the price of oil and NAFTA uncertainty makes it unlikely that the TSX outperforms U.S markets.
- U.S. fiscal policy points to higher interest rates, partly to counter fiscal stimulus caused by the tax relief package.
- New mortgage rules, NAFTA uncertainty and no major tax cuts make it likely that Canada's interest rates will not rise as high as U.S. Fifty basis points in Canada versus 75 in the U.S.
- The Canadian dollar likely needs to depreciate about 5 cents from where it is now for the good of the economy. May get it if Bank of Canada takes a softer hand, NAFTA talks break down or the price of oil eases.
- Short term, Bitcoin could go up or down but at some point the bubble will come to an unhappy end.

BEATA CARANCI
Chief Economist & Senior Vice President,
TD Bank Group

Overview

"The pickup and investment that we're seeing to the point that we may be underestimating a turn in productivity growth happening, which we've all been waiting for as economists."

- We have had an incredible run in the markets and that has led to some of the more robust forecasts in many years for 2018.
- There is an incredible amount of risk appetite with volatility very low in the stock markets.
- Canadian GDP growth in 2018 forecasted to be between 1.9% and 2.4%.
- Fantastic job numbers mean we have faith consumers will continue to spend if they continue to have money in their hands. We may need some rate hikes just to temper that enthusiasm.
- Last year saw a pickup in investment spending generally, especially in the U.S. and even before business saw the tax reform package.

CAROL WILDING, FCPA, FCA
President & CEO
CPA Ontario

CPA Outlook

"At CPA Ontario, we're launching a White Paper series as part of our thought leadership initiative that will tackle the implications of cryptocurrencies, cannabis legalization, and other transformative developments from a unique business strategy and regulatory perspective."

- Canada's corporate and personal tax rates, long lower than that of the U.S., provided a competitive advantage that is now under threat due to lower U.S. rates.
- There is no question that, after 30 years, our free trade agreement with the US was in need of an update. What remains to be seen is whether we are able to improve it, or be forced to walk away - two potential outcomes that have vastly different implications for our economy.