CPA Ontario and the Economic Club of Canada Executive Summary Economic Outlook 2017

On January 4, 2017, CPA Ontario was proud to be the Presenting Sponsor of the Economic Club of Canada's Economic Outlook Breakfast 2017. More than 900 business leaders attended the event where Canada's top economic forecasters provided their insights and predictions for the upcoming year. CPA Ontario President and CEO, Carol Wilding, opened the event welcoming attendees and moderator Frances Horodelski, a markets expert and former BNN anchor.

A rapt audience listened as the panellists laid out their views on what 2017 holds for the Canadian, U.S. and global economies and markets. It was a sobering but relatively positive message as, while we continue to live in a world of lower economic growth and increasing disruption, growth is anticipated at home and abroad.

The Canadian economy will be vulnerable to sudden shocks, as the difference between slow growth and either no growth or even recession is smaller than ever. As Canada learned in 2016, sliding commodity prices and a declining dollar can have a "double-whammy" effect that affects almost every other sector across a country. Other countries learned that unexpected surprises can shake the status quo, as was the case with Brexit in Europe and the unexpected victory of President-elect Donald Trump in the U.S.

What's next for 2017?

A summary of some thoughts put forward by our learned panel is below.

JEAN-FRANÇOIS PERRAULT
Senior Vice President & Chief Economist
Scotiabank

Global outlook

"Last year, the global economy did quite a bit better than what we thought it was going to do earlier (in 2016). By and large, in most parts of the world, economic activity is significantly stronger than we thought."

- For 2017 and going forward, the key issue for the global economy is going to be what's going on in the U.S.
- Looking at headlines, things in the news can look gloomier than they actually are.
- Despite challenges like the Italian banking crisis, in Europe manufacturing, car sales and retail are strong.
- For Europe, we see a recovery at the end of the year, if not a strong one.
- China is another story where it's easy to scare yourself but the reality is growth is strong and the economy is doing well.
- Latin America is dependent on U.S. and Brazil, the latter of which has turned the corner and should do better this year.
- The Mexican economy is adjusting; there are concerns about what's happening in U.S. regarding tariffs and NAFTA but it's doing reasonably well.

CRAIG WRIGHT
Senior Vice President & Chief Economist
RBC Royal Bank

U.S. outlook

"The stimulus Trump has talked about – personal tax cuts of $250 billion, corporate tax cuts of $250 billion and of infrastructure spending of $100 billion – we're thinking won't be that "yuge", as I believe they call it now."

- U.S. growth prospects: Looks like a "Trump bump" because of cuts to personal and corporate taxes plus increased infrastructure spending.
- We expect the Federal Reserve to continue on the path to higher rates.
- Estimates U.S. growth 2.3 per cent, consumer spending up 2.5 per cent, low unemployment and, as a result, wages heating up and increasing consumer confidence.
- Expect to see housing and auto sales to be strong.
- Historically increases in U.S. growth passed along to Canada but we're waiting to see if that happens if the competitive environment changes via lower U.S. taxes, changes to markets, etc.
- Could Canada see a "Trump slump"?

DOUGLAS PORTER
Managing Director & Chief Economist
BMO Financial Group

Canadian outlook

"We see Canadian growth at about 2 per cent, which brings us back to the average growth rate we've seen since 2000."

- Predict us growth as 2.4 per cent.
- Could see Canadian unemployment drift down below 7 per cent.
- In 2016, infrastructure spending had very little effect on the Canadian economy but we expect that to change in 2017 as the spending rolls out.
- Our budget deficit went from effectively zero to $25 billion without a large effect on the economy.
- Consumer spending and housing likely to slow down in 2017.
- BC and Ontario to lead growth as was the case in 2016; gap with lower performers like Alberta to close.
- Alberta at 9 per cent unemployment, while Ontario, BC and Quebec at around 6 per cent, a record low for Quebec.
- It's been 18 months without a rate change from the Bank of Canada and it could easily be another 18 months.
- Oil prices do not seem to be as firmly linked to the Canadian dollar as in the past.
- We think Ottawa's moves to tighten housing market may have some effect but the Toronto housing market should remain hot.
- Toronto home prices were up 23 per cent in November over the same time the year before.

AVERY SHENFELD
Managing Director & Chief Economist
CIBC World Markets

Capital markets

"I don't think Donald Trump mentioned making Canada great again … is announcing a new plant in Ontario going to get a tweet from Donald Trump?"

- The dollar will likely not go up as the Canadian economy is likely to under perform the U.S. and Donald Trump's talk on trade is a scare factor for trading partners.
- The U.S. Fed's plan to hike rates will keep downward pressure on Canadian dollar – looking at a 72 cent dollar.
- Unless there are political problems, the Euro should improve as they have a current account surplus with the U.S.
- Republicans likely to insist on spending cuts along with tax rate cuts, which lowers the fiscal stimulus effect of the latter cuts.
- The big sell off anticipated in the bond market last year did happen but later than expected.
- U.S. equities likely to outperform Canada's after Canadian equities unexpectedly shone in 2016.
- U.S. equities look expensive but there is now momentum if tax cuts and lower regulatory requirements lower costs.
- Oil: We see some significant rebound for U.S. oil output and that may result in a cap on oil prices.

DEREK BURLETON
Vice President & Deputy Chief Economist
TD Bank Group

Overview

"We are not brimming with tons of confidence on our baseline forecast as there's just too much missing information."

- The banks essentially all agree on our economic forecasts.
- World growth at 3 per cent or a touch stronger.
- U.S. growth will not be at the 4 per cent Trump talks about; we think 2.2 to 2.4 per cent.
- Loonie will be kept at 72 to 74 cents versus the U.S.
- Oil at $58 to $60 a barrel by the end of 2017.
- We are all quite bullish on yields – 10-year treasuries at 2.5 per cent.
- No change in Bank of Canada rates.
- U.S. stimulus has not been legislated yet so we don't expect it to provide a big boost in 2017, maybe 2018.
- The world in 2017 is probably going to look more like last year because a lot of slow growth is structurally related, including demographics and low productivity.