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CPA ONTARIO EXECUTIVE SUMMARY ECONOMIC OUTLOOK 2016

On January 5, 2016, CPA Ontario was proud to sponsor the Economic Club of Canada's Economic Outlook Breakfast 2016. More than 1,000 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 facilitator Andrew Bell, Anchor at BNN.

As the title sponsor of the Economic Outlook, CPA Ontario is providing key points made by the event's panellists – the chief economists from Canada's "Big Five" financial institutions.

A rapt audience listened as the quintet laid out their views on what 2016 holds for the Canadian, U.S. and global economies and markets. It was a sobering message as it seems we continue to live in a world of lower economic growth. Even in recently robust markets, like China and other Asian states, growth is slowing from double digits into the high single-digit category. In the developed world, the U.S. stands out with predicted 2.5 per cent growth in 2016. Canada is expected to lag the U.S., although our performance is comparable to that of European countries.

The Canadian economy is also 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 2015, 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 similar lessons around the world, either being battered by changing conditions or being lifted by unexpected bonuses, as was the case in the U.S., where declining oil prices, while hurting producers, acted almost like tax cuts in terms of stimulating business and consumer spending.

What's next for 2016? A summary of some thoughts put forward by our learned panel is below.

Beata Caranci
Chief Economist and Vice President
TD Bank Group

Main Points

- There are structural impediments to growth that put limits relative to what you have in your control.
- Low growth remains despite extensive use of stimulus.
- Investors have to get used to a new world of lower returns.
- Hindrances to growth include demographic trends (aging workforce).
- Next year, we'll likely be talking slow growth again because circumstances are unlikely to change.
- In current conditions, small margins of error for economy when there is a shock – not much cushion.
- U.S. economy a global linchpin; we're all counting on their growth, even if only 2.5%.

Quote

An analogy for the economy: "Imagine a car with a transmission that cannot go past second gear … You can add more gas to the tank in terms of monetary or fiscal stimulus. Ultimately, you can keep the car running but it's not going to go any faster with that transmission."

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Warren Jestin
Senior Vice-President And Chief Economist
Scotiabank

Main Points

- Volatile global economy can change outlook quickly.
- U.S. remains top destination for investors.
- Slowing China growth affects the world.
- BRIC economies not what they used to be; Russia and Brazil lagging.

Quotes

"We are seeing more uncertainty in more areas than we've seen in most of our lives. I've being trying to forecast the economy one way or the other for the last four decades and this really does stand out; there are lots of areas that could change suddenly and render all of our forecasts quite off side."

"The U.S., from an investor's point of view, remains the bright, shiny star. It's not so much that it is gaining investor growth there; two and a half to three per cent growth can win the G7 growth sweepstakes because it's not a hard race to win."

"A no-brainer: China matters. China didn't used to matter, ten or 15 years ago, but after a quarter century of 10 per cent growth … what happens there matters a lot. And we are having extreme anxiety in financial and commodity markets by the fact that growth is going to fall below six and a half per cent. Still very strong on a comparative basis but it affects a lot of things."

"Just one statistic on why Asia matters in a way we didn't see 10 or 15 years ago: Around 45 per cent of all car sales are now made in Asia. In the 1990s, it was below 18 per cent. That shift, over a relatively short period of time, has made that region matter very much in terms of the outlook and that outlook is very uneven in Asia."

Douglas Porter
Managing Director and Chief Economist
BMO Financial Group

Main Points

- Global economy hurting Canada; most provinces seeing low growth; oil producers in reverse.
- Canadian growth 1.2% last year; lucky to reach 1.5% in 2016.
- Decline in business investment biggest drag on Canadian economy.
- Canadian dollar not done with decline; likely to bottom out just above 70 cents in spring.

Quotes

"There is a huge regional aspect to the slowdown that we're seeing. Talking about how the Canadian economy is doing is like asking 'how is Canada's weather right now?'"

"Of course, you have a very different story right across the country. B.C., Ontario, Manitoba and, to a lesser extent, Quebec are plugging away at reasonable growth rates and we'll probably get something close to two per cent. This is basically a race of the turtles."

"The big story is the humungous write down we're seeing among the oil producers. Alberta was in reverse last year as were, to a lesser extent, Saskatchewan and Newfoundland. They are largely going to remain in reverse in 2016."

"(The) biggest drag on the Canadian economy is business investment and that's going to continue to weigh on the economy over the next year. We saw a decline in business investment last year of about seven per cent. Make no mistake, it's largely in the resource sector but we see a further 20 percent decline in the resource sector again in 2016."

Avery Shenfeld
Managing Director & Chief Economist
CIBC World Markets

Main Points

- Lower oil prices seem to correlate to lower Canadian equity prices in general.
- Some Canadian equities will benefit from a cheap Canadian dollar.
- In the U.S., market assumes inflation will stay lower that it likely will be – may hit two per cent range.
- Even when oil was $100 a barrel, Canada was still running a very large trade deficit with the rest of the world.
- U.S. shale oil becomes profitable at a lower price per barrel than Canada's.

Quote

"(In terms of equities) we're getting off to a rocky start in part because financial markets are recognizing that 2016 is still going to be a pretty disappointing year for the global economy … By the time we get to the end of 2016, remember that equity markets will begin pricing in what 2017 is looking like. My view is that 2017 might be a marginally better year for the global economy."

Craig Wright
Senior Vice President & Chief Economist
RBC

Main Points

- In U.S., declining oil prices stimulate their economy like tax cuts—they put more money in consumers' pockets.
- Employment, incomes and wages strong = consumer confidence.
- U.S. housing starts up – credit easily available and low interest rates.
- Inflation not terribly worrisome but Fed may increase rates.
- 2015 really a write-off for Canada, still waiting for lift from lower Canadian dollar.

Quote

"This year we do see (growth in the U.S.) as very similar to what we saw last year at about two and a half per cent. We foresee slightly better growth this year but it's only marginally better at best."