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## **Annual Economic Outlook 2020 – Presented by the Economic Club of Canada**

**By Kurt Rosentreter, CPA, CA, CFP, CLU, TEP, FMA, CIMA, FCSI, CIM**



At the beginning of January each year, the Economic Club of Canada hosts the chief economists of Canada’s six largest banks to come and speak about what they see in the world of finance for the year ahead.

The room is full of Canada’s financial minds – bankers, brokers, financiers, educators, CEOs and accountants – more than 1,000 people cram a room at the Royal York Hotel in Toronto for breakfast and an earful.

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Here is my interpretation of what each of them said for 2020 in their presentations last month (January 8<sup>th</sup>). Please note these are not my opinion in many cases and I look forward to discussing the impact of their predictions, actual results and your financial plan in the months ahead.

**Avery Shenfeld, Chief Economist, CIBC World Markets**



- US Equity – 2019 corporate earnings fell and lower interest rates will not be repeated. Expect lower profit as wages increase. Expect a positive US stock market in 2020 but less than last year.
- Canadian Equity – Will beat the US stock market in 2020 because we will get clarity on pipelines, gold will increase and the US dollar will soften.
- US Treasury Rates – the US is done cutting rates but there is still pressure from lower European interest rates. There will be a housing comeback.
- Canadian interest rates – there is more debt in Canada and the consumer market doesn't drive growth like it does in the US. Can see a 0.25% interest rate cut by the Bank of Canada this spring.
- Digital Currency – we already have digital currencies. We already use e-transfers of money and credit cards more than we use cash and cheques.
- China Deal – first China deal announced recently is not a real deal. There will be headwinds in dealing with China for years to come regardless of the party in charge in the US government.
- Wealth tax in Canada – US doesn't have a progressive, staggered tax rate system like we do. Our rich people already pay their share of tax. We don't need a wealth tax.

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**Beata Caranci, TD Bank Group Chief Economist**



- Continue to see good growth from the US economy. The US economy is an inward based economy (they buy and sell to themselves) and therefore global events don't have a lot of impact on the US economy.
- US consumer doesn't get enough attention – they are a bright light and are responsible for a large share of US GDP.
- See an imminent deal with China but there are more trade irritants on the horizon (e.g. France).
- US has averaged 200,000 new jobs for six months – double a normal expectation. Better still, participation rates are rising and growth of wealth is touching all levels of society.
- In Canada however there is no business investment – companies are not reinvesting. There are also high levels of debt. We have spending fatigue and loss rates are rising.
- The US election may cause companies to delay business investment until they see the outcome with Sanders and Warren being the two least desirable picks from a business perspective. Feel Trump could get re-elected from the perspective of an average American.

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**Dawn Desjardin, RBC Deputy Chief Economist**



- Canada is at full employment with a healthy labour market but with a declining participation rate.
- We have mostly a service-based economy with the remaining manufacturing industries continuing to see a move to automation and fewer good producing jobs.
- See 25% of jobs heavily disrupted by technology in ten years.
- Will continue to see more job change over a person's working life.
- Human skills will become more important as automation and computerization continues.

**Jean-Francois Perrault, Chief Economist, Scotiabank**



- As long as Trump is the President of the United States worry will exist.
- No one can predict impact of events in Iran because no one knows how bad it will get.

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**Douglas Porter, BMO Financial Group Chief Economist**



- Canadian economy ended 2019 on a sour note: no GDP growth in Q4, two months in a row of job declines and consumer confidence fell to a three-year low while insolvencies are at a ten-year high.
- Positives we see: housing sector growing again in Canada, fiscal policy from the Federal Government appears to be supportive of growth, higher oil prices and USMCA free trade agreement to be signed.
- Growth rate of the Canadian population is 1.5% while in the US it is less than 0.50%.
- Sees BC and Alberta as growth leaders in 2020.
- In Ontario, the big population growth and technology industry success is being offset by the weakening auto industry.
- Sees no change to Bank of Canada interest rates in 2020.
- Sees 2% growth in 2020 vs. a long-term average of 2% growth.

**Stefane Marion, National Bank Chief Economist**



- Climate change is a here and now issue that governments, corporations and people need to address.

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### Our Team and Your Financial Plan

We receive market, tax, economic and other updates every day from many sources around the world and use this information in our job managing your finances

The opinion of the chief economists above is valuable but let's keep this in mind: last year many of them called for interest rates increases in 2019 – only to see no rate increases in Canada and rate cuts in the US. It good to remember they are only guessing and that we always need to plan for the potential they are wrong. Defense always matter more than offense in money management and goal planning – especially for anyone over age 50 when the finish lines are getting closer and money mistakes can have a magnified impact.

Overall, our team of eight meets weekly to discuss, analyze and update our own market and economic projects for the months and years ahead. Generally, here is our own opinion for 2020:

- It is a US election year and President Trump will do his best to ensure a positive stock market again this year. If there is any sign of weakness, we expect him to get vocal again and demand interest rates cuts to stimulate the US economy and raise stock values.
- Looking at consumer confidence numbers, retail spending, industrial manufacturing, housing starts and employment, the world does appear to be slowing down towards the next recession with last year's US interest rates cuts merely kicking the can down the road for a recession to a future year. 2020 will mark the eleventh year without a recession – four years overdue on average.
- Wars, terrorism, oil spills, scandals and similar “short term shock events” rarely trigger stock market disasters and often prove to be great opportunities to “buy cheap” when you look back years later.
- Global environmentalism is here to stay – people seem to care more about icebergs than oil industry jobs – making investments in the resource sector worrisome generally.
- By extension, the small nature of the Canadian economy on a world scale, the dominance of only two industries (banking and resources), the impact of oil on the Canadian currency, and the lack of industries such as tech and

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healthcare to invest in will ensure our favourite stock market landscape continues to be the US regardless of the politician in charge. The great returns of the US stock market have had more to do with the depth and breadth of their business landscape built up over 100+ years and we don't see that changing.

- We don't see any events driving the Canadian dollar higher than current levels – it appears only a spike up in oil price or a major crisis in the US (eg. mortgage fiasco of 2008) tend to move the needle now. But we do see a lot of Canadian triggers (future debt crisis, long term decline in commodity prices, major real estate correction) that could send the Canadian dollar downward and the price of your strawberries in February soaring to record levels.
- We don't see anything that will raise interest rates in Canada beyond the 2%-3% range for years to come. That will keep mortgage rates low, real estate values high and bond rates low for retirees.

Overall, we look forward to reflecting on your financial plan and how all of these variables will impact your goals. I hope you enjoyed my sharing of these market forecasts with our once a year window into this world. Know that we do think about all of this every day of the year as well!

Warm regards,

- Kurt

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