The 2021 Economic Forum Presented by the Top Canadian Economists
By: Kurt Rosentreter & Mathew Cain

Every year the Economic Club of Canada interviews the chief economists from the big banks in Canada regarding their financial predictions for the year ahead.

We had the pleasure of sitting in this forum again in early January 2021 alongside hundreds of money managers, bankers, advisors, economists, and others.

The following is a summary of the key discussion points*, including the economists' thoughts on inflation, employment, gross domestic product (GDP), stock market predictions, bond yields, interest rates, Bitcoin and more.

Douglas Porter, Chief Economist, BMO Financial Group

- Mr. Porter sees a five percent increase in gross domestic product (GDP) in 2021, and a four percent increase in gross domestic product (GDP) in 2022.

- Risks that could impact the global recovery:
    - COVID-19, new variants of the virus, and virus growth.
    - Slow rollout of the vaccine.
    - Geopolitical risks testing the United States: Russia, Iran, China.

- Global equities could hit an all-time high in 2021. Why? Consumers were not spending during the pandemic and will be ready to spend once lockdown restrictions are loosened.

- Inflation in Canada and the United States will be greater than two percent for the next five years based on consumer spending.

- Fiscal Policy: he envisions more support from the United States Federal Reserve which will drive further economic growth.

Jean-Francois Perrault, SVP Chief Economist, Scotiabank

- Mr. Perrault feels there will be a "robust recovery."

- Provided there is a successful rollout of the vaccine, there will be a meaningful economic expansion in the first quarter of 2021, continuing into the second quarter of 2021.

- Interest rate increases will be on hold for at least two years.

- Inflation will not "take-off" as some have predicted. He expected inflation will stay around two percent for a period of time.

- He envisions long-term interest rates rising and feels it is a normal reaction to a rise in inflation.

- He feels that President Joe Biden's tax reform in the United States will be aggressive in taxing the wealthy.

- President Biden needs greater than sixty votes to pass major tax legislation. On tax votes, Jean-Francois feels that President Biden is less likely to get fifty votes, let alone sixty.

Avery Shenfeld, Managing Director and Chief Economist, CIBC Capital Markets

Mr. Shenfeld specifically spoke to three asset classes: money markets, fixed income (bonds), and the equity markets, as well as the Canadian dollar.

Money Markets

- Central banks are committed to holding interest rates as is for two to three years.

- The Bank of Canada could even reduce rates to 0.10% if the Canadian dollar continues to appreciate.
  - Note: the current overnight interest rate in Canada is 0.25%.**

Fixed Income (Bonds)

- Mr. Shenfeld feels there could be a selloff in bonds if the stock market and economy continue to improve. This could happen in the second half of the year.

- He expects there will be a rise in short-term rates in 2023 and he feels the Bank of Canada is less worried about quantitative easing.

- He sees the ten-year Government of Canada yields moving higher, and a significant breakout in inflation.

The Stock Market

- Mr. Shenfled suggests that the first half of the year in 2021 could be more volatile if the vaccine rollout is slower than expected.

- He also expects the second half of 2021 will end higher than the first half, and that the stock market will perform better than bonds.

Canadian Dollar

- Mr. Shenfeld says there will be a rally in the Canadian dollar value versus the United States dollar.

- International trade volumes from Canada could be lower as a result of stronger currency which means the Bank of Canada could cut rates to 0.10% to drive trade.

- He predicts a $1.30 U.S. dollar against the Canadian dollar.

Stefane Marion, Chief Economist, National Bank

- His presentation focused more on demographics and long-term macroeconomic changes.

- Stefane is bullish on Canada in 2021.

- He predicts 3.70% GDP growth in Canada in 2021.

- Inflation will be higher in 2021. Note: He did not give a figure.

Derek Burleton, VP and Deputy Chief Economist, TD Bank Group

Derek's presentation was more focused on the oil/gas sector, climate change, and renewable energy.

Climate Change

- It will be a big year for climate change.
    - China, Japan, and Canada will strive for zero net emissions.
    - All eyes will be on the United States as Biden rejoins the Paris Accord.

- Federal climate change plan in Canada
    - Mr. Burleton said clean fuel standards are important for reducing emissions.
    - The hike in carbon tax could be an issue and create lower demand for some products.
    - He feels Canada will meet the Paris Accord targets of zero net emissions by 2030.

Oil and Gas

- The sector will need to reinvent itself to survive.

- Husky and other companies plan to strive for zero net emissions.

Renewables

- We will see increased investment in the sector going forward.

- It will take time for renewables, electric vehicles, and other sources to become popular.

Craig Wright, SVP and Chief Economist, Royal Bank

Mr. Wright spoke to a question asked by PriceWaterhouseCoopers (PWC) related to Canadian employment. Below are his thoughts.

- Office employees want to work from home.

- Consensus is that there will be 8.70% unemployment in Canada.

He sees several trends:

- Working from Home:
    - 80% of employees want a hybrid approach (office and home).

- Commercial Real Estate Impact
    - He feels employees working from home will impact commercial real estate due to office vacancies.
    - He sees a K-shaped recovery.
    - He believes that employees that earn $800/week were the most impacted during the pandemic and the amount of people in this group is above pre-crises levels. Employees that earn $1,200/week employees were less impacted.

- Female Employees
    - Female participation in employment is at a thirty-year low. This could be a result of increased pregnancies throughout the pandemic and could further impact labor force growth. Further to this, he feels that more childcare benefits could be required.

Questions Related to the Housing Market

Answered by Derek Burleton (TD Bank), Craig Wright (Royal Bank), and Avery Shefeld (CIBC).

Derek Burleton (TD):

- He sees downsizing risk in the Canadian condo market.

- There will be excess supply.
- He feels there will be a seven percent decline in 2021.

Craig Wright (Royal Bank):

- He sees more people moving to single family homes from multi-family.
- More people moving to small cities from the larger cities and these trends are due to people working from home.
- He feels REIT investments will be impacted.

Avery Shenfeld (CIBC):

- He feels there is a consensus on excess supply which is feeding into the current lower condo prices.

Questions Related to Bitcoin

Answered by Douglas Porter (Bank of Montreal), Stefane Marion (National Bank), and Jean-Francois Perrault (Scotiabank)

Douglas Porter (Bank of Montreal):

- Not interested in Bitcoin as an investor.
- He can see a small portion of institutional investors having some Bitcoin in their portfolios.
- He feels there is upside inflation risk.
- He stated, “you have to be willing to ride the roller coaster…could fall 50%.”

Stefane Marion (National Bank):

- He stated,
  - "Not a substitute for the USD currency."
  - "I don't own it."

Jean-Francois Perrault (Scotiabank)

- He avoided the question and spoke more to commodities being more of a financial asset than Bitcoin.

The United States President Joe Biden

Answered by Douglas Porter (Bank of Montreal) and Stefane Marion (National Bank)

Stefane Marion (National Bank):

- Canada has to be willing to work with the United States.

- Specifically, Mr. Marion stated there needs to be a willing to work together related to the carbon tax.

Douglas Porter (Bank of Montreal):

- Fiscal stimulus will be enormous once approved in the U.S. by the new government.

- There will be strong economic growth in the United States in 2021.

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Warm regards,

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Sources & Disclaimers

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** Sourced from the Bank of Canada website as of January 9, 2020.

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