



2024 Economic Outlook Meeting

A summary by Kurt Rosentreter

January 11, 2024

Early January, every year, the Economic Club of Canada hosts a panel of the Chief Economists of the five largest Canadian banks to talk about their predictions for the Canadian economy.

This year's event was at the Sheraton Hotel last week in Toronto and was attended by financial executives including CEOs of Canadian companies, the media, politicians, and others.

I (Kurt) attended once again.

As in the past, here is my summary of the key conclusions made by the economists, along with our team's own thoughts at the end.

Panelists in Attendance

Craig Wright, Chief Economist, RBC

Douglas Porter, Chief Economist BMO Financial Group

Beata Caranci, Chief Economist, TD Bank

Jean-Francois (JF) Perrault, Chief Economist, Scotiabank

Avery Shenfield, Chief Economist, CIBC Capital Markets

Stefane Marion, Chief Economist, National Bank

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Figure 1. Pictured: Panelists at the 2024 Economic Outlook Meeting.

Discussion

Interest rates & Inflation

- Avery: we have a stalled economy now in 2024; we expect the Bank of Canada to cut interest rates as much as 1.50% in 2024.
- Beata: with inflation still at 3%, we anticipate the Bank of Canada to cut interest rates 1.50% in 2024 starting in April. With so many mortgage maturities and refinancing to

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higher interest rates, spending by consumers is falling. Immigration and structural housing shortages have raised inflation too.

- **Stefane:** we predict two quarters of negative growth ahead at least; we have not seen consumers de-leveraging yet. Wages look expensive. There is better supply access for goods compared to a few years ago – we see interest rate cuts ahead. The federal government overdid stimulus during the pandemic and overdid immigration, causing inflation.
- **JF:** we see interest rate cuts starting in June 2024; Canadian employee productivity is horrible while wage growth is strong. The sooner the Bank of Canada cuts interest rates, housing will be stimulated again and it may re-start inflation. The federal government over-stimulated during the pandemic, causing more inflation.
- **Douglas:** ultra-low interest rates are gone; they were not normal and were caused by the 2008 financial crisis. We see a 2.5% to 3% target overnight interest rate (currently 5%, KR).
- **Craig:** there will be more inflation headwinds from government spending and onshoring. We see the Bank of Canada reducing interest rates 1% in 2024 with a target above 3% going forward (meaning the super-low rates of the last several years are not coming back, KR)

Immigration and Productivity of Canadians

- **Douglas:** supply shortages and demand increases drove up inflation during the pandemic. That justified the Bank of Canada raising interest rates to control inflation. Government debt is so high that Canadian governments are living in lala land. We need tougher fiscal policy both federally and provincially.
- **Craig:** when immigrants come to Canada they first start as renters. Vacancy rates are low. We need 330,000 rental units. Housing is unaffordable. All growth in the labour force came from immigration.
- **Avery:** Disconnect between foreign students and temporary foreign works and housing. Need to scale back students coming to Canada.

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- Beata: Need courage on immigration to set levels to match housing.
- Stefane: Federal government lost control of immigration. 20,000 people a month moving to Toronto area. Absorption rate of immigrants is undermining the quality of life for existing Canadians. Need to bring annual immigration down to 600,000 from 1.2 million.
- JF: the USA is very high in employee productivity vs Canada which is very low. In Canada, it is cheaper to hire people to work than to invest in the business for productivity. Canada is the opposite of the USA.
- Douglas: disastrous productivity of people in Canada, aggravated by high population growth. Lack of business investment. Lack of innovation in Canada. Canadian economy barely grew in 2023 despite adding 400,000 jobs.
- Craig: Canada has high taxes in a globally competitive tax market. Canada has a high regulatory burden. We are a nation of mostly small businesses. Need a federal government change.
- Avery: Canada needs competitive income tax policy. USA has low tax rates they cannot afford. USA has a huge deficit at a time of full employment – unheard of! We need more big Canadian companies rather than selling our companies to Americans.

U.S. Election

- Beata: if Trump wins expect more income tax cuts and generally low income tax rates. USA will do less foreign investment and “Made in America” will grow again. Tariffs may rise and that could cost Canada business and factories.

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Figure 2. Pictured: Panelist Beata Caranci speaking at the 2024 Economic Outlook Meeting.

Recession in Canada in 2024

- Douglas: Recession is still a risk this year. We believe the Canadian economy will surprise to the high side. We also don't expect growth as the economy digests the interest rate hikes. Economy may be stagnant.
- Avery: Raw food prices, excluding beef, are down now since the pandemic. Oil is at the lower end of the range. We see a slow global economy in 2024 and better in 2025.
- JF: need to encourage new investment in business in Canada. The federal government is picking winners (bad, KR).
- Stefane: Canadian government is not embracing our resources. Unlike Norway a global economic powerhouse, we shun our resources. If the government caps oil and gas, we will lose 10 cents on our Canadian dollar value. TSX trades at a -6% discount to the US market due to poor visibility on resource policy.

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Stock Market Target for End of 2024

- Stefane: We see a drop of -10% in corporate profits in Canada in 2024 and a stock market down – 20% by end of the year.
- Avery: GIC rates are already down; in the second half of 2024 we see higher profit growth for companies and a higher stock market then. We see the stock market better in 2025.
- JF: Right now there is a shift in sentiment and a fear of what is coming. We need clarity on corporate earnings after the interest rate increases. This will come with time (months, KR) and will lead to higher stock market values.

2024 Final Thoughts – Kurt & Our Professional Team at Upper Canada Capital and Manulife Wealth

- Corporate earnings will be weak in the first half of 2024 as companies feel the weight of higher interest rates from 2023. This will cost them more in profits in 2024 as they pay higher interest costs. Lower profits will hurt stock prices.
- Canada is more likely to slip into recession in 2024 (compared to the USA) based on a real estate correction that is largely yet to unfold. Another 2 million Canadians will face mortgage renewals at triple the rate in the months ahead.
- We see interest rate cuts starting in the second half of this year – perhaps only 0.50% for the year as the Bank of Canada chooses to be cautious around a sticky 3% inflation rate that won't head back to the target 2% inflation rate until 2025.
- Canadian dollar could fall closer to 70 cents vs the U.S. dollar if we cut interest rates faster than the U.S does – this would happen if we slip into recession (two negative quarters of GDP) ahead of the USA.
- We see a higher stock market in both Canada and the USA by the end of the year in 2024 led by continued strength in technology but also a recovery in interest-sensitive sectors like utilities and telecom.

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- With fixed income, the highest GIC and bond interest rates in 25 years are now behind us and gone. If you didn't load up on 5 – 15 year maturities to lock in the best rates in a quarter century, that window is now closed and not coming back (in our opinion).

I hope you enjoyed our summary of the Economic Club event this past week.

Count on our team to provide our opinions, recommendations and guidance throughout 2024.

Have a wonderful year – we look forward to seeing you.

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