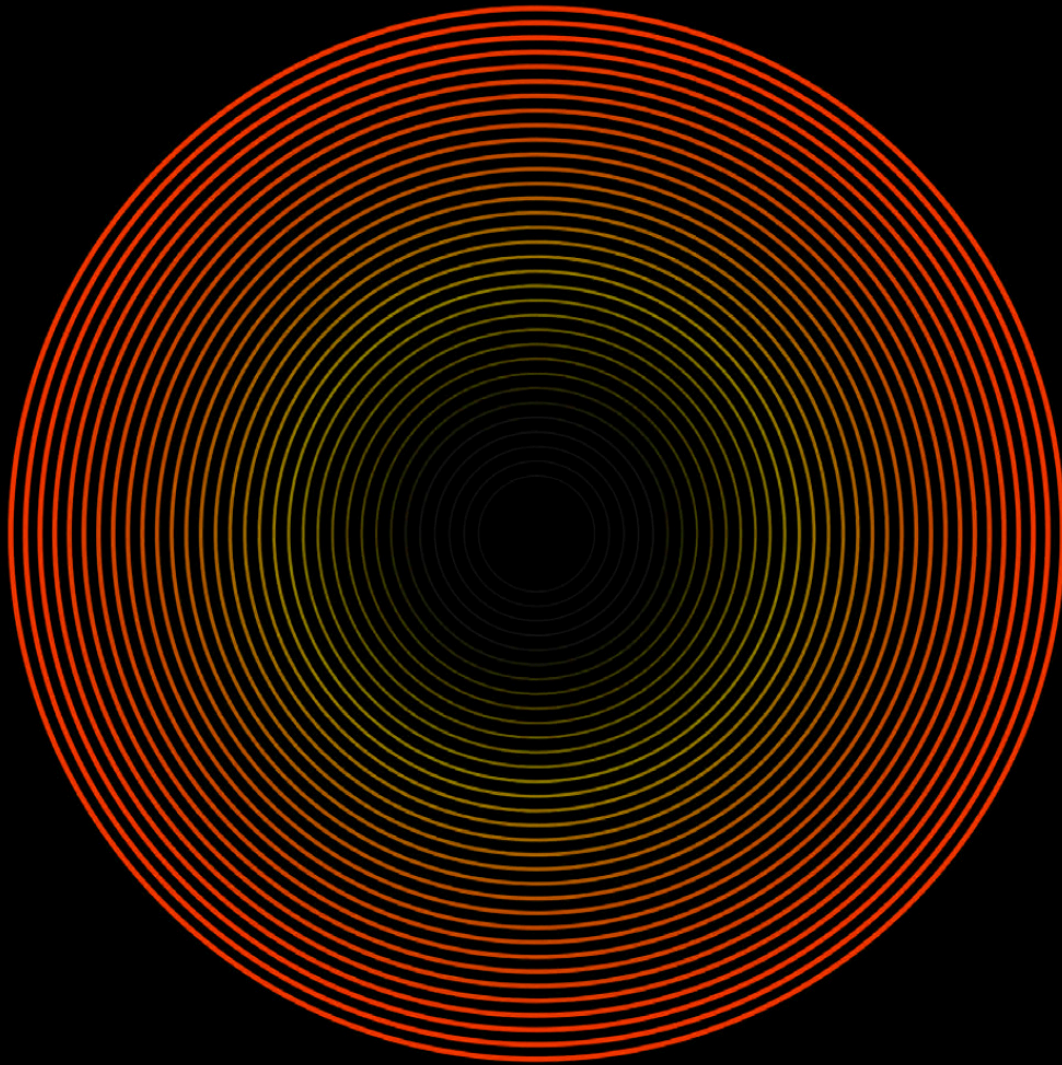


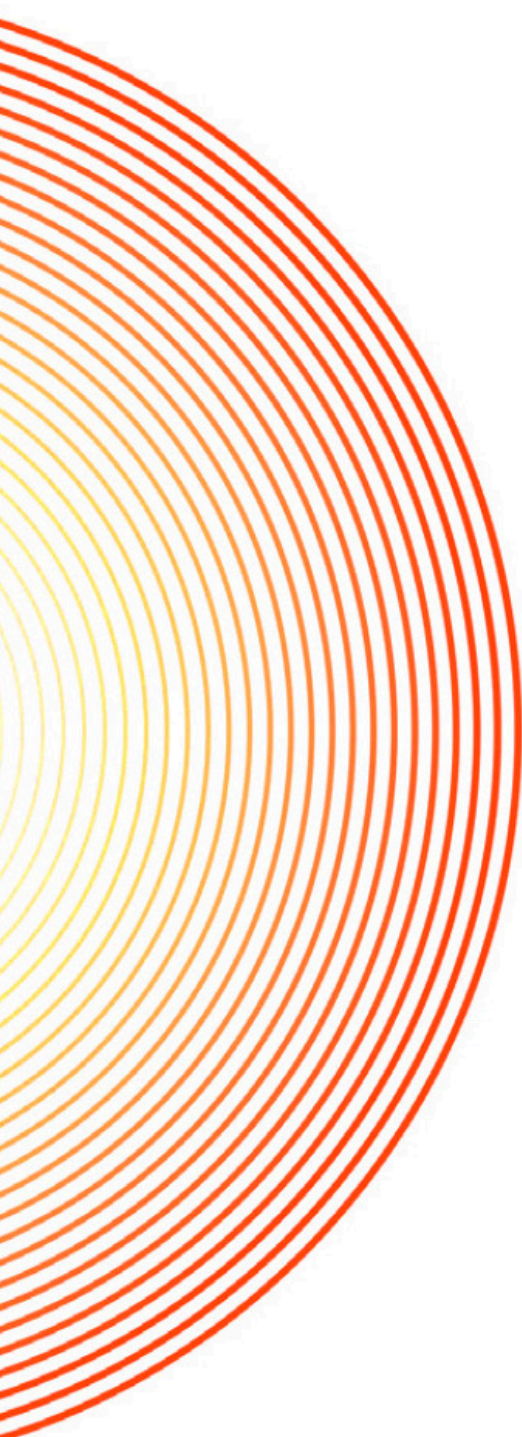
**Deloitte.**



**Politics aside, growth improves**

Economic outlook: January 2020





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# Overview

To know where you're headed you need to know where you've been, goes the saying. So let's begin with a look back at the year that just ended.

2019 started on a sour note with financial markets deep in correction territory, after one of the worst Decembers on record for North American equities. The sell-off was not limited to stocks; cyclical commodities and other risk assets were also in sharp retreat. Money flooded into the safest of assets, lowering global bond yields despite a tightening bias in global monetary policy. Markets were convinced that a weakening world economy, increased protectionism, heightened political risks, and tighter monetary policy were running the risk of a global recession.

Central banks responded. By mid-year, the US Federal Reserve had cut rates. While the Bank of Canada did not participate, the Fed was joined by more than 20 other central banks, causing a complete reversal of the global monetary policy stance. The resulting monetary stimulus diminished recession risks and the economic benefits will continue to be felt in 2020.

Nonetheless, fears of a recession lingered despite the shift in central bank policy. This was partly due to the business cycle being long in the tooth, with the US expansion marking the longest on record. There was a strong feeling that the global economy was "due" for a downturn. What's more unnerving, this was taking place amid

an environment of rapidly intensifying geopolitical risks, with the possibility of a disorderly Brexit and a trade war between the world's two largest economies. The heightened uncertainty began to affect business investment and purchases of durable goods. Coupled with company-specific issues in the aerospace and automotive sectors, it caused growth in manufacturing to stall by mid-year, with many economies reporting lower factory output by the summer. Given the track record of this sector for leading downturns, the decline in industrial activity posed a serious economic risk.

## Lessons to be learned

Our past outlooks predicted the slowdown in manufacturing and acknowledged the intensification of geopolitical risks. We also warned against blindly adopting a recessionary mindset. This warning was particularly pertinent since our analysis suggested that markets had overreacted and were not reflecting underlying economic fundamentals. We argued the decline in manufacturing was not purely of a cyclical nature and should remain largely confined to the goods sector, with only limited fallout in services.

Businesses should plan for what to do if a recession occurs, but do not implement it until the high-frequency and leading economic data reveal that the cycle has turned.

## Real GDP growth, Canada



Note: LT denotes the long-term or equilibrium rate of growth of the economy, currently estimated to be approximately 1.7%.

Source: Statistics Canada. Forecast by Deloitte Economic Advisory, as of December 2019.

The business lesson from 2019 is important and instructive. In past quarterly outlook publications, we stressed that businesses should prepare for potential shifts in the economy but not let financial risks paralyze them. As such, firms should make key capital investments and hiring decisions in alignment with their long-term objectives, not the short-term market movements. They should plan for what to do if a recession occurs, but do not implement it until the high-frequency and leading economic data reveal that the cycle has turned. This is especially critical now since we are in the late stages of a business cycle and growth has slowed to a more modest pace. This leaves the economy more vulnerable to risks, which are currently plentiful and difficult to predict due to their highly political aspect.

### Economy evolved as expected

Overall, our Canadian outlook has not materially changed from the last quarter, as the economy evolved in line with our prior forecast. We estimate that growth averaged 1.7 percent last year, slightly higher than the 1.6 percent we predicted in our October 2019 outlook. But, the improvement is largely related to Statistics Canada revisions to prior data. Growth should accelerate toward 1.9 percent in 2020 as the benefit of lower borrowing costs outweighs the slightly stronger loonie before gradually decelerating toward its potential rate of growth. We estimate this will be approximately 1.7 percent.

From a financial perspective, we expect short-term interest rates to remain stable, with the Bank of Canada joined by other central banks in a holding pattern, while longer-term yields should gradually reverse some of their recent declines. The alignment of Canadian and international monetary policy should keep the Canadian dollar relatively range-bound. We expect it to float near 75.50 US cents, but volatility in commodity prices pose a risk to the exchange rate projection. In summary, the base case forecast is for continued modest economic growth. However, we stress the existence of risks and emphasize the need to consider scenario planning for risk management purposes.

# International

The global economy remains fragile but is stabilizing alongside diminishing geopolitical risks.

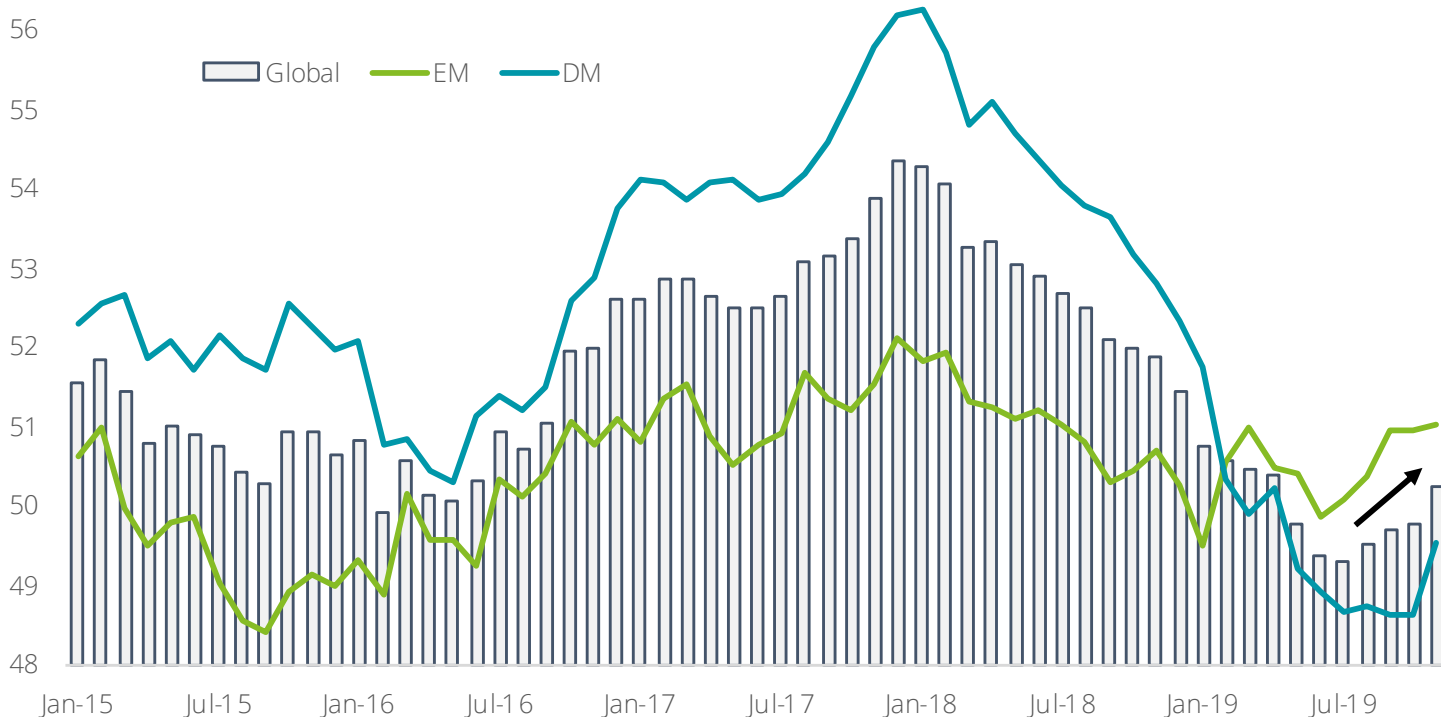
After a difficult summer, the global economy is seeing some respite. Manufacturing, the sector at the centre of the slowdown, appears to have turned the corner. After more than 18 months of declines, purchasing managers' surveys, which offer a timely and accurate indicator of economic activity, are beginning to improve. This trend became visible across emerging markets, and has since materialized in developed market economies. The recovery is not assured, however, and the sector continues to be affected by the idiosyncratic shocks in aerospace, automotive, and electronics manufacturing. What's more, while geopolitical risks have somewhat abated from their recent extremes, they remain elevated by historical standards.

Importantly, the much larger services sector has so far been mostly shielded from the manufacturing contraction. We remain confident in the view that growth will persist in the larger and domestically oriented services sector. Having said that, growth in services has cooled, reflecting a deceleration from prior robust growth and the connections between services and goods sectors. Overall, we believe growth in services will be moderate, and together with the diminishing drag from manufacturing, will hold combined activity growing at a pace that is somewhat disappointing. After expanding by 3.3 percent last year, we expect growth in the global economy to average 3.4 percent this year and 3.6 percent in 2021.

The outcome of Brexit became highly unpredictable through much of 2019, but the odds of a soft Brexit have increased in following the UK election in December 2019. The results give the UK government a clear mandate to take the country out of the European Union and set up a temporary customs border between Northern Ireland and the rest of the United Kingdom. However, further complications are not out of the question and the economy faces a challenging period of adjustment. This is particularly unwelcome since the United Kingdom is already teetering on the edge of recession. Output fell in the second quarter and appears to have shrunk in the last, with Purchasing Managers' Index for services, manufacturing, and construction all in contraction territory in recent months.

## Purchasing Managers' Index, Manufacturing

>50 = expansion



Note: EM and DM denote emerging and developed market economies, respectively.

Source: IHS Markit.

The situation is better in continental Europe, but growth there has nonetheless slowed and inflation remains soft. It is Germany, the union's largest economy and a stalwart source of growth for years, that has become the greatest source of concern. German economic activity likely declined in the last quarter of 2019 and if it did, this would mark the third contraction in six quarters. While some of the weakness is related to a softer exports and equipment investment, most appears related to inventory investment. A reduction in inventories cut 1.5 percentage points from growth, on average, in recent quarters. This looks to be related to structural issues with German automakers and should prove transitory.

The weakness in the European Union is prompting discussions about how to improve economic conditions. Germany is relatively unique among many of its neighbours in that it is running a budgetary surplus and a current account surplus. The dual surpluses have been a source of criticism but they do give the government the scope to provide stimulus. The notion of using fiscal policy to boost growth and reduce imbalances has been gaining traction. Arguing that European monetary policy can only go so far, newly appointed European Central Bank Governor Christine Lagarde encouraged fiscal measures in her inaugural speech. There is opposition to this approach, but cracks have begun to form as fears over Japan-like stagnation mount.

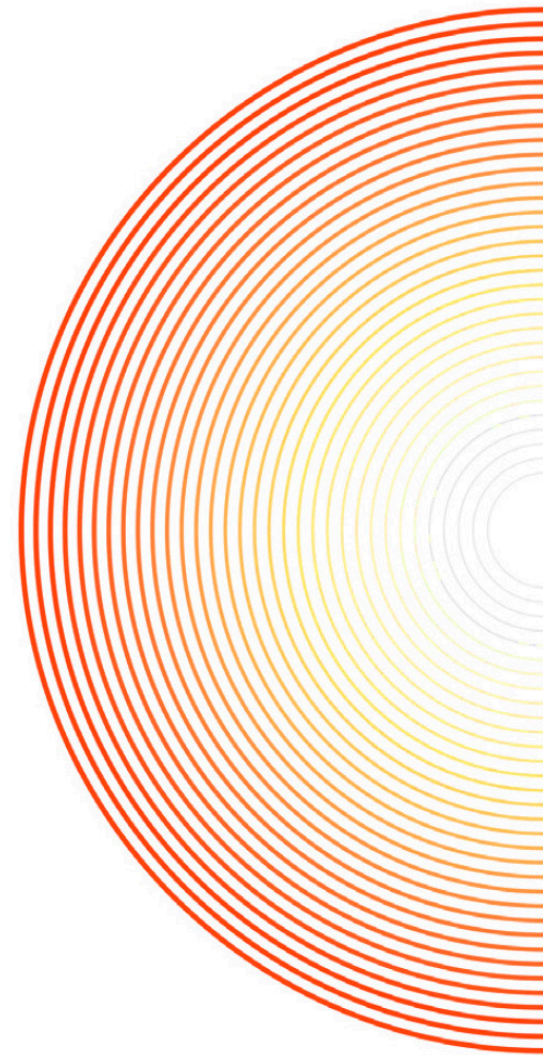
# United States

The US economy has managed to navigate all obstacles in its path, but growth is moderating and should converge toward cruising speed of under 2 percent, as slack is absorbed.

Similar worries to the ECB's have become discernible within the US Federal Reserve, as it struggles to boost inflation toward its target. Recent comments by Fed members indicate that concern over deflation has dominated discussion. This was highlighted by the Fed's about-face last year, as it cut interest rates three times despite unemployment being already well below its non-inflation accelerating rate.

Despite the cuts being an insurance policy of sorts, the Fed is unlikely to rush to reverse the cuts anytime soon given the highly volatile economic and financial environment as well as the lack of certainty about the neutral rate (the level of short-term interest rates that are neither stimulative nor restrictive for economic growth). Indeed, the Fed's latest Summary of Economic Projections suggested that rates are not expected to rise beyond 2 percent until at least 2023.

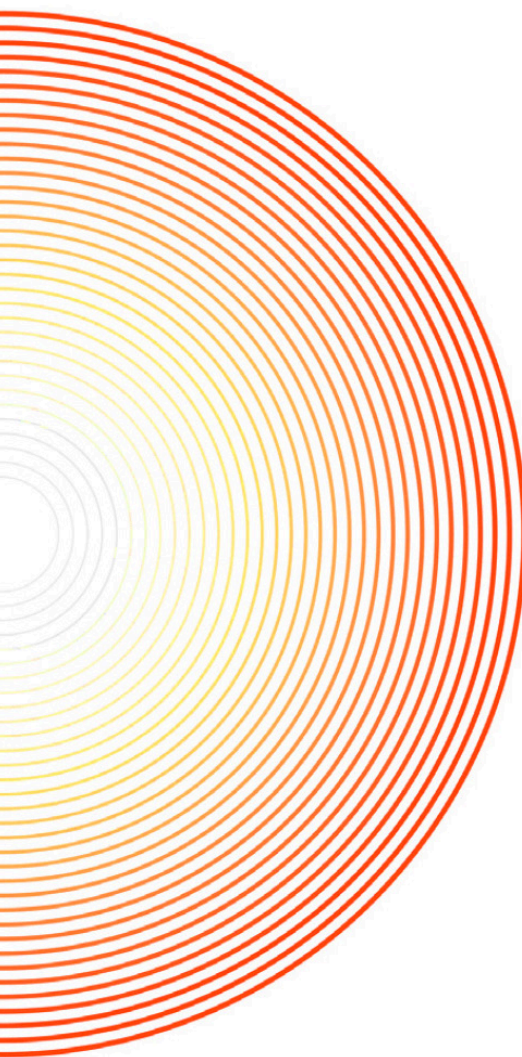
The US monetary stimulus delivered in 2019 will support medium-term growth, particularly in the housing and durables segments. But, it's unclear that it was needed to begin with. The US economy navigated all the obstacles in its way during 2019. Despite the trade dispute with China, Boeing's 737 MAX woes, and the GM strike, economic activity remained robust. Growth has decelerated from the 2.9 percent buoyed by tax cuts in 2018, down toward 2.3 percent last year. This pace is nonetheless still above the long-run potential cruising speed of the economy of about 1.8 percent. Although political risks persist on the trade front, the US economy should post solid if not booming growth, averaging 1.9 percent this year and 1.8 percent in 2021.





# Canada

After delivering a lackluster performance of 1.7 percent last year, the economy is poised for a modest pick-up in growth to 1.9 percent this year.



The Canadian economy expanded by 1.3 percent annualized in the third quarter of 2019, precisely matching our last forecast. This pace lagged the 2.1 percent rate of the US economy in the same quarter and was below Canada's long-run sustainable rate of expansion. But it came on the heels of a blockbuster performance in the second quarter, when the economy grew by 3.5 percent. In addition to the latest quarter numbers, Statistics Canada also incorporated benchmark revisions into the prior three years, with economic growth downgraded to 1.0 percent in 2016 (-0.1 percentage points (pp)), but revised upward in both 2017 and 2018 to 3.2 percent (+0.2pp) and 2.0 percent (+0.1pp), respectively. Perhaps the most encouraging development was an upgrade to the six-month period between late 2018 and early 2019, with the stalling of economic growth no longer appearing as severe and lifting the 2019 performance.

Looking under the hood reveals even more encouraging details. Consumption growth picked up to a reasonable 1.6 percent annualized. The improvement was mostly due to a bounce back in the interest rate-sensitive durables, which reversed the prior quarter's decline, but spending was up across all categories. And, while many Canadian households

remain heavily indebted, solid wage gains and lower interest rates are keeping wallets open. Falling borrowing costs also helped the housing sector. Residential investment increased by 13.3 percent during the quarter, its fastest pace in more than seven years, offering resounding evidence that the Canadian housing market is back to being an economic contributor.

Perhaps the most inspiring development was the near double-digit, broad-based gain in non-residential business investment. Non-residential investment has languished since the 2015-16 commodity bust, as mining and energy firms slashed capex budgets. Spending on structures, intellectual property, and machinery and equipment has also been battered by the ongoing global trade tensions during past quarters, making the recent rebound all the more heartening; the really issue is whether it will be maintained.

Still, global woes left their mark, with exports down 1.5 percent despite imports being little changed. The performance was likely affected by softening global demand and a slightly stronger loonie, which strengthened as the Bank of Canada (for a good reason) bucked the rate-cutting trend adopted by many major central banks.

### Industry perspective

Looking at the third-quarter performance through the industry lens reveals that growth was led by the professional, scientific, and technical services to an inspiring 7.5 percent expansion. Activity was also strong in construction (+7.4 percent) and finance, insurance, and real estate (+4.1 percent), all of which benefitted from a rebound in Canadian housing markets. On the other hand, outsized declines occurred in sectors exposed to foreign demand and the global slowdown. Activity shrunk across mining, oil and gas, manufacturing and transport, with the latter also restrained by inclement weather.

The early onset of winter across much of the country restrained activity in the last quarter of 2019. Labour action at GM and CN Rail were another headwind on fourth-quarter growth, as reduced economic activity across manufacturing and transport could cut national growth by as much as

0.2 percentage points. Despite the setbacks, we estimate the Canadian economy managed to expand by about 1.7 percent in 2019.

### Poised for modest growth in 2020

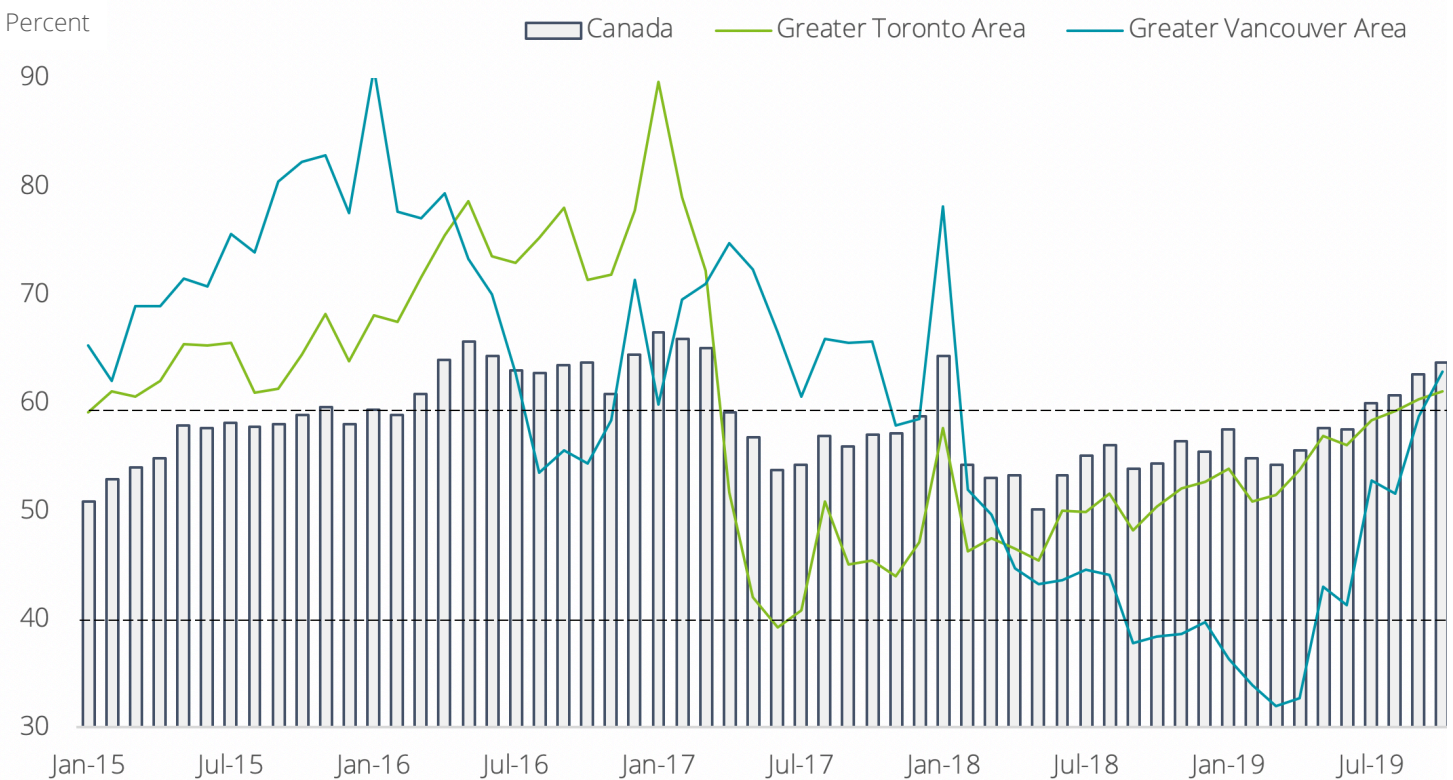
The overall outlook for 2020 is one of continued growth at a modest to moderate pace. It will not, however, be evenly distributed. Domestic segments, including consumer spending and residential real estate, will drive growth, as healthy consumer fundamentals and lower borrowing costs will remain supportive. Exports and business investment, on the other hand, are likely to constrain growth this year.

As we alluded to earlier, the Bank of Canada did not join other central banks in cutting rates, but the country is benefitting from the monetary easing abroad. Lower global bond yields pulled down Canadian yields, reducing domestic borrowing costs.

And, since the economic impact of lower rates is felt over 12 to 18 months, the stimulus will be felt in 2020. Moreover, the international easing boosted equity markets, including in Canada, and helped support commodity prices.

Canadian real estate is getting a lift from lower interest rates and fading impact from tighter mortgage regulation. Housing markets in Ontario and BC began to recover in early 2019. Lower rates late last year have accelerated this process, with the Southern Ontario market back in sellers' territory. This has in fact been one of the reasons the Bank of Canada was reluctant to reduce rates. Having said that, a return to the frenzied real-estate behaviour of recent years is unlikely, given the high debt loads of Canadian households. The rebounding existing home market has also pulled up new home construction.

### Sales-to-new listings ratio; existing home market



Note: A ratio between 40 and 60 typically indicates market conditions that are balanced.  
Source: Canadian Real Estate Association.

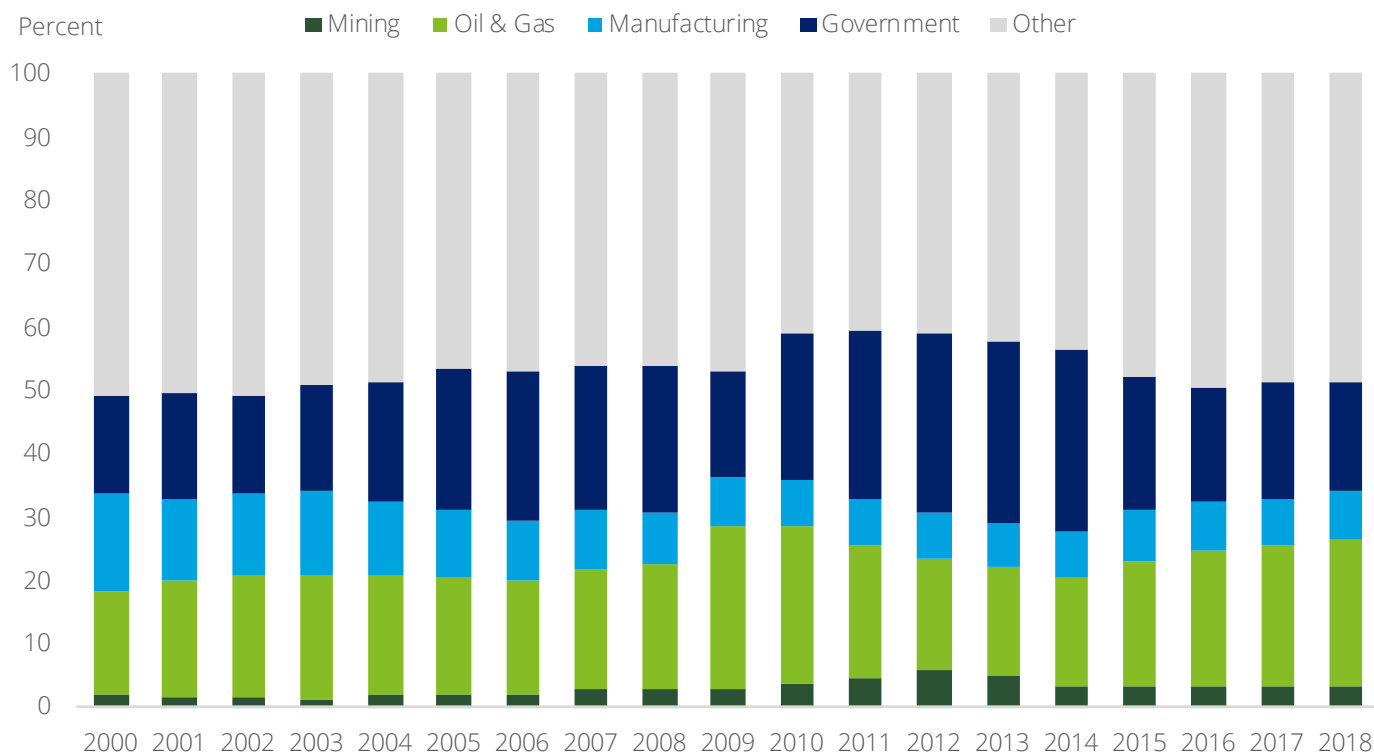
Lower rates will also benefit purchases of consumer durables, with the trend expected to continue throughout the forecast horizon but diminish as longer-term rates begin to creep up. Less interest rate-sensitive segments of spending will benefit from low unemployment, rising wages, and good consumer confidence in provinces that are less reliant on commodity sectors. But, just as with housing, personal spending will be kept in check by a reluctance to add to already high debt loads. Overall, we expect consumption growth to contribute to economic growth, but the contribution will be far more subdued than during the housing boom.

Business investment faces a tug of war. It may derive some support from the lower interest-rate environment, with capital spending benefitting from the rapidly rising labour costs that encourages firms to shift toward using more equipment.

We fear these may be overshadowed by the weak loonie that makes purchasing equipment, which is often priced in US dollars, expensive as well as by an external environment that is both weak and highly uncertain. Ratification of the United States Mexico Canada Agreement (USMCA) is a positive development. However, many geopolitical risks remain and businesses are still concerned about the aging business cycle. Moreover, investment in Canada has greatly benefitted in the past from mining, oil and gas activity, with the sector accounting for nearly half of all investment during the early 2010s. The commodity price outlook, while not depressing, is unlikely to fuel large capex outlays by the hugely important energy sector. As such, we expect business investment to remain relatively subdued in the coming quarters.

The economy will be restrained by net exports. Overall, Canadian economic growth is projected to rise from 1.7 percent in 2019 to 1.9 percent in 2020. As the impact of lower rates fades into 2021, growth is expected to slip slightly to 1.8 percent, reflecting overleveraged consumers and a still-frail external environment. The implication is that the pace of economic expansion is expected to fluctuate close to its long-run potential pace of 1.7 percent. This is materially slower than what businesses have been used to historically. To alter the path Canada is on, initiatives to enhance productivity are required—and such actions are not in the forecast.

### Non-residential fixed investment, share by sector



Note: Includes buildings, engineering projects, machinery & equipment, and intellectual property products.  
Source: Statistics Canada.

# Provinces

Like the national one, most provincial economies will accelerate this year, a trend that should materialize from Ontario through the Prairies and on to BC. On the other hand, Quebec and Atlantic Canada will see growth decelerate as it converges towards their potential.

Lower interest rates will benefit consumers from coast to coast, reducing financing costs for buying cars and other big ticket items. Lower mortgage rates will also be accessible to everyone, but will provide a particularly big economic boost in BC where housing markets are significantly more expensive than elsewhere. The BC economy slowed when housing cooled, dragging down retail sales. But, the recent stabilization in housing market activity, alongside exceptional growth in non-residential projected, allowed the economy to expand at a 1.5 percent pace in 2019—but this is sub-par and half the pace of a year earlier. As drag from housing diminishes altogether, BC growth should return to around 2 percent. It could exceed that threshold if forestry issues are resolved or growth in China holds up better.

Lower rates will also benefit the Ontario economy, which slowed from 2.3 percent in 2018 to 1.7 last year as residential investment slumped. Growth will improve this year as the housing recovery continues, but it will be held back by a relatively austere provincial budget and softness in external demand, which will affect in particular the large manufacturing and exporting sector. Overall, growth accelerated to 1.8 percent in 2019, a pace consistent with its longer-run potential but with some upside if ratification of the USMCA triggers any investment that had been delayed.

Quebec is the second-most exposed province to external demand, given its considerable manufacturing sector. However, it won't benefit as much from the positive support of lower interest rates on housing markets. Growth already decelerated by half a point to about 2 percent last year, and weak demographics and lack of spare labour will restrain growth this year to around the 1.5 percent mark. Keep in mind, this moderation follows years of growth that created exceptionally tight labour markets.

## **Prairie economy to accelerate as conditions normalize**

Inclement weather and a brief CN rail strike—both of which halted activity and the movement of goods—have been a drag on growth across the Prairies. Activity in Manitoba was also affected by the completion of multiyear capital infrastructure projects, while growth in Saskatchewan was hit by Chinese import restrictions. Normalization of conditions should help both the Manitoba and Saskatchewan economies accelerate by about half a point from last year's weakness, to 1.1 and 1.4 percent, respectively.

Alberta's economy has also been affected by the weather and labour action which, together with mandatory cuts in oil production early in the year, restrained growth to about 0.5 percent in 2019. The

economy should accelerate this year as the headwinds diminish, but deficit-cutting by the province will constrain economic growth. Alberta's pace of expansion is nonetheless expected to roughly triple this year, to about 1.5 percent.

## **Atlantic region slowing to potential**

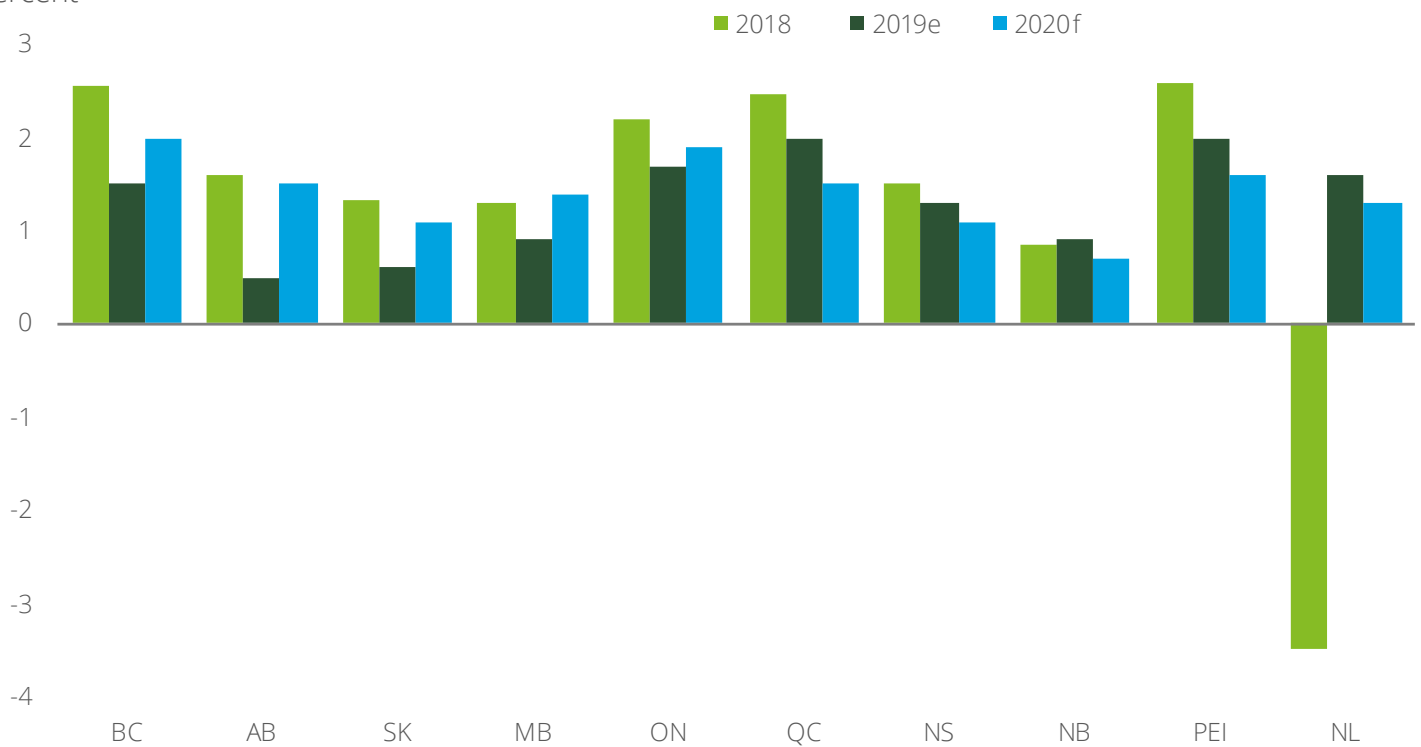
Atlantic Canada will continue to lag the rest of the country. Unlike the national economy, it will decelerate from 1.3 percent last year to about 1.0 percent in 2020. Newfoundland and Labrador should see growth return after a protracted slump. After declining by 3.5 percent in 2018, the economy grew by 1.5 percent last year and should continue to expand near that pace this year, averaging 1.3 percent.

Another bright spot is PEI, whose economy has been driven by solid tourism activity and a strong manufacturing growth. While growth will continue, it looks to slow this year, from 2.0 to 1.6 percent.

The rest of the Maritimes should see their growth rates converge toward their potential pace. Aging demographics and dependence on forestry should see New Brunswick slow to about 0.7 percent, while a younger population and a shipbuilding industry will see Nova Scotia will slow to 1.2 percent.

### Provincial real GDP growth

Percent



Source: Statistics Canada. Forecast by Deloitte Economic Advisory, as of December 2019.



# Canada: Economic forecast

	2019				2020			
	Q1A	Q2A	Q3A	Q4E	Q1F	Q2F	Q3F	Q4F
<b>Real economic activity</b>								
<b>Gross domestic product</b>	0.8	3.5	1.3	1.9	1.7	2.0	1.9	2.0
<b>Consumption expenditure</b>	2.5	0.5	1.6	1.6	1.4	1.6	1.6	1.7
• Durable goods	5.0	-1.7	1.8	1.0	0.6	0.6	0.8	1.0
• Services	2.3	0.8	1.6	1.9	1.6	1.9	1.9	1.9
<b>Residential investment</b>	-2.7	5.5	13.3	2.2	2.4	2.6	2.0	1.5
<b>Non-residential fixed investment</b>	5.3	-1.0	10.6	2.0	2.4	2.8	2.7	2.4
• Non-residential structures	4.2	4.4	11.1	1.5	1.9	2.3	2.4	2.2
• Machinery & equipment	42.1	-21.8	7.0	2.1	2.9	3.5	3.7	3.5
<b>Government consumption &amp; investment</b>	3.3	0.9	1.8	1.9	1.7	1.8	1.9	1.8
<b>Exports of goods &amp; services</b>	-3.3	12.9	-1.5	1.5	1.4	1.6	1.6	1.6
<b>Imports of goods &amp; services</b>	8.1	-3.5	0.1	2.1	2.0	1.8	1.7	1.7
<b>Prices</b>								
<b>Consumer price index (y/y)</b>	1.6	2.2	1.9	2.0	2.1	1.7	1.8	1.9
<b>Implicit GDP price index</b>	4.5	4.5	0.4	1.5	1.9	2.1	2.0	2.0
<b>Nominal income</b>								
<b>Gross domestic income</b>	5.6	8.1	1.6	3.4	3.6	4.1	3.9	4.0
<b>Personal income (y/y)</b>	3.7	4.8	4.8	4.1	3.6	2.7	2.7	2.8
<b>Corporate profits; pre-tax (y/y)</b>	-13.7	-9.2	-17.2	8.8	11.1	2.8	12.2	9.9
<b>Labour market</b>								
<b>Employment</b>	2.9	3.0	1.2	0.3	0.7	0.5	0.45	0.5
<b>Unemployment rate (%)</b>	5.8	5.5	5.6	5.8	5.8	5.8	5.9	5.9

Note: Unless otherwise noted, all figures are expressed as annualized percent changes.

Source: Statistics Canada. Forecast by Deloitte Economic Advisory, as of December 2019.

	2021				19E	20F	21F
	Q1F	Q2F	Q3F	Q4F			
<b>Real economic activity</b>							
<b>Gross domestic product</b>	1.6	1.7	1.9	1.9	1.7	1.9	1.8
<b>Consumption expenditure</b>	1.7	1.7	1.8	1.8	1.6	1.5	1.7
• Durable goods	1.2	1.4	1.6	1.8	0.9	0.7	1.2
• Services	1.9	1.9	2.0	2.0	1.9	1.7	1.9
<b>Residential investment</b>	1.6	1.7	1.8	1.9	-0.5	3.8	1.8
<b>Non-residential fixed investment</b>	2.4	2.4	2.5	2.5	-0.1	3.2	2.5
• Non-residential structures	2.4	2.6	2.8	3.0	1.1	3.2	2.5
• Machinery & equipment	3.1	2.9	2.7	2.5	1.0	1.7	3.1
<b>Government consumption &amp; investment</b>	1.7	1.7	1.6	1.6	1.8	1.8	1.7
<b>Exports of goods &amp; services</b>	1.7	1.8	2.0	2.2	2.0	1.8	1.8
<b>Imports of goods &amp; services</b>	1.8	1.8	2.0	2.2	0.6	1.3	1.8
<b>Prices</b>							
<b>Consumer price index (y/y)</b>	1.9	1.9	2.0	2.0	2.0	1.9	2.0
<b>Implicit GDP price index</b>	1.9	1.9	1.9	1.9	1.9	1.9	1.9
<b>Nominal income</b>							
<b>Gross domestic income</b>	3.4	3.5	3.7	3.7	3.5	3.7	3.7
<b>Personal income (y/y)</b>	3.1	3.2	3.4	3.6	4.3	2.9	3.3
<b>Corporate profits; pre-tax (y/y)</b>	9.8	9.5	9.4	9.3	-8.6	8.9	9.5
<b>Labour market</b>							
<b>Employment</b>	0.6	0.6	0.6	0.6	2.1	0.7	0.5
<b>Unemployment rate (%)</b>	6.0	6.0	6.0	6.0	5.7	5.8	6.0

# Canada: Financial forecast

	2019				2020			
	Q1A	Q2A	Q3A	Q4A	Q1F	Q2F	Q3F	Q4F
<b>Interest rates (%)</b>								
Overnight rate target	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-month GoC bill	1.67	1.66	1.65	1.68	1.70	1.70	1.70	1.70
2-year GoC note	1.55	1.47	1.58	1.67	1.70	1.70	1.70	1.75
5-year GoC note	1.52	1.39	1.40	1.60	1.65	1.70	1.75	1.80
10-year GoC bond	1.62	1.46	1.37	1.60	1.65	1.70	1.75	1.80
<b>Yield curve spread (pp)</b>								
3-month vs. 10-year	-0.05	-0.20	-0.28	-0.08	-0.05	0.00	0.05	0.10
2-year vs. 10-year	0.07	-0.01	-0.21	-0.07	-0.05	0.00	0.05	0.05
<b>Foreign exchange</b>								
USD/CAD (\$C)	1.33	1.34	1.32	1.32	1.32	1.32	1.32	1.33
CAD/USD (US cents)	75.24	74.77	75.72	75.57	75.76	75.76	75.76	75.19

Note: All figures are expressed as end-of-period.

Source: Statistics Canada, Bank of Canada. Forecast by Deloitte Economic Advisory, as of December 2019.

	2021				19A	20F	21F
	Q1F	Q2F	Q3F	Q4F			
<b>Interest rates (%)</b>							
Overnight rate target	1.75	1.75	1.75	1.75	1.75	1.75	1.75
3-month GoC bill	1.70	1.70	1.70	1.70	1.68	1.70	1.70
2-year GoC note	1.75	1.80	1.80	1.80	1.67	1.75	1.75
5-year GoC note	1.83	1.85	1.88	1.90	1.60	1.80	1.83
10-year GoC bond	1.85	1.90	1.95	2.00	1.60	1.80	1.85
<b>Yield curve spread (pp)</b>							
3-month vs. 10-year	0.15	0.20	0.25	0.30	-0.08	0.10	0.30
2-year vs. 10-year	0.10	0.10	0.15	0.20	-0.07	0.05	0.20
<b>Foreign exchange</b>							
USD/CAD (\$C)	1.33	1.33	1.33	1.33	1.32	1.33	1.33
CAD/USD (US cents)	75.19	75.19	75.19	75.19	75.57	75.19	75.19

# Concluding remarks

In thinking about 2020, we should not forget the lessons of last year. One of the key takeaways is that financial market signals are not always right. Investors who left the market for fears of a recession likely missed some of the upside to equity returns. Similarly, businesses that adopted a recession mindset may have overreacted and missed opportunities.

The outlook is for continued modest growth in the global and Canadian economies, with a pace a bit higher than that in 2019. The improved profile for growth reflects the global monetary stimulus and a reduction in the most acute risks. It appears that a hard Brexit will be avoided and there is a truce in the US-China trade dispute, at least for the time being.

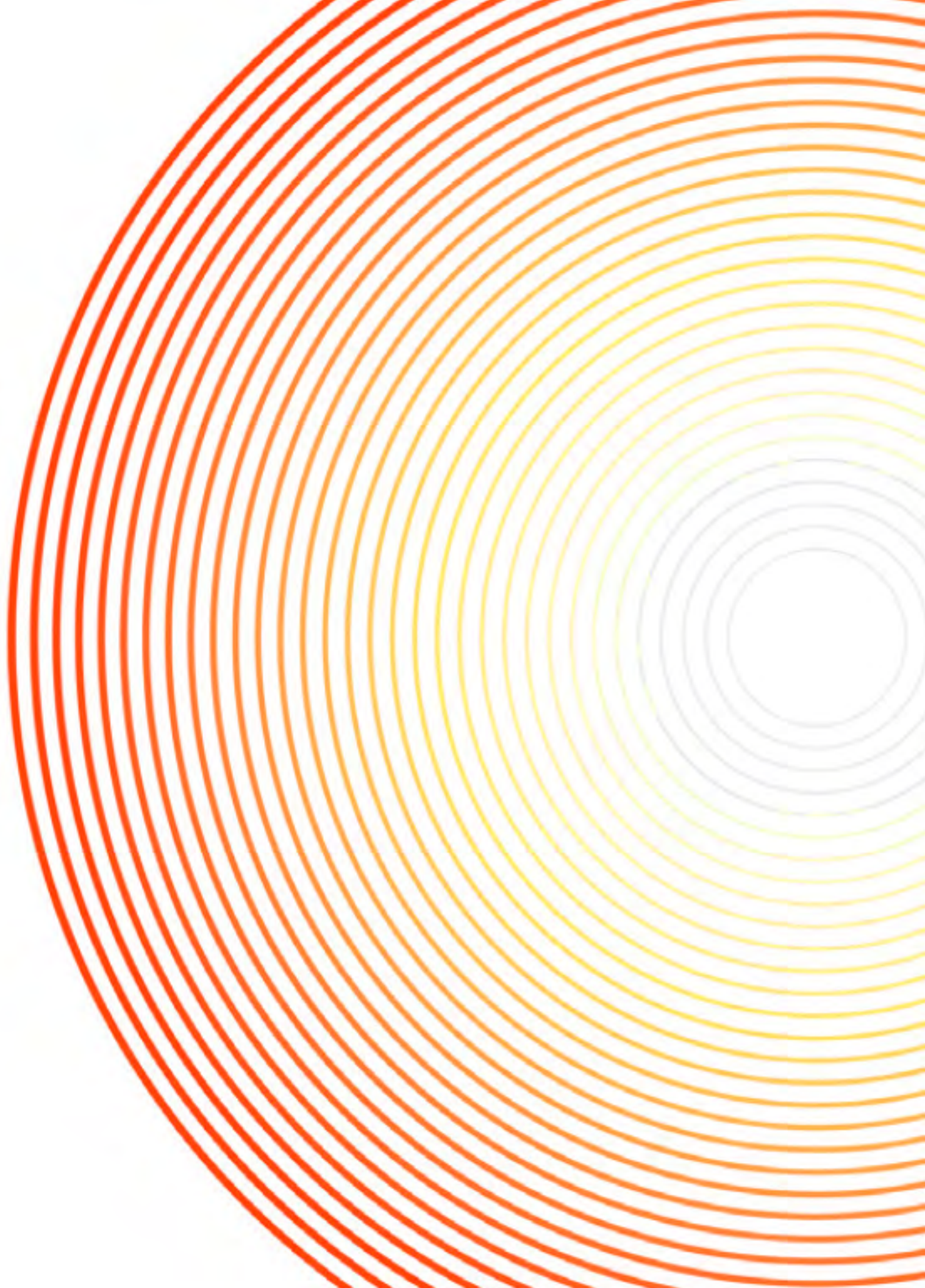
This doesn't mean the risks have disappeared. The rise of nationalism and populism is elevating political risks around the world. The pendulum has swung away from support for open markets and global trade. Remember: the United Kingdom was a key pro-market voice in the European Union. With its departure, Germany and France will have a louder voice on policy. 2020 will bring a US presidential election, and neither Trump nor the Democrats are advocates for greater openness in trade. Voters in many countries are still signalling dissatisfaction with the election outcomes they have had that, when combined with social media, creates more divisive politics.

There is a strong sense that evidence-based public policy around the world has waned in favour of popular policies. There is also an added risk that financial markets went from excessively pessimistic heading into 2019 to overly optimistic in early 2020, with stretched valuations. In Canada, the specific downside risks are a continuation of the weakness in manufacturing and the

elevated level of household debt. Importantly, there are also upside risks to the forecast. Governments in Europe may deliver fiscal stimulus. The reduced acute political risks related to BREXIT, US-China trade war and negotiation of Canada-US-Mexico free trade have diminished could lead to greater business investment, as delayed capital expenditures are made. The core message for business planning purposes is that the outlook is for modest and improved economic growth with continued low interest rates and a Canadian dollar floating around a 75.50-US cent level. A strengthening global economy is also positive for Canadian businesses.

From a risk management perspective, however, businesses need to think about how the next turn in the business cycle will affect them, because the cycle has not been repealed and a recession will eventually occur. When thinking about alternative scenarios, business leaders should seriously consider a reality in which elevated political risks continue to generate a highly uncertain business environment for the foreseeable future.





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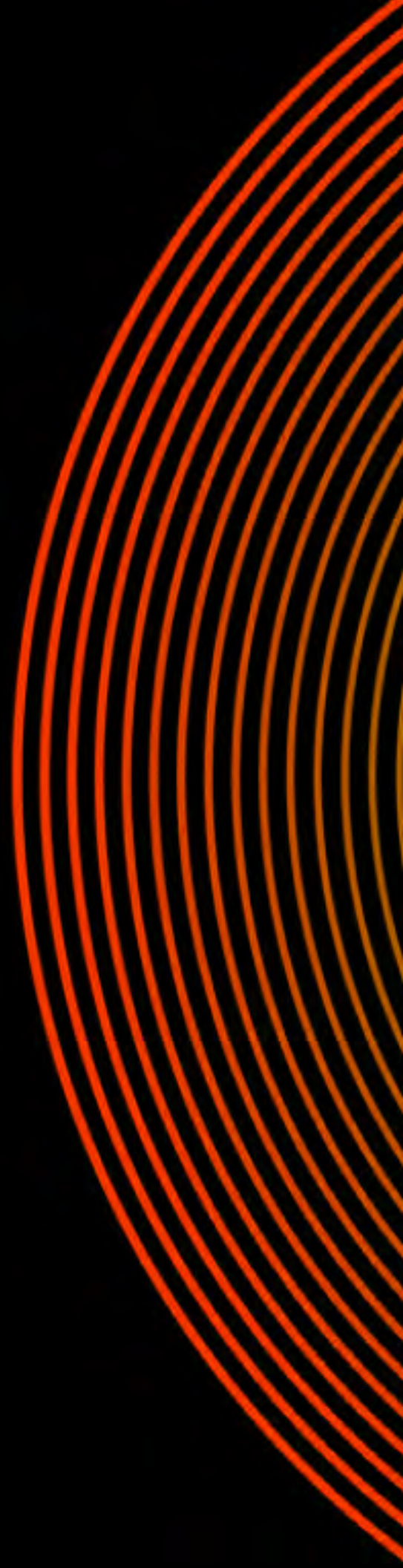
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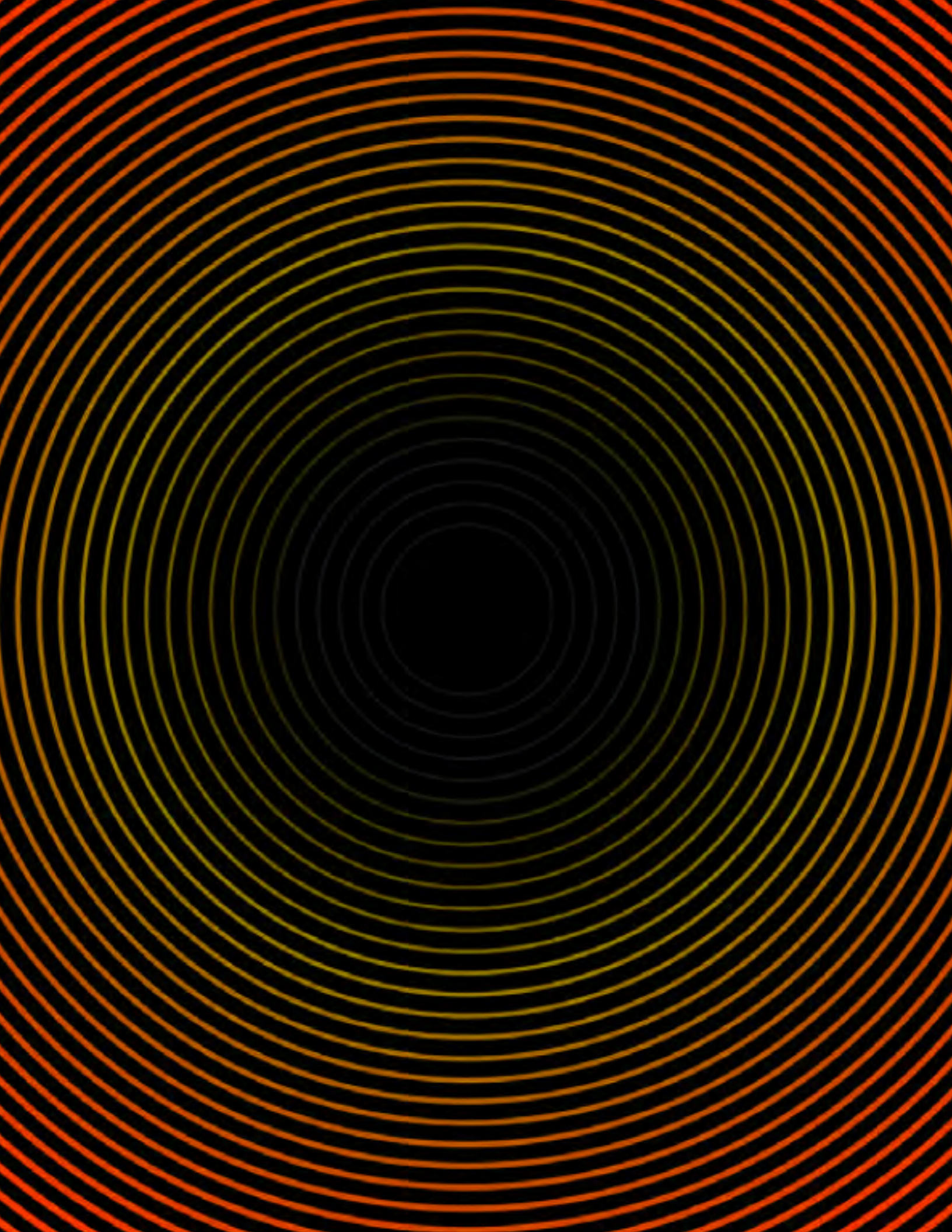
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