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As Canada’s largest and most influential business association, we are the primary and vital connection between business and the federal government. With our network of over 450 chambers of commerce and boards of trade, representing 200,000 businesses of all sizes, in all sectors of the economy and in all regions, we help shape public policy and decision-making to the benefit of all Canadians.
This report was made possible by the generous support of our sponsors
In its Crystal Ball Report, the Canadian Chamber of Commerce examines the most significant economic, political and technological issues facing Canadian business in order to forecast critical opportunities and challenges in the years ahead. This report is the culmination of extensive research and input from businesses across Canada and from the global experts who helped us gaze into the crystal ball.

Throughout 2016, we hosted a series of thought leadership roundtables. These unique gatherings brought together Canadian businesses from every sector of the economy to talk about the big issues—the rise of populism and the backlash against trade; energy and commodity prices; the digital economy; international trade; risks—and their priorities in the years ahead. At the end of the year, we held our Crystal Ball Symposium, inviting global thought leaders to join with Canadian businesses and public servants to talk about industries of the future and how technology is transforming our societies.

Armed with the insights and commentaries of business experts and top public servants, we have prepared our annual forecast report.
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EXECUTIVE SUMMARY

2017 will be a tough year for the world’s forecasters and prognosticators. The enormous range and variability in this year’s unknowns is daunting: negotiating Brexit; the unpredictable policymaking of a new U.S. president; the outlook for China’s economy; the impact of surging populism on European politics. In the midst of a tough economic environment, Canada’s economy will grow 1.8% in 2017 and 2% in 2018.

We heard loud and clear from the Canadian business community about a heightened level of apprehension about the global economy, particularly with regard to U.S. President Donald Trump and the renegotiation of NAFTA. Participants were slightly more worried about general economic prospects than in the past.

Last year, the business community was sharply divided between gloom in the natural resources sector, where prices were very weak, and optimism in manufacturing and most other sectors. This year, the natural resources sector participants were cheerier as they felt the worst was in the past. Oil prices will likely return to the $55-60 range in 2017 as demand has finally caught up to production.

We heard from businesses in all sectors that they were surprised by anti-trade sentiment and are concerned about a retreat from globalization in the years ahead. The consensus was that the rise of anti-trade, anti-immigration political parties is a global phenomenon. Three big worldwide trends are driving this time of strife. Firstly, we are the midst of a global slowdown where rich countries are stuck in a low-growth trap. Secondly, technology is transforming our societies and our workforces. Amazing new high-paying, highly-skilled jobs are being created, but robotics and artificial intelligence are automating so many of the low-skilled jobs the working class used to depend on. Lastly, at a time when global income gains have declined, wages are stagnant and income inequality is rising. This has produced widespread popular anger, where large parts of the working class feel they have been left behind.

“We’re in a volatile, global economy—the most uncertain I have ever seen. [...] Protectionism is rising. Globalization is being attacked as never before.”

- Jeff Immelt, Chief Executive Officer, General Electric
The hardest questions about the outlook for the global economy in 2017 and beyond are the following:

- Why is global growth so slow? Can we break out of our funk?
- What will happen to the Canadian economy? Will questions about NAFTA chill business investment and hiring?
- Have we reached a tipping point where the gains from trade and technology are no match for the negative effects of income inequality and sluggish global growth?
- Have we embarked on a new era of close-the-borders populism, where globalization is in retreat? Or, do we risk reading too much into the election of Donald Trump and the British vote to exit the European Union?

Canadian business feels strongly that more can be done to improve Canada’s competitiveness, particularly in an era of slow growth and tough competition. Exports are critical to generating the growth, jobs and tax revenues Canada needs to succeed. According to the business leaders we consulted, in order to improve Canada’s competitiveness, the following issues must be addressed in 2017-2018:

- Skills and labour: Canadian business is facing skills shortages right across the board. There is an urgent need for new immigrants and for skills and education that are aligned with the needs of employers.
- Infrastructure: Strategic investments in infrastructure make Canada more competitive, bring down costs and help get its goods to market. Business leaders are concerned only a small amount (just 7%) of Canada’s
infrastructure spending is dedicated to the trade-enabling infrastructure that will improve productivity. Greater priority must be placed on roads, ports, airports, bridges and digital infrastructure.

- Environment and consultations: Many businesses recognize improved energy efficiency and green technology can be a source of competitive advantage. In addition, continued delay in project approvals has shown that a stronger federal role is needed in consultative processes with Indigenous and local communities.

- Innovation and the digital economy: Canada must support more start-ups, attract more venture capital and provide more incentives to commercialize new technologies right here at home.

- Trade: More has to be done to communicate the benefits of trade to the average person, but it is not clear whose responsibility that is. Canada also needs adjustment funds and programs for people affected by trade and technology. We need to be honest about the impacts—that some people are left behind—and find solutions.

- Canada’s brand: There is a big advantage to being the one open country in a world of close-the-borders populism. Canada must capitalize on it to attract investment.

- Costs: The cost of doing business in Canada is climbing, which is depressing business investment and reducing our competitiveness. At the same time, the new U.S. administration is about to embark on a vast program of tax reductions and deregulation.
THE GREAT GLOBAL SLOWDOWN

What happened to global growth? For decades we have all become accustomed to a global economy that was growing at 5% per year, with world trade roughly double that, between 8% to 10%. Just 10 years ago, 3% growth in global GDP was considered a recession. Now that range has become the new normal and trade has been eking out growth at just above 3%. What is happening?

Source: IMF WEO
The real problem is rich countries, which are stuck in a low-growth trap, according to the OECD. When we break down the components of growth, we can see that it would be difficult to get back to rapid expansion of the economy. Growth comes from three sources: labour, capital and productivity. These are big challenges for Canada, as for any other country.

**Barriers to Growth**

Starting with labour, every rich country is getting older—in Japan the population is actually shrinking—and birth rates continue to decline in many European countries. Even in North America, population gains are mostly driven by immigration.

“Growth remains elusive. Hopes for the world economy still rise and fall with the latest piece of data, but the sad fact is that more than seven years beyond the Great Recession—almost a standard growth cycle—we still haven’t ‘arrived.’”

- Peter Hall, Chief Economist, Export Development Canada

In Canada years ago, 100,000 jobs had to be created each year just to keep up with the growth of the labour force. That is not true anymore: we can see that our total labour force will stabilize in 2019 and start to decline. However, if we take a narrower definition of the labour force, those aged 15 to 54, we see that it started declining in 2015 and has been heading downwards ever since.
The second critical source of GDP growth is business investment. In rich countries around the world, this has been a continued source of weakness for years. It has become a vicious circle where businesses are slow to invest because of weak trade and GDP growth, causing weak business investment leading to lower GDP growth.

In Canada, we have now experienced eight consecutive quarters of declining business investment. The U.S. has experienced four consecutive quarters of declining business investment. Certainly, the sharp declines in 2015 are driven by falling capital expenditure in the natural resources sector, but recent declines in business investment appear to be more broad-based. In the second quarter of 2016, business investment in intellectual property product fell 4.5%, research and development fell by 2.1% and software declined by 0.7%.

This could be a particular vulnerability to the Canadian economy in the years ahead as uncertainty over NAFTA could cause businesses to hold off on large investments.

Canada’s Business Investment Declined in Eight Consecutive Quarters

Source: Statistics Canada, SNA
“Would you make a big investment in Canada, knowing there are big questions around the future of NAFTA and access to the U.S. market? Even if I give you assurances it will probably be ok, that some compromise will be reached, what is that based on?”

- Roundtable participant, Montreal

The most important factor constraining global growth is flattening productivity. From 1990 to 2007, productivity rose an average of 2% per year in OECD countries. Then from 2009 to 2015, growth fell below 1%. In 2015, productivity in the U.S. rose just 0.6% while Canada’s declined by 0.2%. Productivity is absolutely essential for sustainable wage growth because it is much easier to increase wages if workers are producing 5% more goods and services than last year, than if production is stagnant.

It seems odd in this age of high technology, ubiquitous smart phones and the digital economy, that our main problem is productivity and innovation. Indeed, economist Robert J. Gordon argues that growth will be below 1% for the next three decades because we have accomplished so many of the key innovations that make us better off. He cites the example of transportation. In 1910, the overwhelming majority of people in the United States got around by horse and buggy.

Just 50 years later, almost every household had a car, and the Boeing 707 was flying people across the Atlantic Ocean at 80% of the speed of sound. Mr. Gordon points out that the advances of today cannot possibly compare with the transformative change of yesteryear.

“Advances since 1970 have tended to be channeled into a narrow sphere of human activity having to do with entertainment, communications and the collection and processing of information. For the rest of what humans care about—food, clothing, shelter, transportation, health and working conditions both inside and outside the home—progress slowed down after 1970.”

- Robert J. Gordon, The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War

Optimists, like technology policy expert Alec Ross, disagree, arguing we are about to embark on an era of unprecedented productivity growth. Robotics, artificial intelligence, 3D printing and big data will unleash transformative change we cannot even imagine.
“Cutting-edge advances in robotics and life sciences will change the way we work and live—with enormous but unequal impact on our livelihoods and our lives. As robots increasingly occupy the world alongside us, the global economy will undergo a revolution spurred by artificial intelligence and machine learning that could be as consequential for labour forces as the agricultural, industrial and digital revolutions that preceded it.”

- Alec Ross, The Industries of the Future

Perhaps GDP is not measuring the right things. Economist Philip Cross points out that GDP statistics vastly “understate economic progress over long periods because innovative goods and services are difficult to measure. Rich nations do not produce more goods and services; they produce a vast array of new goods and services.”1 Indeed, free services, like Facebook, Google, YouTube and Skype, do not count in the calculation of GDP because they are free. What is the value of being able to access the entire catalogue of human knowledge from your smartphone for free?

Even more difficult in the service era is calculating productivity. How do you measure the output of designers, accountants, consultants, musicians, software developers and nurses? We can count how many customers are served, but this entirely overlooks the quality of the service, which is of far greater importance. So much of the value in the service economy cannot be measured or would be so subjective that many amazing advances simply are not showing up in the GDP data. And if we cannot measure productivity gains in a sector that accounts for 70% of GDP, it is little wonder Canada’s overall productivity growth has slowed.

The fourth barrier to growth is widening income inequality, as segments of society have seen wages stagnate or decline and are less able to grow or spend. Economist Thomas Piketty points out that throughout history, where wealth has been concentrated in a small aristocracy, this has led to reduced growth because the wealthy spend less and they spend less efficiently. Conversely, more money in the hands of entrepreneurs and the working class is more likely to be spent or invested to generate wealth.

The challenge we face in the next decade is the technological transformation that could accelerate income inequality. We have known for many years that technology is creating highly-skilled, high-paying jobs, but that automation was replacing some of the lower-skilled repetitive jobs. For the past three decades, automation has transformed the manufacturing sector: production continues to climb as employment has declined. A study by the Brookings Institute points out that 80% of manufacturing job losses were caused by technology (not trade!).

Today, technology is displacing not just low-skilled jobs, but also middle-skilled, middle-class occupations. A study at Oxford estimates that 47% of U.S. jobs are at risk of being automated within the next 20 years. That same methodology places 42% of Canada’s jobs at risk of automation.

At the Canadian Chamber, we are not resigned to accept slower growth as a new normal. Canadian business can flourish and benefit from these amazing technological transformations—and there are bright spots as the Canadian labour market is changing. Today, four out of five jobs and 70% of GDP are in the service sector. A study by the Conference Board of Canada points out that three out of the five fastest-growing Canadian exports over the past decade were financial services, computer services and management services. (Agricultural products, along with metals and minerals, also made the top five.)

“The widespread deceleration in productivity since the (global economic) crisis could presage the beginning of a new low-growth era. The global economy’s momentum remains sluggish, heightening concerns that there has been a structural downshift in growth rates compared with pre-crisis levels.”

- Pier Carlo Padoan, Chief Economist, OECD
THE U.S. ECONOMY

Strength + Stimulus

The U.S. economy has been going from strength to strength. Third quarter GDP grew by a healthy 3.2%, while unemployment fell to 4.6%. Essentially, the U.S. economy is at full employment: wages shot up 5.2% in 2015 and are still rising at the fastest pace in years. U.S. consumer prices rose for the fourth consecutive month as inflation is picking up, prompting the U.S. Fed to raise interest rates on December 14 to cool an economy that could soon be overheating.

What comes next? Mr. Trump’s ambitious agenda, as he laid out during his campaign, would add the largest stimulus in U.S. history. This includes spending $1 trillion in infrastructure, reducing the corporate tax rate from 35% to 15% and lowering the top rate of personal income tax from 39% to 25%. Moody’s estimates this would require a bonanza of borrowing, more than $8 trillion over five years, sending the U.S. debt-to-GDP ratio over 100% by 2021.

---


Mr. Trump is not likely to get everything he wants. Some compromise will be required for the budget to gain passage through the House and Senate. Our contacts in Washington have told us Mr. Trump is not driven by ideology, and many campaign statements were conceived to gain applause at rallies as opposed to being fully fleshed out policies.

"Due to uncertainties, the impacts of Trump’s campaign promises are not incorporated into our base case earnings forecast until there is more clarity around which policies will be emphasized and/or are politically feasible."

- JPMorgan Chase & Co.’s equity outlook

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<th>Trump’s Key Campaign Promises</th>
<th>(Take with a grain of salt)</th>
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<td><strong>Infrastructure</strong></td>
<td>$1 trillion for infrastructure, $550 billion through direct spending and tax incentives that encourage private investment</td>
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<td><strong>Corporate Tax</strong></td>
<td>Slash corporate tax rate from 35% to 15%; one-off offer to repatriate foreign profits at 10%; move from worldwide to territorial tax</td>
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<tr>
<td><strong>Personal Tax</strong></td>
<td>Cut top marginal rate from 39% to 25%; collapse current seven tax brackets to three tax brackets; repeal estate tax</td>
</tr>
<tr>
<td><strong>Energy</strong></td>
<td>Eliminate federal barriers to energy production to unleash $50 trillion in oil and gas reserves</td>
</tr>
<tr>
<td><strong>Regulation</strong></td>
<td>Reduce regulatory burden; repeal parts of Dodd-Frank; eliminate regulations (Clean Power, Waters of the U.S.)</td>
</tr>
<tr>
<td><strong>Immigration</strong></td>
<td>Build wall between the U.S. and Mexico; end birthright citizenship; reduce uncontrolled foreign worker admissions</td>
</tr>
<tr>
<td><strong>Trade</strong></td>
<td>Renegotiate NAFTA; reject TPP; impose a 35-45% tariff on imports from China; label China as FX manipulator; bring trade cases against China, both in the U.S. and WTO</td>
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“I worry about the number of investors, as reflected in markets, who seem to believe that Trump will do the policies they like—fiscal stimulus—and none of the crazy things he has flirted with—tariffs and expelling illegal immigrants. What makes people confident in their ability to predict what he will—and what he won’t—do from the arsenal of (mostly incoherent) statements that are made?”

- Erik Nielsen, Chief Economist, UniCredit SpA

But even if Congress can moderate Mr. Trump’s budget, investors predict the U.S. government will have to sell a massive wall of bonds next year to finance soaring deficits. That is why bond yields shot up so violently, from 1.5% to over 2.5% at the end of 2016, the steepest gain since 2009.

This will have an important impact north of the border as Canadian rates closely follow those in the U.S. More importantly, mortgage rates are linked to the 10-year bond yield, which is roughly the banks’ cost of funds to lend long-term money. That is why U.S. mortgage rates went up by 0.5% in November, and Canadian rates gained 0.3%.

Source: Trading Economics Database
Thus, the U.S. economy under President Trump will be pulled in two directions. Lower taxes and higher infrastructure spending will undoubtedly have a stimulative effect, but a sudden rise in interest rates could raise the cost of borrowing rate for consumers and businesses all across the country, creating a drag on the economy.

Our view is that immediate stimulative effects could be considerable, pushing U.S. GDP growth close to 3%. However, that will raise inflationary pressures and force interest rate increases, either by the U.S. Fed or the bond market raising yields near the end of 2017 or the beginning of 2018. The Trump deficits will raise the cost of borrowing for business and consumers, a significant drag across the U.S. economy, which will offset much of the stimulus in 2018. Higher interest rates will also attract capital inflows and boost the value of the U.S. dollar while anti-NAFTA threats push down the currencies of key trading partners (Mexico’s peso fell 11% while the CAD slipped 3%) and act as a dampener on business investment.

![Real GDP Growth](chart.png)

Source: Statistics Canada, U.S. Federal Reserve, The Canadian Chamber of Commerce
In 2017, Canadian business will see stronger export demand from an over-stimulated U.S. economy and a weaker loonie. However, business investment will be weak because of uncertainty surrounding NAFTA and, particularly, because of a new proposal called the Border Adjustment Tax. Under the House GOP’s tax plan, which is likely to be introduced in January, the corporate tax rate would be reduced from 35% to 20% and would be border adjusted. American imports could no longer be deducted from revenues, which means imports would be taxed at a 20% rate. Exports would not be taxable at all.

This would have serious consequences to Canadian companies that export to the U.S. because it would have the same effect as a 20% tariff. It would distort the market, increase consumer prices and create an uneven playing field for companies and consumers alike. Canadian manufacturers would be significantly disadvantaged and would lose sales. American businesses would have to scramble to readjust supply chains to favour domestic sources.

The secondary impact is the uncertainty for Canadian business and investors. Even if the proposed tax plan fails passage, it could take months of budget legislation going back and forth between the House and Senate. The threat of losing U.S. market access or being hit with a big tariff will have a chilling effect on investment. Many businesses have told us they see great opportunities in the U.S., with its strong economy, but are in “wait-and-see” mode with regard to investment.

Fortunately, we have seen strong opposition to the Border Adjustment Tax by U.S. business interests. The Financial Times is reporting that lobbyists who sometimes struggle to get the attention of company leaders are receiving calls from chief executives with orders to fight the tax plan. Many importers, from electronics retailers to energy companies, have warned the tax could wipe out their profits. The National Retail Federation said the import tax could inflate the tax bills of some fashion chains (98% of clothes sold in the U.S. are made overseas) to three to five times their pre-tax profits, jeopardizing their solvency. The American Apparel and Footwear Association called the import tax an “existential” threat to its industry.

We are working with partners and business allies in the U.S. to raise awareness of the benefits of trade with Canada and to help fight back against protectionist measures, but these remain a significant risk for Canadian exporters.
Will Political Crises Derail the Return to Growth?

In spite of political acrimony and wrangling, Europe’s economy is doing much better, supported by low interest rates and pent-up demand. GDP growth in the European Union reached a healthy 1.8% in 2016, driven by consumer spending (+1.6%) and solid business investment (+3%) while exports reported modest gains. The EU unemployment rate fell to 9.8% at the end of 2016, down from a peak of 12.1% in April 2013. The fastest growing countries in 2016 were Ireland (+6.9%) and Spain (+3.2%). Even Greece returned to modest growth of 1.6% last year and could reach 2.5% in 2017.

We are forecasting overall EU growth will reach 1.6% in 2017 and 1.8% in 2018, but there are big risks in the year ahead.

The biggest challenge to the outlook is the repercussions of last year’s “Brexit” vote. British Prime Minister Theresa May has promised to trigger Article 50, the process for exiting the European Union, no later than the end of March. The negotiation period is limited to two years, after which EU treaties will no longer apply to Britain.

This will have a depressing effect on investment in the U.K. Business hates uncertainty, and the negotiations will be very difficult because the British government will be trying to exit the EU while maintaining access to trade in the common market; investments; banks and the financial sector; some labour mobility; public procurement; input into regulations, etc. Many believe Europe will drive a hard bargain to avoid the U.K. becoming a model for other frustrated member-states.

This comes at a bad time as Europe has many important elections coming up where EU membership will be a central issue. Marine Le Pen, the leader of France’s far-right political party, the Front National, declared the Brexit vote a “victory for freedom” and called for an identical referendum in France “as soon as possible.” At the beginning of January, Mme. Le Pen was leading in the polls. France’s general election takes place this spring, so it should be an exciting year in European politics.

One thing we have learned over the past decade is that European institutions are adaptive. They have struggled with political challenges in the past, from multi-billion dollar bailouts to new rules on budgets and banking, and they have...
muddled through. This is why our forecast calls for healthy growth of 1.6\% and much political volatility.

With 500 million people and a GDP of $18.5 trillion, the EU remains the world’s largest economy and the largest importer. Canada had $37.7 billion of exports to the EU in 2015, of which $15.9 billion was destined for the U.K. The best thing the Government of Canada can do is to press ahead full speed with ratifying the Comprehensive Economic and Trade Agreement (CETA) to show Canada’s commitment to the European Union. In the future, if the U.K. is no longer part of the EU, we should also begin negotiating a new trade agreement with our old friends.

“Popular discontent with economic sluggishness is nothing new but it has now made major headway into developed economies. The world was thunderstruck in June when Britain voted to exit the EU, in spite of the fact that the campaign was a close race throughout. It’s still not entirely clear what the majority were truly voting for, but the referendum exposed an exasperation with existing conditions, concluding that the current structure must in some way be at fault.”

– Peter Hall, Chief Economist, Export Development Canada

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<th>An Exciting Year in Europe...Items to Watch!</th>
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<td><strong>March 2017</strong></td>
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<td><strong>April /May 2017</strong></td>
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<td><strong>Sept. 1, 2017</strong></td>
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<td><strong>Oct. 1, 2017</strong></td>
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<td><strong>May 1, 2018</strong></td>
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**CANADA’S ECONOMY**

The Canadian economy is facing significant challenges in 2017-2018. We saw impressive growth of 3.6% in the third quarter of 2016, but this was mostly a bounce-back from the hugely negative impact of the Fort McMurray wildfires in the second quarter.

Job and wage growth will be soft in 2016 as the uncertainty around NAFTA will be a continuing drag on business investment—projects will be delayed or postponed. The main reason for moderating growth is a slowdown in consumer spending. Consumption is 70% of Canada’s GDP, so it matters very much how Canadians are feeling and whether they are spending. Canadians are struggling with high levels of debt, now at a record high of 165% of disposable income.

The Bank of Canada is particularly concerned about housing debt, warning that Canadians’ vulnerability is rising. The Bank warns the proportion of high-ratio mortgages with debt exceeding 450% of income has more than doubled.

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**A Tale of Two Cities: Vancouver and Toronto Are in a League of Their Own**

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<th></th>
<th>Average Home Price (May 2016)</th>
<th>Price Growth in Past Year (May 2016)</th>
<th>Median Household Income</th>
<th>Price to Income Ratio</th>
<th>Job Growth in Past Year (May 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vancouver</td>
<td>1,055,495</td>
<td>16.5%</td>
<td>73,390</td>
<td>14.4</td>
<td>81,600</td>
</tr>
<tr>
<td>Toronto</td>
<td>751,908</td>
<td>15.7%</td>
<td>72,830</td>
<td>10.3</td>
<td>77,100</td>
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<tr>
<td>Montreal</td>
<td>354,533</td>
<td>4.7%</td>
<td>73,250</td>
<td>4.8</td>
<td>16,100</td>
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<tr>
<td>Calgary</td>
<td>476,886</td>
<td>2.3%</td>
<td>101,260</td>
<td>4.7</td>
<td>-26,500</td>
</tr>
<tr>
<td>Quebec</td>
<td>266,269</td>
<td>-0.8%</td>
<td>84,160</td>
<td>3.2</td>
<td>-400</td>
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<tr>
<td>Regina</td>
<td>326,656</td>
<td>2.0%</td>
<td>93,670</td>
<td>3.5</td>
<td>1,600</td>
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<tr>
<td>Winnipeg</td>
<td>290,063</td>
<td>0.9%</td>
<td>77,770</td>
<td>3.7</td>
<td>-3,300</td>
</tr>
<tr>
<td>Ottawa</td>
<td>384,212</td>
<td>-0.5%</td>
<td>101,070</td>
<td>3.8</td>
<td>8,000</td>
</tr>
<tr>
<td>Edmonton</td>
<td>382,695</td>
<td>-0.2%</td>
<td>98,480</td>
<td>3.9</td>
<td>30,700</td>
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<td>Saint John, NB</td>
<td>165,762</td>
<td>-2.1%</td>
<td>73,560</td>
<td>2.3</td>
<td>-400</td>
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<td>Halifax</td>
<td>294,493</td>
<td>1.1%</td>
<td>82,010</td>
<td>3.6</td>
<td>5,300</td>
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<td>St. John’s, NL</td>
<td>291,684</td>
<td>-4.3%</td>
<td>91,100</td>
<td>3.2</td>
<td>900</td>
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<td>Canada</td>
<td>509,460</td>
<td>13.2%</td>
<td>76,550</td>
<td>6.7</td>
<td>109,000</td>
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<tr>
<td>London</td>
<td>1173,561</td>
<td>15.4%</td>
<td>76,397</td>
<td>15.4</td>
<td></td>
</tr>
<tr>
<td>New York City</td>
<td>493,962</td>
<td>5.8%</td>
<td>85,339</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>U.S.A</td>
<td>306,977</td>
<td>5.2%</td>
<td>66,414</td>
<td>5.2</td>
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</table>

Source: Canadian Real Estate Association, Statistics Canada
over the past three years, from around 10% to roughly 25%. The CD Howe Institute reports 11% of Canadian households have mortgage debt that is more than 500% of their disposable income and will experience financial distress when interest rates rise.

Are Canadian home prices vulnerable? We have had many years of experts warning about a bubble in housing—including the IMF, the Bank of Canada, the OECD, Canada’s biggest banks and its biggest mortgage insurer—warning Canadian real estate is overvalued.

The trouble is Canada effectively has three housing markets. In Toronto and Vancouver, price growth is soaring at 16% per annum, and affordability has plummeted to crisis levels. In the middle tier of cities—Ottawa, Quebec, Regina, Montreal—home prices have been mostly stable, rising around 1.5-3% per year over the past five years. In parts of Alberta and Newfoundland and Labrador, home prices are declining.

The extreme divergence shows up in the Price to Household Income ratio, which is normally 3 to 4 (e.g. if household income is $50,000, then a home costs $150,000 to $200,000). Once that ratio reaches 6 or 7, we get into bubble territory. The only markets that are flashing red warning signs are Toronto and Vancouver. Home prices will decline in Vancouver this year, thanks to the tax on foreign buyers, and the rest of the country should see slower growth as mortgage rates edge up.

If Canada’s domestic economy is weak, then it will have to depend more on exports to drive growth and job creation. The trouble is Canada has two years of declining exports, falling 1% in 2015 and around 3% in 2016. These overall numbers mask enormous variation and amazing growth in some sectors. Last year, energy exports fell 15%, but autos grew by 16%, and we exported 11% more consumer goods.

Export Development Canada has the best and most comprehensive export forecast, which is available on its website EDC.ca. It is forecasting growth of just 3% next year.

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“Vancouver home prices had gotten so out of whack with the growth in underlying wages and salaries that there had to be a correction, and it will happen in 2017. [...] If it’s not double digit, it’ll be close to it.”

- Phil Soper, Chief Executive Officer, Royal LePage

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“Aerospace, fertilizers and consumer goods will all post solid growth next year as well, owing to the recovery in U.S. demand. Notwithstanding the U.S. consumer appetite for new cars, motor vehicles and parts are in for a decline in export volumes due to the expected shutdown of some GM model lines in Oshawa. The forestry sector will also see a decline, due in part to the likely imposition of new duties on Canadian softwood lumber and the ongoing global decline in demand for paper.”

- Peter Hall, Chief Economist, Export Development Canada
The challenges facing Canada in 2017-2018 are considerable. Our domestic economy will slow because of rising consumer debt and a softer housing market. At the same time, we are in the midst of a global slowdown where rich countries are stuck in a low-growth trap. Technology is also transforming our societies and our workforces. Amazing new high-paying, highly-skilled jobs are being created, but robotics and artificial intelligence are automating so many of the low-skilled jobs the working class used to depend on. This means that at a time when global income gains have declined, wages are stagnant and income inequality is rising.

In an era of slow growth and tough competition, business competitiveness is the number one factor determining Canada’s future. Not only do competitive industries drive quality and price for Canadians at home, they determine a huge part of our overall prosperity in the world economy. Exports are critical to generating the growth, jobs and tax revenues Canada needs to succeed.

More than ever, we need public policies that help Canadians win. Today’s globalized economy is more competitive than ever. Because of digital technologies and international free trade, no economy, sector or business is “safe” from global competition. From day one, a Canadian start-up is competing head-to-head with companies throughout the world, even for sales right next door.

According to the business leaders we consulted, in order to improve Canada’s competitiveness, the following issues must be addressed in 2017-2018:

- Skills and labour: Canada’s competitiveness will depend, in large part on its ability to foster and find workers with the skills employers need to succeed. Currently, Canada is not producing enough graduates with the skills needed for its economy. We will find our skills gap growing and our growth stifled if we fail to better align skills development with immigration policy goals. We have forecasts of shortages and high demand in
several occupations. At the same time, our immigration system has been overhauled with serious consequences for employers who face an increasingly complex and costly system. There are three key actions that would have immediate practical impacts on businesses’ human resource challenges. The federal government must ensure immigration changes stop unduly limiting employers’ access to the foreign talent they need; it must invest in more and better labour market information; and it must provide incentives for employers to offer more work-integrated learning, post-secondary co-op placements and internships.

- Infrastructure: Strategic investments in infrastructure make Canada more competitive, bring down costs and help get its goods to market. Business leaders are concerned that only a small amount (just 7%) of Canada’s infrastructure spending is dedicated to the trade-enabling infrastructure that will improve productivity. Greater priority must be placed on roads, ports, airports, bridges and digital infrastructure.

- Environment and consultations: Business leaders recognize improved energy efficiency and green technology can be a source of competitive advantage. In addition, a stronger federal role is needed in consultations and outreach with Indigenous and local communities.

- Innovation and the digital economy: Canada must support more start-ups, attract more venture capital and provide more incentives to commercialize new technologies right here at home.

- Trade: More should be done to communicate the benefits of trade to the average person, but it is not clear whose responsibility that is. Canada also needs adjustment funds and programs for people affected by trade and technology. We need to be honest about the impacts—that people are being left behind—and find solutions.

- Canada’s brand: There is a big advantage to being the one open country in a world of close-the-borders populism. Canada must capitalize on it to attract investment.

- Costs: Since 2015, we have seen significant new costs imposed on business from different levels of government. Although any one of the initiatives causing these costs may be virtuous, the combination of federal and provincial initiatives, stacked on top of one another has reduced the profitability of existing firms and the possibility of new investments. Meanwhile, the new U.S. administration is about to embark on a vast program of tax cuts and deregulation that could exacerbate our competitiveness challenge.

“Canada is about to get Trumped on tax competitiveness and we’re not even close to ready for it.”

– Jack M. Mintz, President’s Fellow, School of Public Policy, University of Calgary
CONCLUSION

In countries around the world, the central policy debate is no longer about right versus left. In 2017, new battle lines have been drawn between globalists and nationalists. This is a momentous change.

The global economy has become a far more volatile place. Amid sluggish global growth, nationalists have tapped into a powerful vein of working-class anger and promised to put their countries first. Too many people feel left behind, threatened by competition and mistrustful of the elites. But the driving forces behind income inequality, stagnant wages and job losses have overwhelmingly come from technological advances. It is not possible to vote against technology, so, instead, we have seen a surge of governments and political parties push back aggressively against trade and immigration. These nationalists gained impressive victories in the U.K. and the U.S., and we will likely see more victories in important countries of Europe in 2017.

But globalists should not lose heart. It is indisputable that free trade, free flows of capital and free mobility of labour brought the world enormous gains of wealth. Over the past 20 years, nearly 1 billion people have been taken out of poverty. Slamming the door on trade and bashing immigrants will not bring back manufacturing jobs or reopen coal mines.

For Canada, it should not pretend it is immune to nationalist urges or ignore the people who do not benefit from trade and technology. Instead, we have to do a better job of sharing the gains and of making sure educational opportunities are expanded to pull more people into the middle and upper classes. We also have to do a better job of explaining the benefits of trade and openness to a broader audience. Finally, to create the new jobs and technologies that generate the wealth Canada needs, we have to improve the competitiveness of our business sector with world-class skills, innovation and infrastructure.

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