

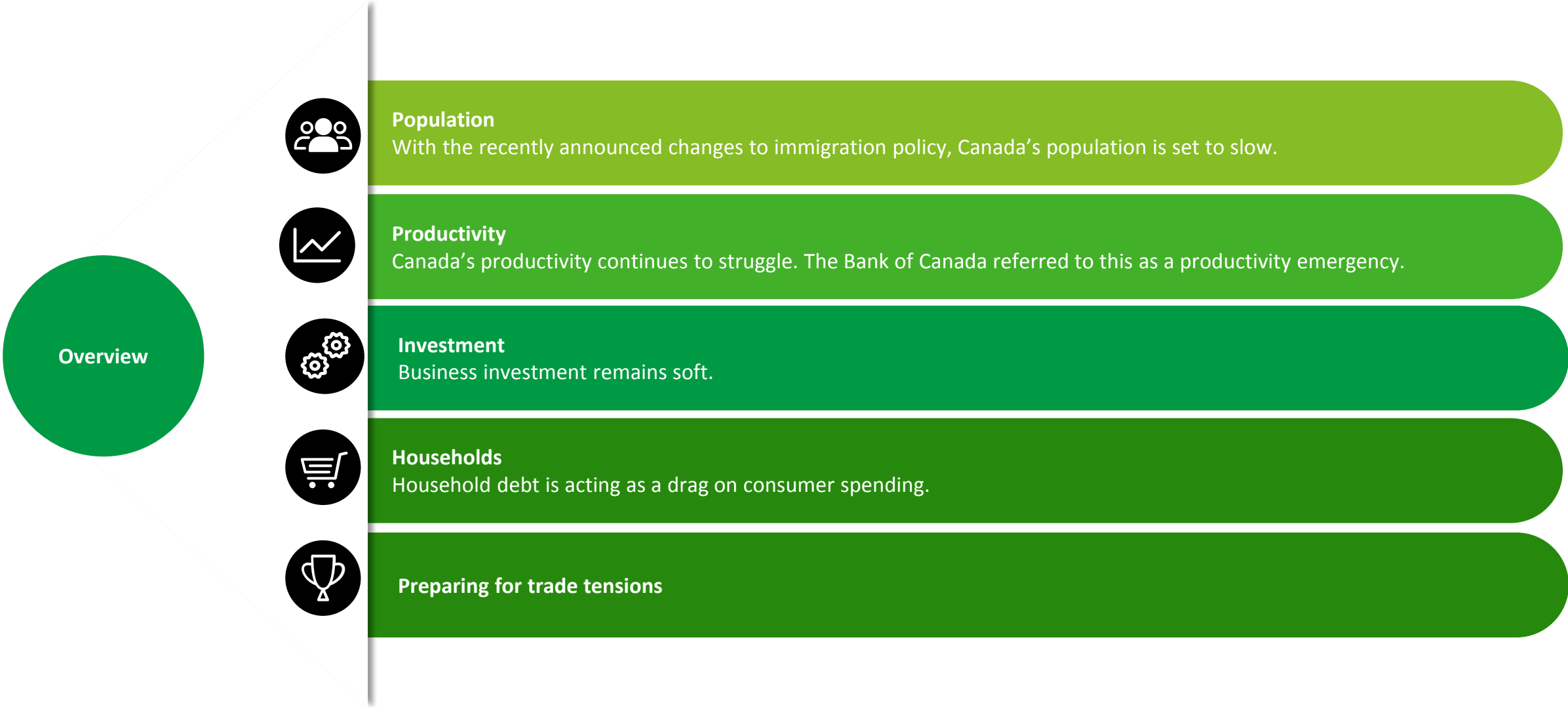


Deloitte Economic Overview

Presentation at CILTNA 2024 Fall Conference Panel 1

November 2024

Five key takeaways



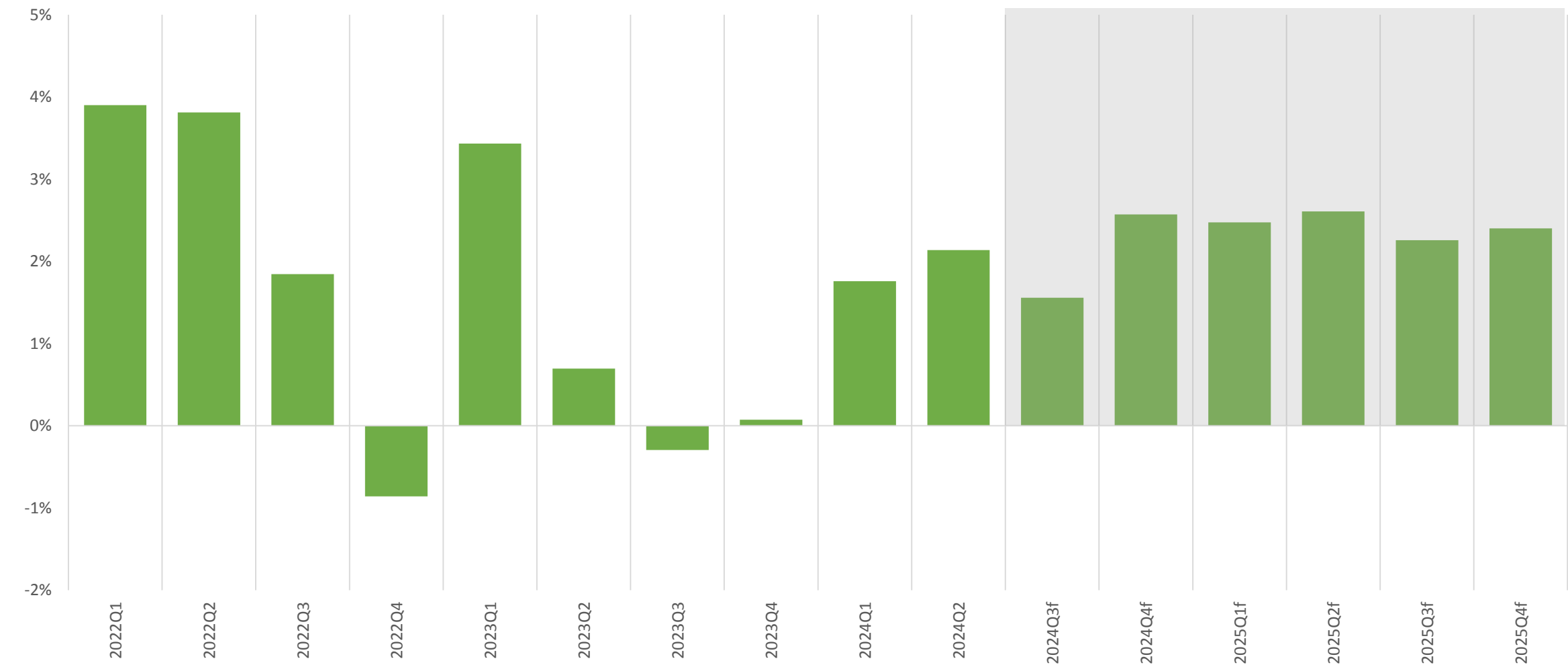
Macroeconomic Update



Navigating uncertainty

Canada's economy has started the year strongly; growth expected to accelerate next year but not as strongly as initially expected.

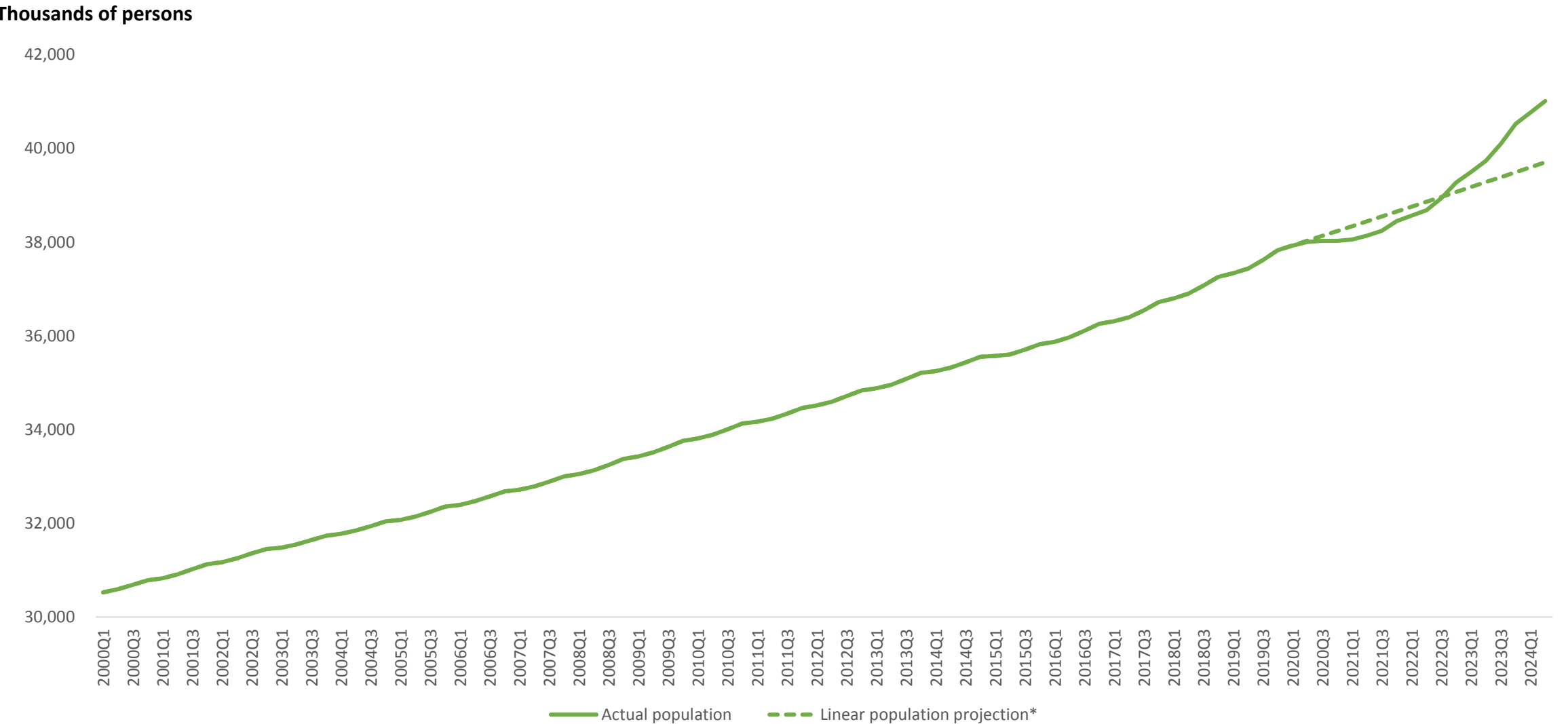
Real GDP, Canada, quarter-over-quarter annualized % change



Source: Statistics Canada; f: forecasts by Deloitte Economics

Population growth in perspective

Canada's population has grown rapidly in recent years, running stronger than historical patterns would suggest.

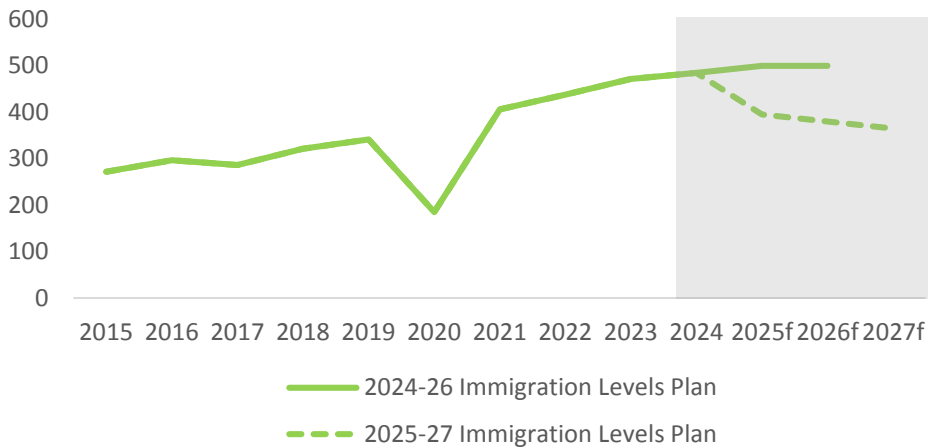


Source: Statistics Canada and Deloitte Economics

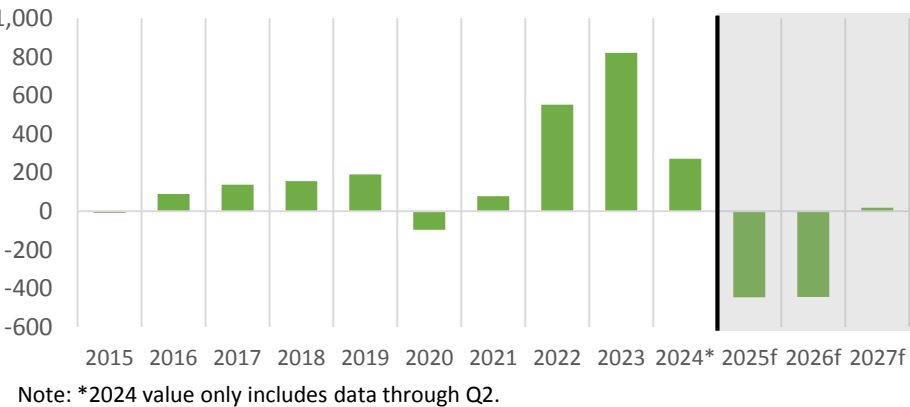
About turn

Feds make big pivot on immigration; population growth now projected to run negative for the next two years.

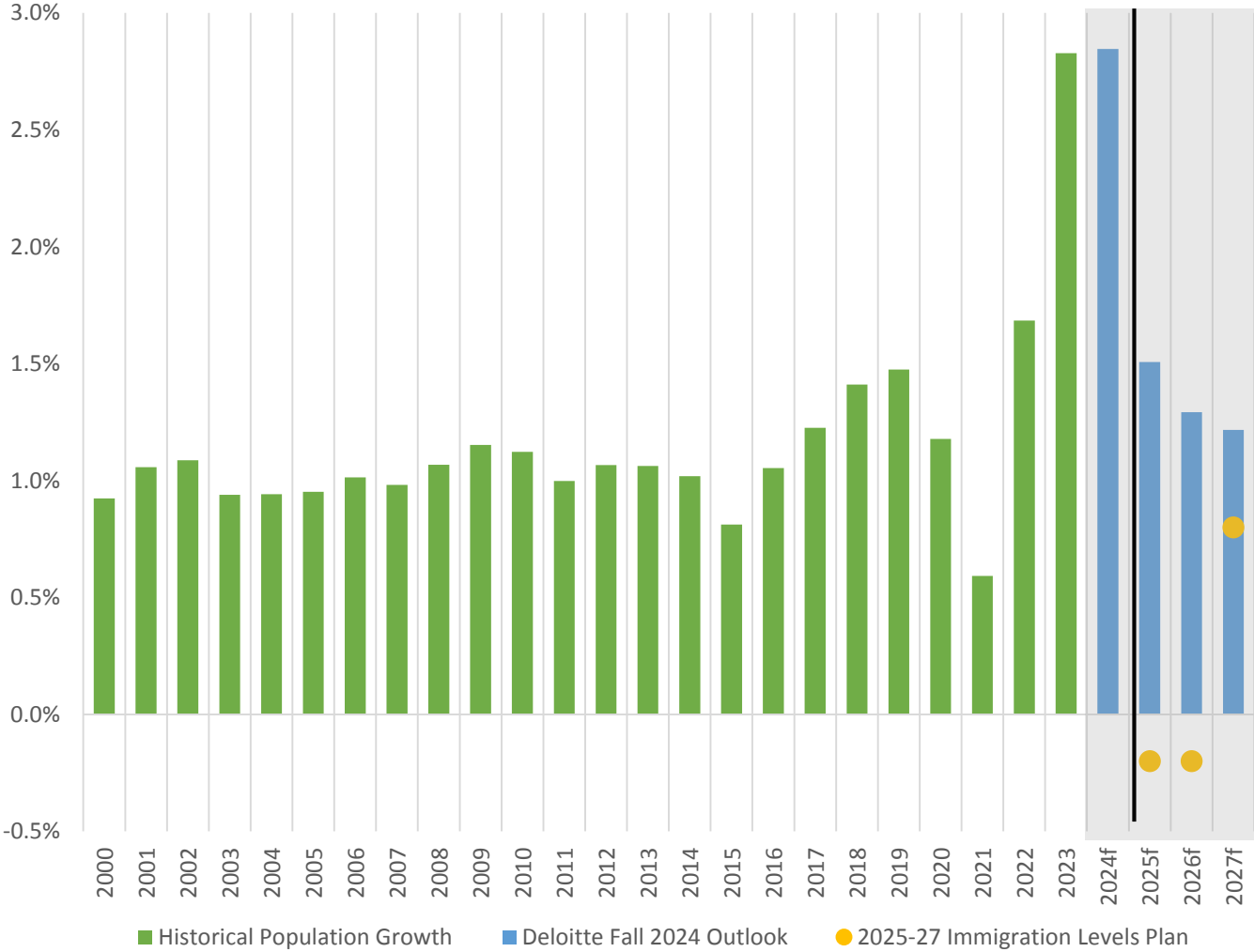
Number of permanent residence admissions and targets, thousands of persons



Number of net non-permanent residents and newly announced targets from 2025 onwards, thousand of persons



Yearly population growth, Canada, %

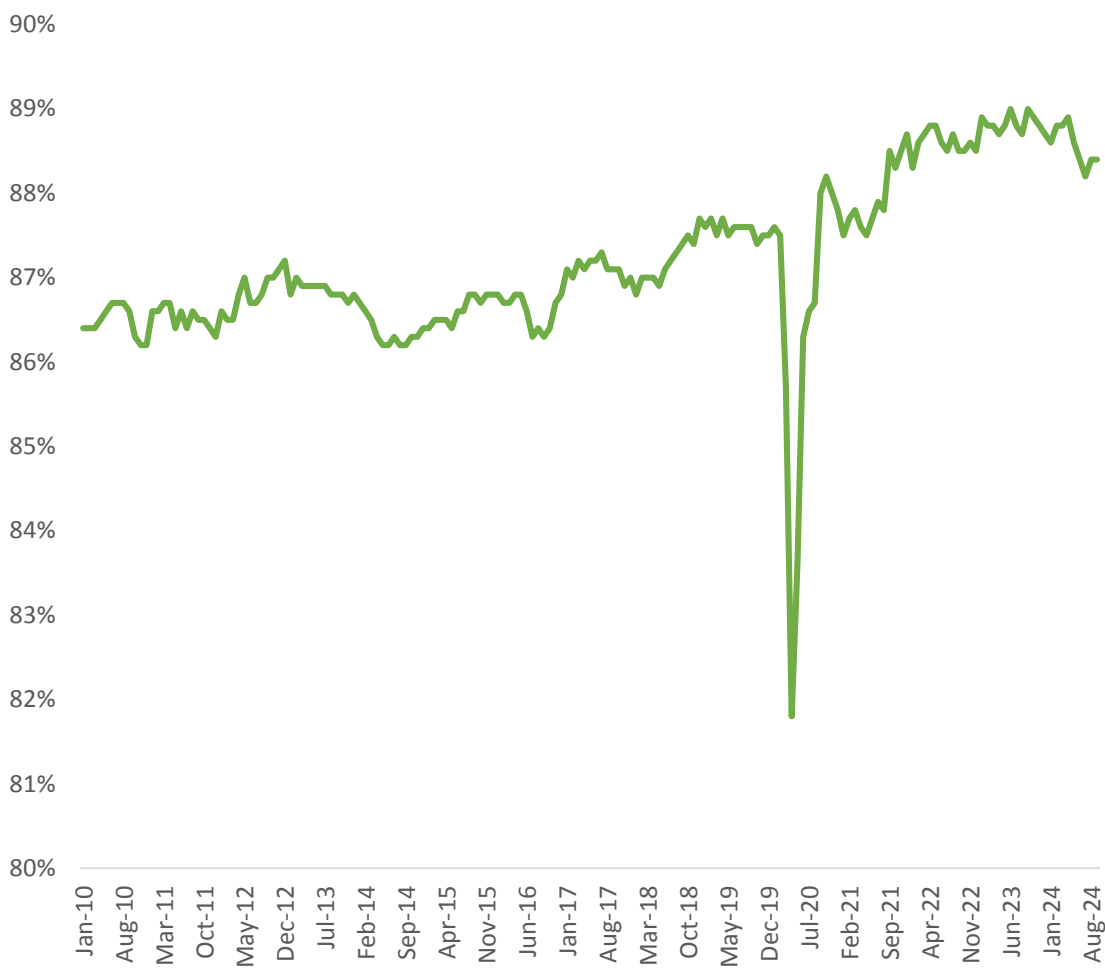


Source: Statistics Canada, Immigration Refugees and Citizenship Canada and Deloitte Economics

What is the current state of the workforce?

Participation rates for core workers have recovered well, but an increasing number of workers are retiring.

Participation rate (%), both sexes, individuals aged 25 to 54, Canada



Participation rate (%), both sexes, individuals aged 55 and over, Canada



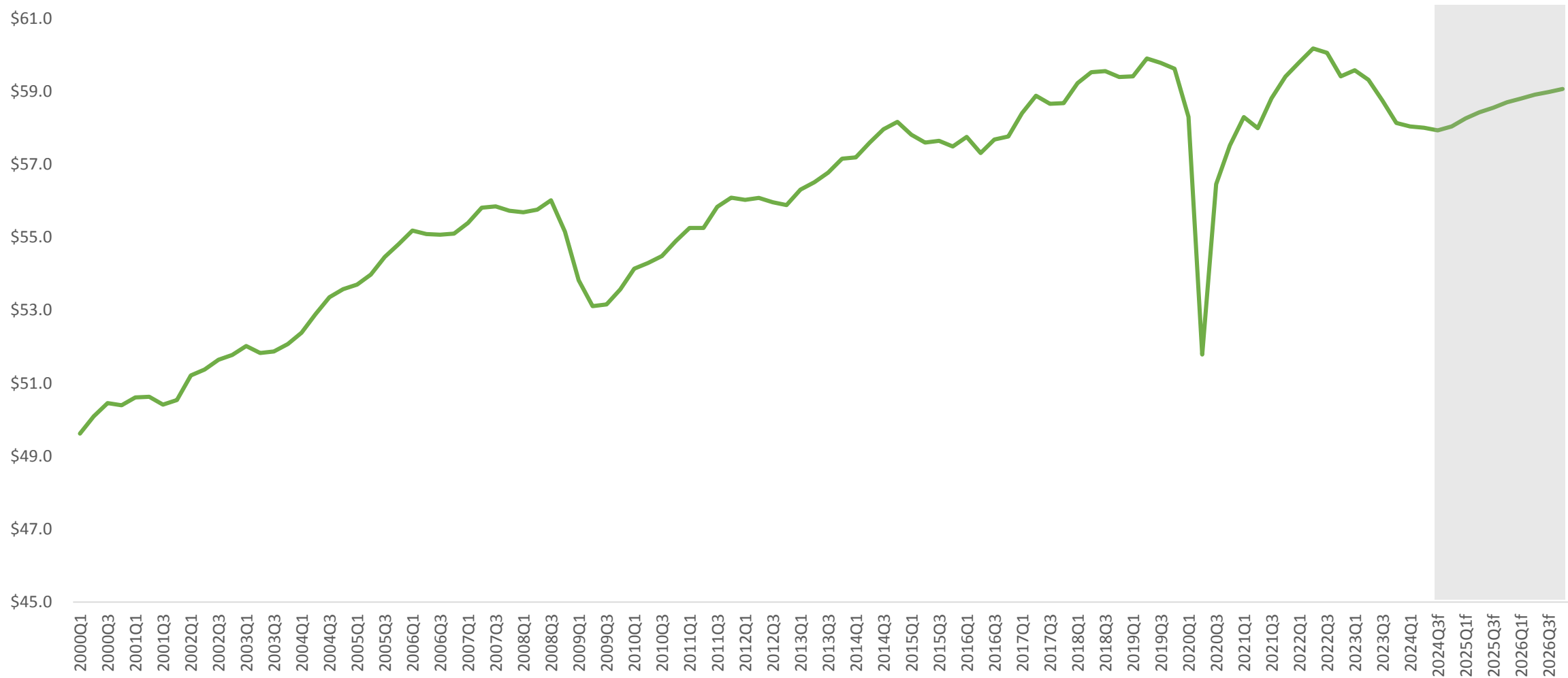
Source: Statistics Canada

Source: Statistics Canada

GDP per person continues to struggle

Amid eye-popping immigration flows, Canada's GDP per capita has trended lower, declining for 5 consecutive quarters.

Real GDP per capita, thousands of 2017 \$ per person, Canada

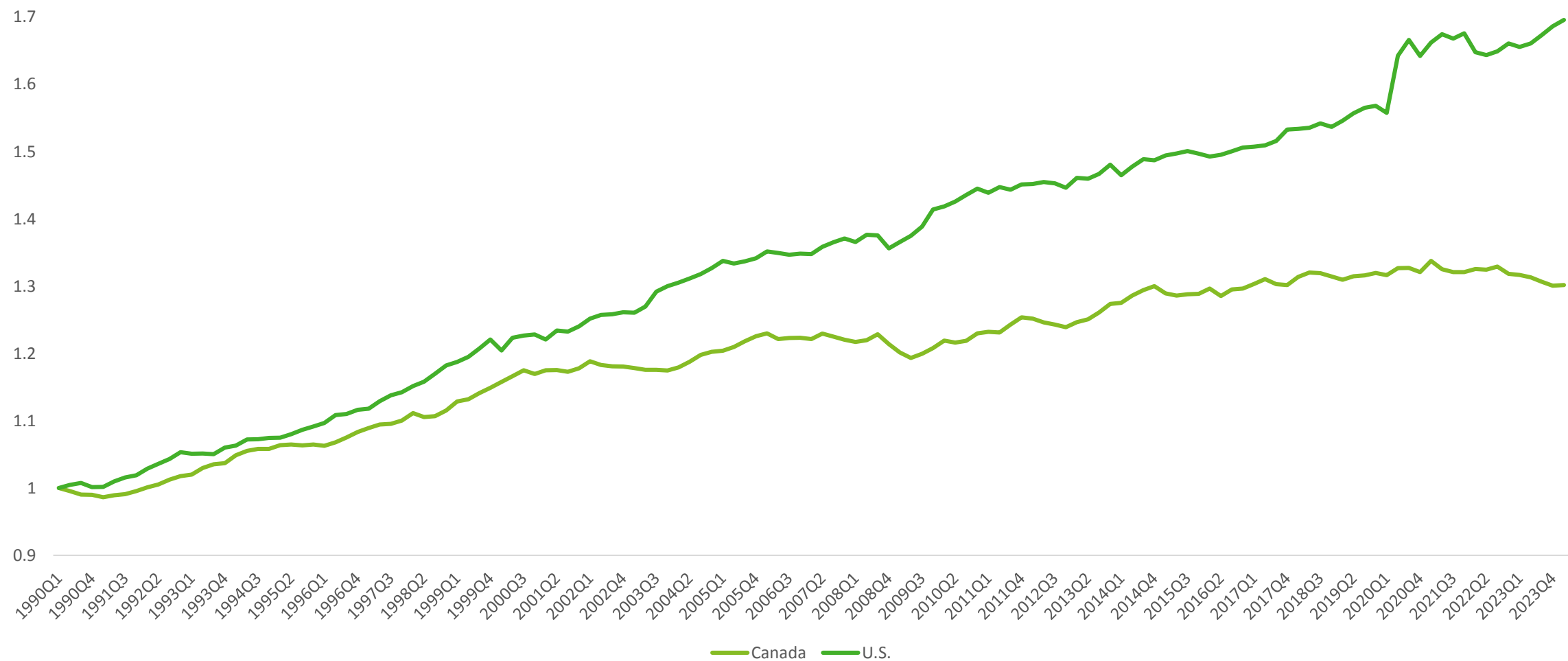


Source: Statistics Canada; f: forecasts by Deloitte Economics

Falling behind

In the last thirty plus years, U.S. GDP per worker has grown at more than double the rate of Canada's.

Index of real GDP per worker, 1990Q1 = 100

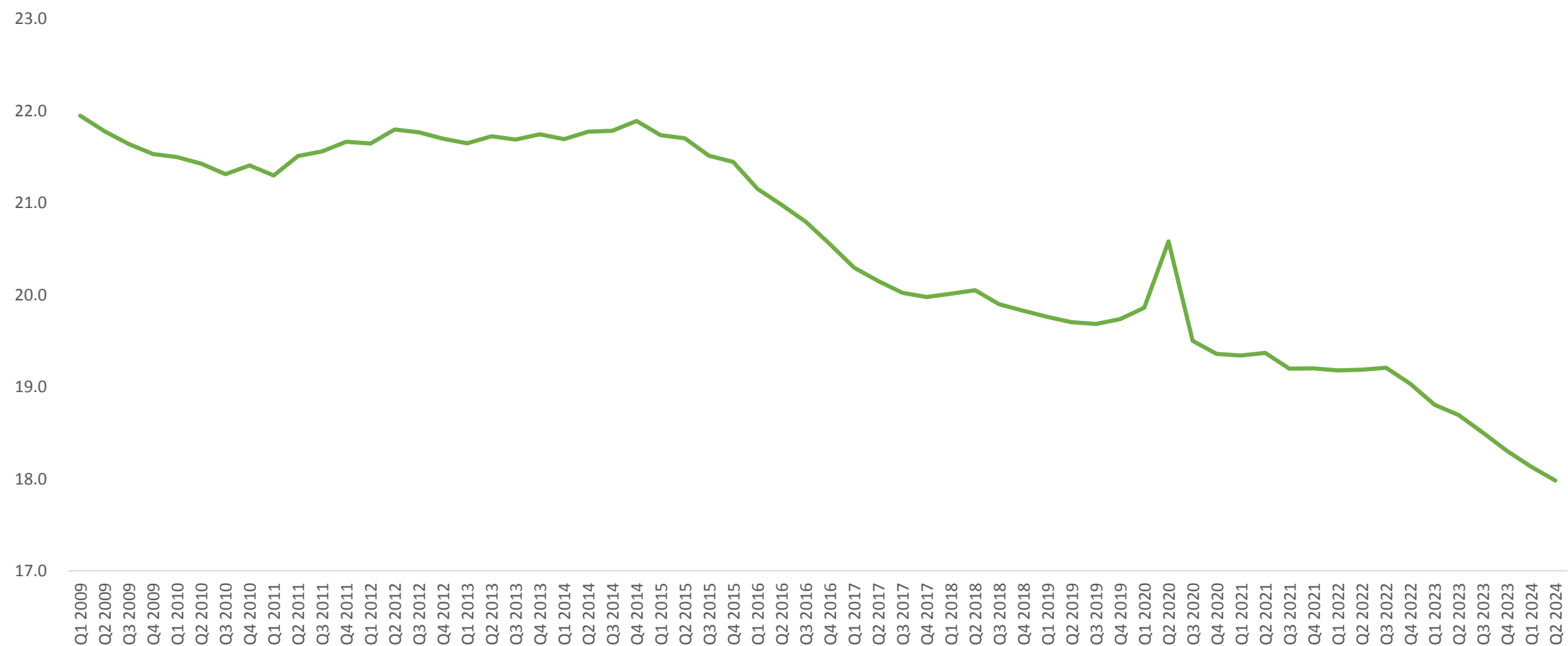


Source: Haver

Assessing possible root causes

For too long, Canada has been asking its labour force to do more with less.

Stock of machinery and equipment per available worker, thousands of constant 2017\$



Source: Statistics Canada and Deloitte Economics

Note: Capital stock is valued geometric end-year net stock; labour force is derived as the quarterly average of the seasonally-adjusted monthly labour force.

Chronically weak business investment

The lack of robust business investment is hurting productivity growth.

Non-energy Business investment as a share of GDP

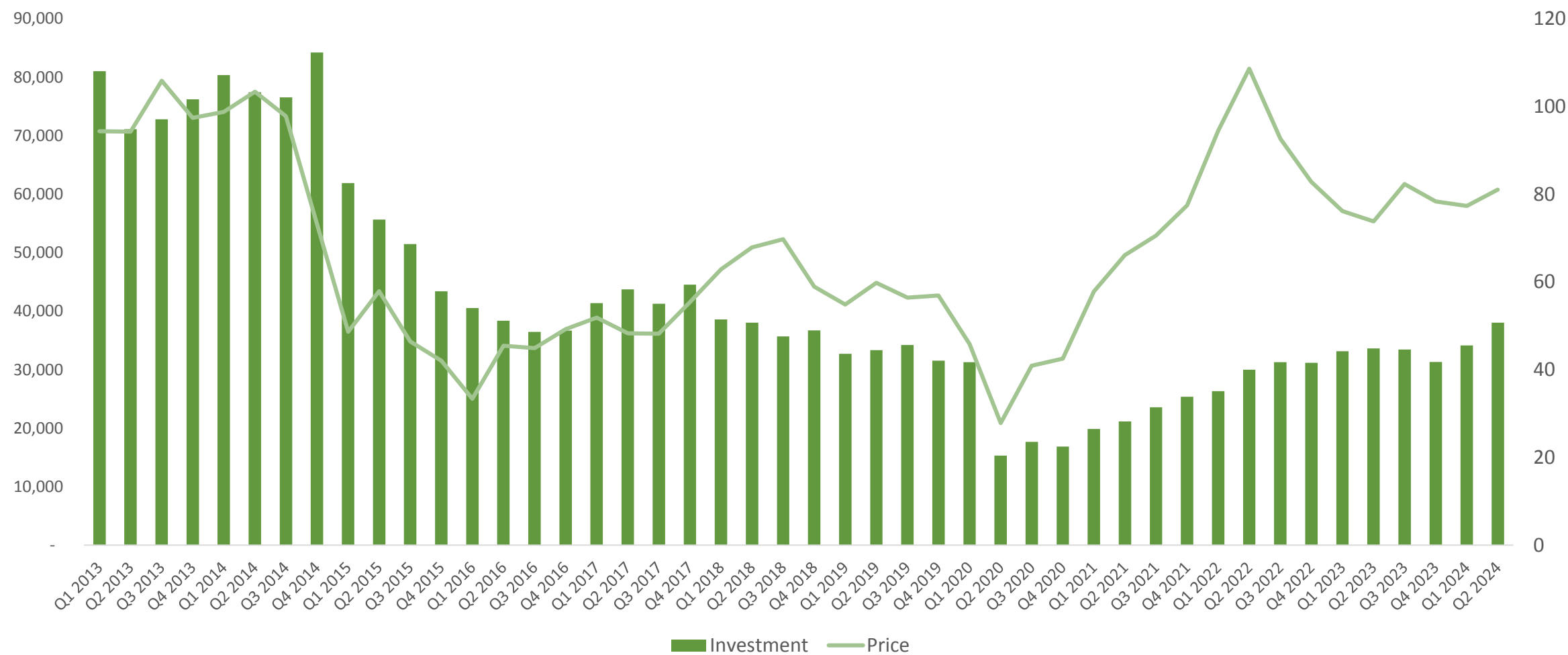


Source: Statistics Canada

Energy investment is unlikely to recover

Oil and Gas firms are unlikely to increase energy investment significantly.

Investment in oil and gas, millions, Chain Fisher constant dollars, WTI price

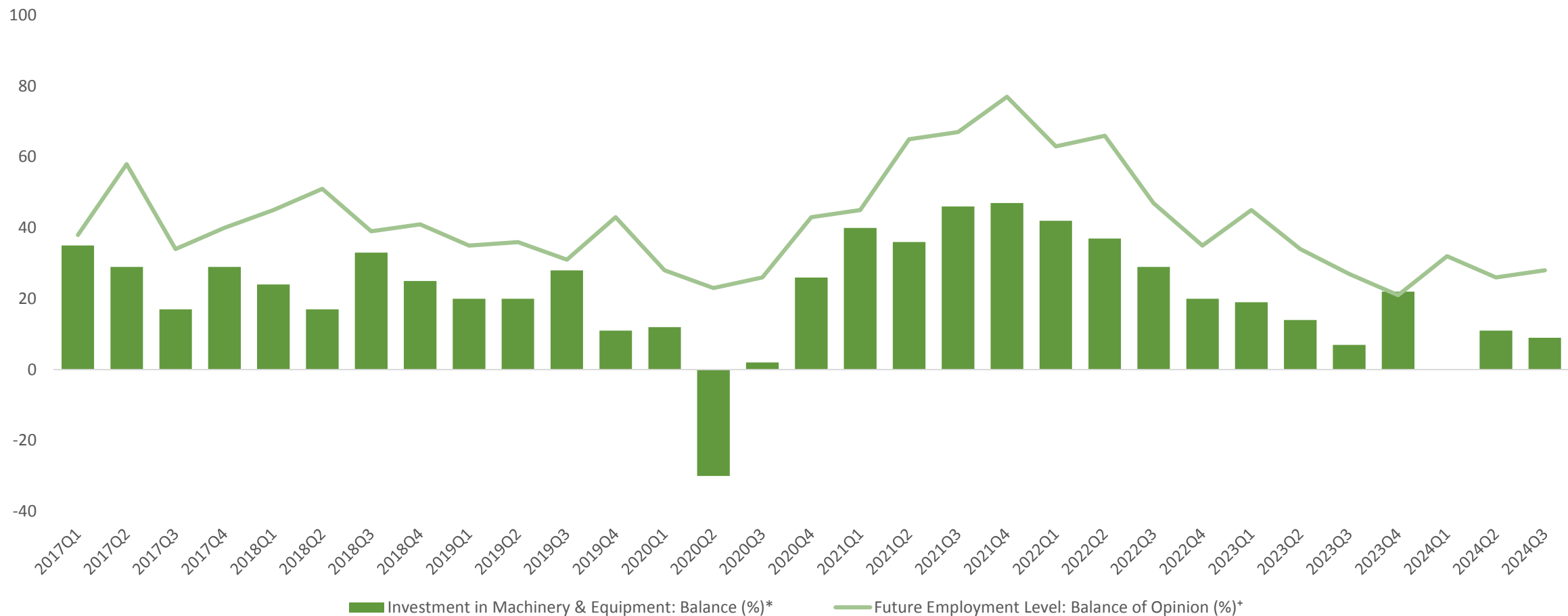


Sources: Statistics Canada

Firms are hesitant given the uncertain backdrop

Business investment and hiring will be limited over the coming year.

Balance of opinion



Source: Bank of Canada

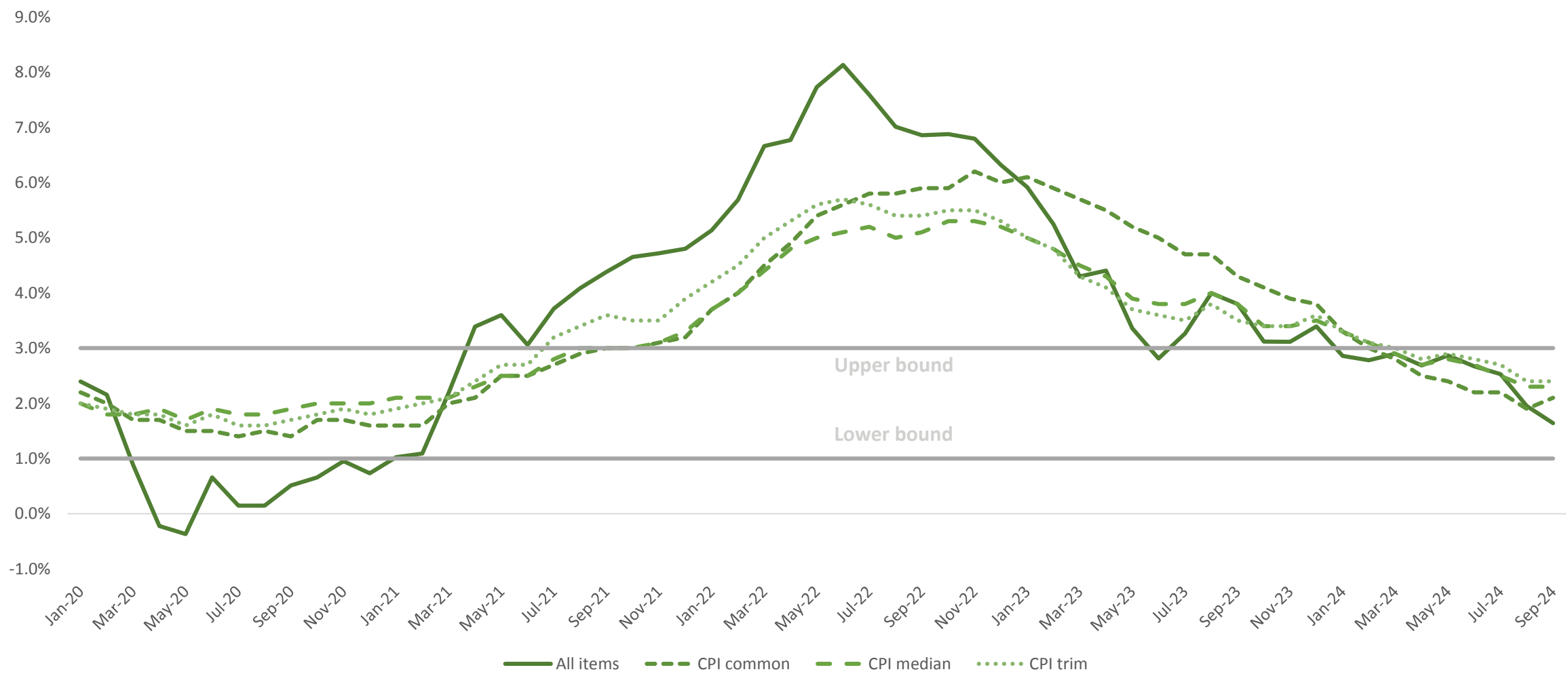
*Percentage of firms expecting higher investment spending minus the percentage of firms expecting lower investment spending

*Percentage of firms expecting higher employment levels minus the percentage of firms expecting lower employment levels

Mission accomplished?

All measures of inflation have been within the Bank of Canada's target range for a few months.

year-over-year change in the Consumer Price Index, Canada

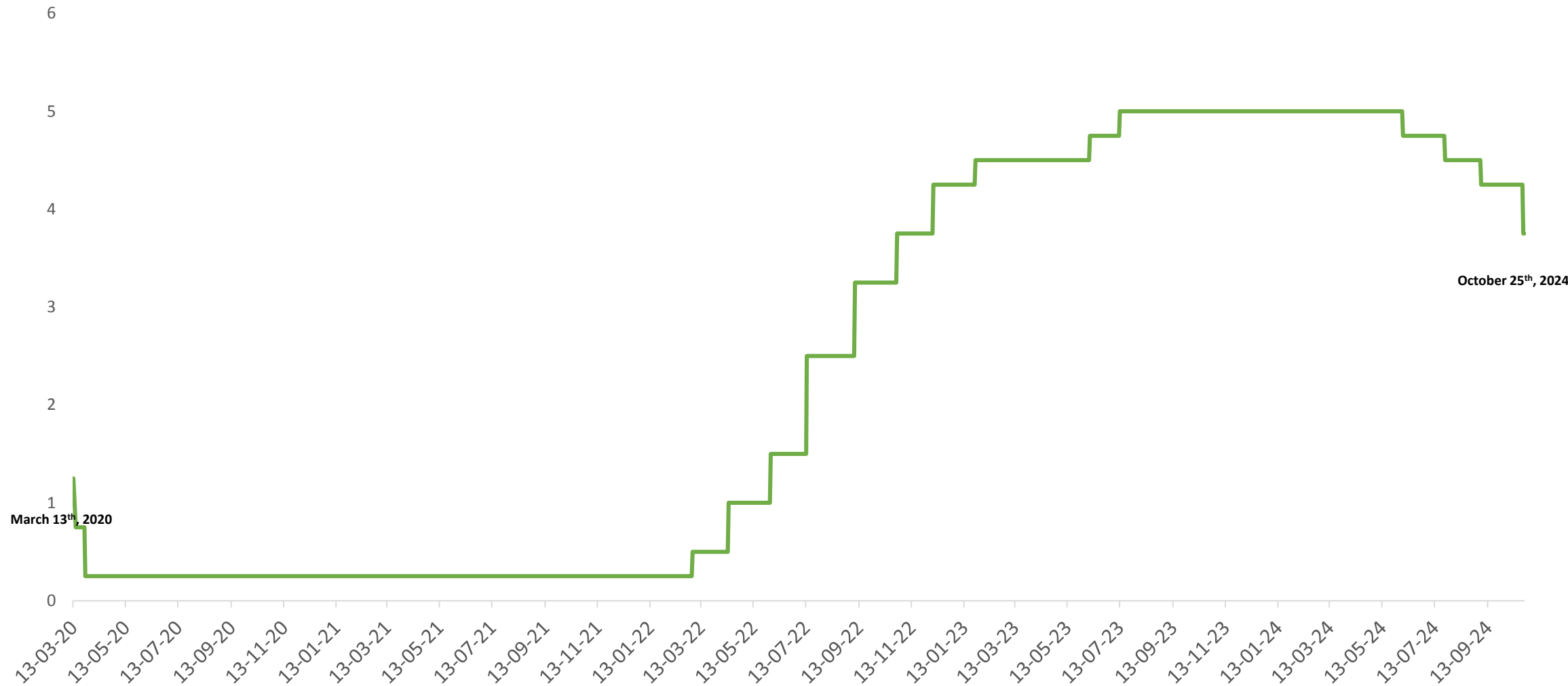


Source: Statistics Canada

Snip snip

Despite geopolitical concerns, further rate cuts could help to encourage an improvement in business sentiment.

Target for the overnight rate, %

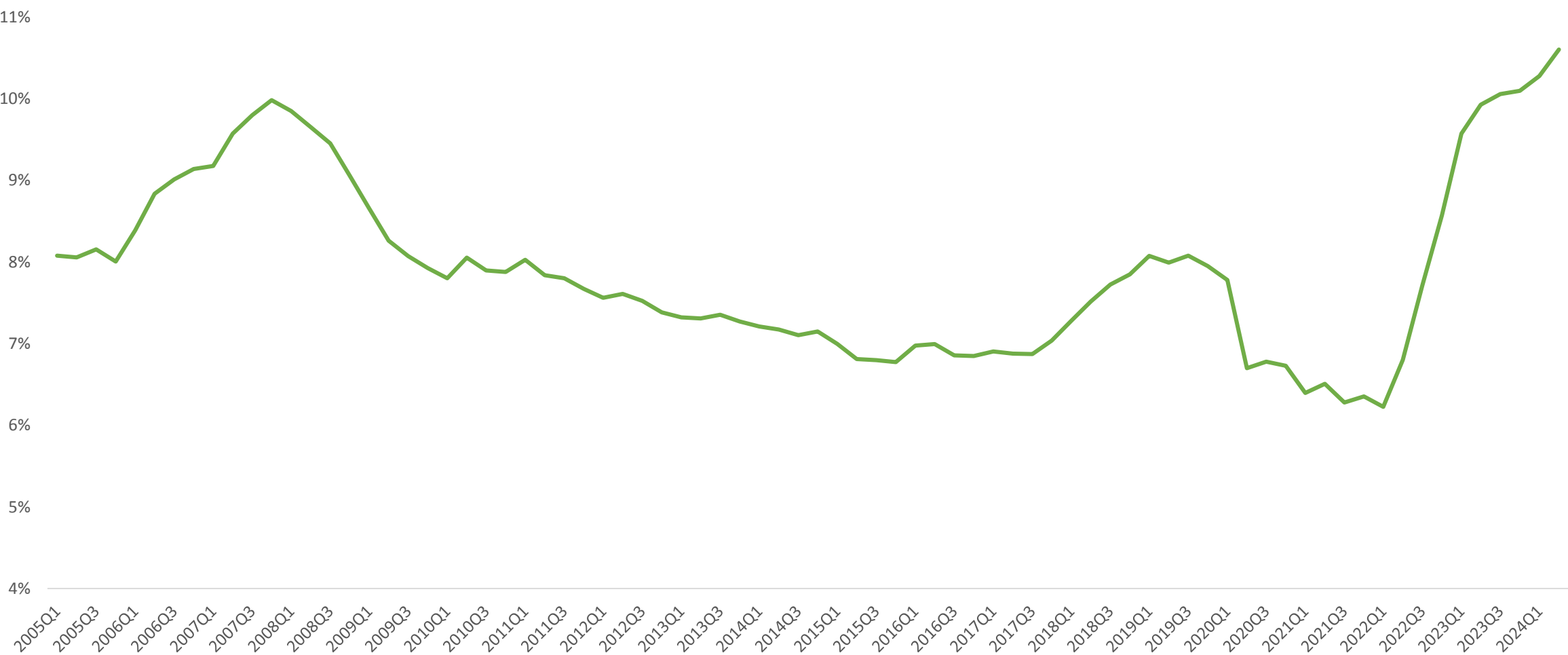


Source: Bank of Canada

Household debt remains a significant risk

Payments on debt continue to rise as previous increases in interest rates feed into household debt servicing costs with a lag.

Ratio of household interest payments to disposable income, Canada

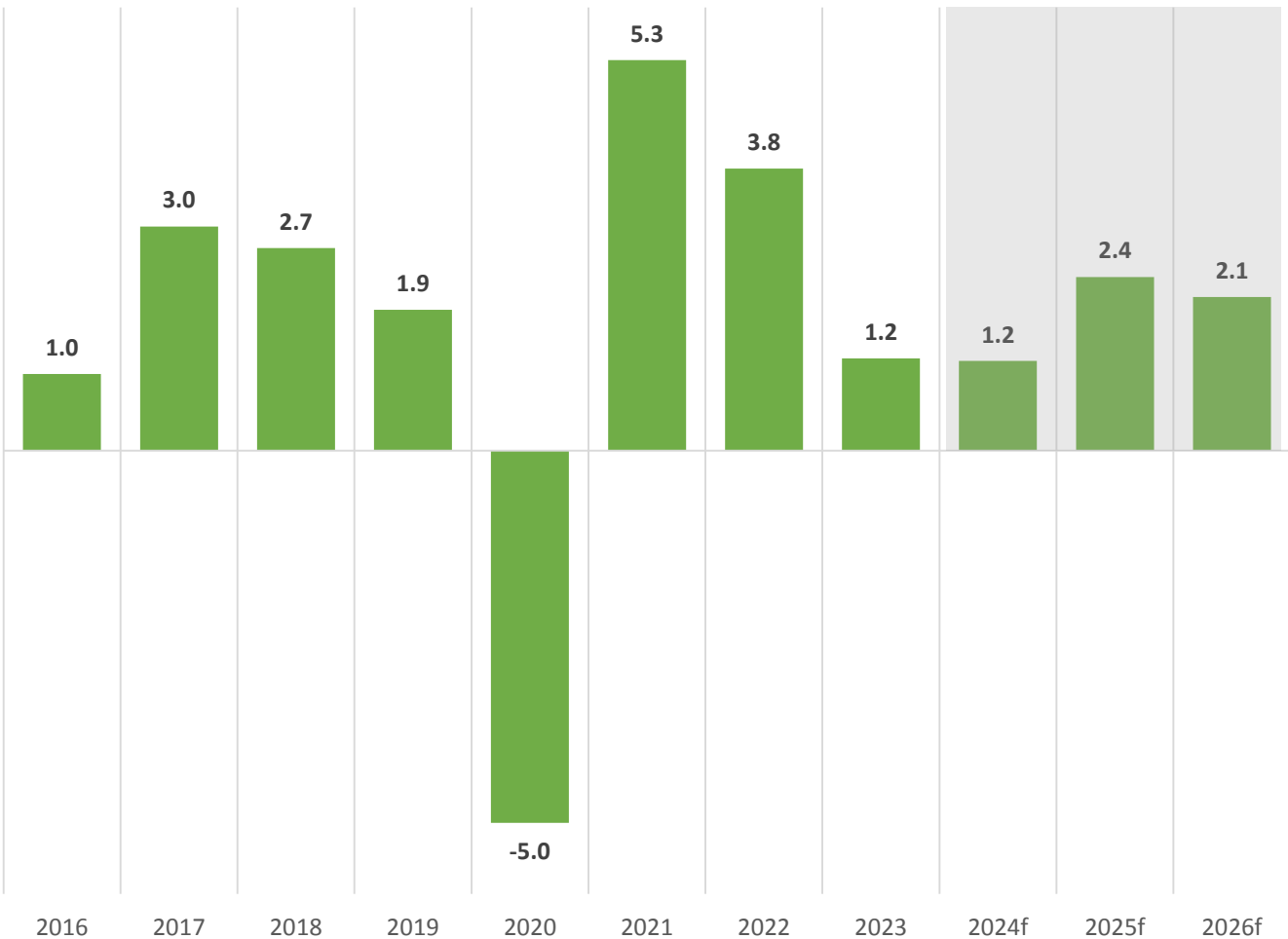


Source: Statistics Canada

Final takeaways and risks to the outlook

Real GDP growth will accelerate next year and remain solid through 2026.

Real GDP growth, %, Canada



Source: Statistics Canada, f: forecasts by Deloitte

Risks to the outlook

01

Excess savings
Households may be stockpiling more savings than needed to meet upcoming mortgage renewals.

↑

02

Demographics
Slowing population growth will act as a headwind to aggregate economic growth.

↓

03

Geopolitics
Further escalation of geopolitical conflicts could further impair already lackluster investment and productivity growth.

↓

04

Trade tensions
The prospect of elevated trade tensions with our largest trading partner, the U.S., could hurt the economy. Trade tensions are also rising with China after Canada imposed tariffs on electric vehicles, steel and aluminum.

↓

↑ Upside ↓ Downside

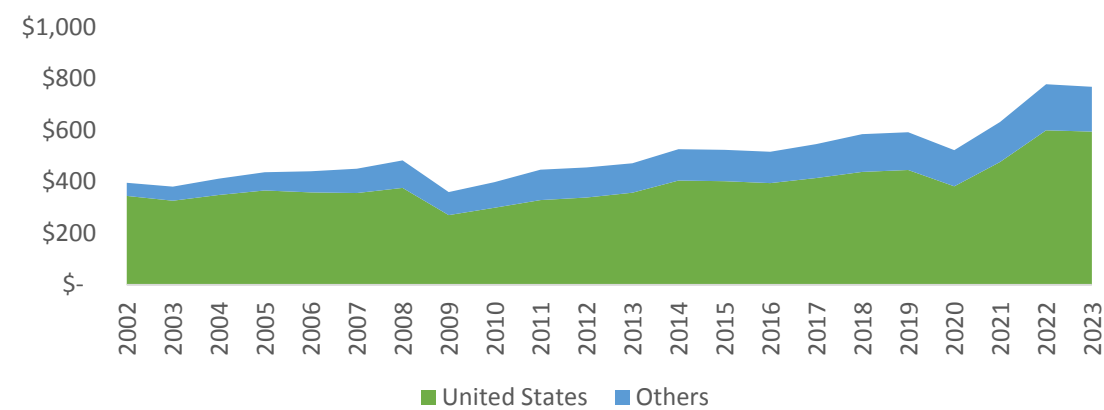
Preparing for rising trade tensions

Background

During the 2024 U.S. presidential campaign, Donald Trump proposed implementing a universal tariff – a 10% tariff on all imported goods (except that for China the tariff may be even higher, at 60%). Presumably, the goal of these measures would be to protect United States’ (US’) industries from foreign competition and to reduce the long-standing US trade deficit. Given Canada’s experience during the 2016-2020 U.S. presidency, economists have therefore been busy trying to quantify the macroeconomic impacts of a second Trump presidency. However, while the intention of the Trump proposals are perhaps the most well elucidated, it is less clear how a Harris presidency would treat to the issue of addressing the trade deficit. While the means may be different, it’s clear that both candidates seem committed to the same ends of bolstering U.S. manufacturing capacity. With CUSMA up for review in 2026, Canada must ready itself to deal with any outcome.

Canada’s exports to the United States continue to account for most exports.

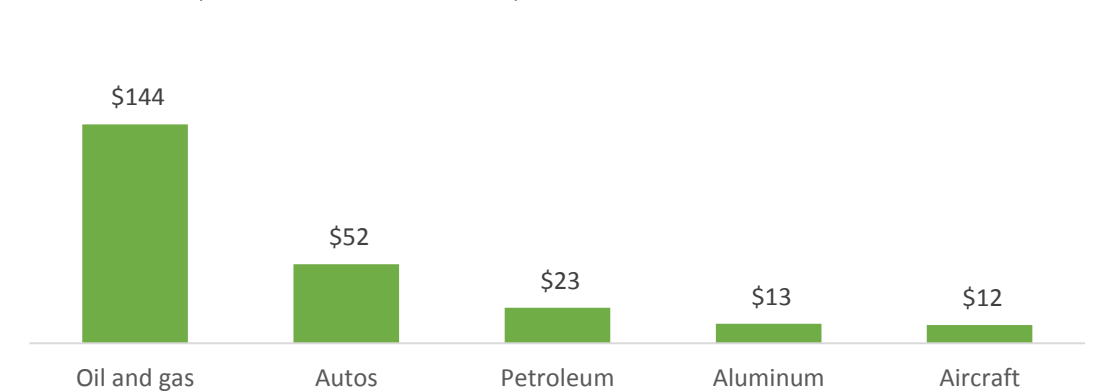
Canada total merchandise exports, billions of \$



Source: Canada Trade Data Online

Canada’s exports to the United States are dominated by oil exports.

Canada domestic exports to the U.S., billions of \$, top 5 industries, 2023



Source: Canada Trade Data Online

At Deloitte, we’ve assessed the potential impacts of Trump’s proposal and found that should this idea indeed become policy, this could shave about 1.1% off real GDP growth relative to baseline. While Canada will be able to redirect some exports away from the U.S. market, it won’t be able to do so fully given the importance of the U.S. as a trading partner. In addition, we also modelled a couple of additional scenarios, one of which assessed whether Canada and Mexico were exempted from the tariffs. In this case, Canada would gain an additional 0.9% in real GDP growth relative to baseline due to a lack of competition.

Estimated impacts on the Canadian economy, policy vs baseline, cumulative, 2025-2040

Scenario	Real GDP	Real GDP (2017 dollars, \$B)	CPI
10% additional tariff on all countries	-1.1%	-\$389	-1.2%
Canada and Mexico exempted from 10% additional tariffs on all countries	0.9%	\$334	2.7%



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