



**OCTOBER 21, 2022**

ECONOMIC UPDATE: B.C.'S PROSPECTS AS CENTRAL  
BANKS SHIFT TO INFLATION FIGHTERS (IN THE THIRD  
YEAR OF A GLOBAL PANDEMIC)

BC EXPROPRIATION CONFERENCE

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## AS WE HEAD INTO Q4 2022 THE MACROECONOMIC HEADWINDS ARE BUILDING

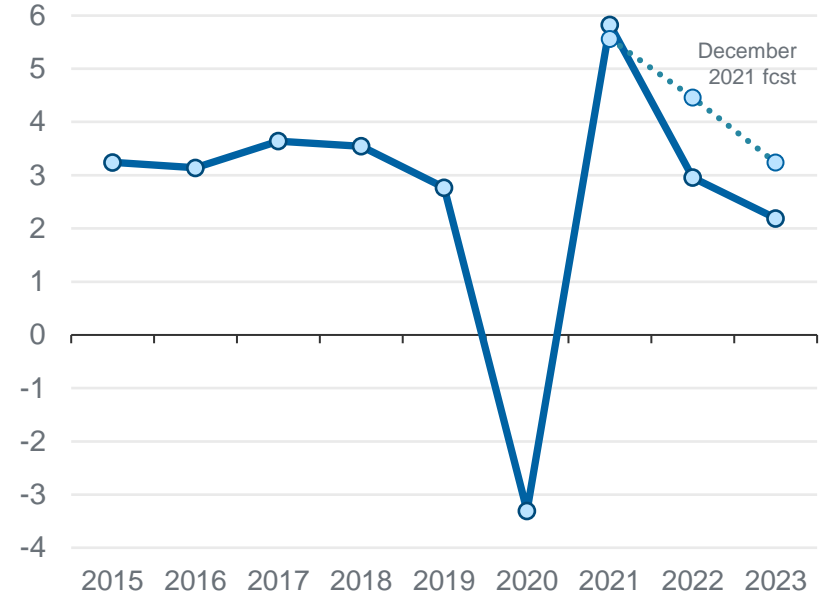
- Global economy has been hit by Russia's invasion of Ukraine. **Global growth stalled in Q2, some indicators pointing to extended period of subdued growth**
- The pandemic lives on, notably in China. Global supply chain disruptions have eased but not disappeared
- **Worker shortages in Canada/U.S.** – linked to population aging, workforce exits, employee health concerns, occupational shifts, etc.
- **Sharply higher inflation**...setting the stage for significant **monetary policy tightening** over 2022-2023...even as economic growth cools
- In the meantime, the business climate has deteriorated in Canada/B.C.

## GLOBAL ECONOMY SLOWING AFTER 2021 REBOUND

Real GDP growth, %

	Avg. 2013-2019	2020	2021	2022	2023
World	3.3	-3.4	5.8	3.0	2.2
U.S.	2.4	-3.4	5.7	1.5	0.5
Euro area	1.9	-6.5	5.3	3.1	0.3
Japan	0.8	-4.5	1.7	1.6	1.4
China	6.8	2.2	8.1	3.2	4.7
India	6.8	-6.6	8.7	6.9	5.7

Global economy slowing more than anticipated

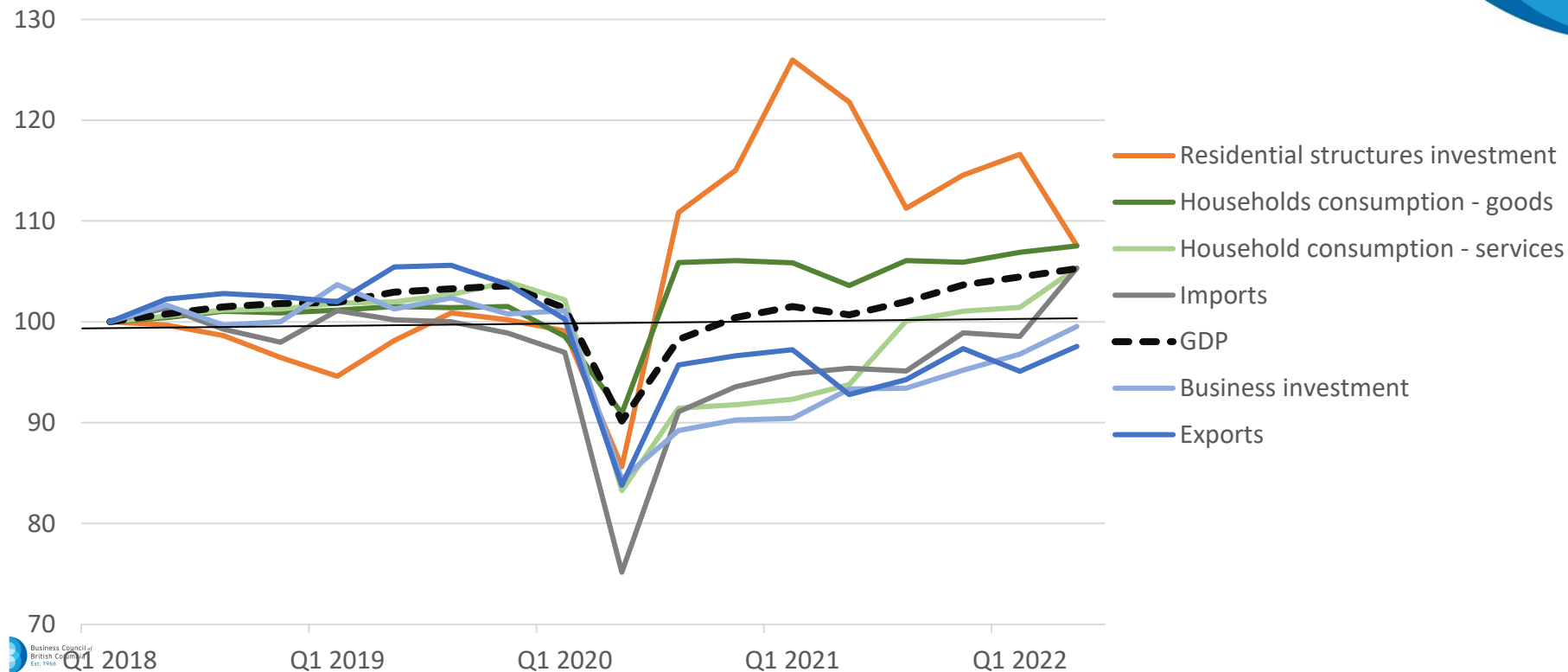


Source: OECD Economic Outlook, September 2022.

## CANADA'S RECOVERY IS UNBALANCED

Index, 2018Q1 =100

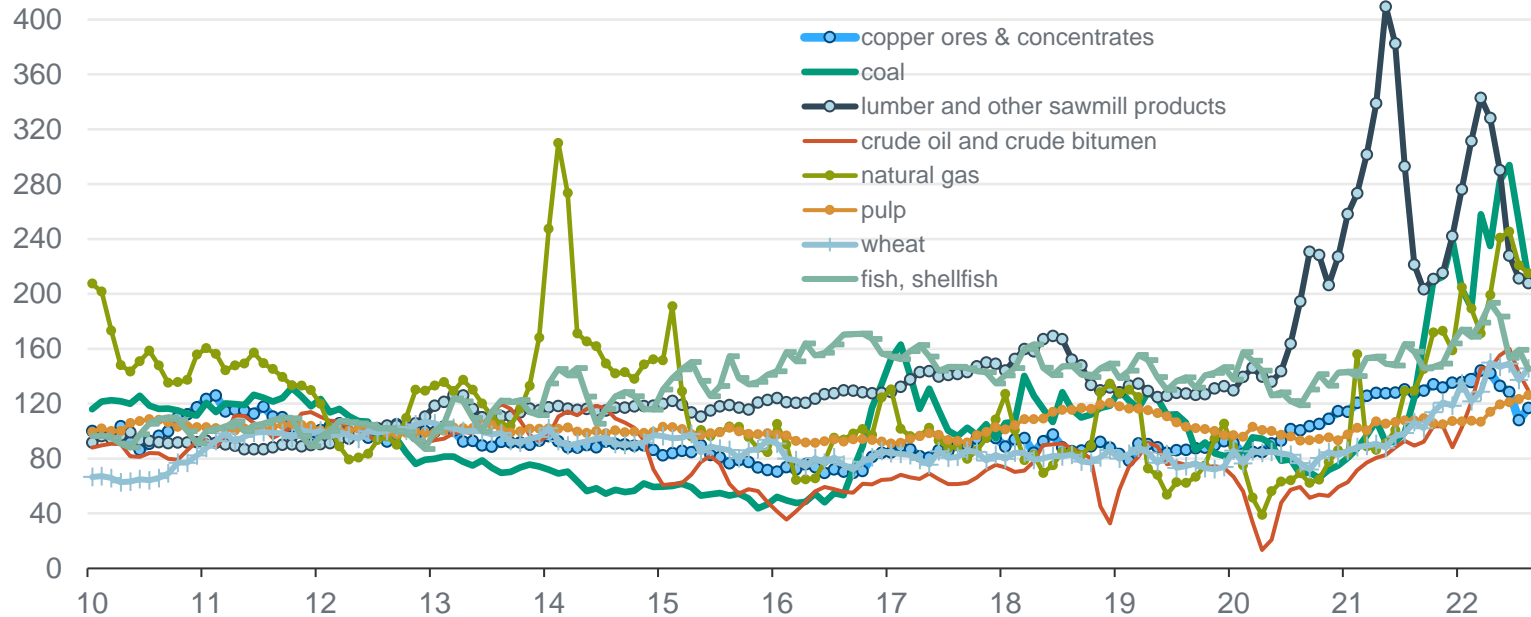
Real GDP by expenditure chained dollars, quarterly, Canada



Source: Statistics Canada, BCBC

## TERMS OF TRADE LIFT FOR CANADA

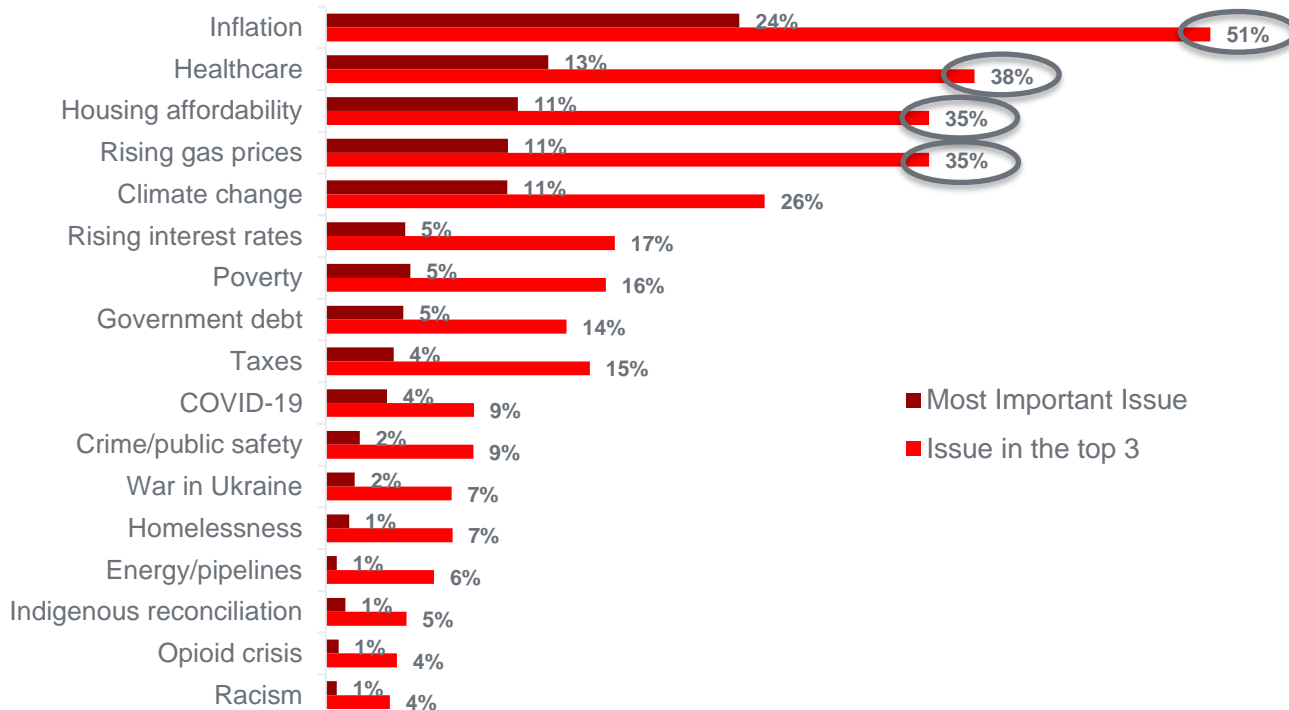
Canada international export commodity price indexes\*, 2012=100



Latest August 2022. \*current weight index Source: Statistics Canada, Table 12-10-0128-01.

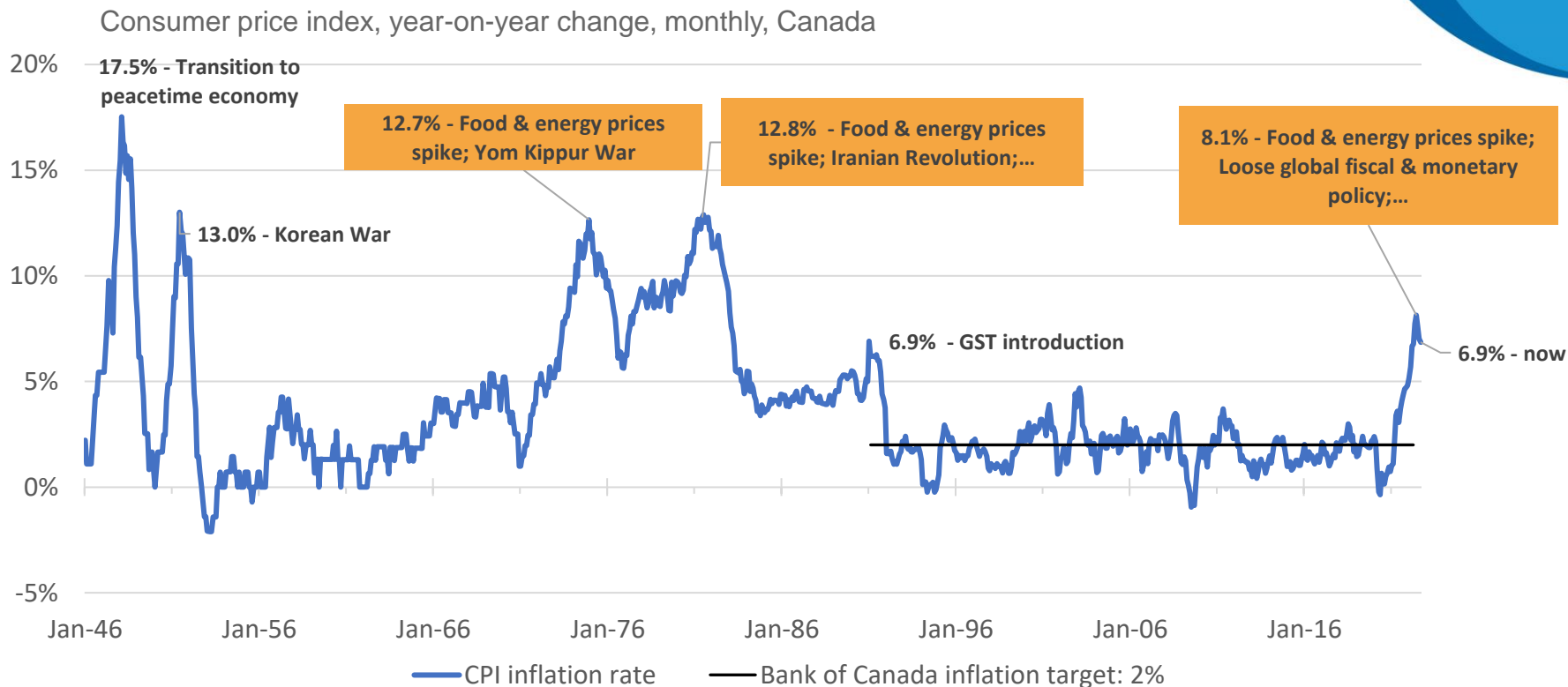
## BIGGEST ISSUE FACING CANADA (LATE SEPT. SURVEY)

What is the number one issue facing Canada today?  
What is the second most important issue? The third most important issue?  
Base: All respondents (n=1,528)

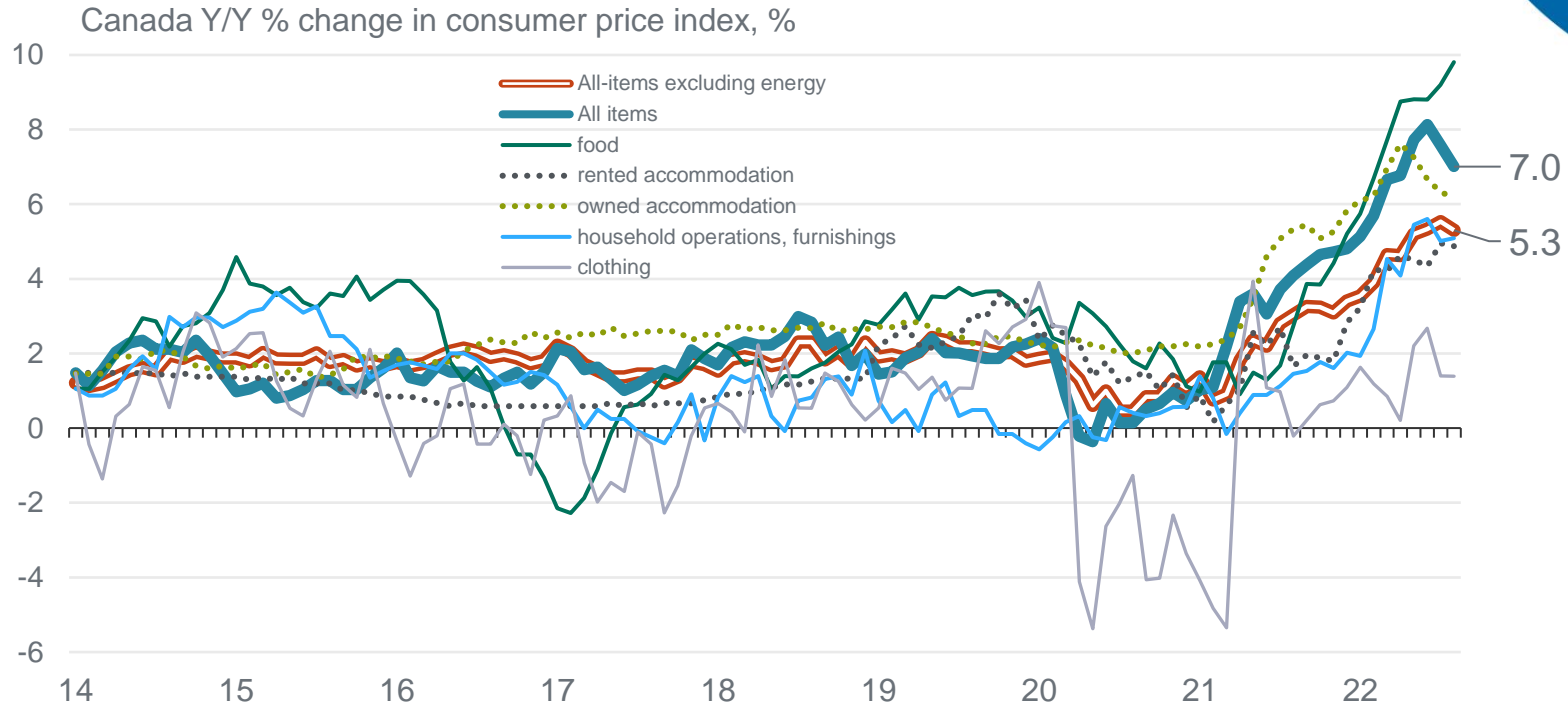


Source: Leger.

# HIGHEST CPI INFLATION SINCE LATE 70s/EARLY 80s



## INFLATION BROADLY-BASED



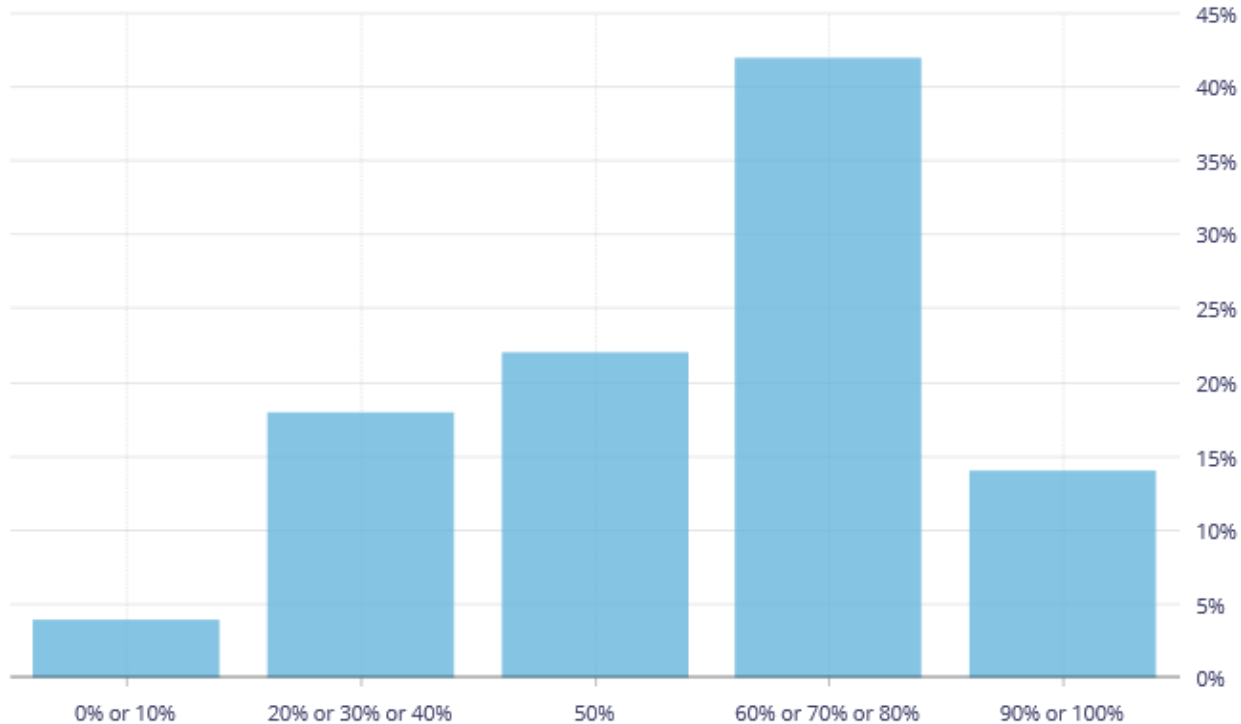
Source: Statistics Canada, Consumer Price Index table number 18-10-0004-01. Latest August 2022.



# MOST CONSUMERS THINK A RECESSION IS LIKELY

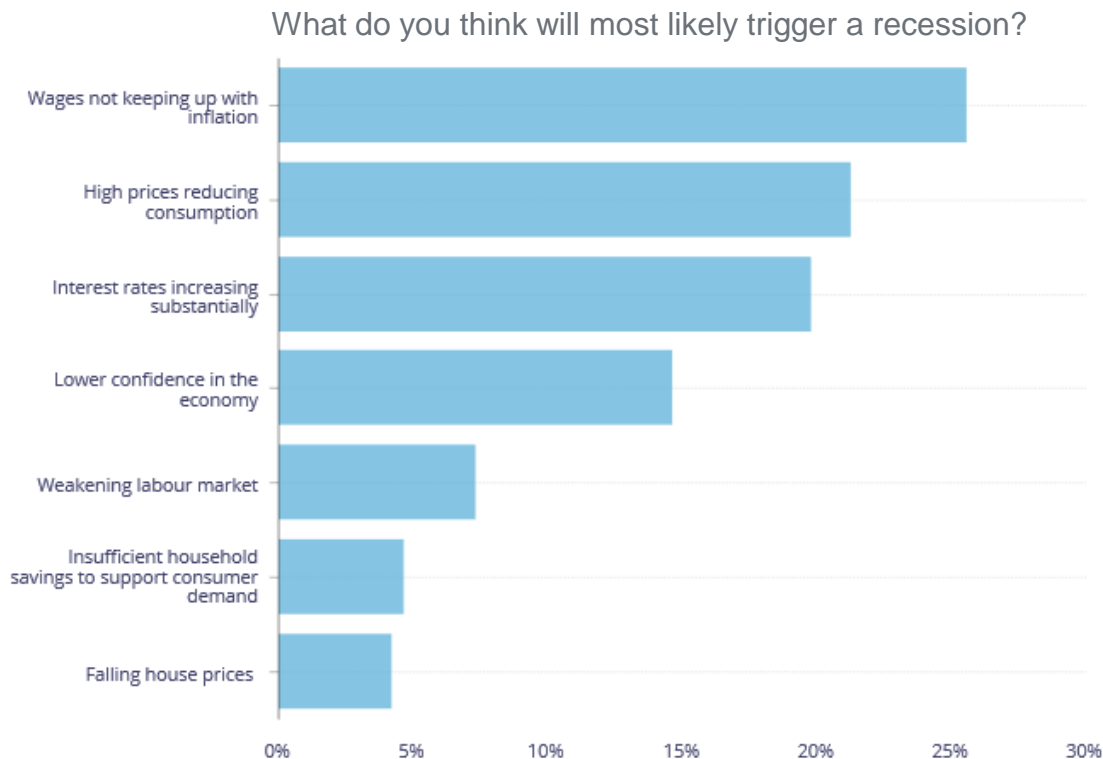
**Chart 7: Most consumers think a recession is likely**

What do you think is the chance that the Canadian economy will be in a recession within the next 12 months?

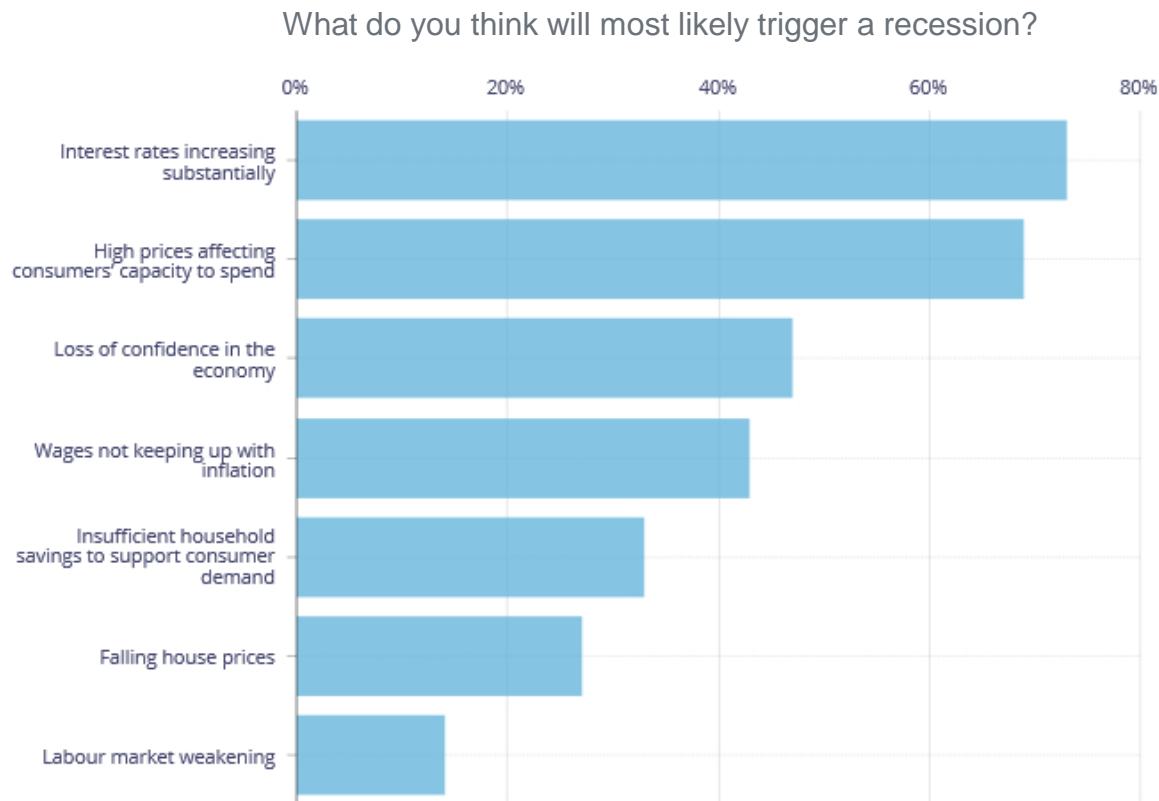


# CONSUMERS SEE FALLING REAL WAGES, HIGH PRICES & RISING INTEREST RATES AS TRIGGERS OF A RECESSION

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## FIRMS SEE INTEREST RATES & HIGH PRICES AS TRIGGERS OF A RECESSION

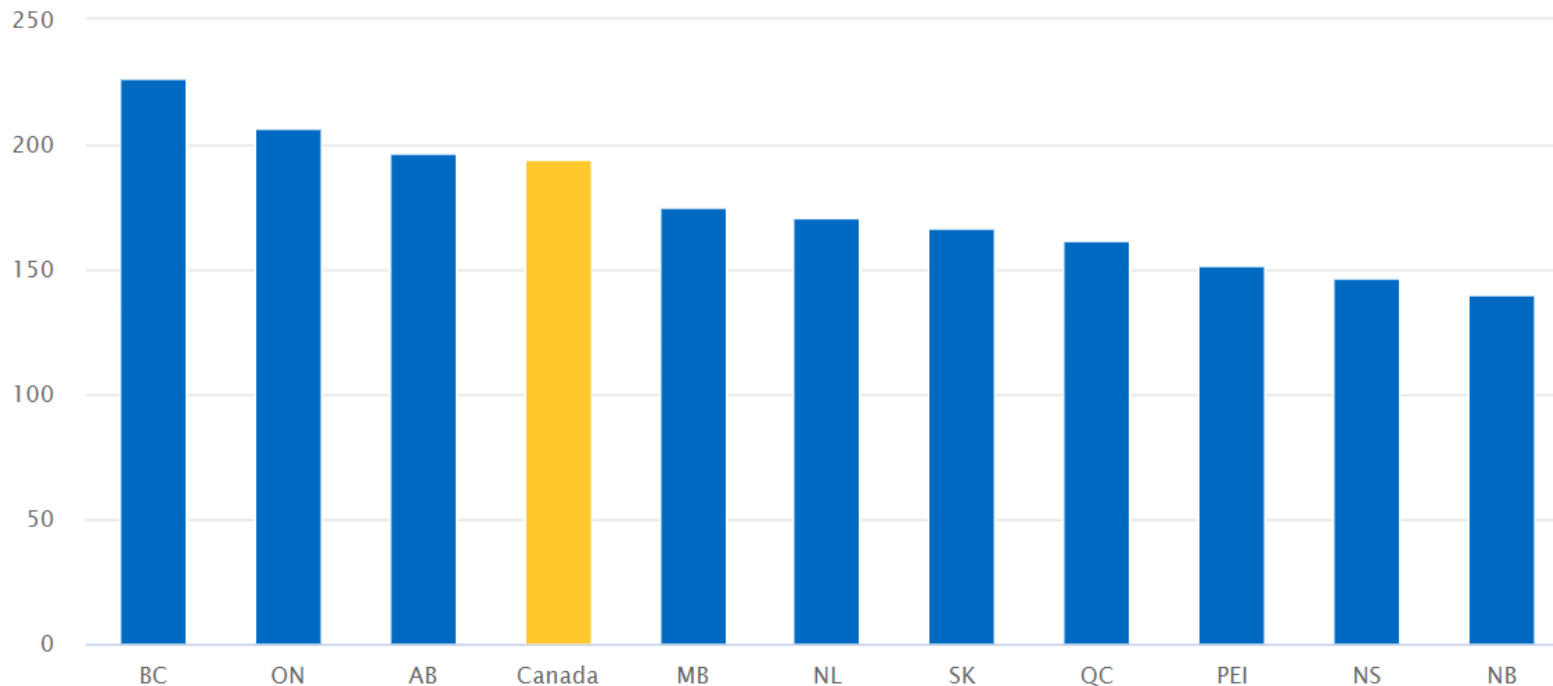


Source: Bank of Canada Business Outlook Survey

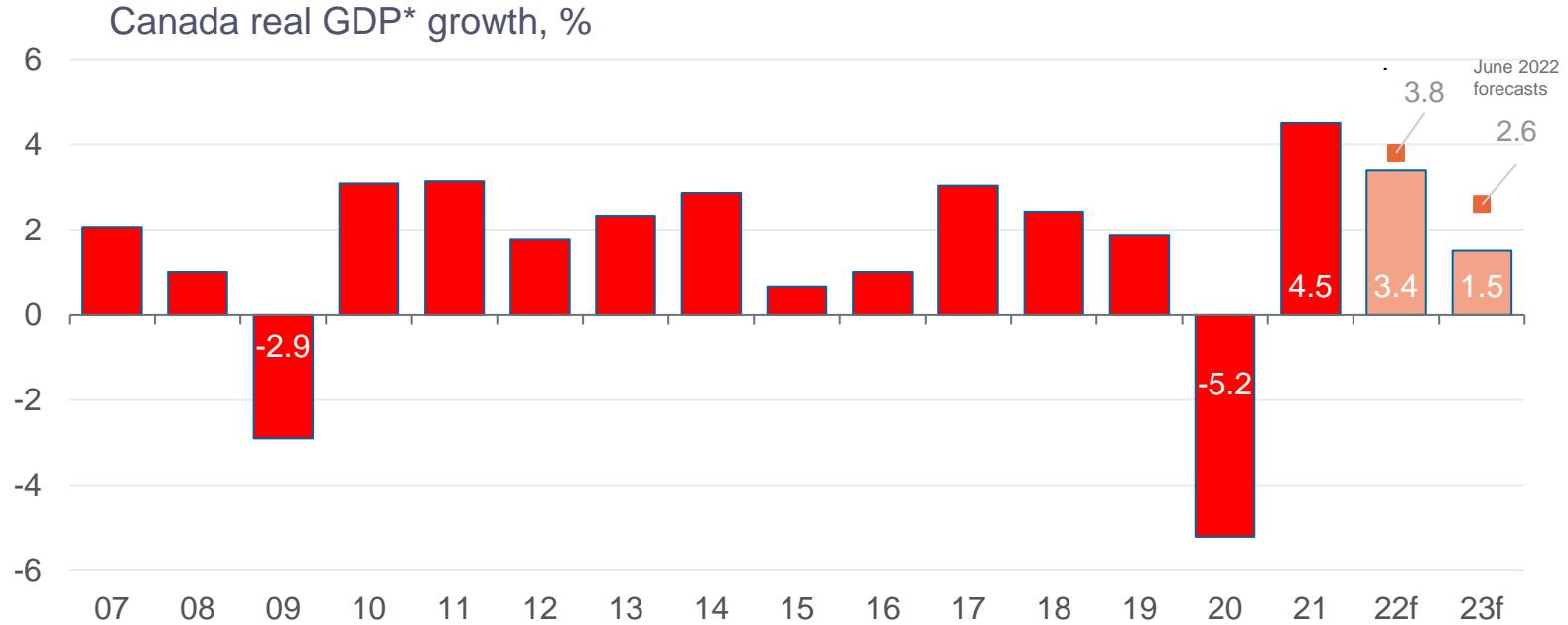
## B.C., ONTARIO AND ALBERTA HOUSEHOLDS ARE MOST SENSITIVE TO INTEREST RATES

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Household debt to disposable income ratio, Q1 2022



## CANADIAN OUTLOOK DOWNGRADED WITH GROWTH STALLING IN FIRST HALF OF 2023

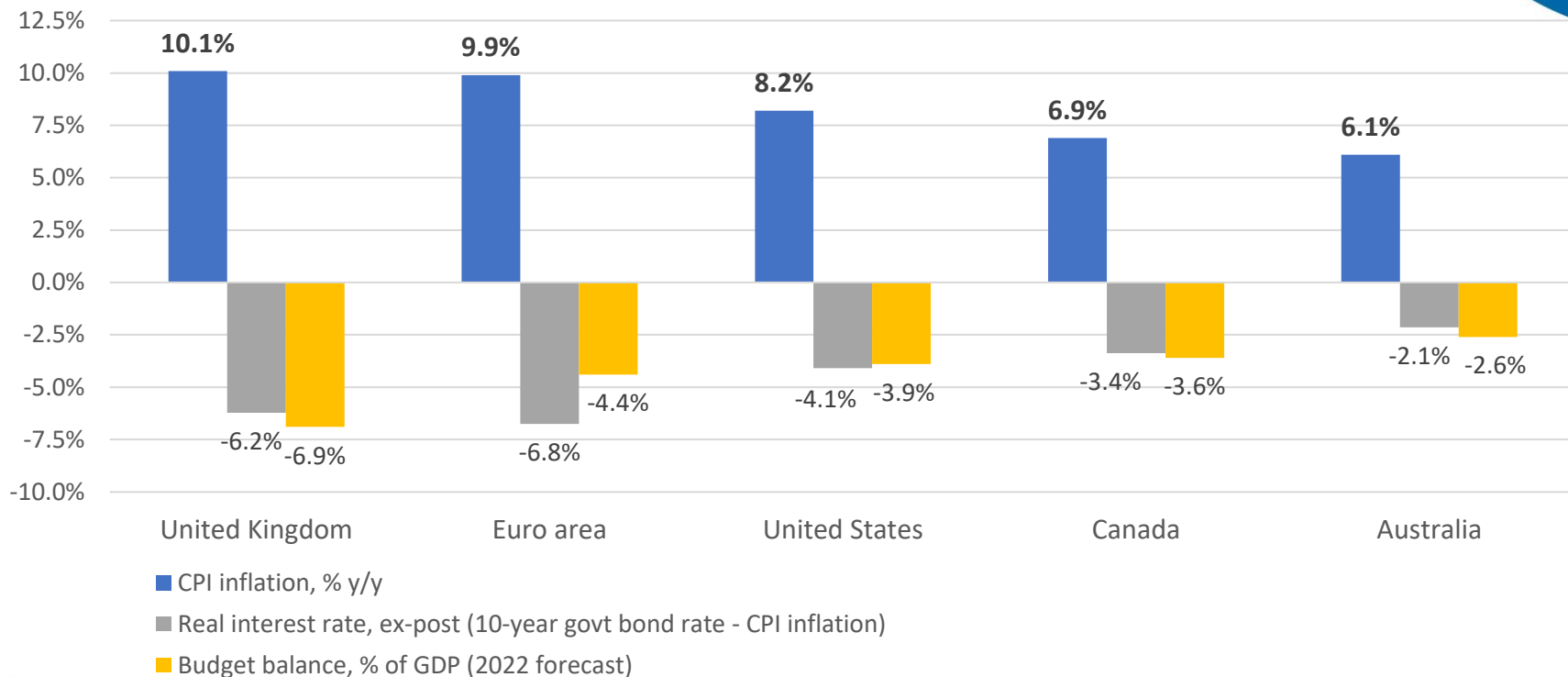


\* Chained 2012 \$ Sources: Statistics Canada, Table 36-10-0222-01 and OECD Economic Outlook 2022 September for forecasts.

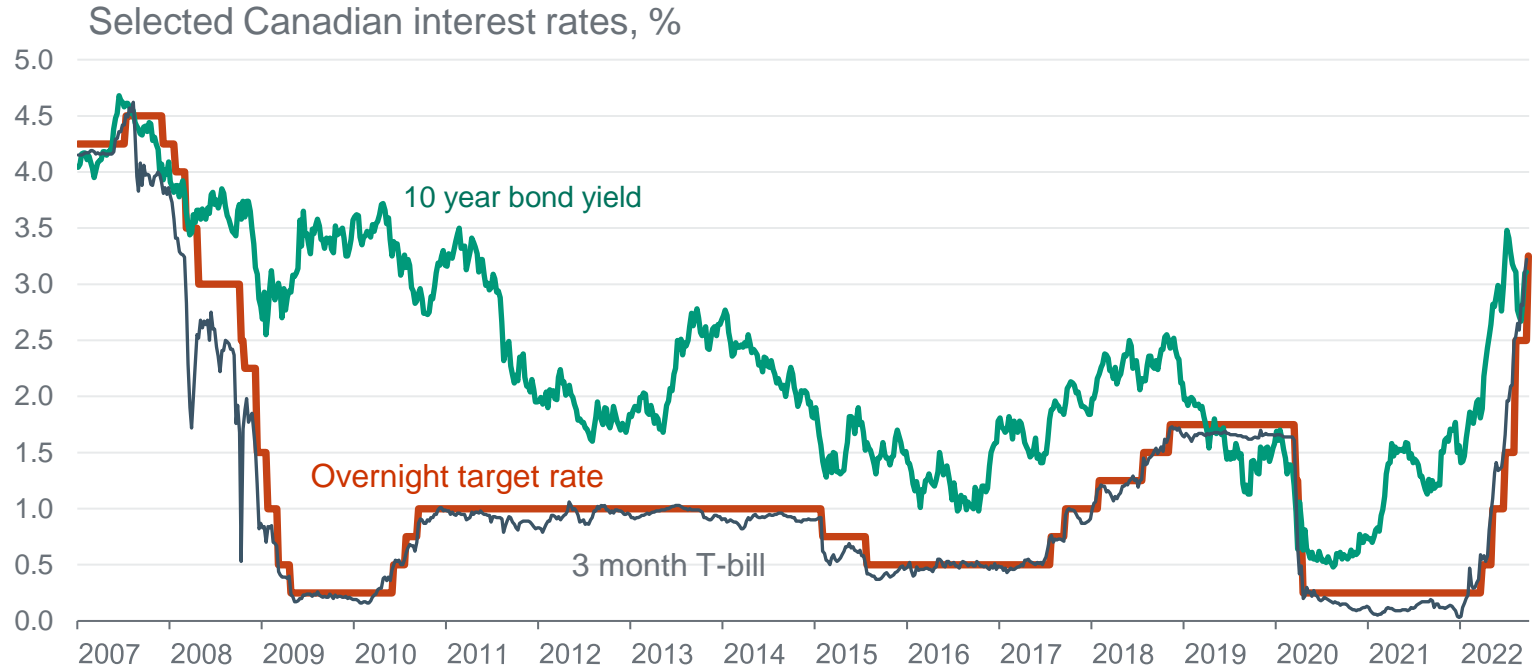
# LOOSE MONETARY AND FISCAL POLICIES HAVE CONTRIBUTED TO INFLATION

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CPI inflation vs monetary and fiscal policy settings, latest data\*, selected countries



## ROCK BOTTOM POLICY RATE FOR TWO YEARS



Source: Bank of Canada.

## UNPRECEDENTED STIMULUS

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### OTTAWA HAS INSTIGATED A MORTGAGE CREDIT BOOM OF EPIC PROPORTIONS

	2021	2016	Change
<b>DEMAND-SIDE INDICATORS</b>			
<b>Income (\$)</b>			
Real GDP per person	57,200	55,572	2.9% (0.6% p.a.)
Disposable income per household (nominal)	91,576	76,579	19.6% (3.6% p.a.)
<b>Credit (\$ trillion)</b>			
Total household credit	2.561	2.041	0.520 (25%)
Residential mortgages (excl. HELOCs)	1.855	1.375	0.481 (35%)
Home equity lines of credit (HELOCs)	0.166	0.186	-0.020 (-11%)
Consumer credit	0.695	0.656	0.039 (6%)
<b>Interest rates (%)</b>			
Household effective interest rates – nominal	2.57	3.04	-47 basis points (bps)
Household effective interest rates – real	-0.79	1.62	-241bps
Estimated variable mortgage rate – nominal	1.41	2.21	-80bps
Estimated variable mortgage rate – real	-1.95	0.79	-274bps



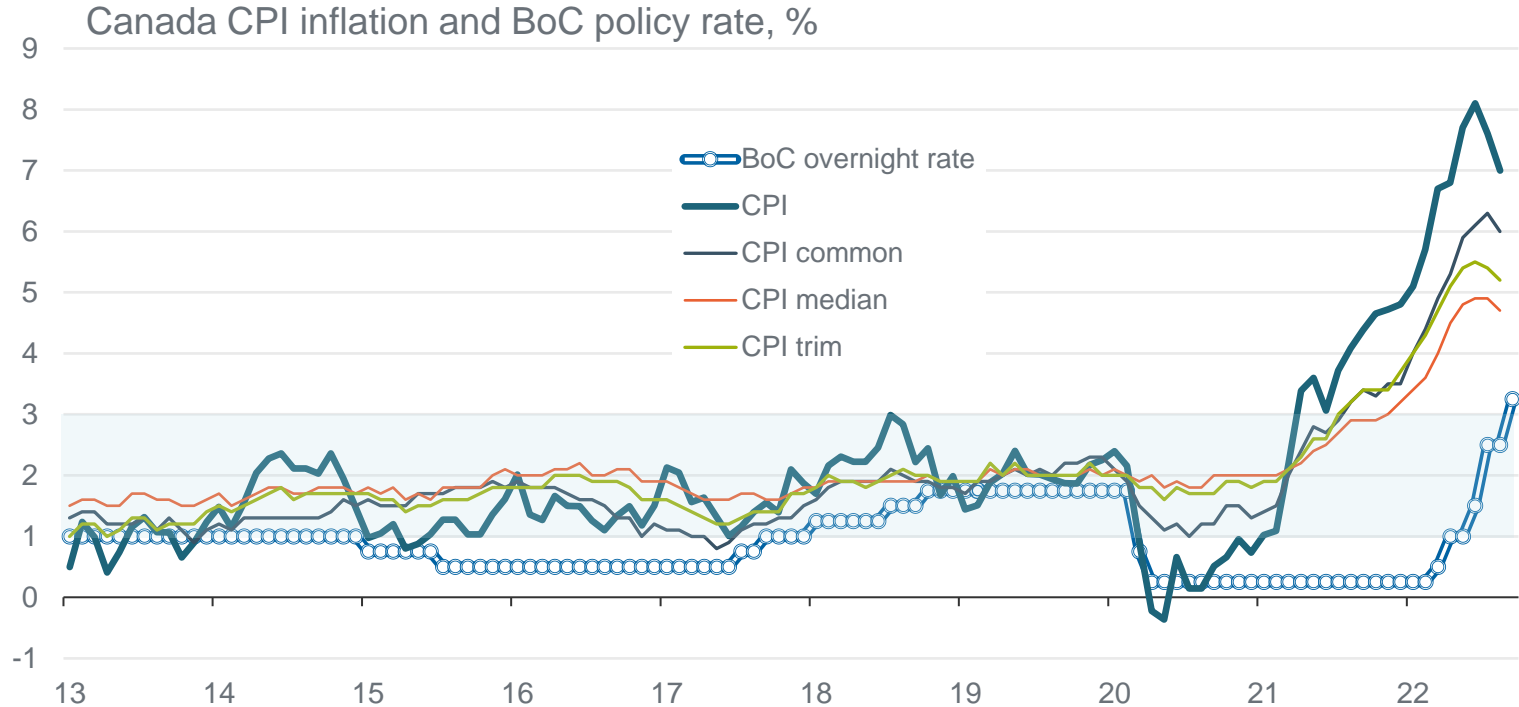
## CANADA IS THE WORLD'S 4<sup>TH</sup> MOST INDEBTED COUNTRY

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Credit to GDP ratio and world ranking, by sector, Canada

Sector	2022Q2		2019 (pre-pandemic)		Change
	Debt/GDP (%)	World ranking (#)	Debt/GDP (%)	World ranking (#)	Debt/GDP (ppts)
Corporate*	116.3	13	119.1	14	2.8
Household	105.9	3	103.9	5	2.3
Government	99.5	11	86.9	11	12.6
<b>TOTAL</b>	<b>324.5</b>	<b>4</b>	<b>306.8</b>	<b>5</b>	<b>17.7</b>

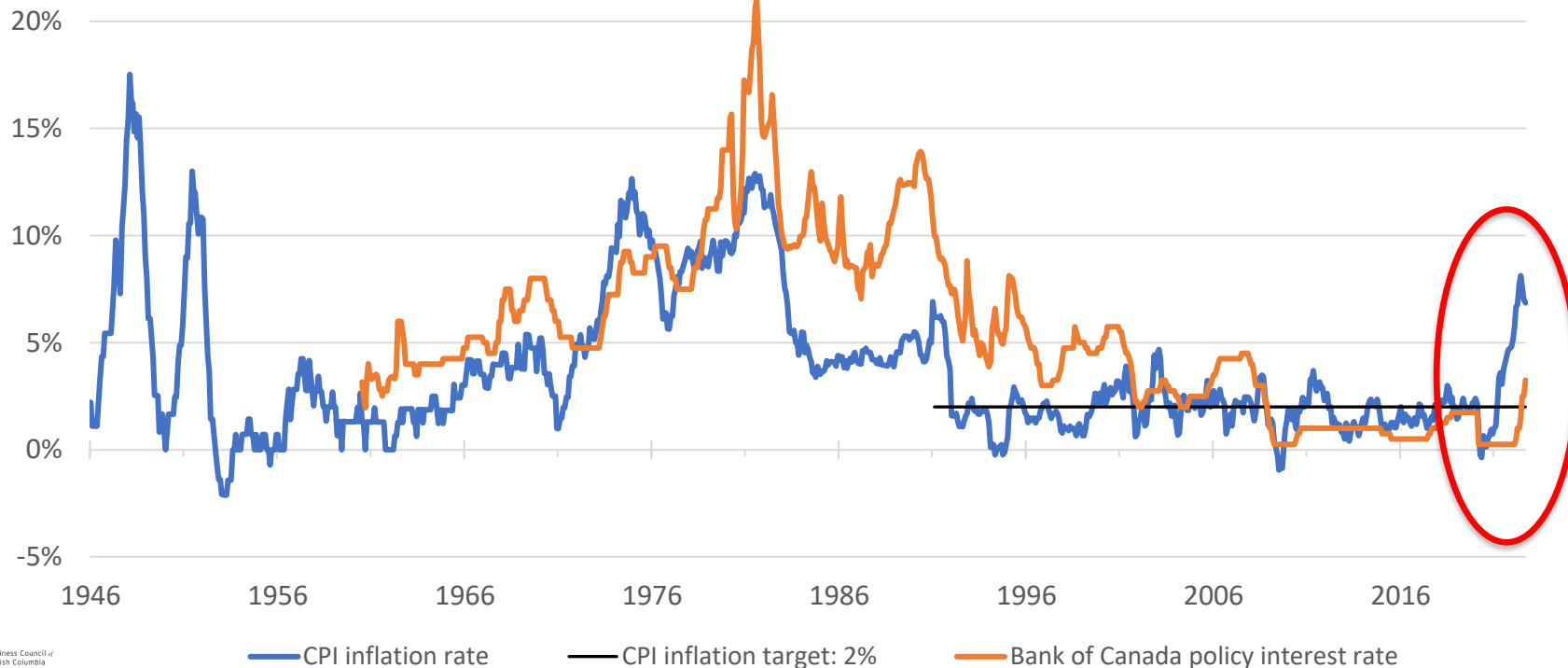
## BANK OF CANADA SLOW TO REACT?



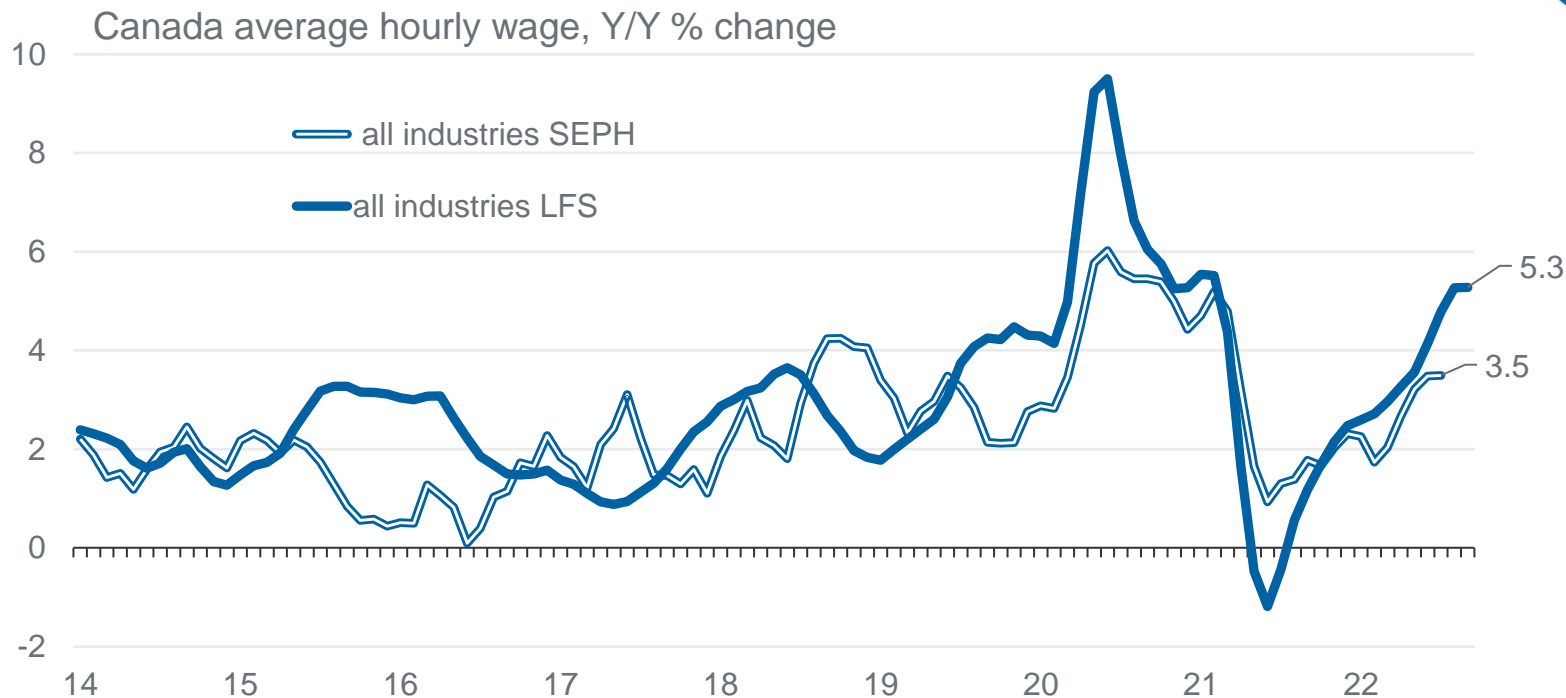
Source: Statistics Canada Table: 18-10-0001-01 and 14-10-0063-01.

## MONETARY POLICY IS PLAYING “CATCH UP”

CPI inflation (y/y % change) vs Bank of Canada policy interest rate (%) monthly, Canada



## WAGE GROWTH ACCELERATING?



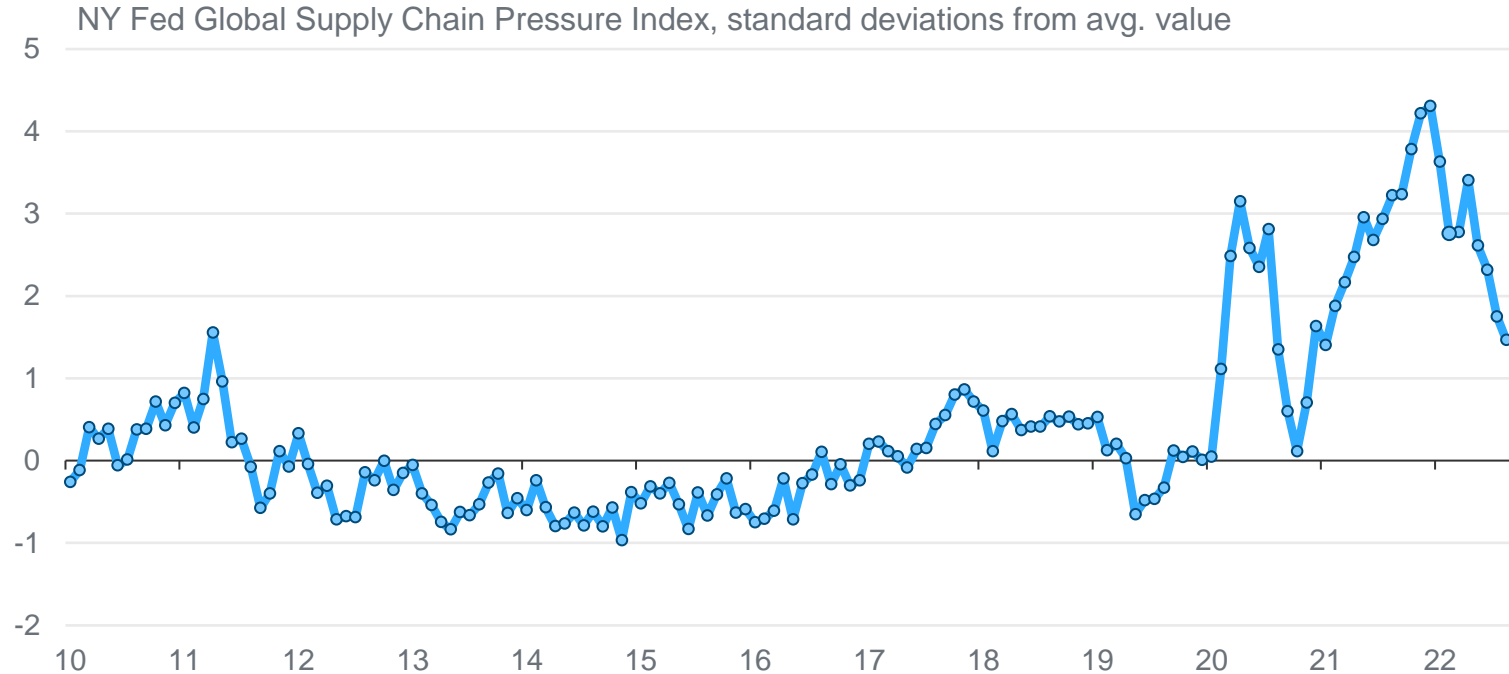
# WORKERS VIEW RECENT WAGE GROWTH AS LOWER THAN INFLATION

How does your recent wage gain compare to actual inflation?



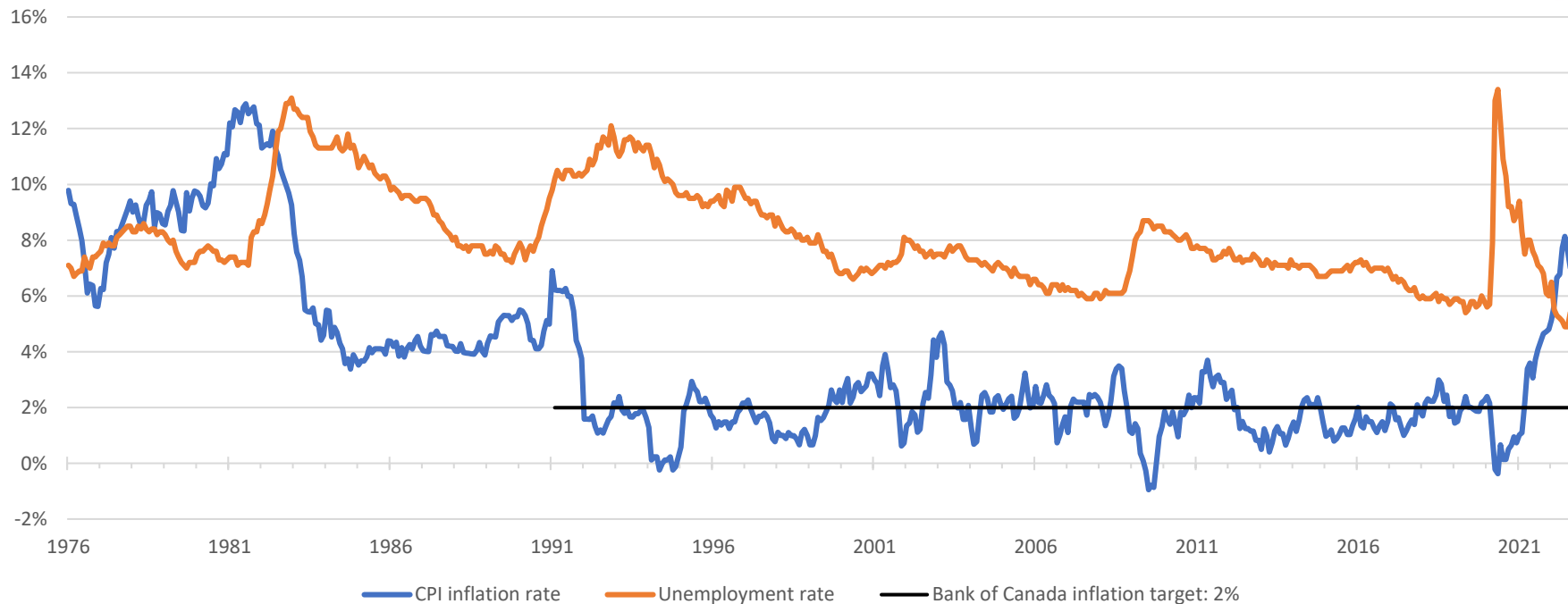
## SUPPLY CHAIN PRESSURES EASING (BUT STILL ELEVATED)

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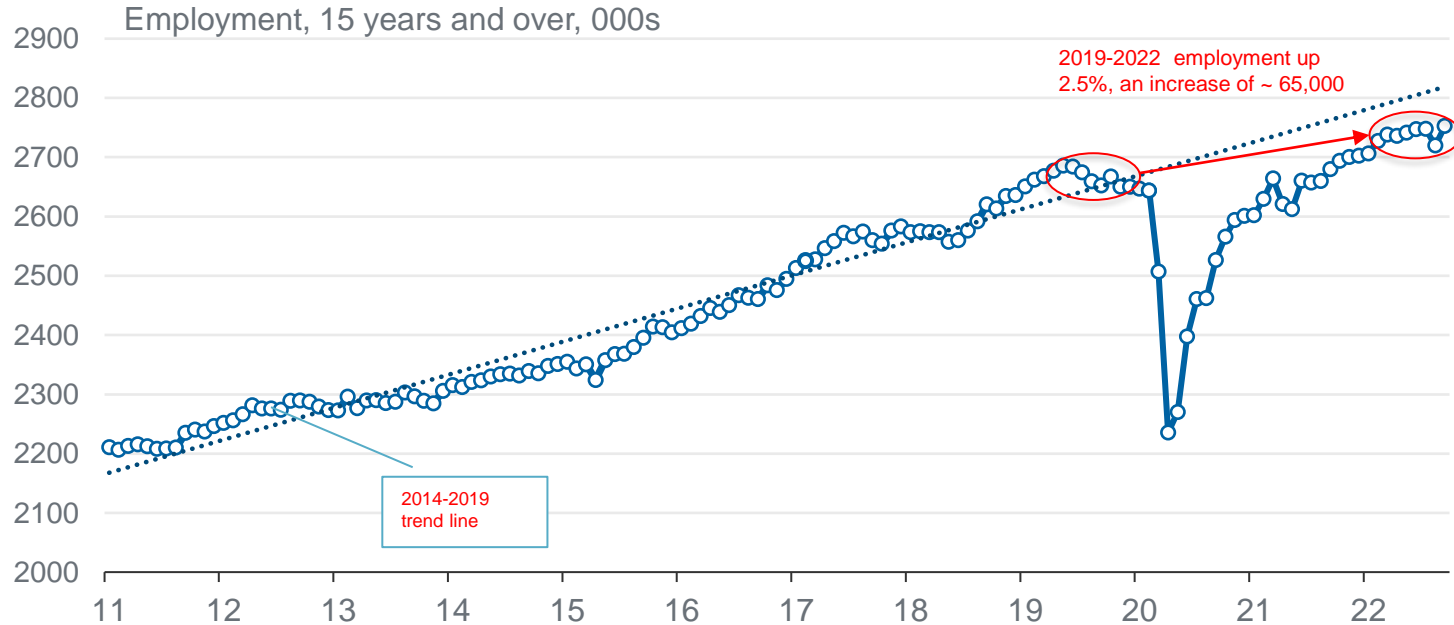
## CPI INFLATION HAS NOT EXCEEDED UNEMPLOYMENT RATE SINCE 1976-1982

Consumer price index (y/y % change) vs unemployment rate (% , seasonally adjusted), monthly, Canada



## EMPLOYMENT UP ONLY MODESTLY AND HAS NOT REALLY RECOVERED

### B.C. TOTAL EMPLOYMENT

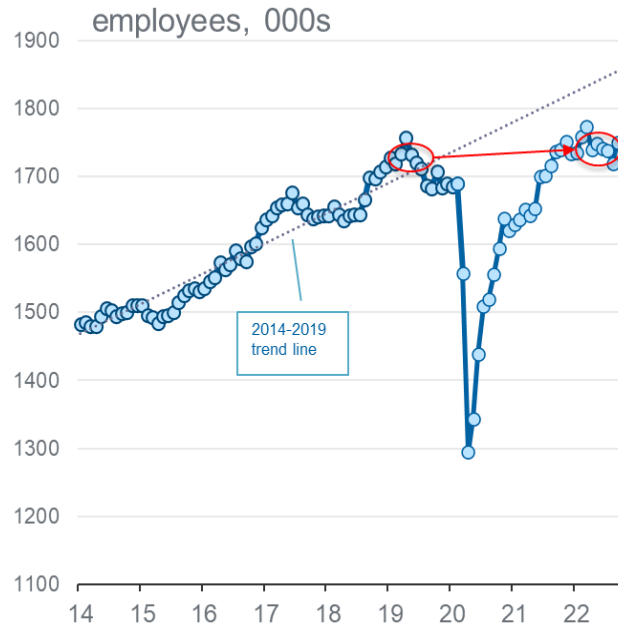


Latest: Sept 2022, seasonally adjusted. Source: Statistics Canada, Labour Force Survey. Table 14-10-0287-01.



# A FRENZY OF PUBLIC SECTOR HIRING

## PRIVATE SECTOR

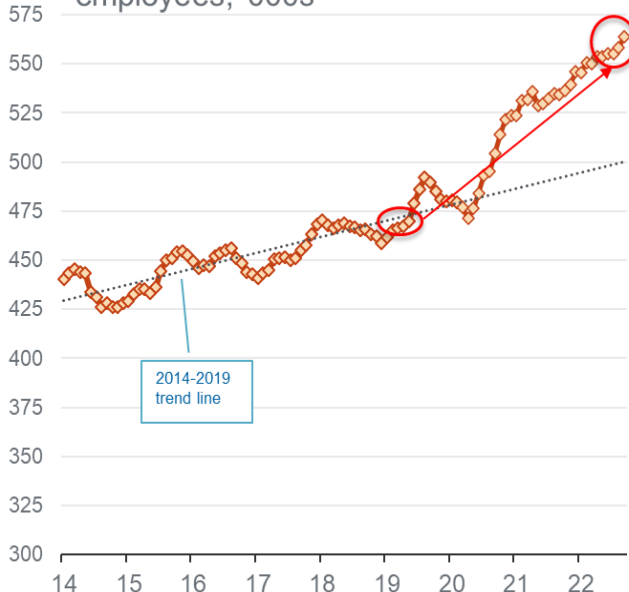


## self-employed, 000s



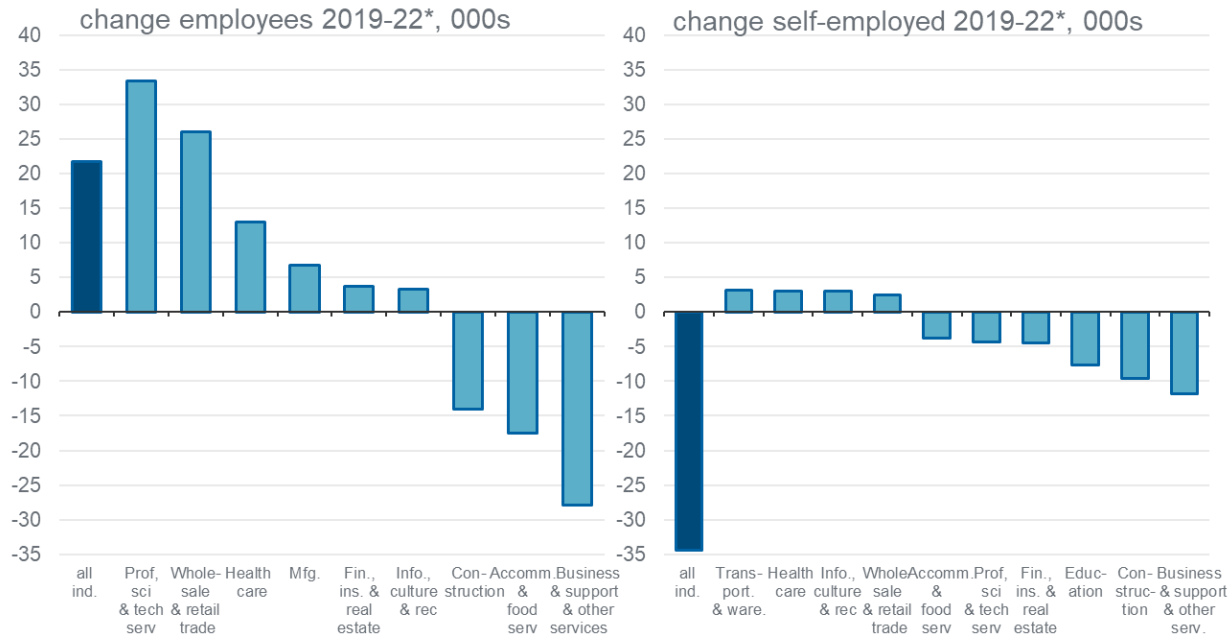
## PUBLIC SECTOR

## employees, 000s

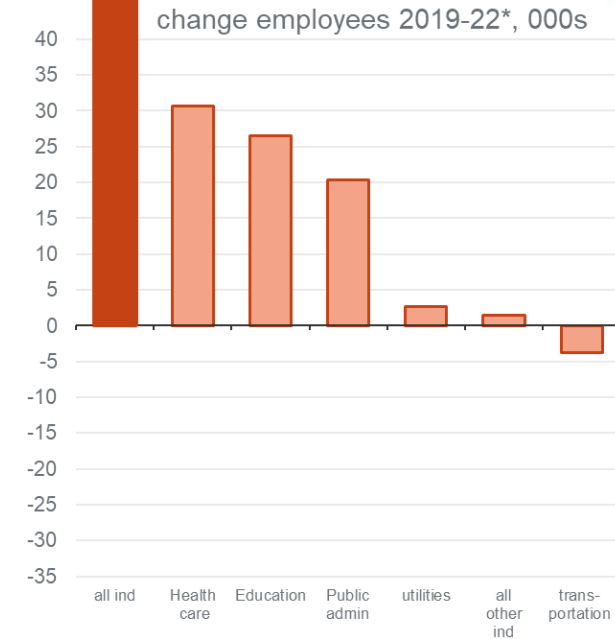


# PUBLIC SECTOR DRIVING JOB GROWTH AS SELF EMPLOYMENT DROPS

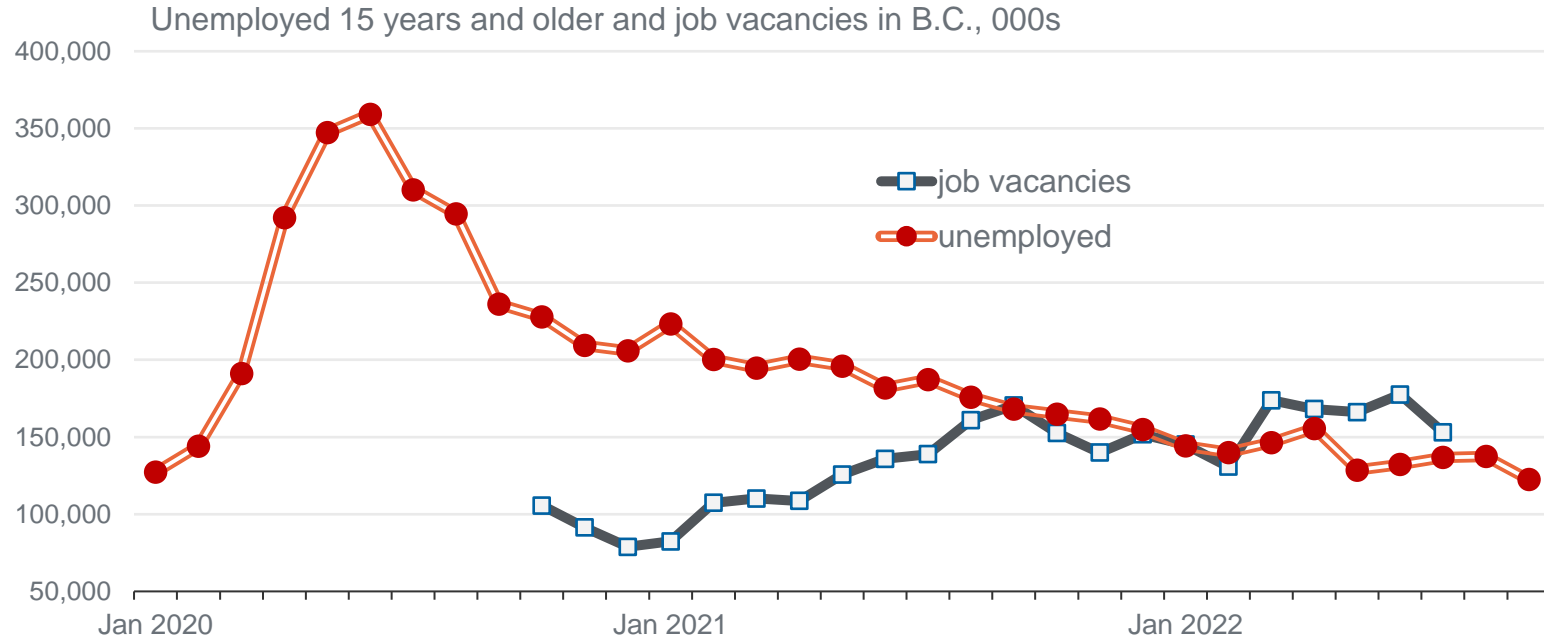
## PRIVATE SECTOR



## PUBLIC SECTOR



## MORE JOB VACANCIES IN B.C. THAN PEOPLE LOOKING FOR WORK



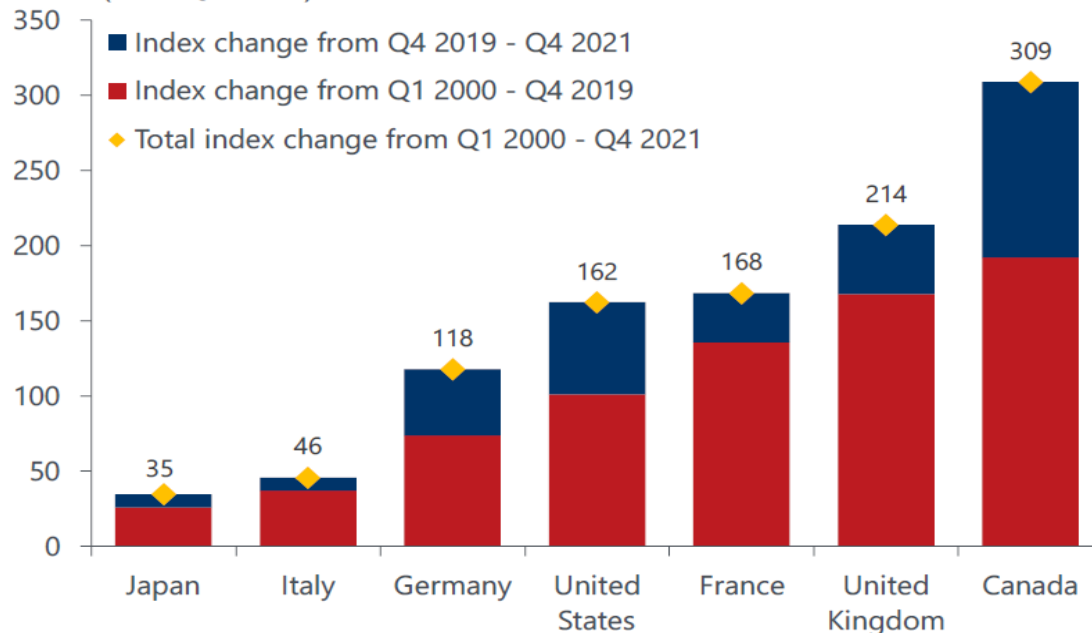
Latest: unemployed Sept 2022; job vacancies July 2022

Source: Statistics Canada, Table 14-10-0287-01 and 14-10-0371-01.

## CANADA HAS FAR OUTPACED OTHER G7 NATIONS IN HOME PRICE APPRECIATION SINCE 2000

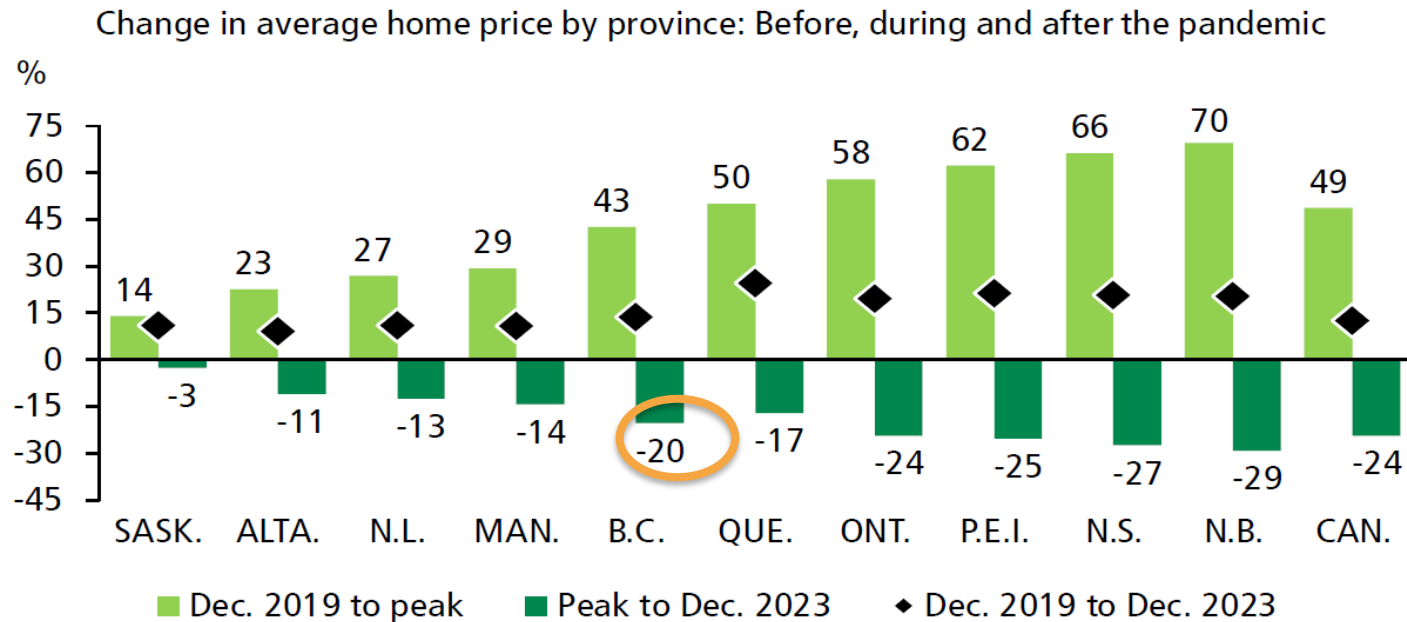
### G7: House price growth since 2000

Index (2000 Q1 = 100)



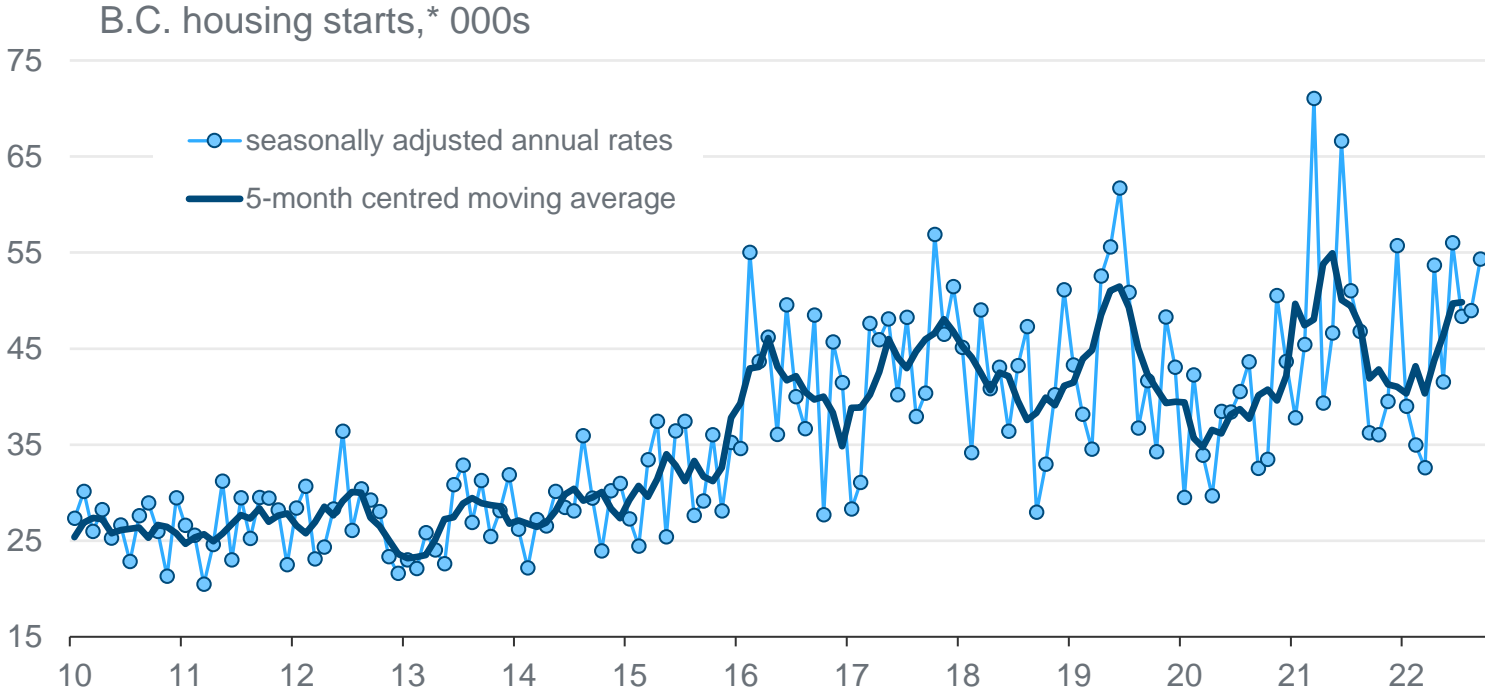
Source: Oxford Economics/Haver Analytics

## HOME PRICES ARE FALLING, BUT SHOULD KEEP SOME OF THEIR PANDEMIC GAINS

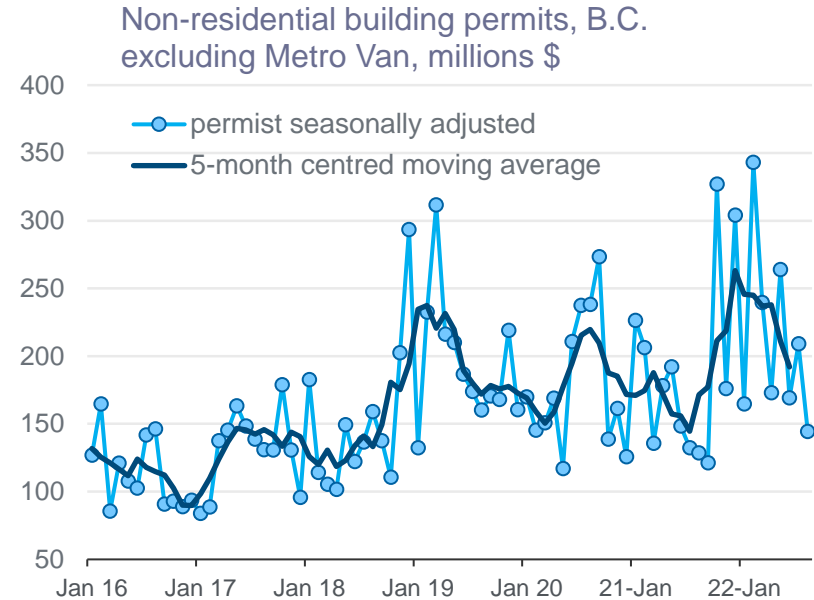
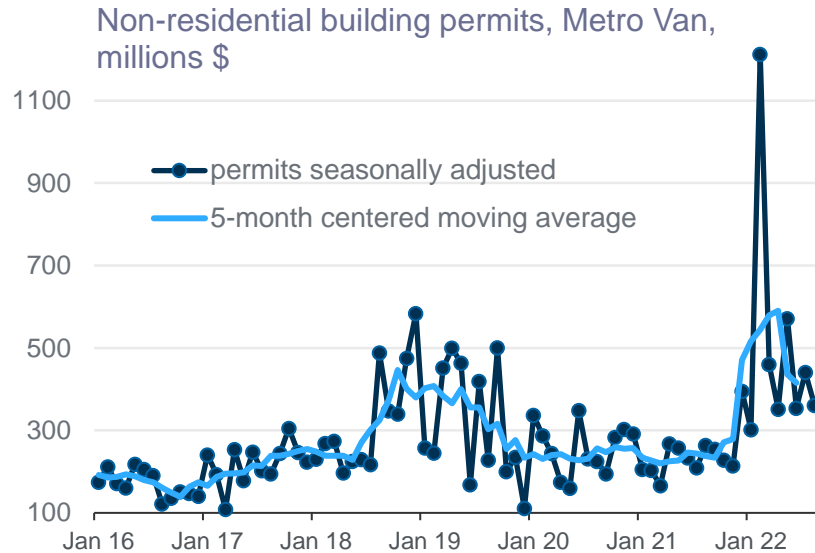


Sources: Canadian Real Estate Association and Desjardins, Economic Studies

## NEW HOME CONSTRUCTION HOLDING UP



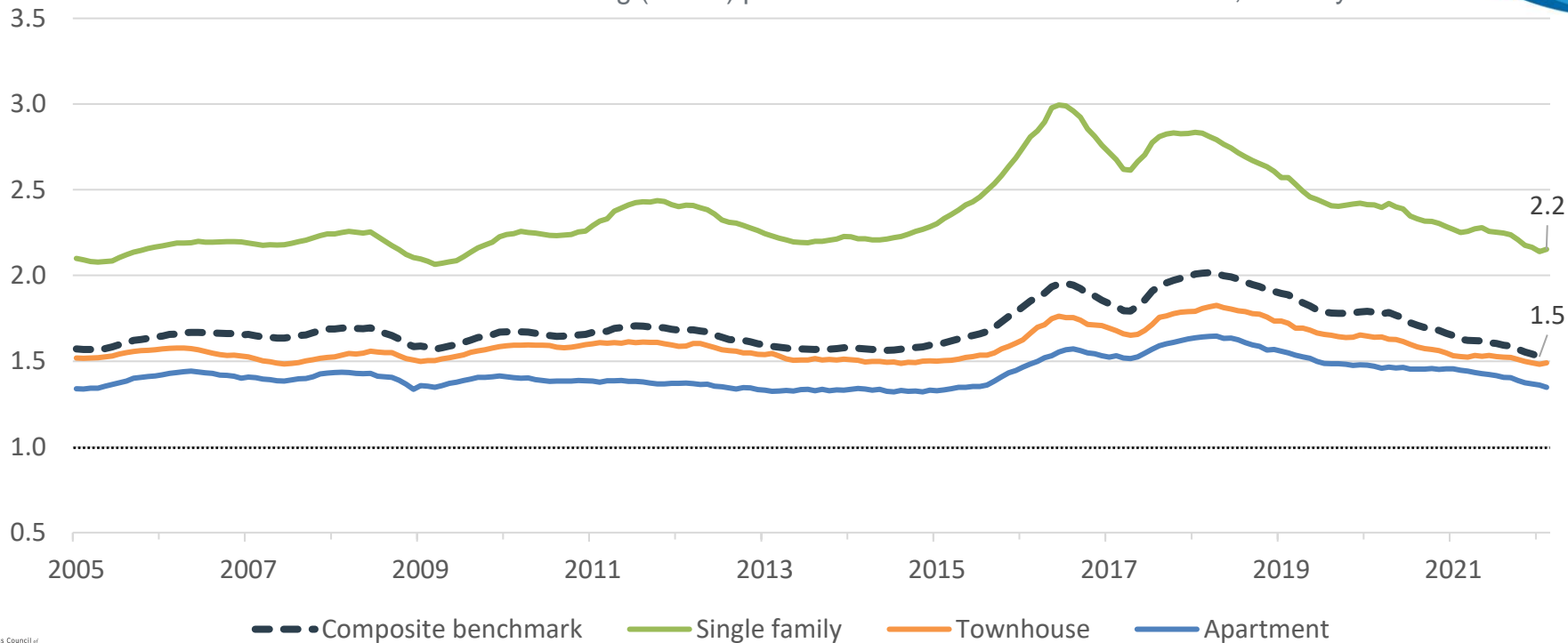
## NON-RES PERMITS STILL RELATIVELY HIGH, BUT EASING



# GREATER VANCOUVER ESTABLISHED DWELLING PRICES ARE 1.5X NATIONAL AVERAGE (DETACHED: 2.2X)

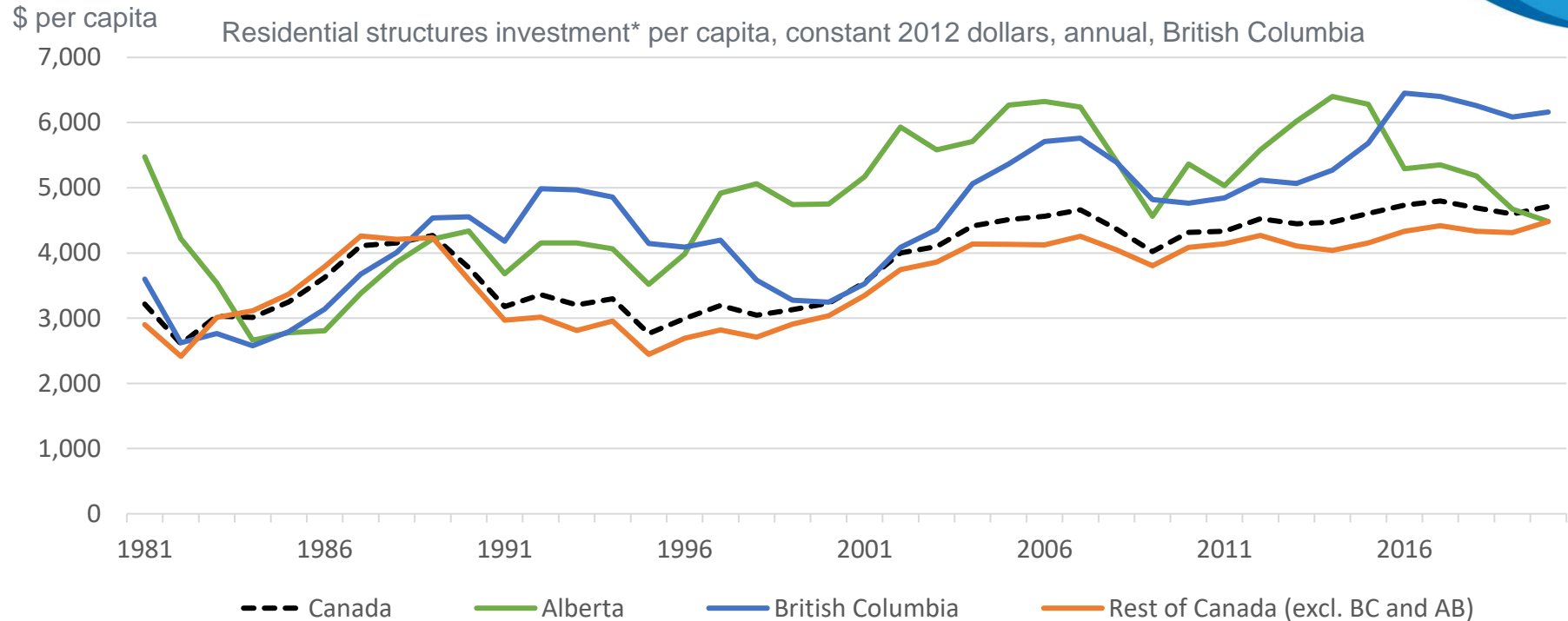
x Canada average  
house prices

Ratio of established dwelling (resale) prices in Greater Vancouver to Canada, monthly

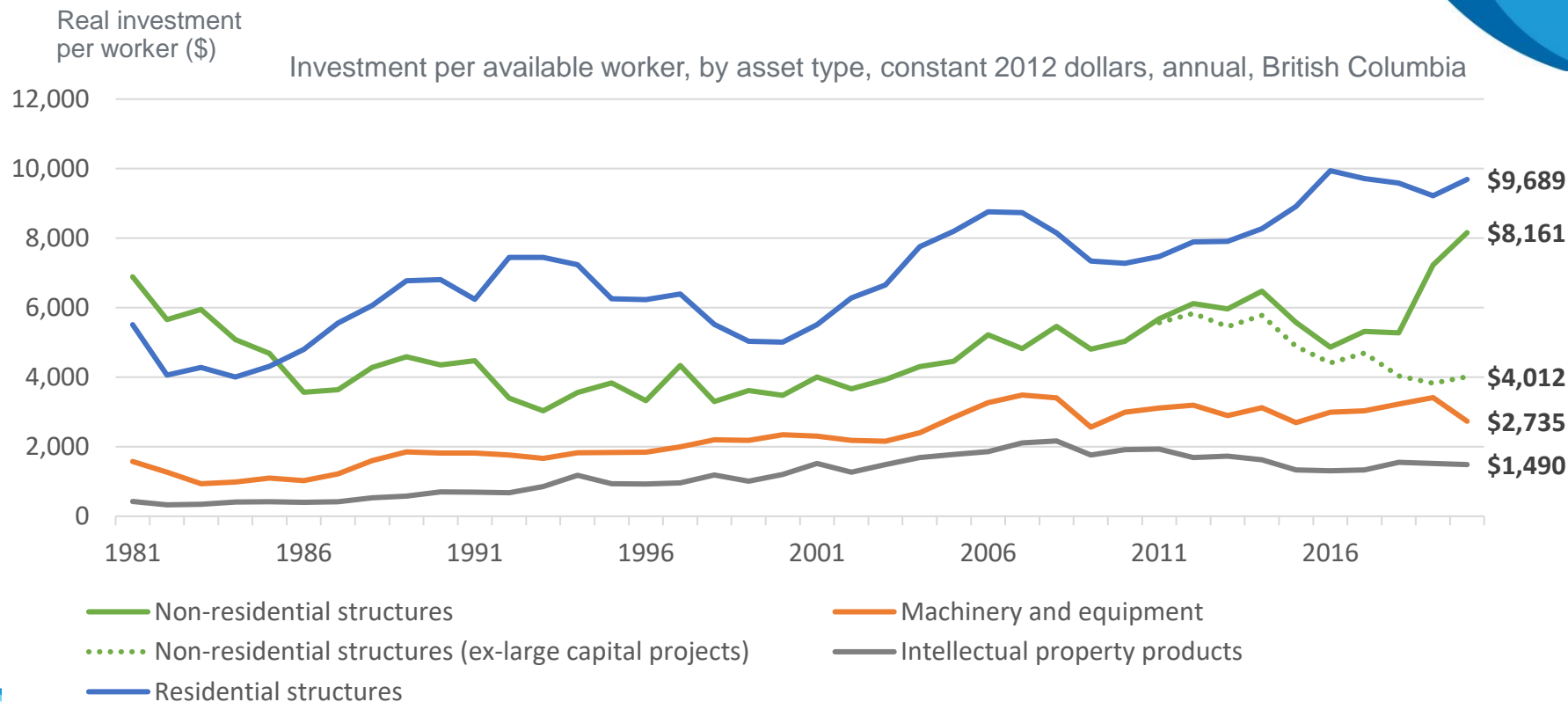




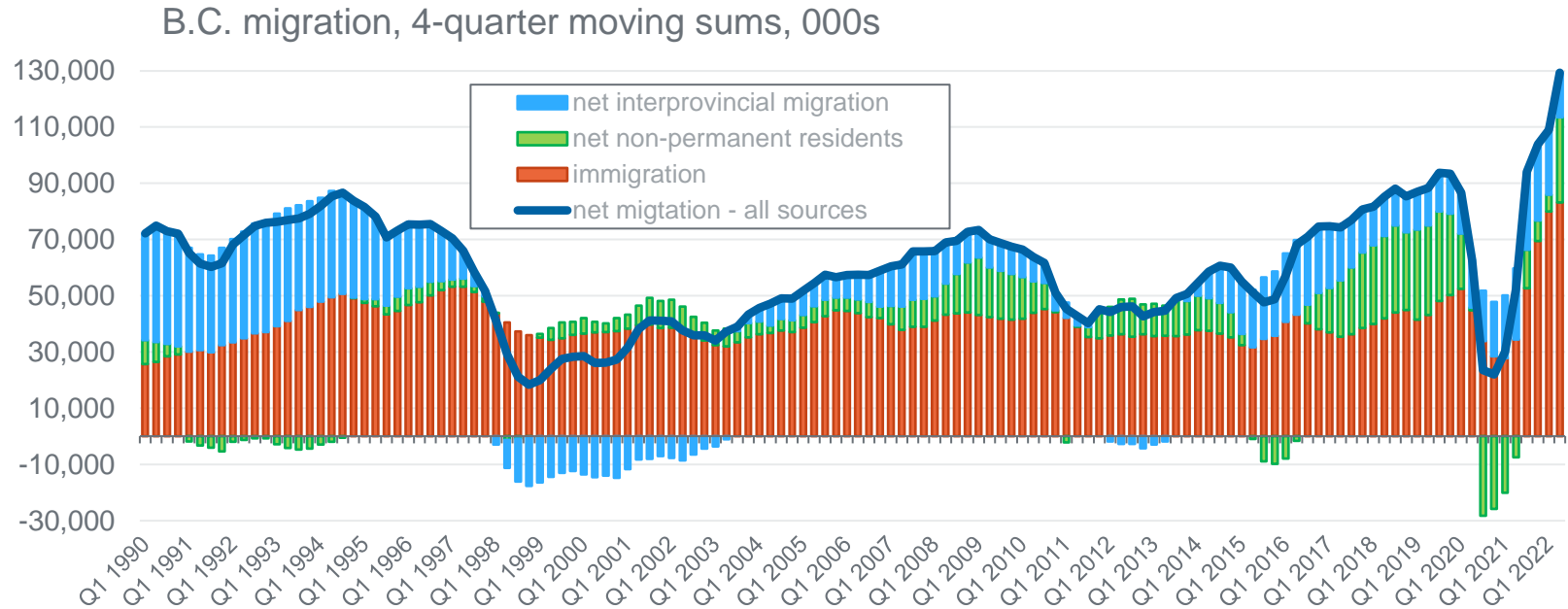
**B.C. IS UNUSUALLY FOCUSED ON CONSTRUCTING, RENOVATING & TRADING RESIDENTIAL STRUCTURES, EVEN ON A *PER CAPITA* BASIS**



# B.C. INVESTS MORE IN CONSTRUCTING, RENOVATING & TRADING RESIDENTIAL STRUCTURES THAN OTHER ASSETS



## B.C. IN MIGRATION CLIMBS TO RECORD HIGH



Source: Statistics Canada, Tables 17-10-0040-01 and 17-10-0009-01 and 17-10-0020-01.

## B.C. ECONOMIC OUTLOOK (BCBC INTERIM FORECAST)

(ANNUAL % CHANGE UNLESS OTHERWISE INDICATED)

	2020	2021	2022f	2023f
Real GDP	-3.4	6.1	2.9	0.9
Employment	-6.5	6.6	3.1	0.8
Unemployment rate (%)	8.8	6.5	4.7	5.8
Housing starts (000 units)	38.0	47.5	42.8	41.0
Retail sales	1.3	13.5	2.0	2.8
B.C. CPI	0.8	2.8	6.5	3.8

f – forecast

Source: Statistics Canada and BC Stats; Business Council for forecasts.

## RECAP

- Exports, fiscal stimulus, capital investment, and consumer spending all contributed to growth last year – a more mixed picture now
- Inflation, especially energy and food, weighing on households
- Bank of Canada is behind and moving aggressively to raise policy rate – mild recession is unavoidable
- Dramatic deterioration in government fiscal positions....in Canada especially at the federal level, where debt/GDP ratio could approach 60% by 2023, versus 31% in 2019
- Risks are on the downside – outlook hinges critically on inflation
- Need for renewed focus on prosperity -- competitiveness, capital investment, growing exports, business scaling
- Raise personal income tax thresholds and/or lower top rates – disincentives to human capital, entrepreneurship, and skill upgrading