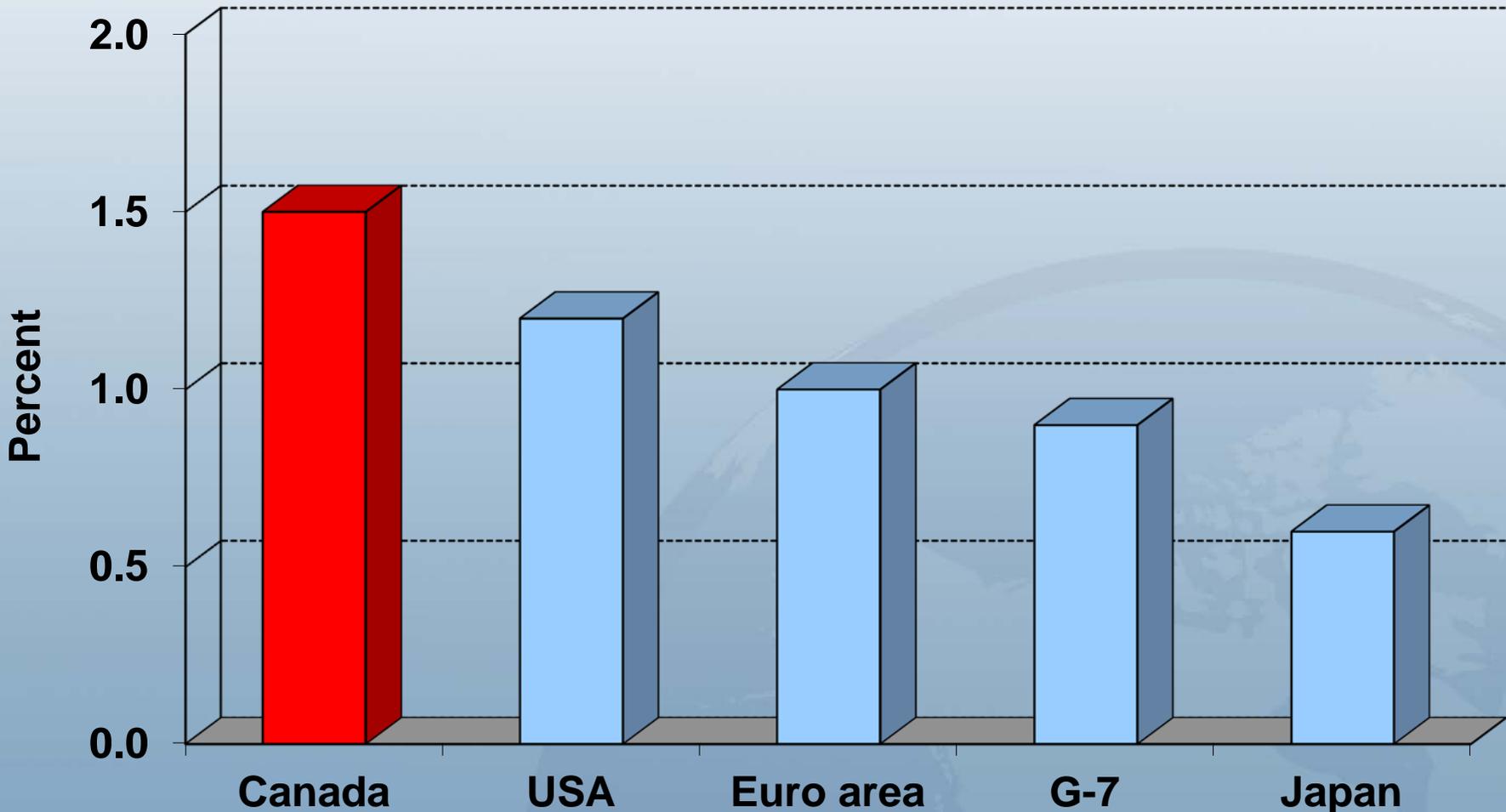


The Big Picture: Canada's Economic Outlook & Challenges Ahead

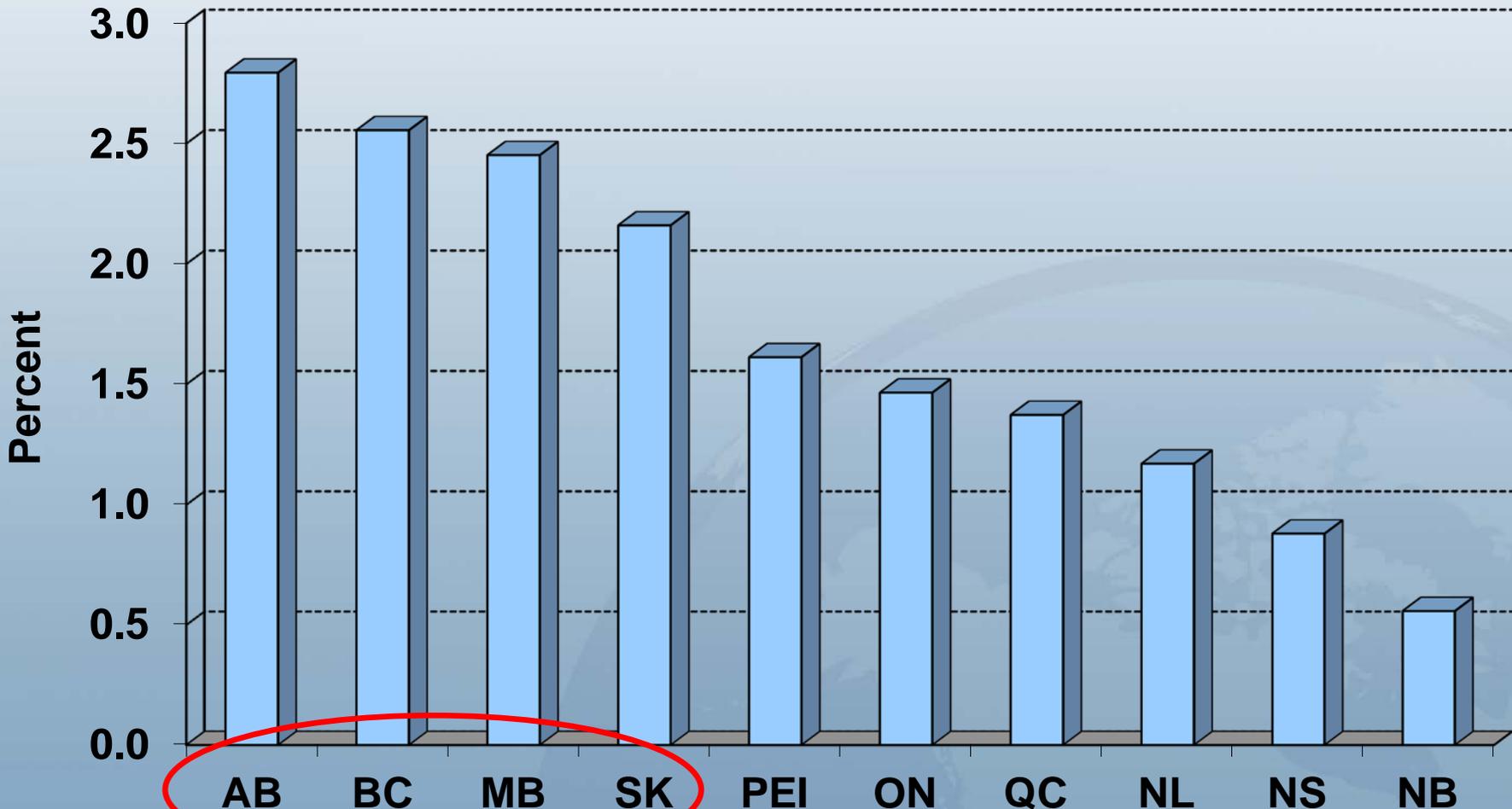


Niels Veldhuis
President, Fraser Institute
@nielsveldhuis
fraserinstitute.org

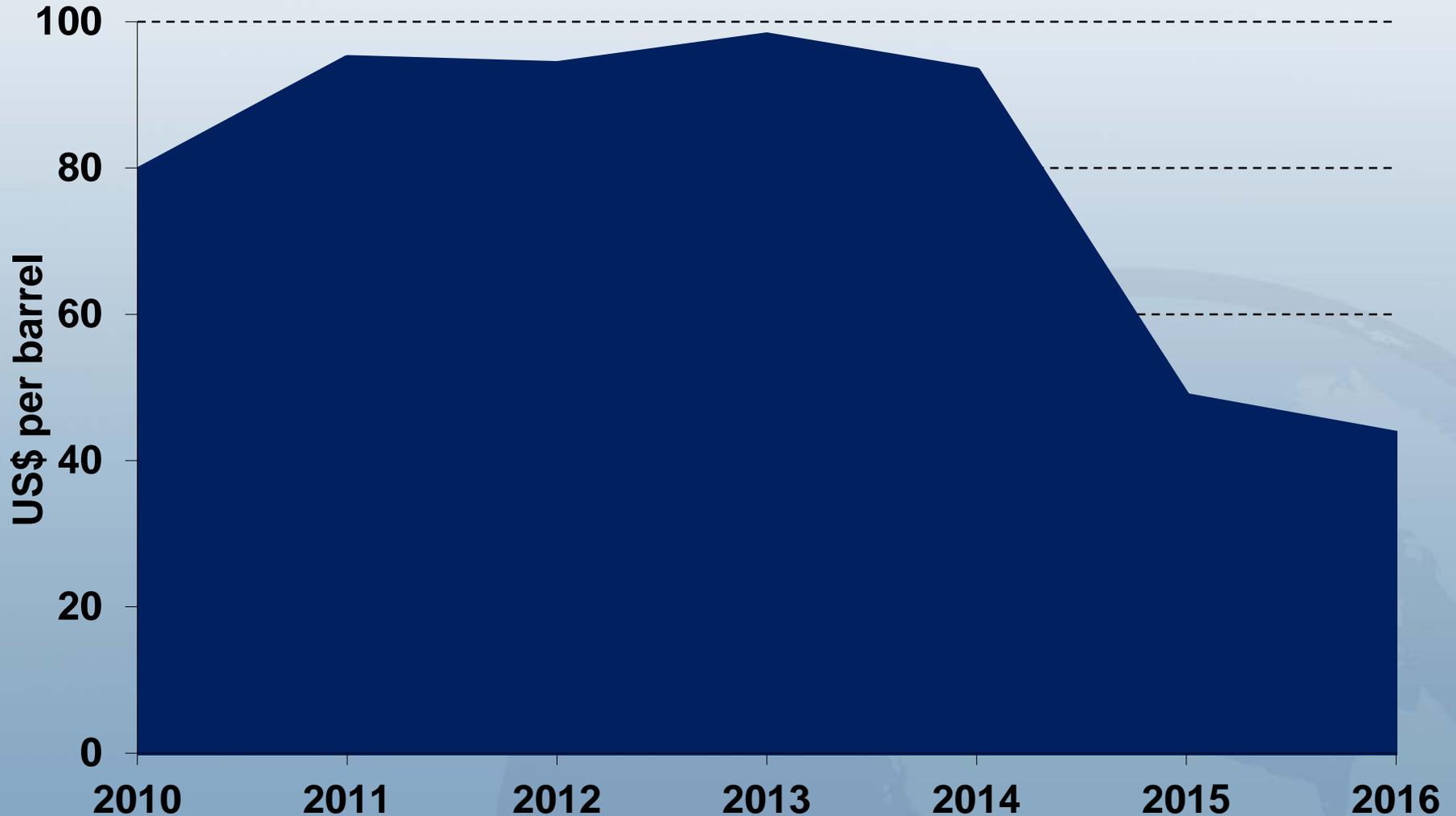
Canada has outperformed on economic growth, 2005-2015



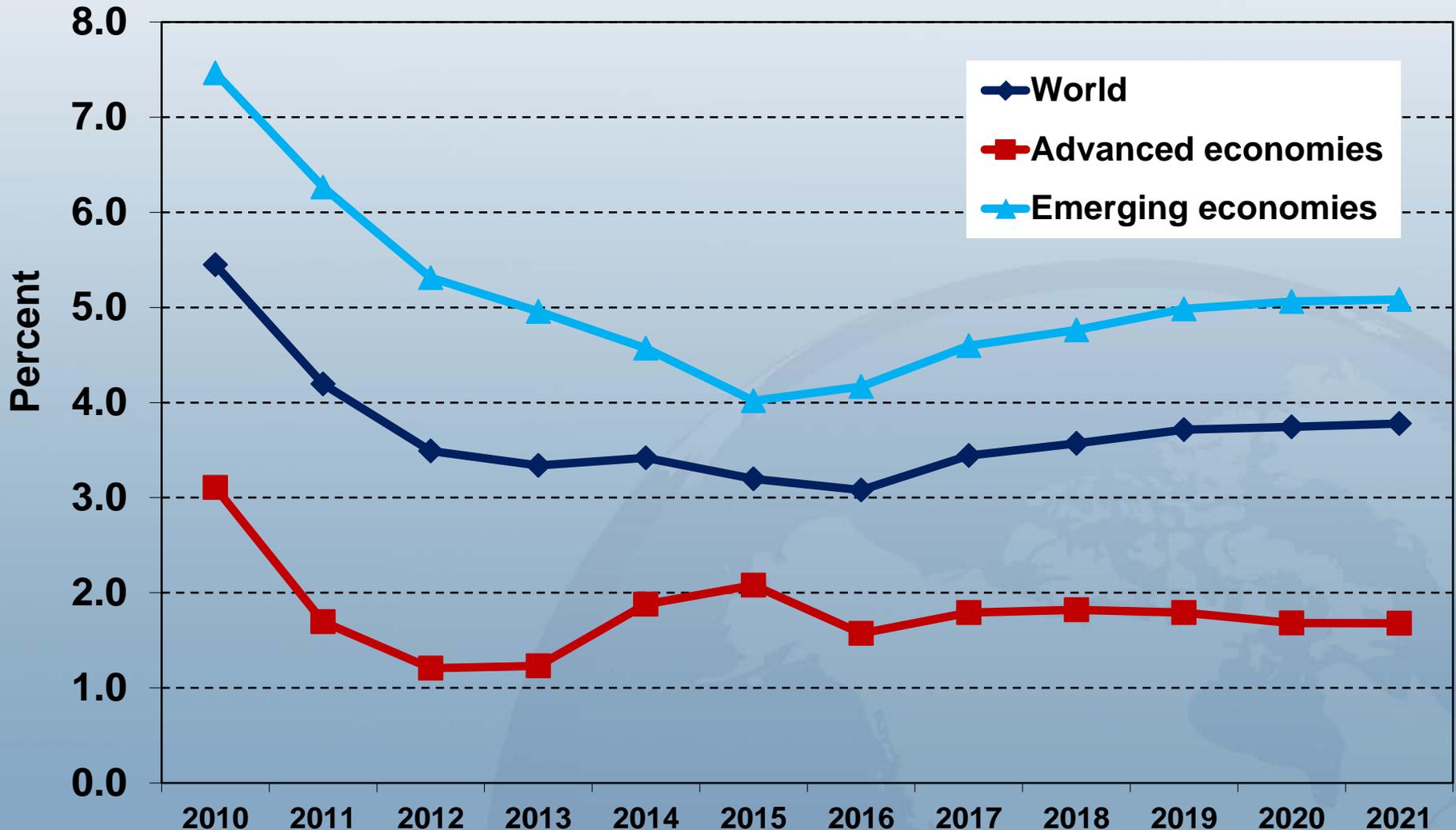
Western provinces have led on economic growth, 2005-2015



Crude Oil (WTI)

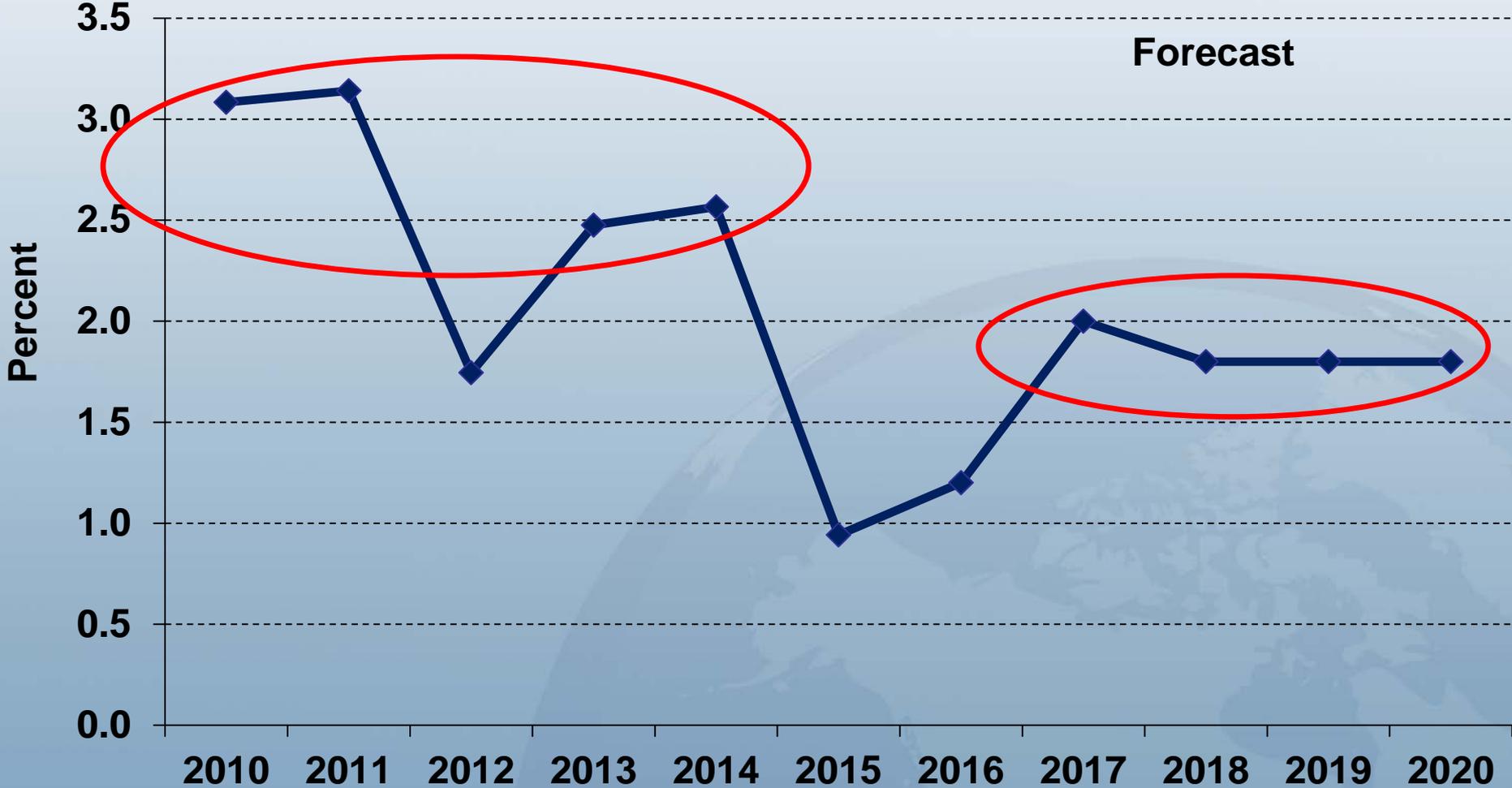


World Growth Outlook, Real GDP, % Change



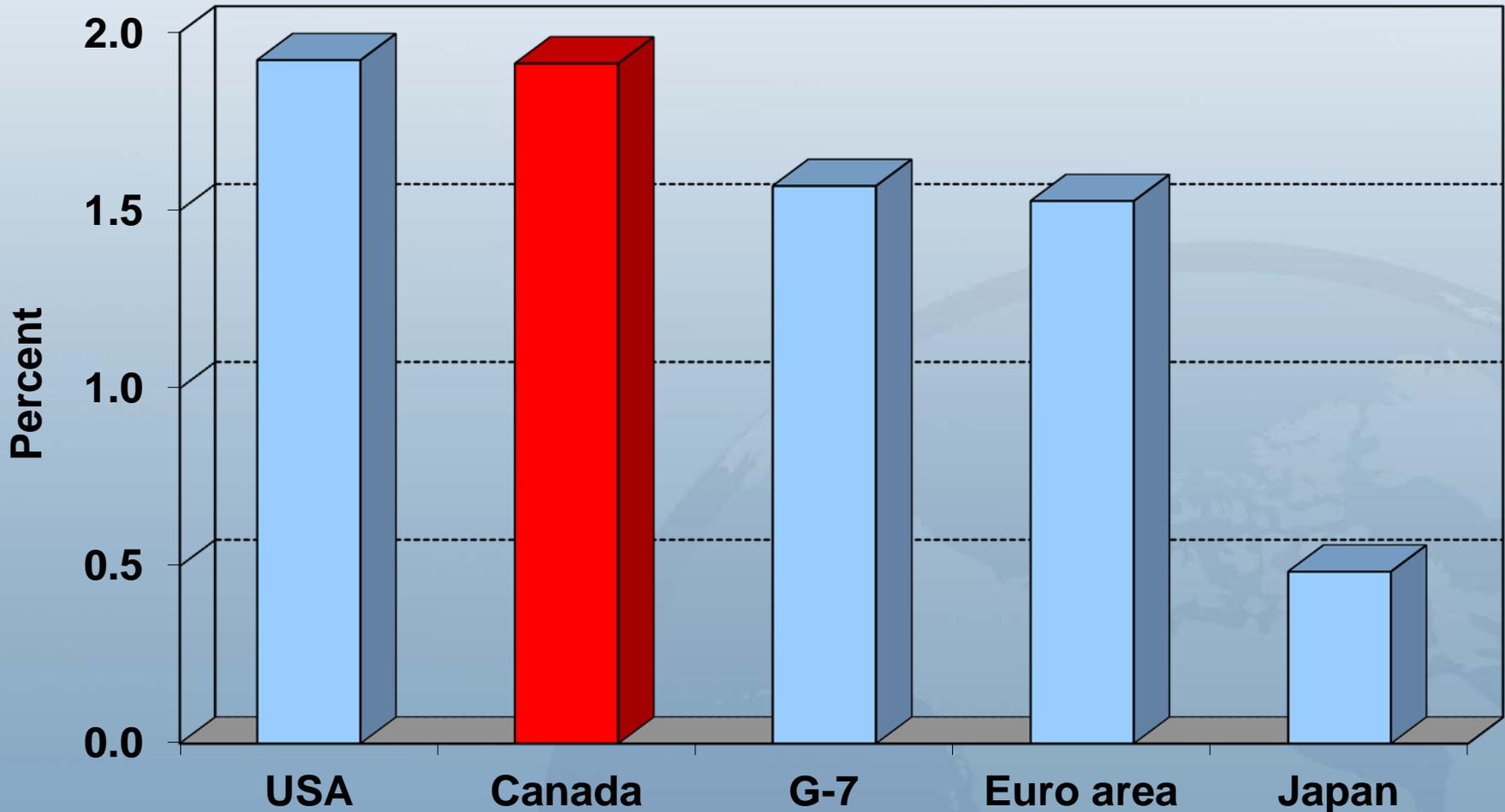
Source: International Monetary Fund. World Economic Outlook Database (October 2016).

Canada's Growth Outlook, Real GDP, % Change



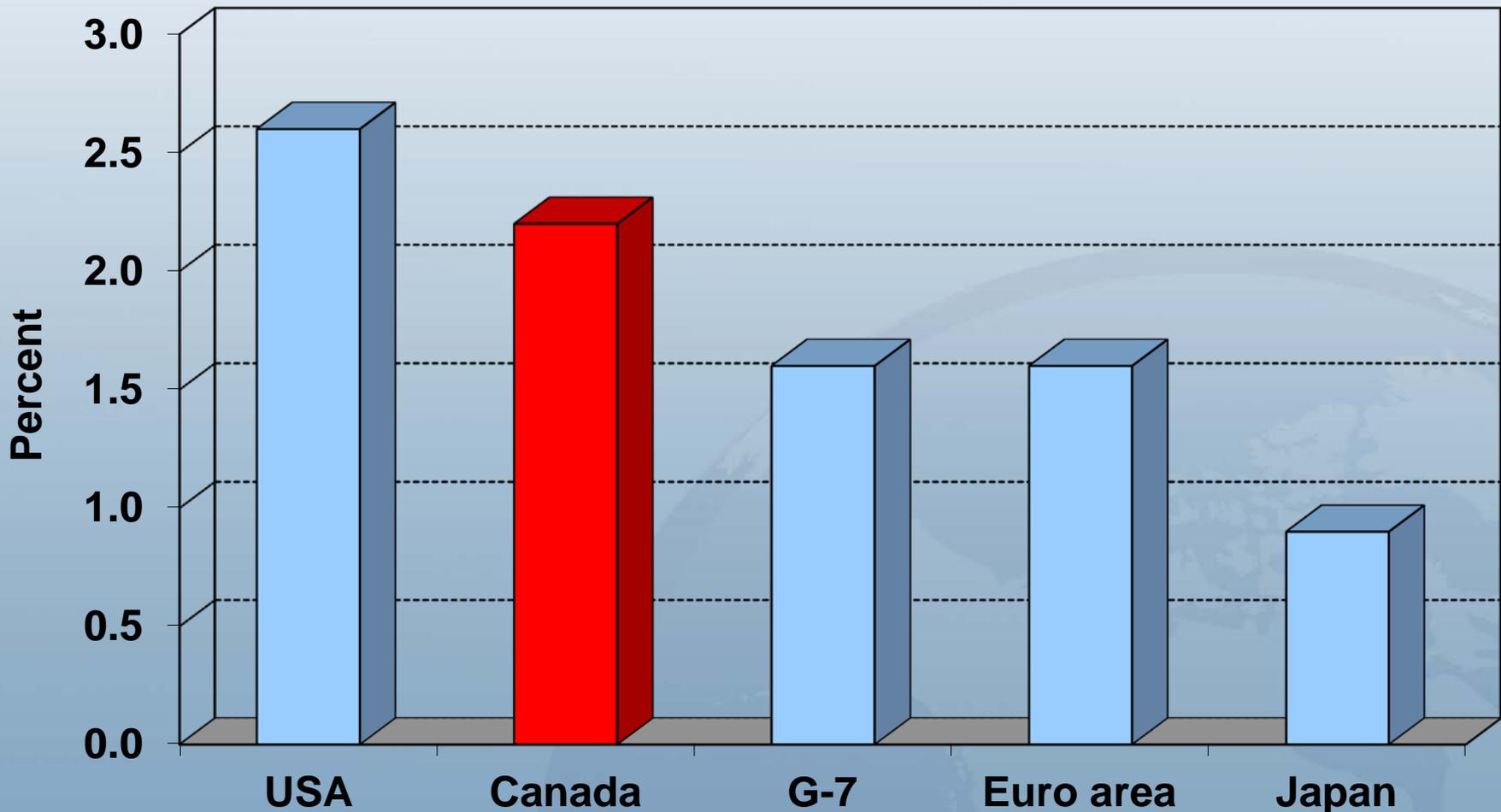
Sources: Statistics Canada. CANSIM Table 384-0038; Department of Finance, Economic and Fiscal Update (November 2016).

Looking Forward: Economic Growth, 2017-2021



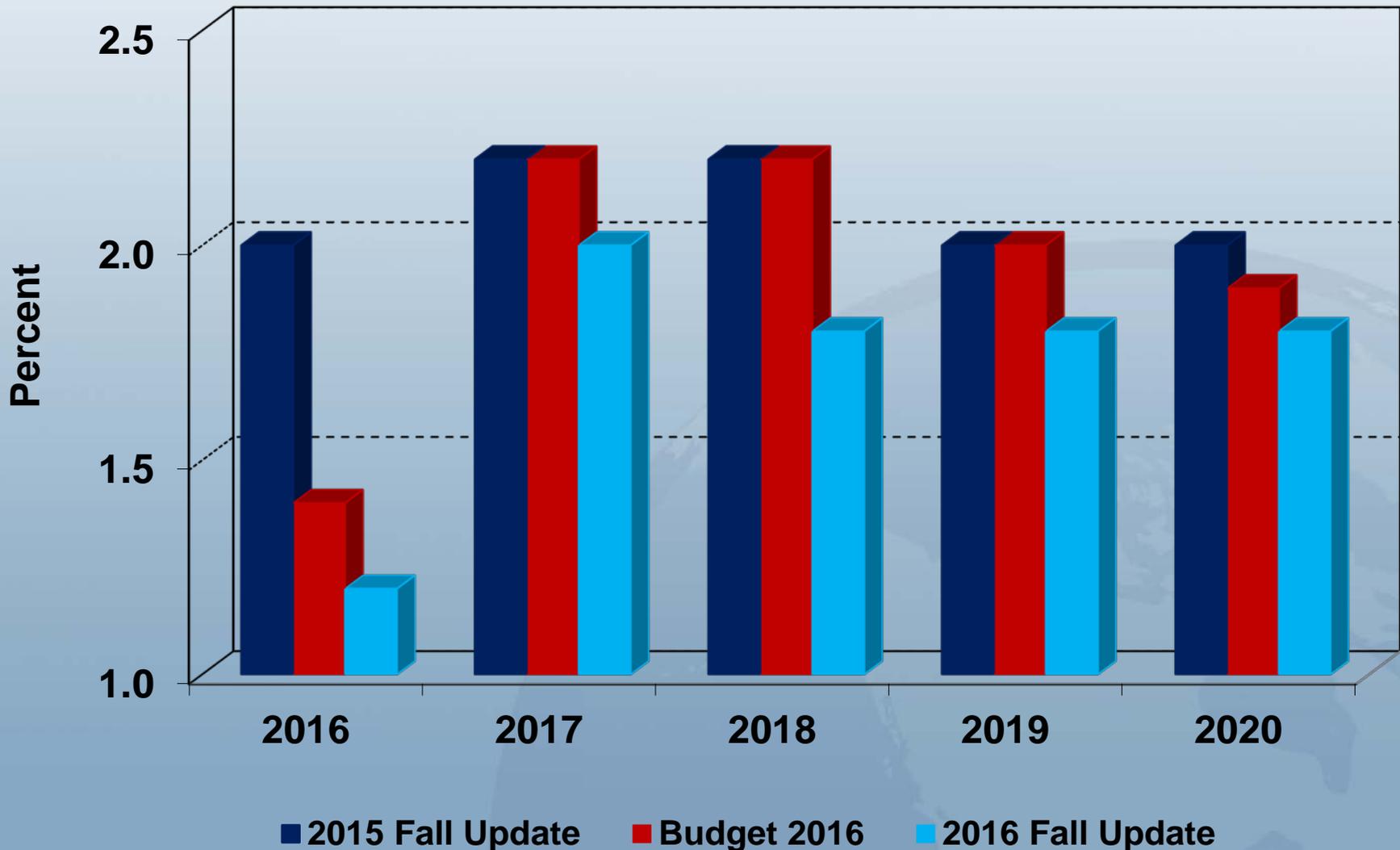
Source: International Monetary Fund, World Economic Outlook Database (October 2016); calculations by authors.

OECD's Projections of Economic Growth, 2017-2018



Source: OECD, Economic Outlook (November 2016); calculations by authors.

Federal Government Projections, Real GDP, % Change



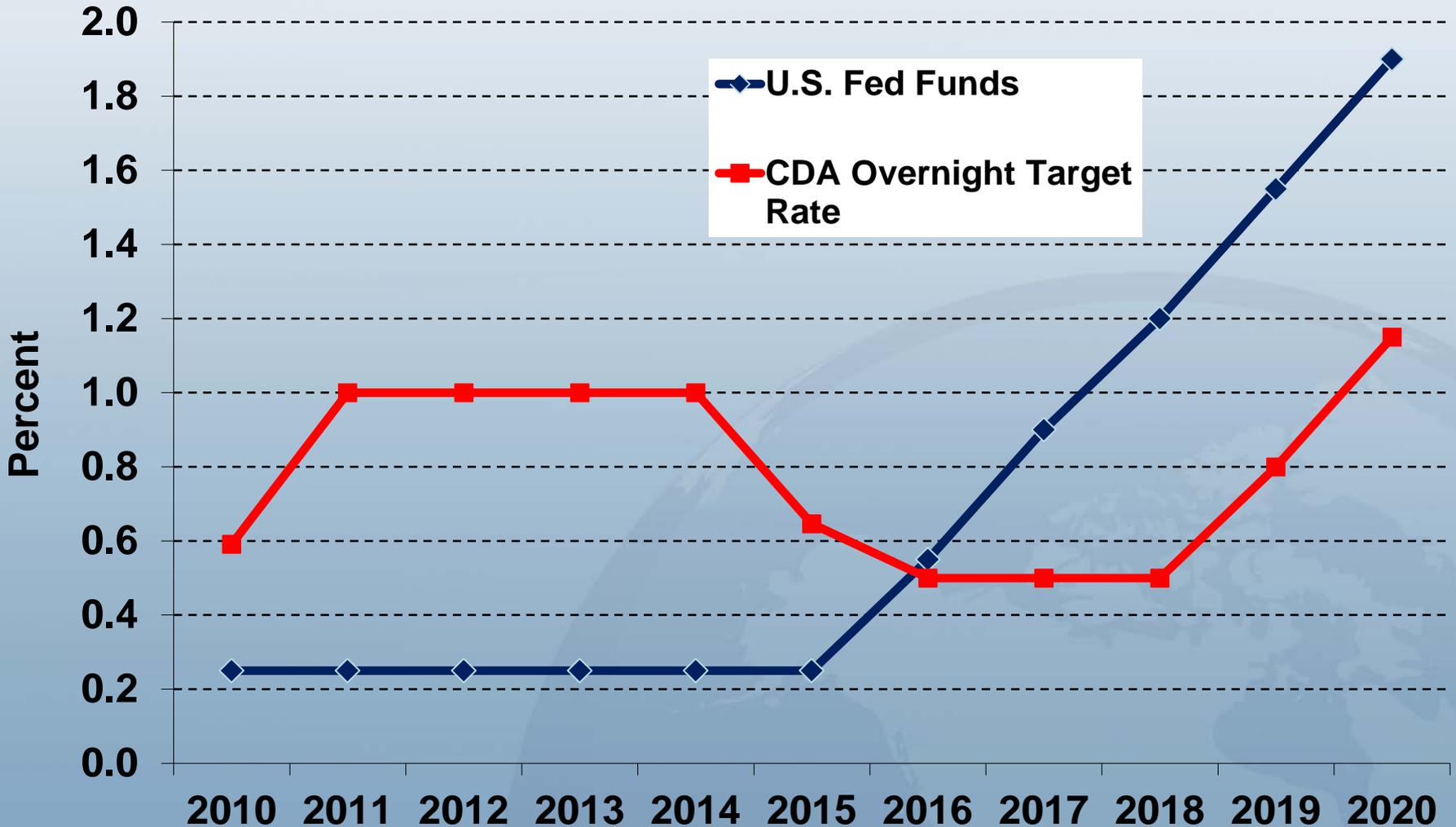
Canada's Economic Forecast



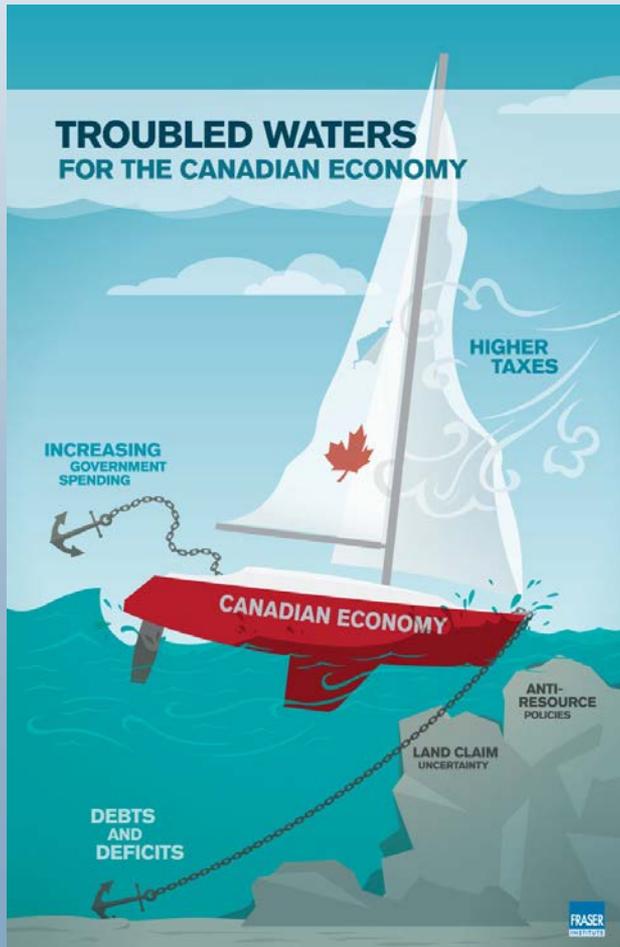
	Forecasts					
	2015	2016	2017	2018	2019	2020
Real GDP	1.1	1.1	1.8	1.7	1.5	1.4
Employment	0.9	0.6	0.5	0.5	0.5	0.4
Non-res investment	-10.6	-7.2	1.3	3.1	2.6	2.0
Exchange rate – Q4 US\$/Cdn\$	0.72	0.75	0.75	0.77	N/A	N/A

Source: TD Economics, Long-Term Economic Forecast. Sept. 26, 2016.

Looking ahead: Interest rates



Challenges Ahead: Troubled Waters for the Canadian Economy



1

President-Elect Trump Consequences & Silver Linings



President-Elect Trump Consequences & Silver Linings

Main impact will be greater uncertainty about trade relations:

- Withdrawal from the Trans-Pacific Partnership (TPP)
- Abrupt withdrawal of NAFTA is unlikely
- Complex system of supply chains
- Softwood lumber and livestock exports are immediate issues



President-Elect Trump Consequences & Silver Linings



Differences in environmental policies will likely make Canada increasingly uncompetitive:

- Scrap the EPA's Clean Power Plan
- Unleash fracking on Federal Lands
- Eliminate intrusive regulations, like the Waters of The U.S. Rule and those aimed at methane emissions
- Possible withdrawal from the Paris accord

President-Elect Trump Consequences & Silver Linings



- Heart of President-Elect Trump's platform is to boost America's economic growth
 - Multi-year infrastructure program
 - Roll back regulatory burden on American Businesses
 - Significant tax cuts for both businesses and individuals
- Approval of Keystone XL Pipeline
- Potential upside of U.S. immigration policies

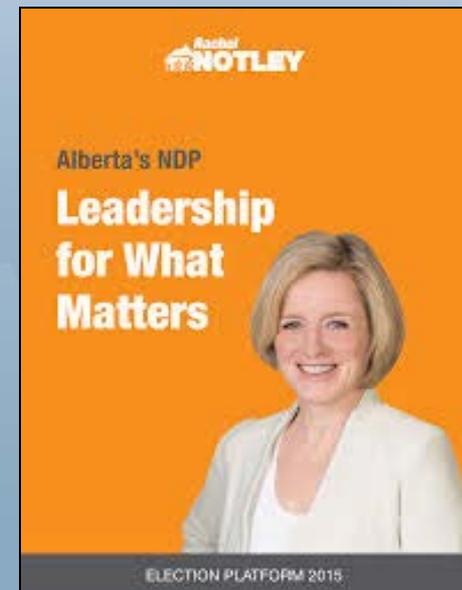
2

Alberta's and Ontario's investment climates are dragging Canada down



Alberta's self-inflicted wounds

- Ended Alberta's tax advantage
- Deficits and fiscal instability
- Annual cap on oil sands emissions
- New climate strategy
- Introducing a carbon tax
- Minimum wage increase



Ontario's Investment Climate

Ontario's investment climate has taken a substantial hit over the past decade:

- rising energy costs
- unstable fiscal outlook
- higher taxes
- increased regulation
- bordering U.S. states have made their economies more attractive



3 Tax changes have made Canada less competitive

CANADA'S RISING PERSONAL TAX RATES AND FALLING TAX COMPETITIVENESS

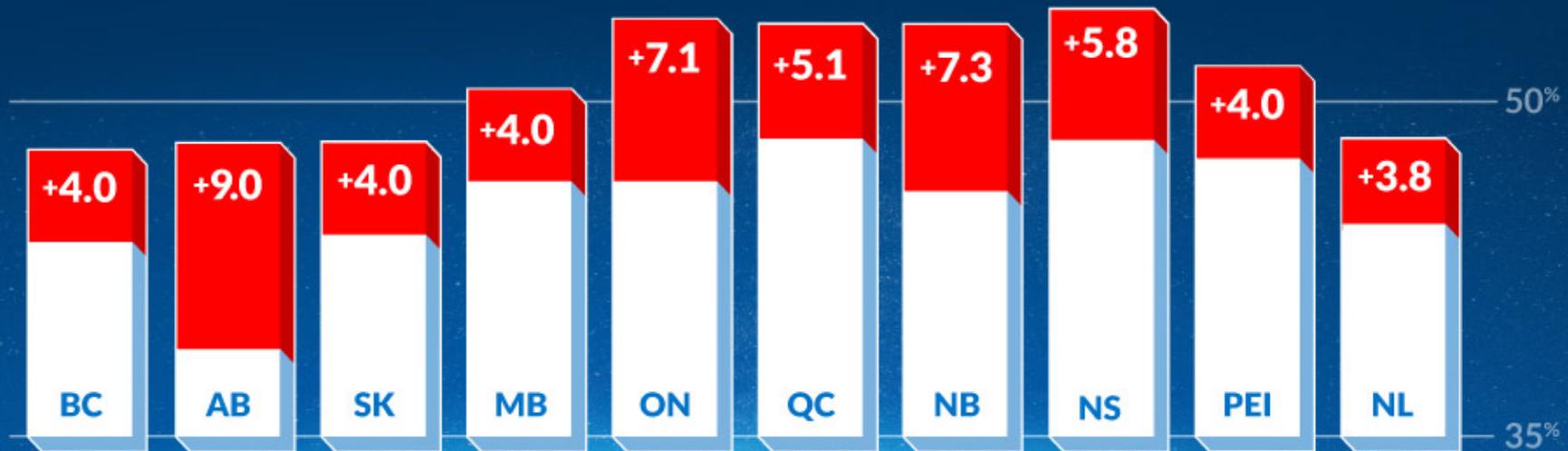
CANADA'S TOP COMBINED PERSONAL INCOME TAX RATE IS AMONG THE HIGHEST IN THE INDUSTRIALIZED WORLD



* Tax rates are for 2014 except Canada which is for 2016

PERSONAL INCOME TAX RATES ON THE RISE IN CANADA

INCREASE (IN PERCENTAGE POINTS) FROM 2009 TO 2016



On the need to reduce personal income taxes:



"Lower personal taxes would provide greater rewards and incentives for middle-and high-income Canadians to work, save and invest."

~ Prime Minister Paul Martin, 2005

"Canada's tax burden on highly skilled workers is too high relative to other countries ... Canada needs lower personal income tax rates to encourage more Canadians to realize their full potential."

~ Prime Minister Stephen Harper, 2007

4

Land claim uncertainty and Anti-resource policies

- New climate tests: environmental review for LNG to consider direct and upstream GHG emissions
- Plans to establish a “moratorium on crude oil tanker traffic on BC’s North Coast”
- Changes to the NEB to include more environmentalist and Aboriginal representation
- Supreme Court Judgments

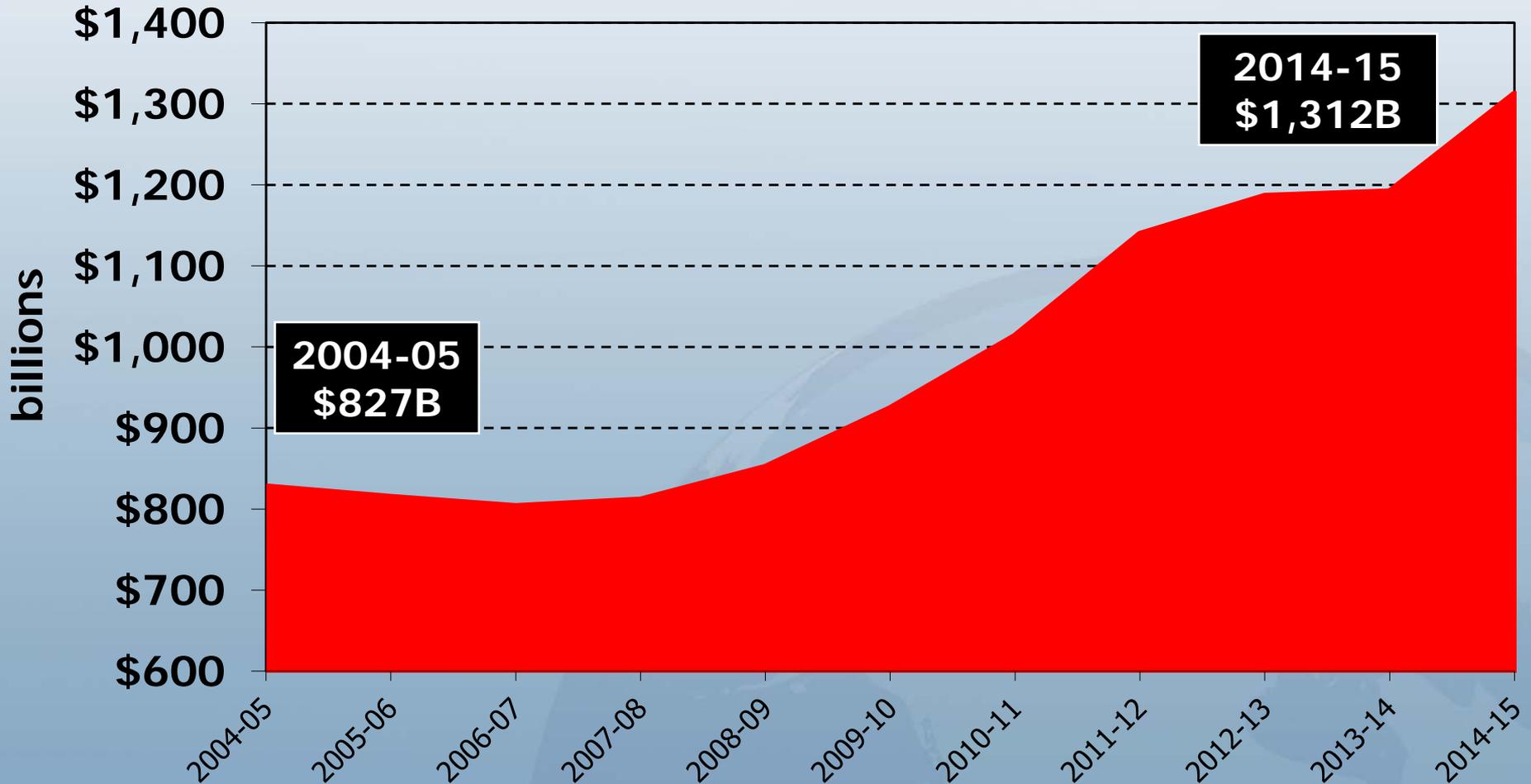
5

Turning our back on prudent fiscal policy



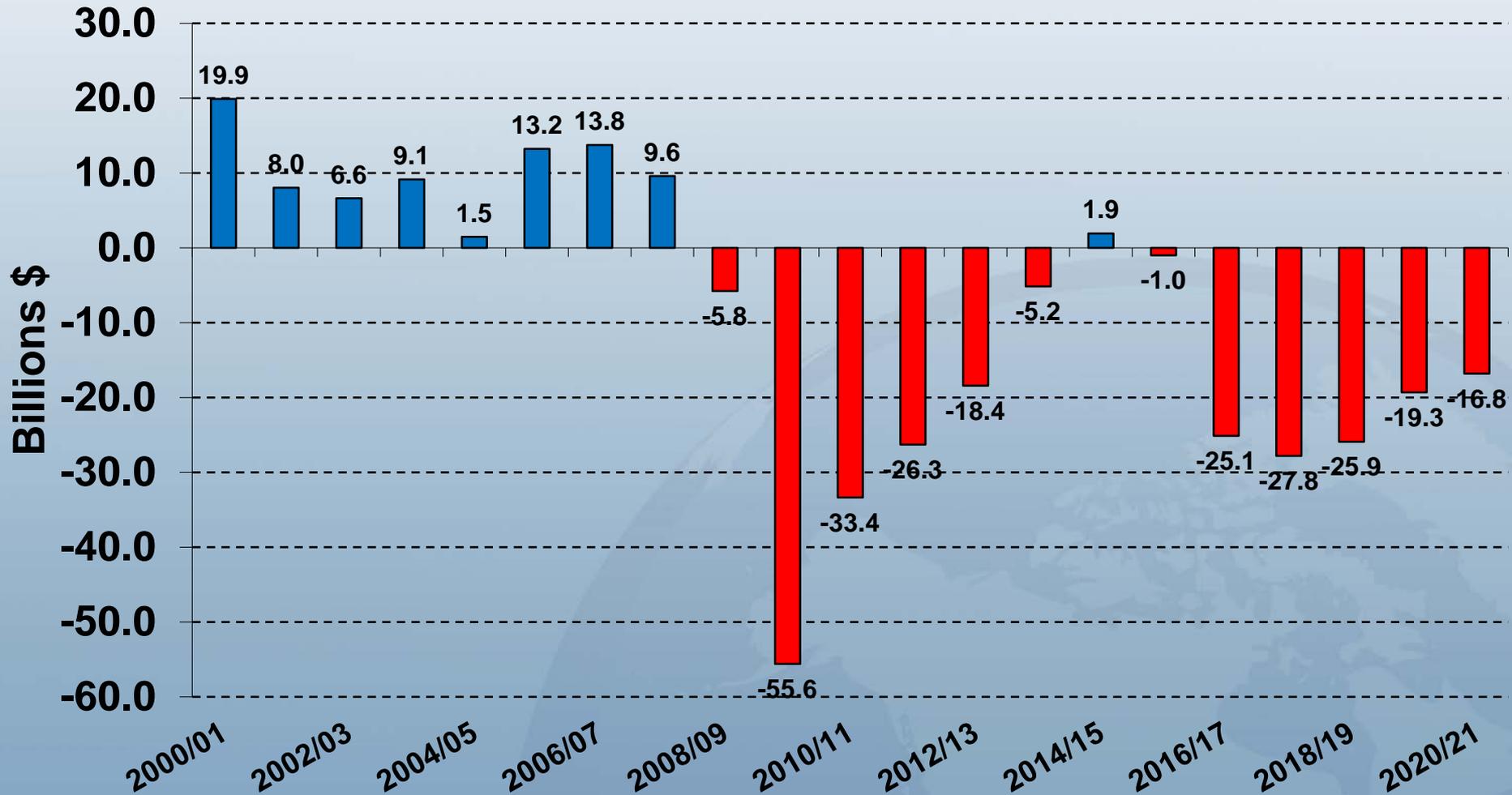
“The biggest challenge facing mature democracies is how to restore the social contract between the generations.” ~ Harvard Professor Niall Ferguson

Federal, Provincial and Local Government Net Debt

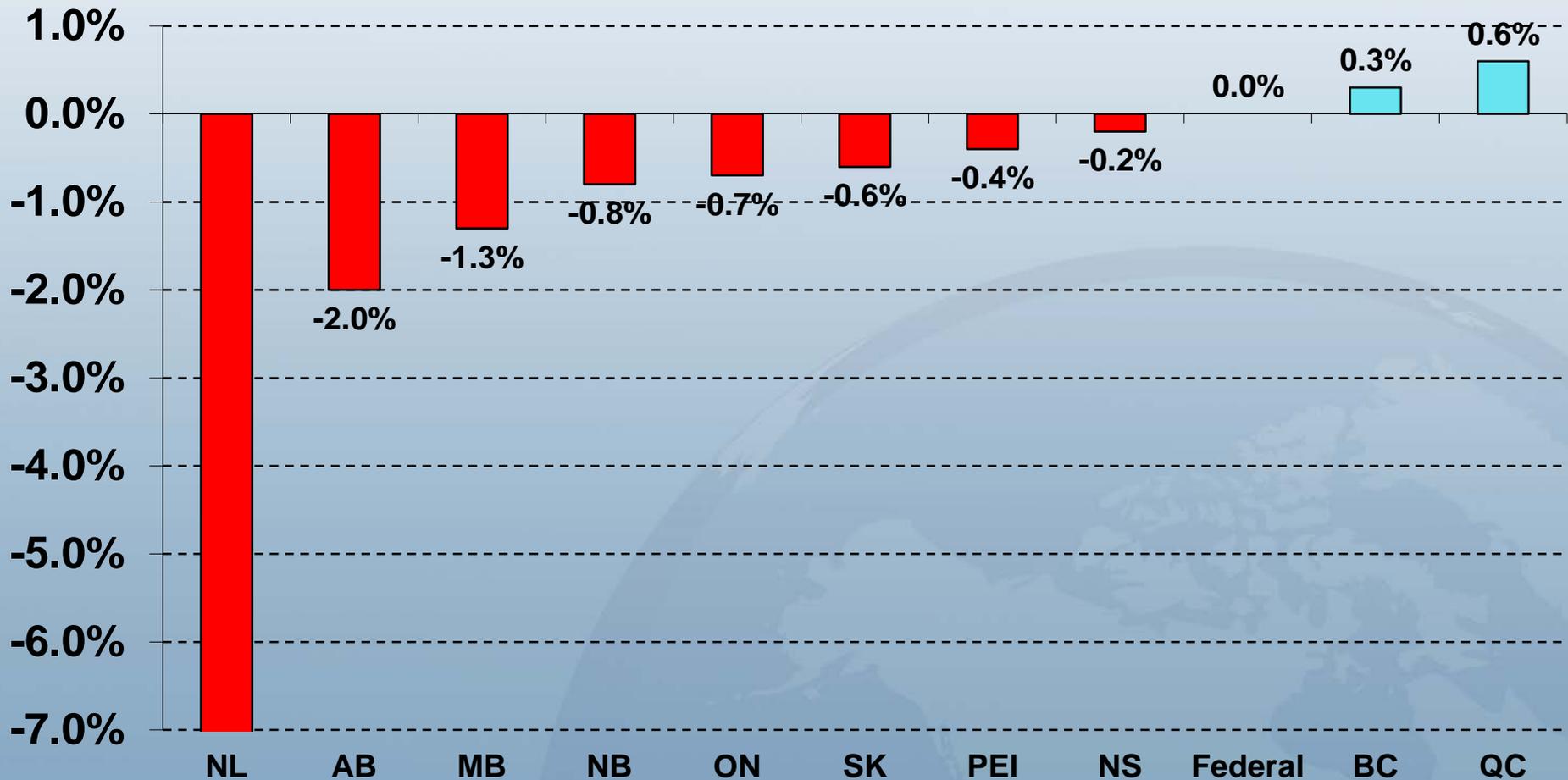


Source: Statistics Canada, CANSIM Table 385-0032.

Federal Surplus/Deficit, Billions \$

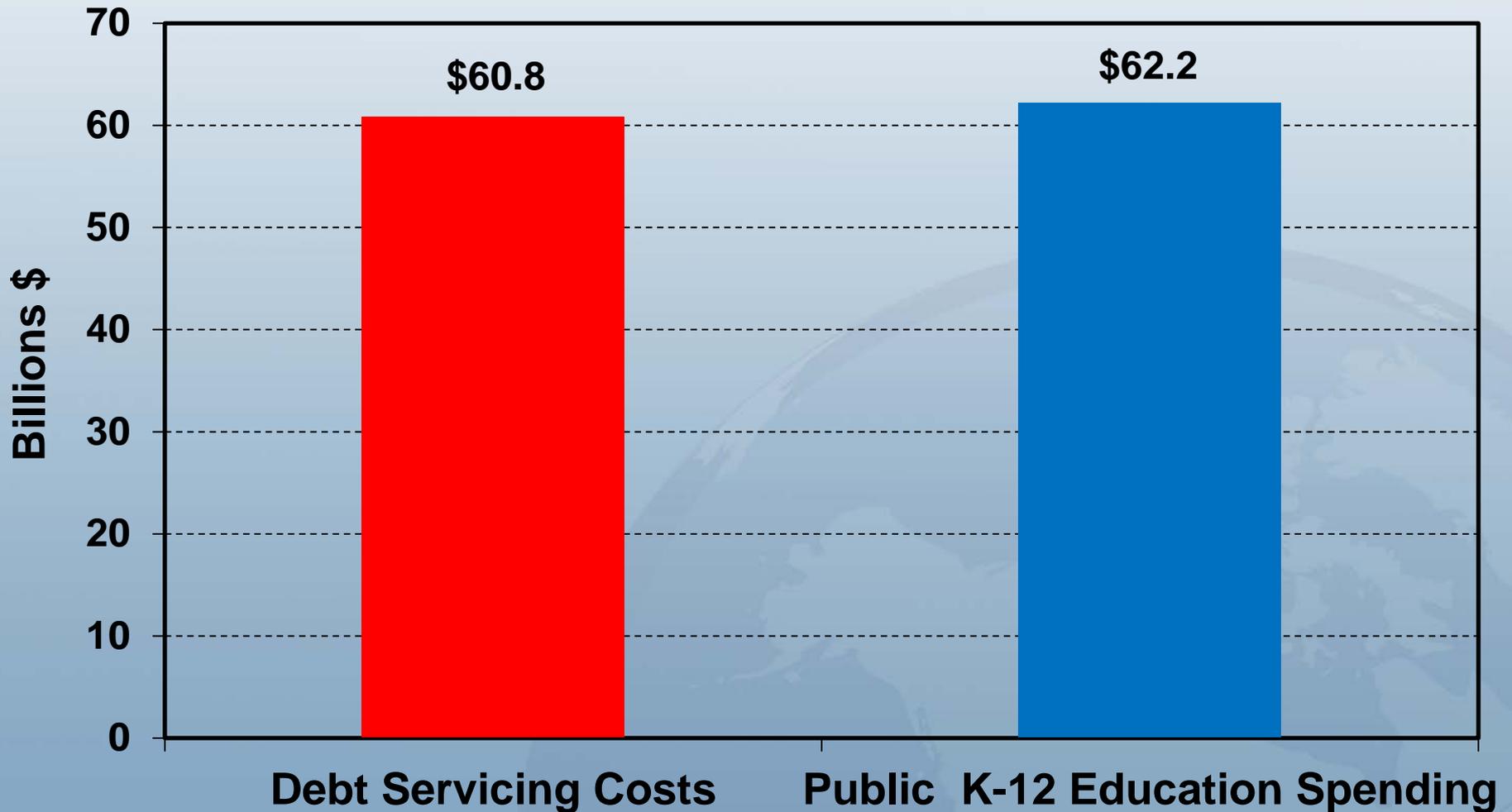


Surplus/Deficit % of GDP, 2015/16



Cost of Debt:

Consolidated government interest costs compared to other expenditures



Source: Lammam et al. (2016).

6

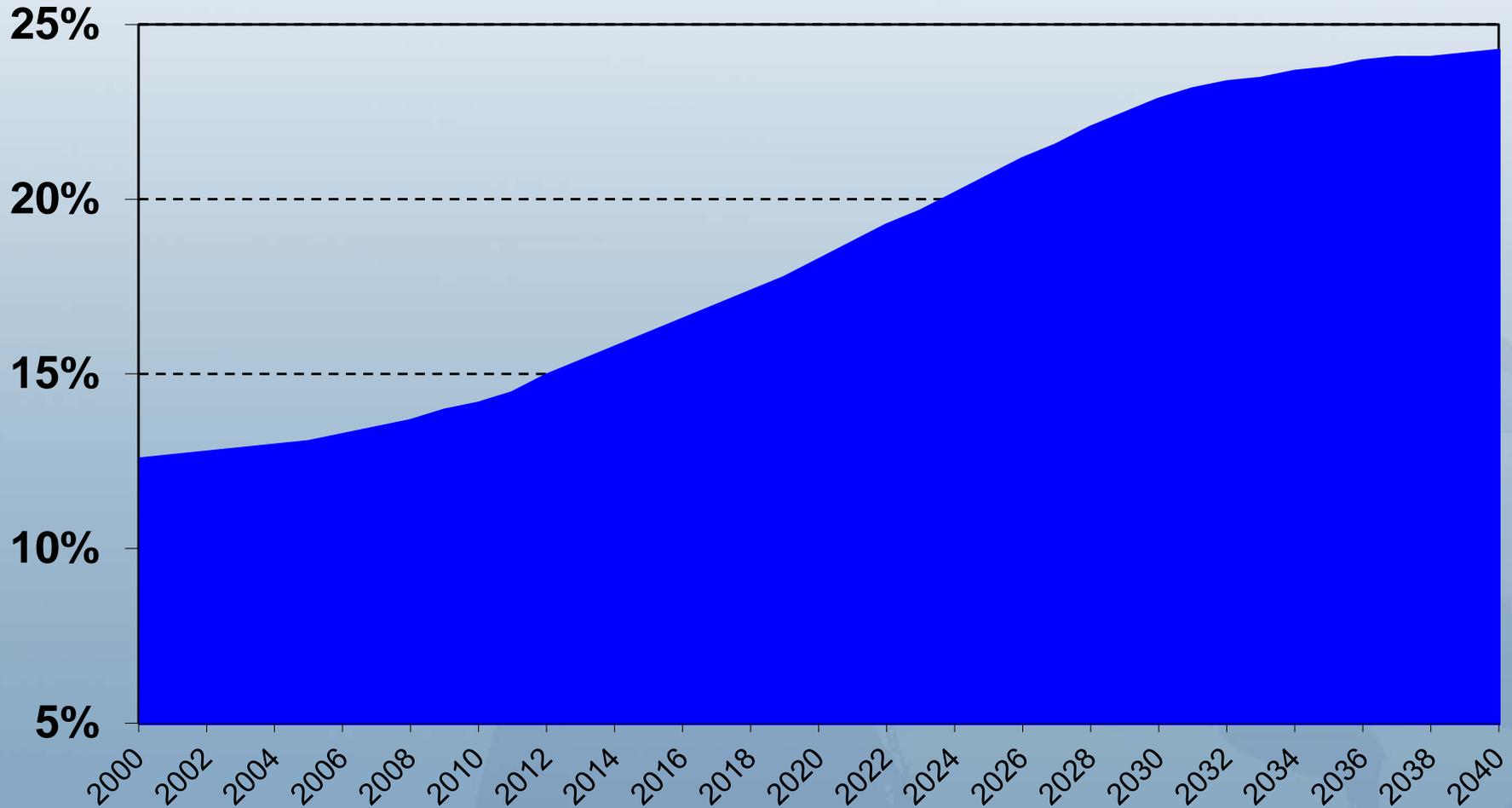
Canada is ageing and our working age pop. is shrinking



“Coming age war will displace the class warfare of the past.”

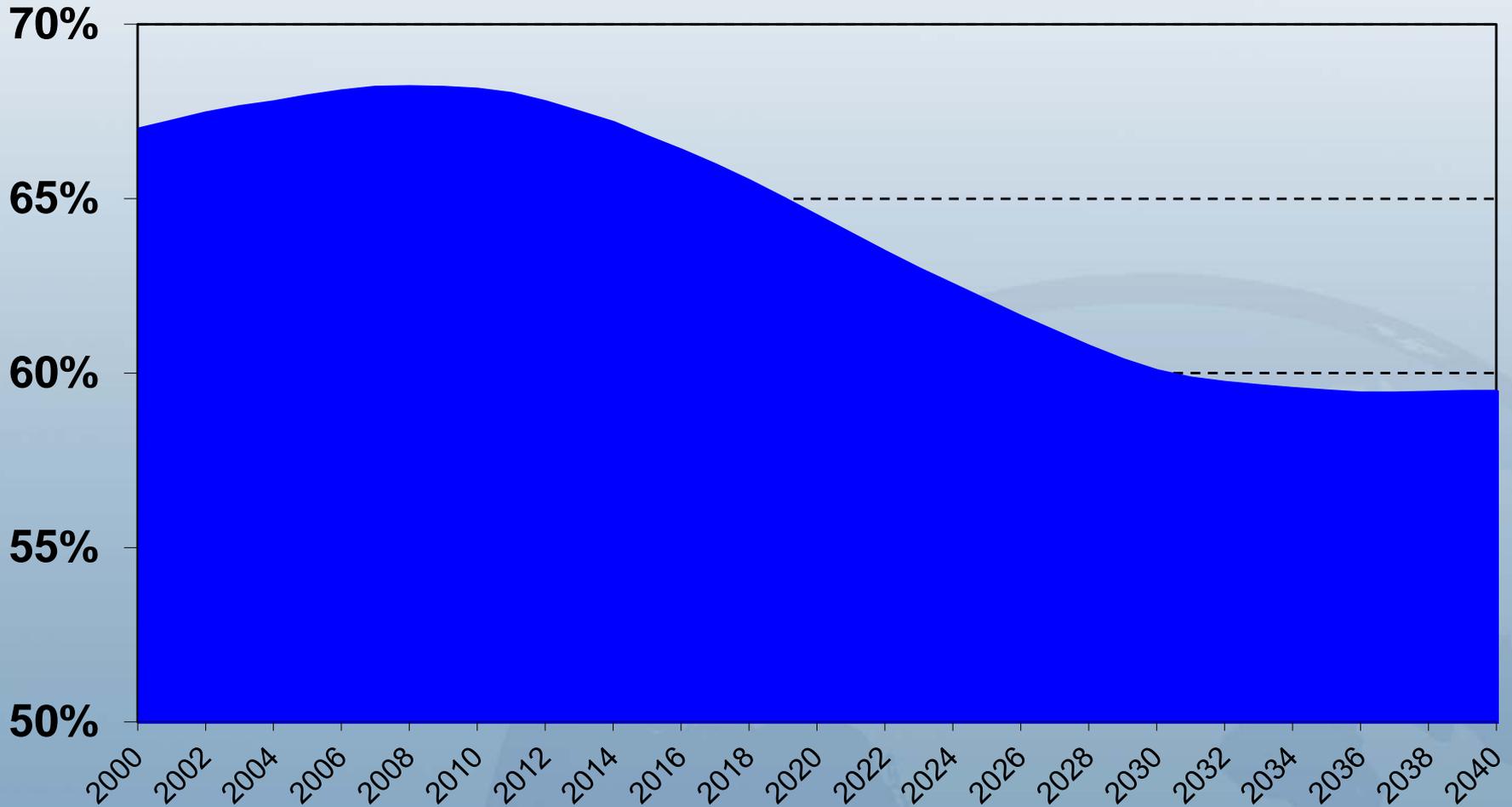
~ Harvard Professor Niall Ferguson

Share of Total Population, 65 years old and over



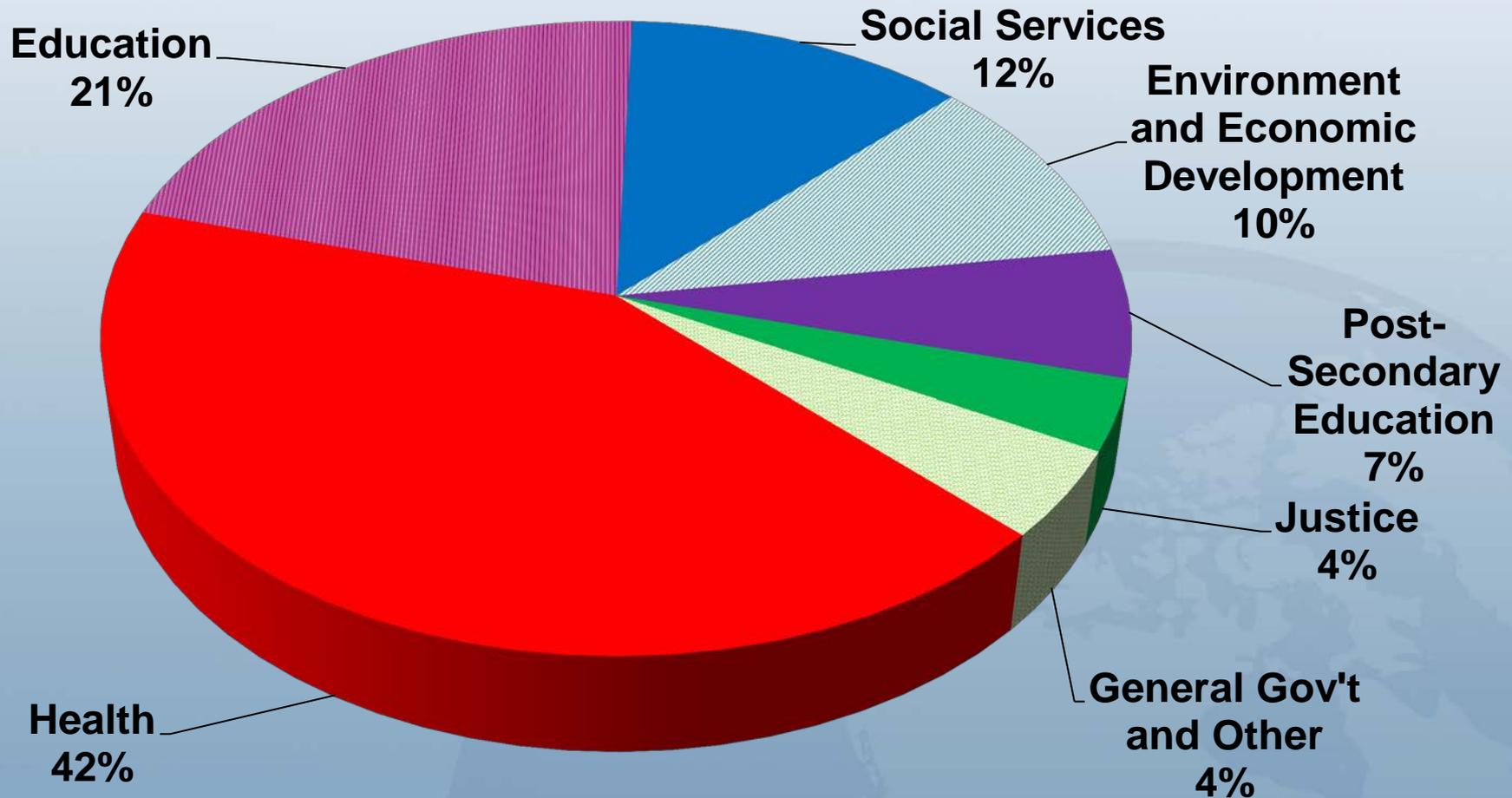
Sources: Statistics Canada, CANSIM Tables 051 -0001 and 052-0005.

Share of Total Population, 16 to 64 years old



Sources: Statistics Canada, CANSIM Tables 051 -0001 and 052-0005.

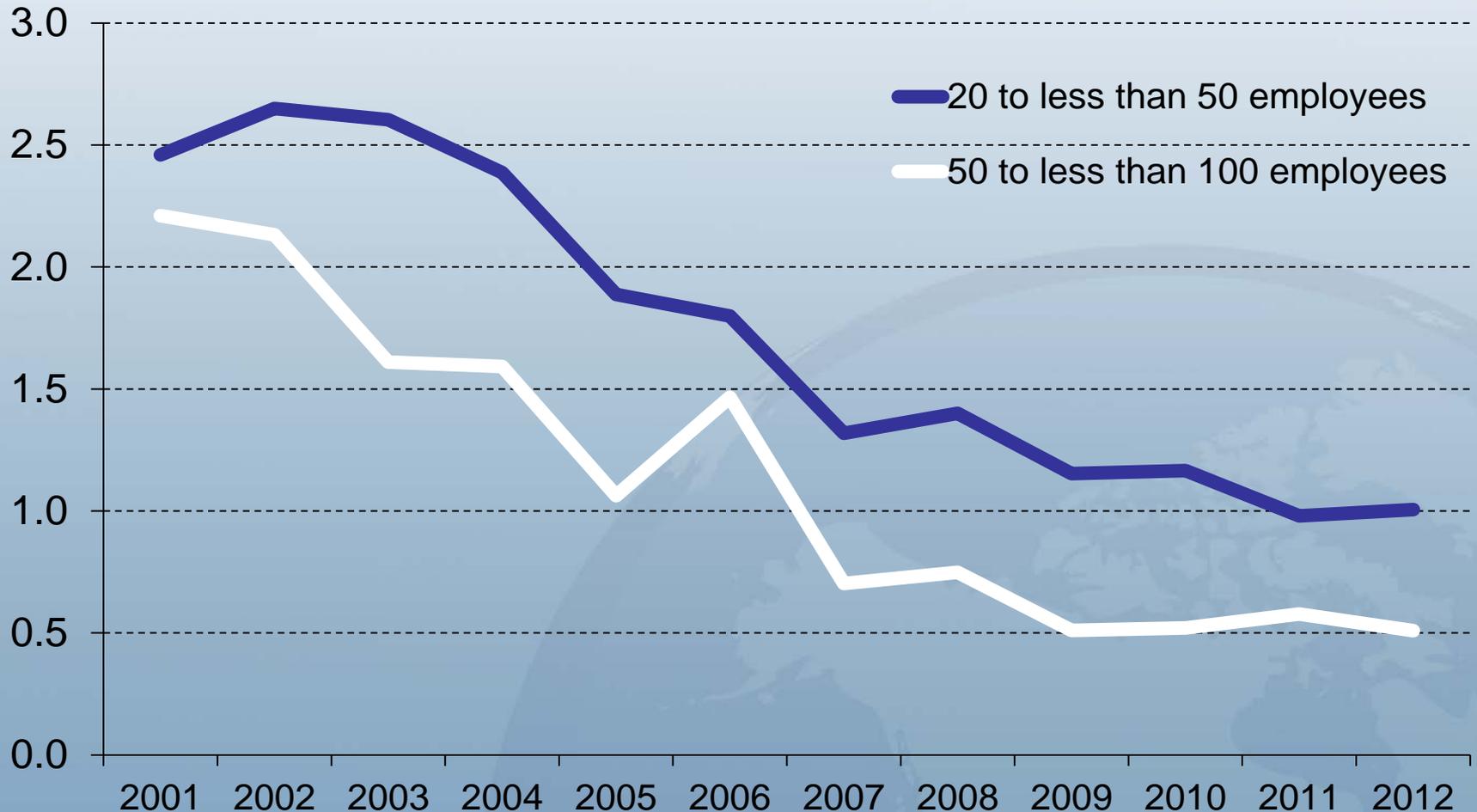
Unfavourable Demographics for Spending



Number of New Entrants per 100 Incumbents, Small Firms



Number of New Entrants per 100 Incumbents, Medium Firms



Summary of Main Points



- Slow growth will be the new norm without significant change
- Major challenges:
 - Trade relations with the U.S.
 - Alberta's and Ontario's investment climates
 - Tax changes that have made Canada less competitive
 - Anti-resource policies
 - Demographic changes
 - Start-ups plummeting

The End.....Phew!



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