

# Canadian Economic Outlook

Q3 2024

# Executive summary

## Q3 2024

Through much of 2023 and early 2024, Canadian consumers and business leaders have maintained a cautious stance on the macroeconomic environment. While the economy has proven to be more resilient than expected in recent quarters, consumers and businesses continue to have moderate expectations into the second half of 2024. As market fundamentals improve, perceptions are expected to be more positive in upcoming quarters.

### Quarter in review: key insights and developments



Tempered expectations continue for consumers and business leaders. As the economic landscape clears, broader economic activity is expected to improve in 2024.



High debt-servicing costs continue to restrict household budgets, while reduced inflationary pressures provide much-awaited relief.



As inflation slowly eases, expectations for the broader macroeconomic outlook are gradually improving. It is expected that the 2% target rate may be achieved by 2025.

### On the horizon: what to watch in 2024



Businesses and investors continue to adjust to weak demand, elevated interest rates, and an uncertain business environment.



The Bank of Canada became the first G7 country to announce an interest rate cut in June 2024, with subsequent rate cuts in July and September.



With a disinflationary environment observed in the US, the Federal Reserve announced a half-point interest rate cut in September 2024. As the US is Canada's major trading partner, easing monetary policy may support business confidence.

### A glimpse ahead: future considerations and emerging trends



Productivity measures may continue to be affected by weak economic and employment growth.



Evolving global and regional geopolitical events may influence broader economic activity.



Tight supply for residential real estate and elevated financing costs remain a concern amid high immigration targets.

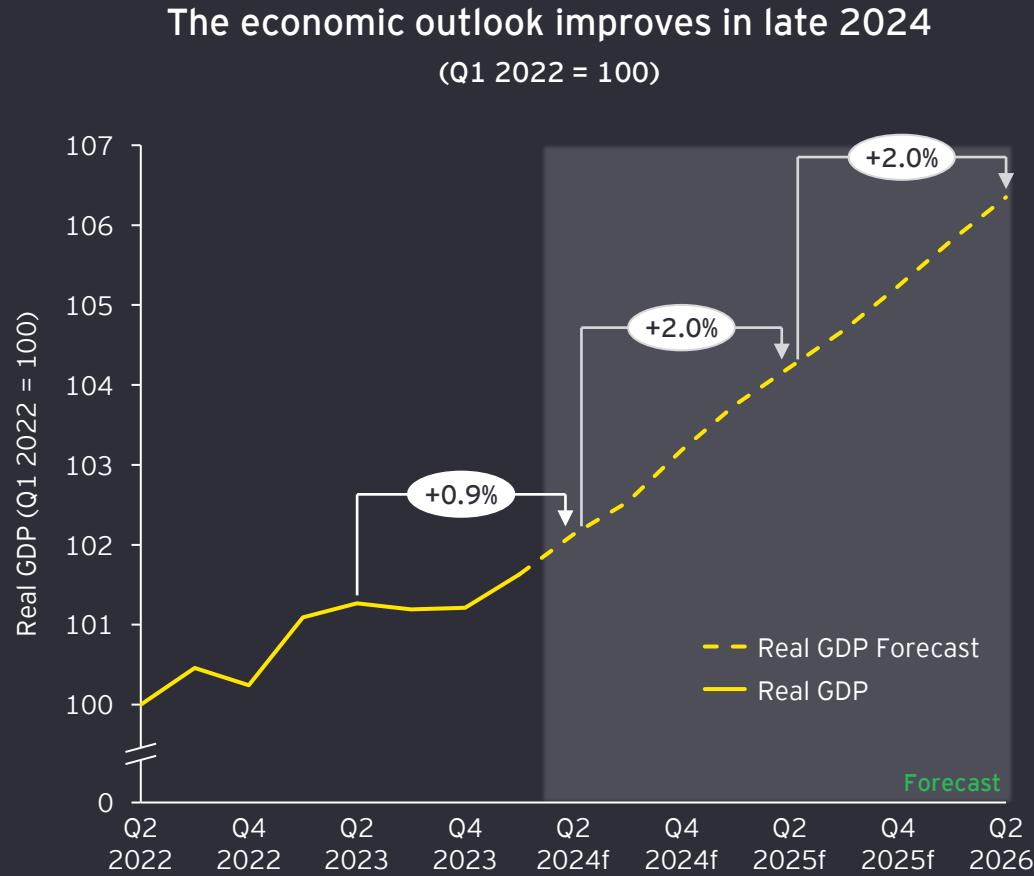
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# Canadian economic outlook

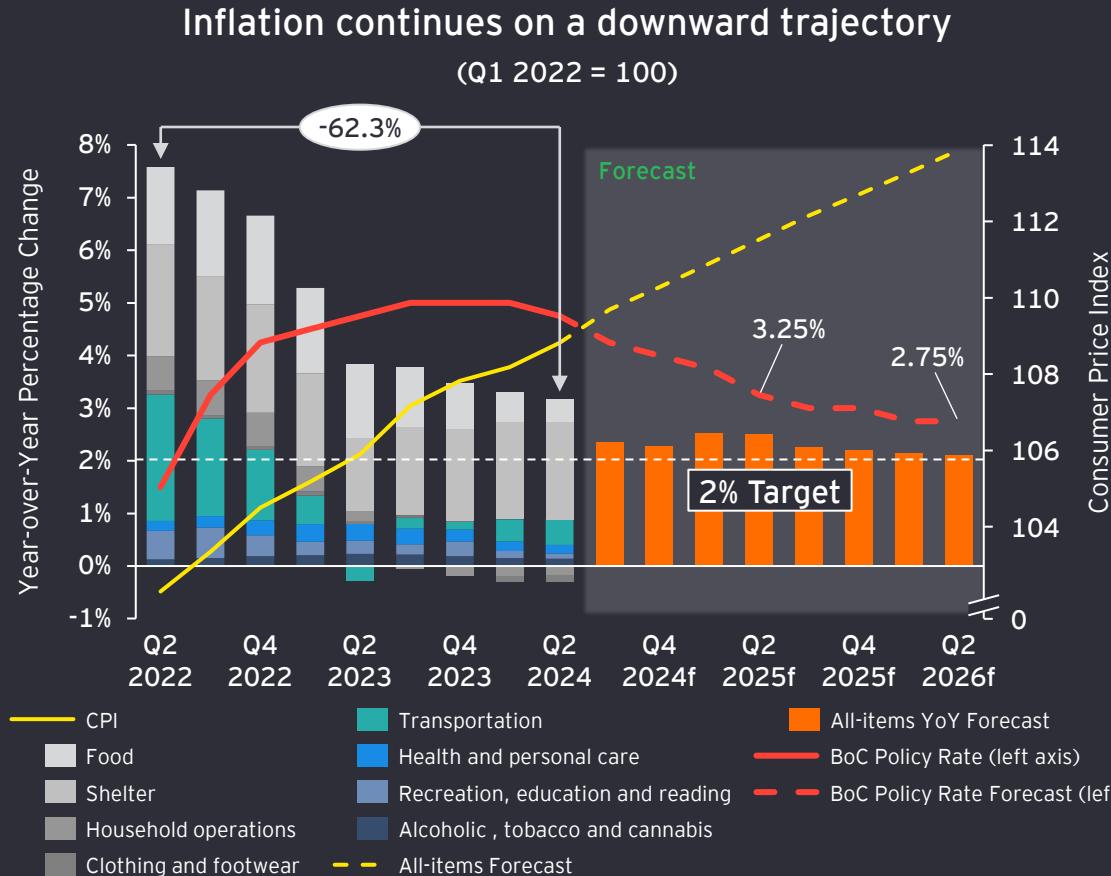
The economic outlook improves amid easing inflationary pressures and interest rate cuts



- ▶ Following a slow start to 2024, **economic growth is expected to pick up in the second half of the year** as consumers and businesses adjust to improving market fundamentals and leave behind previous fears of a recession.
- ▶ **The economy is set to take off in the second half of 2024**, with a projected annual growth rate of 2% from Q2 2024 to Q2 2025. The economy is forecast to grow at a yearly rate of 2.0% out to Q2 2026.

# Canadian economic outlook

The economic outlook improves amid easing inflationary pressures and interest rate cuts



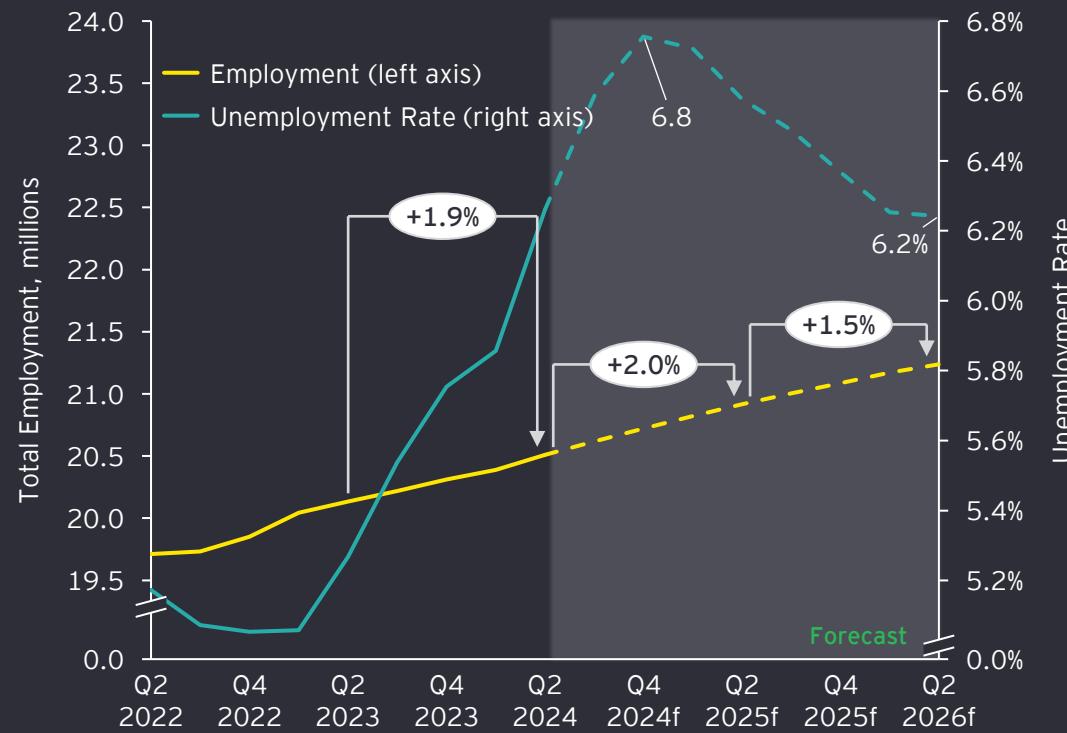
- ▶ Following a gradual easing of inflationary pressures in early- to mid- 2024, **the Bank of Canada announced three interest rate cuts in June, July and September 2024**.
- ▶ However, inflationary pressures remain from elevated shelter, transportation and food costs. Areas such as household operations saw price decreases since Q3 2023, while clothing and footwear costs decreased in Q1 and Q2 2024.
- ▶ The **downward trend is expected to continue**, reaching the 2% target by 2025.

# Labour market trends

Employment continues to grow while the economy catches up to an expanding labour force

Employment is expected to increase moderately

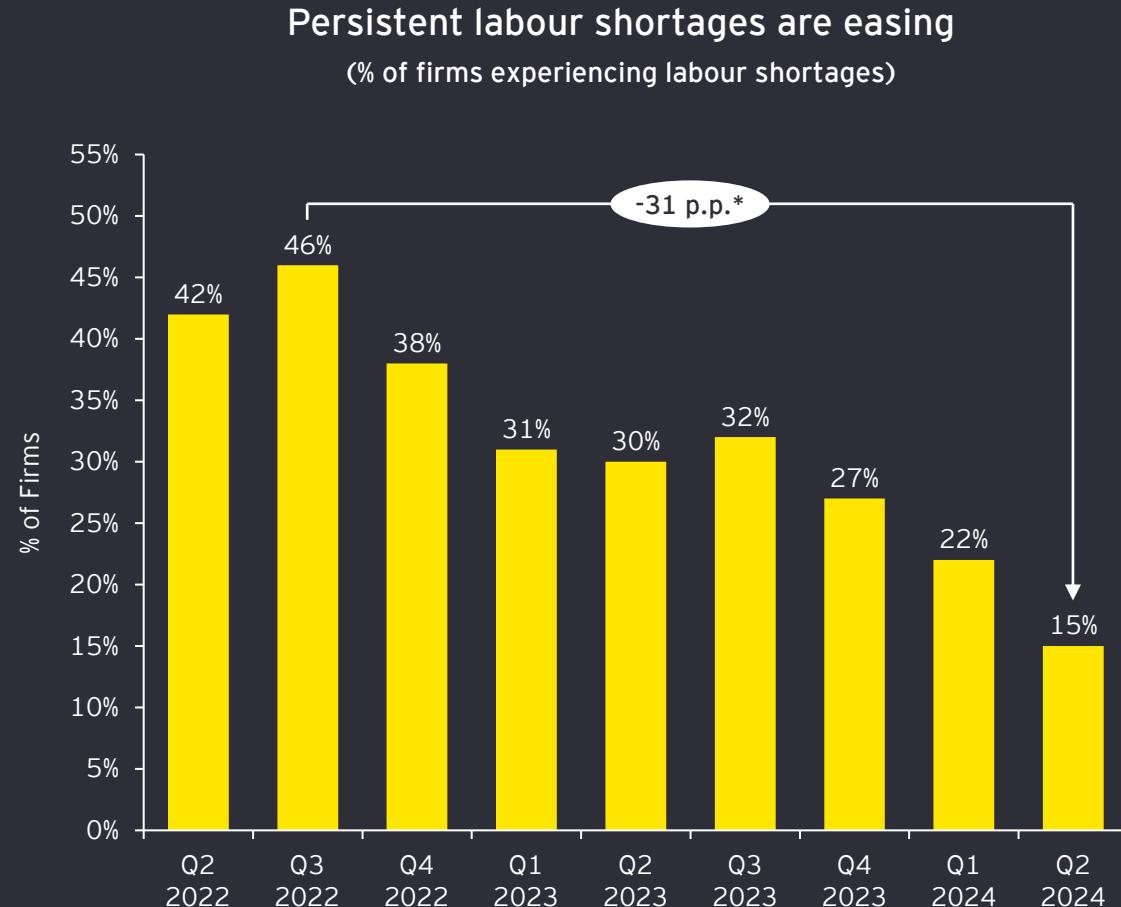
(Employees in Canada aged 15 years or more)



- ▶ Employment in Canada remains on the rise, and **moderate growth is expected in the coming year**. It is expected that between Q2 2024 and Q2 2025, employment will grow by 2.0%, followed by growth of 1.5% the following year.
- ▶ Expansion in the labour force is supported by **strong immigration targets**, and is expected to contribute to a short-term rise in unemployment rates in late 2024.
- ▶ As the economy gains momentum, unemployment rates are expected to gradually decrease.

# Labour market trends

Employment continues to grow while the economy catches up to an expanding labour force

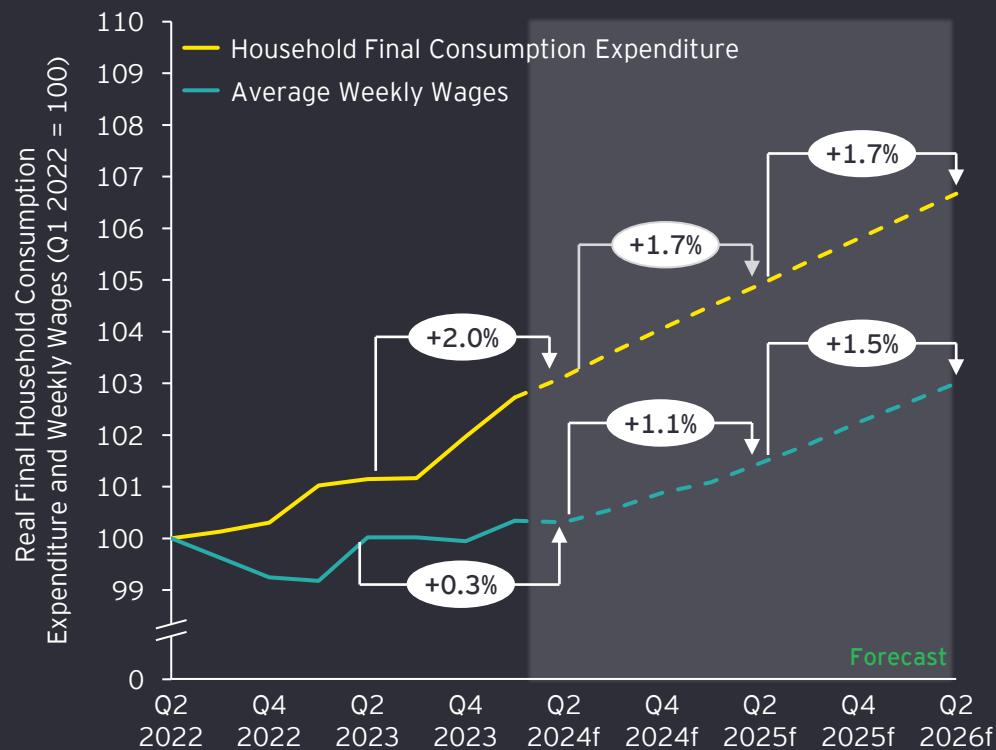


- ▶ The addition of skilled workers to the economy may have provided relief to labour shortages experienced by firms between 2021 and 2022.
- ▶ Now at 15%, the **proportion of firms experiencing labour shortages is the lowest since 2020**. Government efforts to further reduce labour market frictions may support economic growth and productivity in the future.

# Households and consumer insights

## Consumers lead with tempered expectations

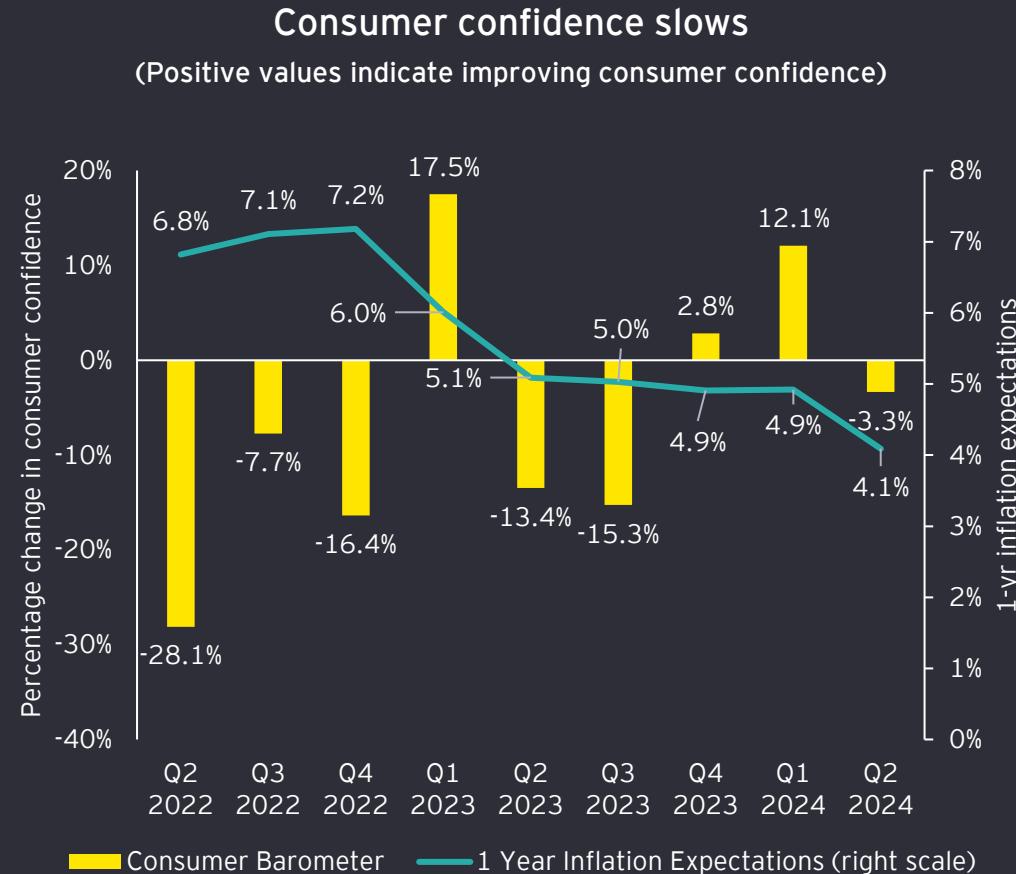
Real household consumption and wages remain stable and are expected to sustain real growth



- ▶ Over the past two years, **average real wages have grown moderately** as inflationary pressures constrained household budgets.
- ▶ However, as inflationary pressures ease and the economic outlook improves, **real wages and household consumption are expected to increase in late 2024 and through 2025**.
- ▶ This trend is expected to be accompanied by improving consumer expectations in upcoming quarters, as well as increase in market demand.

# Households and consumer insights

## Consumers lead with tempered expectations



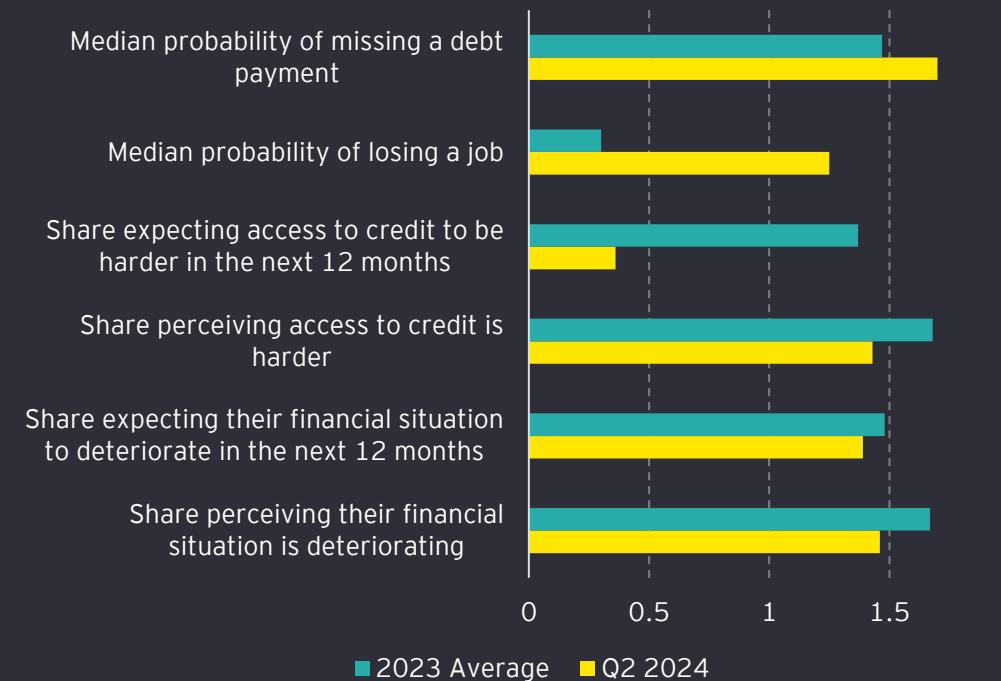
- As inflationary pressures ease, **consumers' expectations of inflation are beginning to improve**.
- However, inflationary expectations among consumers are **notably higher than current rates**, affecting household spending patterns.
- In Q1 2024, the Canadian economy achieved its first two consecutive quarters of positive changes in consumer confidence since 2021. The trend is now softening, likely due to **continued strain on household budgets and lingering price concerns**.

# Households and consumer insights

## Concerns of high debt-servicing costs and uncertain job markets loom large

### Financial stress is rising, but remains below previous highs

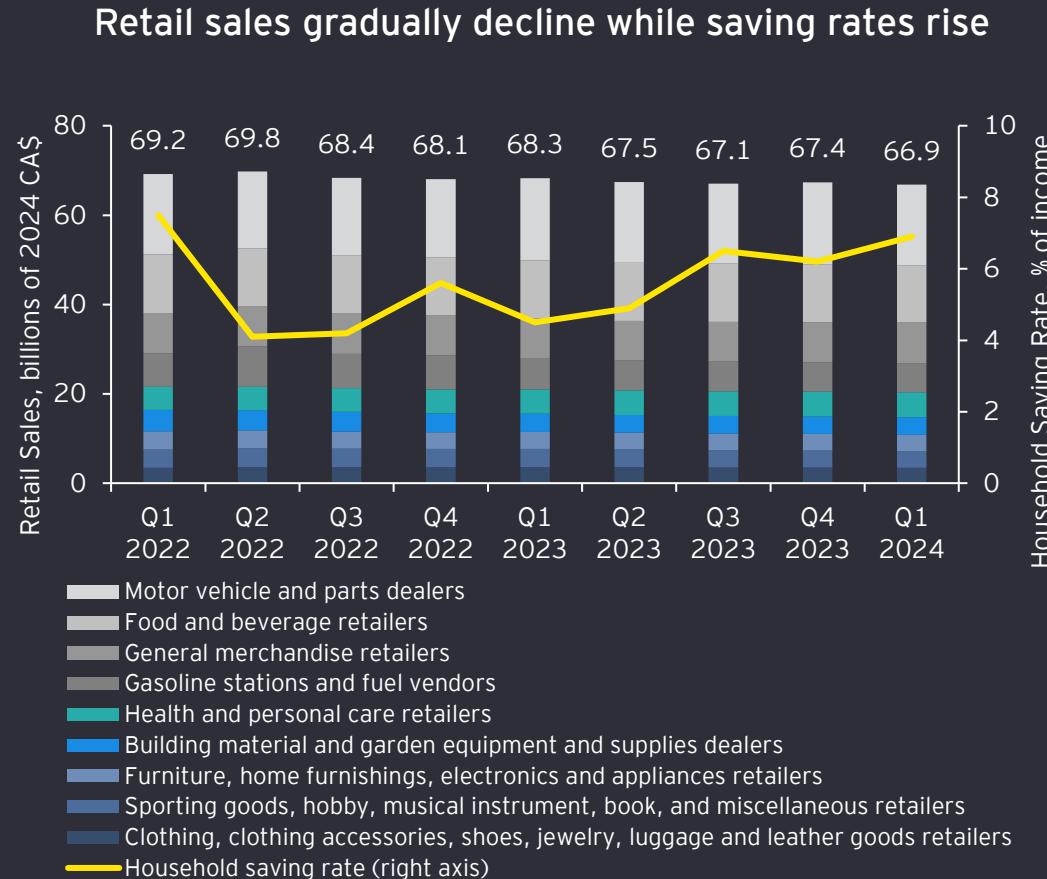
(Standardized value, where positive value indicate higher-than-average financial stress)



- ▶ Canadians are growing more concerned about their personal finances compared to early 2024, but conditions are below the high levels recorded in 2023.
- ▶ Top concerns include job market uncertainty and debt repayments.
- ▶ However, lower interest rates are expected to ease the debt burden, fueling an increase in future spending in the upcoming year.

# Households and consumer insights

Concerns of high debt-servicing costs and uncertain job markets loom large

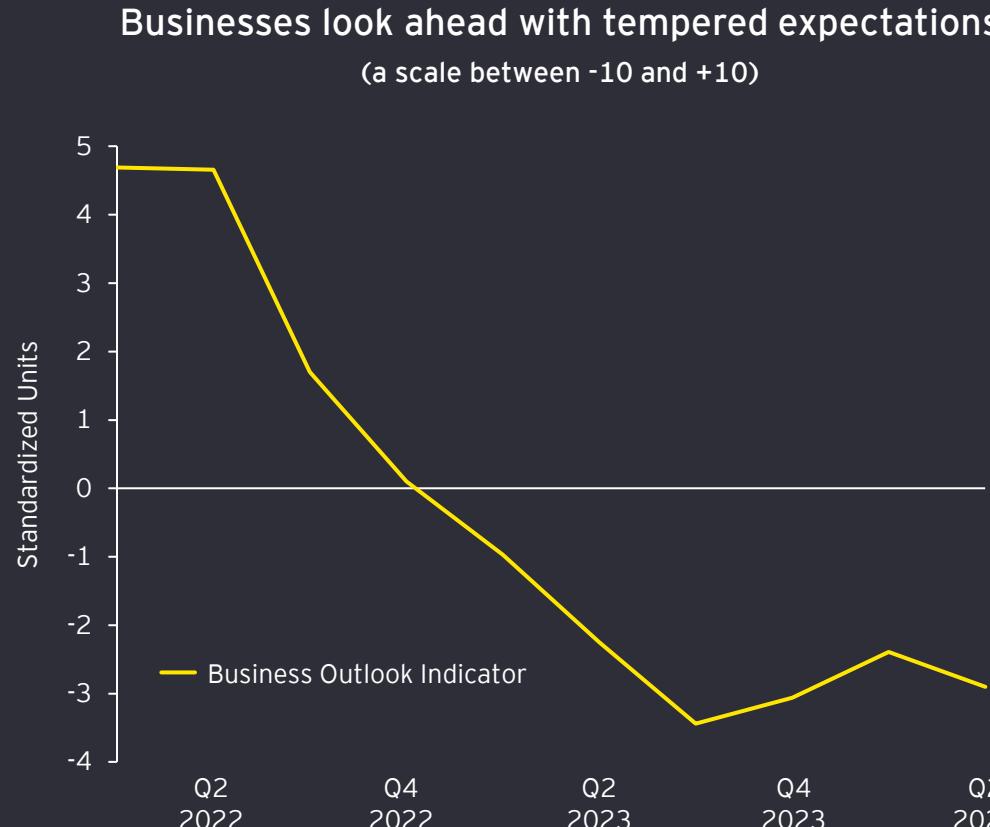


- **Retail sales have seen a soft decline** over the last two years.
- At the same time, **household saving rates have increased gradually**. This increase can be attributed to expectations of economic uncertainty, as well as wage growth, which now has offset the pace of inflation.
- **High debt-servicing costs in recent periods have impacted household demand for discretionary items**. With lower interest rates and reduced inflationary pressures, this trend is expected to ease over time.

# Business sentiments

Businesses continue on a cautious path forward

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The business outlook indicator released by the Bank of Canada reflects the expectations among business leaders regarding sales and growth expectations, as well as the overall business outlook.

- ▶ In Q3 2023 and Q1 2024, the business sentiment indicator saw two periods of consecutive improvement for the first time since 2021.
- ▶ However, sentiments are relatively flat in Q2 2024, supporting a view of **continued caution among businesses** as the economy adjusts to lower interest rates, gradual easing of inflation and a rebalancing of demand and supply.
- ▶ As the economy gains momentum, **expected interest rate cuts in the next few months may help support business confidence.**

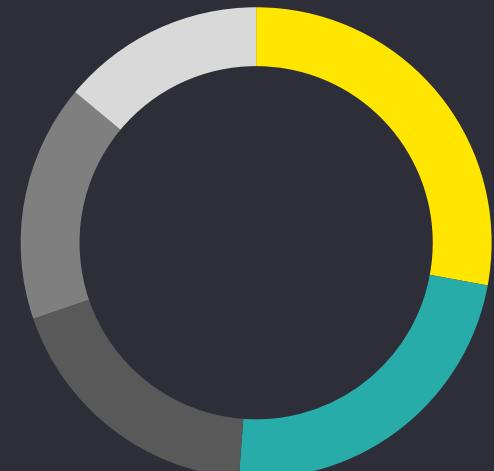
# Business sentiments

Businesses continue on a cautious path forward

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## Uncertainty in regulation and impact of technology are affecting investment decisions

(% of CEOs indicating the primary reason for pausing or cancelling a transaction in the last 12 months)



- Regulatory uncertainty
- Uncertainty about the impact of technology
- High/restrictive cost of external financing
- Wide valuation gap
- Geopolitical uncertainty

- ▶ With increasing **regulatory uncertainty, ongoing integration of new technologies and systems, as well as broader economic uncertainty**, businesses are pursuing major transactions and investments with caution.
- ▶ As the economy adjusts to easing monetary policy measures, consequent increases in demand, and a cooling labour market, the business outlook is expected to gradually improve.

# EY Canada Economics Team

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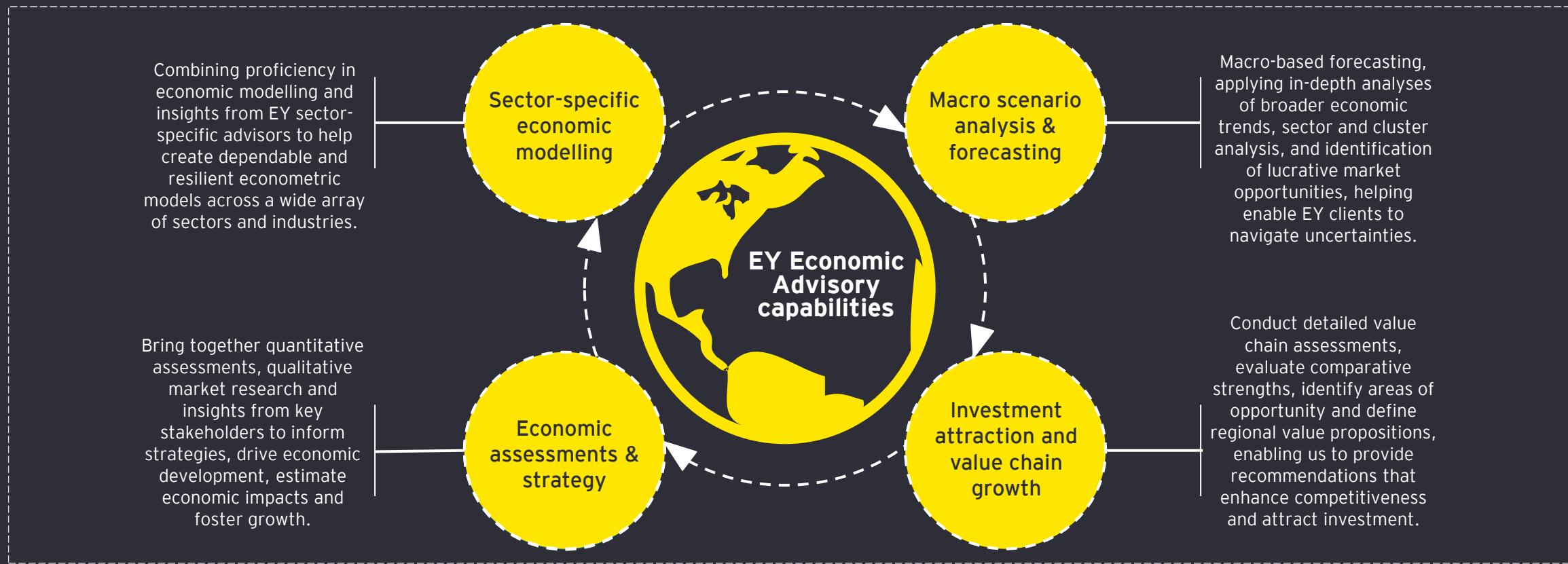


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# About the Economics Team

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