



5 Minutes for Business

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Sluggish Growth: The New Normal for Canada

“The resiliency of Canada’s economy will be increasingly tested as trade conflicts and uncertainty persists. We are not an island. We are in a good position to cope with whatever comes our way.” –Stephen Poloz, Governor of the Bank of Canada

Canada’s economy is shifting into a lower gear. It’s losing steam as our growth engines sputter in the face of global uncertainty and competitive challenges. As we head into a new year and a new decade, now is a good time to take stock of Canada’s economic performance and consider what the future might have in store for us.

2019 wasn’t a great year for the Canadian economy. Our projected growth is 1.5-1.6% this year—not bad compared to some of our G7 peers—but a downgrade from the 2% growth we thought was our potential at the beginning of the year. And a far cry from the 3% growth we saw only two years ago.

The economy is still growing, but the growth rate itself is somewhat lackluster. Canadian growth has been pulled down by an outright decline in business investment the past few years, and this year is no different. Our 2019 growth drivers are consumption (0.9 percentage points), government spending (0.4) and net exports (0.6), while business investment is projected to be a net -0.4 percentage point drag on the economy this year.

The Canadian economy is stumbling out of the second half of 2019 and into the new year. After a hot second quarter where the economy grew

at an annualized rate of 3.7%, our growth was cut back down to size in Q3 at 1.3%. November saw a broad-based loss of over 70,000 jobs, the largest monthly decline since the financial crisis. Despite business investment having rebounded, none of the 37 executives of American subsidiaries in Canada said the Canadian economy will strengthen over the next six months, according to a recent survey by the U.S. Chamber of Commerce.

Storm clouds are gathering on the horizon. A downturn is entirely possible if our politicians remain unable or unwilling to address issues, like a cumbersome regulatory system, an uncompetitive tax system and barriers to interprovincial trade, to get us back on the path to prosperity. Most economists believe sluggish growth will continue into 2020, but the downside risks of this projection being derailed are still high.

Because Canada is part of a broader worldwide slowdown amid heightened trade tensions that has made low growth the new normal of advanced industrialized economies. This is what the International Monetary Fund’s Managing Director Kristalina Georgieva has called a “synchronized slowdown.” Germany is close to a recession. Italy is looking at zero growth this year. Even emerging economies have seen their robust growth rates taken down a notch. In particular, manufacturing sectors have been affected.

And so the concern is that if the world sneezes, Canada will catch a cold. The idea that Canada is a stable oasis in a deteriorating global



economic environment can be put to rest. The global slowdown is catching up to us, and we need to get our house in order.

For more information, please contact:

policy@chamber.ca