MARCH 20, 2019
2019 FEDERAL BUDGET

PRESENTED TO THE

KPMG FEDERAL BUDGET BREAKFAST
VANCOUVER, B.C.

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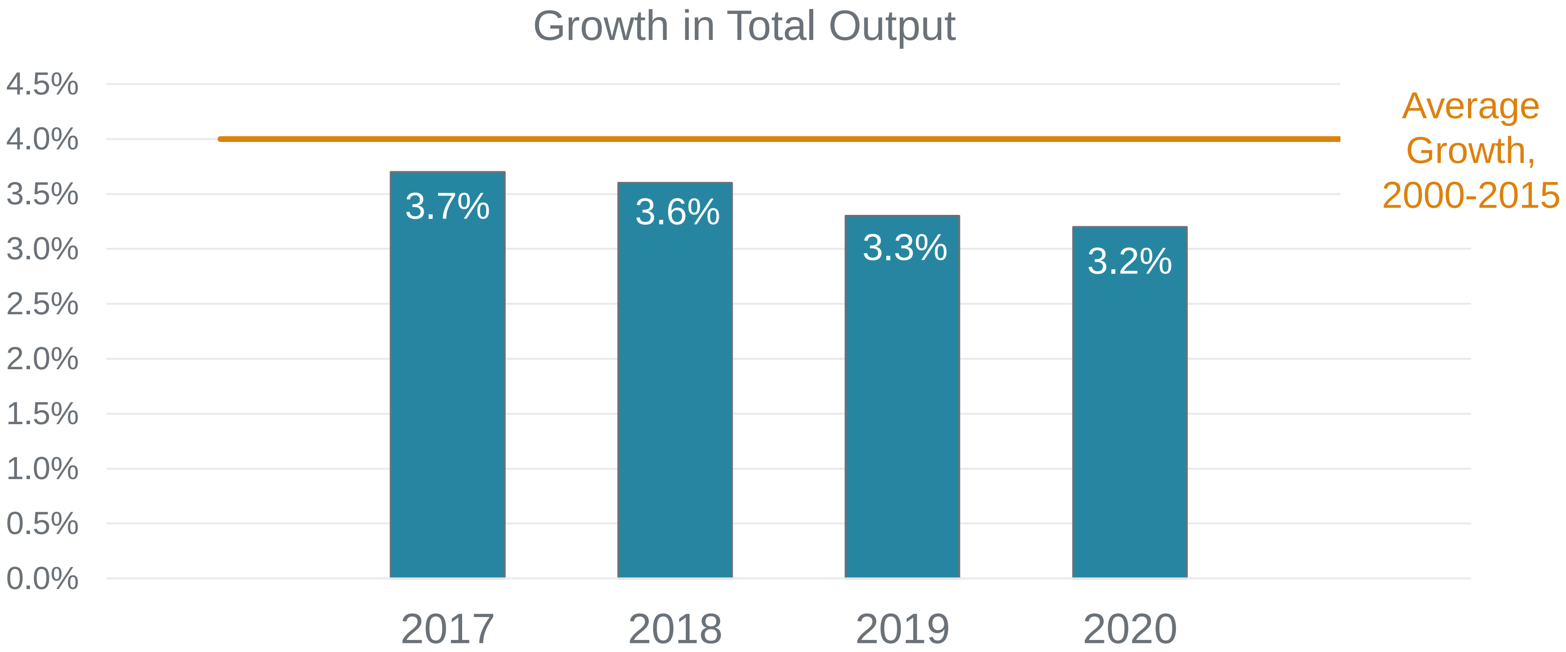
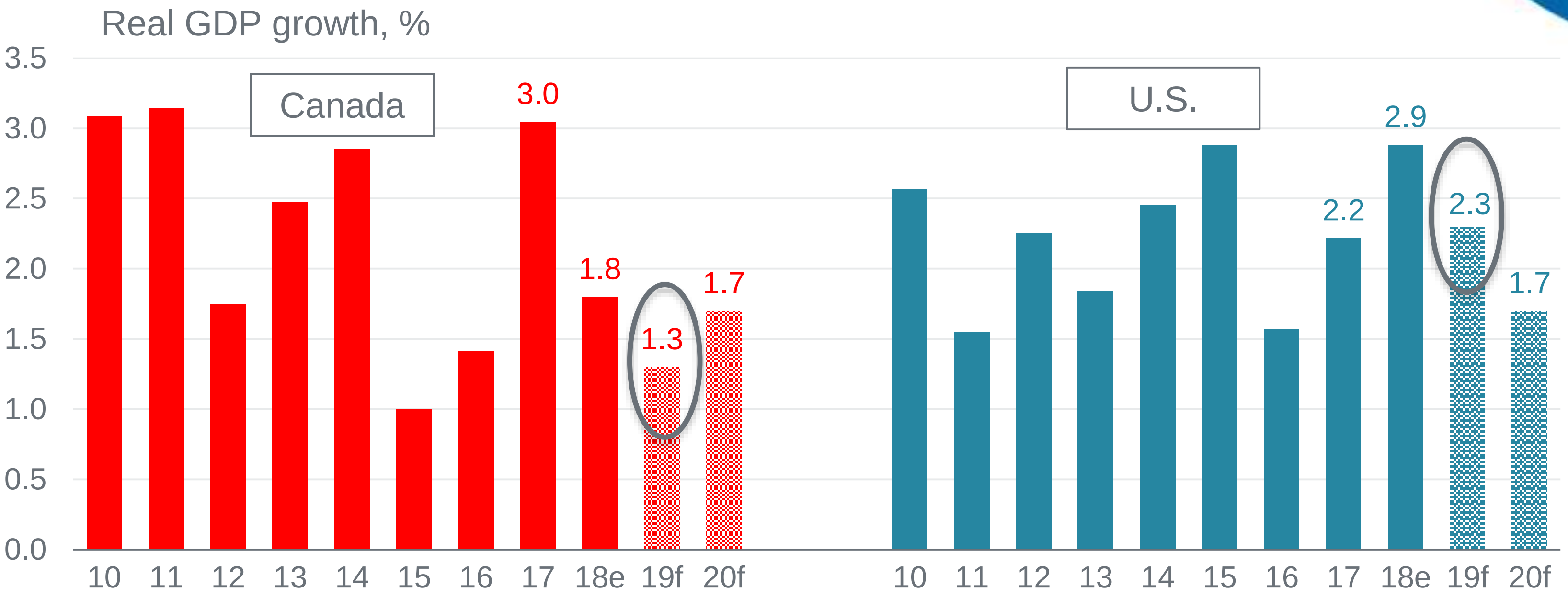
Business Council of British Columbia
Est. 1966

GLOBAL ECONOMY IS COOLING



Source: BMO Economics for forecasts; IMF for other years.

GROWTH MODERATING IN CANADA AND U.S.



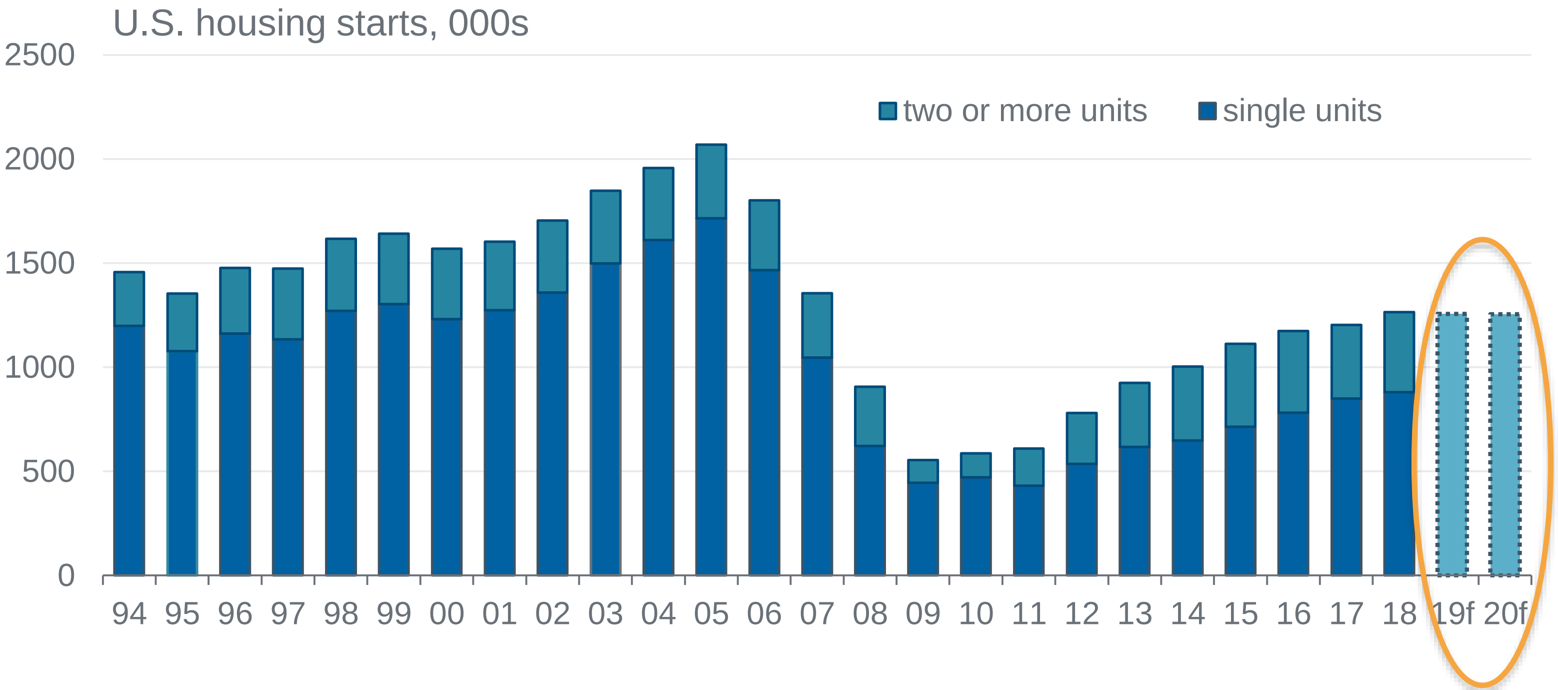
e=estimate f=forecast

Source: IMF World Economic database for history, BMO Economics for forecasts.

U.S. ECONOMY HEALTHY, BUT SET TO SLOW IN 2019-2020

- Growth projected at ~2.3% this year, down from almost 3% in 2018
  - current expansion is the 2nd longest on record
  - US economy has benefitted from ‘sugar high’ provided by tax cuts and increased gov’t spending
- Employment continues to climb… as the labour market tightens further
  - unemployment rate near a 40 year low – heading for 3.5% in 2019
- Housing starts have been choppy, amid higher prices, escalating building costs, and relatively slow household growth
- Business investment is increasing – aided by recent tax cuts/reforms
- The Federal Reserve has modified its stance, suggesting at most only 1-2 additional interest rate hikes over the course of 2019-20

U.S. STARTS WELL BELOW 1997-2006 LEVELS



f=forecast

Source: U.S. Census Bureau, Department of Housing and Urban Development, average of forecasts from BMO, CIBC, TD, RBC & Scotiabank for projections.

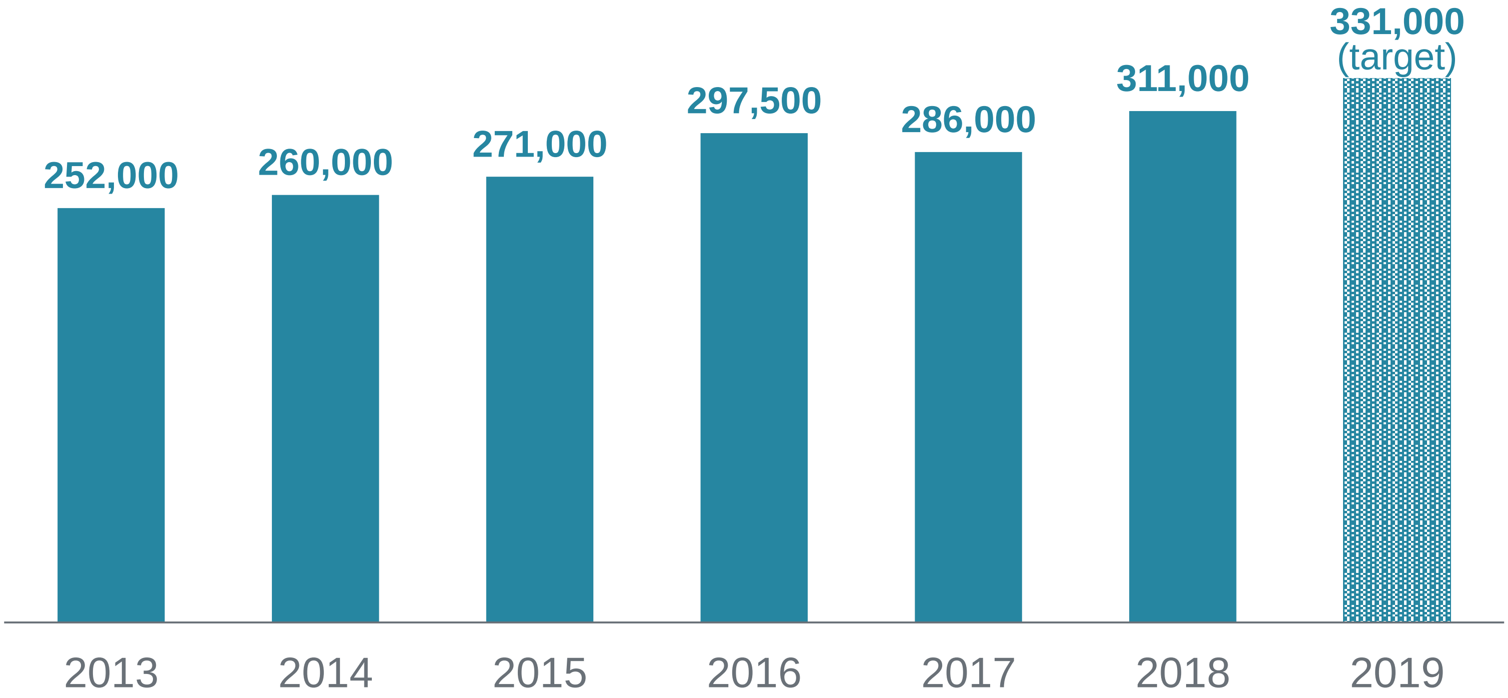
U.S. POPULATION GROWTH THE SLOWEST SINCE 1937!

- Since mid-2016, America's population has been growing at an average rate of 0.7% per year – the slowest pace in 8 decades
- In contrast, Canada's population is rising by 1.3-1.4% per year
- This demographic difference should contribute to faster growth in Canada's working-age population compared to the U.S., even though America's population remains younger (average and median age)

CANADIAN ECONOMY: BUMPS AHEAD

- **Growth essentially stalled in Q4 2018**, creating a very weak hand-off into 2019
- Solid **job creation**, despite signs of a weakening economy
- **Household consumption** and continued **high levels of housing starts** (214,000 nationally last year) have been the key factors sustaining aggregate demand – but both are expected to lose steam in 2019-20
- Don’t overlook the impact of **population growth**: Canada leads the G7 and is near the top in the OECD, fueled by international immigration into urban areas
- Risks **on the downside** – softening global economy, Canadian household debt burden, ongoing adjustments in housing markets, oil prices, increased intergovernmental conflict and tension

CANADA: IMMIGRANT ARRIVALS*



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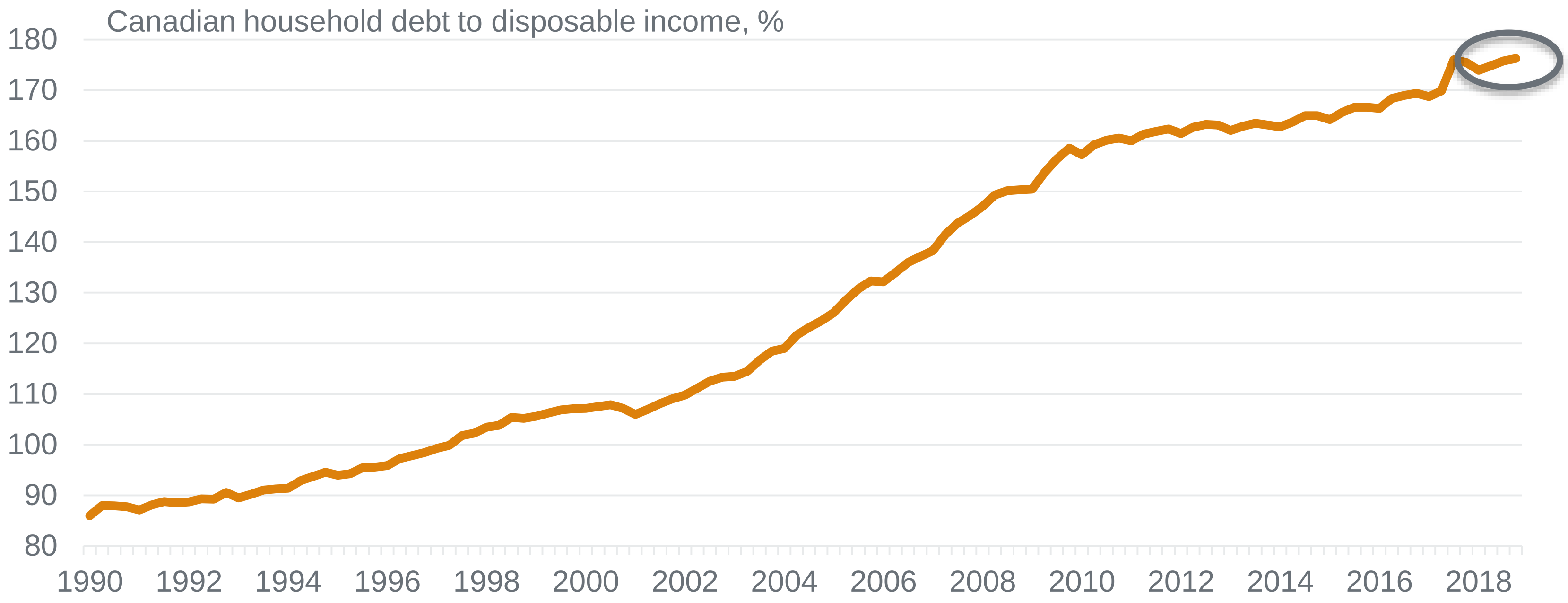
* Permanent immigrants only

Source: Statistics Canada; TD Economics.

RECORD HOUSEHOLD DEBT ACCUMULATION



Latest Q4 2018.

Source: Statistics Canada, CANSIM table 378-0123.

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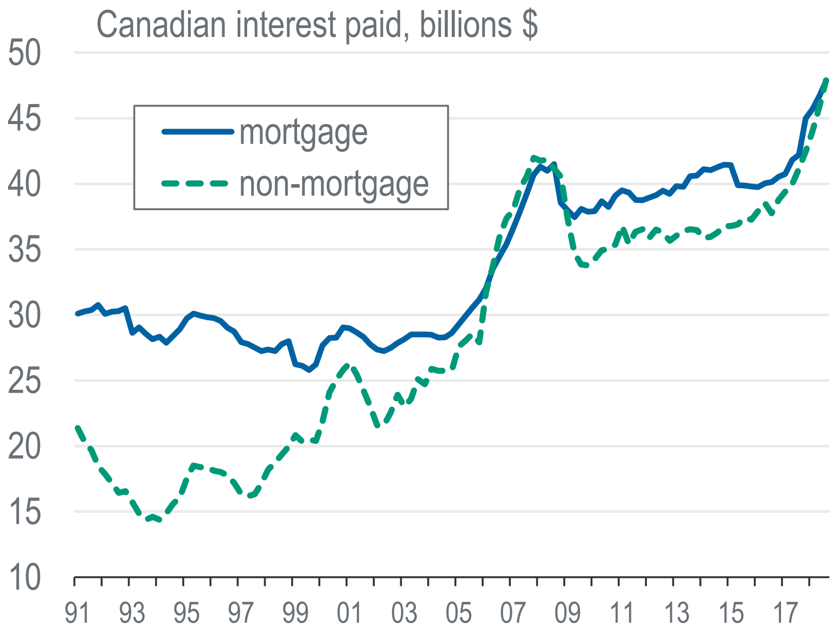
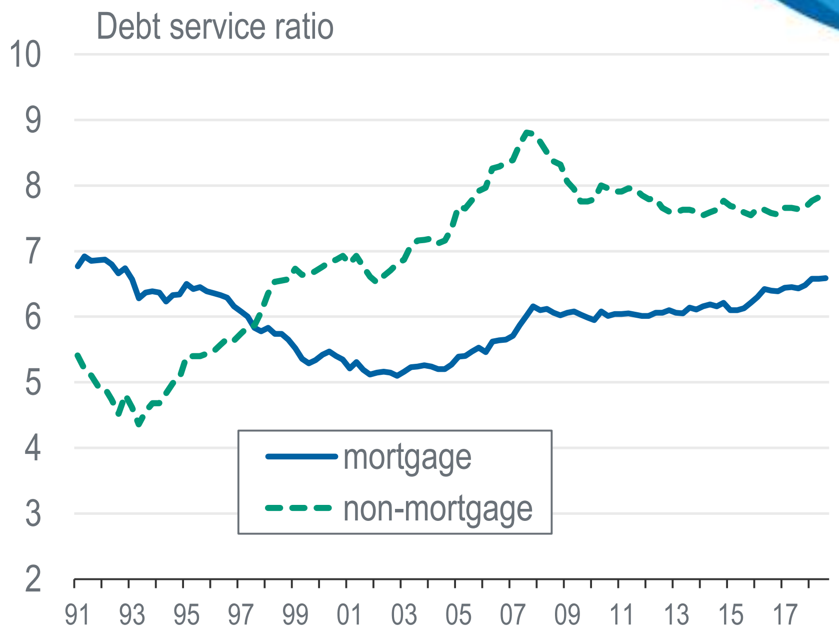
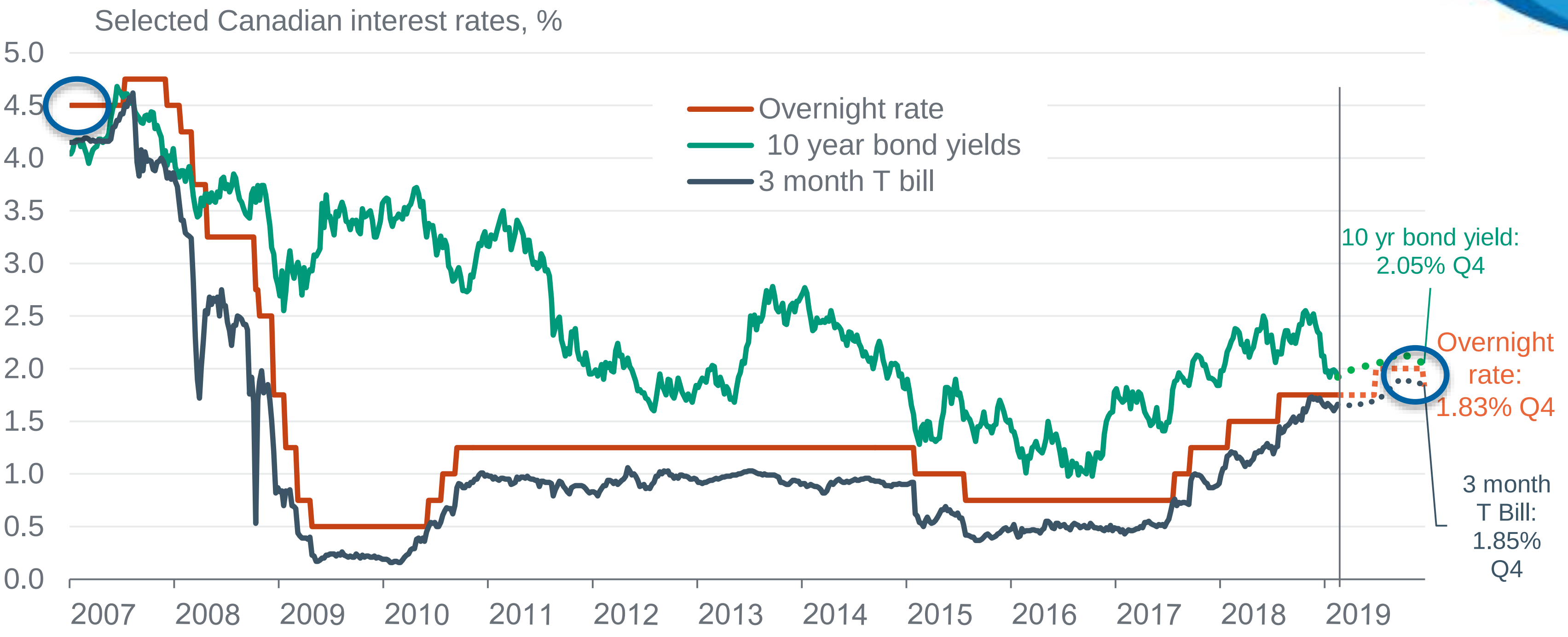
BUT…EVEN WITH RECORD DEBT, *DEBT-SERVICE RATIOS* LOOK MANAGEABLE





Latest Q3 2018. Source: Statistics Canada, Table: 11-10-0065-01.

CANADIAN INTEREST RATES…VERY LITTLE ‘UPSIDE’



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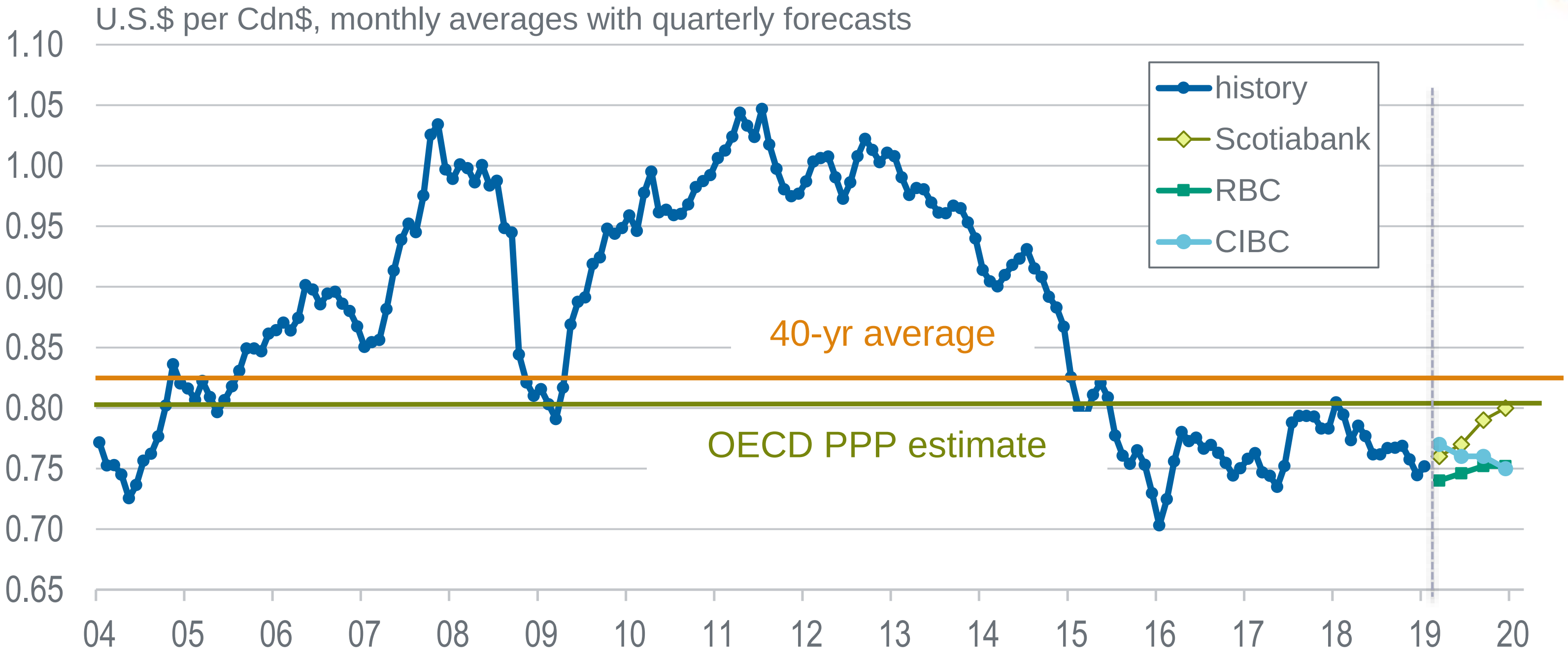
Source: Bank of Canada; BMO Economics for forecasts.

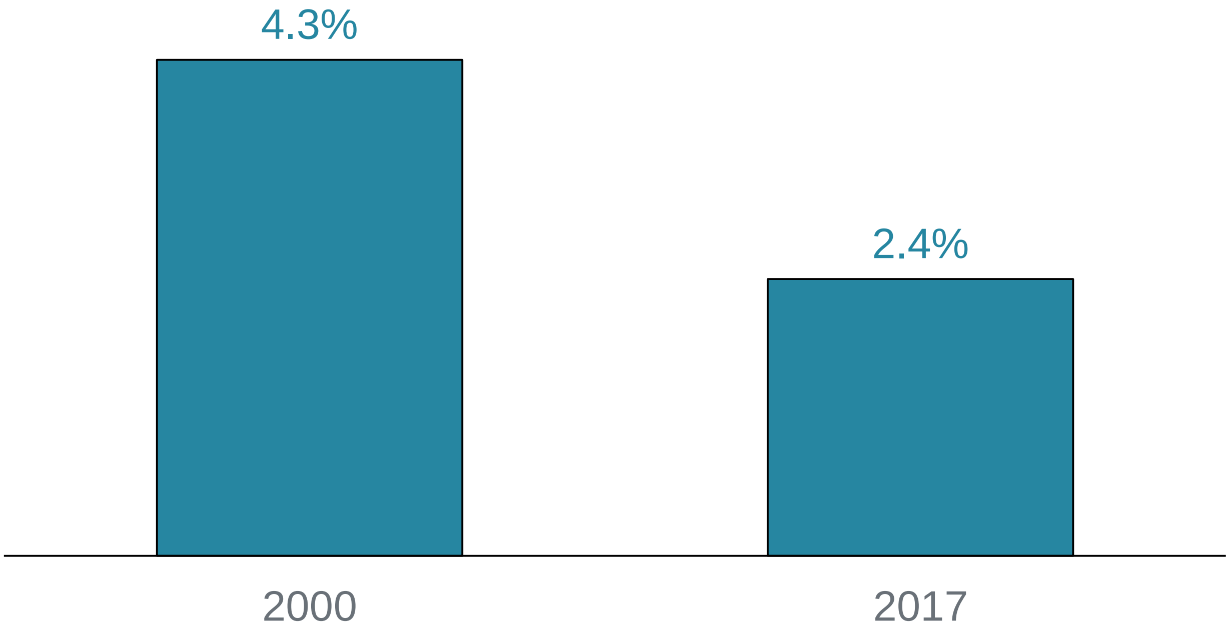
OUTLOOK FOR THE LOONIE



Latest: January 2019

Source: Bank of Canada, noon rate.

CANADA’S SHRINKING FOOTPRINT IN GLOBAL MARKETS
(SHARE OF WORLD MERCHANDISE EXPORTS)



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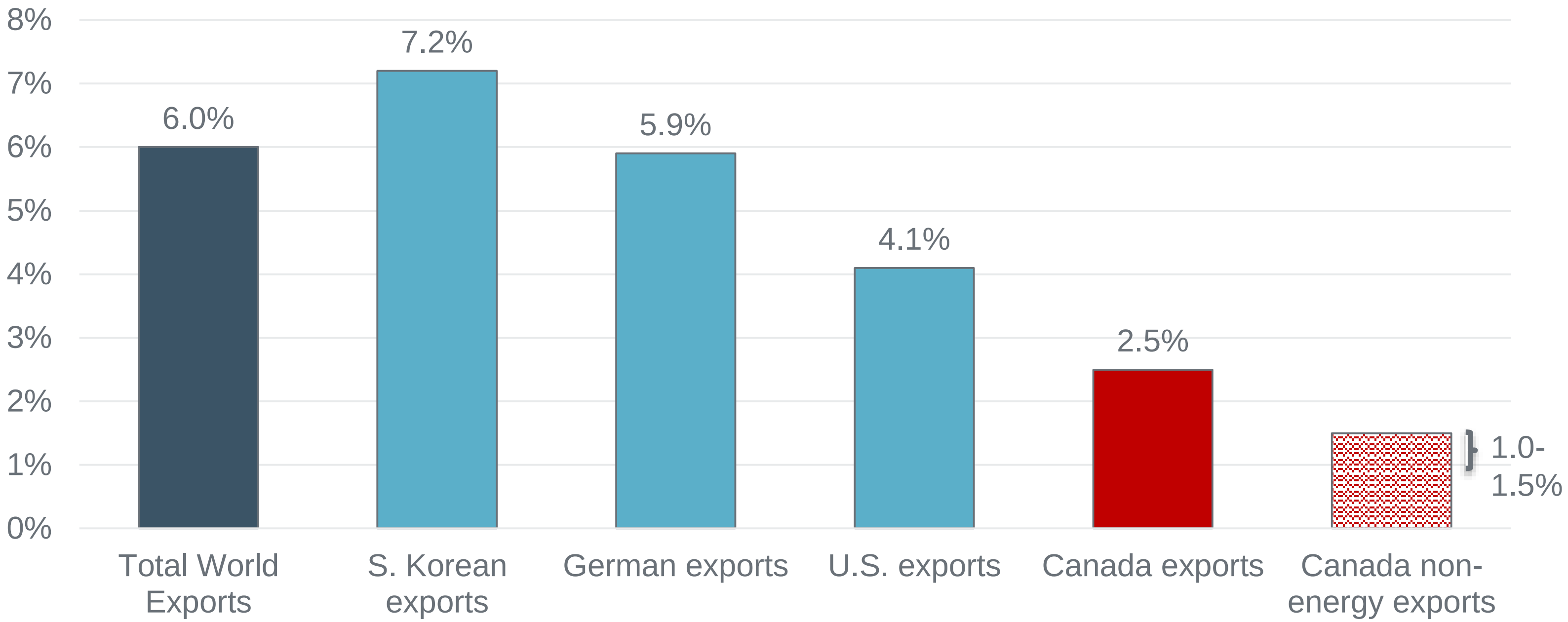
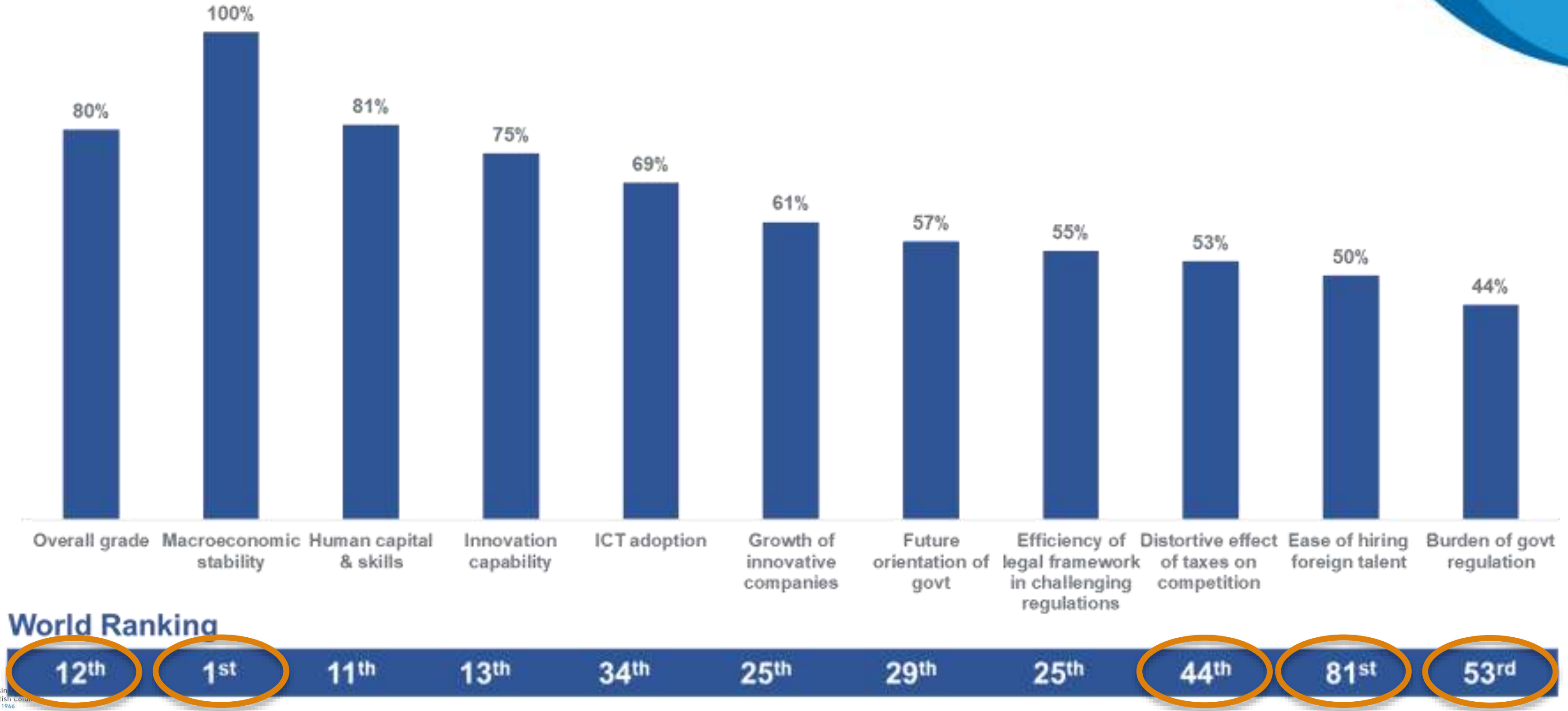
Source: Canadian Manufacturers and Exporters.

CANADA'S LAGGING EXPORT PERFORMANCE
(AVERAGE ANNUAL INCREASE IN THE VALUE OF EXPORTS*, 2000 TO 2017, MEASURED IN U.S. DOLLARS USING PPP EXCHANGE RATES)



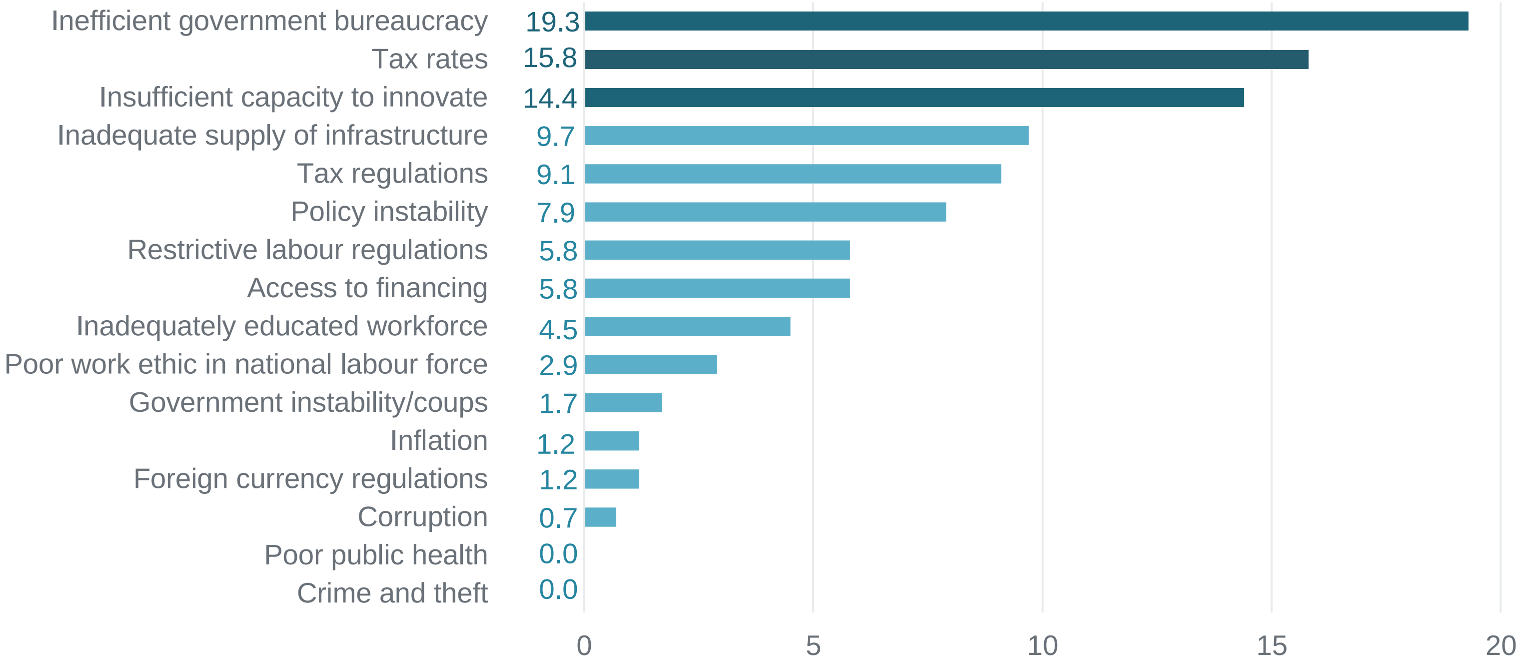
* Merchandise exports
Source: Canadian Manufacturers and Exporters.

CANADA'S PERFORMANCE IN THE 2018 WORLD ECONOMIC FORUM "GLOBAL COMPETITIVENESS REPORT"



Source: World Economic Forum, *The Global Competitiveness Report 2018*.

"MOST PROBLEMATIC FACTORS" FOR DOING BUSINESS IN CANADA
(BASED ON A 2017 SURVEY OF CANADIAN EXECUTIVES)



Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the response weighted according to their rankings.

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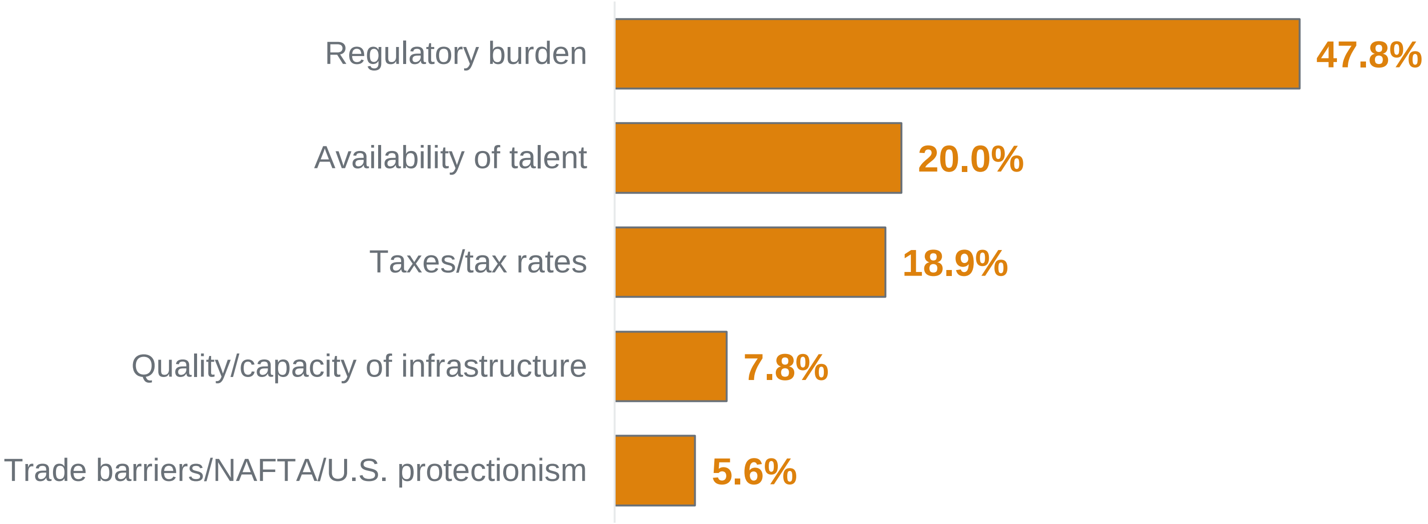
Source: World Economic Forum, Executive Opinion Survey 2017.

MEASURING CANADA'S COMPETITIVENESS
(DRAWN FROM A 2018 SURVEY OF CANADIAN CEOs)

Of the following factors, which is most likely to affect your company's Canadian investment plans?



Source: Business Council of Canada.

BUDGET 2019: MAIN FOCUS AREAS

- **Fiscal deficits are here to stay…but** with a stable debt/GDP ratio (assuming no recession in next 5 years)
- New initiatives to assist **first-time home-buyers** and expand the rental housing stock
- Programs to **enable workers to pursue mid-career training/skills upgrading**
- **Lower interest rates on student loans**, plus a **significant push forward on work-integrated learning**
- A rhetorical commitment to **review and modernize some areas of government regulation**…but not much action
- Little to address Canada's **eroding competitiveness** or the weakness in Canadian capital formation, beyond the measures announced last fall
- Initial steps to advance a **national pharma-care program**
- A handful of **new 'green' initiatives** (notably subsidies for electric vehicles)

ECONOMIC ASSUMPTIONS FOR CANADA

	2018	2019	2020	2021
Real GDP Growth (%)	1.9%	1.8%	1.6%	1.7%
Nominal GDP Growth (%)	3.8%	3.4%	3.5%	3.7%
Level of Nominal GDP ($)	$2.22 tril	$2.30 tril	$2.38 tril	$2.46 tril
Avg. Unemployment Rate	5.8%	5.7%	5.9%	6.0%
3-month T-bill rate	1.4%	1.9%	2.2%	2.3%
10-yr gov’t bond rate	2.3%	2.4%	2.7%	2.8%
Oil prices, WTI (US$)	$66	$59	$60	$61

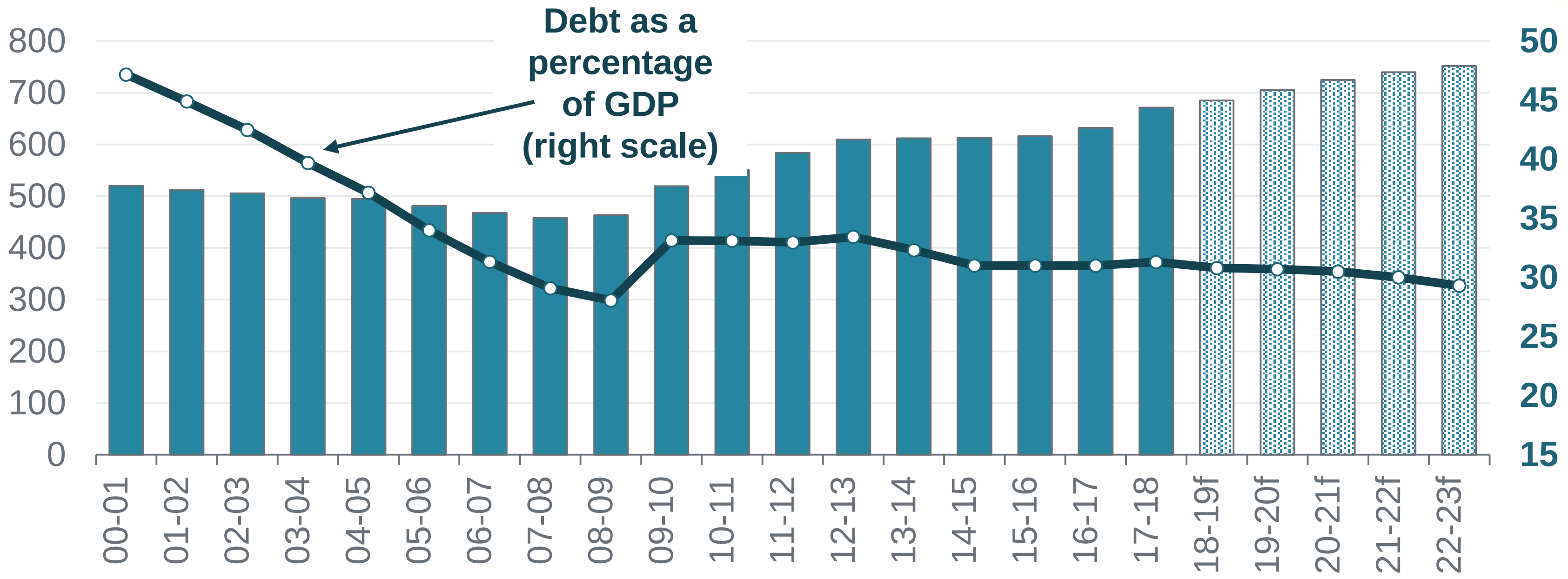
Source: Federal Budget 2019.

REVISED FEDERAL FISCAL PLAN (C$ BILLIONS)

	2017/18	2018/19	2019/20	2020/21	2021/22
Revenues	311.2	332.2	338.8	351.4	366.7
Expenditures	330.2	347.1	355.6	368.2	378.4
Program Spending	308.3	323.5	329.4	339.7	348.3
Public Debt Charges	21.9	23.6	26.2	28.5	30.2
Adjustment for risk	-	-	-3.0	-3.0	-3.0
Budgetary Balance	*-19.0*	*-14.9*	*-19.8*	*-19.7*	*-14.8*
Net Federal Debt*	671	685	705	725	740

* Rounded to nearest whole number. Source: Federal Budget 2019.

FEDERAL DEBT, $ BILLIONS AND % GDP



f = forecast.

Source: Fiscal Reference Tables and 2019 Federal Budget for projections.

A FEW BUDGET MEASURES OF INTEREST

- **CMHC First Time Home Buyer Incentive**….5% of the purchase price of an existing home (10% for a new home), for first-time buyers
    - only for those with household incomes below 120K
    - maximum mortgage and incentive amount no more than 4x household income
    - impact will be on the low-end of the market (below 500k)
- **Increase tax-free withdrawal from RRSPs** for first-time home buyers, from 25k to 35k
- $10 billion over 9 years to support **rental housing development**
- Commitment to **expand broadband access** beyond urban centres
- Additional support for **market development, innovation and commercialization in the Canadian forest sector** ($251 million over 3 years)

A FEW BUDGET MEASURES OF INTEREST

- Creation of a new **Economic Strategy Table for tourism**, along with new funding ($58 million over 2 years) to expand/improve tourism-related infrastructure and new tourism offerings
- Time-limited subsidies for the purchase of **electric vehicles** (how will this intersect with B.C.'s new similar subsidy?)
- **Canada Training Benefit (CTB)** – a tax credit for skills upgrading, accumulating at $250 per year to a maximum of $5,000 over a lifetime. Plus, enhanced income support from the EI program for those who use the CTB
  - for those aged 25-64, up to 150k of earnings
- Continued focus on reconciliation and investing in **Indigenous communities** to narrow socio-economic gaps (another $4.5 billion over 5 years; note that total federal spending will reach $17 billion by 2021)
- Immediate $2.2 billion transfer to municipalities for infrastructure, via the federal **Gas Tax Fund**

CONCLUSION: OVERALL ECONOMIC IMPACT

- The Budget is unlikely to have a measurable impact on the trajectory of the Canadian economy…nor on the dollar, bond yields or equity markets
- At the margin, the Budget can be viewed as **slightly "growth-positive,"** but the effects will be too small to be noticed
- Nothing in Budget 2019 will cause global capital markets, investors or corporate decision-makers to alter their perceptions of Canada's attractiveness as a place to invest or do business
- An important caution: **Ottawa is banking on a benign future state of the world**.... no U.S. recession, no further significant weakness in energy markets, a favourable resolution of the US-China trade conflict, no disorderly BREXIT, etc. Sunny days, apparently, lie ahead!