

A spotlight on the Canadian economy

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Canada is in a particular vulnerable situation heading into this economic shock, or I should say, two shocks. Both COVID-19's impact on the supply and demand side of the Canadian economy, but also that drop in oil prices, which we, as Canadians know, hampers business investments in the energy patch and is tied to lower job growth or even job losses, particularly in the western part of the country. We are, however, seeing the federal government step up to provide stimulus, and the Bank of Canada is cutting rates fairly aggressively. Now, in our view, Canada is a little more vulnerable than the United States heading into this particular rough patch, in part because our consumer has substantially more debt and lower savings than the U.S. consumer.

If we are to experience a shock, particularly to jobs, it's less likely that the Canadian consumer can withstand paying ahead. Now, again, we aren't there yet, and we may see some very quick responses, continuing with federal government response and central bank response along the way, but it is a substantial risk to the Canadian economy, and contributing to a substantial weakness in the Canadian dollar. We expect the Bank of Canada to continue to cut interest rates, and many are afraid this is going to further inflame the housing market. But if we do see a shock to confidence, our view is that housing is actually more a risk to the downside. If people are scared to go out, or they're worried about their jobs or their income, we are not likely to see substantial amounts of housing purchases.

That leaves Canada a little more vulnerable than the United States, and in our view, more likely to see substantial and early rate cuts and continued weakening of the Canadian dollar.

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