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Now I'm going to describe to you why I really have trouble having massive confidence in this outlook, and why I think anyone in the industry should be a little cautious here about how they create their 2022 outlooks.

So I'm going to go through four reasons why it's really challenging, and you'll see that a lot of the reasons that we've struggled to make forecasts for 2022 is that we have to make assumptions about things we've never made before, and we have to make assumptions about policy decisions. Now, a lot of economists like to pretend that what policy makers do is more of a science, but actually, it's a lot of art and a little bit of science. We make assumptions about things. And the assumptions that we're having to make here, to me, are really challenging. So I'm going to go through four of the areas that I think are really challenging and what we need to watch as we look into the year ahead.

Now, the first one is the one I don't want to talk about anymore, but we have to, and it's COVID. So when I was writing my 2022 outlook in early December and my first known unknown in that situation was COVID, and I gotta tell you my American clients thought this was ridiculous. Ridiculous that we would still be talking about COVID. COVID is over, is it not? At least that was the hope and that's what I want to happen as well. But COVID is still deeply, deeply problematic for our economy, and is likely to be very problematic in 2022 for a host of reasons.

So, of course, every economist says I'm not an epidemiologist, therefore I can't know for sure. But actually, I want to take a different perspective here. Over the last almost two years, we've learned a few things about COVID could impact an economy. And effectively, it could impact an economy through one or two ways. The first way is if it changes our individual behaviours. If I say, you know what, I'm not going to get lunch with Glen because I'm afraid of contracting COVID, my son is not yet old enough to be vaccinated, I like to see my grandmother regularly, I'm going to pull back on lunch with Glen, even though it has been the most exciting part of my year, because I have a natural fear. It could be companies that say I don't want to do return to office, I don't want to be responsible for an outbreak, the legal thing. All the personal and business choices that are made can actually reduce economic activity.

Now, what we've learned over the past two years is that each incremental wave of COVID has actually had less of an impact on the demand side, so we became less afraid each incremental wave. And we tracked this with data like mobility data, how many people are using public transit.

Sentiment surveys, for example, all tell us that people are still afraid, but far less than they have in the past.

So the second area in which COVID can impact our economy is the more problematic one. That is government restrictions. So not can I get lunch with Glen if I wanted to, but are the restaurants even open? Now, of course, we in Ontario and Quebec are in really sizeable lockdowns, so there are no restaurants for Glen and I to go to lunch, though we have outdoor dining. Glen, I'm not sure if you want to join me at -20 right now, for outdoor dining. That would be really – I don't like you that much. Close, but not that much. And, of course, major other forms of lockdown.

Here's the really big problem that we have with this, is that as you can see right now, most major economies are facing effectively the same Omicron wave, but different governments have chosen to respond differently. And we don't actually see a really strong correlation between the epidemiology data and the political response to it. For example, you may remember the Delta wave in Florida was excessive. Some of the highest cases per million that we've seen at any point in this crisis up until Omicron. And yet, the impact on the economy was effectively nil because people's behaviours didn't change. They're all going to the gym, out partying, having their lunches and there were no government restrictions.

Let's contrast that with China, which is still pursuing a COVID zero policy. In China, one case is a massive shutdown. We're talking about Shanghai Disneyland getting shut down because of one case. Right now, major area with millions in China, news today that they are in major shutdown, ports are going to be locked down. And then we have sort of middle of the road, which is Quebec and Ontario. So same type of crisis, but different political responses. And this is why in some ways it's less that we need epidemiologists and more that we need political strategists to get a sense of what will be the government reaction in each country. That's really hard for economists to figure out.

So within that framework, the way we think about Omicron and COVID in 2022 is that it's probably going to create some major policy divergences. So in Canada, it's going to be a lot harder to hike rates in January than it would be if we were in the United States. Our government response has been very different. We're probably going to see much weaker economic growth out of China than we would out of places in Europe, for example, that didn't experience the same amount of lockdown. So each wave of COVID produces those very different regional divergences, especially because as much as we in the developed world have very high vaccination rates, much of the world is still very low vaccinated or has ineffective vaccines.

So, the other thing that we're going to see is that even in the United States where they haven't had as much government restrictions, we are seeing some slowdown in

foot traffic data. So Omicron is likely to keep growth low in the first quarter, and this is very consistent with our view that this would be a year of two halves, right. That COVID would be a little bit more damaging in the first half of the year than the second. I'll also highlight that in this particular wave, we do not have the same amount of government support, so we're probably going to see a little bit more damage to the economy, even if it's short-term.

The last thing I'll say about COVID that I find challenging, is there's a lot of conversations now and you're likely hearing this from other economists, that after Omicron we're moving from pandemic to endemic, which is not that COVID leaves us, but that we get more muted versions of it and we learn to live with it. I would like to just highlight that learning to live with COVID does not mean no longer any economic impact. It probably means that we shift our behaviours and we shift some preferences towards more of a rolling seasonal COVID type of environment. For example, my mother is severely asthmatic. She would never travel between September and December because she said that was flu season, she didn't want to get bronchitis. She never came to visit me in Toronto over those periods.

It's not unreasonable that we would see seasonal declines in certain types of activities as people self-select out of these. It's not unreasonable that if we live in a COVID that is more rolling as opposed to a one-off, that the potential for our economy to grow over time is more limited. Originally, we thought about COVID as a natural disaster; a wildfire in which things were destroyed and rebuilt. That was the lens through which we saw it. But pandemic COVID was very different than that. It suggests not a massive rebuild, but a slower growth profile over time. And that means more policy support needed, more government spending, less of the ability to raise rates really quickly. And I'll also suggest that learning to live with COVID, endemic COVID, is much more supportive of developed markets than it is of emerging markets. Remember, there is still a relative vaccine trade out there that still exists in endemic COVID.

So, clearly there's a lot of known unknowns happening there. That's the economist's perspective. We have to make assumptions. We make some assumptions; we go with that. But if we're wrong, if there's another very damaging wave or if there are another round of lockdowns, or people's behaviours do change over time, that produces a very different outlook.

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