



UDI-ER Brief – RBC Economics Research Report - 9 Big Insights for the Year Ahead

Source: RBC Economics Researchⁱ

- **I. A golden decade of household wealth creation is losing its lustre:**
 - Housing prices will be largely flat in the near term.
 - Affordability issues and recent increases to interest rates will limit growth prospects in real estate holdings.
 - Policy makers have not done an effective job of controlling housing affordability issues.

- **II. The average household faces a \$1,000 hit from rate hikes:**
 - The average household principal and interest payment will increase by 7.6% in 2019, due to interest rate hikes.
 - This may be problematic for Canadian households due to large amount of debt accumulated during recent periods of low interest rates.
 - Households will not be alone in feeling the impact of increasing interest rates; public debt charges will be the 2nd largest expense for the Federal Government from 2017-18 to 2023-24 – thereby reducing funds available for other priorities.

- **III. Labour shortages could finally lead to wage growth:**
 - Many businesses recently surveyed stated they were having a difficult time finding and hiring workers.
 - This trend is likely to continue with an average of 270,000 workers retiring annually during the 2020s.
 - Worker shortages have historically led to increases in wages.

- **IV. Jobs at risk of automation see losses:**
 - However, an important point is that job automation does not necessarily equal the elimination of jobs; rather, new technology can reduce costs and drive expansion leading to overall *gains* in employment for businesses.
 - Policy makers will need to focus on helping workers adjust and transition into new roles – largely through education and training.

- **V. Canada's not-so-secret growth weapon: immigration:**
 - In terms of population growth per capita, Canada exceeds all other G7 countries.
 - Canada's population increased by 1.4% in 2018 (strongest pace in 18 years).
 - 45% of this increase was derived from immigration (310,000 permanent residents).
 - Canada's immigration levels are anticipated to increase in the next few years:
 - 2019 – 331,000 permanent residents
 - 2021 - 350,000 permanent residents

- **VI. Canadian oil won't plumb 2018 lows:**
 - To boost oil prices, OPEC announced plans to cut oil production by 1.2 million barrels/day, on December 7, 2018.
 - This, along with Alberta's decision to buy railcars and implement local production cuts should help narrow the price gap between WTI and Western Canadian Select.

- **VII. Oil elbows out other sectors in rail transport:**
 - During the summer of 2018, oil producers shipped over 200,000 barrels a day by rail (almost twice as much as during the same time period in 2017).
 - This has negatively impacted shippers of other commodities – notably, grain and metals – by monopolizing rail service.
 - While oil shipped by railcar is expected to continue in 2019, the Province's decision to purchase 700,000 railcars may alleviate the impact somewhat.

- **VIII. Competitive measures will look beyond taxes:**
 - Business continues to be hurt by excessive and inefficient government red tape.
 - As an example, Canada has the longest time frame for approving construction permits – 250 days (almost 3x that of the United States).
 - This excessive bureaucracy is hurting Canadian business competitiveness and inhibiting the full potential of investment growth.
 - On a more positive note, Canada's net firm creation in 2018 (new businesses opening – failed businesses closing) was at its highest level since 2012. This is a strong indication of job creation.

- **IX. Canada would be caught in the crossfire of a U.S.-China trade war:**
 - As Canada remains inextricably tied to the United States for trade, any near-term U.S.-China trade war would have an extremely negative impact on the Canadian economy.
 - Canadians should hope for trade war talks between the U.S. and China to simmer in 2019.

ⁱ For the full report from RBC, please refer to: <http://www.rbc.com/economics/economic-reports/pdf/other-reports/RBC-Economics-outlook2019.pdf>