

## Economists Paint Bleak Picture

From the desk of COCA President Ian Cunningham

Because we find ourselves in uncharted economic waters and we are all looking for answers, I thought I might share with you some of the analyses and prognostications made by a panel of major bank economists at a recent meeting of the Toronto Economic Club.

Pollster Michael Marzolini from Pollara set the stage for the economists by highlighting the results of his recent survey of expectations, attitudes and intentions of the Canadian public. He said that Canadians were not surprised by the economic meltdown and that in his poll of a year ago they anticipated a downturn. Canadians believe, Marzolini stated, that current economic circumstances are not of their own making but were caused by reckless and greedy villains on Wall Street and in Washington and while they are shaken by these recent events, 3 out of 4 Canadians surveyed think the economy will worsen and many believe the recession will last about 18 months, they reflect an unexplainable optimism, feeling somehow insulated from the economic woes of the day and despite average investment losses in the neighbourhood of 20%, they expect to maintain or improve their own positions going forward. They don't think anything bad will happen to them because they haven't yet suffered at home. Curiously, in a time when price levels are declining, Canadians are concerned about inflation. Overwhelmingly, Canadians have become interventionist and will support almost any government action to support the economy.

BMO Chief Economist, Sherry Cooper, addressed the US economy and presented an extremely gloomy set of statistics including declining housing starts, sagging home sales, lower house prices, sky rocketing foreclosures, sagging exports, reduced payrolls and record low auto sales, to paint an exceedingly bleak economic picture south of the border. She predicted that when all the numbers are in, the US economy will have shrunk by 6% in the 4<sup>th</sup> quarter of 2008 and that it will decline a further 3% in 2009, with unemployment in the 9% range at the end of 2009. She observed that the US money supply has surged yet the velocity is very low and that government spending is the only source of growth. Cooper predicted that the 4<sup>th</sup> quarter of 2008 will prove to be the very worst on this recession.

Don Drummond, Chief Economist with TD Financial Group, in focusing on the Canadian economy, said that Canada came through 2008 reasonably well, especially in the domestic economy. There was a sharp downturn however in October or November caused by the unwinding of commodity prices which began their decline in late June or early July. He predicted the 1<sup>st</sup> quarter of 2009 will look like the US and that GDP will fall by about 1.5% during the year and that nominal incomes will decline. Drummond anticipates the Canadian stimulus package will not be as large as the US, in the range of \$12 - 14 Billion or less than 1% of GDP, the full impact of which will not be felt until 2010 or 2011. He believes we will be stuck in deleveraging mode for some time. He expects Canada to benefit from a short term pop in growth in the US as a result of their stimulus package and predicted that the first half of 2009 will be "terrible" and that a recovery will begin sometime in the second half of the year. Drummond ended by saying that there will be a long period of slow growth beyond 2010.

Scotiabank Chief Economist (and COCA AGM keynoter) Warren Jestin, provided a global overview, stating that all major industrial economies

are in recession and that emerging markets are weakening. He said the "borrow to buy approach" of US households that fuelled the economy in recent years has changed radically to "earn and save". The growth drivers going forward will be governments and infrastructure. He said that the increased role of government in the economy, borrowing to buy, will be difficult to reverse.

CIBC's Avery Schenfeld offered prognostications on the financial markets and expects we should see tentative signs of recovery in the first half of 2009. He noted that all the financial models suggest that the TSX is cheap at current levels. His reading of the economic tea leaves caused him to predict it will take investors 3 – 5 years to make up their losses resulting from the recent economic collapse. He cautioned that the greatest downside risk exists in consumer discretionary stocks, technology, metals, lumber, newsprint and added that companies that have to refinance will face challenges. He added that there is no "juice" left in government bonds and recommended close examination of investment grade bonds as a flight to quality.

Craig Wright, Chief Economist with RBC Financial Group, speaking about prospects here in Ontario, forecast continued volatility in the Canadian dollar with a softening trend. He went on to predict that the US would be first out of the recession and that the Greenback will show strength in the near term but will be subject to longer term weakness. He said there will be no "snap back" in growth and that we are in a recession with no recovery. He predicted Ontario's trade sector will continue to weaken, that unemployment will continue to rise and that the Province will experience back-to-back declines in GDP in '08 and '09.

In response to a question about the upcoming federal budget, the economists recommended the following:

- No subsidies for declining industries
- Focused investments in public infrastructure that improve productivity and in assets that Canadians need the most
- Changes to the EI system in which current recipients must make a life long pledge of poverty
- Not temporary tax relief
- A plan to get out of deficits

Other comments included:

- The opportunities may lie in the aging and greening of the economy
- Trade will be less of a driver of global growth as issues such as food safety and the environment create a slowdown
- The deleveraging of the North American economy will slow growth

I hope this summary helps you better understand the economic predicament we're currently in and the choices that are ahead for all of us to make.



## Ontario needs a core infrastructure budget

The week before Christmas, COCA participated in Finance Minister Duncan's pre-budget consultation in Windsor Ontario, providing input from the membership for the upcoming spring budget.



Speaking to the government's priorities for 2009, COCA called for a commitment to investment in core infrastructure in order to attempt to sustain the economy, recognizing that building blocks such as roads, bridges and essential services will be the foundation for growth for the rest of the economy. Of course, such capital investment projects would require jurisdictions having in place the proper accountability systems and project plans in order to maximize the value benefit of these tax dollars.

On the issue of deficits, it is all but a foregone conclusion that a balanced budget for Ontario is wishful thinking. The message to the Minister was that it was necessary for the government to maximize its own cost and operational efficiencies before committing to running a deficit and that if Queen's Park did slide into the red that it had a plan to return to balance as soon as possible.

## Thoughtful regulation can't be rushed

A delegation of COCA members met last week with Labour Minister Fonseca to discuss the necessary elements for an effective executive officer exemption regulation as part of Bill 119, *an Act to amend the Workplace Safety and Insurance Act, 1997*.

COCA supports the development of a narrow exemption that allows executive officers of construction firms who perform legitimate executive functions and who are not regularly exposed to

construction risk, the opportunity to seek exemption from mandatory WSIB coverage. However, when presented with a narrow window for consultation on the issue, the delegation stood by its position that such work requires a robust process incorporating input from across the industry by which the best possible regulation can be crafted. COCA has recommended a consultation period of 10 weeks to complete this task and is eagerly awaiting a response from the Minister.

## COCA's AGM: Ontario's New Infrastructure Economy

COCA's Annual General Meeting February 26th will focus on the economy and what it means to construction in Ontario. A draft agenda is as follows.

At 9:00am **Dr. Warren Jestin, Scotiabank's Senior Vice President and Chief Economist will present an economic update** and then participate as part of an expert discussion on the politics of the economy; specifically infrastructure investment.

Following the panel, **Derek Smith, Executive Director of the London and District Construction Association and London based Architect Paul Loreto will lead a session on Building Information Modeling (BIM) entitled "Leveraging BIM for Construction Efficiency & Cost Savings"**. Though relatively new in its application to construction (it has been used for 25 years in the auto and aerospace industries), BIM offers significant efficiencies and has the potential to become the industry standard.

Next on the agenda is **COCA's Annual General Meeting** scheduled to begin at 11:30am featuring the launch of COCA's long awaited new Web Site.

And finally the day will be concluded with our **Annual Luncheon featuring a keynote presentation from Mr. Don Drummond, Chief Economist at TD Bank Financial Group**. Mr. Drummond's address will focus on what the economic downturn really means for construction in the province of Ontario.

**COCA's Annual General Meeting will take place on Thursday February 26, 2009 at the Hilton Toronto Airport** (Mississauga Room A) located at 5875 Airport Road in Mississauga. The participation fee for the event is \$75 including GST.

Registration and coffee will take place at 8:00am with the Economic Panel Session starting at 9:00am.

**For more information or to register please contact Sue Ramsay at [sramsay@coca.on.ca](mailto:sramsay@coca.on.ca) or (416) 968-7200 ext. 222.**



## REMINDER - Safe at Work Consultations

The Ministry of Labour is consulting on the Safe at Work Ontario compliance strategy on January 30, 2009. The session will take place at 9:30am at the Centre for Health and Safety Innovation's Presentation Centre located at 5100 Creebank Road in Mississauga.

Directions can be found at <http://www.tchsi.ca/contact.html>

RSVP's should be directed to Anne Rekenye at (416) 326-7374 or at [anne.rekenye@ontaio.ca](mailto:anne.rekenye@ontaio.ca)