



## OVERVIEW

Economic projections are based on historic patterns, emerging trends and an understanding of a deep and complex series of cause-and-effect relationships. However, those aren't the only things that affect how an economy performs. Government policy announcements, large-scale business investment decisions, geopolitical instability and a host of other factors are inherently unpredictable and can have a major impact on an economy's performance.

With that in mind, CME's economics team gazes into its crystal ball every year to highlight five things to watch out for in the coming year. These are some of our "known unknowns" – factors that we know will impact the economy, whether for good or for ill, but whose effect is far from clear.

## REPRESENTATION

# 5 Things to Watch in 2019

### 1. WHAT IMPACT WILL CANNABIS HAVE ON THE ECONOMY?

Businesses are pouring billions of dollars into Canada's burgeoning cannabis industry. We can expect mergers and acquisitions as it matures paired with gut-wrenching stock volatility. But cannabis production is creating new economic activity and boosting demand for manufactured goods. Canadian businesses could leverage their first-mover advantage and become world leaders in the industry.

### 2. WILL ANYTHING BE BUILT IN CANADA?

The Trans Mountain pipeline is the poster child for Canada's growing reputation as a place where nothing can ever be built – especially in the energy sector. Capital spending in energy has fallen off a cliff, investors are abandoning projects and, new federal project approval rules could further chill development. With several key investment and approval decisions coming this year, 2019 will be an important test for the future of the country's resources sector.

### 3. IS A RECESSION LURKING AROUND THE CORNER?

What goes up must come down and the economic expansion in the US has been long-lived. There are early warning signs – equity market volatility, a declining yield curve, and growing business pessimism – that could signal an economic downturn in the US within the next 12-24 months. If that happens, Canada will follow suit.

### 4. WILL GOVERNMENTS SUPPORT OR IMPEDE BUSINESS INVESTMENT?

New federal tax changes that allow businesses to immediately expense machinery, equipment and technology purchases boost capital investment. But new carbon pricing rules, higher CPP payments and a host of other cost increases are set to diminish the effectiveness of this government incentive program. It is unsure whether these influences will balance each other out.

### 5. WHAT WILL THE US PRESIDENT DO?

While no one knows for sure, the US President holds the power and influence to singlehandedly shape the future of the global economy. This has prompted Ottawa to try to diversify the country's export markets.