2018 Year in Review and 2019 Outlook

When you go on a road trip, you probably don't just pick a random destination on a map and then hop in your car. Instead, you plan ahead. That's because there are many factors and variables to plan for. Traffic, road conditions, the weather forecast, price of gas, lodging, other expenses – there's a lot to consider!

The reason you do this is because you want to minimize the chances of any unforeseen obstacles while maximizing the likelihood you'll reach your destination on time. Here at the Morse Team of RBC Dominion Securities, we do the same. So, as we start another 365-day trip around the sun, here are a few things we're currently looking at for 2019:

Oil

The price of oil plays a significant role in the fortunes of Canada's economy. Naturally, one of the most dominant storylines of 2018 was the extreme volatility we saw in the oil market.

The oldest economic law in the world is the law of supply and demand. As you know, when the demand for something is greater than its supply, prices go up. When supply is greater than demand, prices drop. Currently, the world is experiencing something of a glut in supply, with Saudi Arabia ramping up production in 2018 and the U.S. enjoying a shale oil boom. A possible slowdown in demand driven by fears of a declining global economy may also play a role.

Canada faces another challenge: Getting oil out of the country. Oil is largely shipped via pipelines, but most existing pipelines are at or near capacity. For a variety of reasons – most of them political, which I won't get into here – new pipeline projects have largely failed or stalled in recent years. As everyone knows, it's hard to sell what you can't ship, which drives prices even lower.

Many oil companies have turned to rail to move their product, while OPEC – the Organization of Petroleum Exporting Countries – has vowed to cut production in 2019. ***1*** This could help the oversupply problem. Nevertheless, we'll be watching oil prices very closely this year.

Debt

Household debt continues to be a serious problem for many Canadians. In the third quarter of 2018 alone, the average person owed nearly $1.78 in credit market debt – credit cards, mortgages, other loans, etc. – for every dollar of disposable income they earned. ***2*** That's a debt-to-income ratio of over 170%.

Given how much our economy is fueled by consumer spending, that's not exactly a good thing. The more people are in debt, the less they can spend. The less they spend, the less our economy can grow. That's especially true if the Bank of Canada continues to raise interest rates in 2019.

RBC Wealth Management
Dominion Securities

Housing Market

Another source of economic fuel is the housing market. Real estate prices have skyrocketed in recent years, but they experienced a slowdown in 2018, especially in the largest cities like Toronto. There are many reasons for this, including rising interest rates and stricter rules on mortgage loans.

So, what does that mean for this year?

Predicting housing prices is a fool's errand. That said, while it doesn't appear a housing crash is in the works, the factors that caused the slowdown are still in place. Furthermore, if interest rates and household debt both continue to rise, real estate prices could be dragged down even further. Given that residential investment "accounts for 7.5% of the economy, just off a record high," ***3*** any further slowdown will certainly have a negative effect on the economy.

Other Factors

While those are three of the major roadblocks to plan for, there are others. For example, we can never discount what's going on with our neighbors to the south. President Trump's tariffs continue to harm companies in both Canada and the U.S. and have contributed to a very volatile American stock market. The ongoing trade negotiations between our two nations will also be watched closely.

Of course, we have a major political storyline of our own. Who will be Canada's prime minister after November? What kind of economic policies will that person bring? While we here at the Morse Team of RBC Dominion Securities never make decisions based on what ifs and could happens, it's precisely those what ifs that can cause stocks to jump one way or another. So, while we don't make decisions based off them, we do have to factor them into our decision-making.

So, what does this all mean for us?

When you go on a road trip, you always make note of possible hazards and obstacles along the way. But just because you expect the traffic to be heavy doesn't mean you decide to stay home. Make no mistake, there are many potential roadblocks for our economy in 2019 – but that doesn't mean we can't keep working toward your financial goals. It simply means we'll need to proceed cautiously, with both eyes open. It means we'll continue looking for open roads, while still being prepared to pump the brakes if necessary.

So, as we continue in this new 365-day trip around the sun, rest assured that our team will continue to do all the research and planning we can to make your journey a pleasant one.

Happy New Year!

The Morse Team

Sources

1 “Oil prices spike after OPEC countries decide on production cut,” CBC, December 7, 2018. https://www.cbc.ca/news/business/opec-production-cut-1.4936688

2 Erica Alini, “Canada’s household debt-to-income ratio still near record despite rising rates,” Global News, December 14, 2018. https://globalnews.ca/news/4762476/canada-household-debt-to-income-ratio/

3 Daniel Tencer, “Canadian Economy More Dependent On Housing Than ‘At Any Other Time on Record,’” Huffington Post Canada, December 17, 2018. https://www.huffingtonpost.ca/2018/12/17/canadian-home-sales-cibc_a_23620414/