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Economic Forecast from the CFO: Some Bright Signals for October 2022 – June 2023

International economies including Canada and the USA are now anticipating a moderate recession for the first half of 2023.

In most countries GDP growth rate forecasts have been reduced and interest rates have been increased to combat the high rate of inflation resulting from pent up demand after Covid slow downs and the impact of the other two major geopolitical factors, the Ukraine war and Climate Change.

US Central Bank Interest Rate

In 2022, inflation hit 40-year highs in most countries. Those with high food and energy imports reached rates not seen in many decades—for instance Turkey has an 80% inflation rate.

Global inflationary factors include Covid related shutdowns in China causing supply chain failures, energy shortages in Europe due to war, sanctions on Russian imports and exports, crop failures due to droughts in China and Africa, fertilizer shortages, shortages of construction materials and housing, and labour shortages due to demographic shifts.

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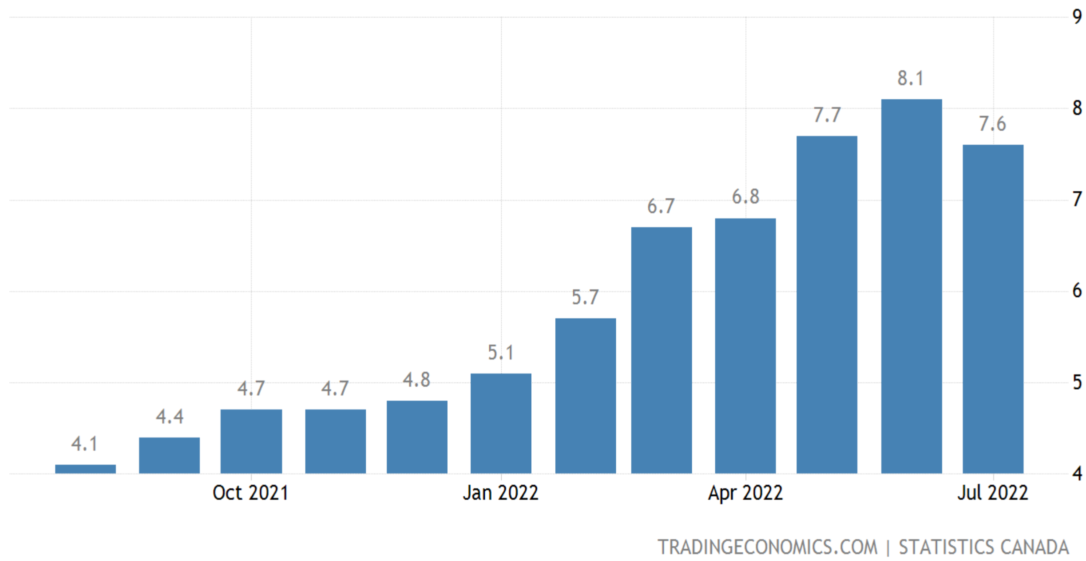
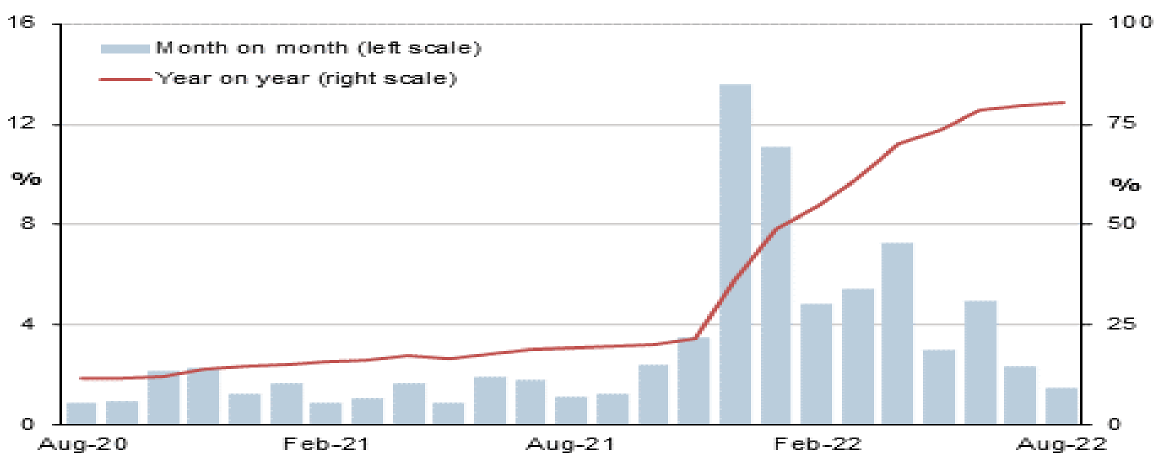
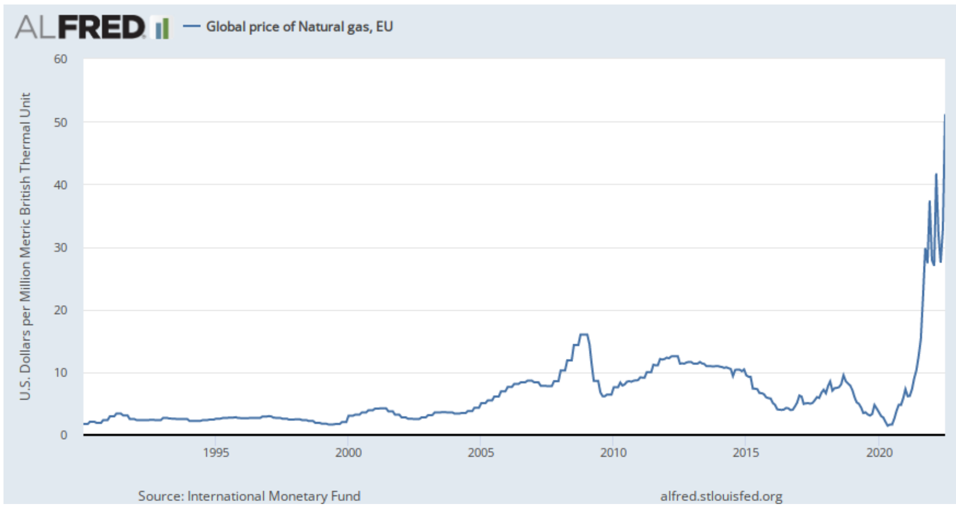


Canada Annual Inflation Rate



Turkey Annual Inflation Rate



Global Price of Natural Gas, EU

Multiple interest rate hikes have been instituted by most nations to combat inflation by intentionally slowing down demand and the overall economy. Canada has been particularly aggressive with rate hikes which has put a rapid brake on certain economic sectors such as real estate.

With both the United States and Canada being exporters of energy and food, we are somewhat protected from outrageous inflation as seen in Europe. However, as countries such as the UK and Germany fall into a potentially deep recession even North America will be dragged along. Canada's GDP growth of 3% in 2022, a globally strong rate, will drop to at best 1% in 2023, with negative growth in the first half of 2023.

In Canada and the US for 2023 we should expect to see continued high interest rates, a modest recession in Q1 and Q2, reduced inflation in the second half of the year, continued strong commodity prices, slightly increased unemployment as some industries such as retail are impacted by recession, slow real estate sales while prices stabilize and rebound somewhat in Q4.

Stock markets reflect the expectation of a recession and likely will decline further in early 2023 before rebounding in the second half.

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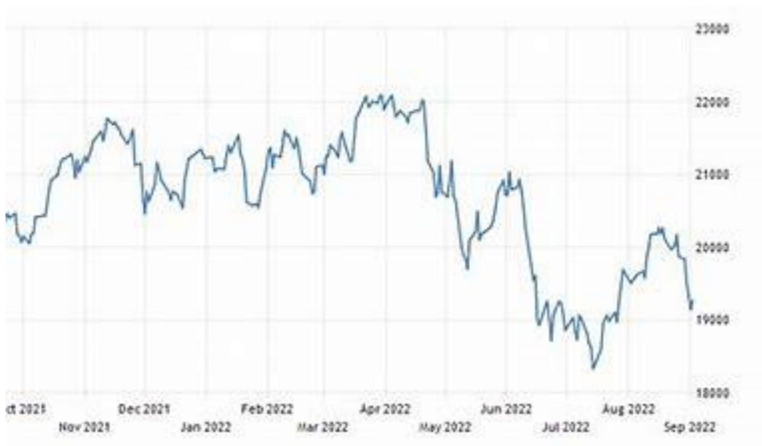
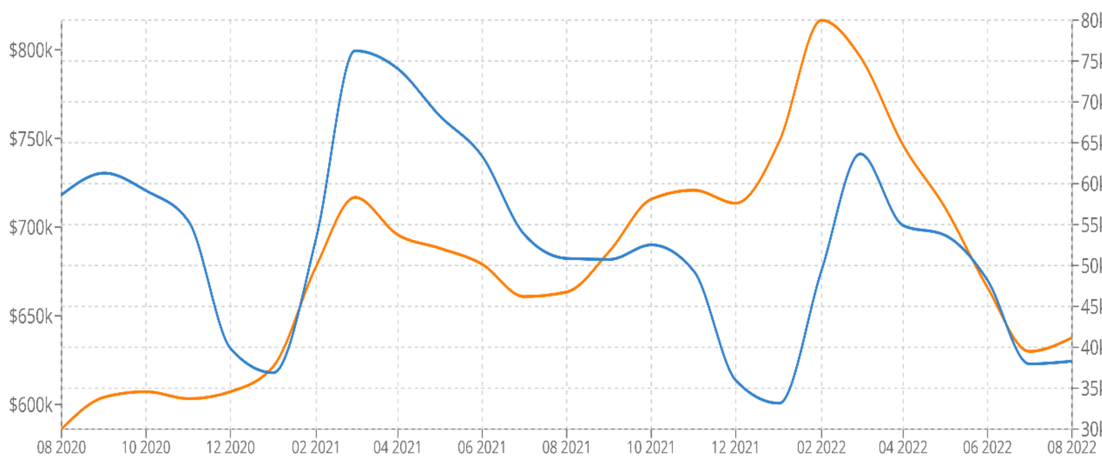


Canada TSX Trends



Canada Housing Sales Trend, 2022

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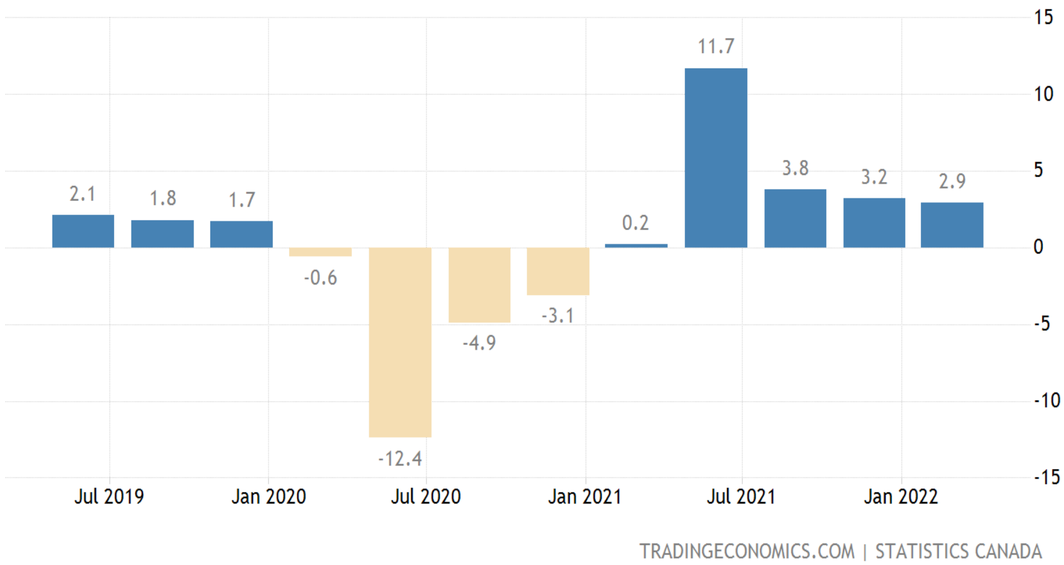
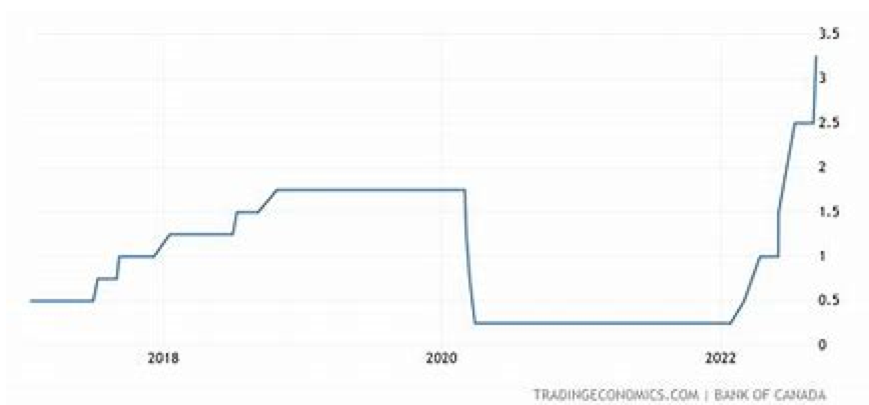


Canada GPD Growth Rates Annualized



Canada Interest Rate Trend, 2018 - 2022

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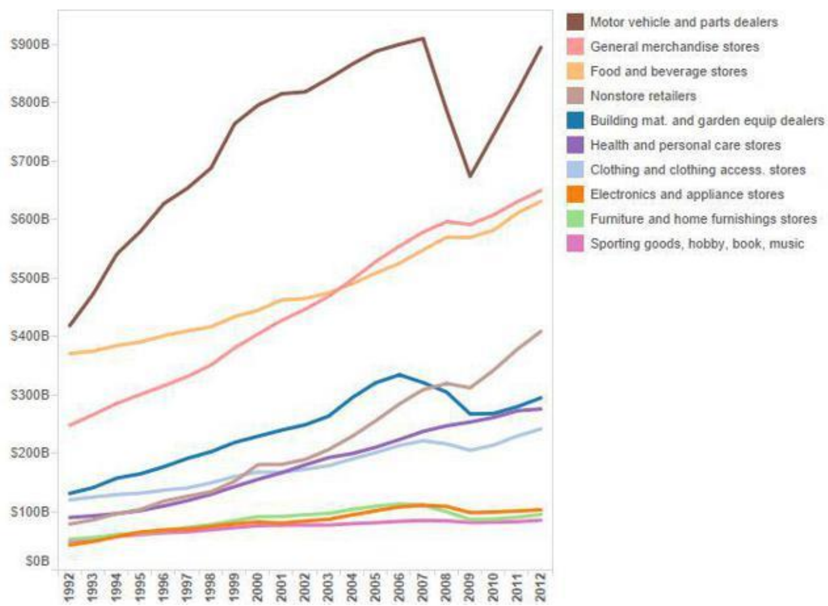
Certain industries in Canada and the US will dodge the recession due to global demand; the food and agriculture industry, energy including oil, gas and electric, the automotive industry especially electric vehicles (assuming supply chains for microprocessors hold up), all green energy or climate change technology related industries, commercial and transportation construction.

Industries that will be hit hard by the recession and reduced consumer spending will include bricks and mortar retail, real estate, travel and restaurants. Service industries including the financial services are anticipated to weather the recession with modest slow downs.



Recession Resistant Industries

Internationally, there will be several regions suffering significant downturns; Europe and the UK due to massive energy cost inflation and weak currencies, Asia and in particular China due to continued Covid lockdowns and serious crop failures as well as energy inflation and reduced global demand for consumer goods, Africa due to food shortages and inflation, Russia and Eastern Europe due to the continued Ukraine war.

We should anticipate growth in global investment in climate change mitigation technologies with Canada and the US playing leading roles. Global fresh water supplies are also a risk factor to watch carefully.

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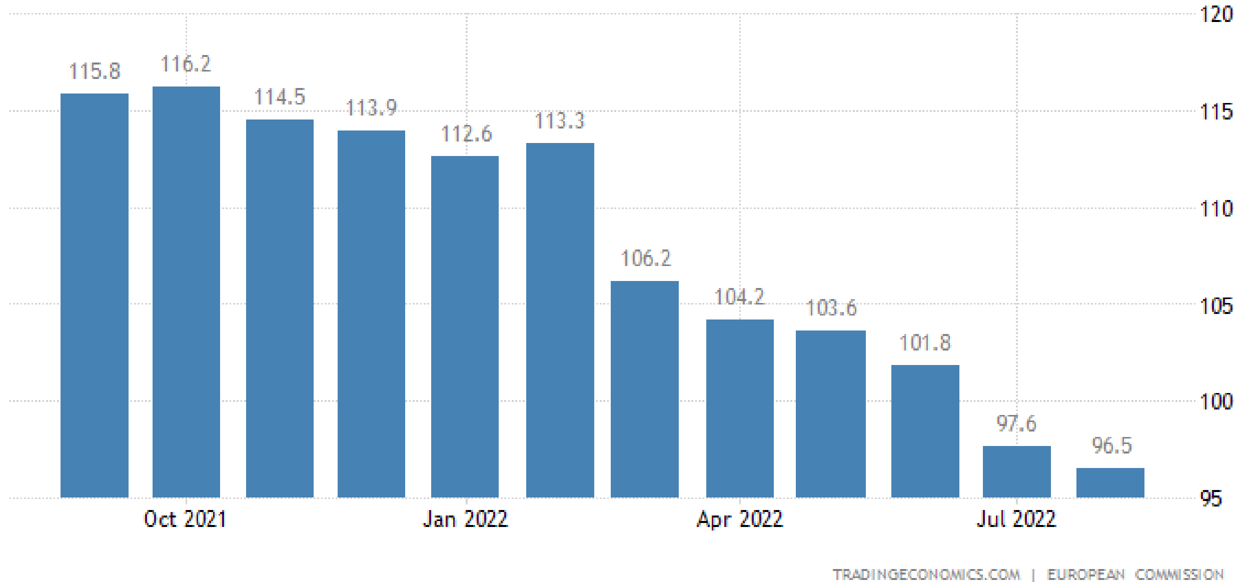

Europe Economic Sentiment Indicator

In Canada and the US we should expect companies in all sectors to put in place recession contingencies, they will look to stabilize or reduce operating expenses while continuing to support key employees and to look for the critical, hard-to-find new hires.

Predictive Success is positioned to help its clients with managing and enhancing their key asset, their employees. The Predictive Index is their employee asset insurance policy in the same critical category as their business insurance policy, these must be maintained even during a recession.

Bill Zerter

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