



# Bennett Jones EUCCAN Economic Outlook

Artem Barsukov, Thomas Gilbert

## Outlook for Canada's Economy

Economic and employment activity in Canada continues to show a rapid, vigorous recovery. Underlying market dynamics are providing a foundation for confidence and investment. As an indication of these underlying dynamics, in February 2022, the national unemployment rate fell below its pre-pandemic level for the first time.

Bennett Jones released its latest *Economic Outlook* in December 2021, which projects the Canadian economy is to grow robustly in the near term, before gradually decelerating to a rate close to potential by the end of 2023. Real GDP would grow 4.6% during 2022 (Q4 to Q4) and 2.3% during 2023. By the end of 2023, output in Canada would be about 6.9% higher than at the end of 2019, also slightly above the pre-COVID trend.

## What's Supporting Growth in Canada?

Several factors are supporting above-trend growth of GDP in Canada during the next two years:

- Strong growth in household consumption, as saving rates and accumulated savings are reduced in order to satisfy delayed demand for goods and other services. Household consumption is also expected to increase going forward due to the rise in real incomes brought on by higher commodity prices in 2021.
- Increased demand growth for Canadian real exports of goods and services, including tourism.
- Increased business investment due to the expected expansion of demand, both in Canada and abroad, with an aim to alleviate capacity constraints and reduce costs, and to support the drive towards digital and clean technologies.

- Increased inventory investment to better align stocks with expected production and sales.

## Challenges

Near-term pressures on the Canadian economy remain, of course. In February 2022, Canada's inflation rate hit a 30-year high, rising to 5.7%. Businesses also face labour shortages, a changing workplace, and a tense geo-political and trade environment. The full impact of Russia's invasion of Ukraine is likely yet to be felt—as Canada and other countries respond with unprecedented economic sanctions against Russia. Finally, the future evolution of the COVID-19 pandemic and its potential impact on the economy remain in the background, as cases are once again beginning to rise in the jurisdictions that have lifted public health restrictions.

Beyond navigating the short term, the public and private sectors in Canada have to accelerate their response to an ageing population, digitalization of the economy, and climate change. These three structural developments are even more compelling today than before the pandemic. The central message of Bennett Jones' *Economic Outlook* is that growing Canada's economy sustainably over the long term will require exceptional collaboration between the public and private sectors, within the framework of a growth strategy.

## M&A Activity in Canada (all USD)

2020	2021	Change
<b>Communication</b>		
150 deals \$3.3 billion	221 deals \$37.6 billion	▲ 47% ▲ 1,039%
<b>Consumer (Cyclical)</b>		
187 deals \$8.5 billion	258 deals \$19.3 billion	▲ 38% ▲ 127%
<b>Consumer (Non-Cyclical)</b>		
556 deals \$24.7 billion	737 deals \$47.9 billion	▲ 33% ▲ 94%
<b>Energy</b>		
161 deals \$21.5 billion	244 deals \$46 billion	▲ 52% ▲ 114%
<b>Financial</b>		
513 deals \$45.8 billion	825 deals \$106 billion	▲ 61% ▲ 131%
<b>Industrial</b>		
258 deals \$32.5 billion	379 deals \$56 billion	▲ 47% ▲ 72%
<b>Mining</b>		
859 deals \$8.6 billion	901 deals \$23.8 billion	▲ 5% ▲ 177%
<b>Technology</b>		
313 deals \$15.9 billion	549 deals \$22 billion	▲ 75% ▲ 38%
<b>Utilities</b>		
29 deals \$8.2 billion	39 deals \$22.8 billion	▲ 34% ▲ 178%

## Record M&A in Canada in 2021

Canadian M&A hit an all-time high in 2021, with US\$384.9 billion in total value on 4,242 announced deals, according to Bloomberg data. This includes all deals where a Canadian company was the target, acquirer or seller and excludes deals that were terminated or withdrawn. By comparison, in 2020, Canadian M&A activity saw US\$169 billion in total value on 3,062 deals. This represents overall increases of 128% in total value and 39% in deals year-over-year.

Bloomberg described the deal environment in Canada in 2021 as a frenzy, “driven by cheap financing for buyers, attractive prices for sellers and extra capital that companies had stockpiled to brace for the pandemic, which didn’t end up taking the bite of earnings that they’d feared. Takeovers were further bolstered by a handful of megadeals that, while aided by market conditions, were driven by longer-term factors.”

The broad financial sector (banks, diversified financial services, insurance, investment companies, private equity, real estate and REITs) led the way in Canadian deal making in both 2021 and 2020, accounting for a remarkable US\$106 billion worth of deals last year. Each of the mining, consumer (cyclical), and energy sectors more than doubled in total deal volume year-over-year. The communications sector shot up from US\$3.3 billion to over US\$37 billion in deal value in 2021. Much of this was due to Rogers’ acquisition of Shaw in the telecommunications sector for just over US\$20 billion, the second largest deal announced in Canada in 2021.

The largest Canadian deal of the year—and one of the largest in the world in 2021—is Canadian Pacific Railway’s (CP) historic US\$31 billion merger with Kansas City Southern (KCS). The combination will create the first ever single-line rail network linking the United States, Mexico and Canada. CP’s winning bid for KCS was a superior proposal to a competing rival offer. Bennett Jones is advising CP on Canadian M&A, corporate/securities, tax, finance, employment and competition/antitrust matters in connection with the deal.

Canada had a strong start to deal-making in 2022. M&A volume in January and February 2022 already exceeded the total in January/February 2021. The impact of recent global and economic developments on M&A (if any) should become clearer in the first half of this year.



## Immigration to Canada

Canada welcomed more than 405,000 new permanent residents in 2021, setting a new record for the most newcomers in a year in Canadian history. In 2019, 341,000 permanent residents were admitted to Canada. This number dropped by 46% in 2020 to 184,500 as a result of the pandemic.

On February 14 of this year, Canada's 2022-2024 Immigration Levels Plan was tabled in Parliament. It aims to welcome nearly 432,000 permanent residents in 2022, just over 447,000 in 2023, and 451,000 in 2024. The 2022 and 2023 totals are increases from the previous Immigration Levels Plan.

Bennett Jones' *Economic Outlook* includes a companion paper on Canada's labour market that looks at four key strategies to grow the country's economy. Immigration is one such key strategy, seen as a way to enhance labour productivity and reduce labour vacancies.

The following measures could be considered as part of an immigration strategy:

- Ensuring immigrants use their skills in the Canadian labour market. Many immigrants to Canada work in positions that do not utilize their skills, or are underemployed.
- Streamlining the process for immigration. At present, the process is cumbersome and backlogged. IT-enabled tools could make immigration easier and faster.
- Increasing the annual number of immigrants entering Canada.

As part of Canada's response to Russia's invasion of Ukraine, the Federal Government announced new upcoming immigration streams for Ukrainians who want to come to Canada temporarily or permanently:

- a temporary Canada-Ukraine Authorization for Emergency Travel, available for individuals fleeing Ukraine (there will be no limit to the number of Ukrainians who can apply), and

- a special family reunification sponsorship pathway for permanent residence.

All Ukrainians who come to Canada as part of these measures will be eligible to apply for open work permits.

## Canada and International Trade

The Bennett Jones *Fall 2021 Economic Outlook* also includes a companion paper on international trade in Canada. It takes a close look at how a supportive global trade and investment environment will continue to be critical for the Canadian economy. The *Economic Outlook* posits that one of Canada's key objectives should be diversifying its trade by strategically selecting the markets that offer the best prospects of developing new business opportunities for Canadians. This includes renewing efforts to take advantage of the new trade agreements that Canada has negotiated over recent years, including CETA.

For more on the state of Canada's economy, labour market, and trade environment, download the [Bennett Jones Fall 2021 Economic Outlook](#). Companion papers on climate and energy, and Canada and the digitalization of money are also included.

Ongoing updates by Bennett Jones' International Trade group on Canadian sanctions targeting Russia, Belarus and separatist territories in Ukraine in response to the Russian invasion of Ukraine are [available here](#).

### Artem N. Barsukov FCI Arb

Partner, Bennett Jones

barsukova@bennettjones.com | 780.917.4266

### Thomas Gilbert

Policy Officer | Conseiller politique, EUCCAN

advocacy@euccan.com

This update is not intended to provide legal advice, but to high-light matters of interest in this area of law. If you have questions or comments, please call one of the contacts listed.

At Bennett Jones, your privacy is important to us. Bennett Jones collects, uses and discloses personal information provided to us in accordance with our Privacy Policy, which may be updated from time to time. To see a copy of our current Privacy Policy please visit our website at [bennettjones.com](#), or contact the office of our Privacy Officer at [privacy@bennettjones.com](mailto:privacy@bennettjones.com).

To subscribe to our publications, please visit [BennettJones.com/Subscribe](#).