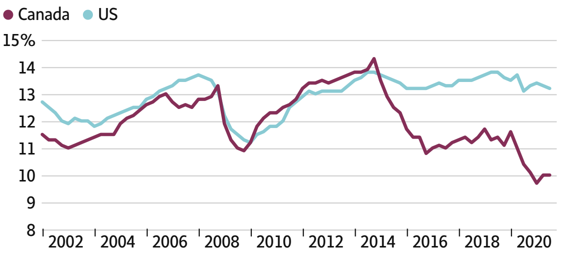
Decoding 2022: The Globe asked dozens of experts – from economists and strategists to investors and academics – to make sense of the economy in the year ahead. These are the charts they think are important to watch and why.

THE RECOVERY

BUSINESS SECTOR

Business investment in Canada is falling further behind the U.S.
Business investment as a share of nominal GDP



THE GLOBE AND MAIL, SOURCE: STATISTICS CANADA, U.S. BUREAU OF ECONOMIC ANALYSIS

FALLING BEHIND

The private sector has long been the main driver of prosperity in Canada, which is why I like to track the share of business investment in our national income (GDP). According to this metric, Canada was doing reasonably well relative to our neighbour south of the border until 2014-15. That's when the bottom fell out of oil prices, investment in the energy sector fell off a cliff and some structural factors meant that other sectors did not pick up the slack. There very well may be more investment happening than shows up in these data, given measurement issues with the digital economy. But it's unlikely that mismeasurement can explain all the overall decline in investment as a share of GDP, and the fact we have fallen behind the U.S. I hope that the private and public sectors will work together to find ways to reverse this trend.

Carolyn Wilkins, member of the Coalition for a Better Future advisory council, former senior deputy governor, Bank of Canada

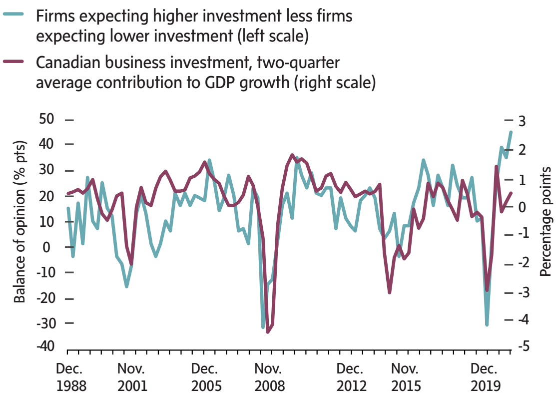
SPENDERS GONNA SPEND

The Bank of Canada recently revised down its outlook for potential growth, taking a more pessimistic view of the Canadian economy's "speed limit" – as well as capital expenditures in 2022. This despite businesses telling the central bank their investment intentions have never been stronger.

We believe this cycle will be different – and better – than the economic expansion that preceded it, with a longer runway for above-trend growth. Capital spending, in Canada and other advanced economies, is poised to play a key role in the strong handoff from public-sector-supported to private-sector-led activity that we expect in 2022. Our view is that the broad-based inflation experienced globally is in part a function of economies that are maximizing their productive capacity. As such, businesses have an incentive to boost supply against a backdrop of firm demand. Mounting evidence of this better private-sector-growth environment should prove particularly beneficial to cyclically oriented regions and sectors across risk assets, while leading to higher bond yields as well.

Luke Kawa, director/asset allocation strategist, UBS Asset Management Investment Solutions (@LJKawa)

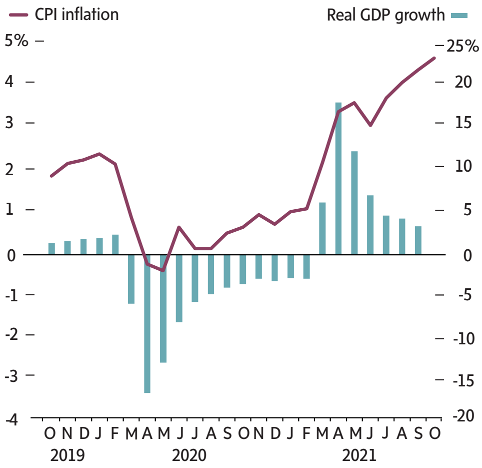
Boost coming from business spending



THE GLOBE AND MAIL, SOURCE: LUKE KAWA

ECONOMY

Real GDP by industry and CPI, annual growth



THE GLOBE AND MAIL, SOURCE: STATISTICS CANADA, ATB ECONOMICS

STAGFLATION, THE SEQUEL?

The pandemic has, among many other things, created an array of disruptions in the business sector. These same disruptions are complicating the economic recovery. A case in point: both inflation and real GDP were pushed down by the pandemic, but these two key factors now seem to be on divergent paths.

Prices have been soaring with the inflation rate above 4 per cent every month since August. Economic growth, however, has been less ostentatious of late. After a big jump in April, largely driven by weaker activity during the same period in 2020, real GDP growth has slowed consistently and stood at 3.4 per cent in September.

While supply-chain issues spurred higher costs across the economy, overall activity in Canada remained below its pre-pandemic level in September. Given this, are we heading toward the early-1980s era of stagnant economic growth combined with hyperinflation known as stagflation?

Going forward, it will be important to watch how soon inflation moderates versus how soon Canada's GDP picks up steam.

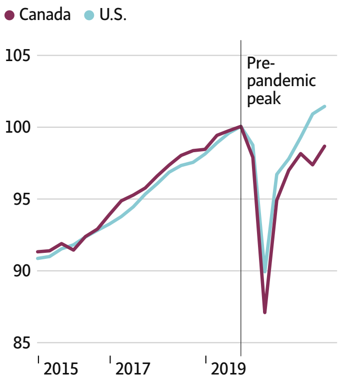
Siddhartha Bhattacharya, economist, ATB Financial

CANADA'S YEAR FOR CATCH-UP GROWTH

This deceptively simple comparison between the indexed level of real GDP in Canada and the U.S. packs a lot of information and carries an important message for the coming year. First, it's a reminder of how deep the 2020 downturn was, and the force of the 2021 recovery. Second, Canada fell further and has taken longer to recover – by the end of the third quarter of 2021, Canada was still 1.4 per cent below the prepandemic high. Growth in 2021 was held back by renewed restrictions, the heavy hit to auto production from the chip shortage, and the intense drought in Western Canada. Third, all three of those deep drags on growth are expected to moderate in 2022, setting the stage for another year of solid recovery in 2022. The important message from the chart is that Canada has much more ground to make up in the coming year(s) and is thus expected to see more robust growth than the U.S. in 2022 and 2023.

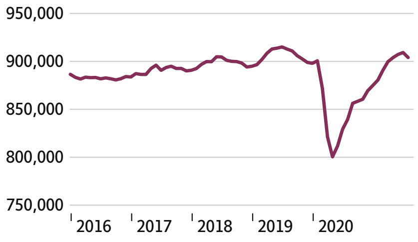
Douglas Porter, chief economist, BMO Financial Group

Real gross domestic product in Canada and the U.S.
Index of real GDP, 100 = 2019 Q4



THE GLOBE AND MAIL, SOURCE: BUREAU OF ECONOMIC ANALYSIS, STATISTICS CANADA, BMO FINANCIAL GROUP

Active businesses
Number of operating businesses in Canada



THE GLOBE AND MAIL, SOURCE: EXPERIMENTAL ESTIMATES FOR BUSINESS OPENINGS AND CLOSURES, STATISTICS CANADA

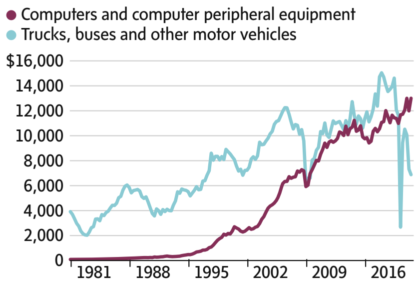
CHURN, BABY, CHURN

My favourite metric of structural health in the Canadian economy is the number of operating businesses. This number had finally begun to trend gently upward from 2017 to 2019, which was very encouraging. Beneath the surface, few people realize that around 40,000 businesses disappear in Canada every month, and about 40,000 others are born. That sort of churn is a sign of dynamism.

Assuming exits are dominated by low-productivity firms and births are dominated by firms with new potential, churn is generally associated with rising productivity. We of course lost a lot of companies during the early months of COVID, but what I find striking is how quickly the population of companies began to recover. Imagine people deciding to start a new business in the middle of such economic turmoil! We are now close to previous peaks, and the question is, what comes next? Will uncertainty hold entrepreneurs back, or will the Fourth Industrial Revolution foster a wave of new, high-potential companies?

Stephen Poloz, special adviser, Osler, Hoskin & Harcourt, former governor, Bank of Canada

The changing tides of machinery and equipment investments
Millions of chained 2012 dollars



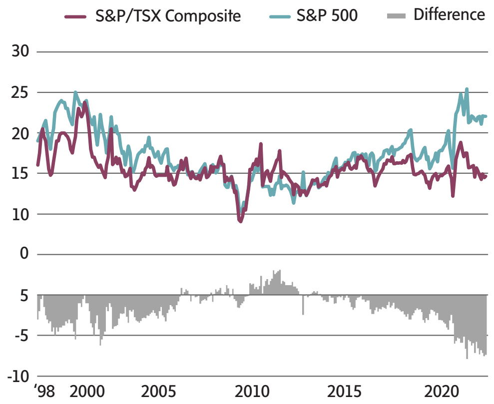
INVESTMENT SPENDING RUNS OUT OF GAS

The pandemic swiftly disrupted how businesses operate. They adjusted quickly by increasing their investments in technology as employees were required to work from home. Even though there are fewer pandemic restrictions, pandemic investment spending hasn't reversed course. The Bank of Canada Business Outlook Survey notes that firms continue to focus on tech spending, which hit a record high in the third quarter of 2021. Additionally, the downturn in truck, bus and other motor-vehicle investment spending began before the onset of the semiconductor shortage. While most attention is focused on consumer purchases of motor vehicles, it also contributed to depressed spending levels on business transportation over the past year. This headwind is another link in the supply chain, and delivery blockages will persist in 2022.

Arlene Kish, director, IHS Markit Canada Economics

MARKETS

S&P/TSX Composite Index vs. S&P 500
Forward P/E ratio



THE GLOBE AND MAIL, SOURCE: REFINITIV; GLOBEINVEST CAPITAL MANAGEMENT

DON'T MIND THE GAP

Never has the gap between the S&P/TSX Composite Index and the S&P 500 Index been wider – at least according to their price-to-earnings (P/E) ratios. As this chart shows, the difference between the two indexes' forward-looking P/E ratios recently exceeded the previous high set during the dot-com bubble. But this doesn't necessarily mean U.S. equities are expensive while Canadian equities are cheap. Comparing the two indices is a bit like comparing apples to oranges. The top eight companies in the S&P 500 are all high-growth tech companies and represent 27 per cent of the index. Among the top companies in the S&P/TSX Composite, only one is a high-growth tech company, and it represents just 7 per cent of the index. Furthermore, the abundance of oil and gas and mining companies in Canada make the S&P/TSX Composite less attractive to ESG investors focused on the environment. This P/E gap, and whether it reverts to the mean, will be a key metric to watch for Canadian investors when monitoring their international diversification in 2022.

Alexander MacDonald, portfolio manager, GlobeInvest Capital Management