



## **Disrupting the bear, a podcast by Deloitte**

Episode 1- transcript

### **Episode 1: So what's with this slowdown**

0:07 (Bryan Borzykowski- BB)

It's hard to go a day without hearing something about trade wars and economic slowdowns. The U.S. and China have slapped tariffs on each other, England's still trying to figure Brexit out; it seems political uncertainty is the new normal. Not surprisingly, businesses are worried. It's only natural for Canadian companies to want to hold back. But as many entrepreneurs and executives know, uncertainty breeds opportunity.

Welcome to Disrupting the Bear, a five-part podcast on why companies must continue to grow, expand and thrive in any economic environment, even during a downturn. I'm Bryan Borzykowski. Over the next five episodes, we'll talk to business leaders, executives and owners about why it's important to keep moving forward, how to seize new opportunities, and how best to run a business in tougher times. Our first episode looks at what's really going on in the global and Canadian economies. Anthony Viel, Canada's Chief Executive Officer, Craig Alexander, Deloitte Canada's Chief Economist, and Pierre Pettigrew, Executive Advisor International, are here to help us put things into perspective. Thanks for being here.

1:17 (Craig Alexander- CA)  
Thank you.

1:18 (Anthony Viel- AV)  
It's a pleasure.

1:19 (The Honourable Pierre Pettigrew- PP)  
Nice to be here.

1:20 (BB)  
So let's start by talking about the global economy. What is really going on right now, Craig?

1:25 (CA)  
Well the dominant story is the global economy is slowing down. The pace of global growth has been moderating for a little over a year. And some of the moderation was natural. We had been seeing economic growth at very strong rates that was eating up the slack in a lot of economies, so this led to a 50-year low in unemployment rate in the United States, a 40-year low in unemployment rate here in Canada, unemployment rates in Europe were dropping, and central banks were starting to think about raising interest rates. In fact, the Fed did tighten as did the Bank of Canada. This was leading to more moderate, but still healthy growth, but then something very negative took place, and that was the rise of protectionism and the application of tariffs on many products. And so, what we've seen is the impact of protectionism adding to the weakness in the global economy. And as a consequence, global manufacturing is now contracting, and so this is leading to concerns about the slowdown in the global economy. We're not seeing signs of a recession, but there is anxiety about where we are in the business cycle.

2:27 (BB)  
Pierre, can you tell us a bit about how the trade war factors into this, how we got here on that?

2:33 (PP)  
Well the rise of protectionism is really part of the picture, as Craig just described it. And the reason we're having a trade war at this time is that after years of integrating China and international global systems, we have seen the rise of two nationalisms. A very nationalist protectionist President of the United States, which is unique in our era, but also – and we don't often talk about that – but a very nationalistic president of China. President Xi reneged on economic reforms that his predecessors had started, so we were bound to have a clash. The United States have to decide how they want to confront China at this time. And in that very polarized country, both the Democrats and the Republicans agree on the need to confront China. So this is something that I believe we will have to live with for some time to come. I don't see a pro-trade majority emerging in the United States for quite a while.

3:36 (BB)

AV, how does this affect companies? We're in Canada here, Canadian companies are watching this from afar; what do executives and business owners need to know about this here?

3:47 (AV)

When I look at the current situation, what's playing out in the global and local stages here, I think of canoes in wild water. And when canoes enter into or go into turbulent waters, they don't come out in the same order. I think it's a great metaphor for the disruption and the economic down cycle that we could be experiencing now. No two organizations are equal and some always, always feel better than others when we go into these particular situations. From my perspective, business executives and owners need to keep in mind that downturns or down cycles are very much a normal part of the business process. But there's also significant opportunities there for the bold and courageous that want to go after them. A Harvard Business Review study revealed recently that 14% of organizations actually grew profits and revenues in the last downturn. And then you think of the likes of a technology company like Apple, how they prospered through 2001, 2003 and 2004, in that particular down cycle; introducing new products provided the catalyst for that. So that's the way that business executives and owners should be thinking about these uncertain times.

4:59 (BB)

I think I bought my iPhone in 2008, so it did well then too. How does the Canadian economy relate to what's going on? Do we get pulled into this? I mean, we've had some good economic growth lately, so where do we fit in as an economy here?

5:15 (CA)

So I think the Canadian economy has slowed, but the economic data that we've been getting has been highly volatile. So we had a very weak end to last year, and a weak start to this year, then the second quarter was much better. But Canada isn't going to be immune to what's happening outside of our borders. Canada's a small, open economy. We are a very trading nation. We're very much tied to what happens outside of our borders through the impact of commodity prices that are set in world markets, not local markets. And we export a lot into the global economy, so we're affected by changes in global demand. So I think that the outlook as it stands today is for continued growth, but at a more modest rate. We might actually have growth a little below the economy's long-term sustainable rate of 1.7%, so it's going to be – we're looking at a modest growth environment, so companies need to think about how they'll fare in that environment, but there's also a lot of uncertainty, and I think the big challenge is the large negative risks that are out there are all very political in nature, and that actually makes it very hard to predict or forecast how they're going to unfold. And so I think now is a very good time for businesses to think about scenario-planning. Think about your base case, come up with your plan for how you're going to build your business for the next five years, but also think about, if things don't turn out the way we hope or conditions are worse, what actions you will take. It's a lot easier to think about strategy when you are in a better economic climate than when you're under a lot of

stress because times are tough. So I think it's more about being prepared for alternative scenarios.

6:55 (BB)

This question is for all of you, but I wonder – I think when people, business owners, do read the news and they hear all of what's going on in the U.S. and trade wars, I think it's natural for them to get down on themselves, to get nervous. How worried should Canadian businesses really be here?

7:14 (AV)

I think that we should keep in mind that what is guaranteed is that the organization's preparedness for whatever is around the corner, to be able to be prepared, to take advantage of the situation that presents itself. Craig talked a lot about that dynamic planning, if you will, or that scenario-planning, and some of the work we've done – we polled after the last recession what CEOs and boards did at the companies that prospered in that environment – and those two factors correlated to better performance. Scenario-planning or that preparedness of what to do, what levers to pull depending on the situation that comes. But the second element that I want to touch on is bringing in broader perspectives, the types of perspectives that were talked about, whether it's international perspectives but also cross-sector perspectives to be able to prepare for and leverage that insight, if you will, for the situation as it presents itself.

8:13 (PP)

I think it's important that Canadian business does realize that in this more challenging environment, we are uniquely positioned as a country for our access to foreign markets and global markets. In the last few years, we have negotiated a Canada-European Union trade agreement which, even if protectionism is on the rise, we in Canada are very lucky to have secure access to a lot of markets around the world with clear rules of access to the European markets. So that's pretty good. We negotiated the CPTPP with eleven Asian-Pacific nations that also secures access to very important markets. And of course, we've had the negotiating for the new NAFTA, the Canada-U.S.-Mexico agreement. Now, that's not been ratified so far and we will see whether Mrs. Pelosi gives Trump a win over that – it's a political question in the United States – but we have to realize that we have secured our access to the American market through that USMCA. And if it is not ratified, we fall back on the previous NAFTA. And given our success with the USMCA, it's quite good that President Trump is no longer threatening ripping NAFTA apart. So Canada's the only G7 country that has a preferred trade agreement with every other G7 country.

9:40 (BB)

I do find that gets lost in all the trade war discussions. We actually have made trade agreements. So how do Canadian companies take advantage of that?

9:50 (AV)

I think it's a significant advantage. When we think about that market lens. How do you expand your market? And with these agreements already in place, that's going to put us at a significant advantage as a country to be able to do that. How do we take our existing products and services to a new market? We've got to be better positioned than everybody else. In addition to what I said earlier when I mentioned Apple, how we introduce new products and services that are more applicable to the landscape – tomorrow's landscape, if you will – is a second part of that market opportunity.

10:32 (CA)

There's lots of scary headlines, but I think the micro-message to clients is, "Don't let the risks paralyze you." You still have to grow and still have to manage your business. You still have to make those core investments and core hiring, and retain your talent and develop your people for long-term success. And so the headlines can be very scary, but you can't lose track of the fact that even if we were to have a downturn, which isn't guaranteed, but if we did have a downturn, the business cycle is usually a contraction of somewhere between two to six quarters. A mild recession is about two quarters; a moderate one is around four; a severe one is around six. We've had ten business cycles since the end of the Second World War, and I can think of lots of companies that have experienced every single one of those cycles and come out the other side and prospered. So really, when we think about these scary headlines and the potential risks, keep in mind that it's a valley that you basically have to navigate your company over. And the other thing is that one of things that we're seeing in Canada, which I find discouraging, is we're not seeing businesses investing significantly in machinery equipment. It's one of the sources of weakness in our economic statistics. And this is discouraging because if anything, we are in an environment where we need businesses actually making more investments in capital, using more capital per worker, taking advantage of new technologies. That's actually how you drive competitiveness and how you boost productivity. And so, I think that one of the things I'm worried about is that the negativity out there is actually leading to a business response in terms of reluctance to invest.

12:13 (BB)

This is called the Disrupting the Bear Podcast. How do companies not just continue to grow, but really make a difference in the world today when all of this is going on? How do they disrupt the bear?

12:31 (AV)

I mentioned earlier pivoting to new markets, new products and services, access to new markets. But the other exciting thing that I see to disrupt the bear is what strategic investments you can make in an organization. We talk a lot about digital transformation, the impact of artificial intelligence and automation; this is a great time to be doing that, to do that tech transformation, that technology transformation, as we refer to it. Also, it's an opportunity to invest in places that you'd otherwise not invest in, whether it be technology companies in their own right, or other organizations, acquisitions and mergers and the like, because it's quite often a situation in uncertain times where you find that diamond in a rough or a bargain out

there to be able to do that, whether it's to support expansion into markets or whether it's new products or services or capability. That's an exciting part of what's coming up, particularly if you're courageous as an organization to go after it.

13:29 (BB)

Well I hope all the Canadian businesses and executives and owners are listening to this and push forward as things might turn. We'll see how it goes. Thank you all for being here.

13:39 (AV)

It's a real pleasure.

13:40 (CA)

It's a pleasure.

13:41 (PP)

Indeed, thank you.

13:45 (BB)

Keep listening to find out how you can disrupt the bear too.

For more information visit myDeloitte or email us at [dtb@deloitte.ca](mailto:dtb@deloitte.ca)

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