

NORTHERN EXPOSURE

HOW CANADA RECESSION

If 2016 has taught us anything, it's that history repeats itself. Britain voted to leave the European Union, mirroring the United States' declaration of independence centuries prior. Racial tensions rose throughout America as police brutality was broadcast a la the Rodney King beating in 1992. The Great Recession returned, leading to enormous downsizing, full-timers taking part-time jobs and people having to leave the promotional products industry altogether.

The only difference from 2009 is that this recession isn't global – it's centered in Canada.

Growth at a Glacial Pace

Last year, Canada's economy grew by 1.2%, its slowest pace since 2009 and down from 2.5% in 2014, Statistics Canada reported. The oil market crash and a catastrophic wildfire have caused a devastating one-two punch for the country's economy over the past 18 months.

The weakened mining sector has forced the economies of Saskatchewan, Newfoundland and Labrador to become stagnant. New Brunswick's economy has shrunk due to poor growth in the manufacturing, construction and services sectors.

Formerly the economic powerhouse of Canada, the province of Alberta has suffered the most damage. The coun-

try's largest oil producer saw its economy shrink by 4% as a barrel of oil dropped from \$107 in June of 2014 to \$42 in March of 2015. Oil and gas producers cancelled several major oil sands projects, slashing budgets and laying off thousands of workers. The Bank of Canada reported that investment in the energy sector this year plummeted 60% below 2014 levels.

Understandably, promo companies targeting the oil industry have also suffered. "Business shut down overnight," says Colin Hansen, former Finance Minister of British Columbia who co-founded Canadian distributor Image Group Inc. with his wife Laura and currently serves as president of nonprofit AdvantageBC. "It's probably the least diversified province in terms of economy. Alberta does have a strong agriculture sector, but it's nowhere near the scale that oil and gas is."

In May, Alberta received another blow as a massive wildfire rippled through Fort McMurray, resulting in a record-setting mandatory evacuation of more than 80,000 people. Officials reported that the blaze destroyed more than 2,400 homes and office buildings, and is expected to be Canada's most expensive natural disaster in history. Several business owners in the promotional products industry, including Todd Pruden of Dreamline Promotions (asi/183394), endured major setbacks – losing his home and having to lay off his employees.



IS **FACING** ITS

Industry experts and business owners reveal how an economic downward spiral has affected the Canadian promotional products market, and what impact it could have on U.S. companies.

By John Corrigan





“Business from the oil industry in Canada shut down overnight.”

COLIN HANSEN, FORMER FINANCE MINISTER OF BRITISH COLUMBIA/CO-FOUNDER OF CANADIAN DISTRIBUTOR IMAGE GROUP INC.

“In the heyday of oil production and energy-related spending, Albertans helped carry our bottom line,” says Stan Gallen, owner of Ontario-based Debco Solutions. “Their promotional dollars helped fund our inventory, our research and development, as well as our staff.”

The Scion Takes Control

Elected in October of 2015, Prime Minister Justin Trudeau led the Liberal Party revolution. A political rock star, Trudeau is the heir to Canadian royalty—his father, Pierre Trudeau, served as Prime Minister from 1968 to 1979, and again from 1980 to 1984. Trudeau’s youth, striking features and massive popularity with millennials catapulted the candidate to office, moving the third-placed Liberals from 36 seats to 184 seats, signifying the largest increase by a party in a Canadian election. During his campaign, Trudeau vowed to lower taxes for middle-income Canadians and maintain a deficit cap of \$10 billion (Canadian) per year.

However, the oil market collapse changed his plans. Trudeau announced in March that the government’s first budget will run a deficit of more than C\$29 billion, compared to last year’s C\$5.4 billion. In order to pump blood back into the economy, the government will spend C\$11.9 billion on infrastructure, allocating funds for public transit, affordable housing and childcare facilities. About C\$2 billion has been pledged to provinces and territories for reducing greenhouse gas emissions, and Trudeau has pledged another C\$2 billion for other clean-energy measures. The small-business tax

rate of 10.5% has been frozen, nixing previous plans to reduce it to 9%.

To finance this spending, Canada will issue C\$133 billion in bonds in 2016, 30% above the previous record set in 2009 after the global recession.

“This is not a positive thing for the economy,” says Brian Starke, co-owner of Canadian supplier Bravo Awards. “Government spending only adds to a bloated bureaucracy.” Starke predicts that Trudeau will overspend by C\$110 billion before he leaves office. “But at least he takes great selfies,” Starke says wryly.

Booming Sectors

Bravo Awards has been holding steady during the recession, Starke says, because the company has cultivated a solid base for custom awards and national recognition programs. “About 10 years ago, business in the U.S. made up 100% of our revenue,” Starke says. “But now we’ve grown Canadian business to account for about 40% of revenue.” Large corporations in Canada have invested in the programs, realizing that their employees and customers respond positively to the incentives. “We know we don’t represent business across the board right now,” Starke says, “so we’re incredibly lucky.”

Bravo is based in Ontario, which along with Manitoba, British Columbia and Prince Edward Island, will have a GDP growth rate of more than 2% this year, according to the Conference Board of Canada.

“Ontario has a strong manufacturing base that went from lean years after the

global recession to now building back up,” Hansen says. Ontario’s GDP rise is attributed to export growth in the automotive sector as well as the rising housing market in Toronto, its capital city.

“In Ontario, the economy has been decent,” says Alex Morin, executive vice president of sales and marketing at Debco. “It’s not skyrocketing nor is it listless.”

Debco specializes in promotional tote bags and desk accessories, and in recent years, has been adding to its inventory of tech items. That’s a smart move, says Hansen, because technology is one of the sectors driving the economically stable provinces during the recession.

Other sectors include agriculture, which will help Manitoba’s GDP grow by 2.1% in 2016 and 2.6% in 2017, and housing, which will boost Prince Edward Island’s GDP by 2.3% in 2016, the Conference Board reported. British Columbia’s GDP is expected to climb 6% over the next two years due to growth in forestry, construction, transportation and real estate.

Perhaps the most profitable industry has been one that intersects several provinces: tourism. The Atlantic Canada Tourism Partnership, a coalition of agencies responsible for attracting visitors to New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island, generated \$164.4 million in tourism revenue between 2012 and 2015. “As the Canadian dollar slipped over the last number of years, it’s now running at about 76 cents to the U.S. dollar, making Canadian tourism destinations very attractive,” Hansen says.

British Columbia’s recent success indicates hope for Alberta, Hansen says. In the early 1990s, the forestry industry collapsed and promotional product companies were forced into bankruptcy. These days, the economy is so diversified that companies can survive if one sector crumbles. “Having learned from the last recession, many distributors aren’t singing the blues,” Morin says.

As a result of the oil market crash, distributors are shifting their focus to growing market segments, resulting in new business for suppliers like Debco.



“In the promotional marketing industry, business is only slow if you allow it to be slow.”

JAMIE MCCABE, MCCABE PROMOTIONAL ADVERTISING INC.

“They’re teaching their end-buyers that the well-planned purchasing of intelligent promotional products is a sure-fire way to position your company as leaders when the economy does rebound,” Morin says. “It’s also a wonderful means of keeping employee morale high during these challenging times.”

Expanding Business

McCabe Promotional Advertising Inc. (asi/264901), another Ontario-based business, is also thriving despite the recession: In 2016, the company grew 30% ahead of year-over-year revenue, says President Jamie McCabe.

The majority of the growth is due in large part to McCabe acquiring ad spe-

cialty agency Promomedia Group Inc. in May of 2015. Prior to the acquisition, McCabe had Canadian offices in London, Clinton and Toronto, as well as representation from Windsor to Timmins. The deal then extended McCabe’s reach into both the National Capital Region and Quebec markets.

“In the promotional marketing industry, business is only slow if you allow it to be slow,” McCabe said. “While still working to maintain and rebuild those losses within our existing client base, we’ve focused on adding more accounts to offset the deficit that the economy has presented to us.”

It may be easier than ever before to add international accounts with the creation of The Comprehensive Economic and Trade Agreement (CETA), a free trade agreement between Canada and the European Union, and the Trans-Pacific Partnership (TPP), a similar agreement between Canada and 11 other Pacific Rim countries, including the United States. Market access has been boosted for Canadian producers with long-standing trade issues finally being addressed.

“CETA may pose a threat to our industry, which is predominantly flooded by non-domestically produced goods,” says Kathy Cheng, founder and president of Redwood Classics Apparel (asi/81627) and winner of this year’s Counselor Supplier Woman of Distinction award. “In our case, however, these trade agreements should prove positive as they may open up new markets that value authentic, quality-made products like those created in our factory.”

With the rising mandate for reshoring throughout North America, Canadian manufacturers have seen an increase in demand from U.S.-based retailers. Cheng says that promotional product distribution into the U.S. is a natural progression.

“Globalization is not a threat, but an opportunity,” Cheng says. “Canada has a strong reputation for producing great-quality knits for the global fashion marketplace. So with our fair and competitive pricing, low minimums, great flexibility and the weakening dollar, we are much more globally competitive than one may think. For Redwood Classics, the world is flat.”

The Election Effect

As Alberta struggles to rebuild, economists predict a slow recovery for the whole country. Financial services firm Commerzbank reported that the Canadian economy will grow by 1.5% in 2016; Alberta’s economy won’t show signs of improvement until 2017. Once the Fort McMurray construction finishes, Hansen says the future of the province will depend solely on the price of oil. “If we see the price of oil back up to the \$60 or \$70 range, people will once again be celebrating,” he points out.

Long-term growth may be challenged due to low productivity, a more conservatory banking environment and the lack of a highly skilled workforce. The biggest factor in Canada’s future, Hansen adds, is completely out of the country’s control: the U.S. presidential election.

“Both of the leading candidates seem to be against the idea of free trade,” Hansen says, “which would be disadvantageous for both the United States as well as Canada.”

While Republican nominee Donald Trump has consistently targeted globalization and free trade as domestic job-killers, Democratic nominee Hillary Clinton has zig-zagged on various trade deals during her political tenure. Clinton supported the North American Free Trade Agreement (NAFTA) in the 1990s and early 2000s, but voted against the Dominican Republic-Central America Free Trade Agreement and Trade Act of 2002, which expanded duty-free exports from Ecuador, Colombia, Peru and Bolivia.

Hansen says NAFTA has been extremely beneficial for not just promo product companies, but all businesses in Canada. If either Trump or Clinton decides to limit free trade, Canada’s recession could extend to disastrous effects.

“Canadian companies are keeping a close eye on what happens in November,” Hansen says, “more so for themselves than their American customers.” ☎

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