Economic, Financial & Commodity Markets Outlook

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Roadmap

Global Economic Backdrop:

Shifting structural trends

Financial & Commodity Market Snapshot:

Monetary normalization, supply rebalancing

North American Industrial Outlook:

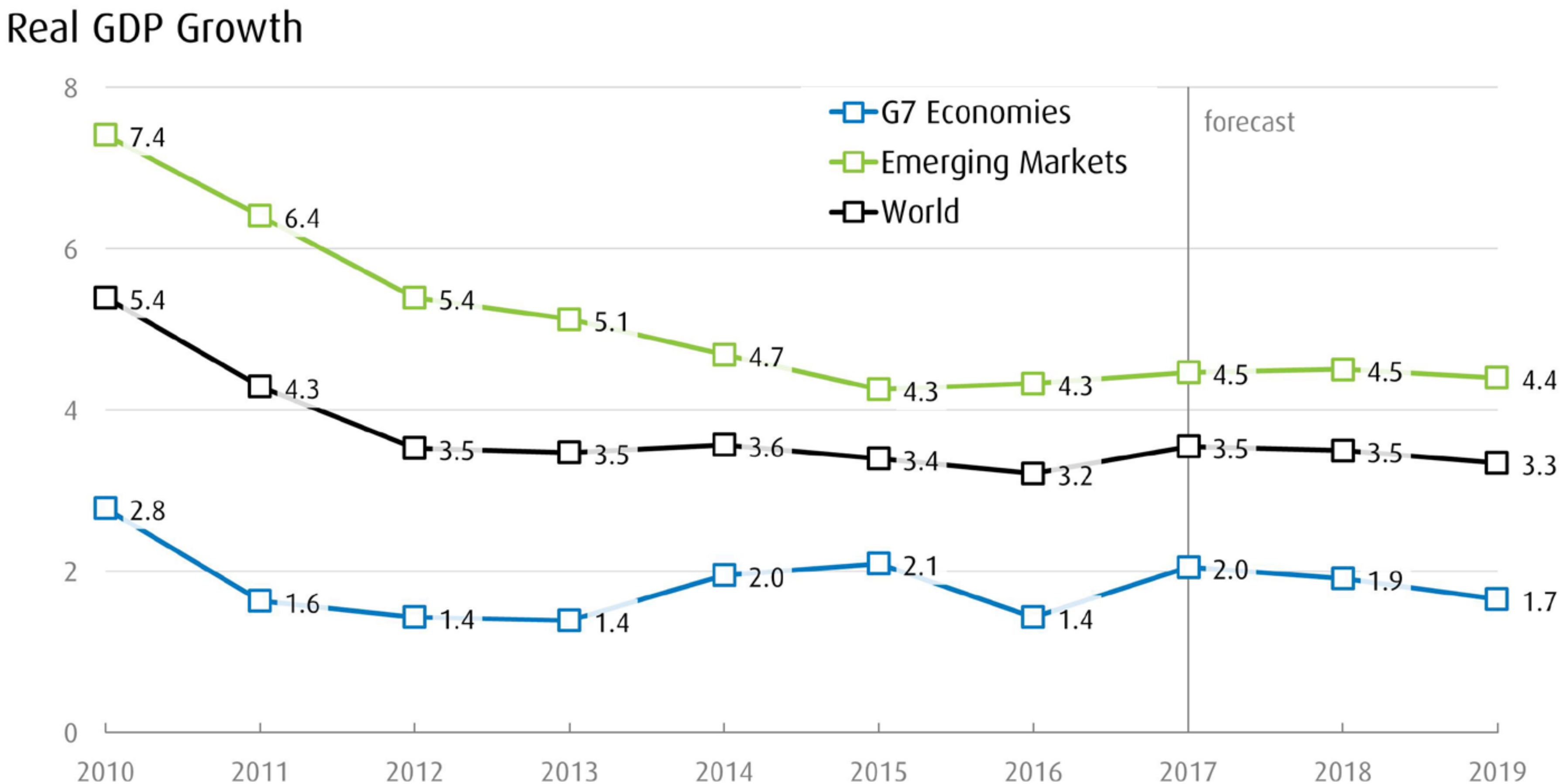
Autos, construction, oil & gas, fabricated metals

Key Forecast Risks:

What could go wrong (or right)?

Global Economy Perks Up in 2017, Lower Growth Ahead

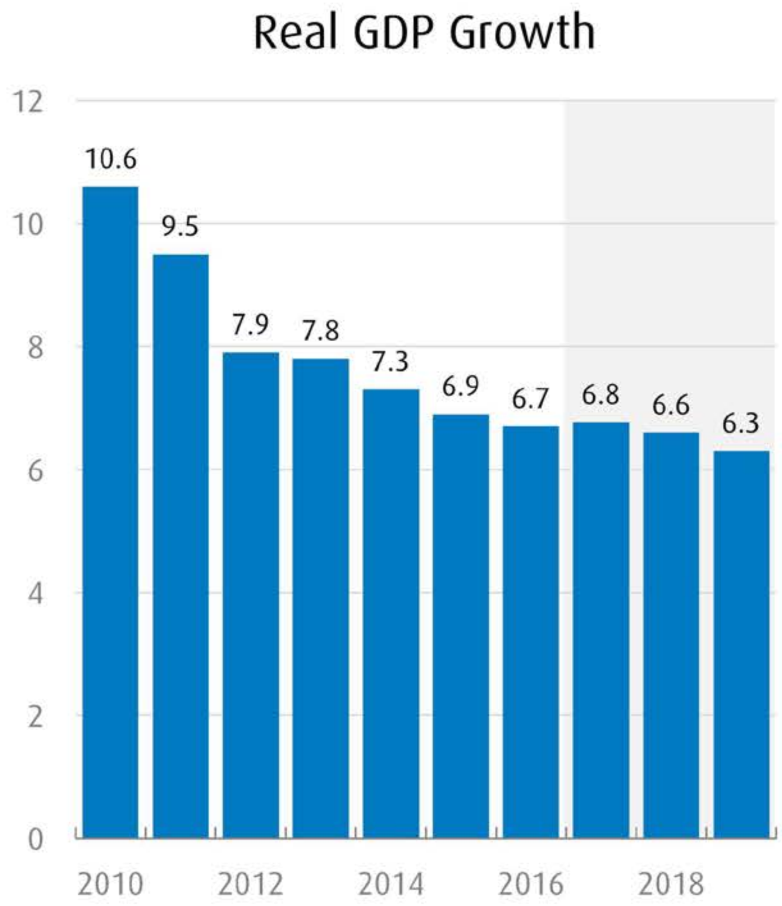
(percent)

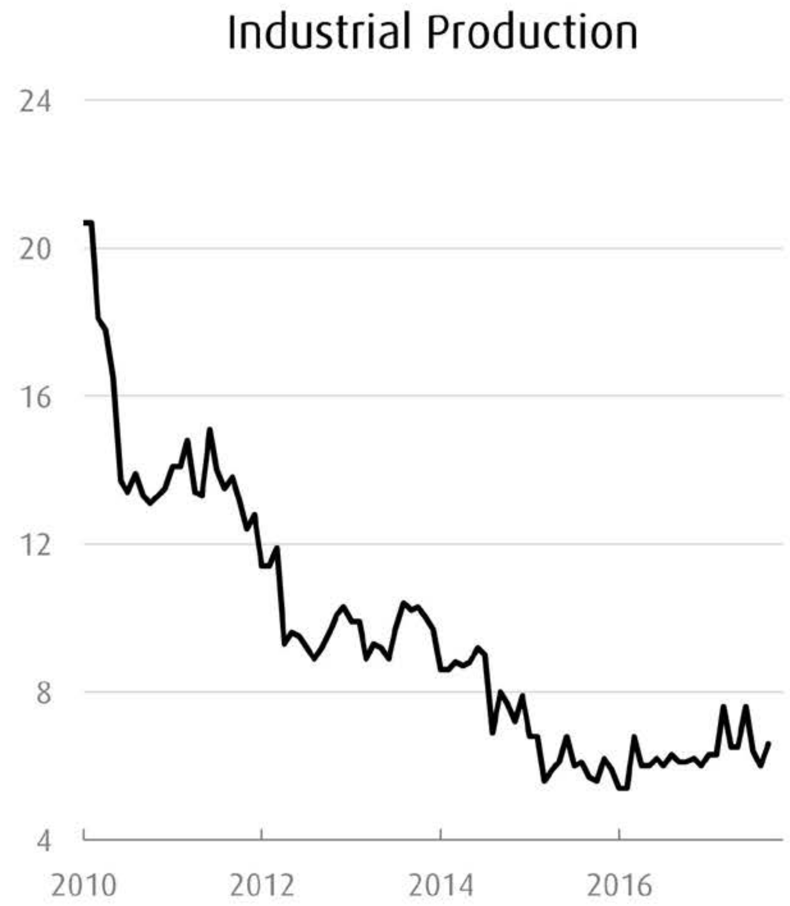


Source: IMF World Economic Outlook, BMO Economics

China's Economic Transition Proceeding Smoothly

China (percent change : year over year)





Source: China National Bureau of Statistics, BMO Economics

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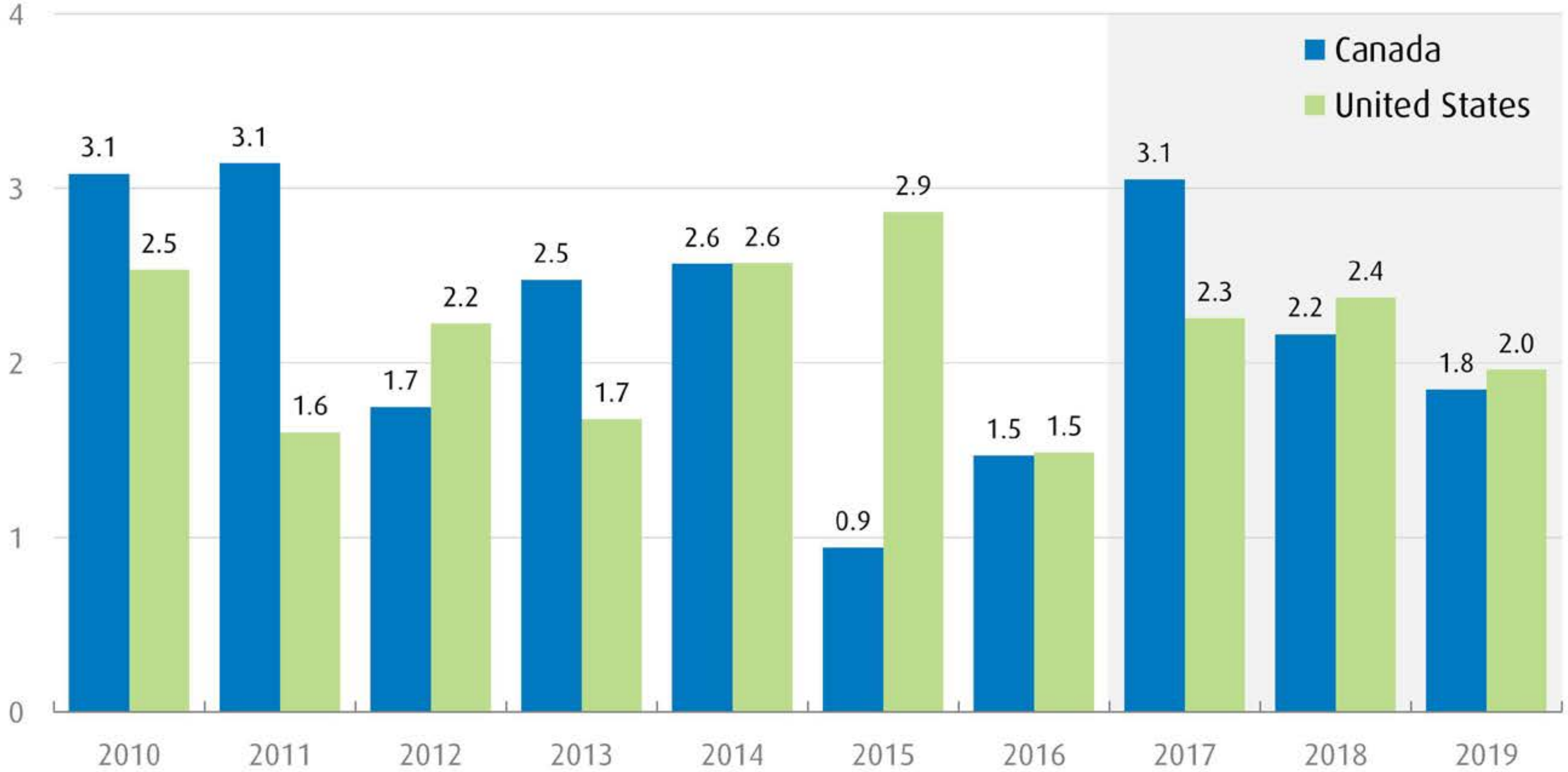
After Outperforming in 2017, Canadian GDP Growth Set to Moderate Toward Trend Rate of 1.5%…

(percent)

Real GDP Growth



Sources: Statistics Canada, U.S. Bureau of Economic Analysis, BMO Economics

...But a Negative NAFTA Outcome Could Derail the Economy

Canadian Exports to U.S. in 2016 (level in C$ billions ; U.S. share of total)		
Motor Vehicles & Parts	$78.8	95%
Crude & Refined Oil, Gas	$72.3	97%
Aerospace Product & Parts	$9.1	58%
Fabricated Metal Products	$8.2	82%
Lumber	$7.7	74%
Gold	$4.2	25%
Overall Exports	**$394.5**	**76%**

Easy Adjustments

SME chapter

E-commerce / digital trade

Labour, environmental standards

Possible Concessions

U.S. content requirements (autos)

Government procurement

Deal Breakers

Chapter 19 dispute settlement

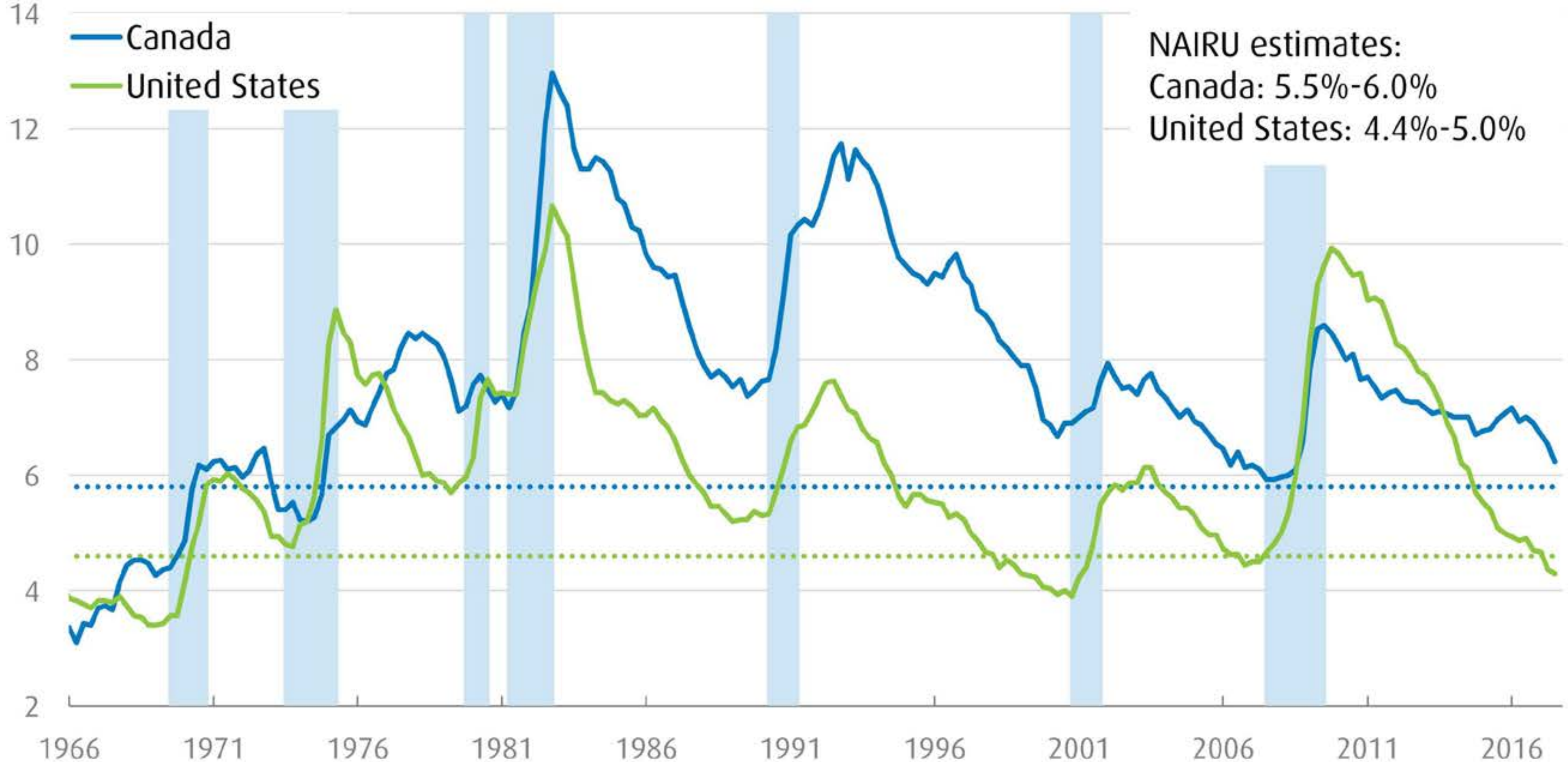
5-year "sunset" clause

Source: U.S. Census Bureau, Haver Analytics

Current Expansionary Phase Getting Long in the Tooth?

(percent of labour force)

Unemployment Rate

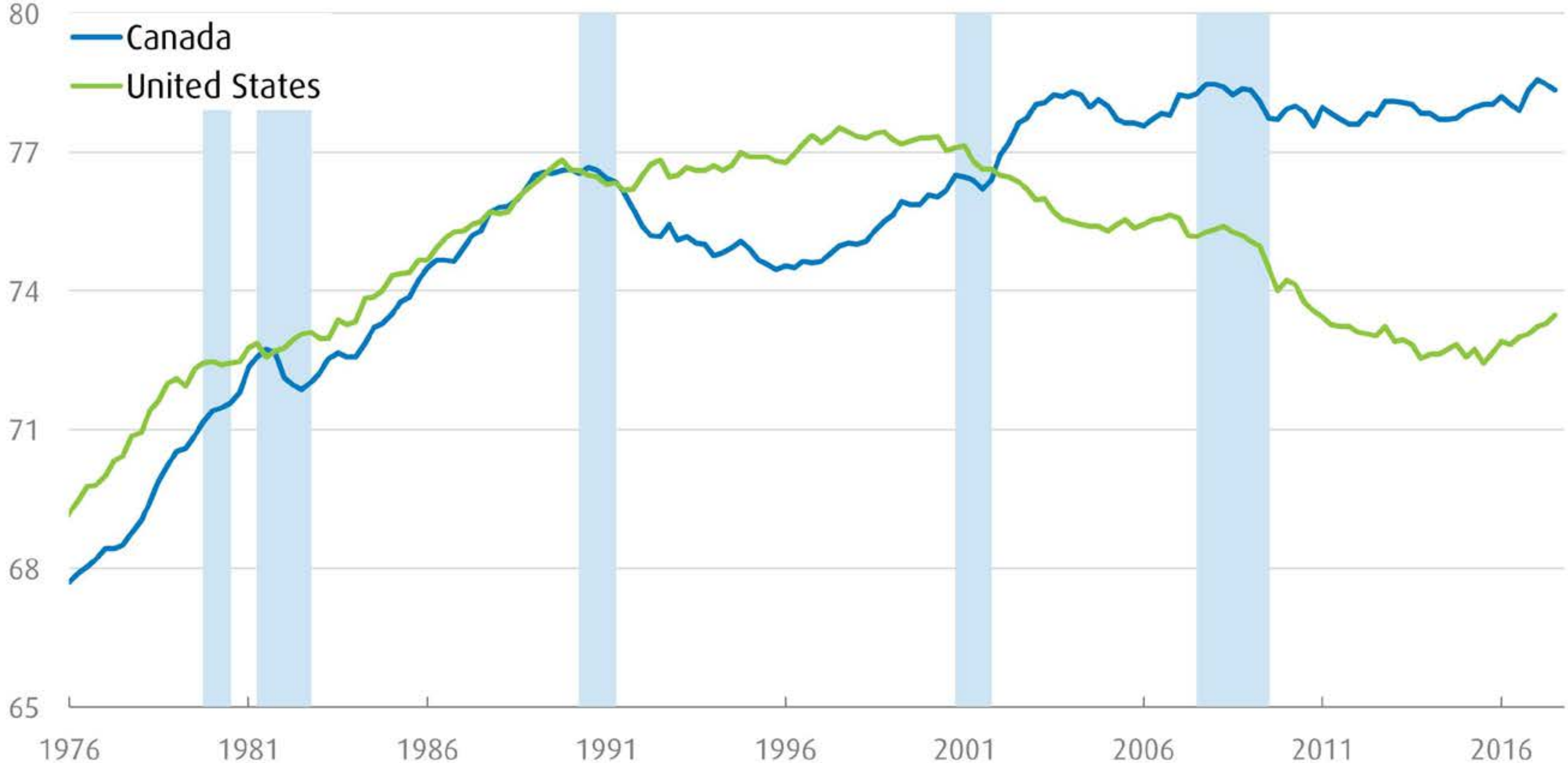


Source: Statistics Canada, U.S. Bureau of Labor Statistics, FOMC, BMO Economics

Still Some Slack Left in U.S. Labour Market

(percent of population)

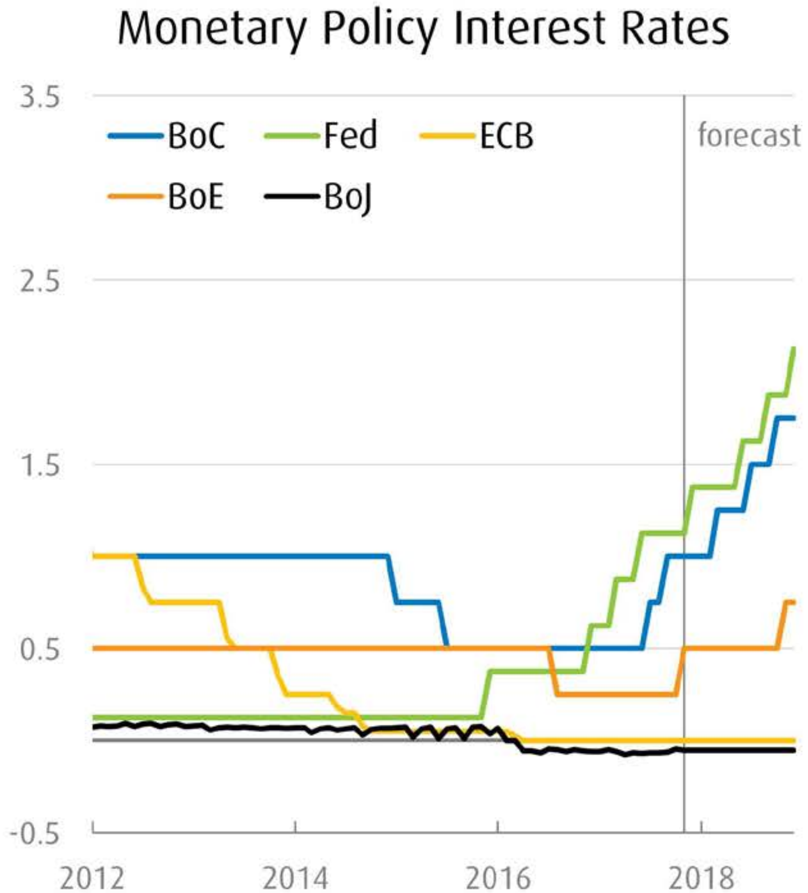
Labour Force Participation Rate

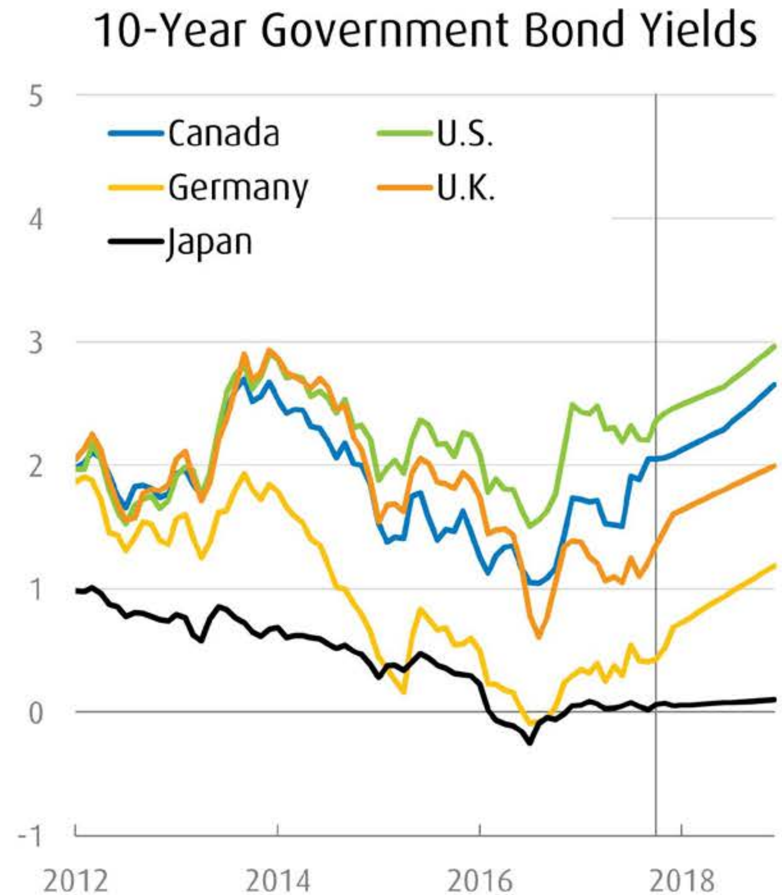


Source: Statistics Canada, U.S. Bureau of Labor Statistics, BMO Economics

Financial Markets: Taking Cues from the Fed

(percent)





Source: Haver Analytics, BMO Economics
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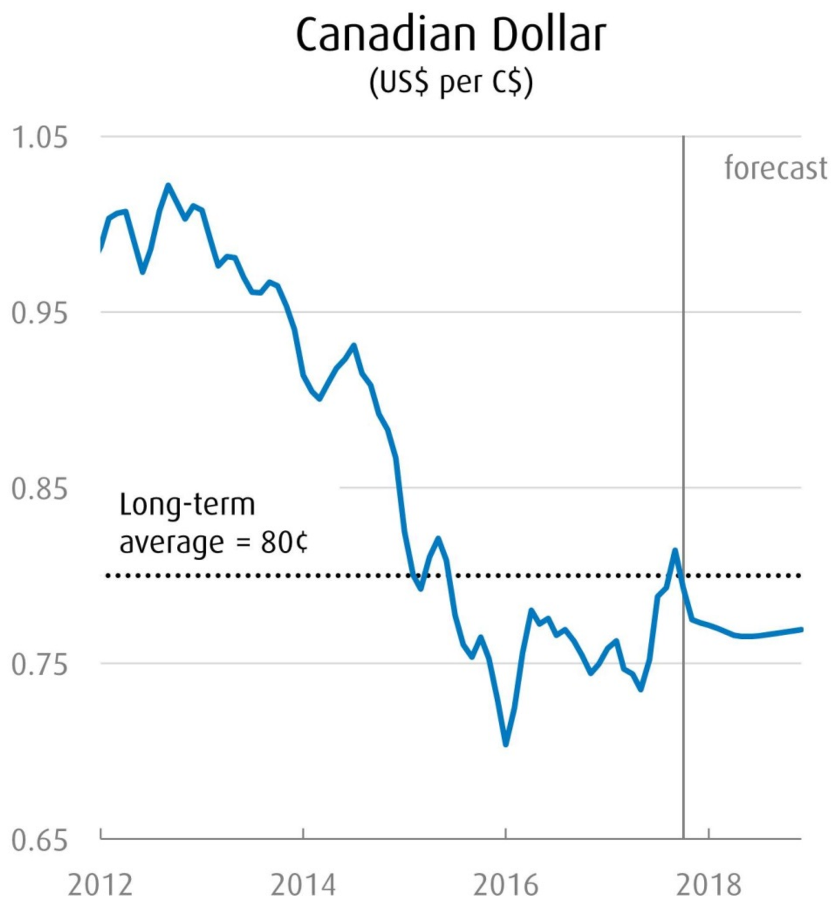
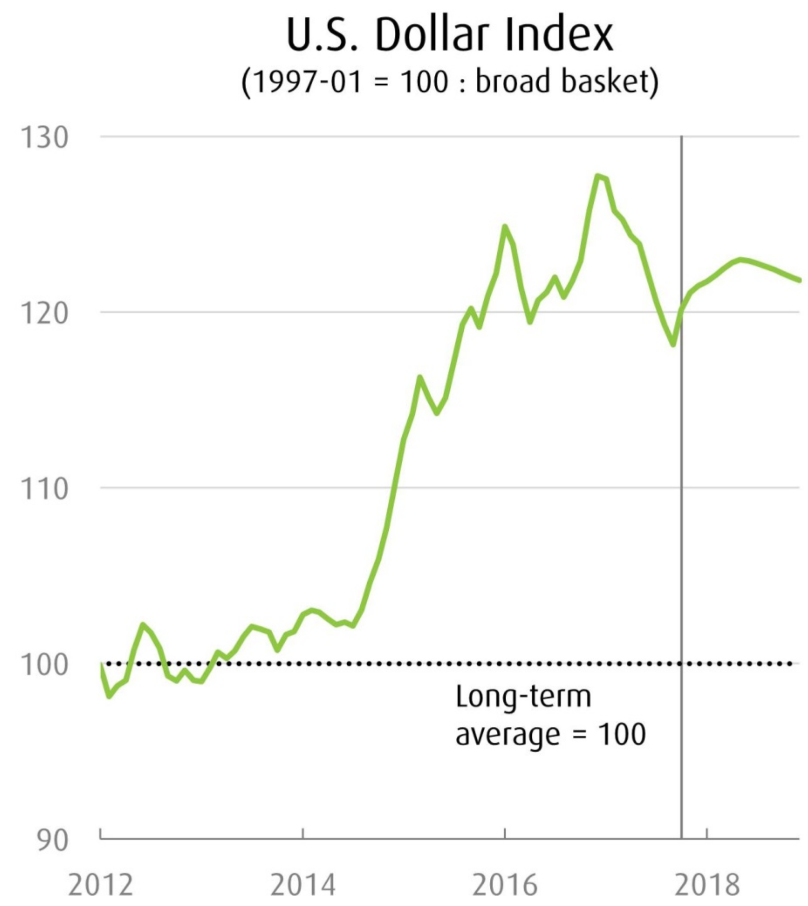
Both C$ and US$ Reversing Recent Sharp Moves

Exchange Rates





Source: Haver Analytics, BMO Economics
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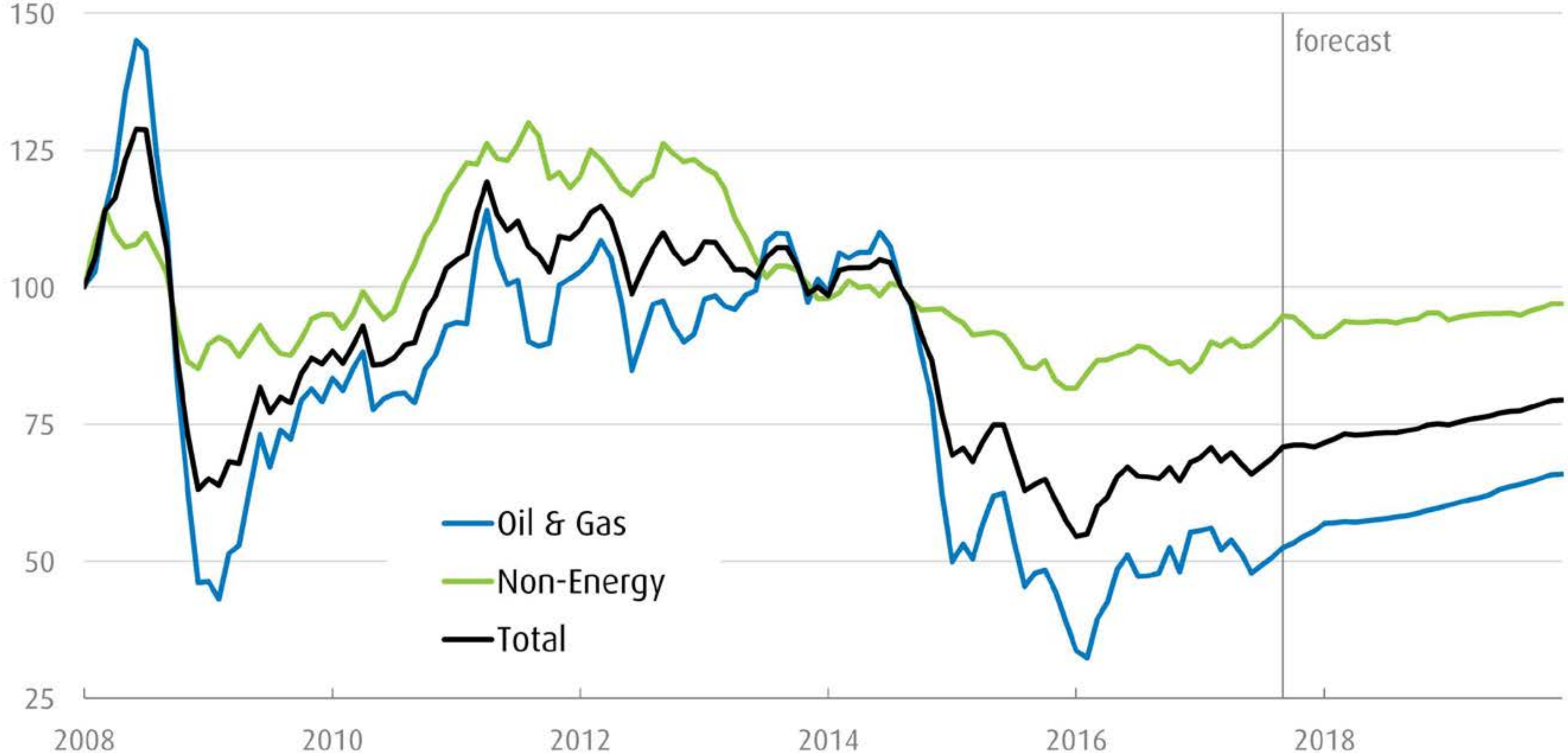
Commodities Slump Finally Over; Modest Price Gains in Store

(January 2008 = 100)

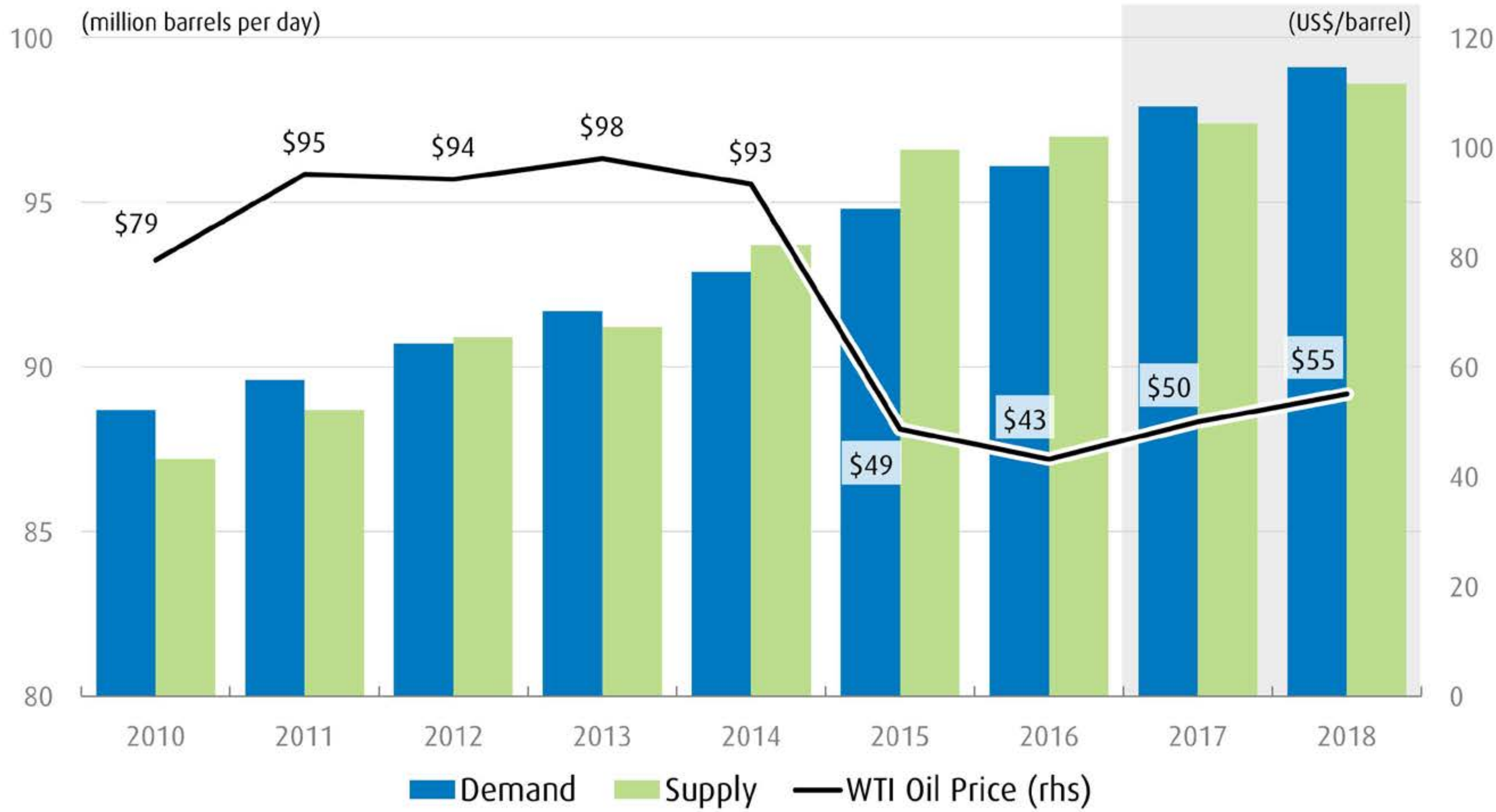
BMO Commodity Price Indices



Source: BMO Economics

Global Oil Market Adjusting; Supply Cuts Likely to be Extended

Global Oil Demand and Supply



Source: International Energy Agency, BMO Economics

Reduction in Surplus U.S. Gas Storage to Support Seasonal Rally

(US$/mmbtu)

Natural Gas Prices

Source: Haver Analytics, BMO Economics
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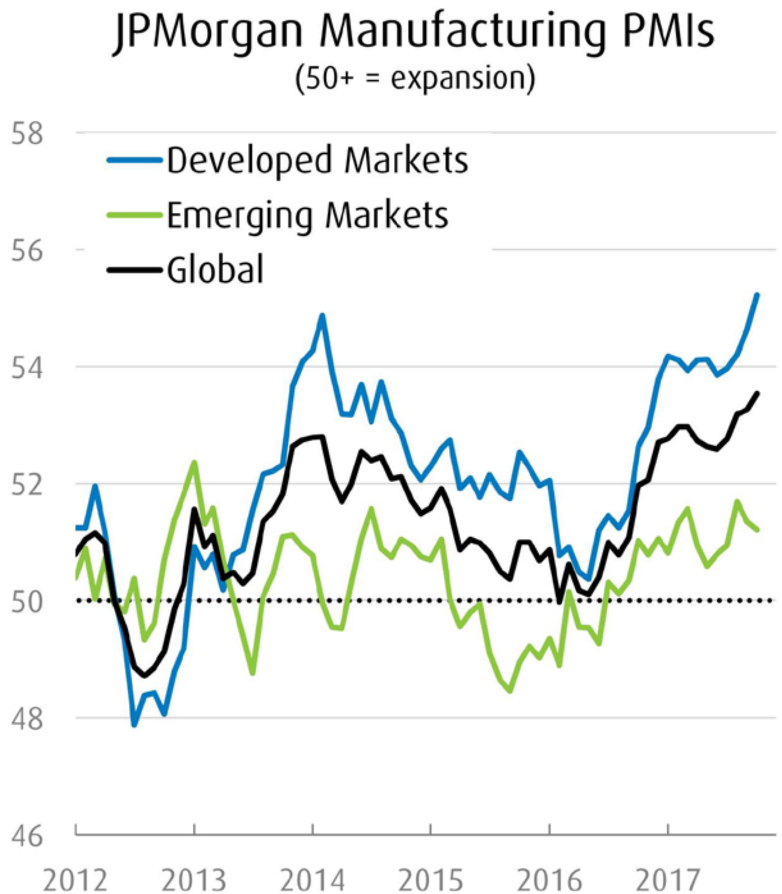
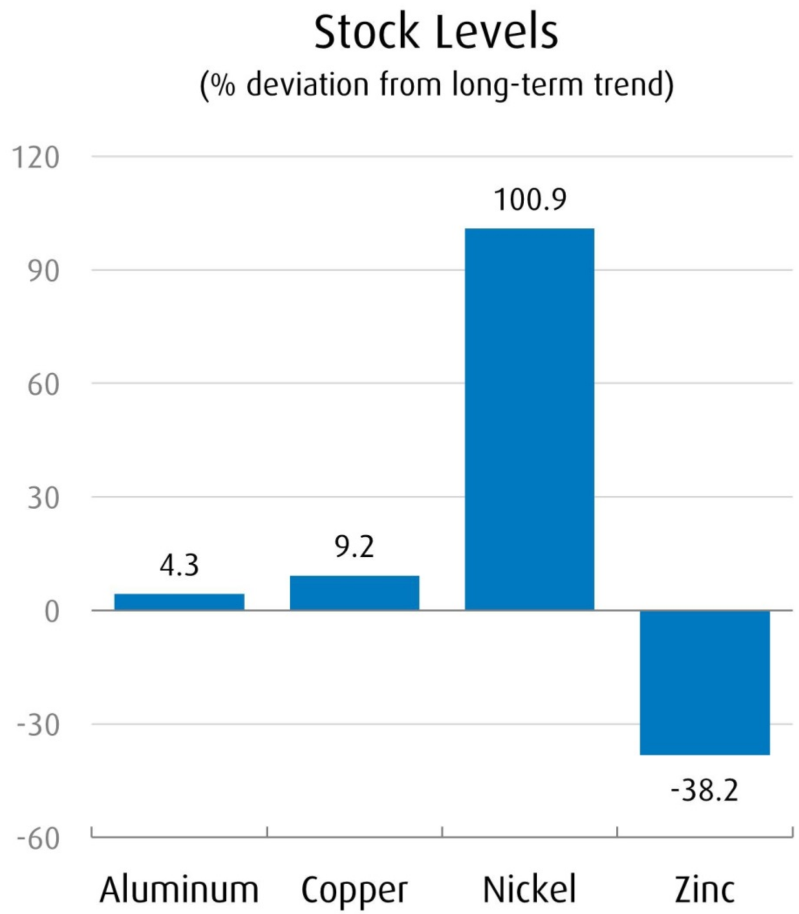
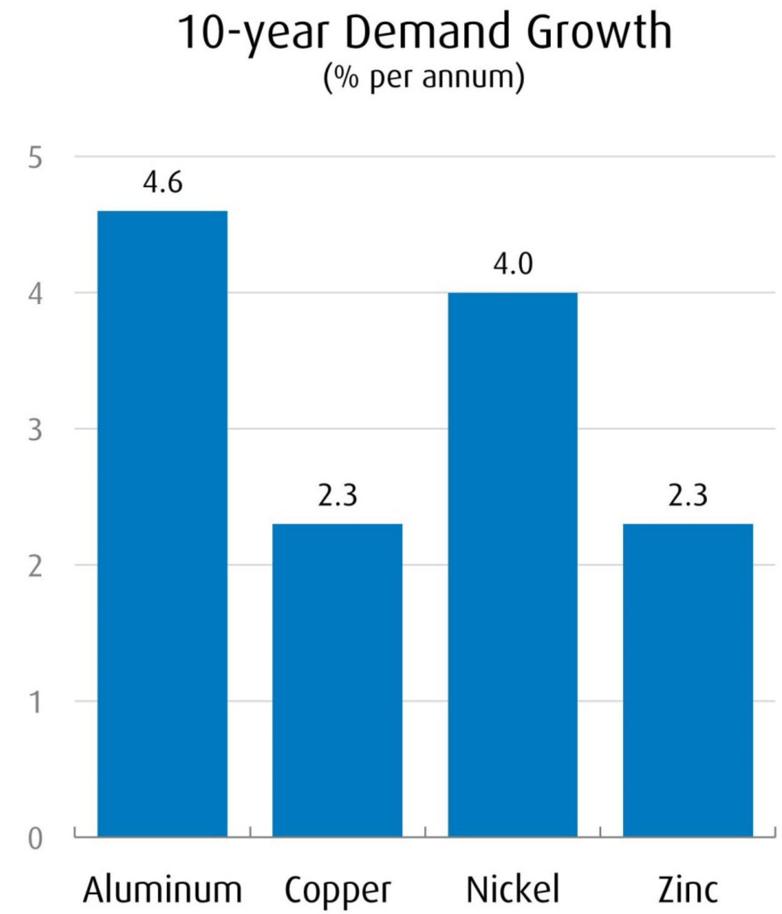
Improved Global Growth Bolsters Demand for Base Metals



Source: JPMorgan, HIS Markit, Haver Analytics, BMO Economics

Elevated Inventories Limit Price Upside; Supply Gaps to Open Up Over Longer Term



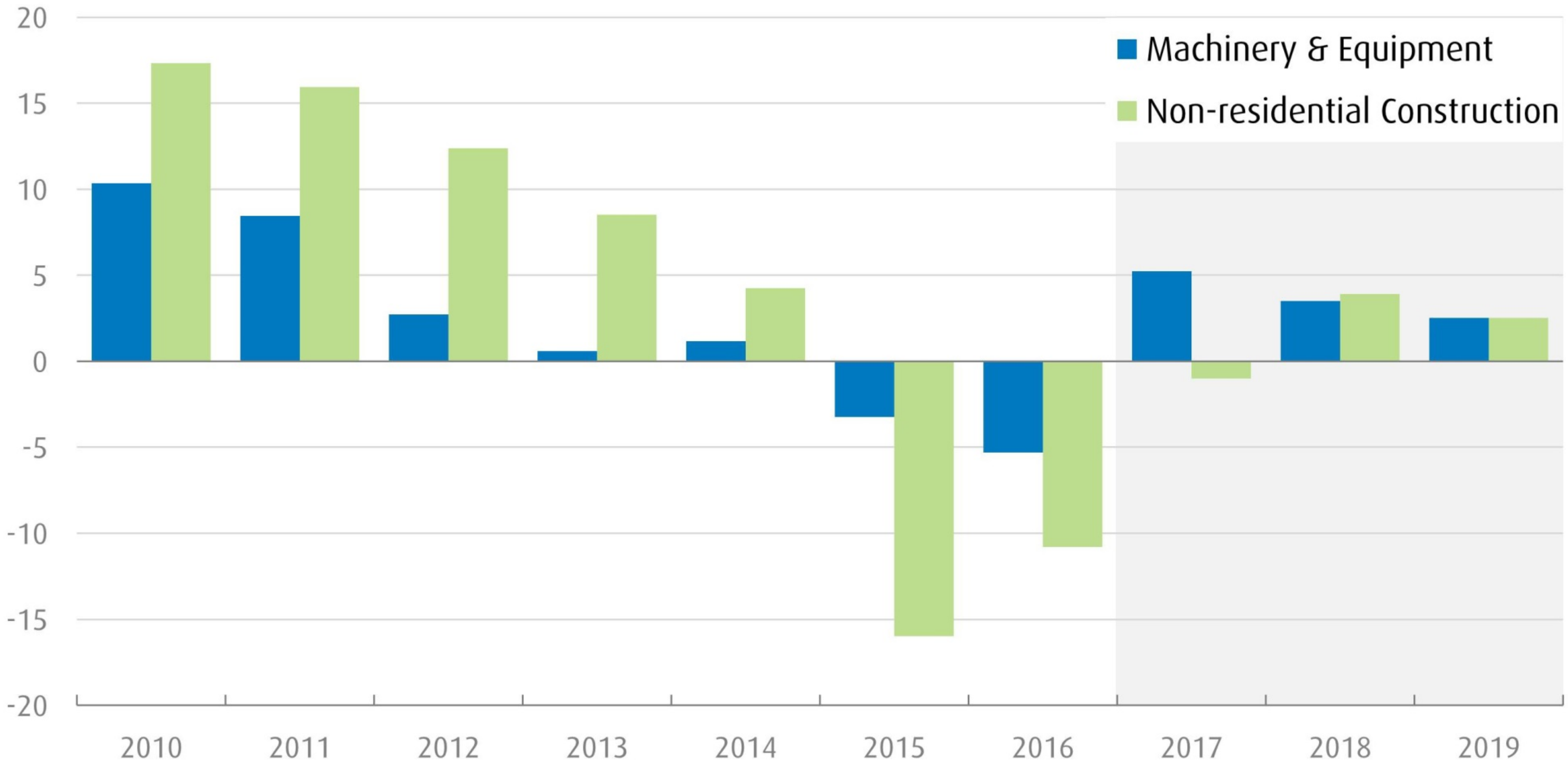


Source: Wood Mackenzie, BMO Capital Markets

Canadian Business Investment Recovering From Oil Shock

Canada (percent)

Real Business Investment Growth

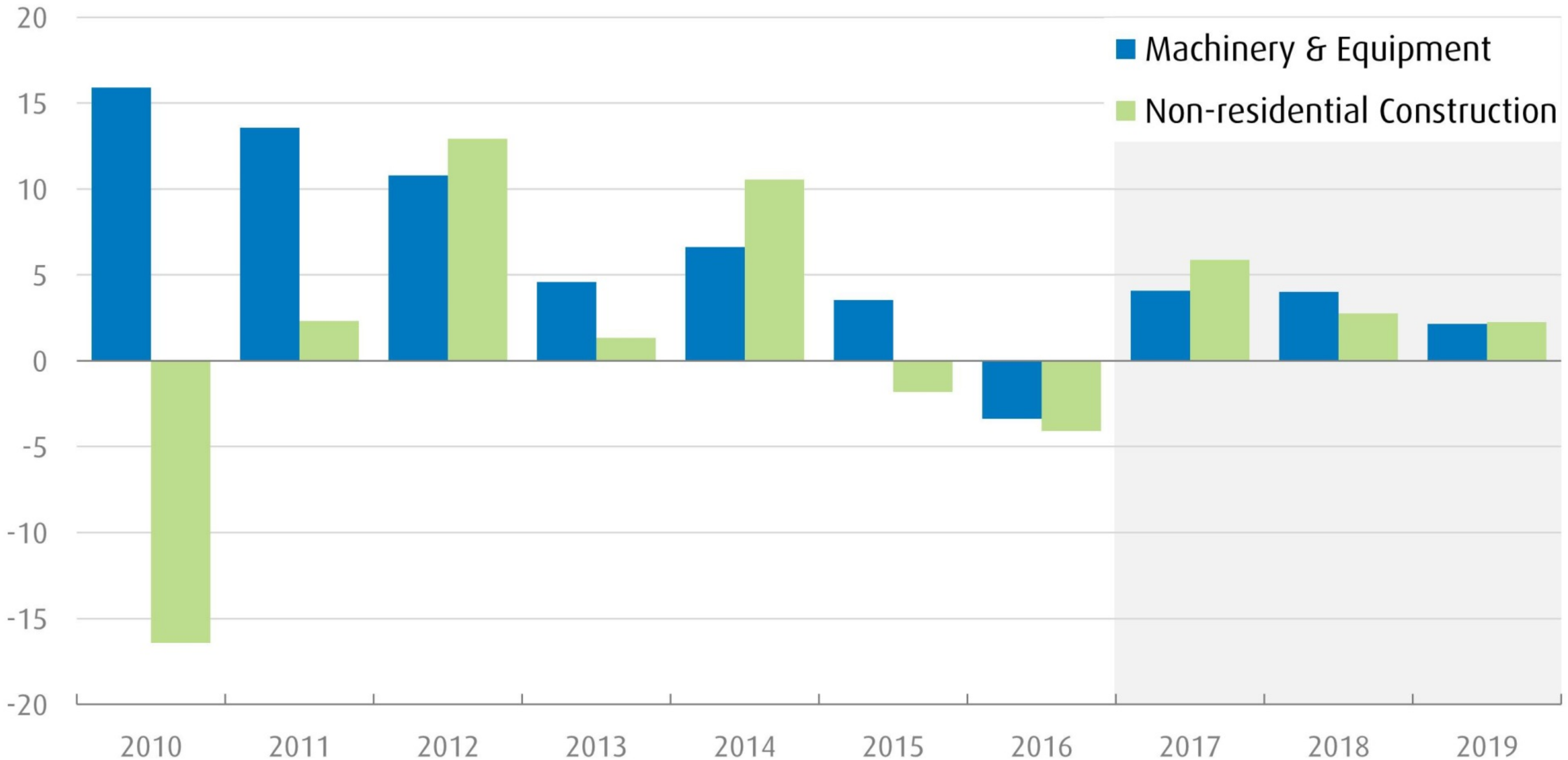


Sources: Statistics Canada, BMO Economics

Oil Prices, Election Stoke U.S. Business Investment Revival

United States (percent)

Real Business Investment Growth

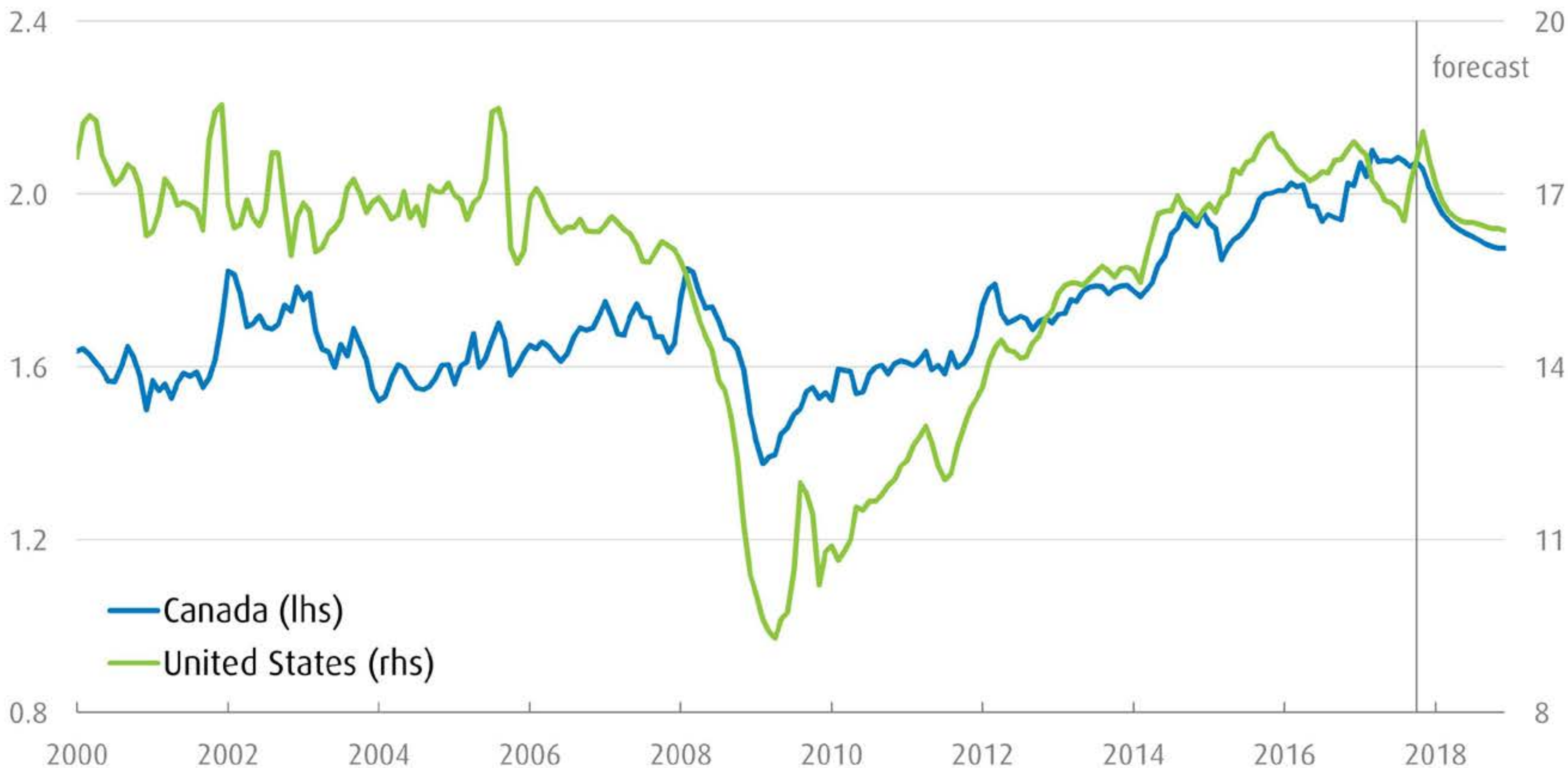


Sources: U.S. Bureau of Economic Analysis, BMO Economics

Diminished, Though Still Healthy Auto Sales Momentum in 2018

(millions of units, annual rate)

Motor Vehicle Sales

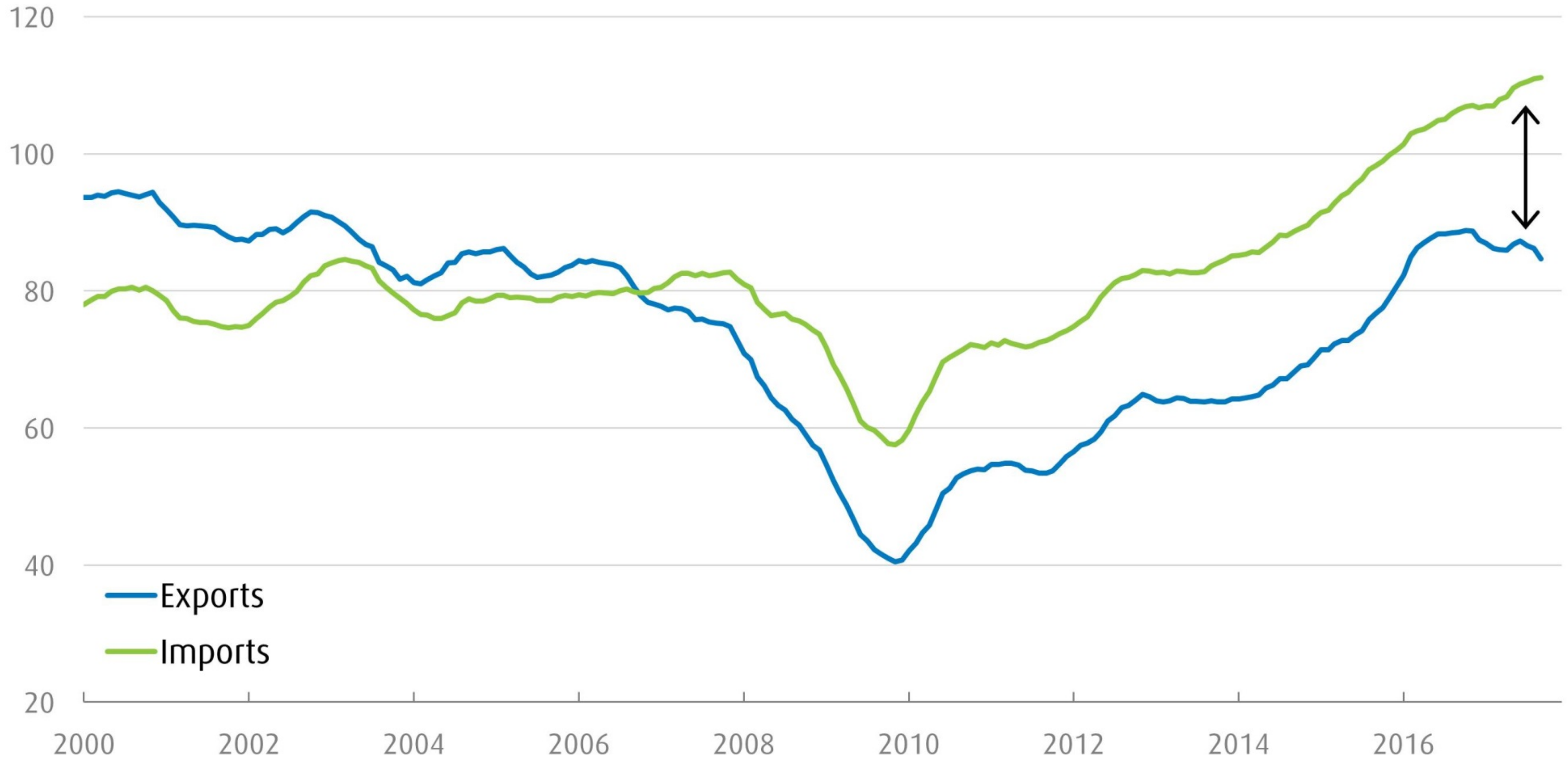


Source: Statistics Canada, U.S. Bureau of Economic Analysis, BMO Economics

Weaker Loonie Can't Help Canada's Widening Auto Trade Gap

(billions of C$, 12-month moving sum)

Motor Vehicles & Parts



Source: Statistics Canada, BMO Economics
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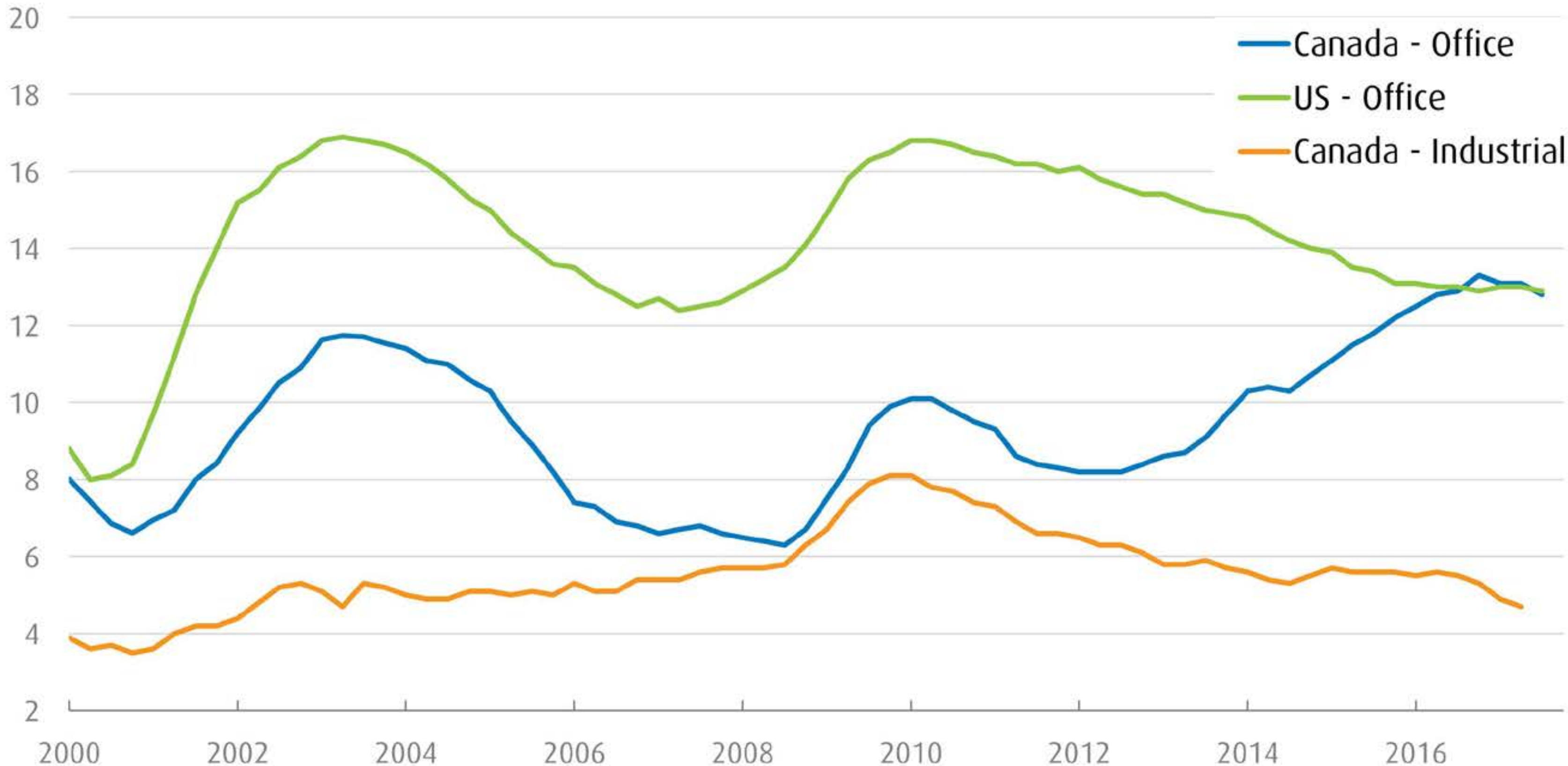
Despite Continued Advance of E-Commerce, Automation and Telecommuting, Commercial Real Estate Activity Remains Robust

(percent)

National Vacancy Rates

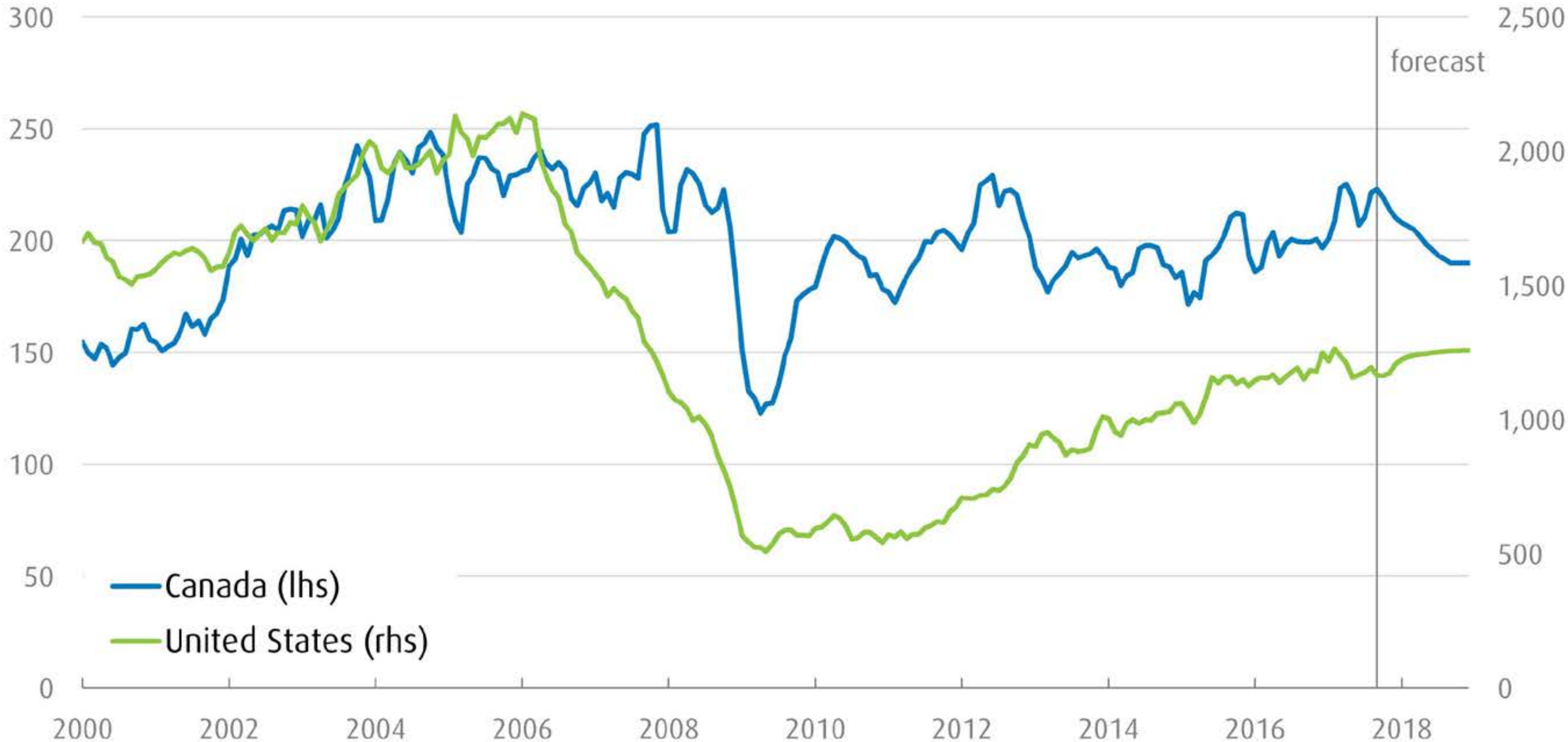


Source: CBRE Group Inc.

Canadian Housing Market Set to Cool in 2018...

(thousands of units, annual rate)

Housing Starts



Source: CMHC, U.S. Census Bureau, BMO Economics

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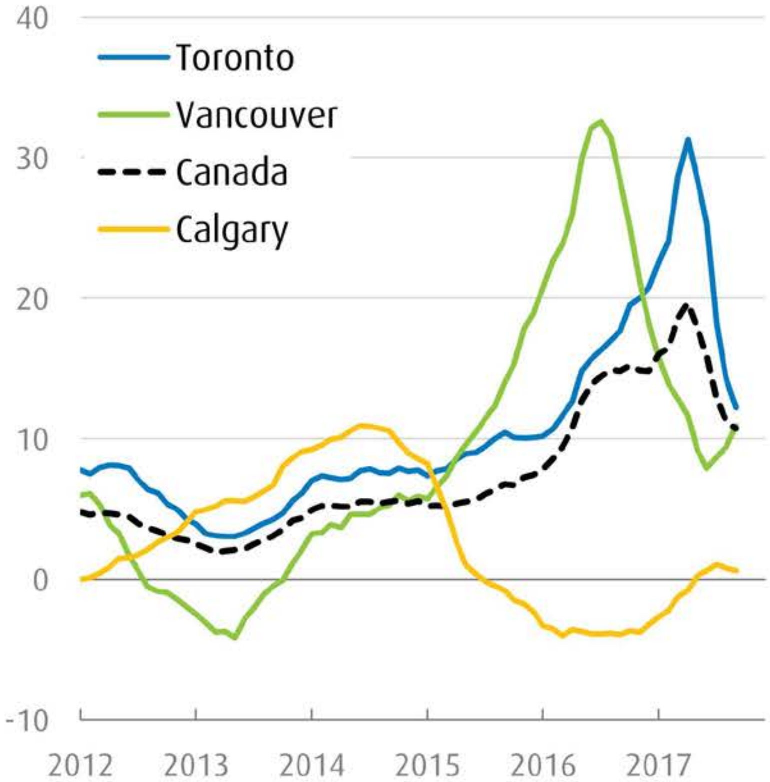
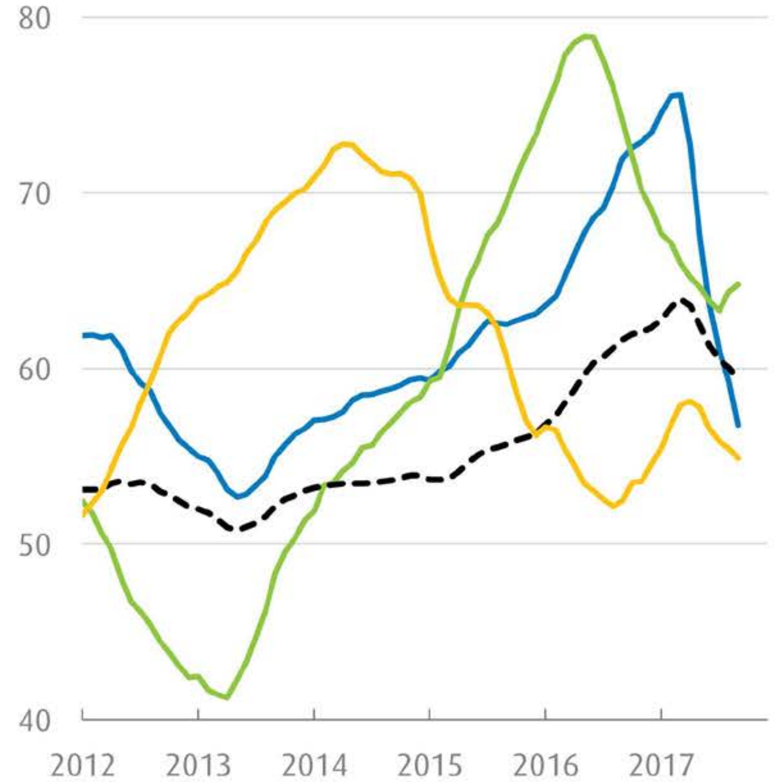
...Squeezed by Government & Regulatory Measures, Higher Interest Rates

Benchmark House Price Index
(percent : year over year)



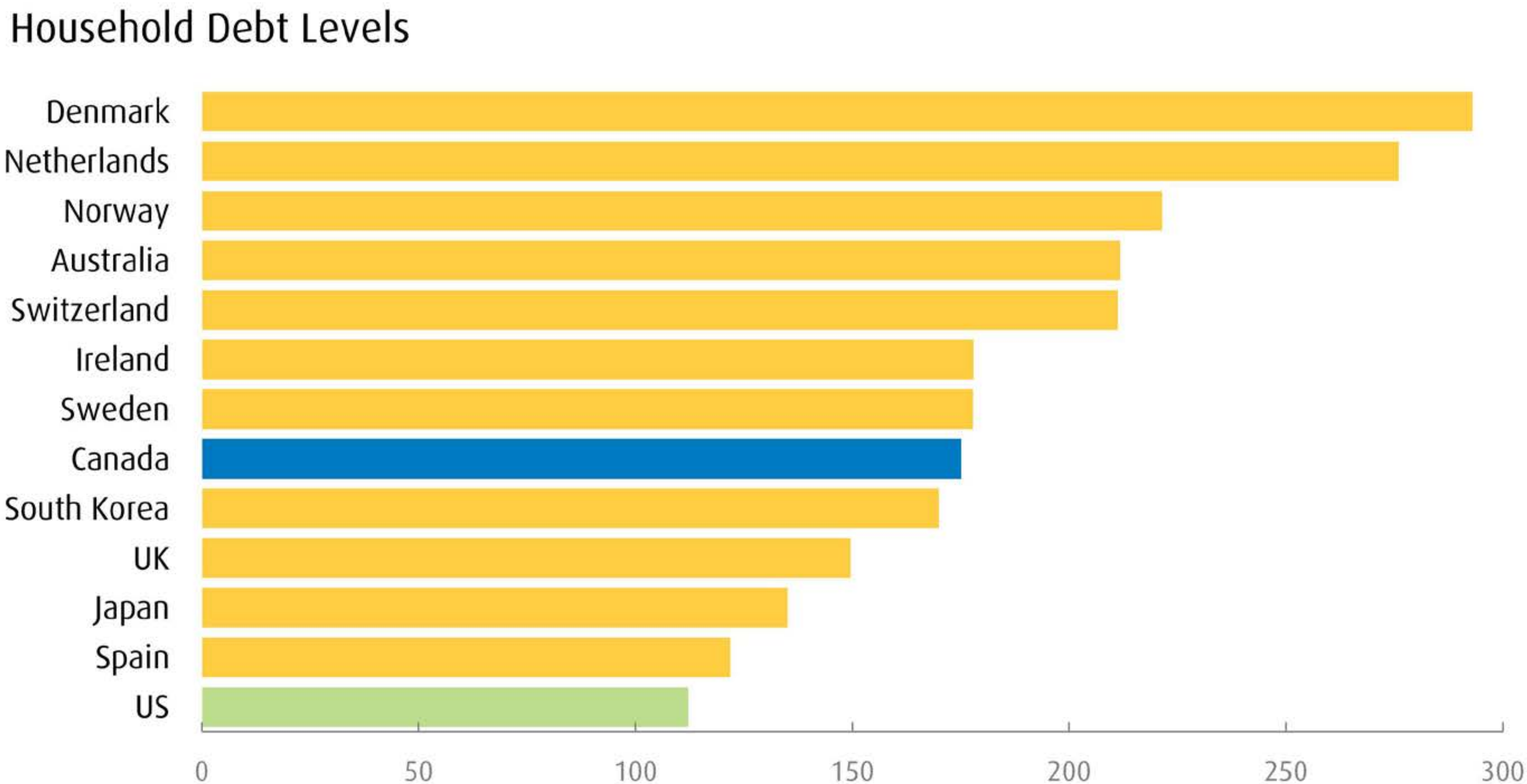
Sales-to-New Listings Ratio
(12-month moving average)



Source: Canadian Real Estate Association, BMO Economics

Elevated Canadian Household Debt Still a Concern, But Cross-Country Comparison Shows Similar Levels in OECD Peers

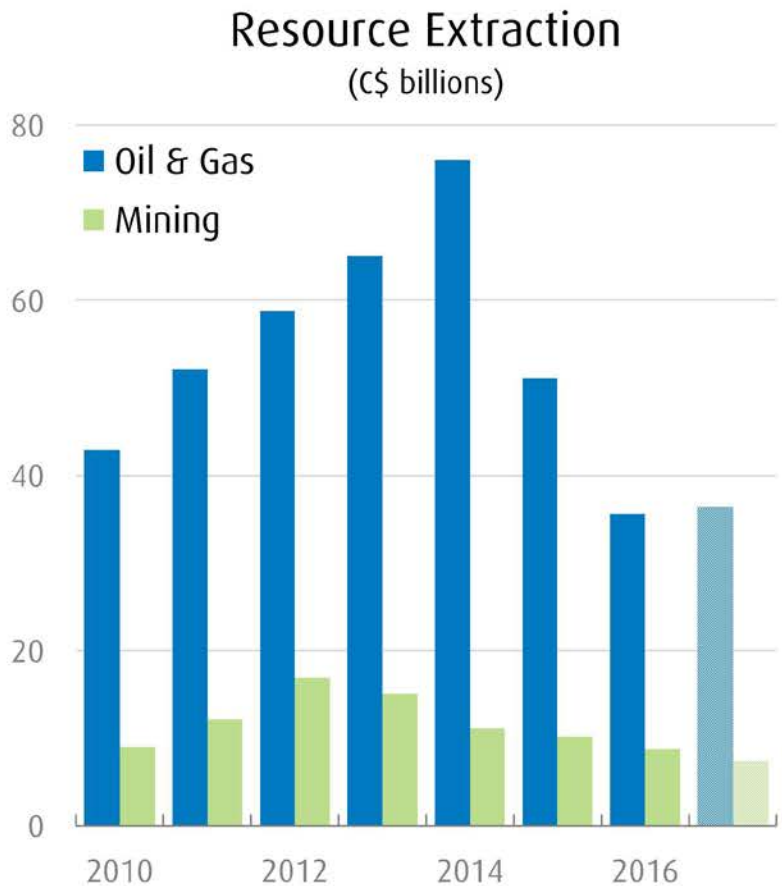
(share of disposable income, 2015)

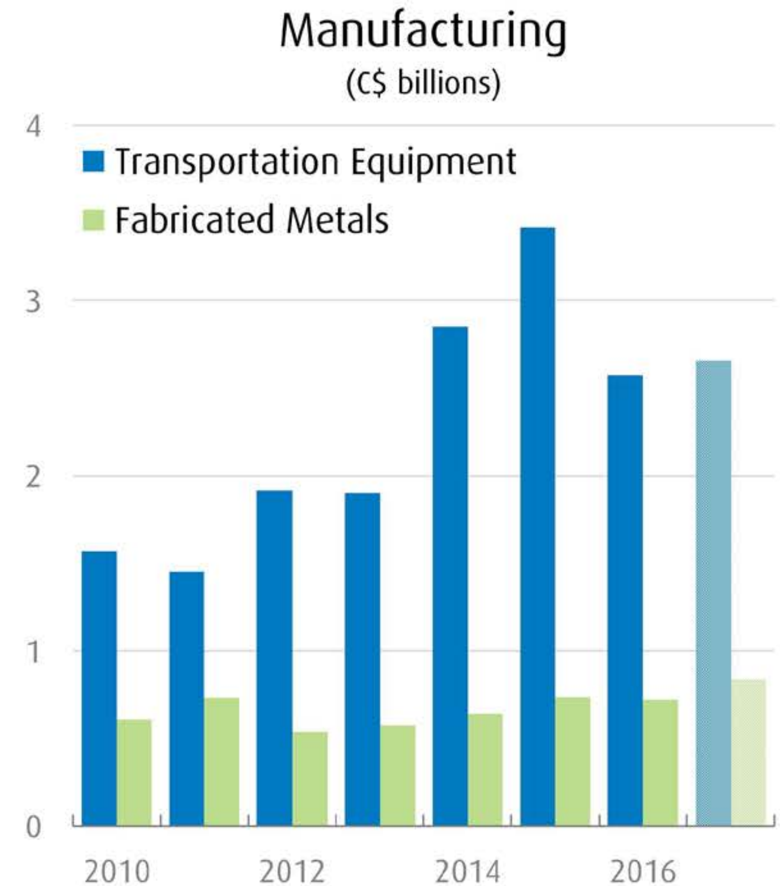


Source: OECD, BMO Economics

Firmer Oil Prices, Lower Loonie Lend Industrial Support

Capital Expenditures

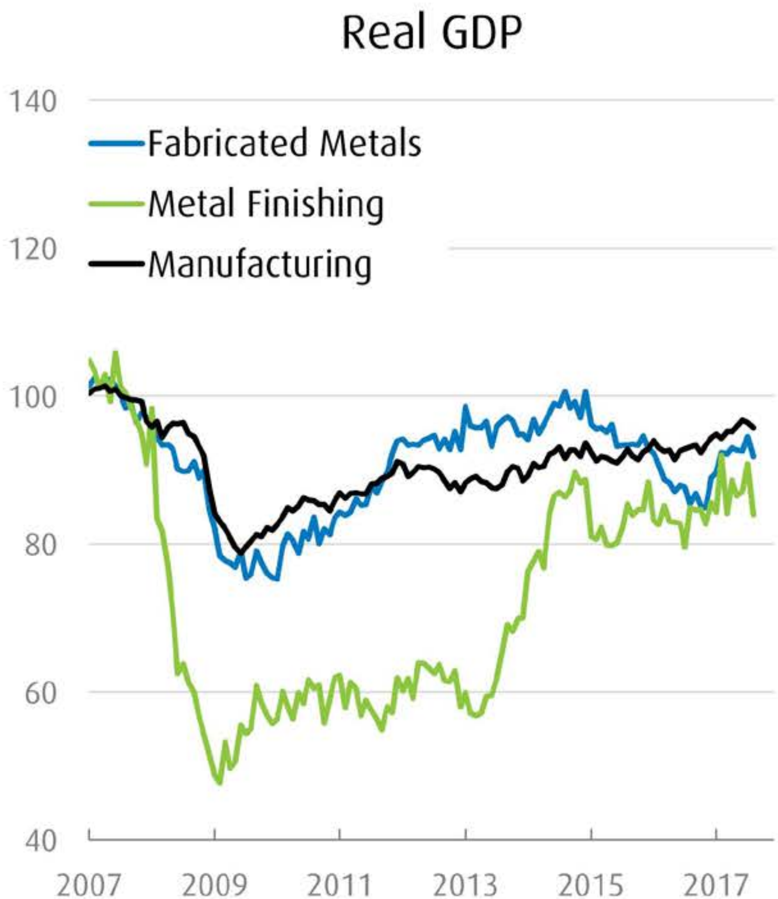


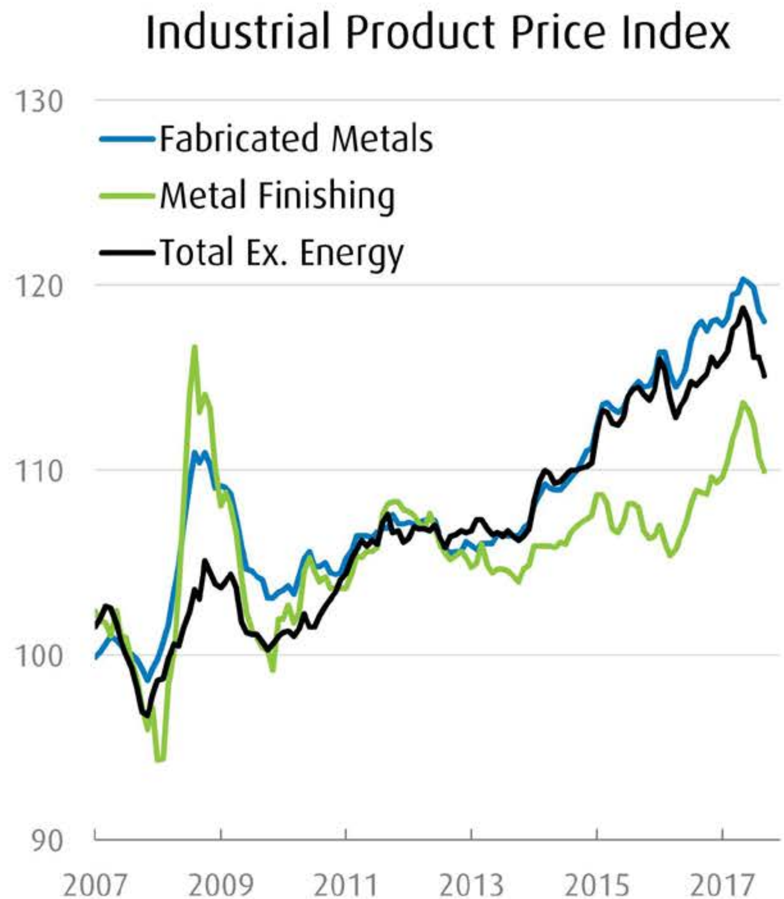


Source: Statistics Canada

Metal Finishing Industry Output Still Below Pre-GFC Level; Pricing Environment Remains Challenging

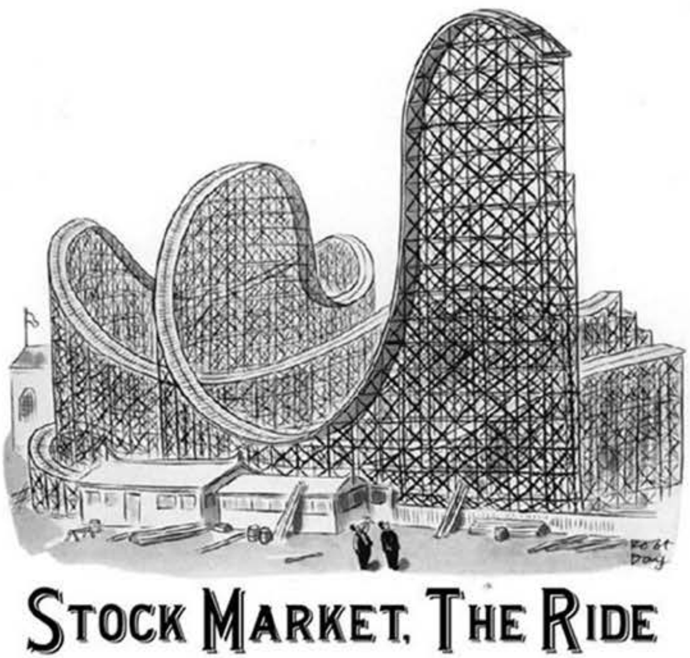
Canada (2007 = 100)





Source: Statistics Canada

Upsetting the Applecart: Risks to the Outlook



Canada:

NAFTA, housing market, government policy

U.S.:

Tax reform, health care, trade

China:

Managing competing objectives

Europe:

Brexit negotiations, EU disintegration

North Korea/Middle East:

Geopolitical tensions

Thank You

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