

Economic and Financial Market Prospects

Earl Sweet

Head, Economic Risk,
BMO Capital Markets
earl.sweet@bmo.com
416-359-4407

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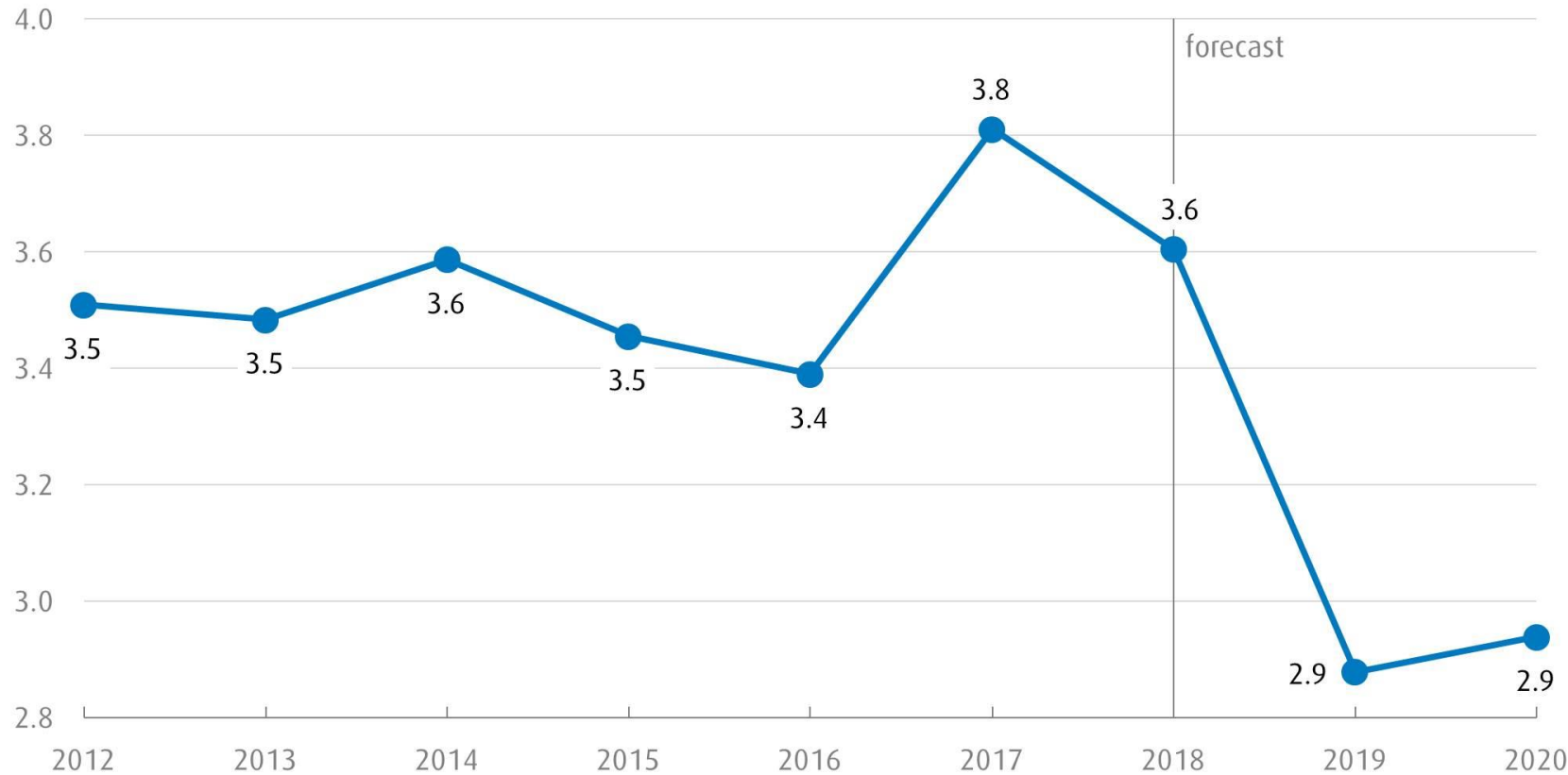
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The global economy has downshifted after a stronger performance in 2017 and 2018

(percent)

World Real GDP Growth



Slower in 2019:

United States

China

Euro Area

Germany

France

Italy

United Kingdom

Emerging Markets

The value of global trade has come under pressure amid rising protectionism

(US\$ billions : 3-month moving average : annualized)

World Trade



Equities volatile in the face of policy & recession uncertainty; mostly sideways in Canada during the past couple of years

(index level)

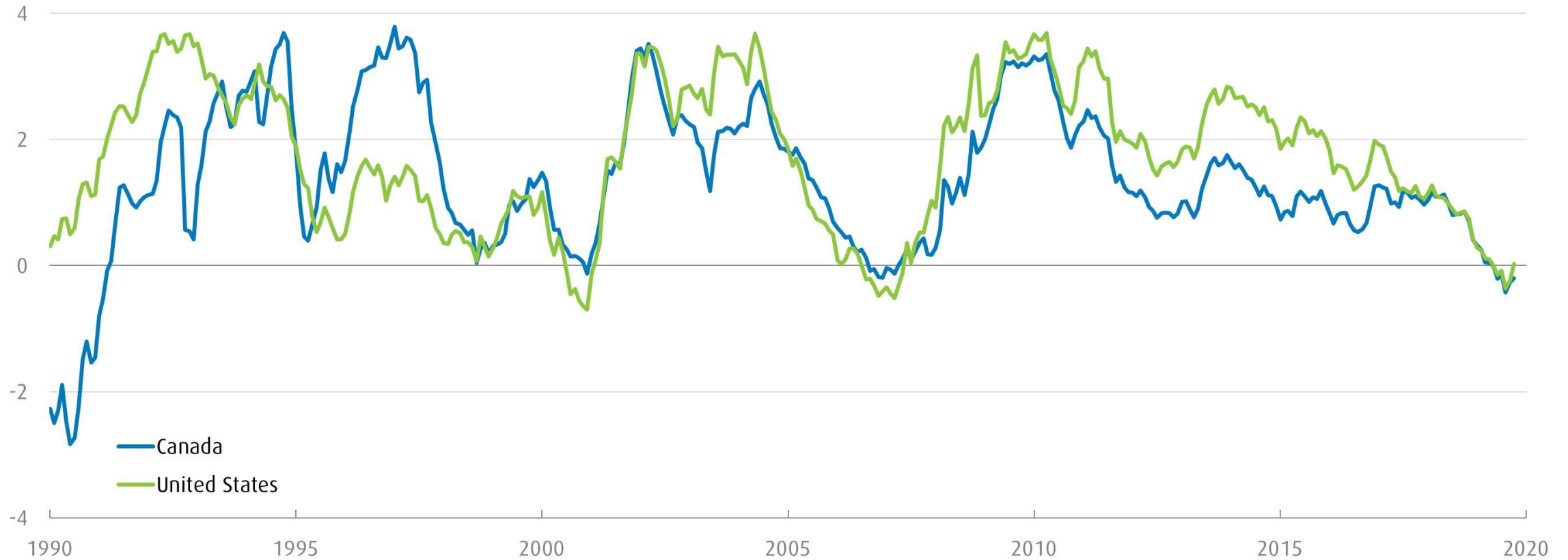
Stock Market Indexes



Bond markets are indicating wariness about economic prospects

(percentage points)

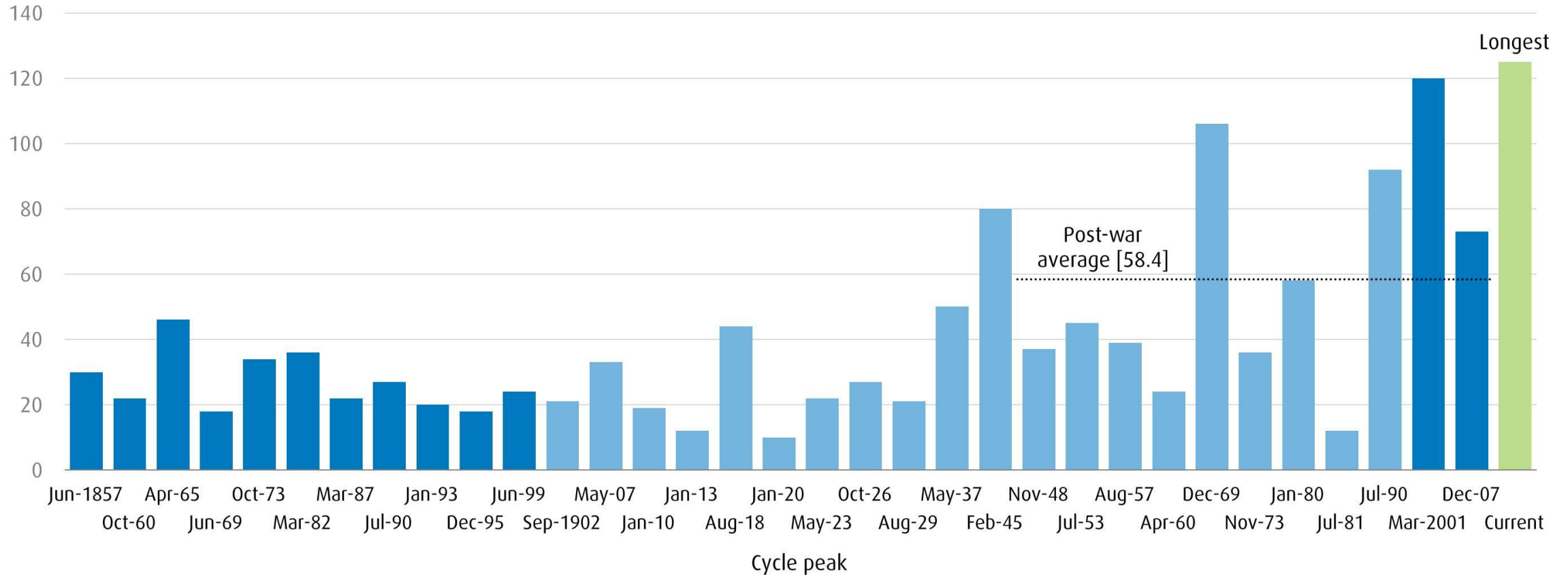
10-Year less 3-Month Government Yield Spread



Longest-ever US expansion; they don't die of old age, but there are a lot of other things to worry about

United States

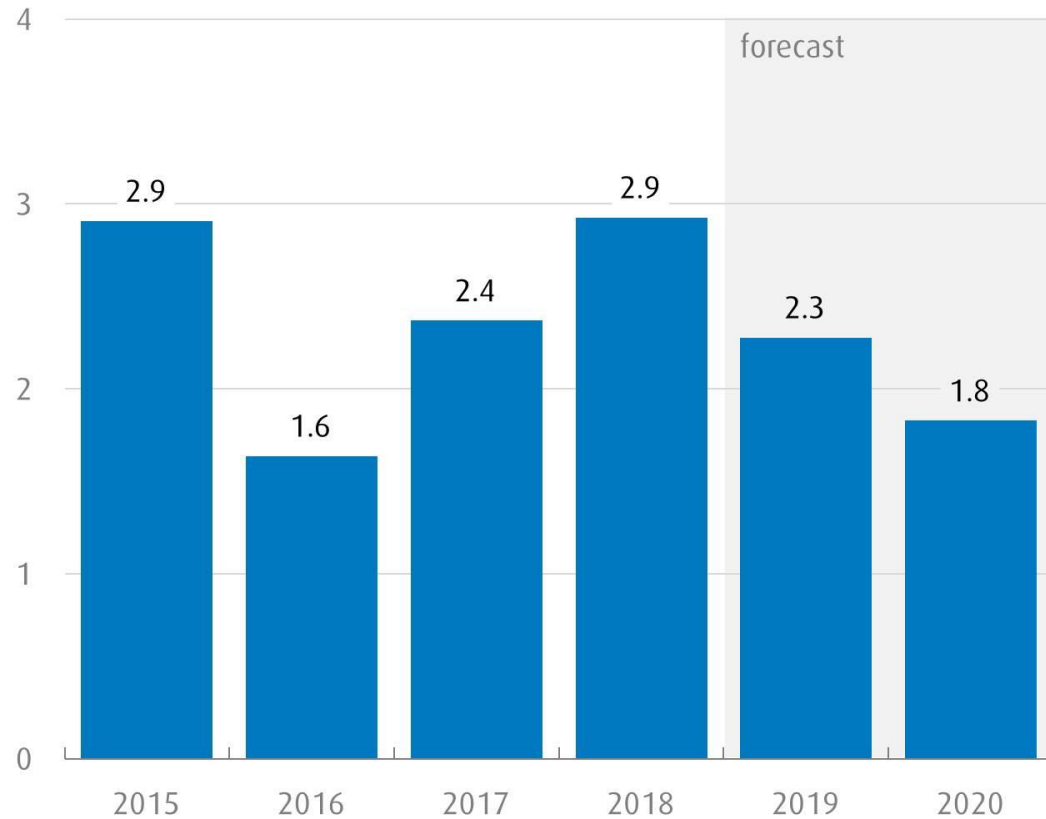
Duration of Economic Expansion (months)



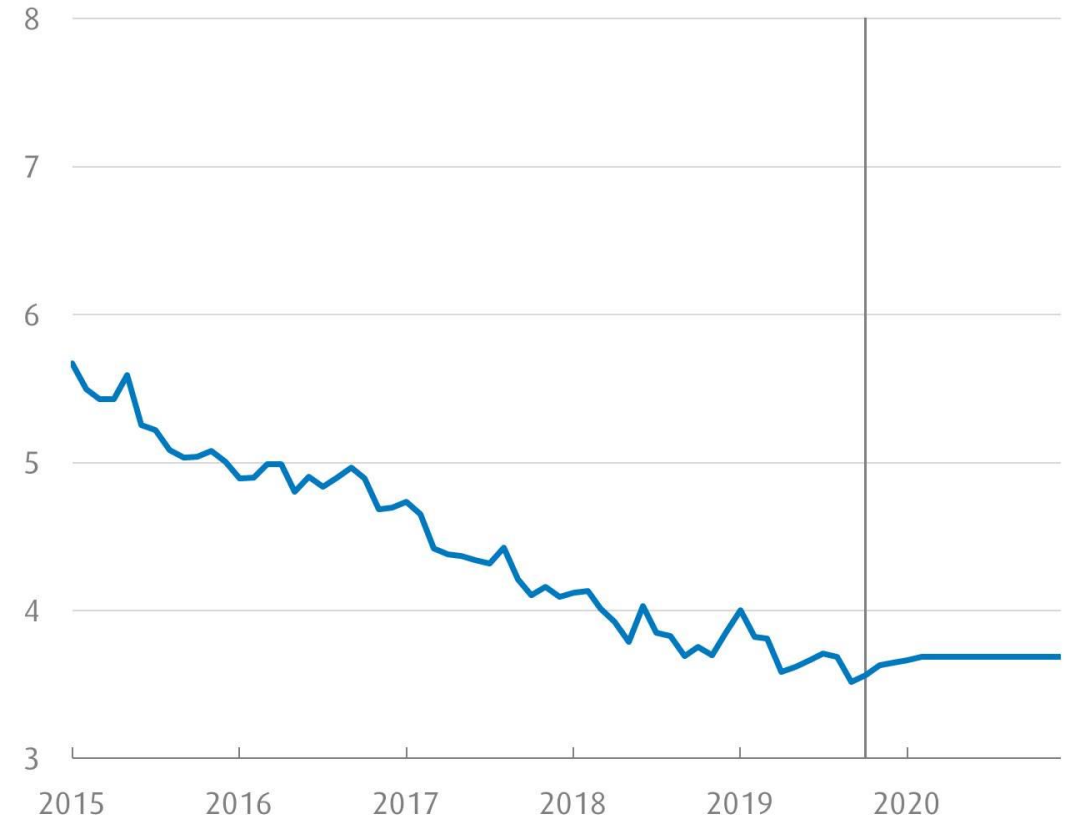
Economic growth in the United States is decelerating amid trade tensions and fading fiscal stimulus

United States (percent)

Real GDP Growth

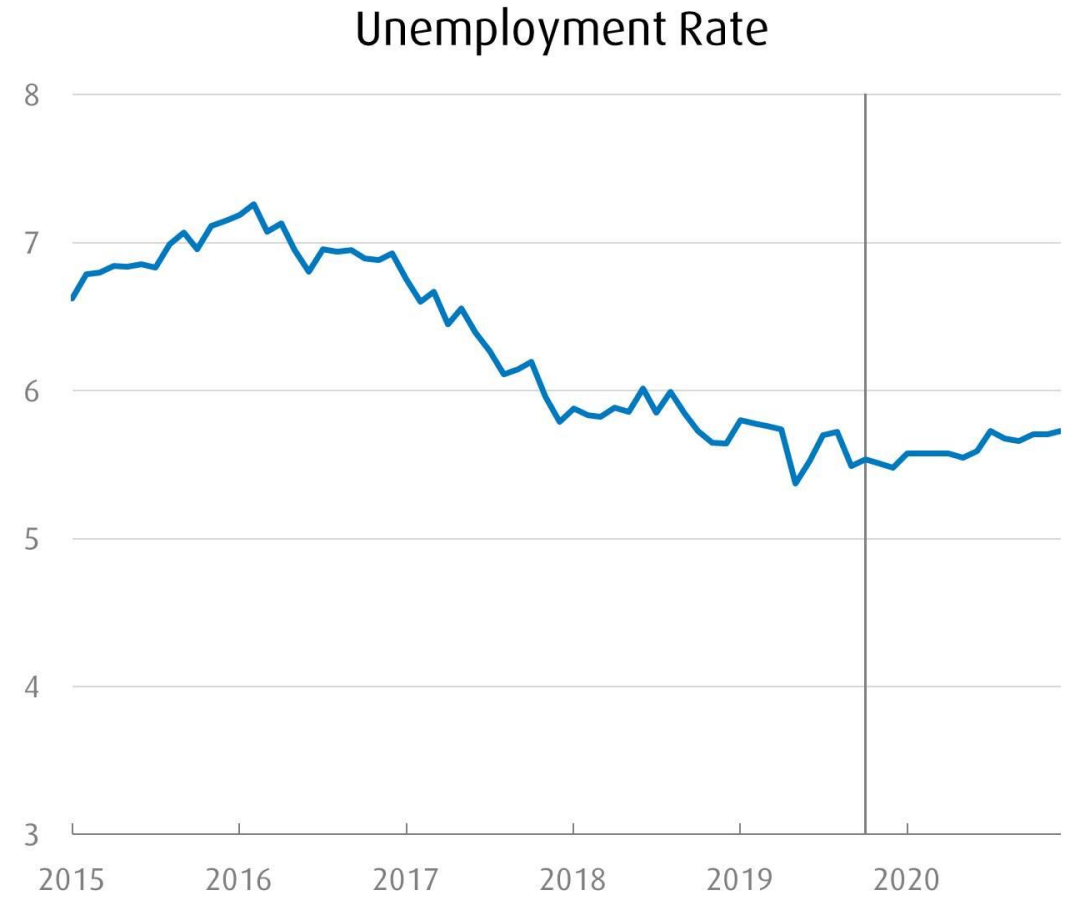
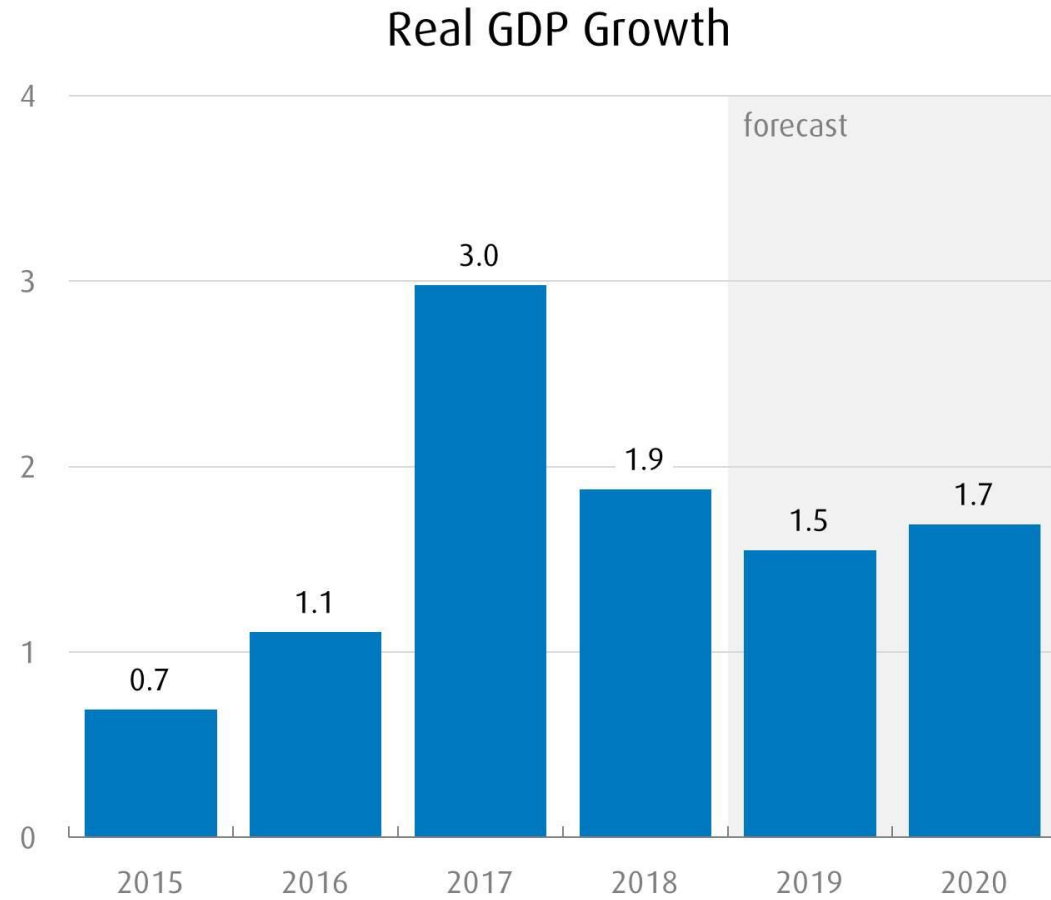


Unemployment Rate



In Canada, economic growth continues to slow alongside consumer spending, residential construction, and business investment

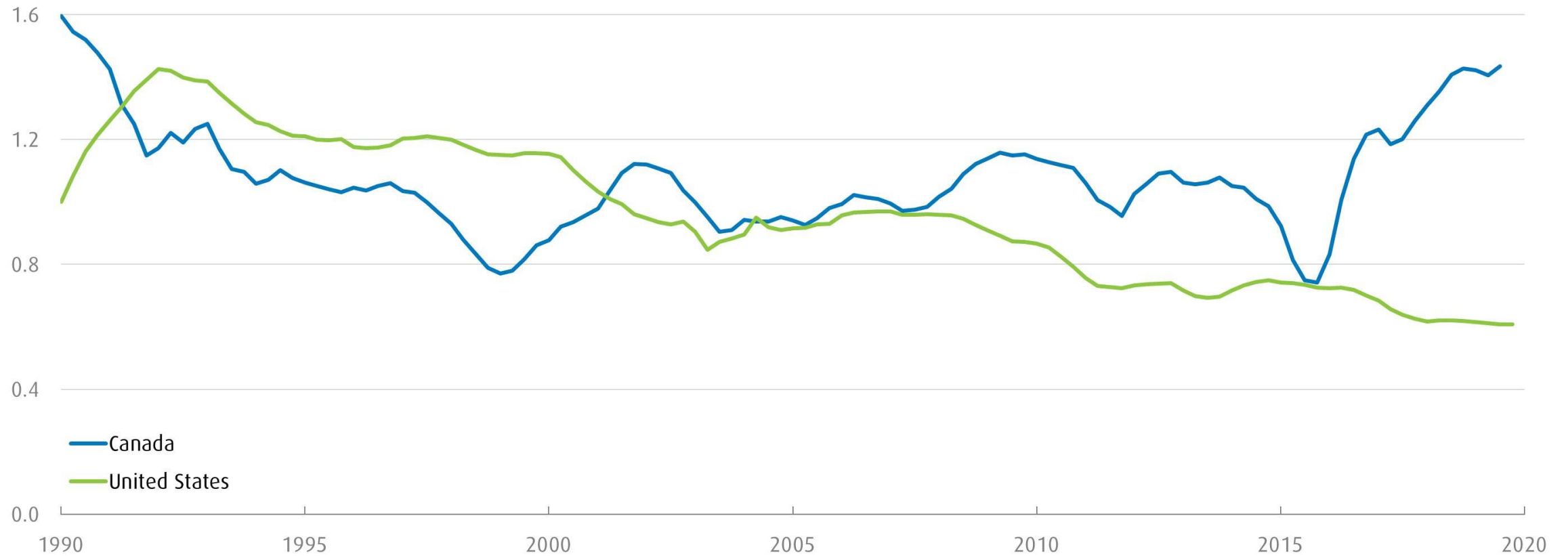
Canada (percent)



A surge in immigration-driven population growth is helping to prop up Canada's overall economic expansion

(percent : year-over-year)

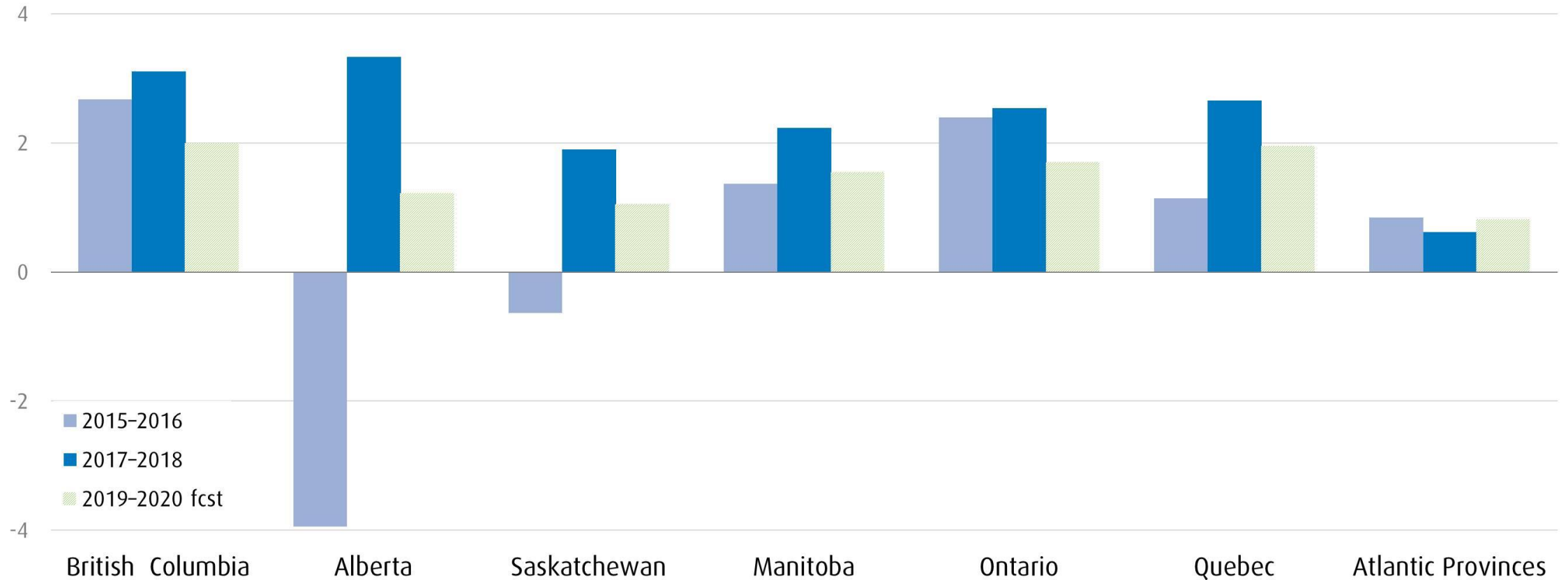
Population Growth



The regional outlook is now relatively uniform after several years of divergence

Canada (percent annualized)

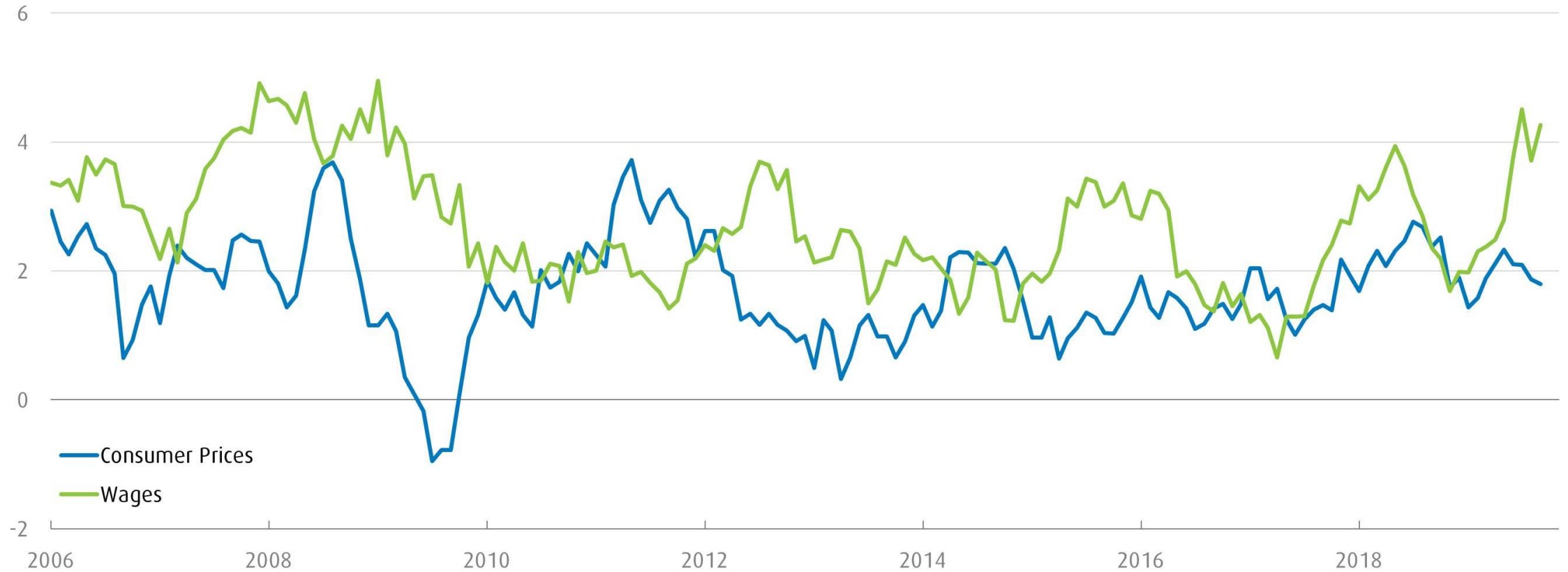
Real GDP Growth



The tight labour market is putting upward pressure on wage growth, but consumer price inflation remains well contained

Canada (percent : year-over-year)

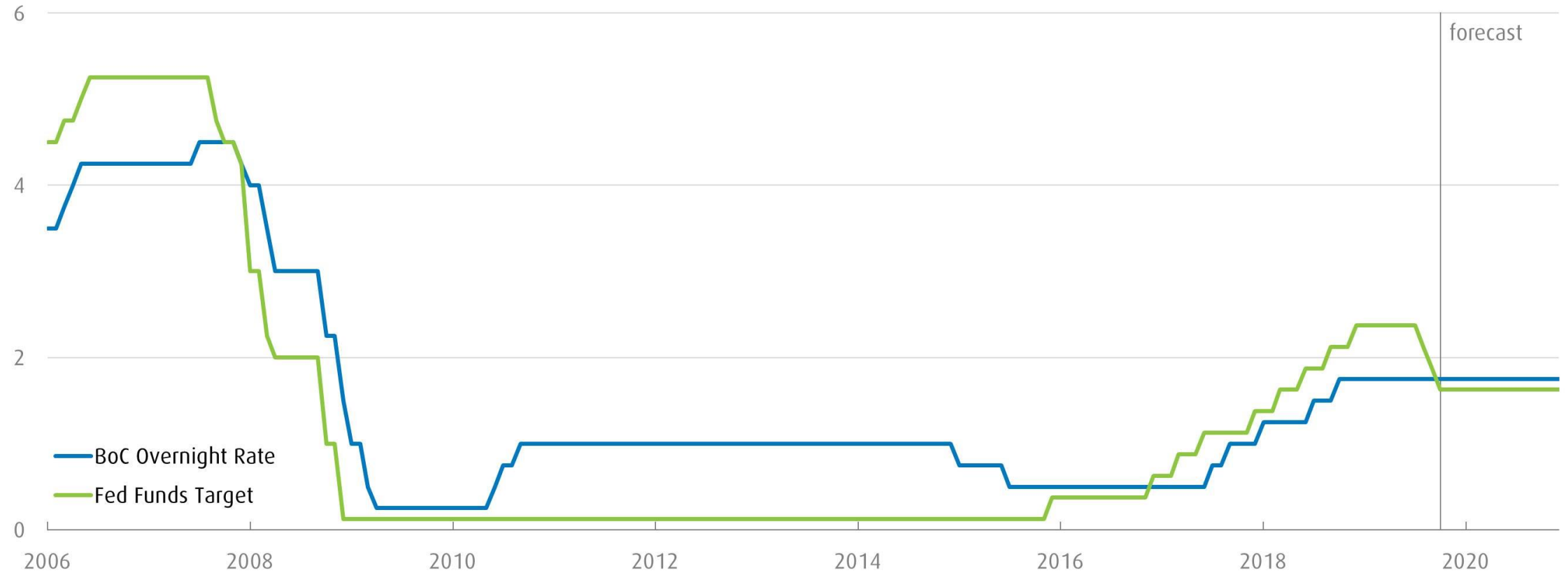
Consumer Price Inflation and Wage Growth



The Fed cut its policy rate four times in 2019 and is now expected to stand pat; Bank of Canada has held its rate steady, concerned about re-fuelling house prices

(percent)

Central Bank Policy Rates



There is no shortage of risks to our base-case forecast



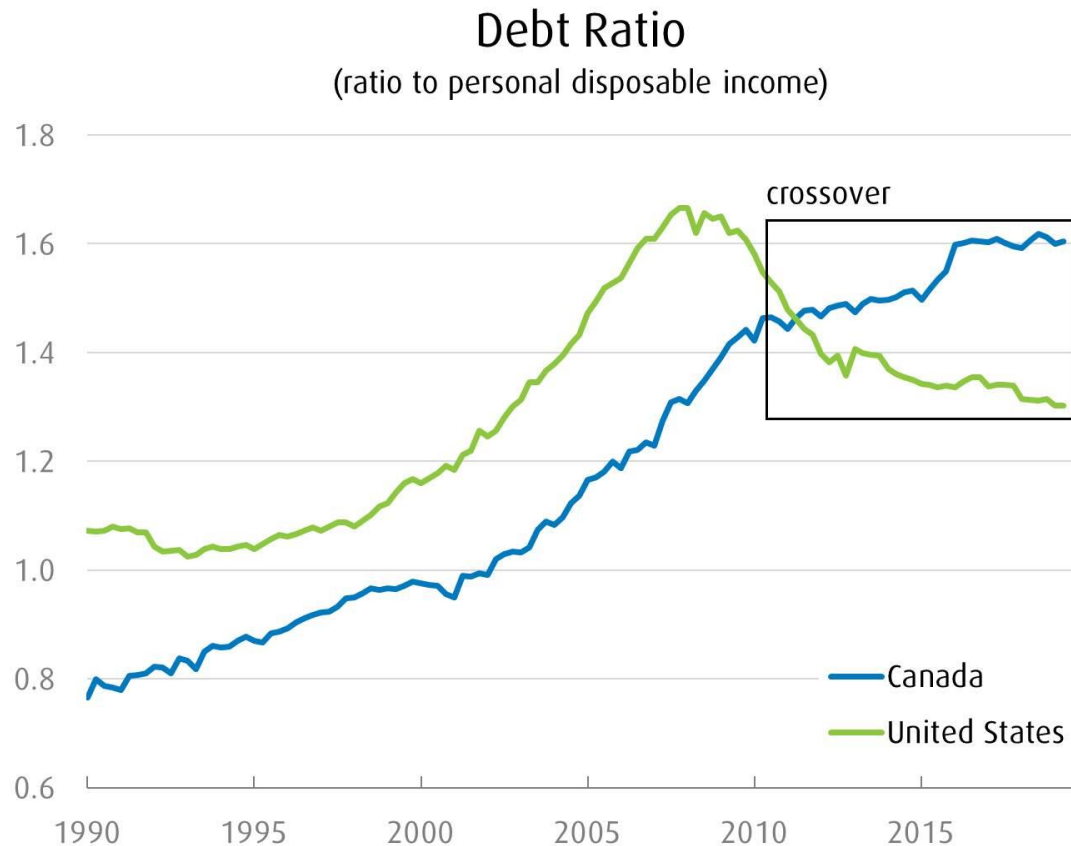
Key global risks:

- US trade provocations
- Slowing world economy
- High public and private debt levels
- Rising populism
- Geopolitics

Key domestic risks:

- High housing valuations in GTA/GVA
- Elevated household debt
- Commodity price volatility
- USMCA ratification

High household¹ debt in Canada, though growth has slowed significantly

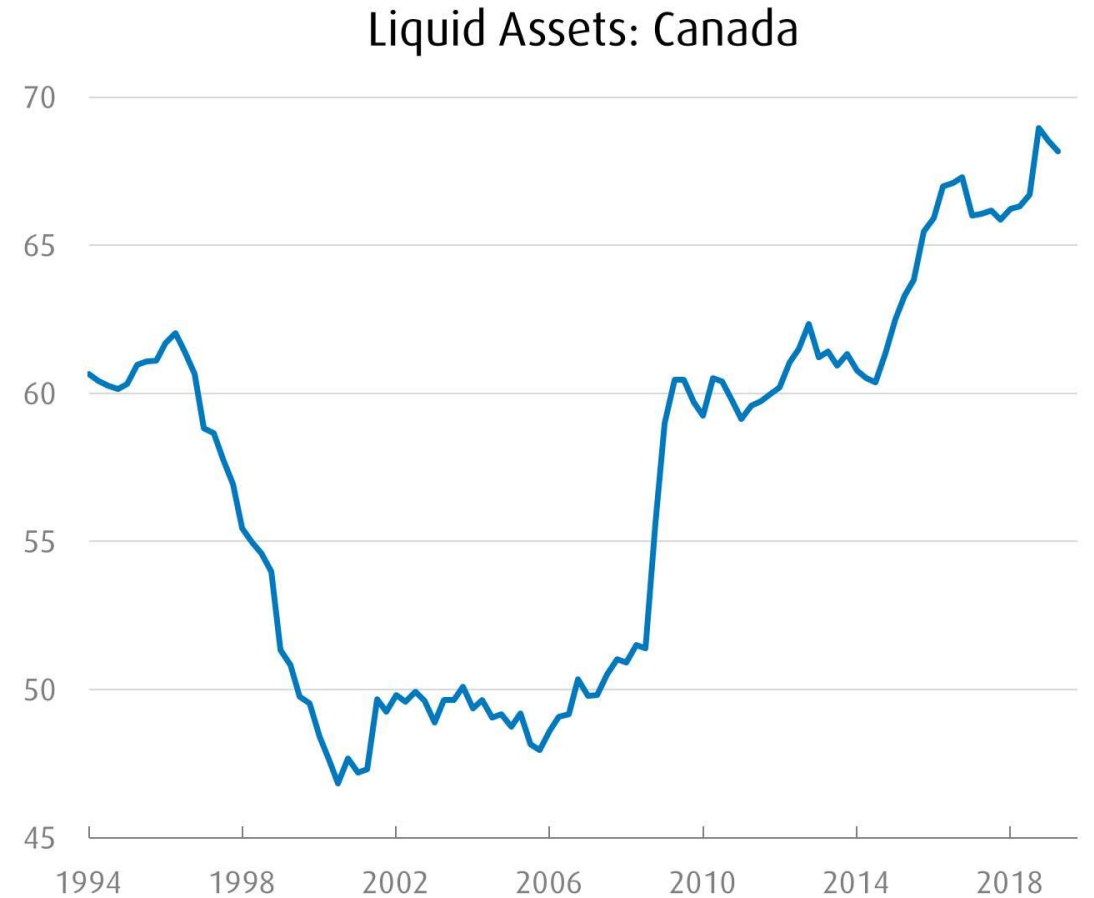
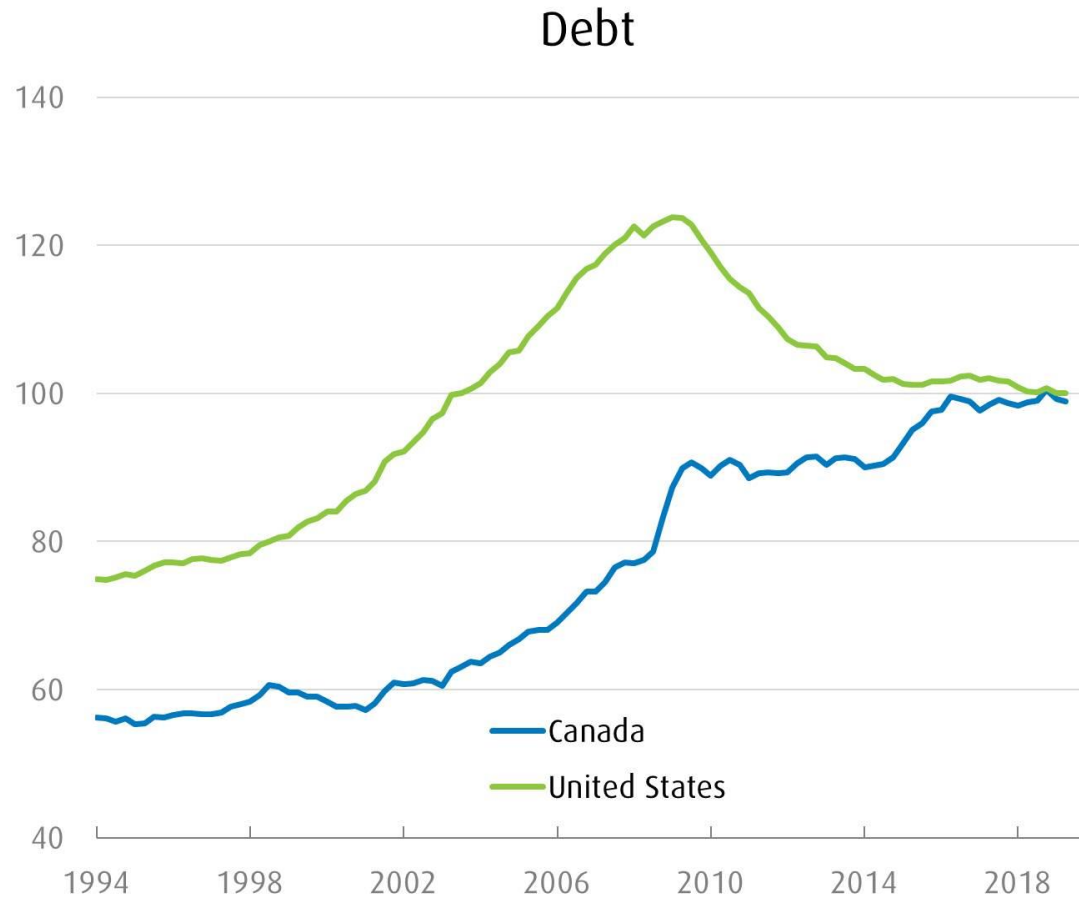


Debt ratio stabilizing

¹ Households, nonprofits and unincorporated businesses • ² Consumer credit and residential mortgages only

Household debt presents a different comparative picture in terms of GDP; and risk is partially mitigated by significant holdings of liquid assets

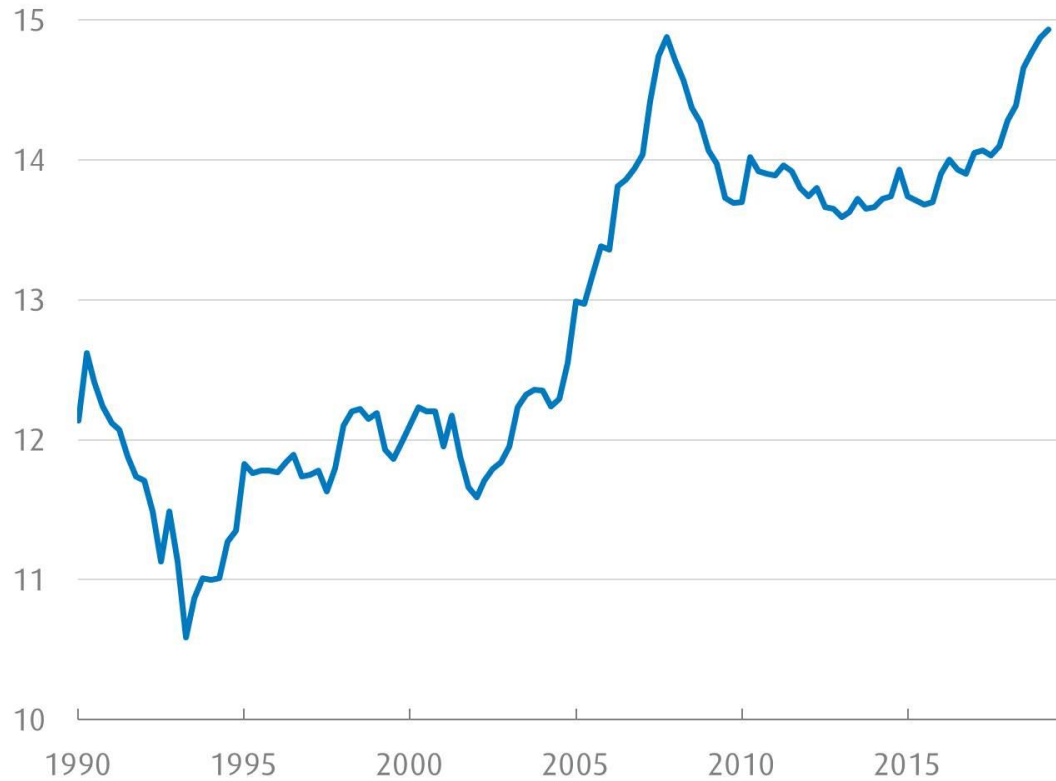
(percent of GDP)



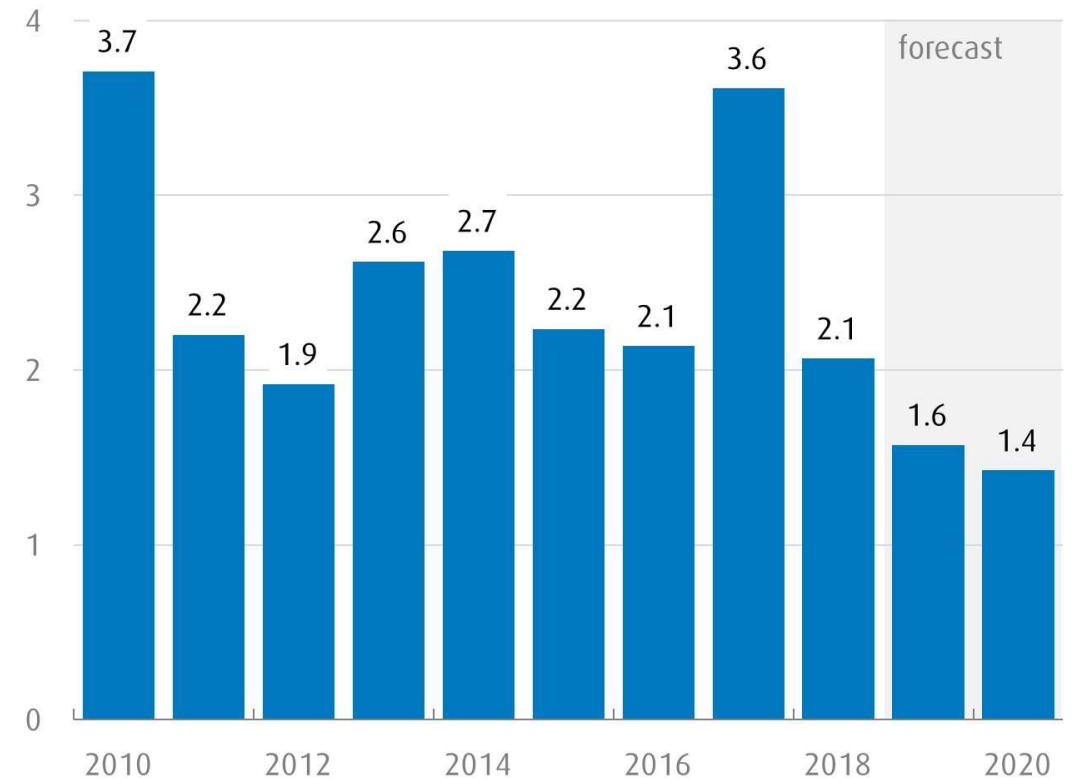
Nevertheless, Canada's record-high household debt service ratio is tempering consumer spending

Canada

Household Debt Service Ratio (percent of personal disposable income)



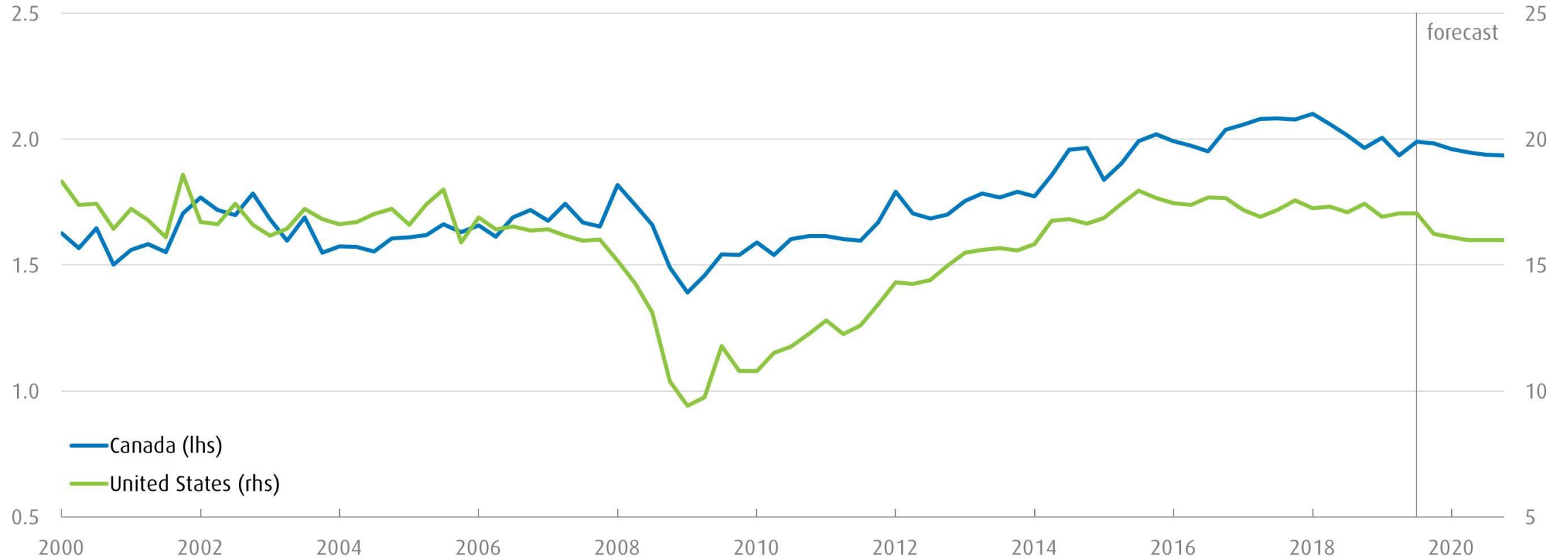
Growth in Real Consumer Spending (percent)



Motor vehicle sales have receded moderately from all-time highs in Canada, in line with the broader consumer slowdown

(millions of units : annual rate)

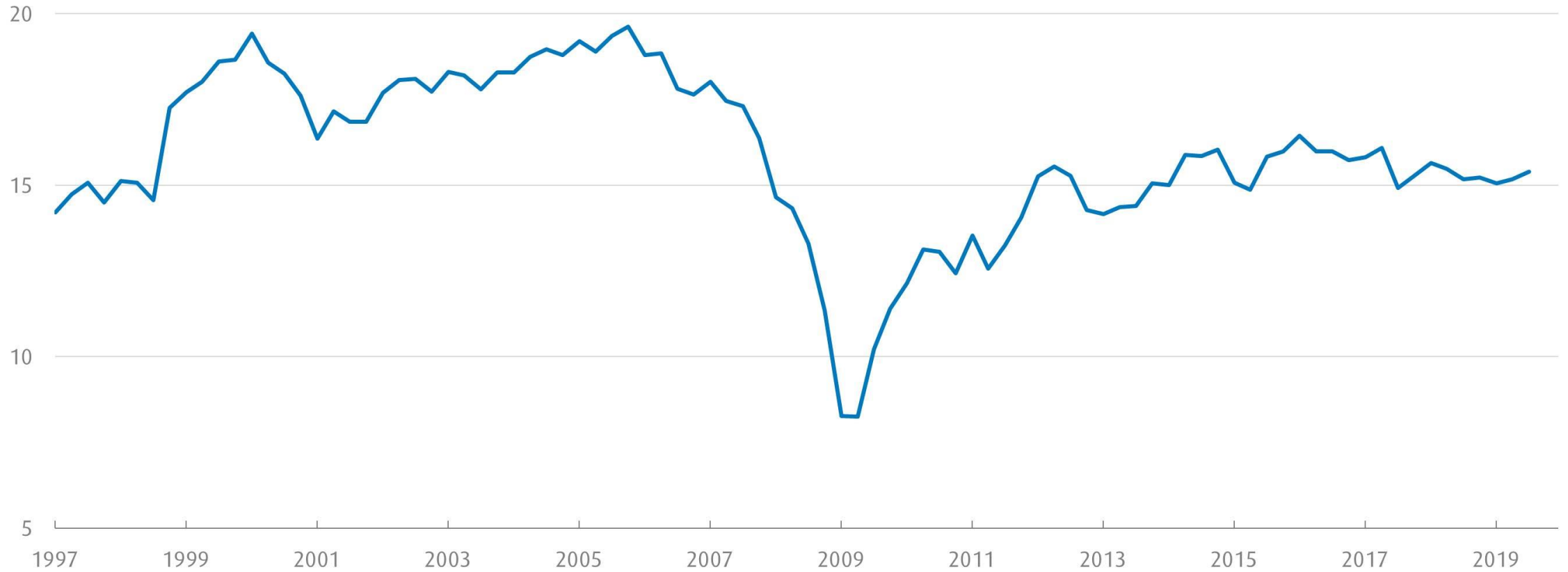
Motor Vehicle Sales



Despite earlier strong sales, production of motor vehicles and parts has been essentially flat since 2012, at well below pre-recession levels

Canada (2012 C\$ billions)

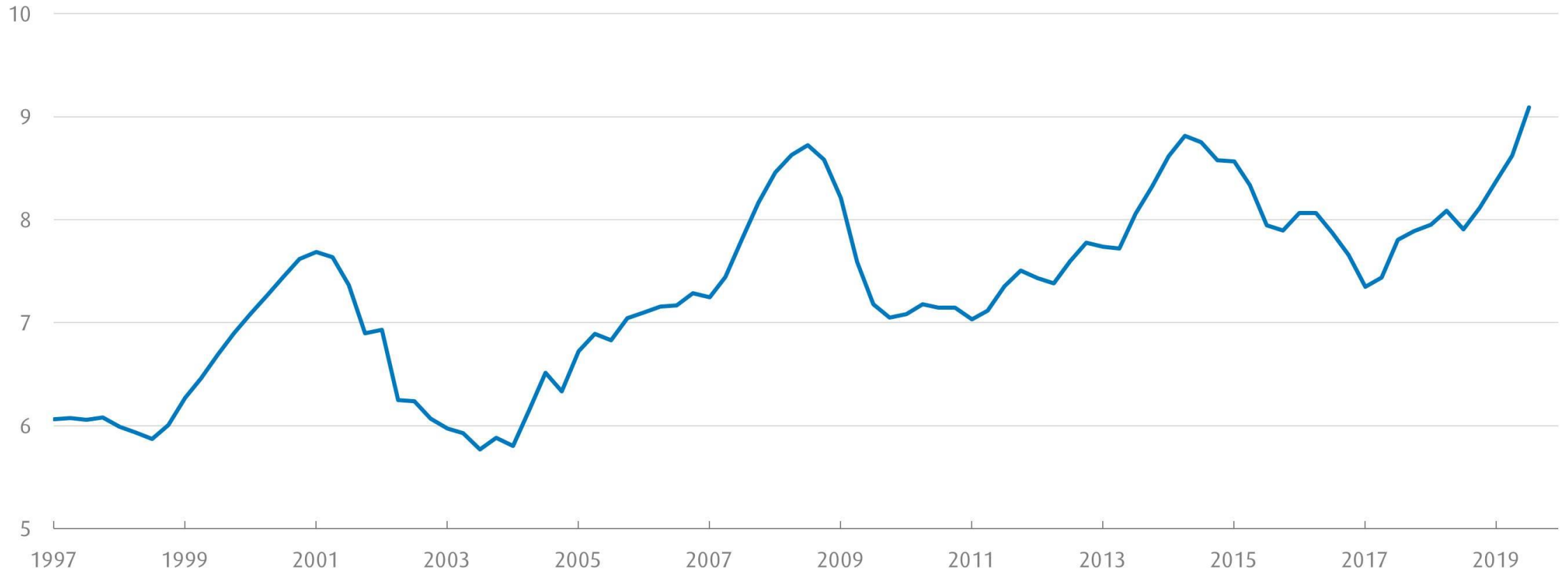
Motor Vehicles & Parts



Contrary to motor vehicles, output of aerospace equipment has trended upward since 2017 and has now surpassed previous peaks

Canada (C\$ billions)

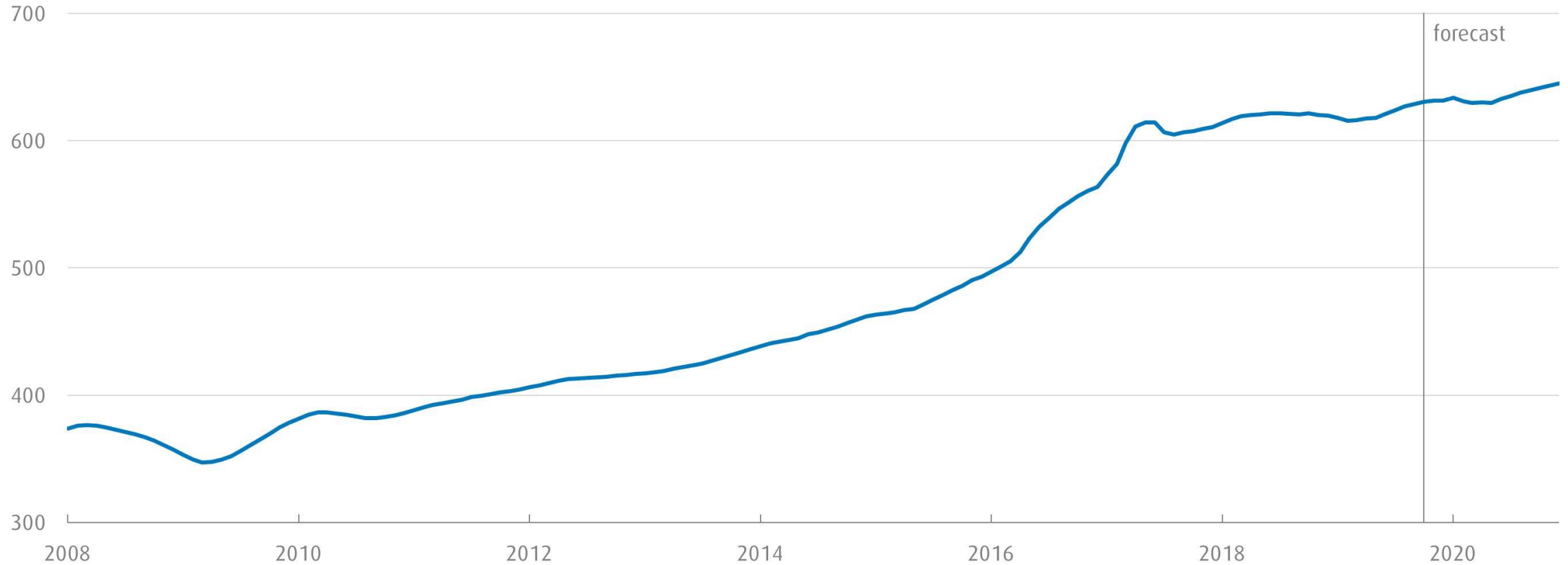
Aerospace Equipment



Nationally, home prices have moved sideways since mid-2017 amid tighter regulation and poor affordability in key markets, but lower rates are supportive

Canada (thousands of dollars)

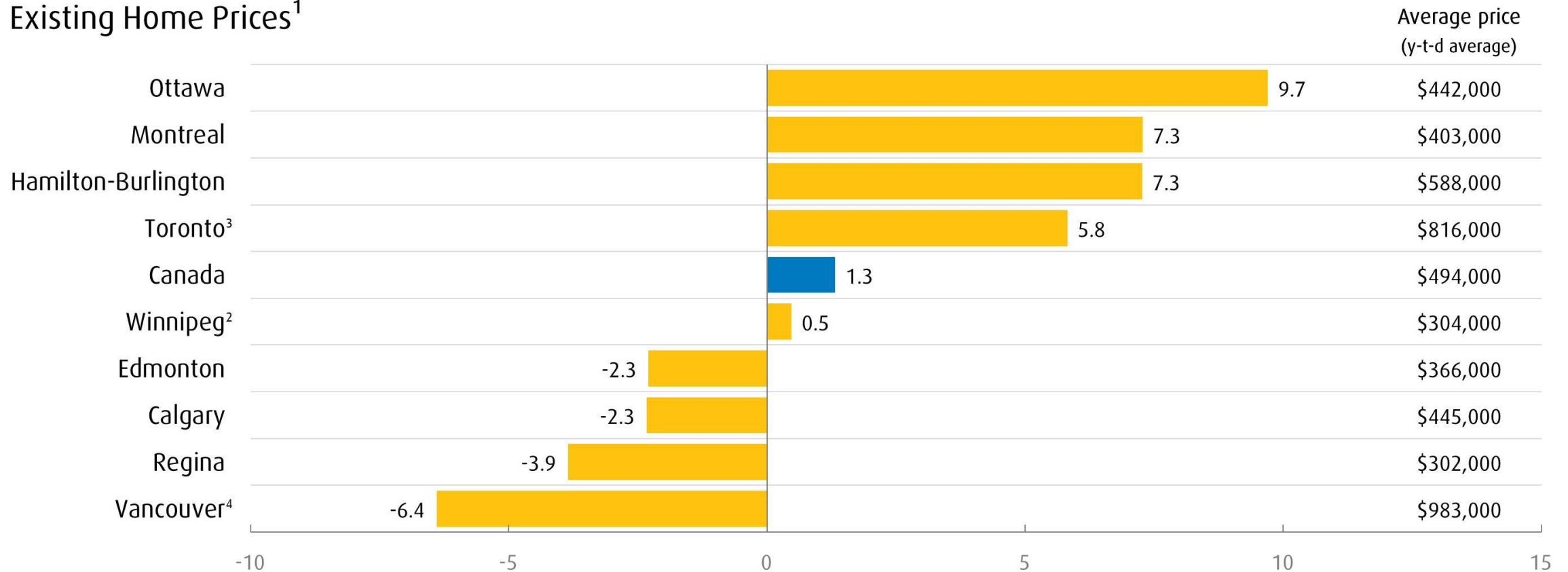
Benchmark Home Price



Housing price inflation is variable across markets; strongest in the east

Canada (percent : year-over-year : nsa : as of September 2019)

Existing Home Prices¹

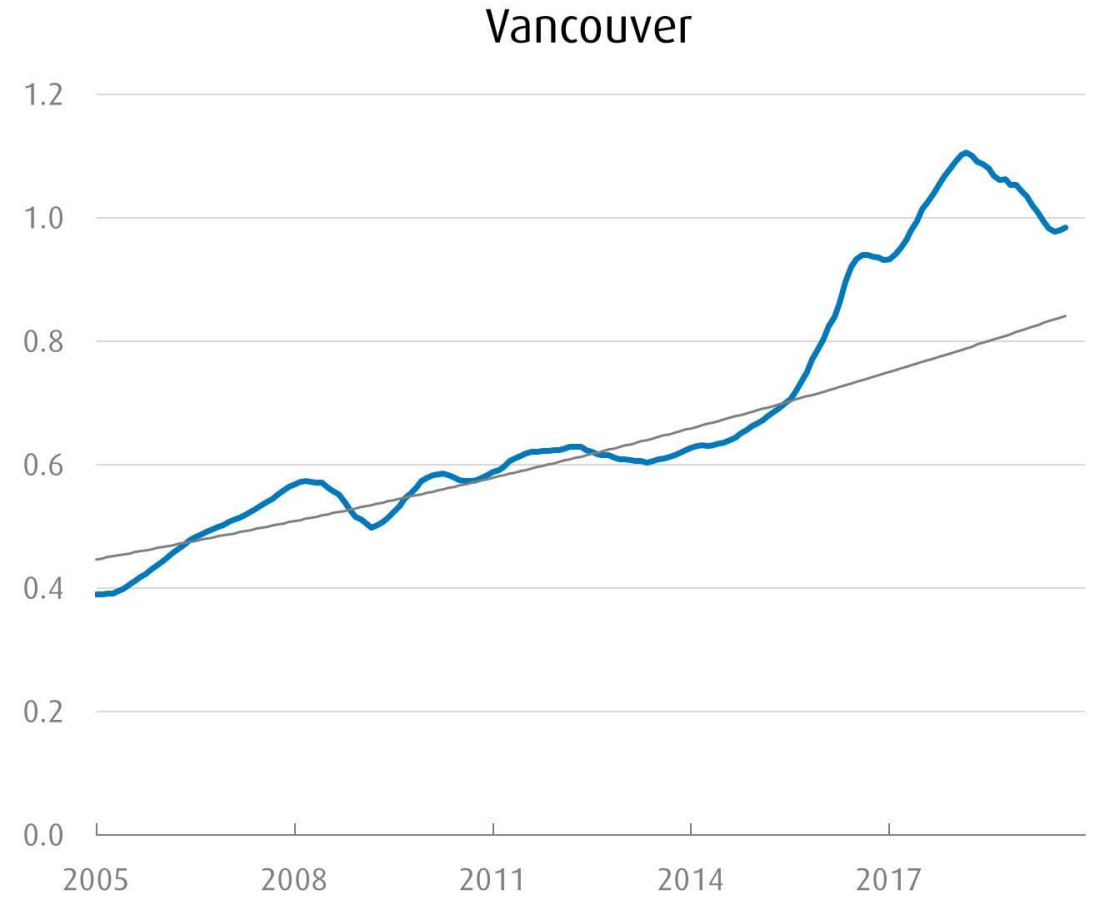
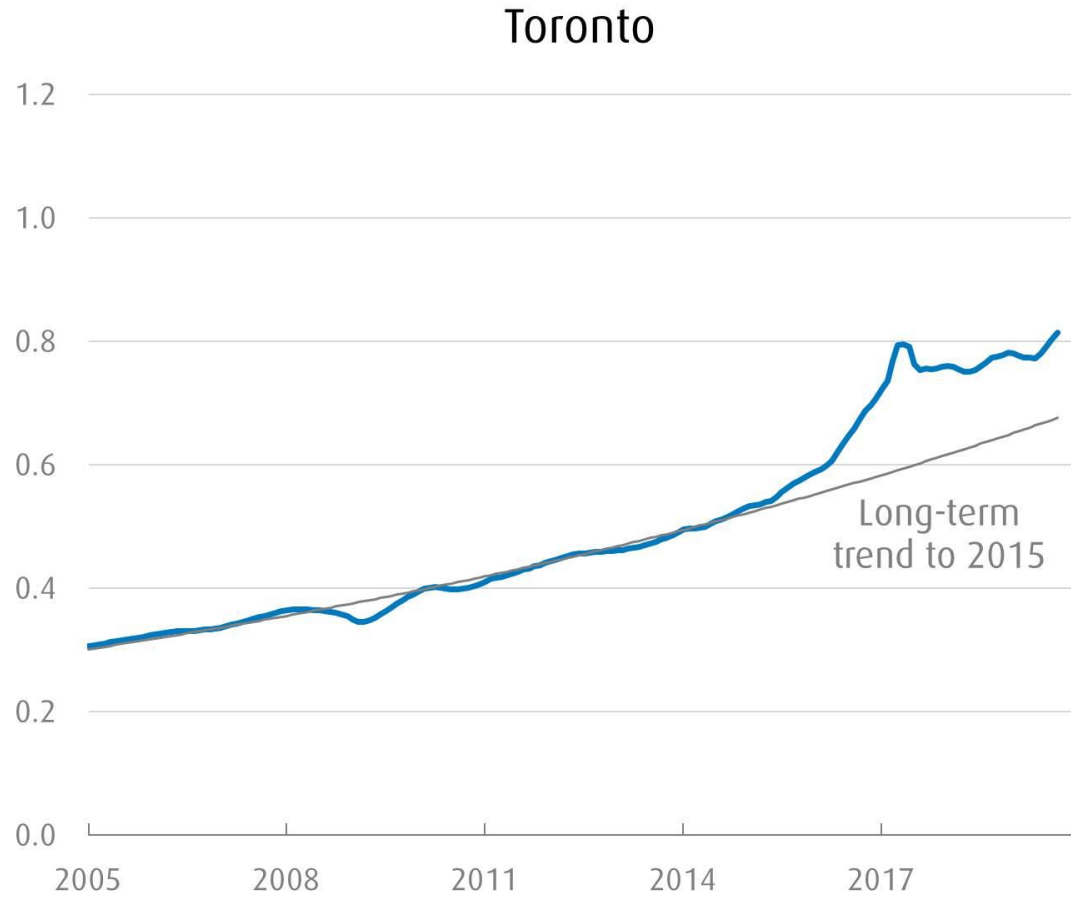


Governments' moves to cool market: Working well

¹ HPI composite benchmark where available • ² Average price (y-t-d avg) • ³ October 2019 • ⁴ October 2019 (HPI rate), September 2019 (average y-t-d price)

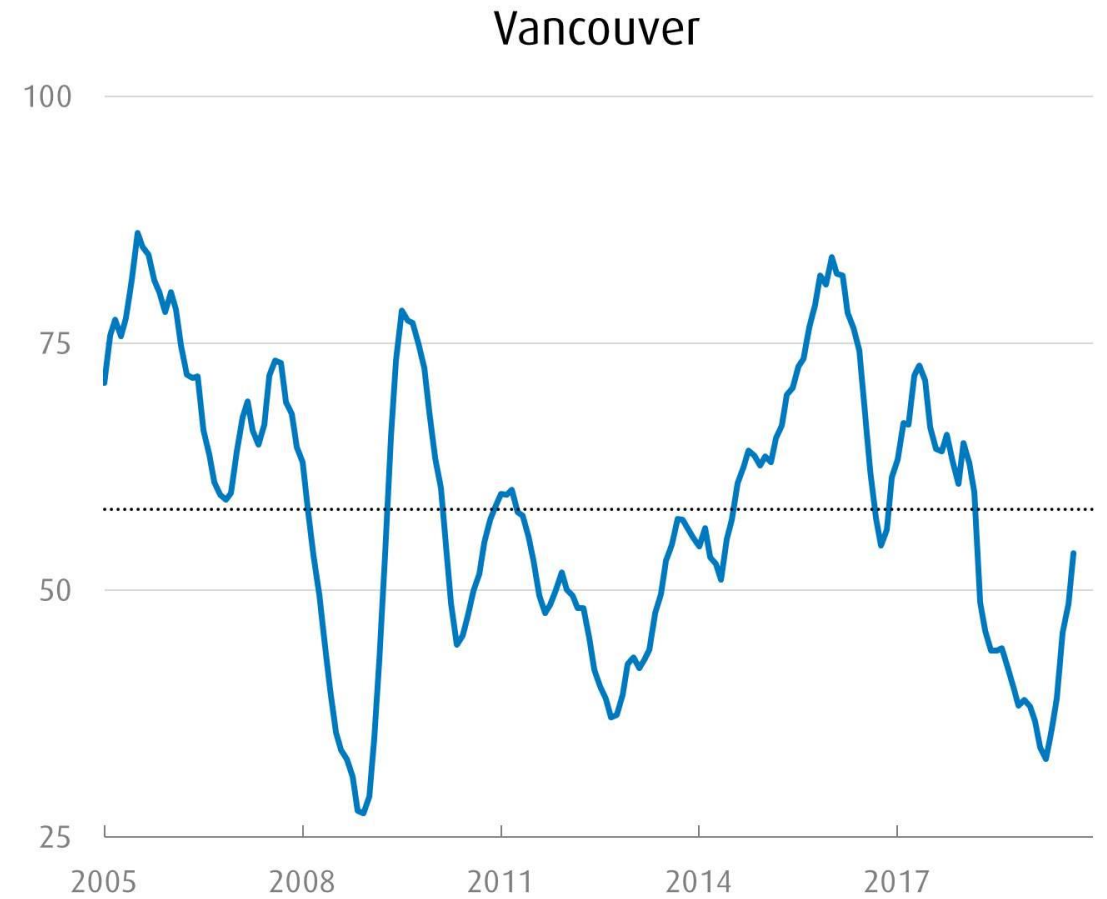
A tale of two cities (of particular concern): Prices about 18% above long-term trend, down from peaks of 35% in Toronto and 40% in Vancouver

Benchmark Housing Prices – Canada (\$ millions)



Market is rebalanced in Toronto and getting closer in Vancouver

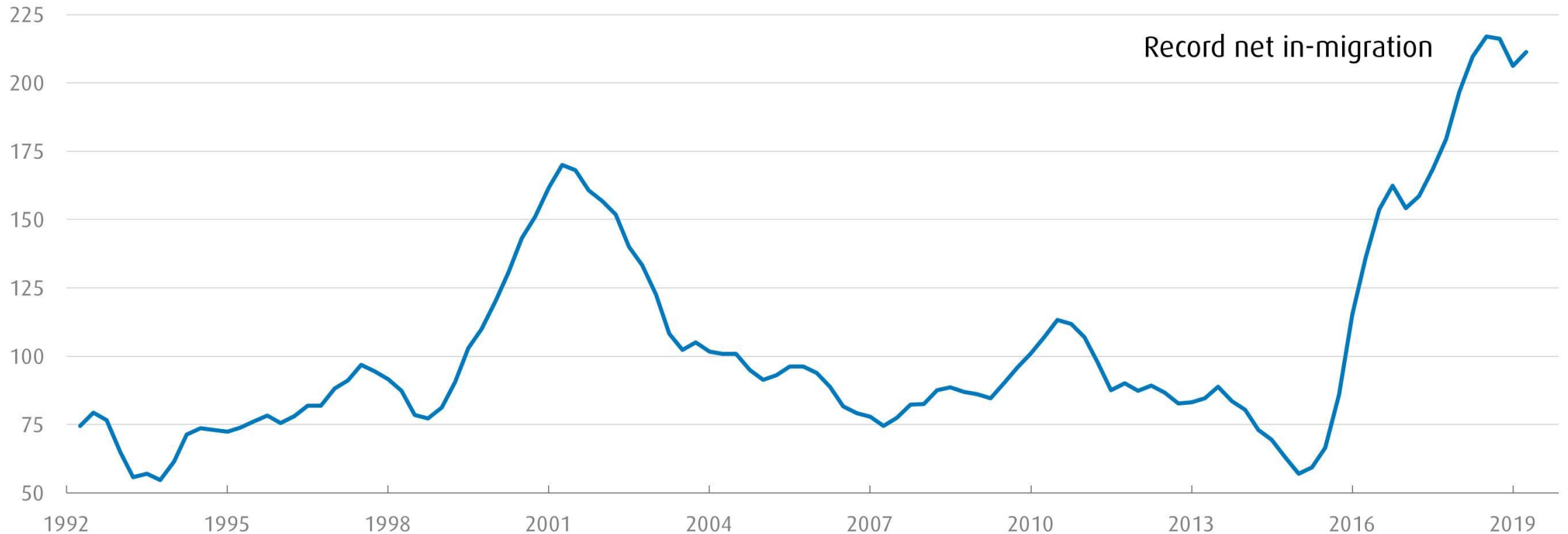
Sales/New Listings Ratio – Canada (percent)



Immigration has been an important driver of Toronto real estate

Ontario (thousands of persons : 4-quarter total)

Net Total Migration



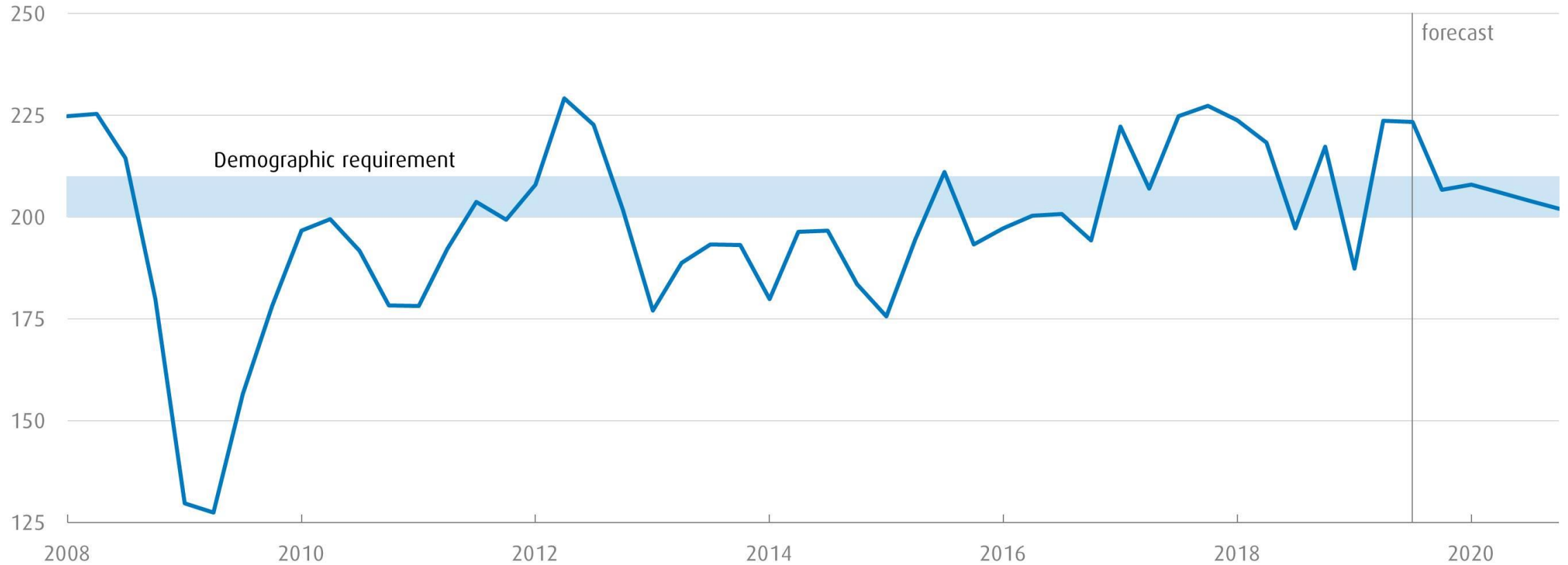
Record net in-migration

GTA population +2.5% y/y; Rest of Canada +1.2%;
Risk – Housing supply and infrastructure not keeping pace

Homebuilding has been running around demographic requirement, but that requirement is rising with climbing immigration

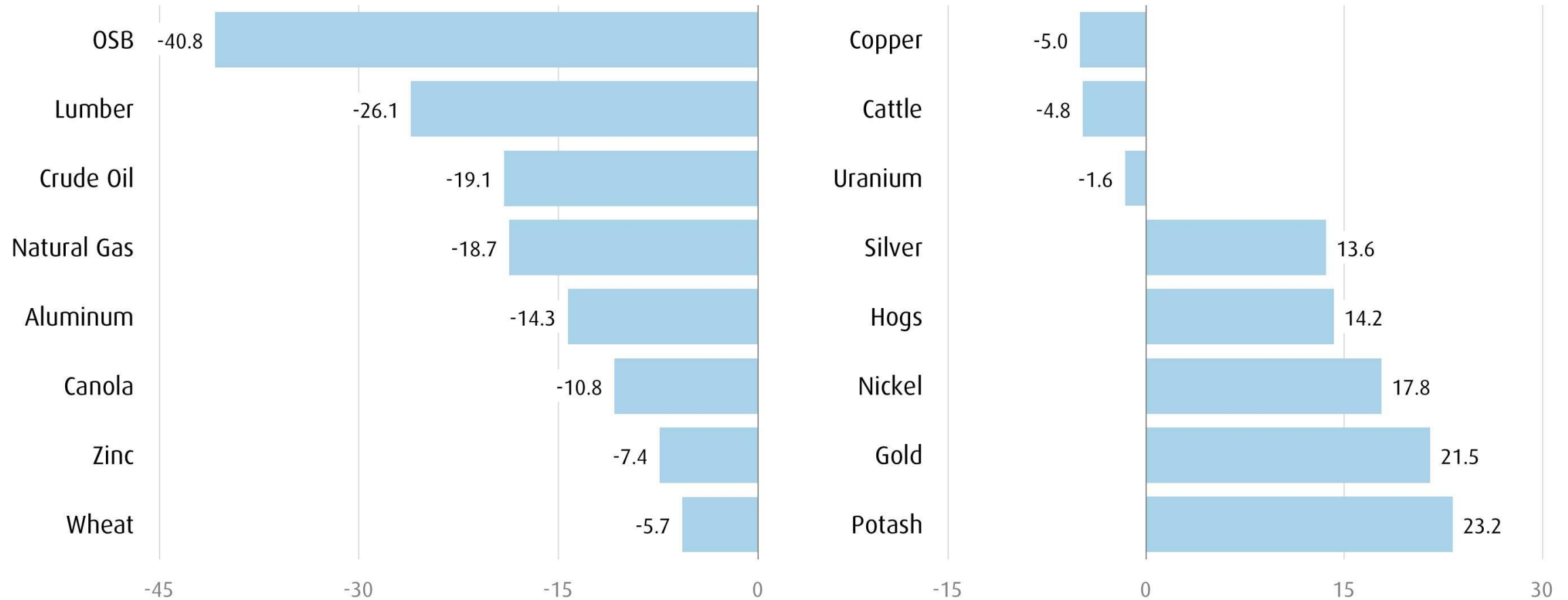
Canada (thousands of units : annual rate)

Housing Starts

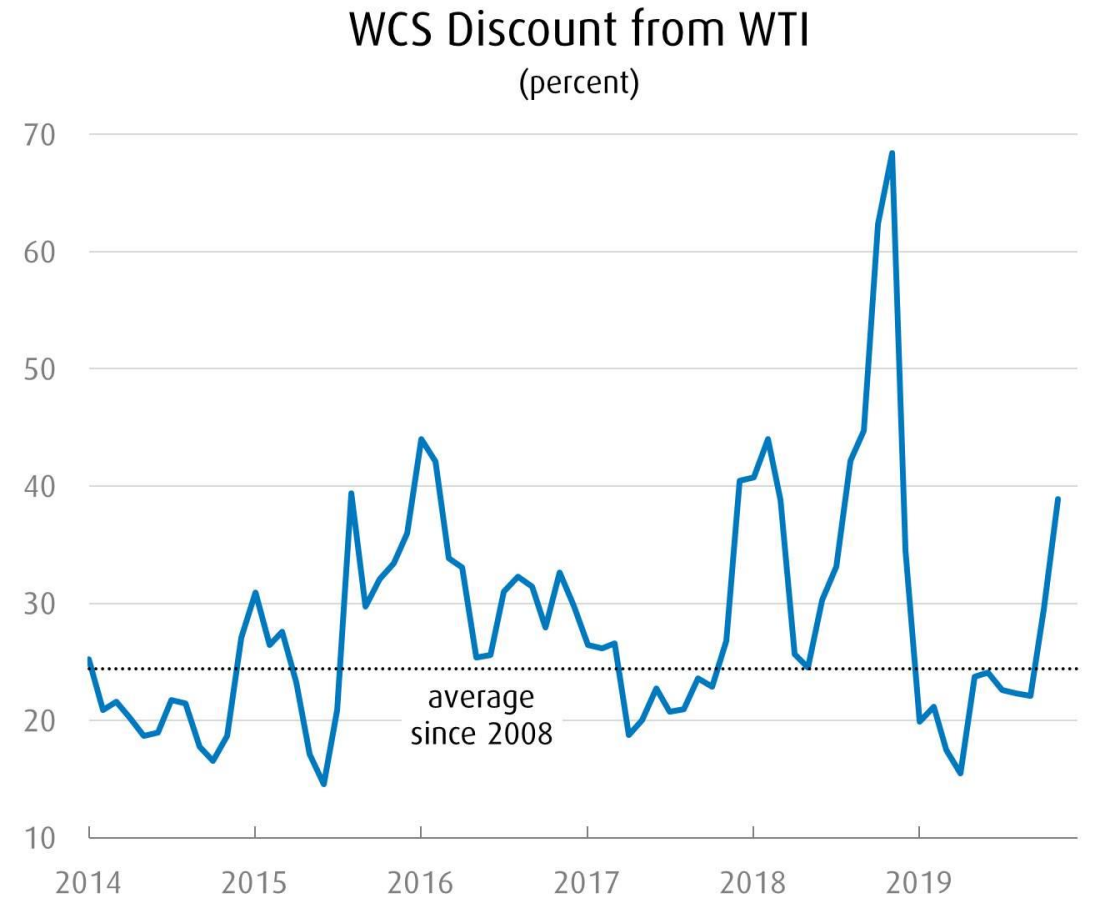
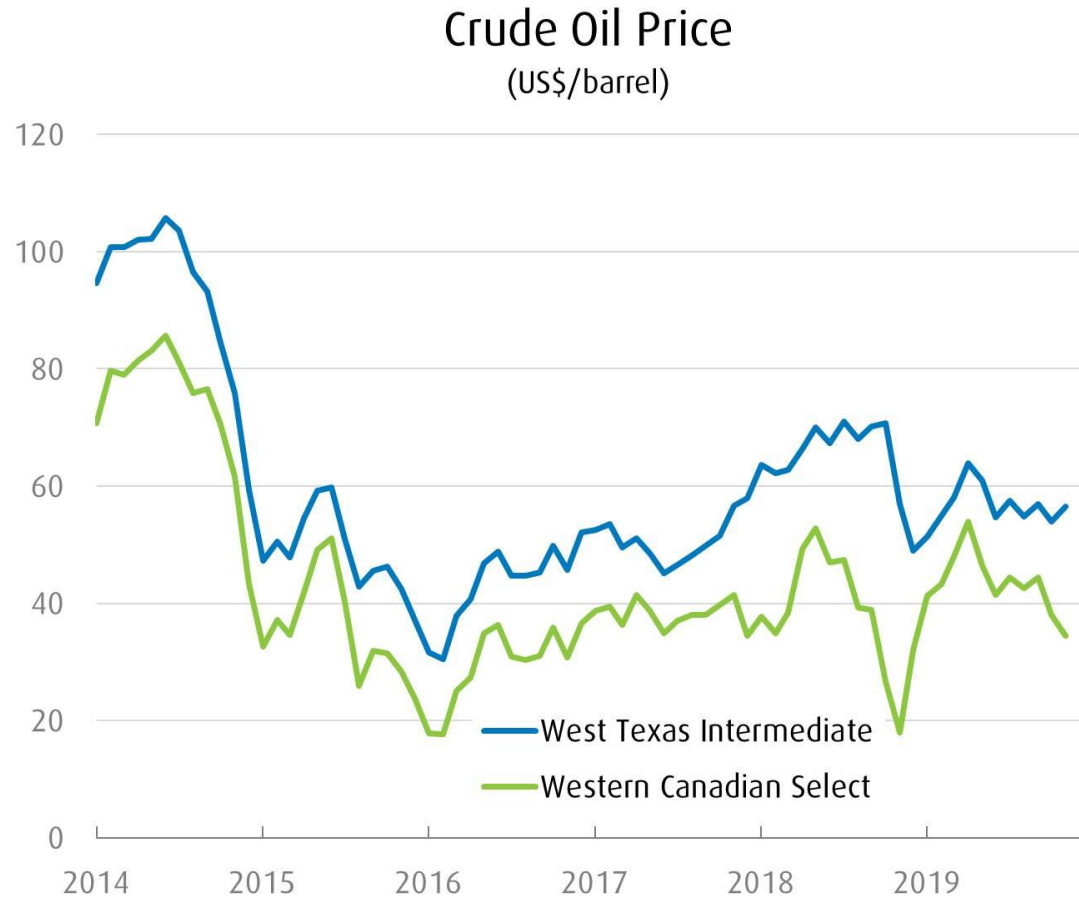


Forest and energy products have led the commodity decline over the past year

Change in Commodity Prices – 2019:Q3 (percent : year-over-year : US dollars)



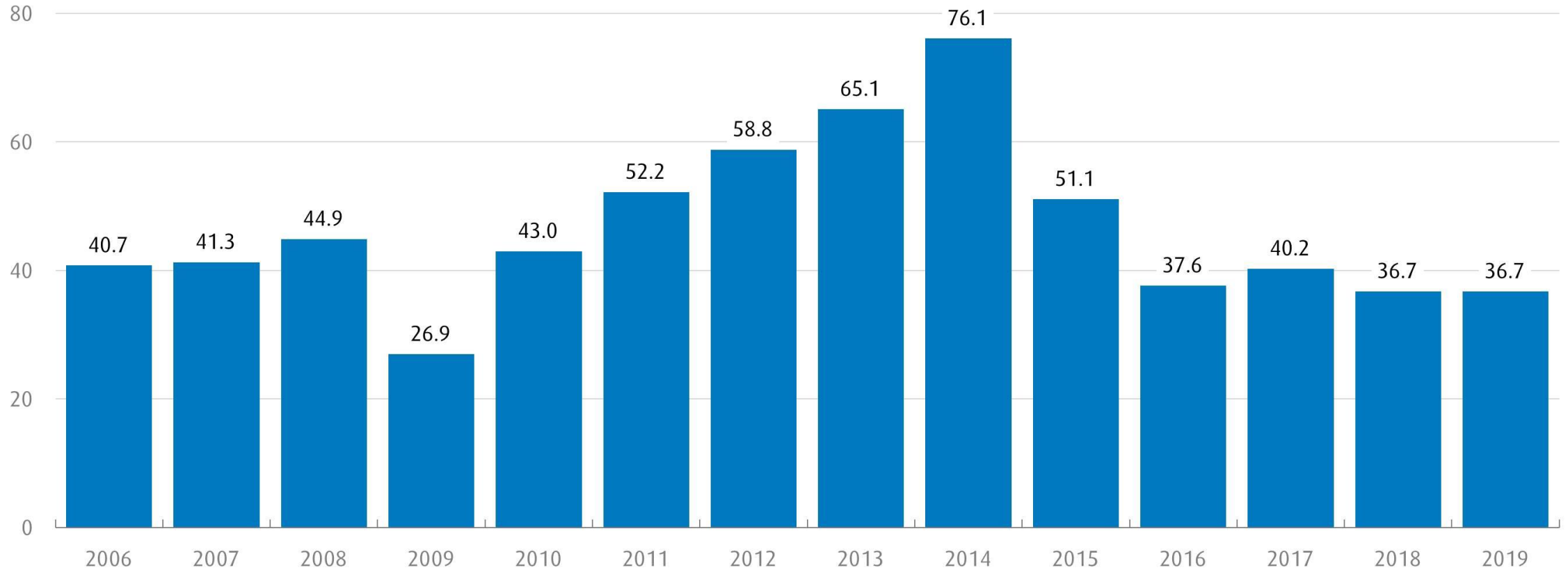
Oil prices volatile in face of geopolitics and OPEC+ supply management; WTI slated to average in mid-\$55 range; discount on WCS is widening again



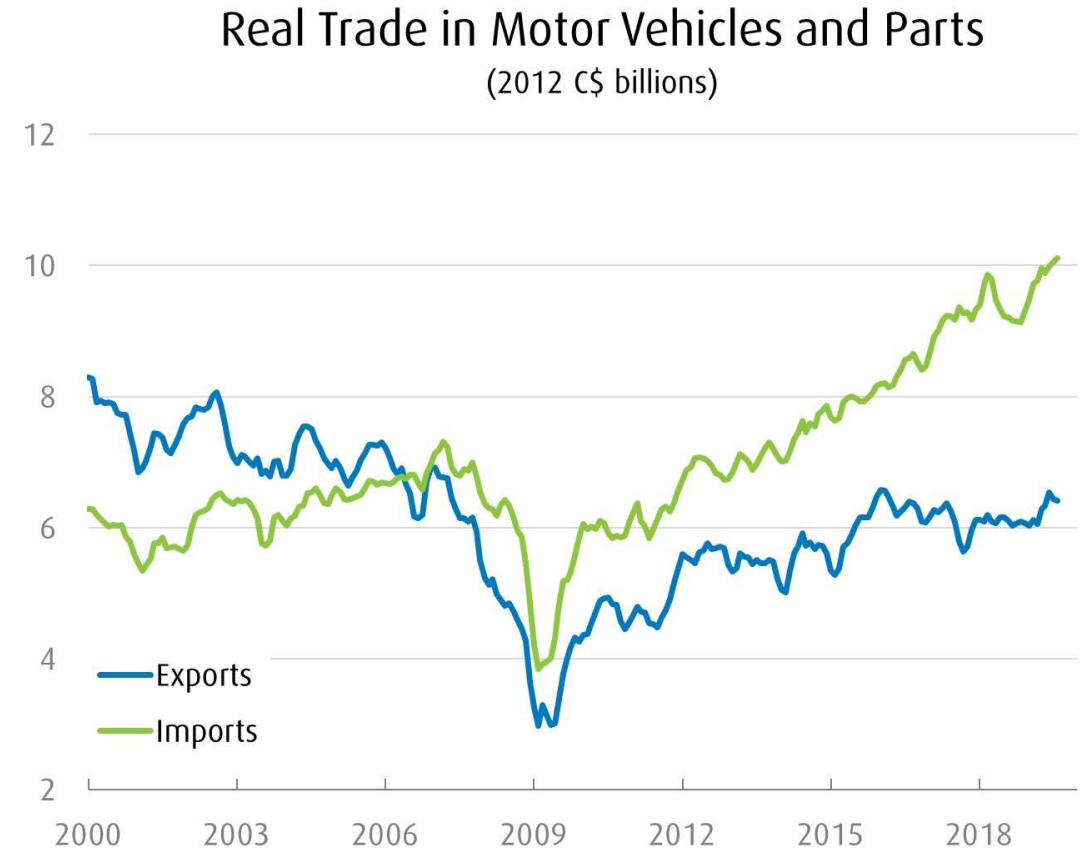
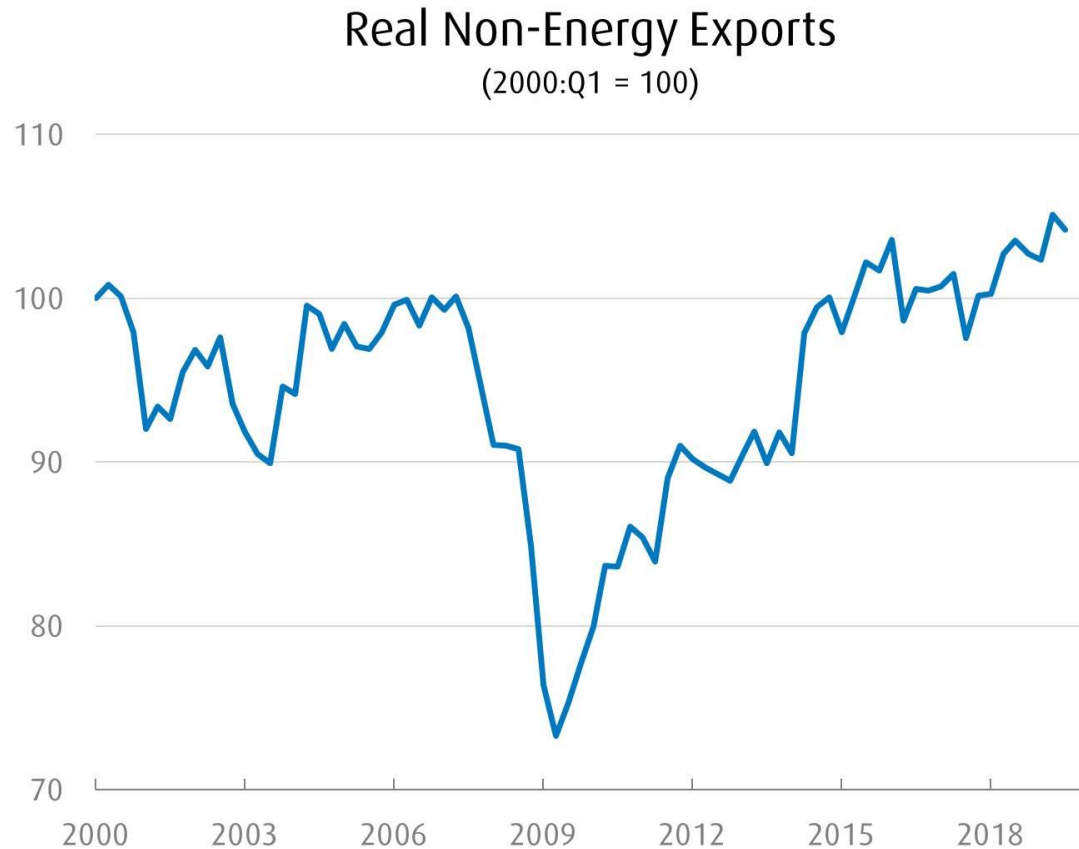
Despite rising cash flows, global uncertainty and inability to bring product to market have kept Oil & Gas investment very weak; not much change expected for 2020

Canada (C\$ billions)

Oil & Gas Capex



Real non-energy exports are barely higher than pre-recession levels...



...despite a 27% decline in the loonie vs the US dollar since mid-2011

The loonie has been effectively range-bound over the past year and remains low by historical norms...

(US dollars per Canadian dollar)

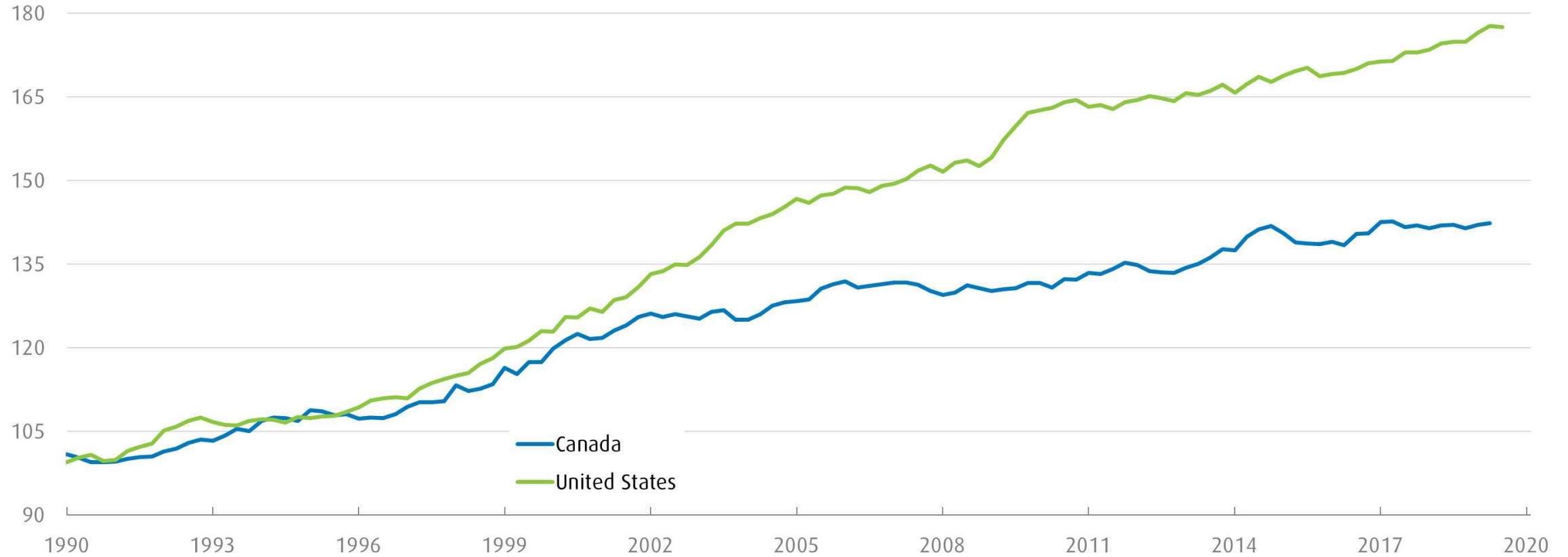
Canadian Dollar



...highlighting competitiveness as a clear problem

(1990 = 100)

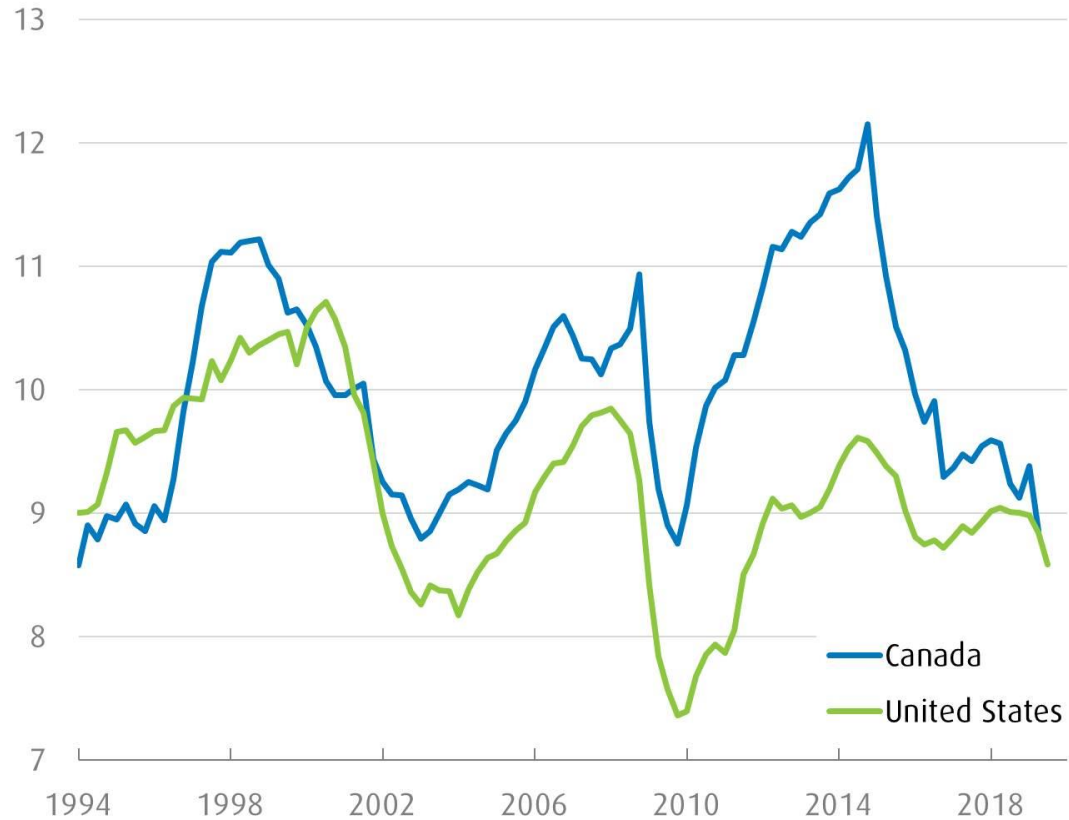
Business Sector Productivity



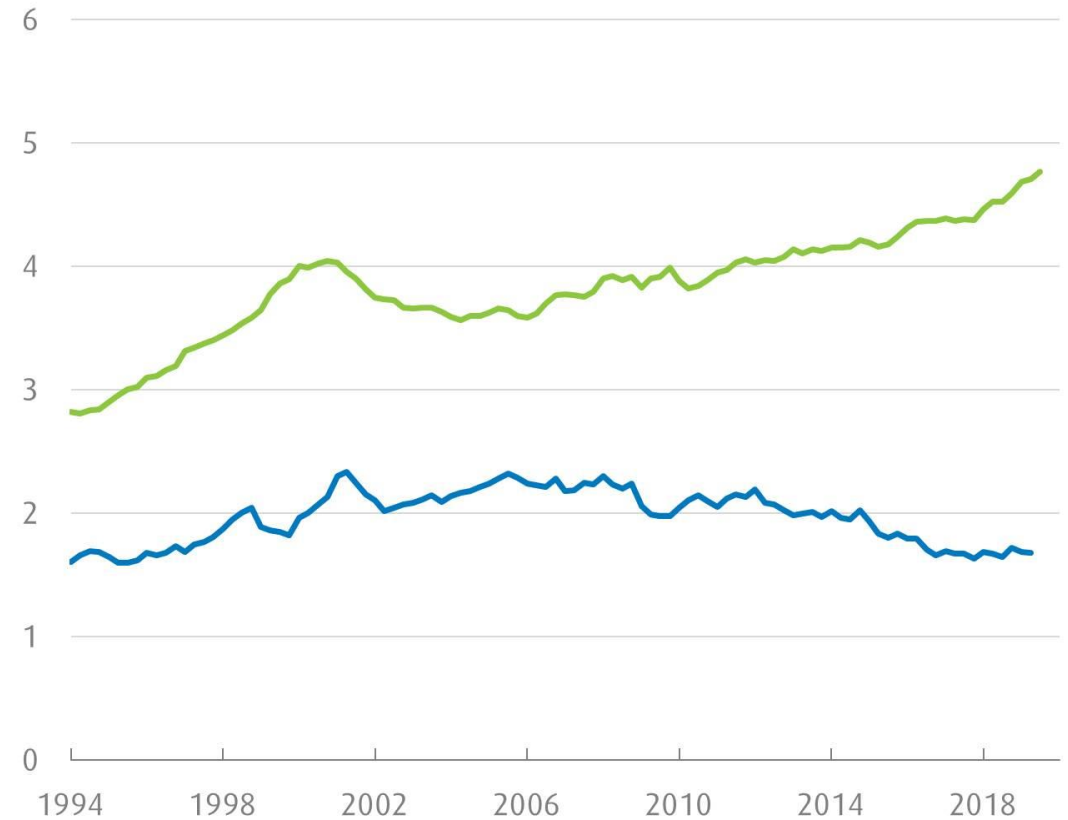
Relative to GDP, capex in plant & equipment is soft in both countries; the productivity differentiator has been US investment in information technology

Business Sector (percent of GDP)

Fixed Capital Formation



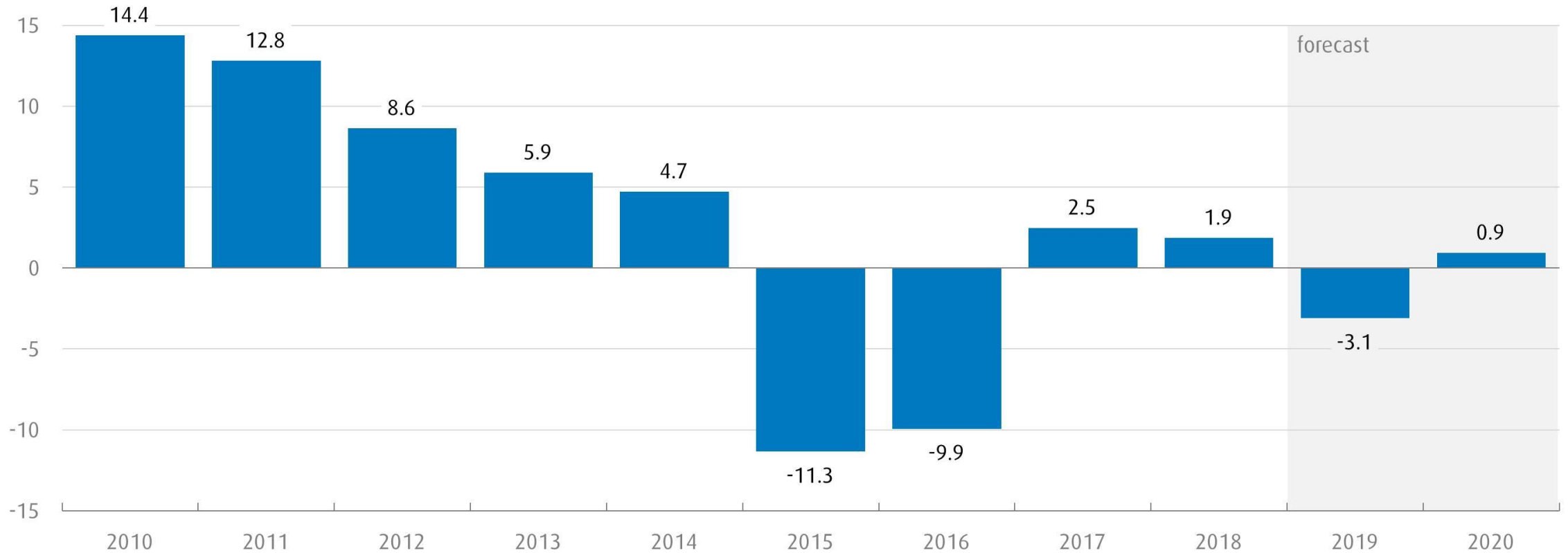
Investment in Intellectual Property



Slower global growth, volatile commodity prices, and trade policy uncertainty are major headwinds for business investment

Canada (percent)

Growth in Real Business Investment



Upside potential for the Industry



TransMountain Pipeline

LNG Canada – in service by 2023

- ⇒ New markets for Alberta oil and gas
- ⇒ Open huge BC resource basins: Montney, Liard, Horn River

- ⇒ Spur recovery in oil and gas investment

Q and A

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