



Economic & Financial Outlook

Victoria Economic Luncheon

Stéfane Marion

Chief Economist and Strategist

November 1, 2017

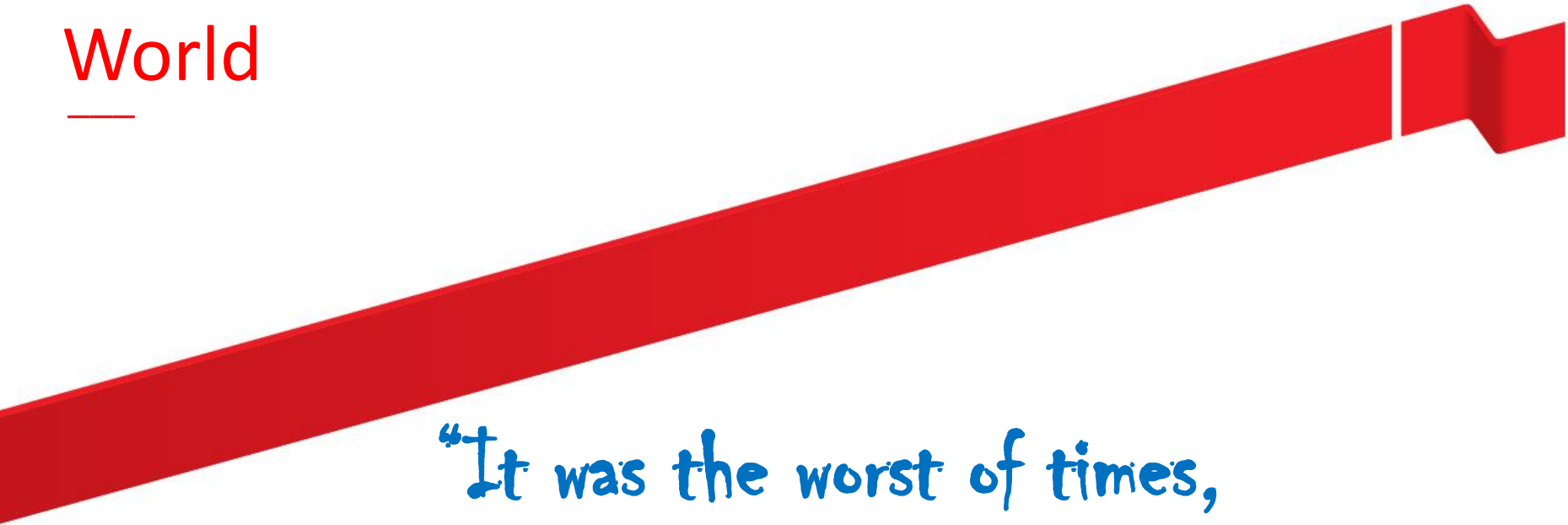


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World

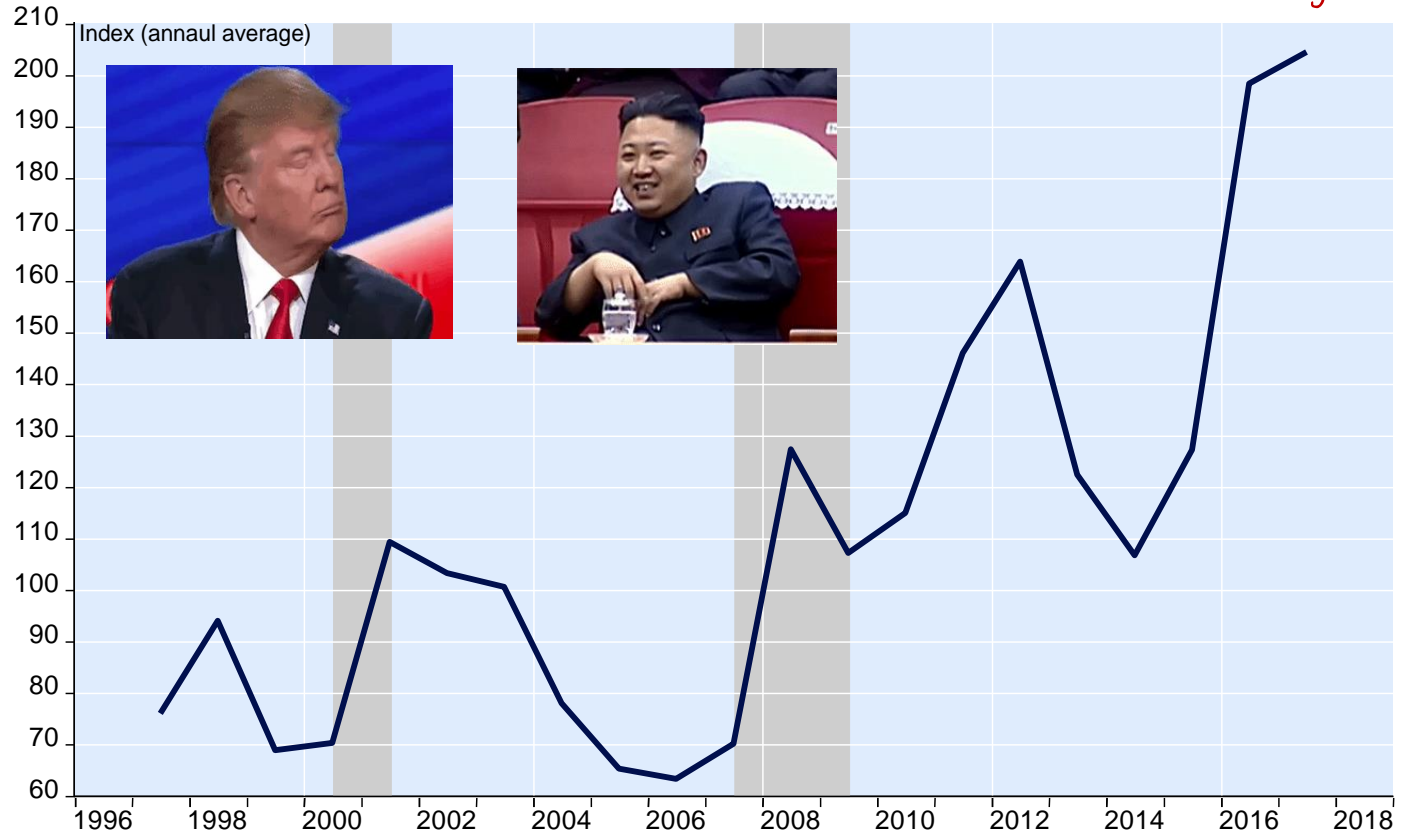


*“It was the worst of times,
it was the best of times”*

World: Geopolitical backdrop not very inspiring

Global economic policy uncertainty

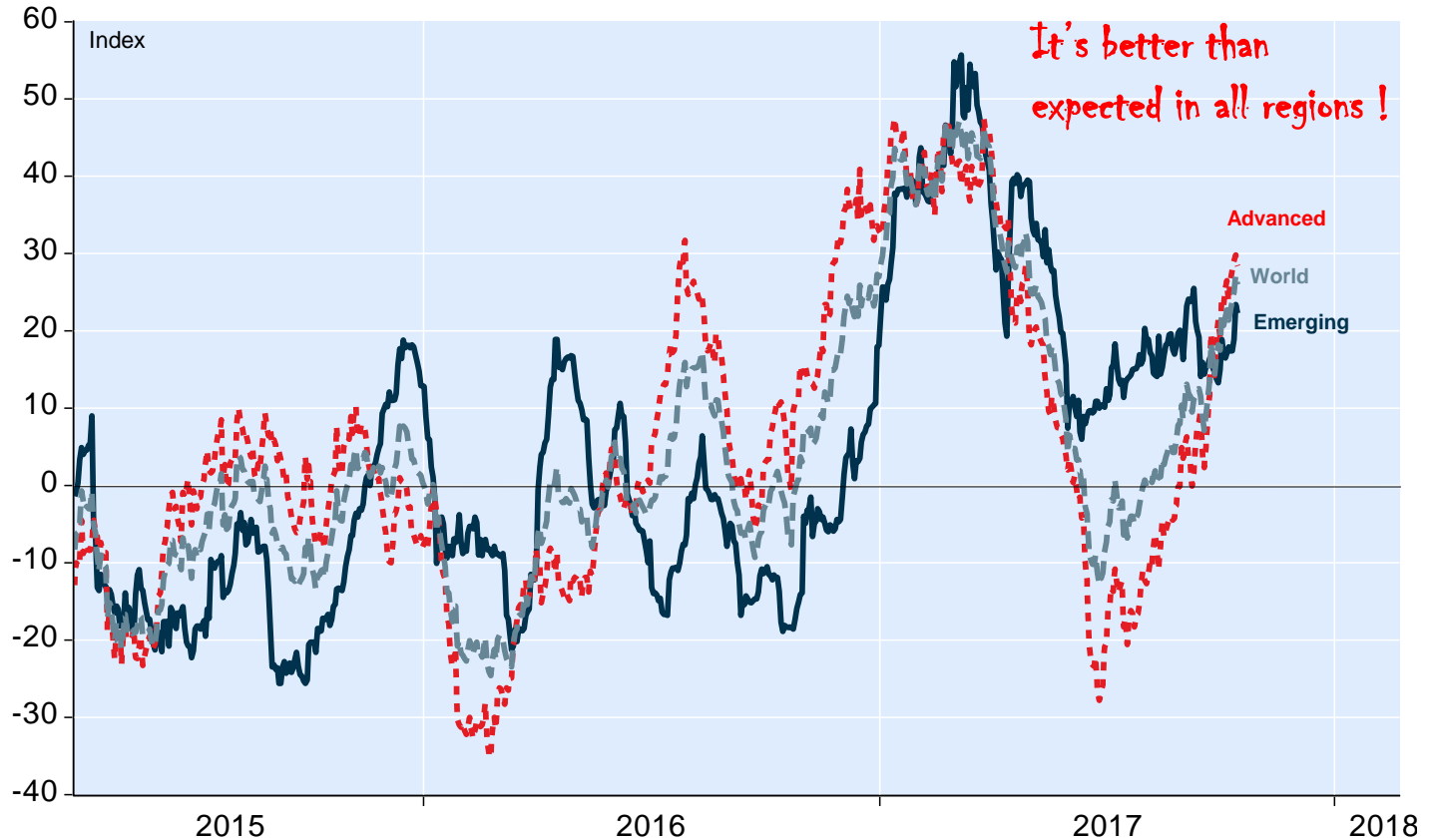
Worst in 20 years !



NBF Economics & Strategy (data via http://www.policyuncertainty.com/global_monthly.html)

World: Positive economic surprises

Citi economic surprise index for World, Advanced and Emerging markets

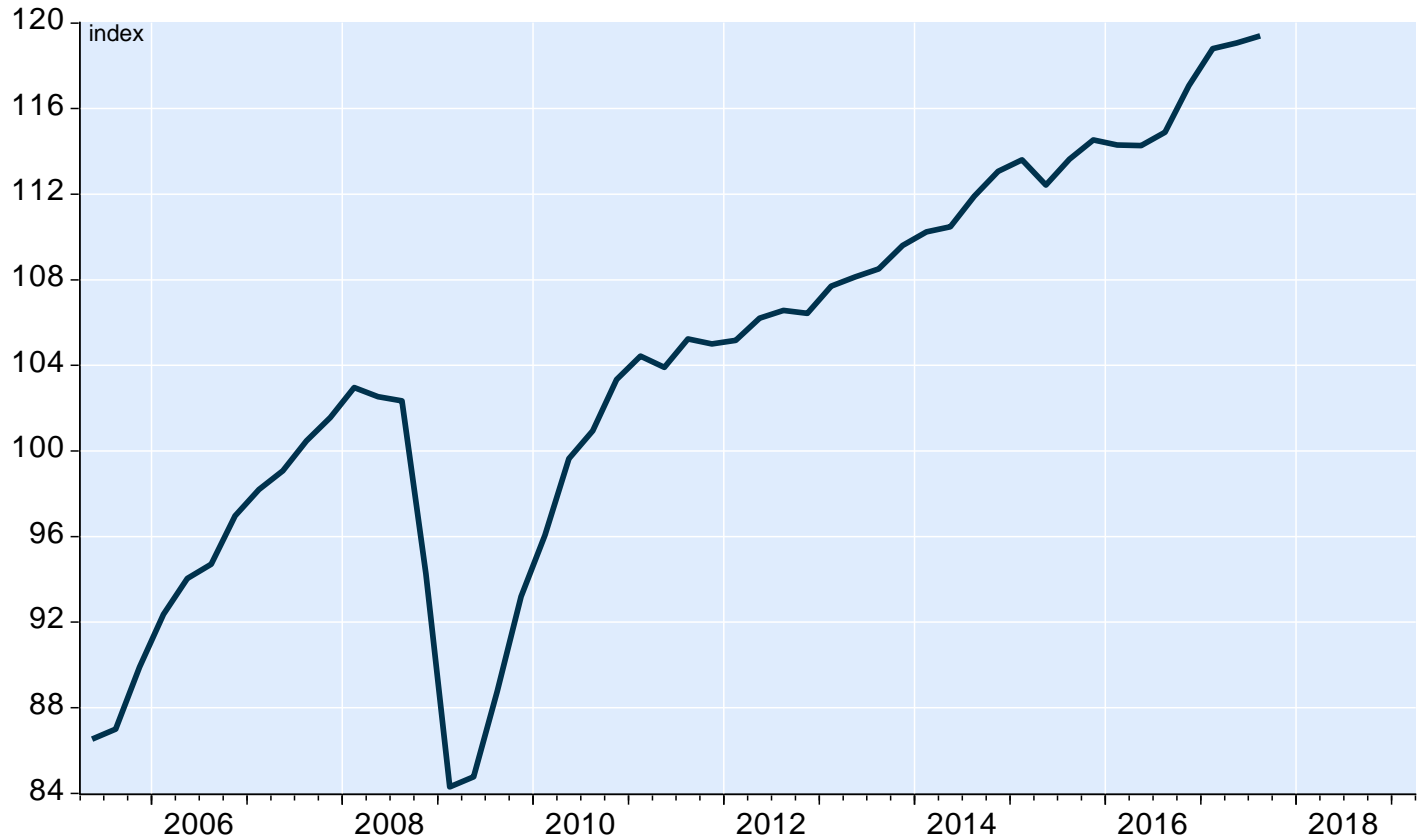


NBF Economics and Strategy (data via Bloomberg)

World: Trade volumes at a record

Global trade flows (quarterly volumes)

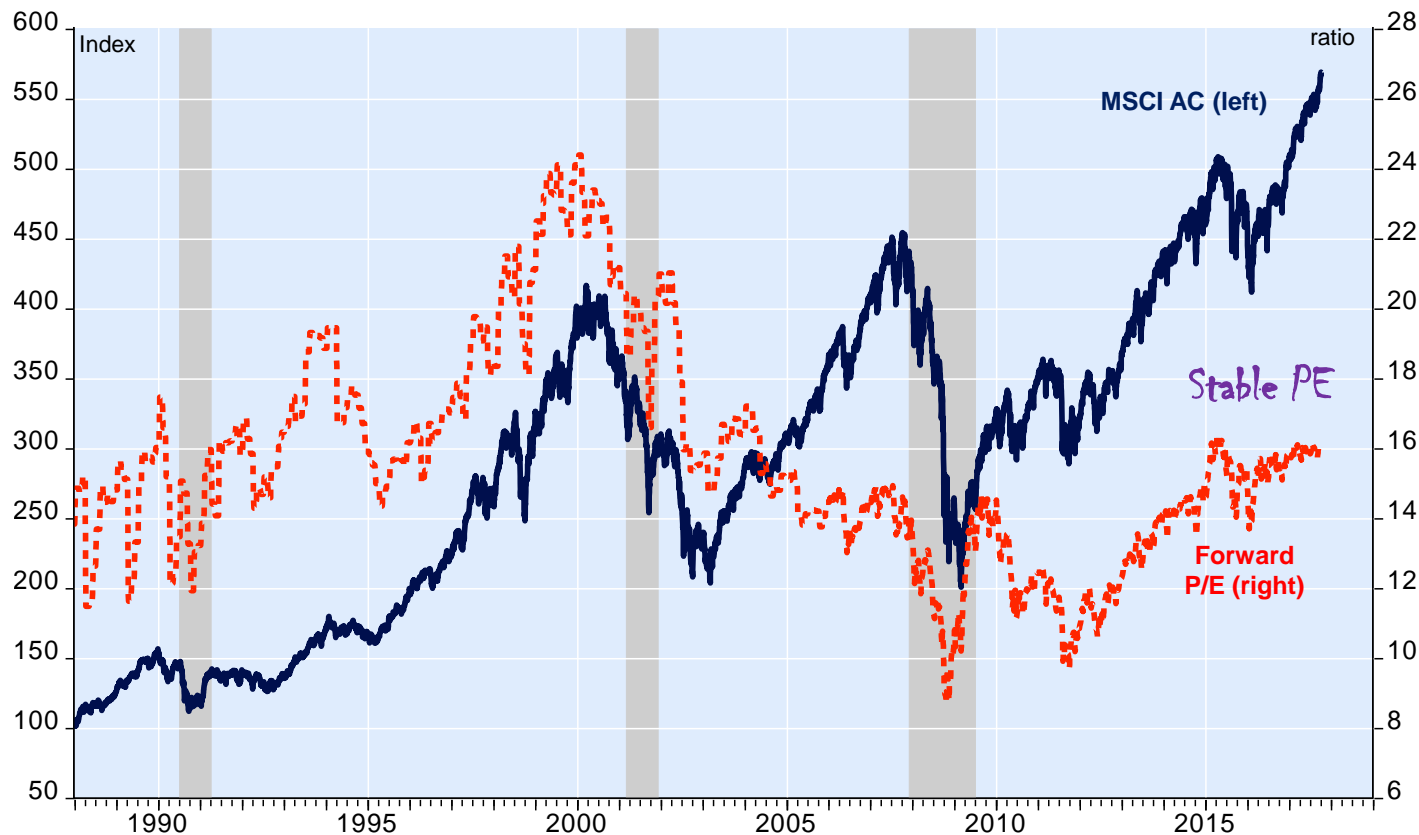
Despite protectionist rhetoric !



NBF Economics and Strategy (CPB data via Datastream)

Global equities: Record level with a stable P/E

MSCI AC and its 12-month-forward P/E

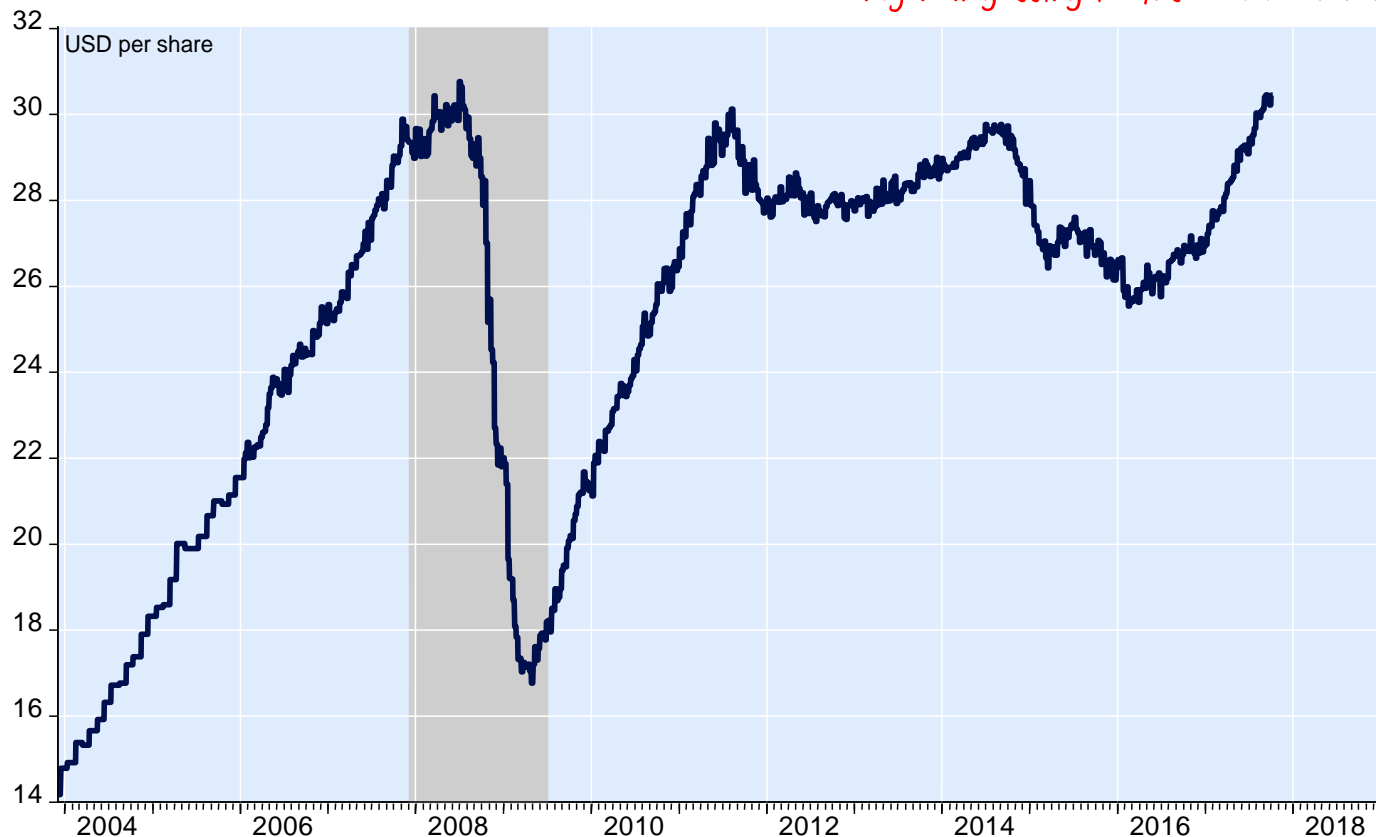


NBF Economics and Strategy (data via Datastream)

World: Earnings expected to hit a record

Estimated 12-month-forward earnings per share for the MSCI AC

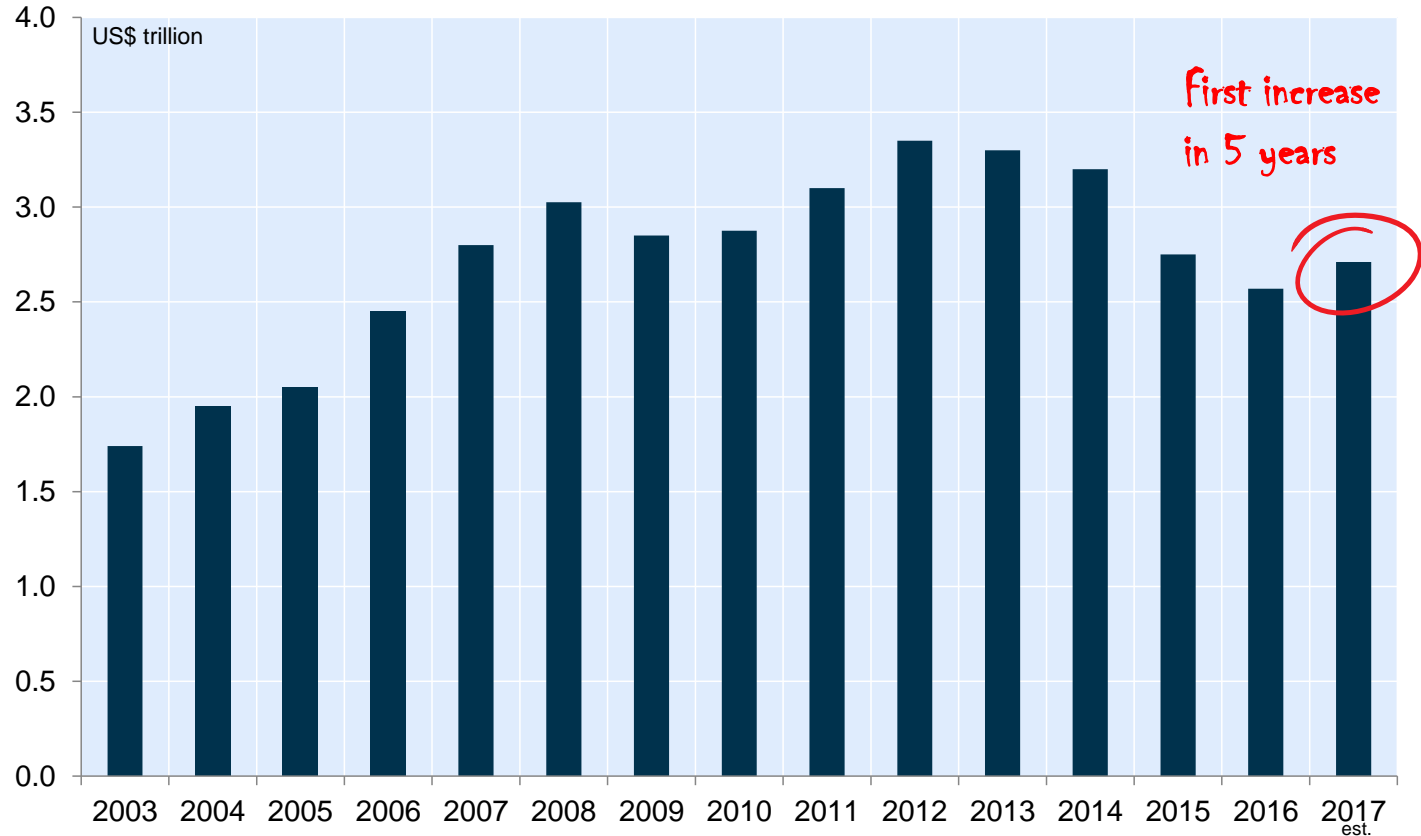
Only now getting back to 2008 levels



NBF Economics and Strategy (data via Datastream)

World: Capital expenditures are recovering

Global non-financial capital expenditures



NBF Economics and Strategy (data via S&P)



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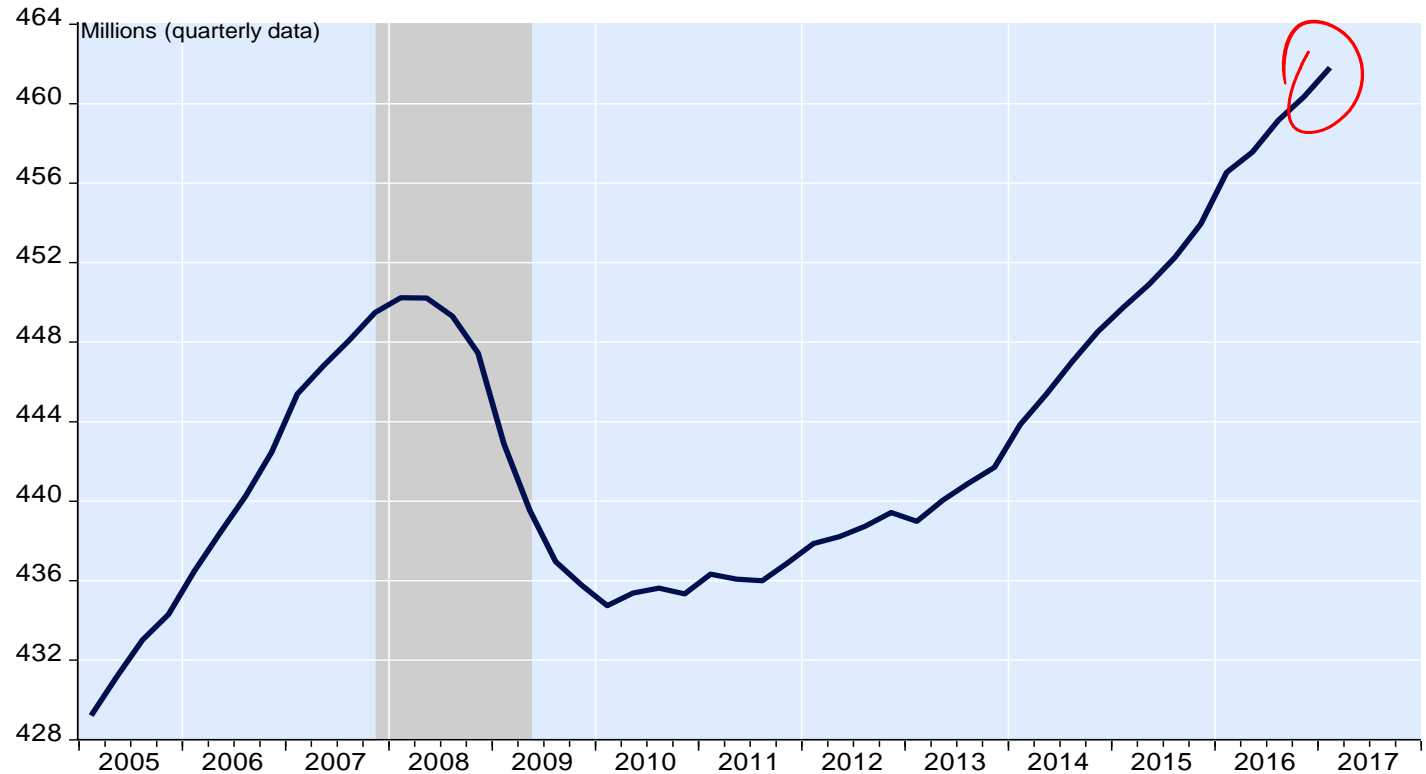
World: Sales of semiconductors are surging

Worldwide sales of semiconductors (monthly data)



World: This is finally starting to look like an expansion

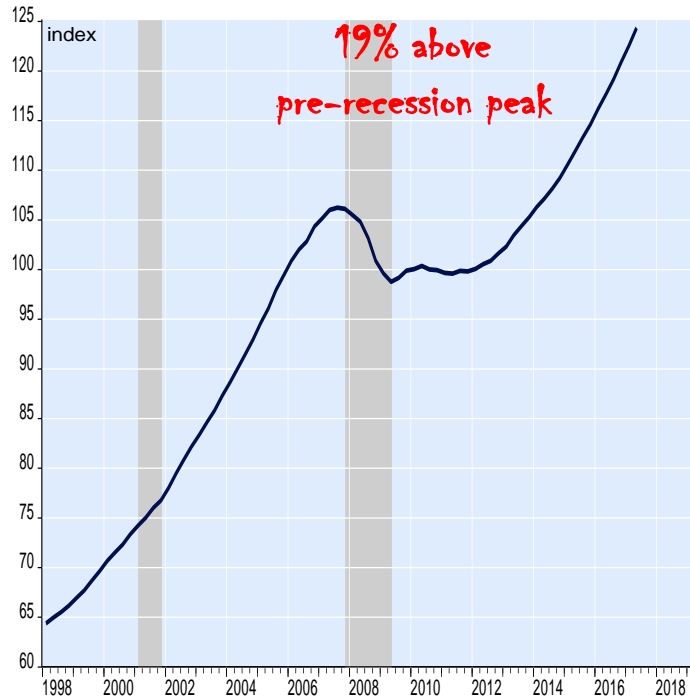
Total employment in the advanced economies (G7 and rest of EU 28)



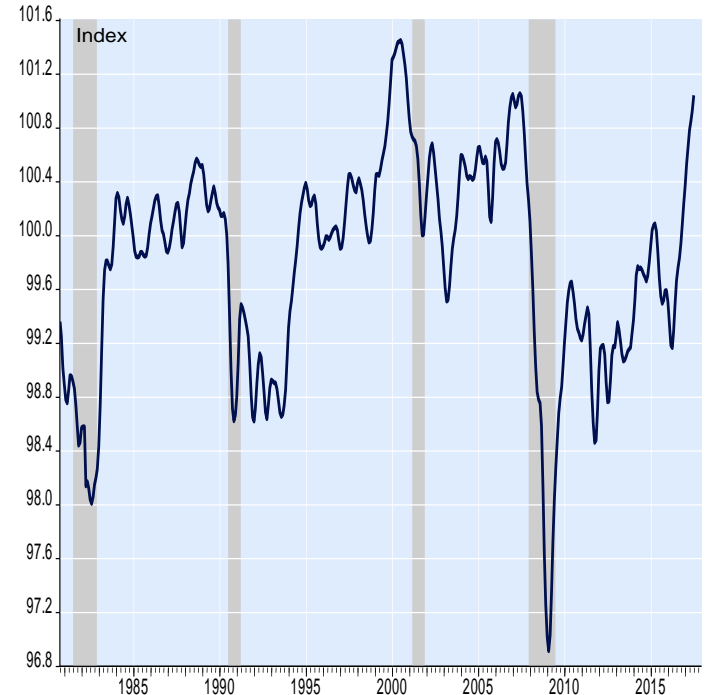
NBF Economics and Strategy (OECD at <http://stats.oecd.org/Index.aspx?DataSetCode=STLABOUR#>)

World: Consumer optimism at the highest in a decade

Aggregate home price index
for OECD countries



Consumer confidence index in OECD countries
and major non-member economies



NBF Economics and Strategy (data via Datastream and OECD)

Best is yet to come for global economy, according to IMF's Christine Lagarde

13 OCTOBER 2017 - 10:40 by ENDA CURRAN AND ANDREW MAYEDA AND RICH MILLER



Christine Lagarde. Picture: EPA/LUKE MACGREGOR

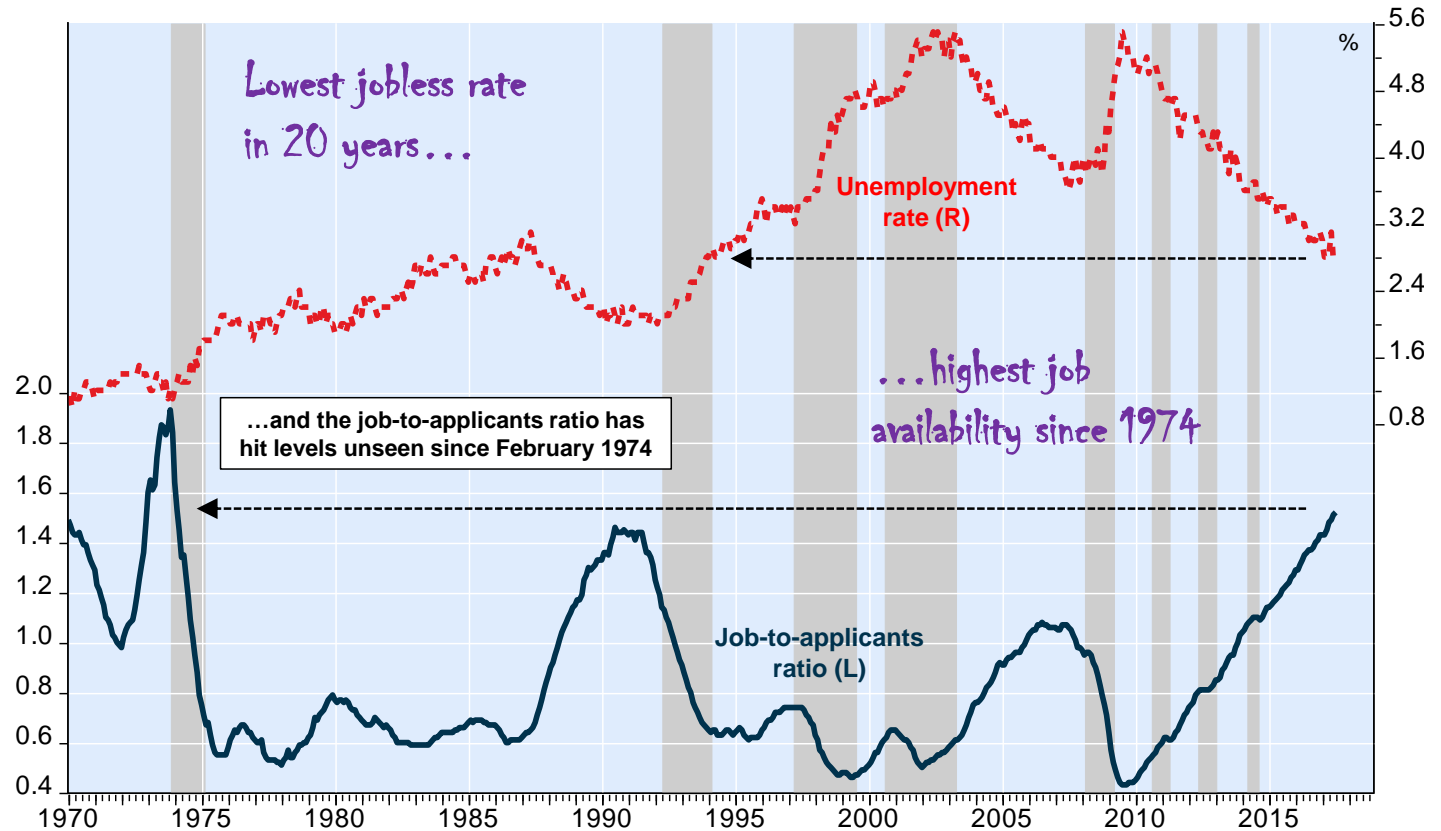
Even the
pessimists have
become optimists !

“In our assessment, the United States, Germany and Japan are now close to full employment”

Tao Zhang, IMF Deputy managing Director

Japan: Best labour market in a generation

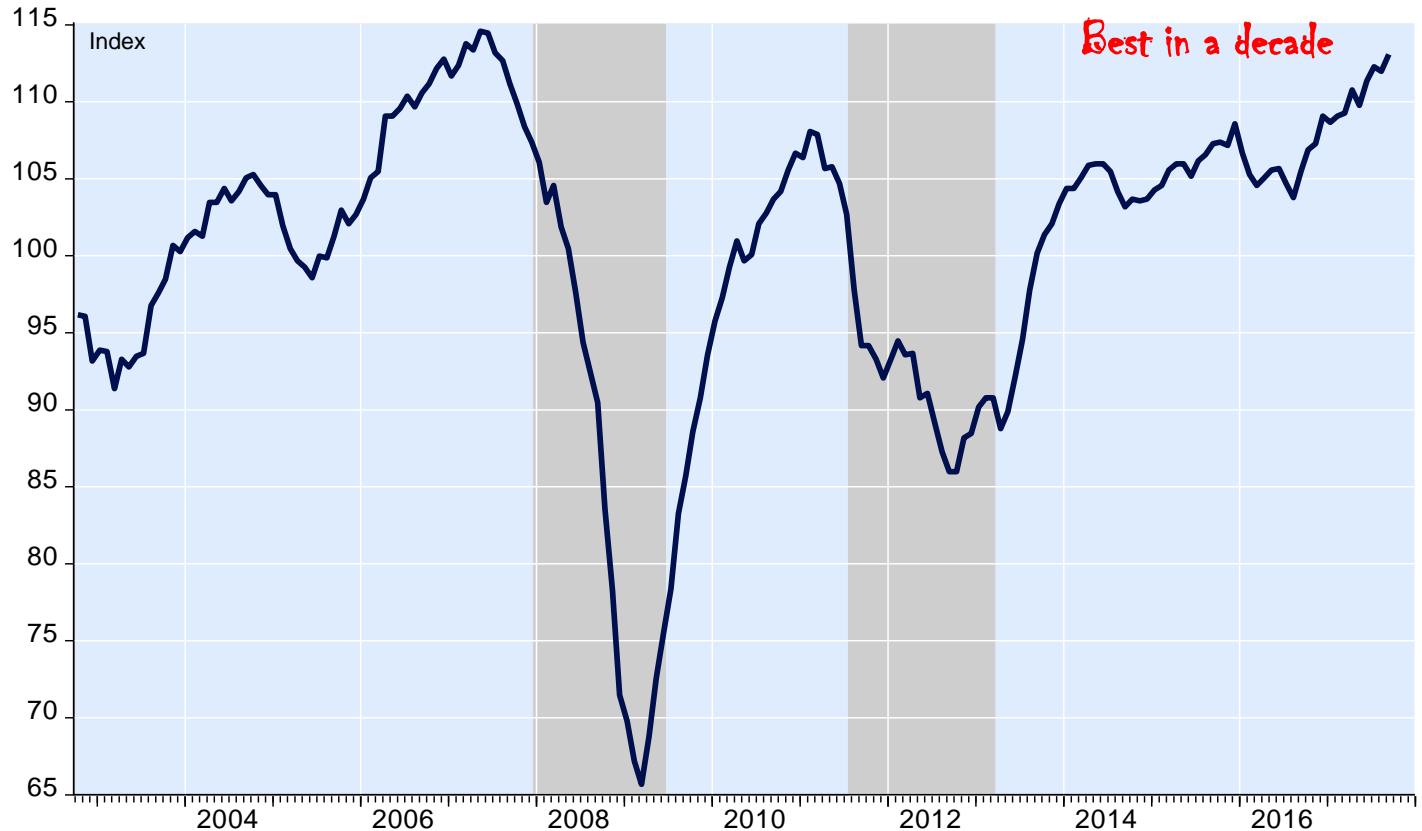
Unemployment rate vs. job-to-applicants ratio, last observation: July 2017



NBF Economics and Strategy (data via Bloomberg)

Euro: Perspective on the economic situation improving

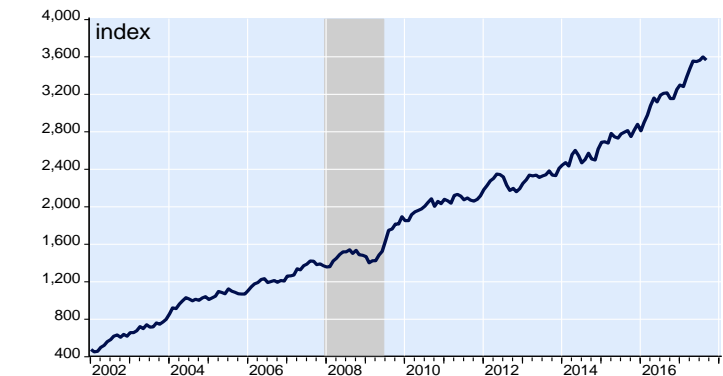
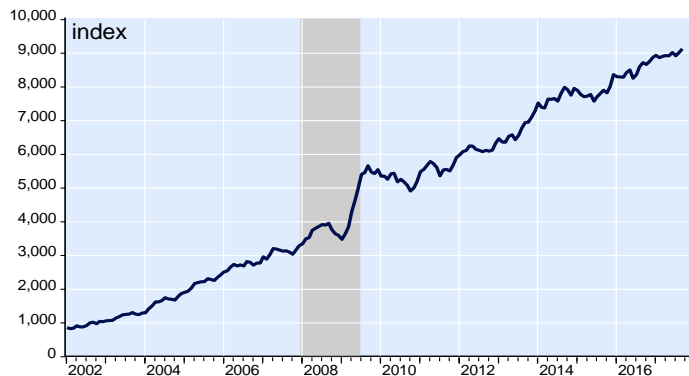
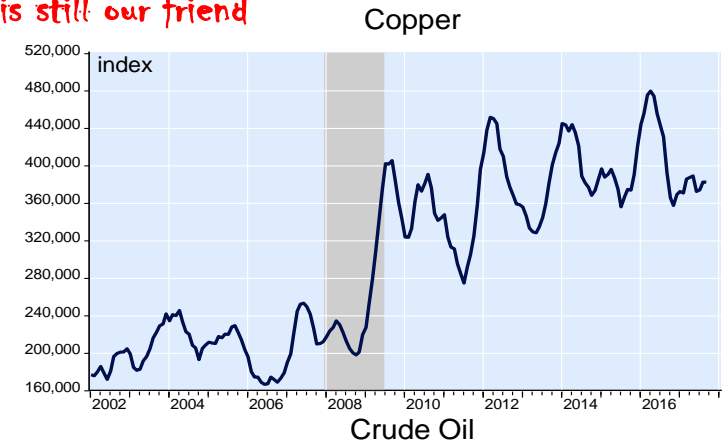
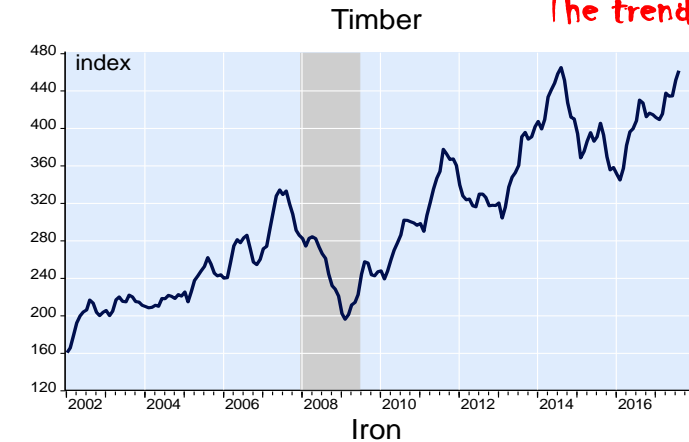
Economic sentiment indicator, EU, Seasonally Adjusted, last observation: September 2017



NBF Economics and Strategy (data via Datastream)

China: Volume imports of key commodities

The trend is still our friend

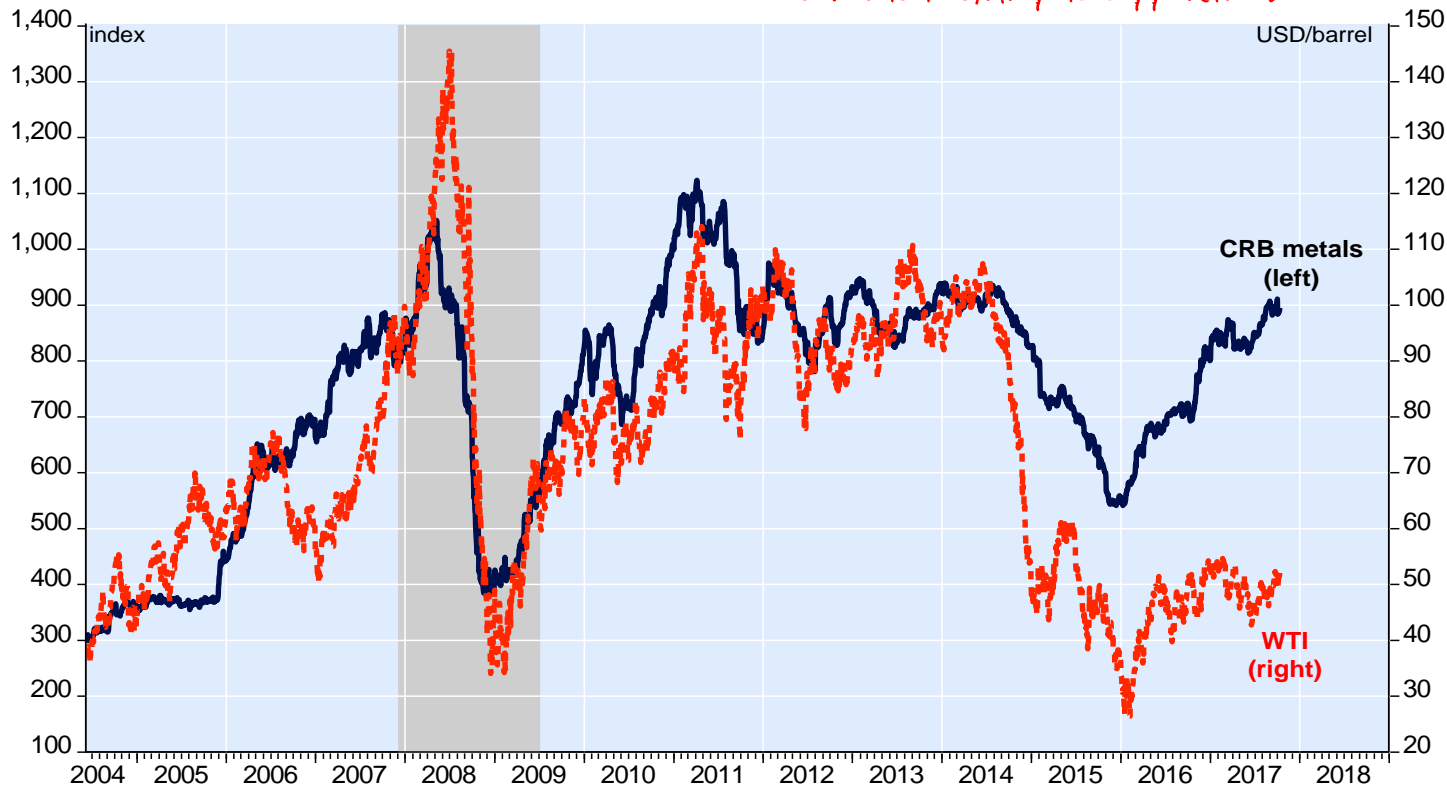


NBF Economics and Strategy (data via Datastream)

World: Perspective on commodity prices

CRB metals vs. WTI

Economic backdrop is supportive !

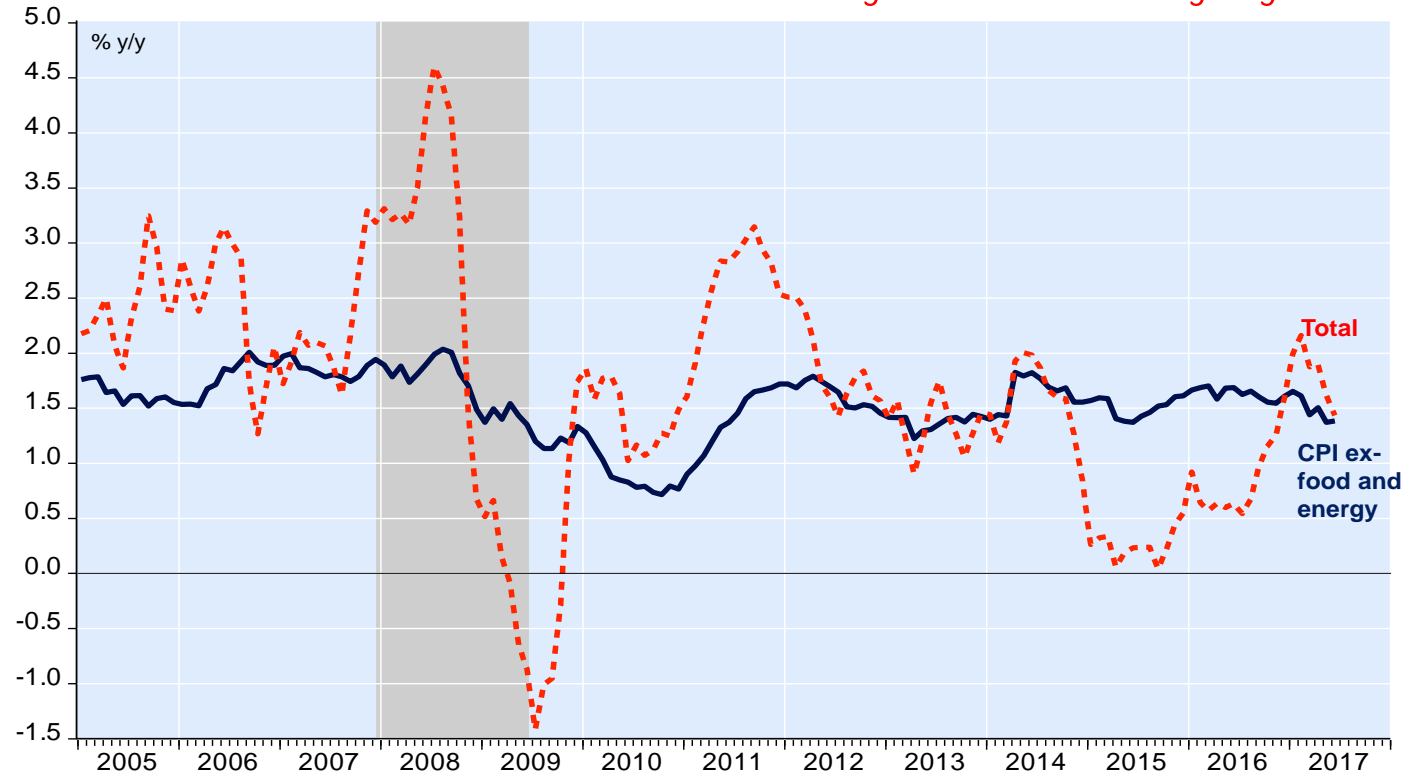


NBF Economics and Strategy (data via Datastream)

World: Perspective on inflation in G7 countries

Consumer price index, year-on-year growth

Does it go lower or do we not go higher?



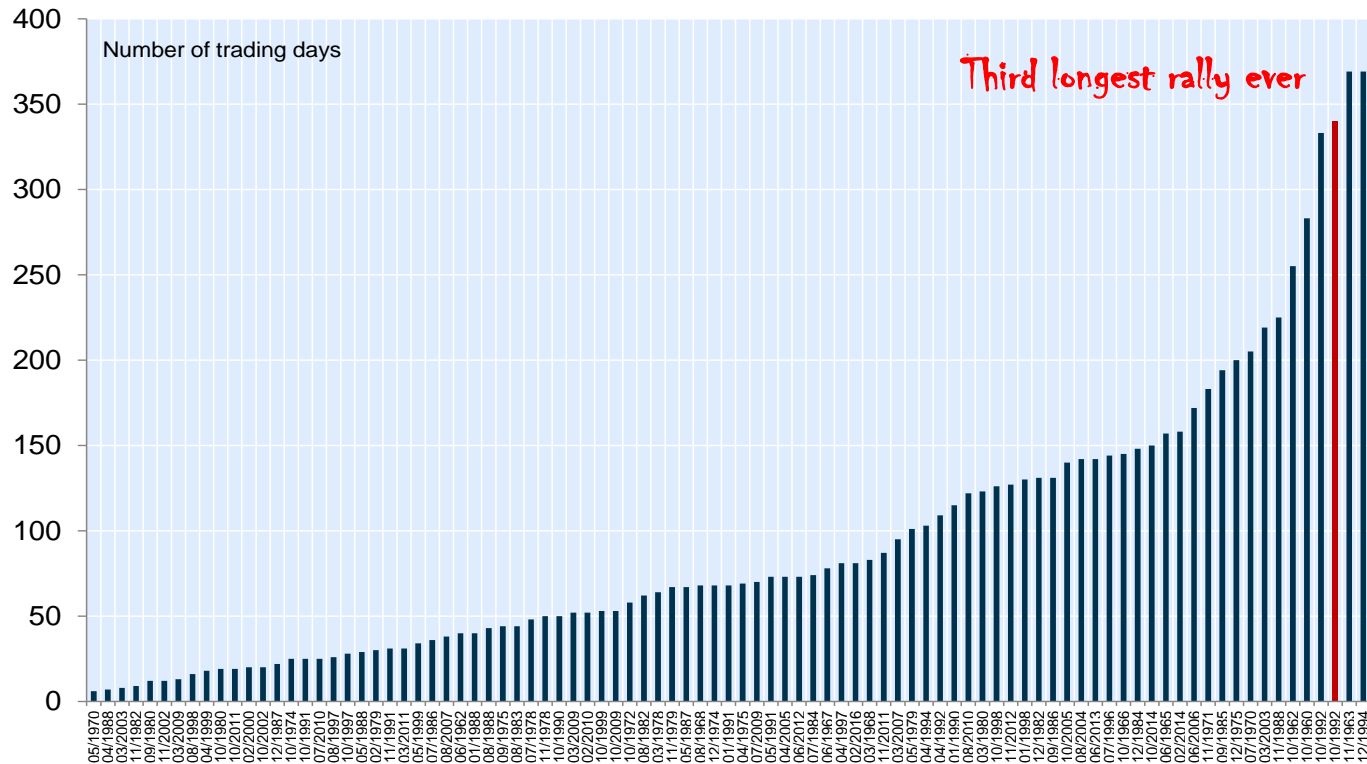
NBF Economics and Strategy (data via OECD)

United States

Where are we in the cycle?

S&P 500: Can the rally be extended without a correction?

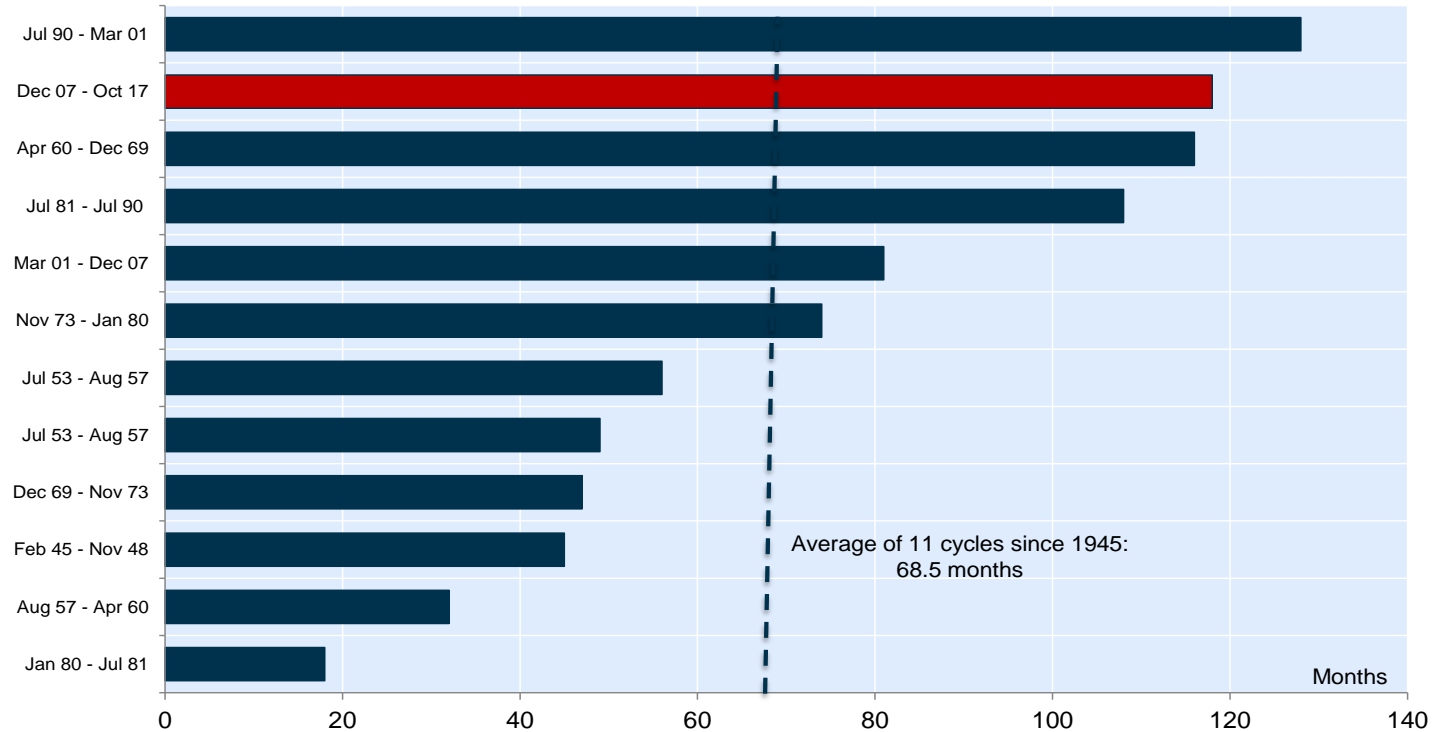
Rallies without a > 5% correction since 1960



NBF Economics and Strategy (data via Bloomberg)

U.S.: The second longest business cycle on record

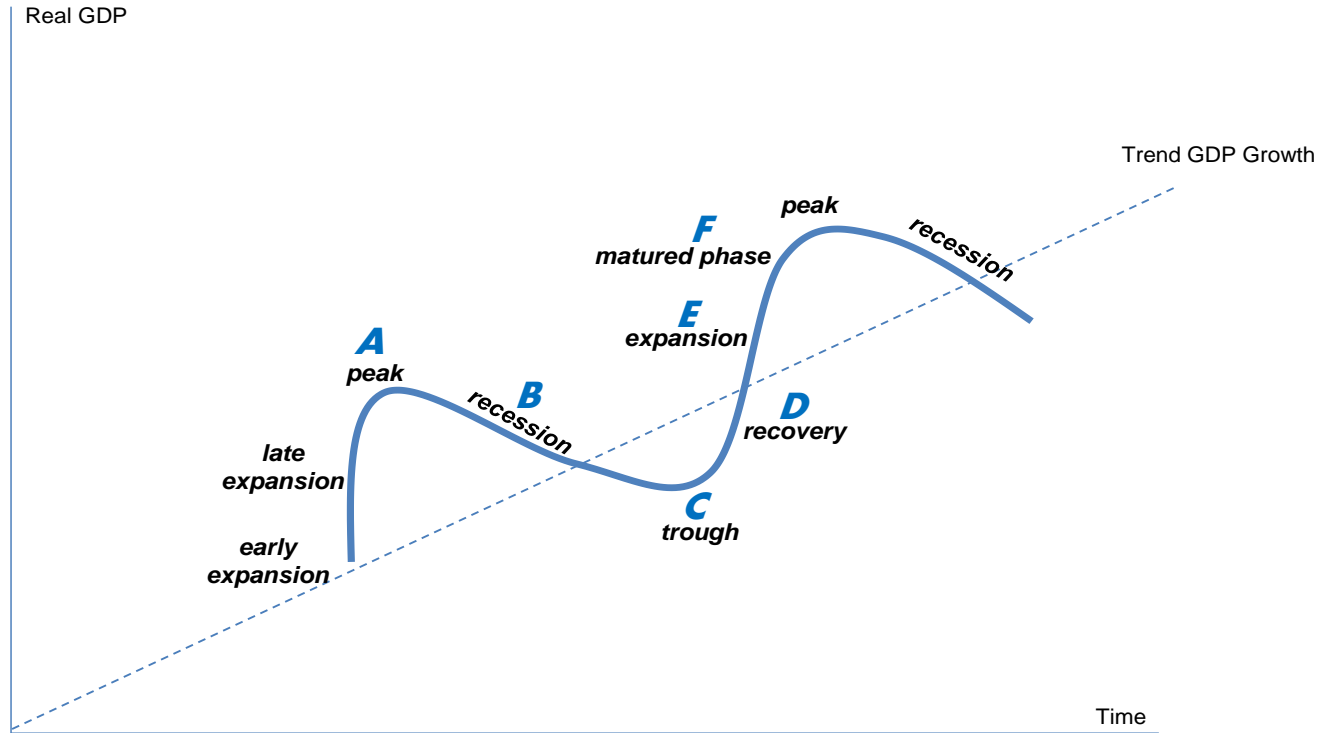
Duration of economic cycles since 1945 (peak to peak)



NBF Economics and Strategy (<http://www.nber.org/cycles.html>)

Where are we in the business cycle?

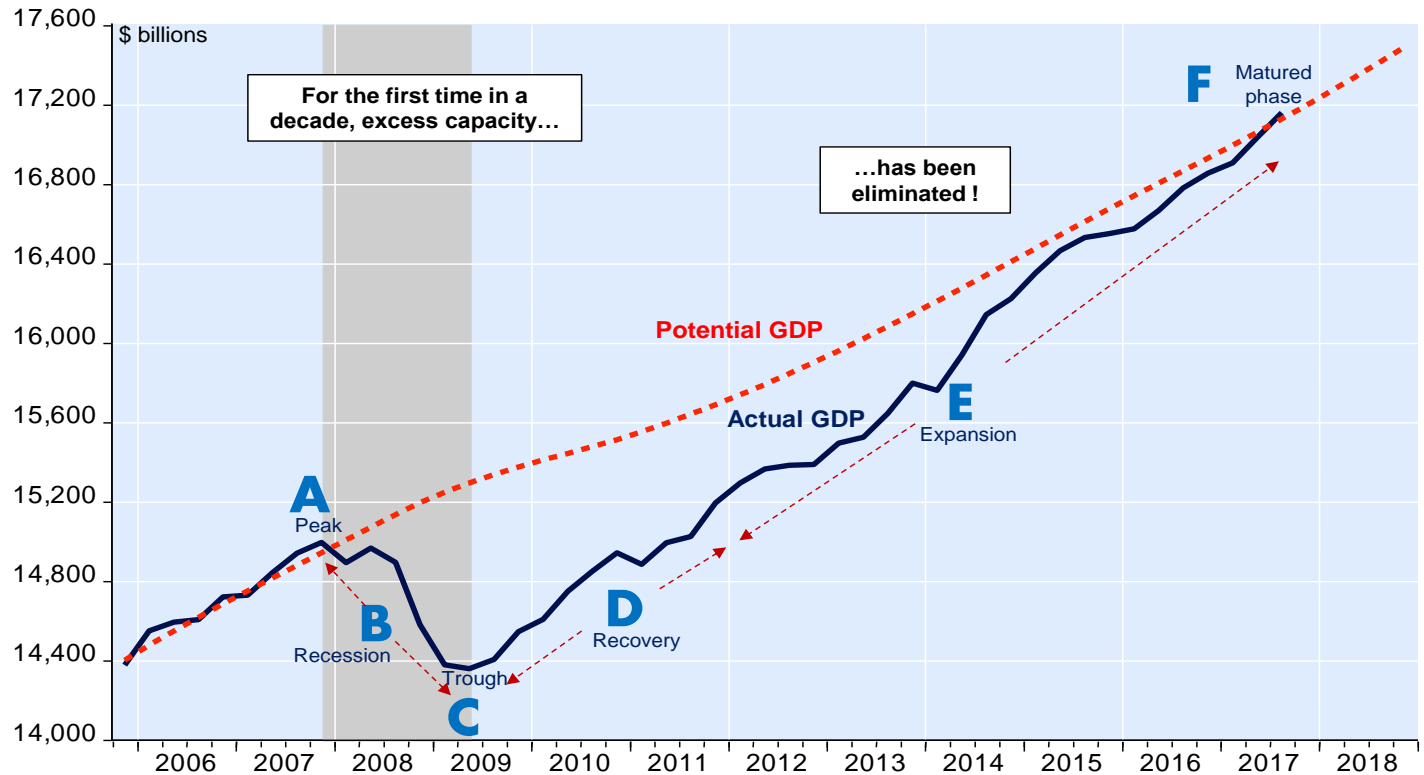
Anatomy of a business cycle



NBF Economics and Strategy

U.S.: GDP exceeds potential for the first time in a decade

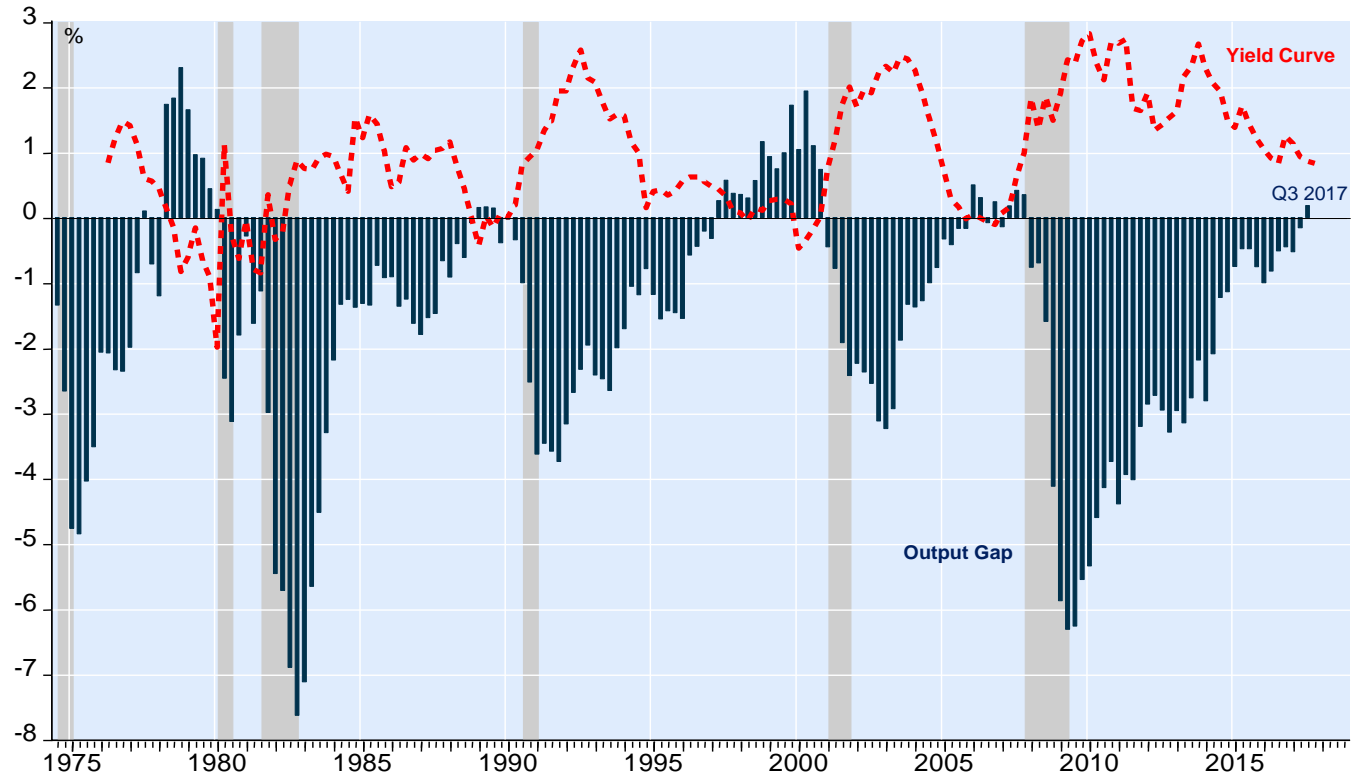
Actual vs. potential* real GDP



* As calculated by the Congressional Budget Office (CBO) - NBF Economics and Strategy (data via Datastream)

U.S.: Yield curve unusually steep at this point in the cycle

Output gap* vs. yield curve (10-year Treasury yield less 2-year rate)



* Using potential GDP calculated by the Congressional Budget Office (CBO) - NBF Economics and Strategy (data via Datastream)

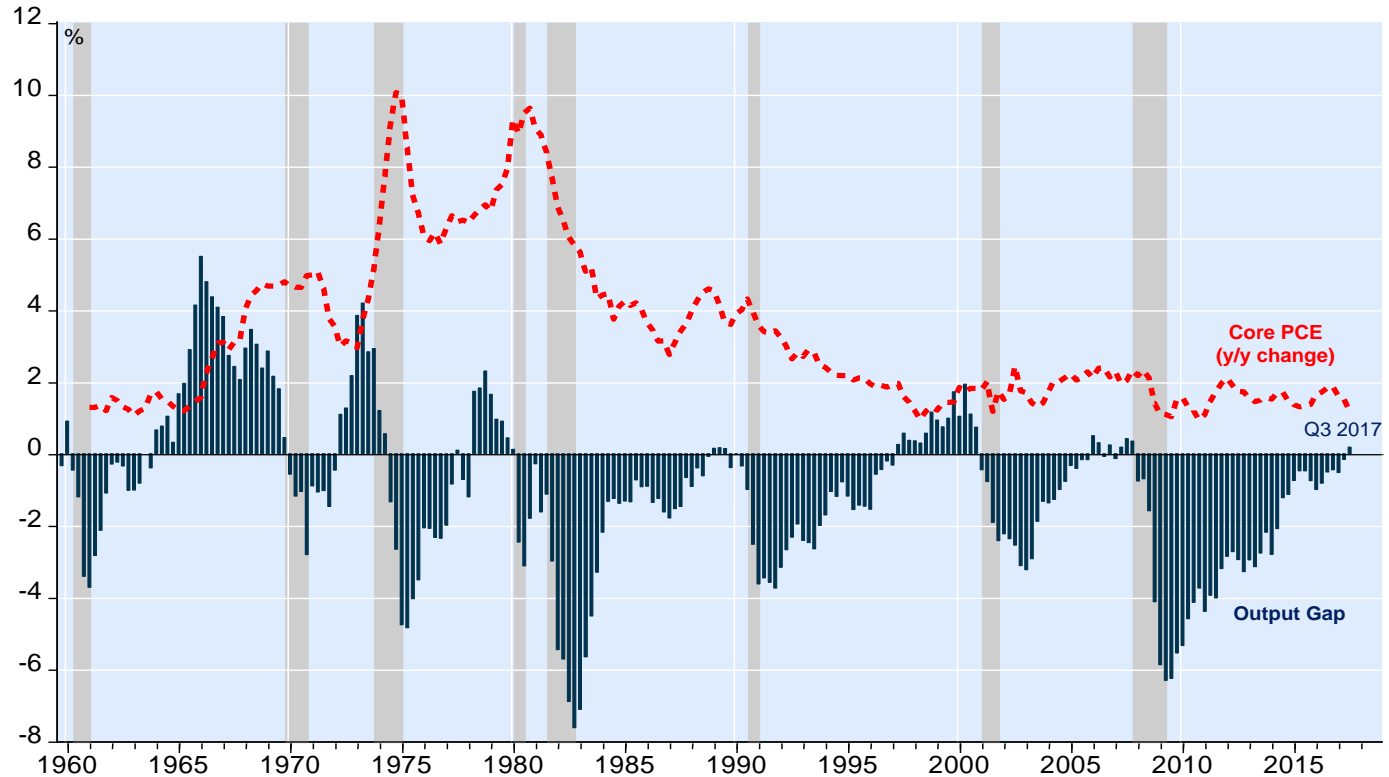


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U.S.: Core inflation tends to move higher at this point in the cycle

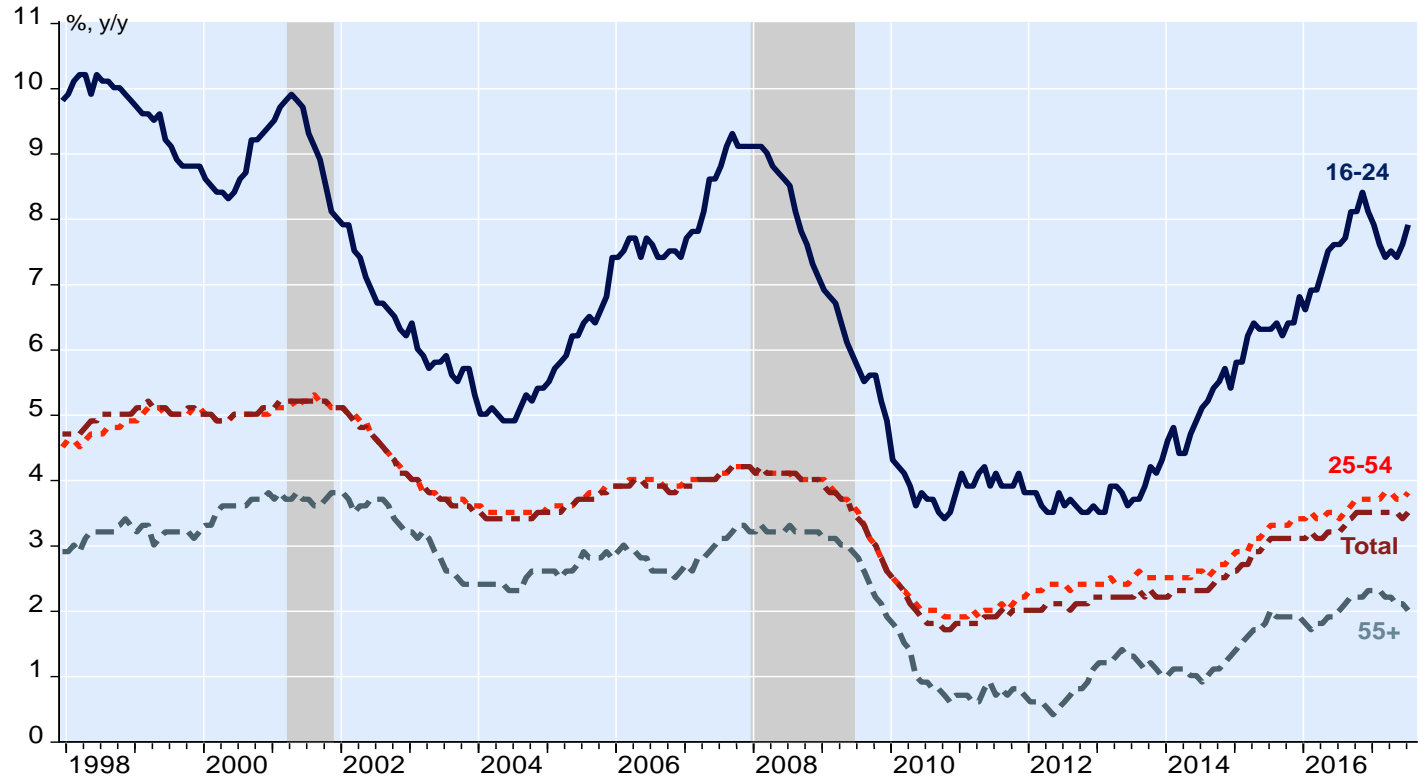
Core PCE deflator vs. output gap*



* Using potential GDP calculated by the Congressional Budget Office (CBO) - NBF Economics and Strategy (data via Datastream)

U.S.: Perspective on wage growth by age group

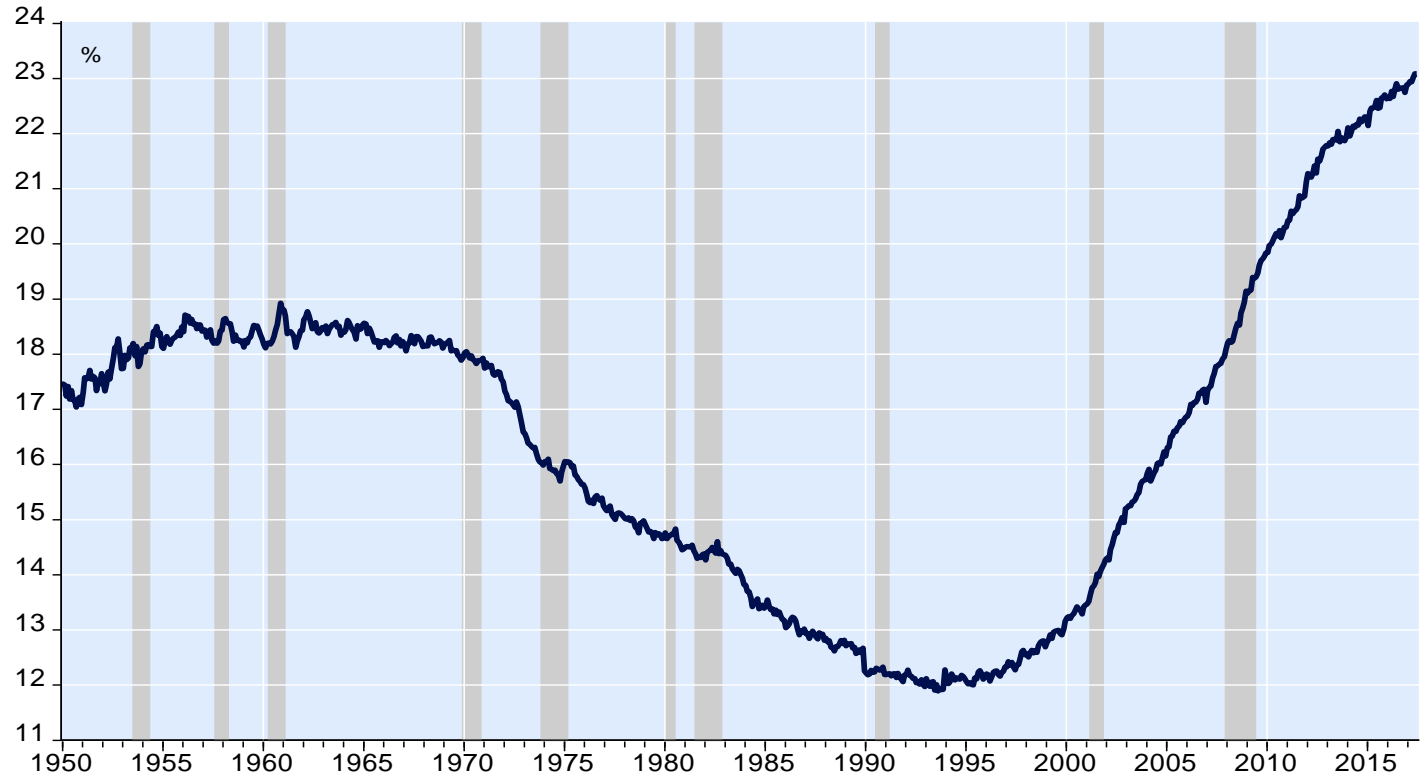
Median wage growth



NBF Economics and Strategy (Federal Reserve of Atlanta)

U.S.: Perspective 55+ workers

Share of 55+ in the labor market



NBF Economics and Strategy (BLS)

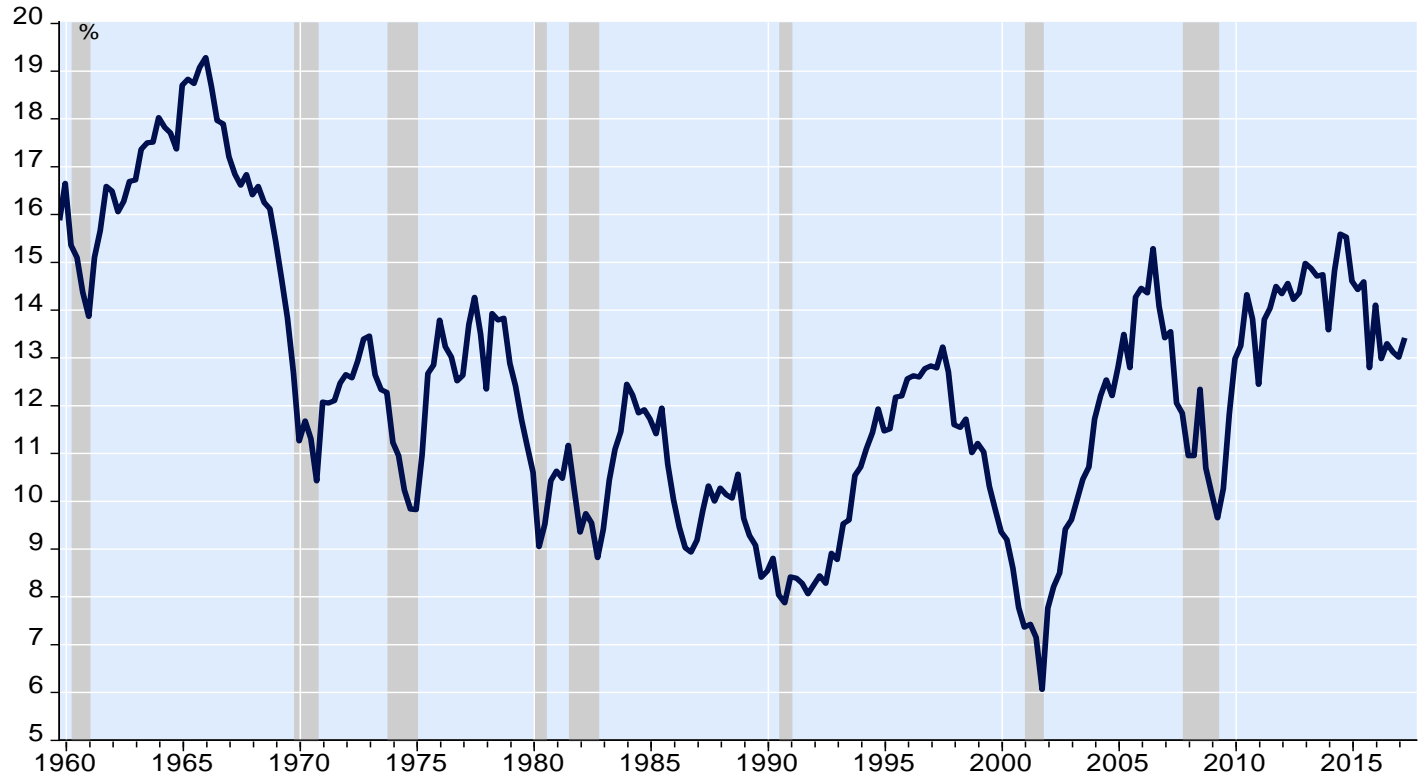


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U.S.: Perspective on profit margins

Non financial corporate profits as a percentage of non-financial corporate business GDP



NBF Economics and Strategy (data via Datastream)

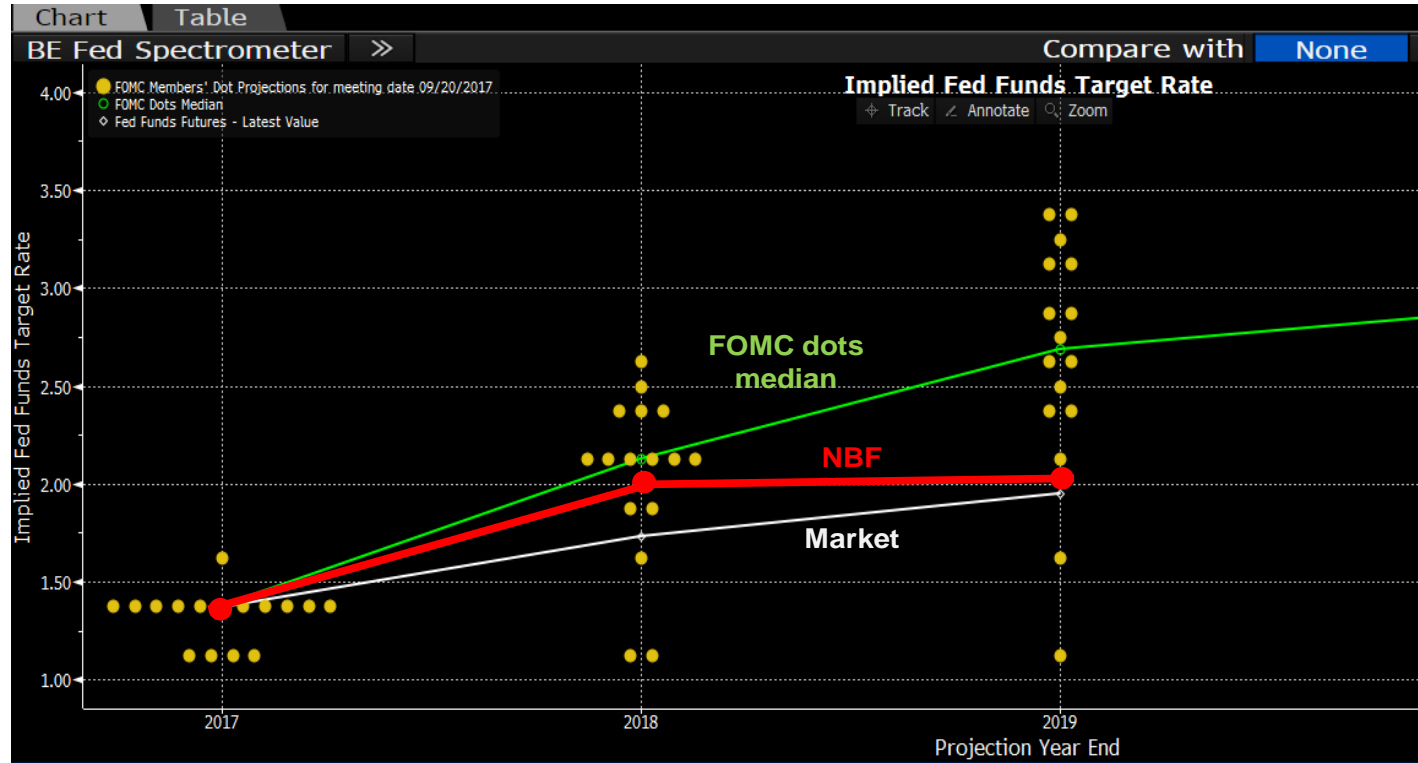
Janet Yellen Says Fed Plans to Keep Raising Rates

By BINYAMIN APPELBAUM SEPT. 26, 2017



U.S.: Markets and Fed don't see eye-to-eye

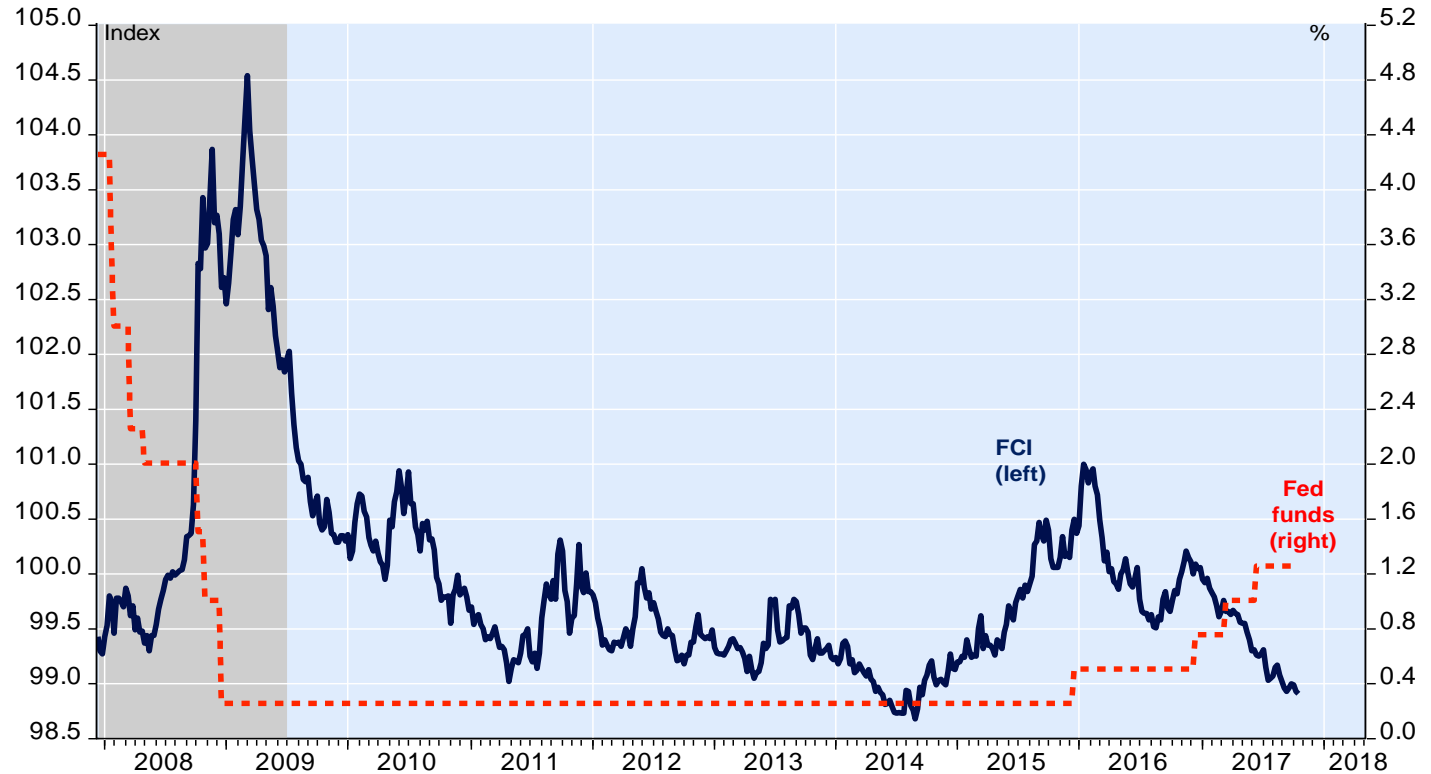
Expectations for level of the fed funds rate



NBF Economics and Strategy (data via Bloomberg)

U.S.: Financial conditions have not tightened !

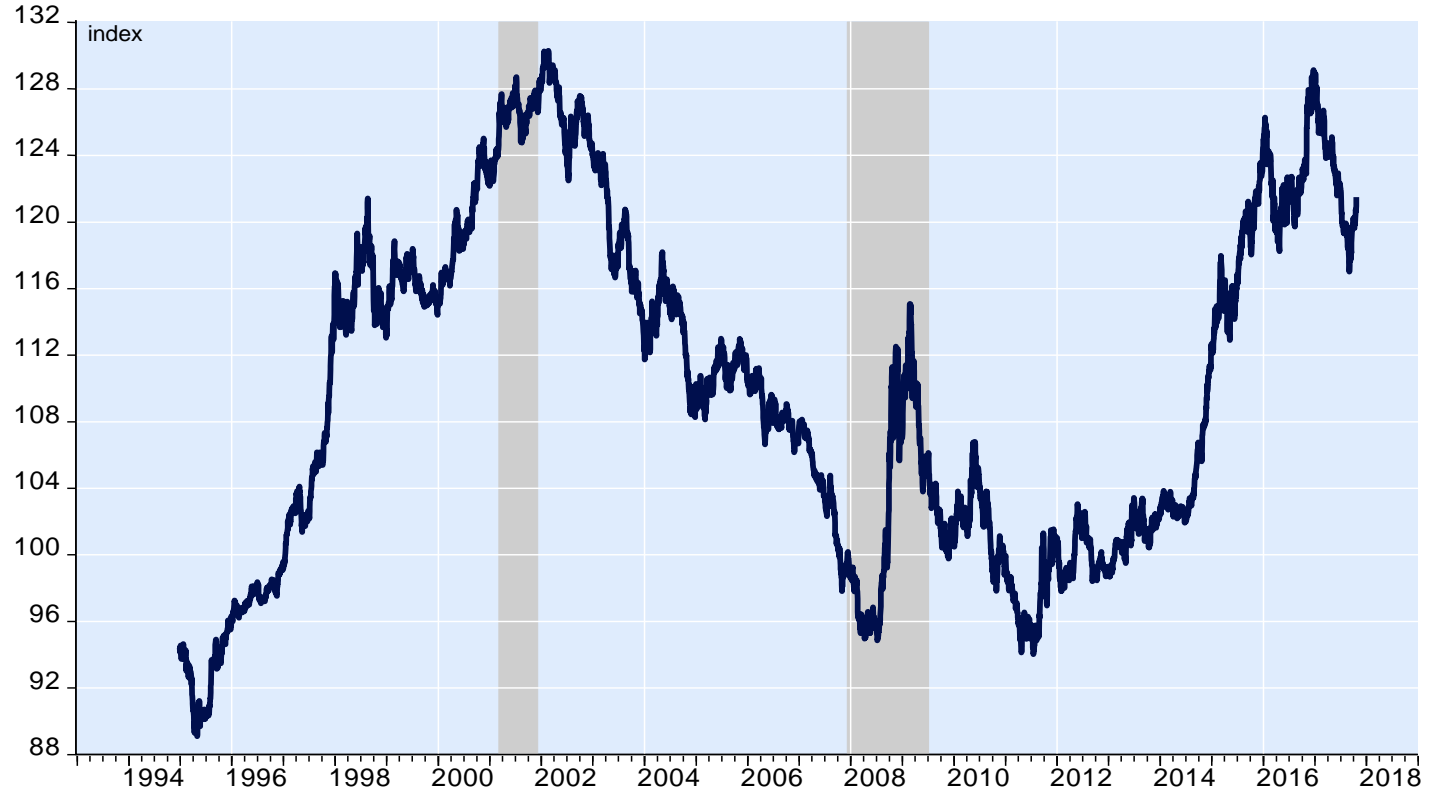
Fed funds rate vs. GS financial conditions index



NBF Economics and Strategy (data via Bloomberg)

U.S.: Greenback is stabilizing

Broad dollar index (26 currencies)



NBF Economics and Strategy (data via Datastream)

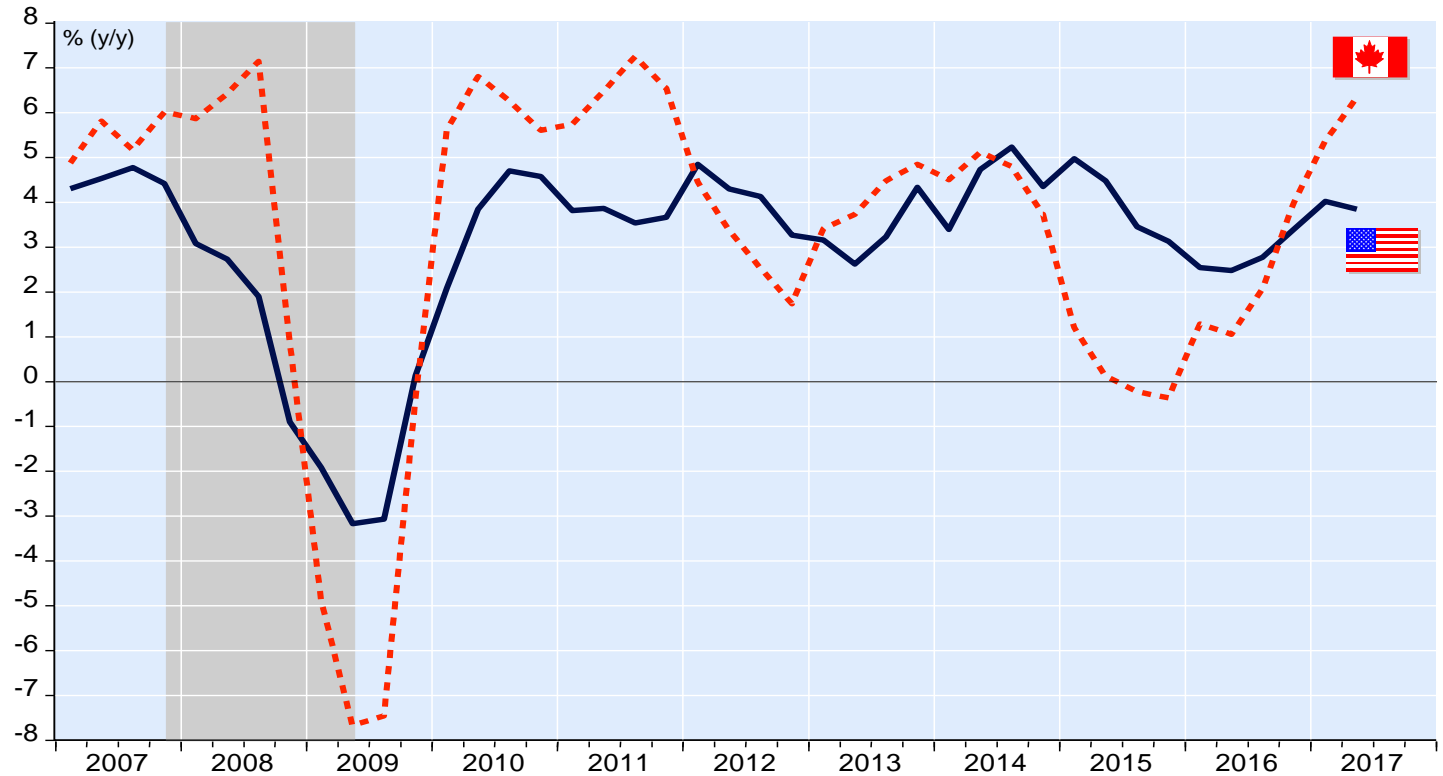
Canada



Still resilient!

Canada: Economy has done very well in recent quarters

Nominal GDP growth



NBF Economics and Strategy (data via Statcan and Datastream)

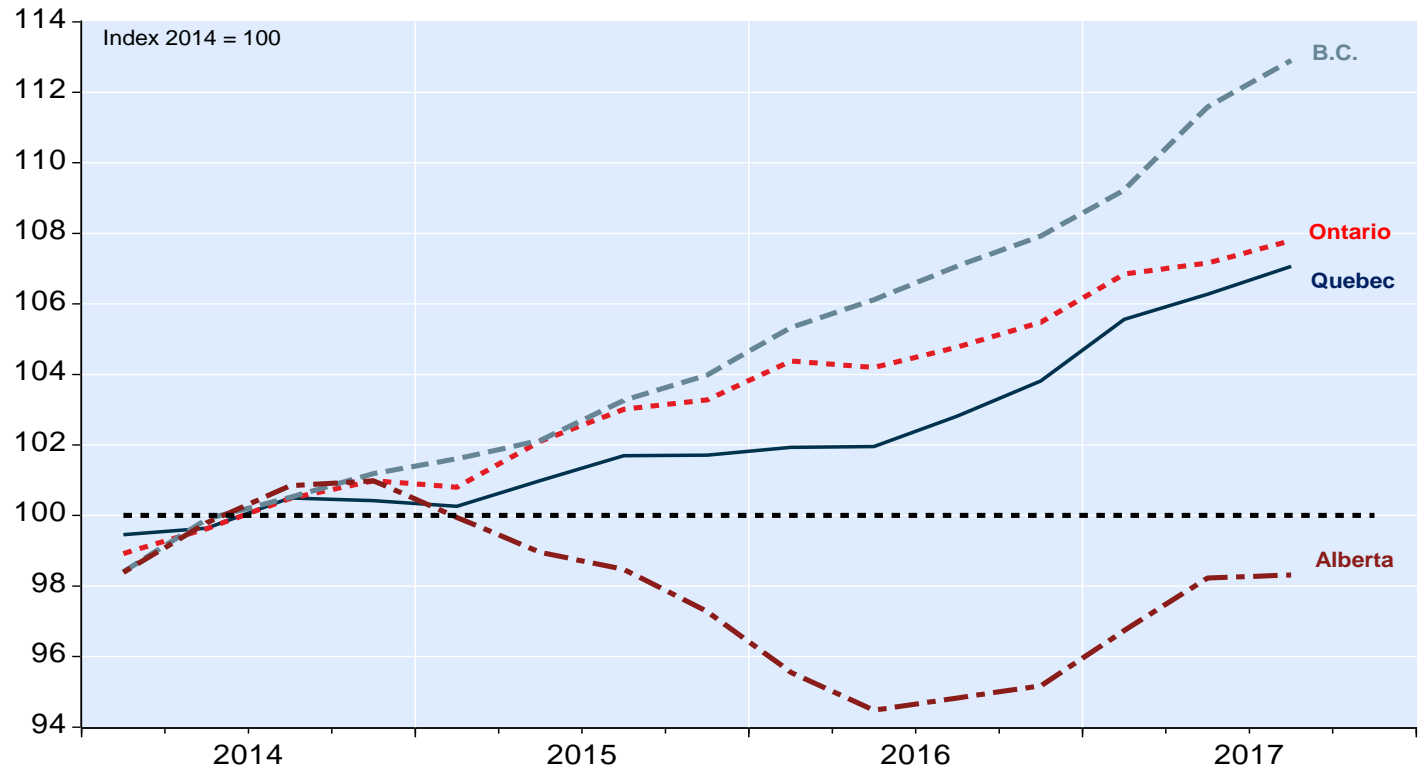


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IPEM for four largest provinces

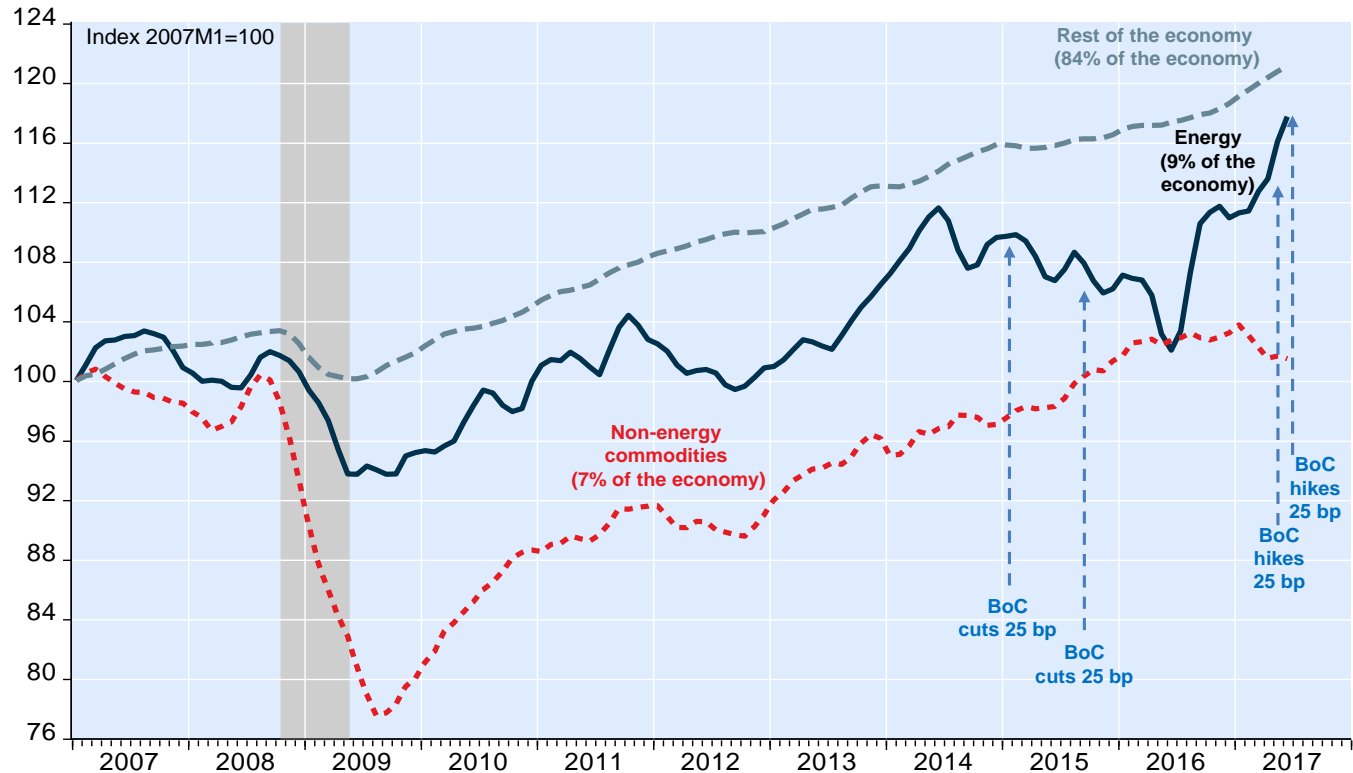
Quarterly average level



NBF Economics and Strategy (calculations from Statistics Canada data)

Canada: Strong growth warrants rate hikes

Real gross domestic product, constant 2007 dollars



NBF Economics and Strategy (data via Statistics Canada)

Poloz on the run: Where is he going?

the star.com

Business · Economy

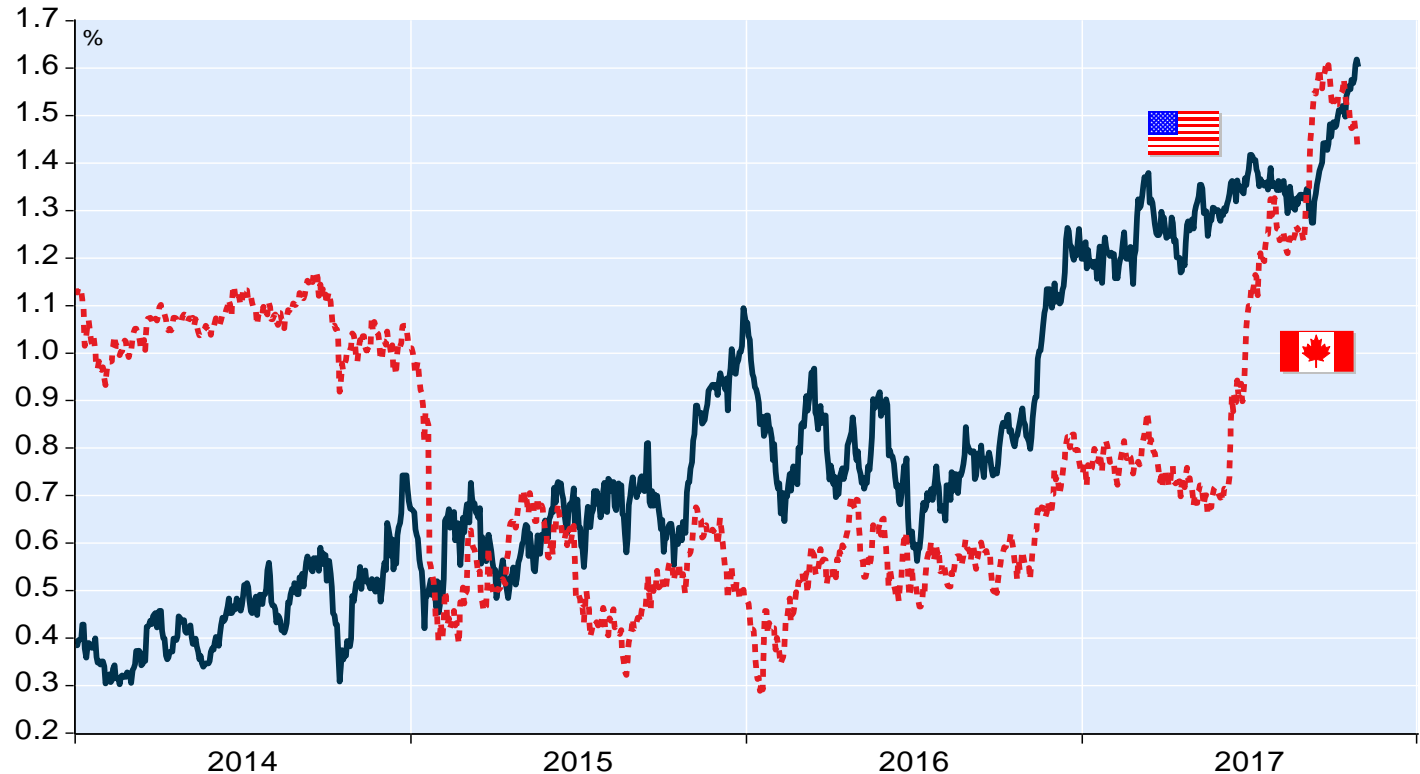
No set path for interest rates, says Bank of Canada governor Stephen Poloz

Poloz is seeking to bring interest rates back to more normal levels while not harming the fledgling economic recovery.



Canada: Market expectations have changed in recent months

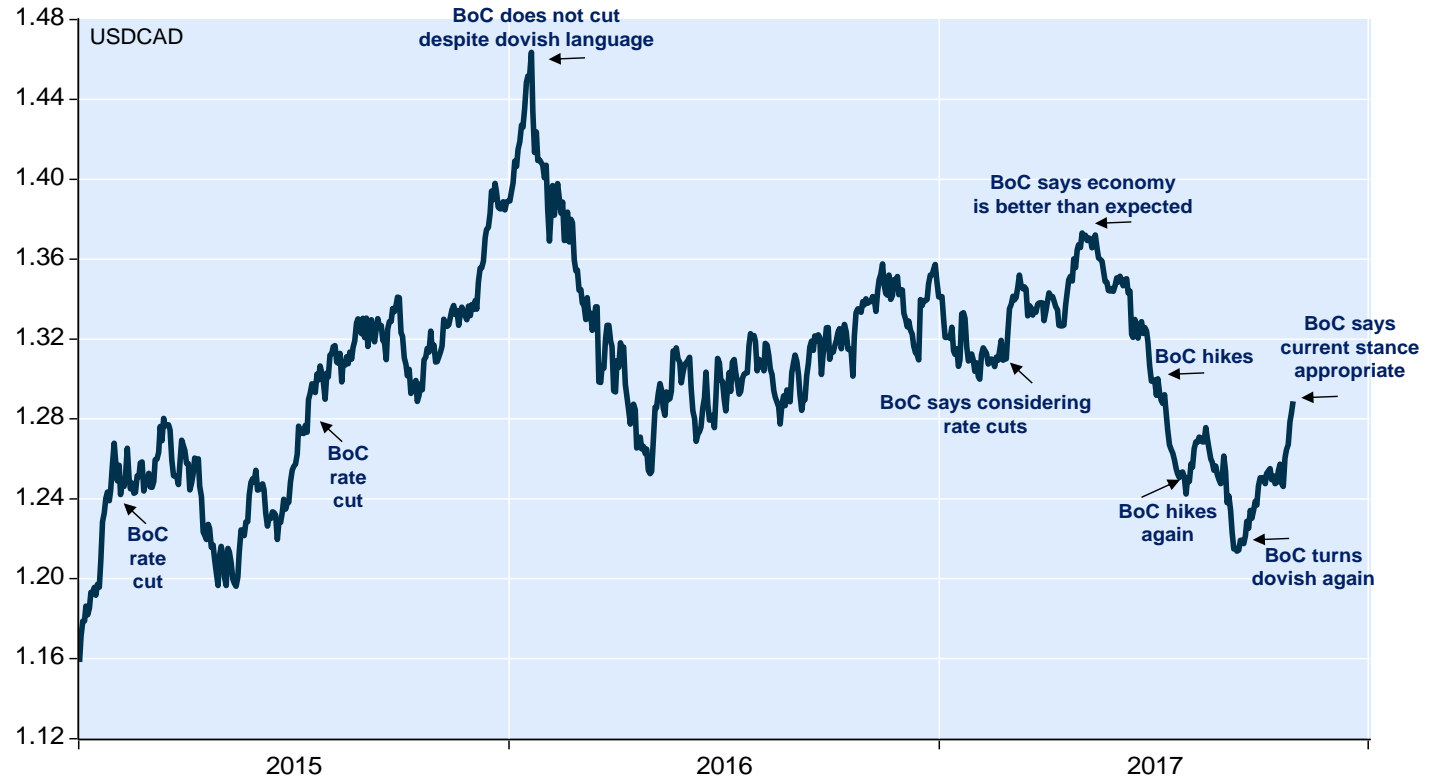
2-year Treasury yields: Canada vs. the U.S.



NBF Economics and Strategy (data via Dastastream)

Canada: BoC induces currency volatility

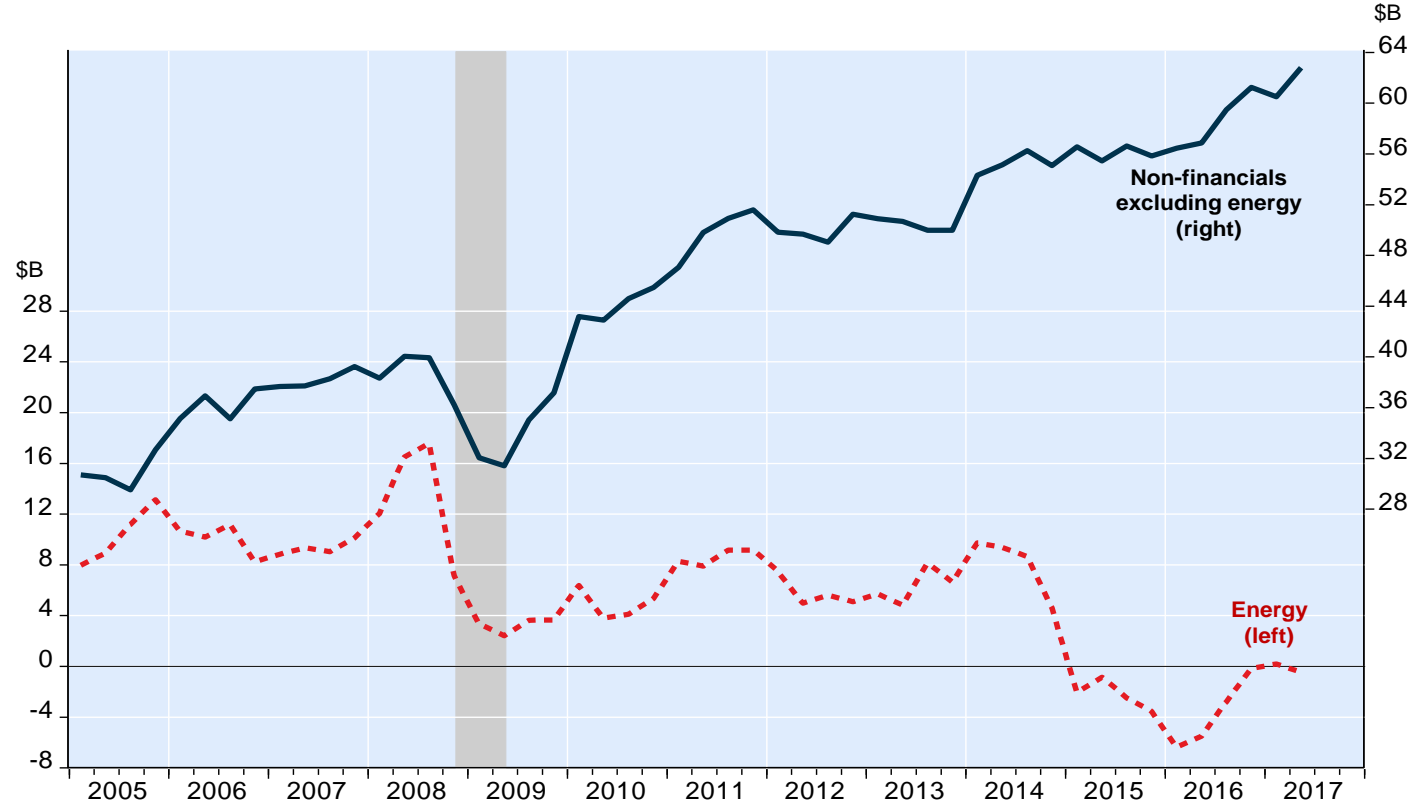
Canada-U.S. exchange rate



NBF Economics and Strategy (data via Datastream)

Canada: Operating profits of non-financial industries

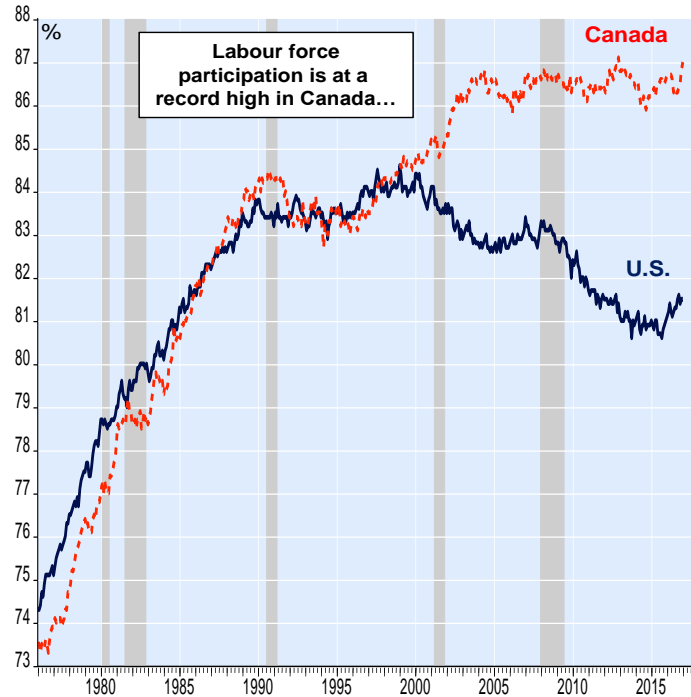
Seasonally adjusted, energy and ex-energy



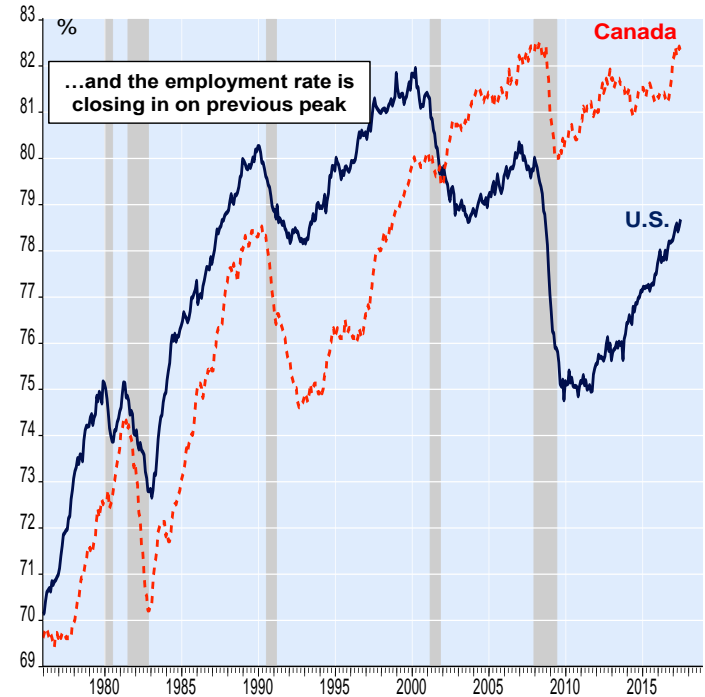
NBF Economics and Strategy (data via Statistics Canada)

Canada: The prime-age workforce nearing full employment

Labour force participation rate for people aged 25-54



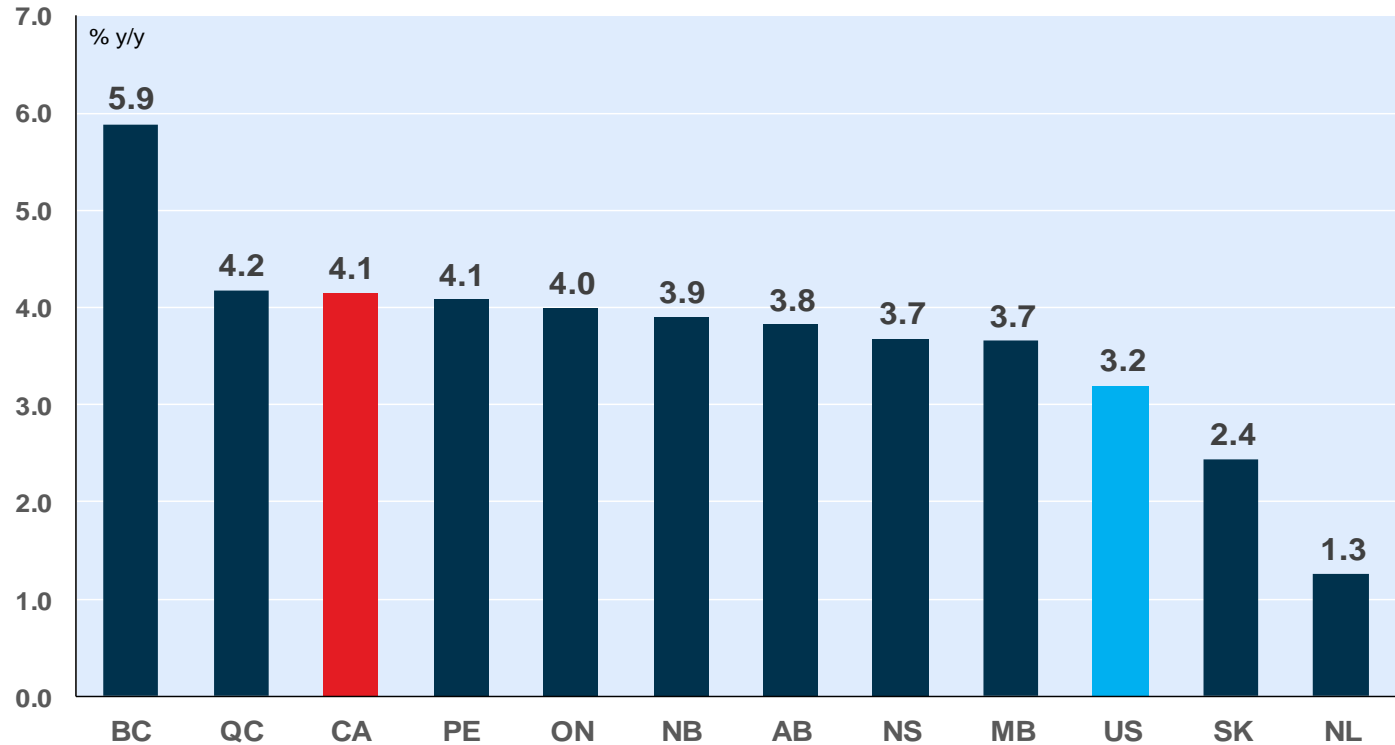
Employment/population ratio for people aged 25-54



NBF Economics and Strategy (data via Statistics Canada and Datastream)

Comparative growth of wages and salaries

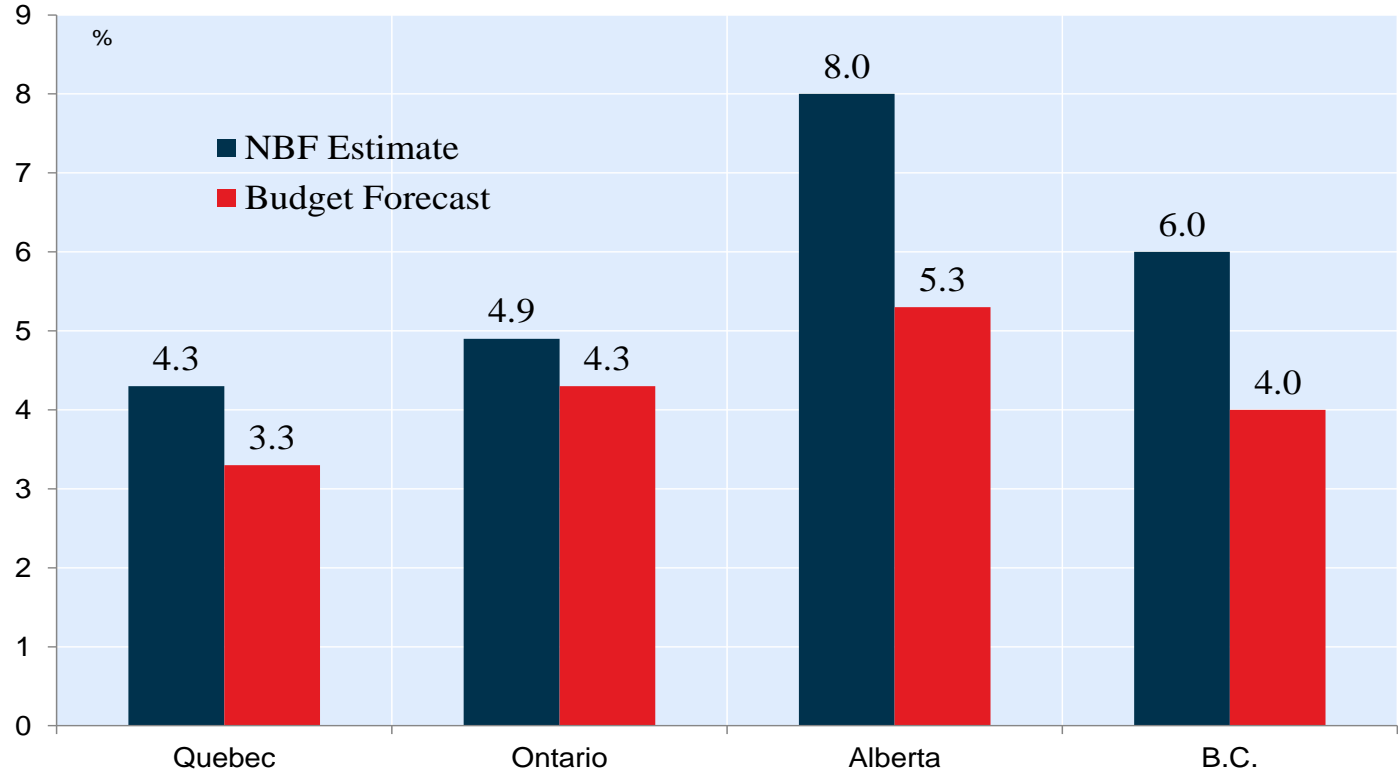
June 2017 over June 2016*



* U.S. data is as of September
NBF Economics and Strategy (data via Statistics Canada)

Canada: Provinces may have more leeway next year

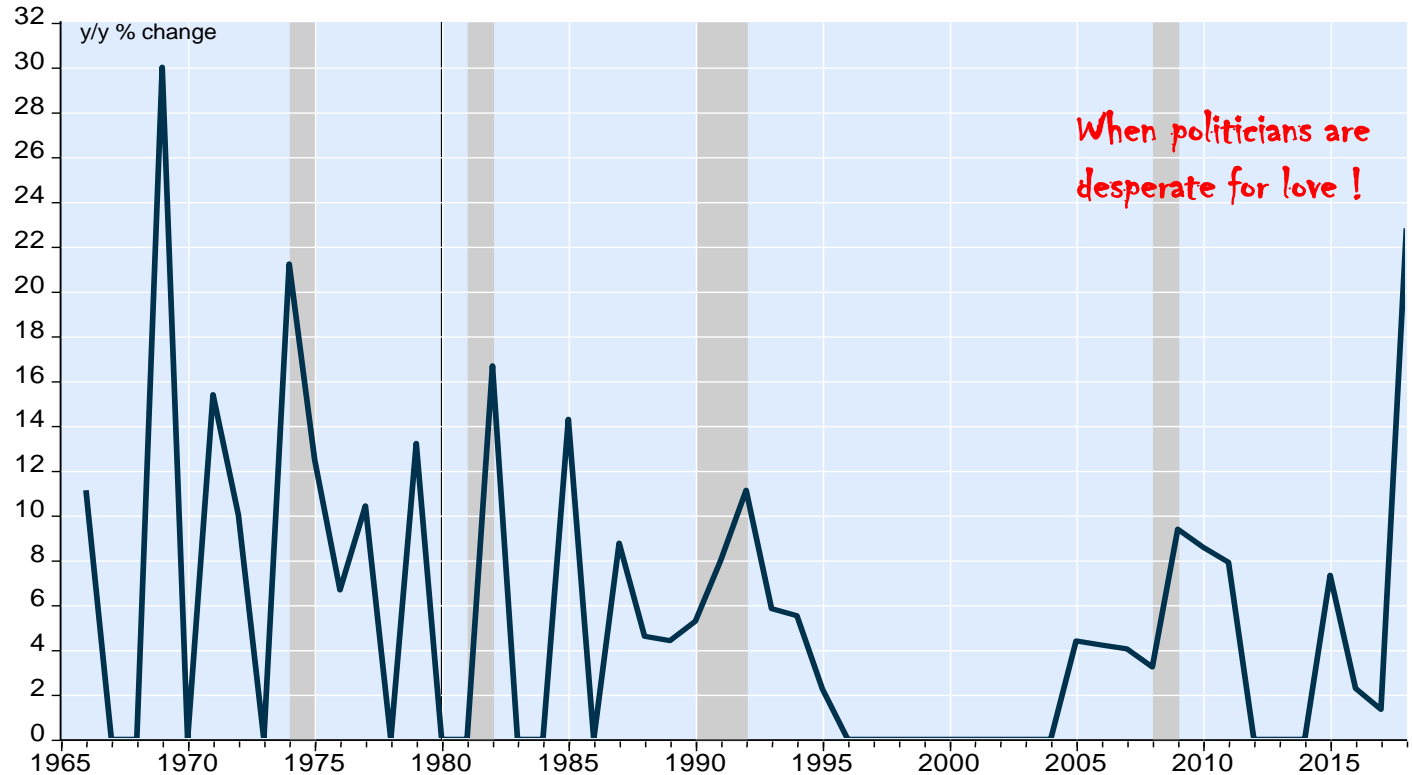
Nominal GDP growth for 2017 as estimated by NBF and provincial budget forecasts



NBF Economics and Strategy (data via National Bank Research & Quebec, Ontario, Alberta and B.C. provincial governments)

Ontario: Perspective on change in minimum wage

Minimum wage increase in Ontario (as of January of every year)



NBF Economics and Strategy (data via government of Canada)



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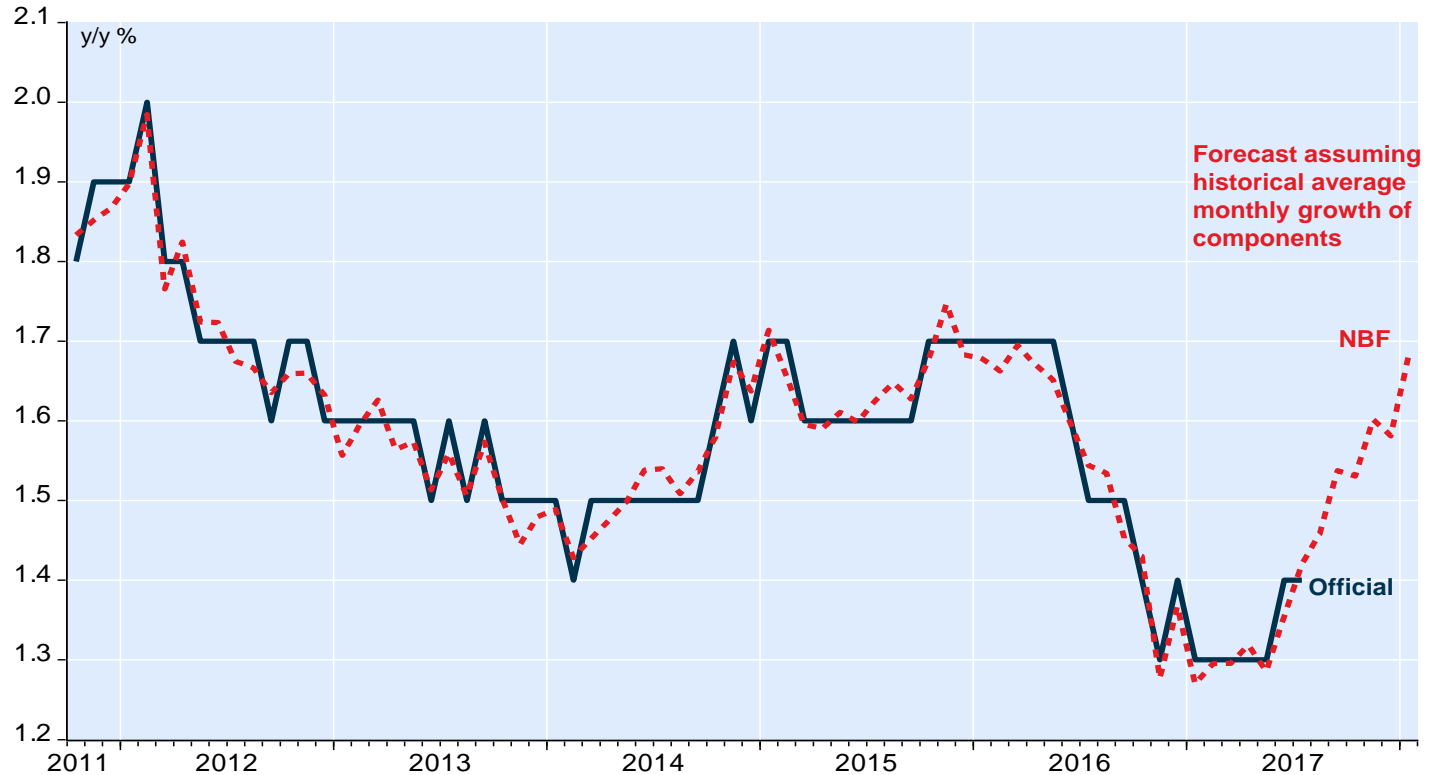
Wage distribution of Ontario employees in 2016

	thousands	Distribution
Total employed	5956	100%
Making less than \$12/hour	673	11%
Making \$12-\$14.99/hour	764	13%
Making \$15-19.99/hour	1025	What would 17%
Making \$20-29.99/hour	1579	you do ? 27%
Making \$30/hour and over	1914	32%

NBF Economics and Strategy (data via Statcan)

Canada: Perspective on CPI-common

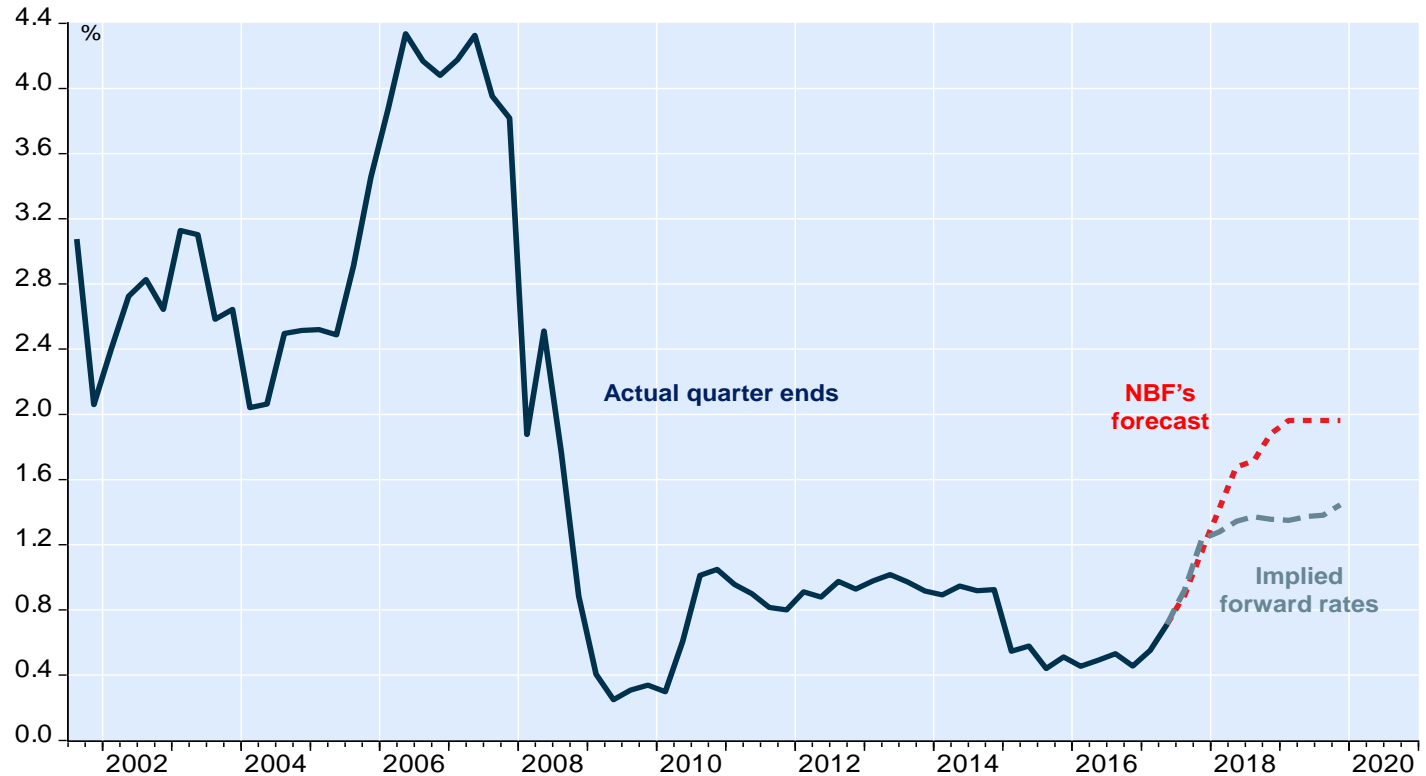
Core inflation based on common component measure



NBF Economics and Strategy (data via Statistics Canada)

Canada: 3 month T-bills

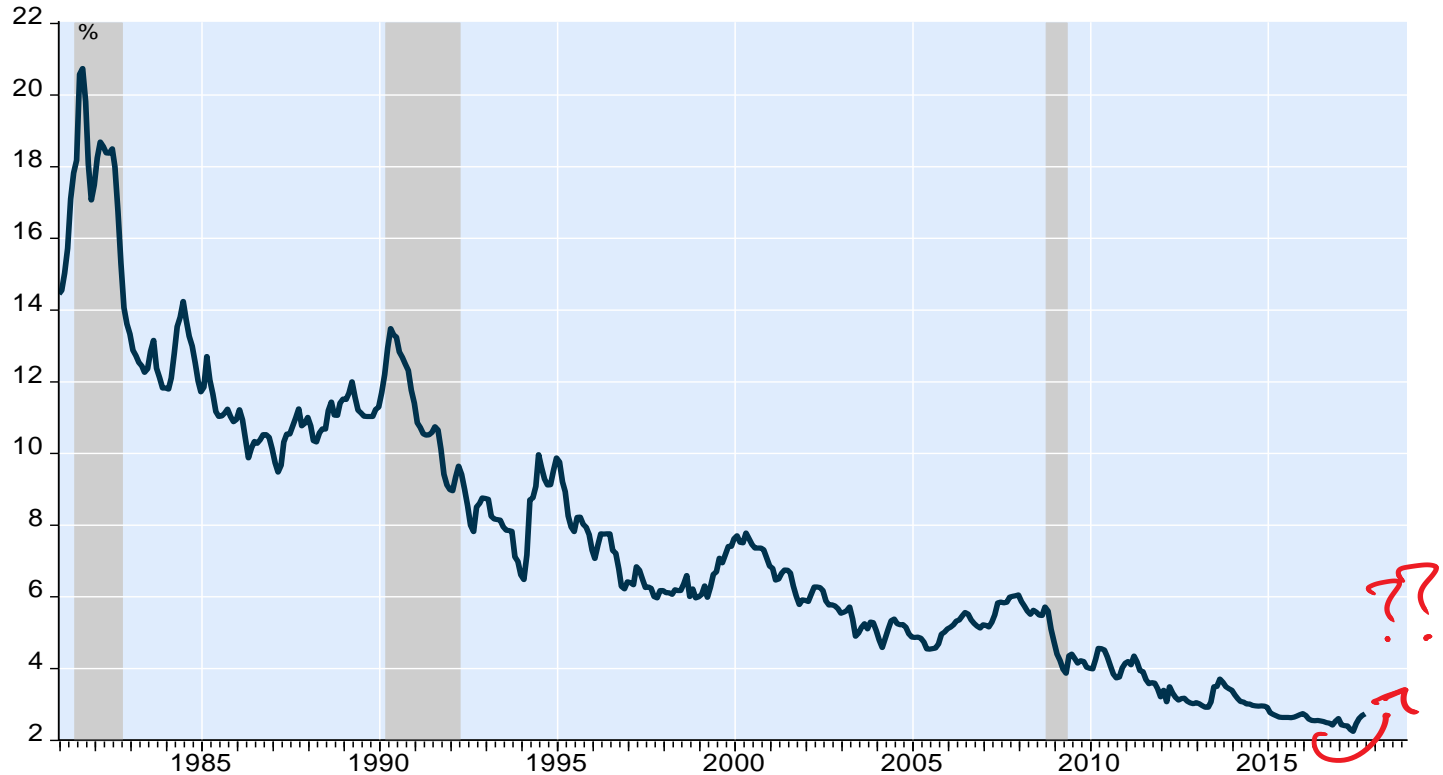
Underlying out T-bills forecast is our view that the BoC's overnight rate will stabilize at 2.0% in 2019



NBF Economics and Strategy (data via Bloomberg and NBF's forecast)

Canada: Perspective on interest mortgage rates

Benchmark 5-year mortgage interest rate



NBF Economics and Strategy

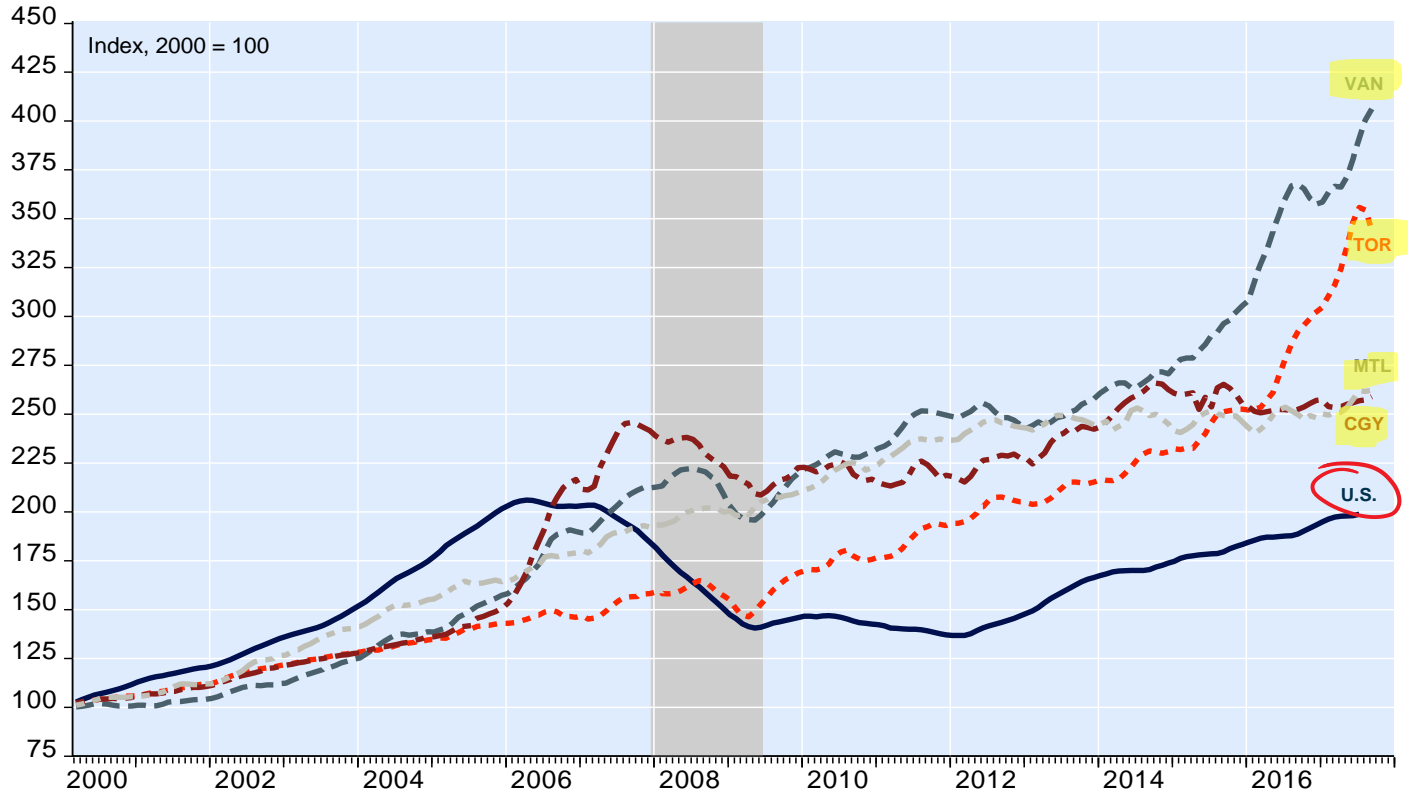
Canadian housing sector

“Mortgageddon”?



Perspective on home price: Canadian cities and the U.S.

Resale price of existing home



NBF Economics and Strategy (data via Teranet-National Bank and Datastream)

Canada: Should you trust a Swiss bank?

NEWS TORONTO & GTA

Toronto tops cities at risk of housing bubble, new report says

THE CANADIAN PRESS

FIRST POSTED: THURSDAY, SEPTEMBER 28, 2017 02:18 PM EDT | UPDATED: THURSDAY, SEPTEMBER 28, 2017 07:01 PM EDT



Sun sets on the Toronto skyline seen from the Gardiner Expressway on July 5, 2017. THE CANADIAN PRESS/Frank Gunn

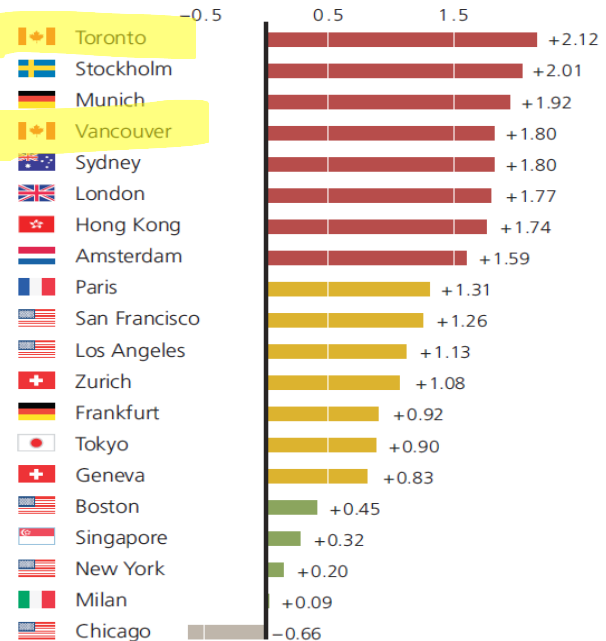
TORONTO - Toronto has topped the list of major global cities most at risk of a housing bubble with Vancouver ranking fourth, according to a new report by UBS Group AB.

It's the first time Toronto has cracked the annual rankings compiled for the UBS Global Real Estate Bubble Index, in which other "bubble risk" cities include Stockholm, Munich, Sydney, London, Hong Kong and Amsterdam.

The Swiss-based global financial services company said that the bubble risk in all of these cities has spiked over the last five years as house prices have climbed by almost 50 per cent on average since 2011.

However, "bubble risk seems greatest in Toronto, where it has increased significantly in the last year," it noted.

UBS Global Real Estate Bubble Index Latest index scores for the housing markets of select cities



● bubble risk (>1.5)

● overvalued (0.5 to 1.5)

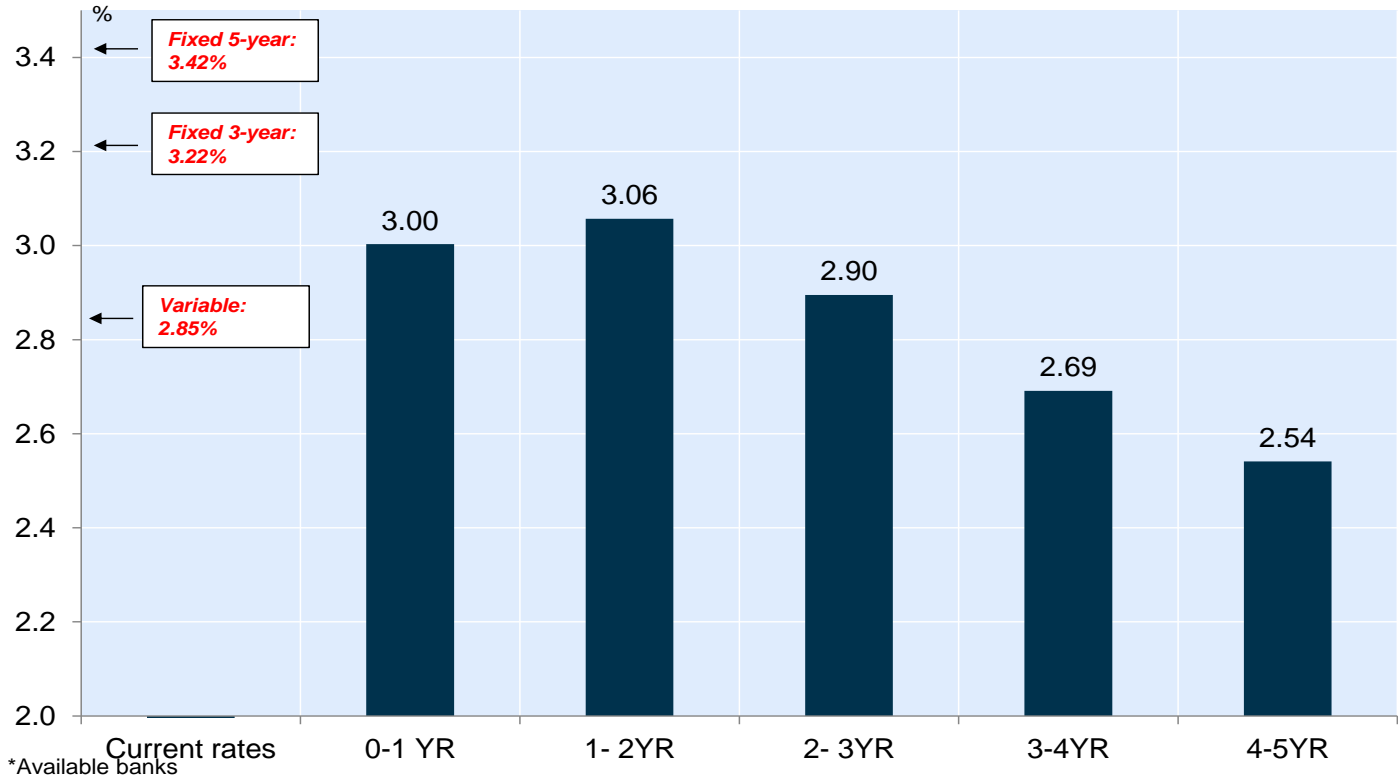
● fair-valued (-0.5 to 0.5)

● undervalued (-1.5 to -0.5)

Source: UBS Remark: For explanation see the section on Methodology & data on page 21.

Canada : Perspective on payment shock

Mortgage rate by remaining term (total NHA MBS) and **current rates for refinancing***



*Available banks

NBF Economics and Strategy

IMF report warns of Canada's high debt levels



International Monetary Fund (IMF) Managing Director Christine Lagarde speaks during a news conference at IMF headquarters in Washington, June 16, 2014. (AP / Pablo Martinez Monsivais, File)



22



22



The Canadian Press

Published Wednesday, October 11, 2017 2:27PM EDT

Last Updated Wednesday, October 11, 2017 4:33PM EDT

The International Monetary Fund warns in a new report about Canada's high debt levels and higher-than-average pressure on Canadian households' ability to pay down that debt.

The IMF says in its Global Financial Stability report released Wednesday that these dynamics in Canada's private non-financial sector leaves its economy more sensitive to tighter financial conditions and weaker economic activity.

Canada was named along with Australia, Brazil, China and Korea as countries where the debt-service ratio has risen to high levels.

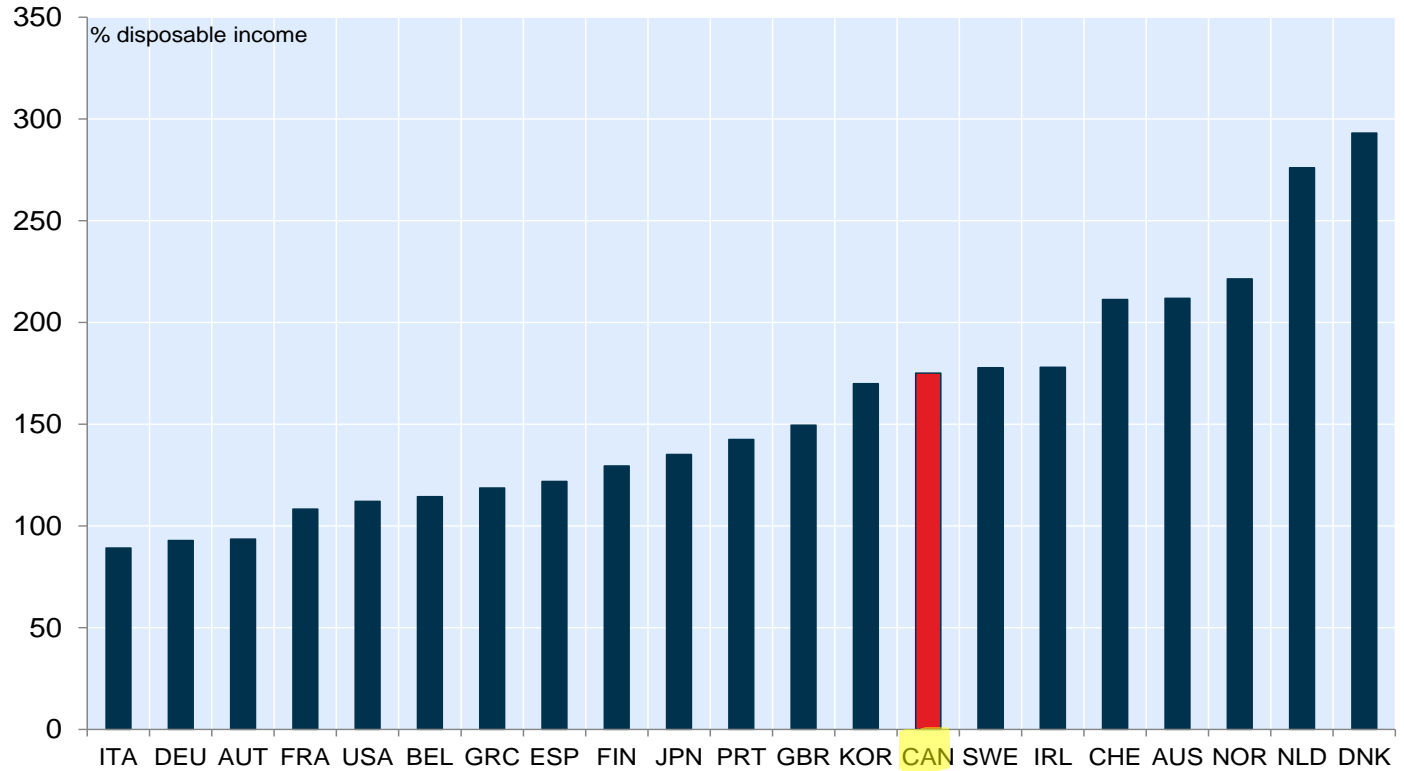


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World: Perspective on household leverage

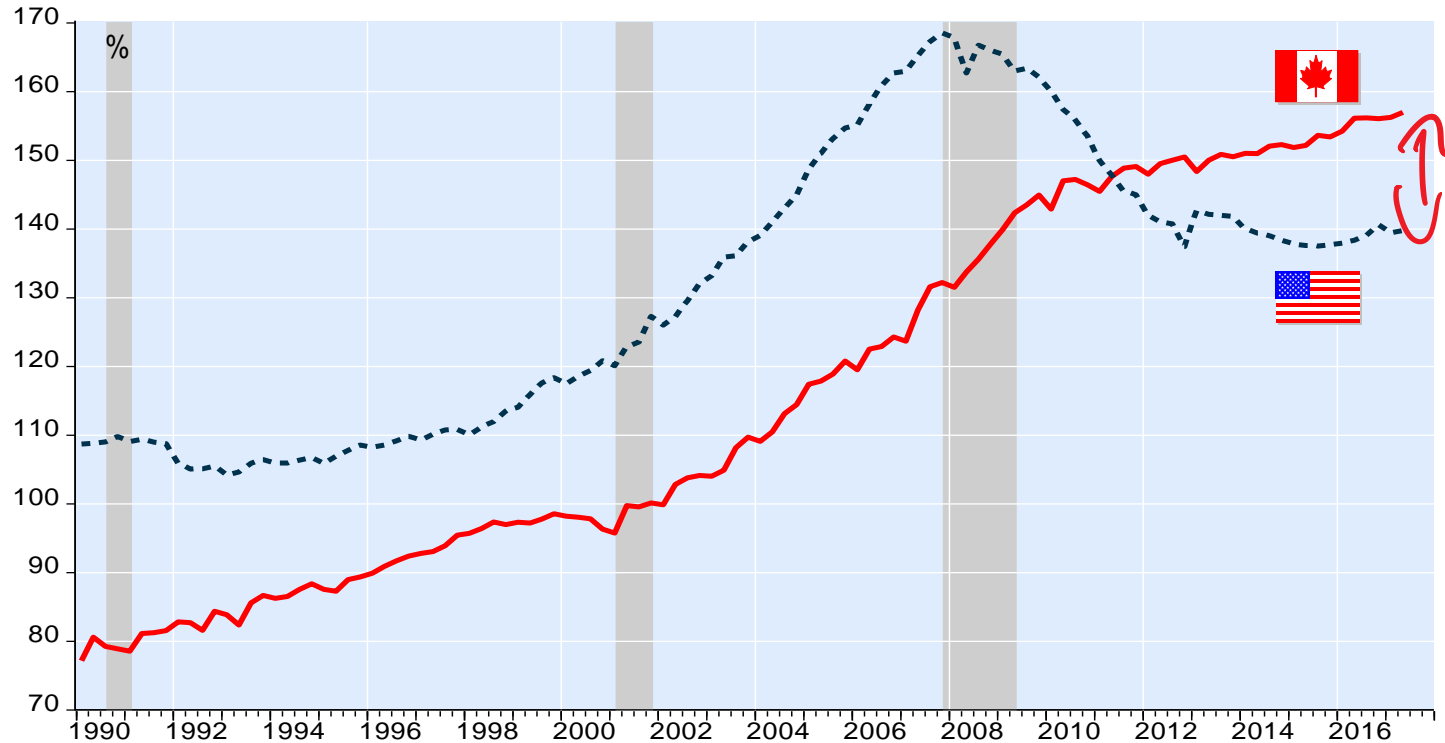
Household debt as a percentage of net disposable income (major OECD countries)



NBF Economics and Strategy (data via OECD)

Debt to household disposable income

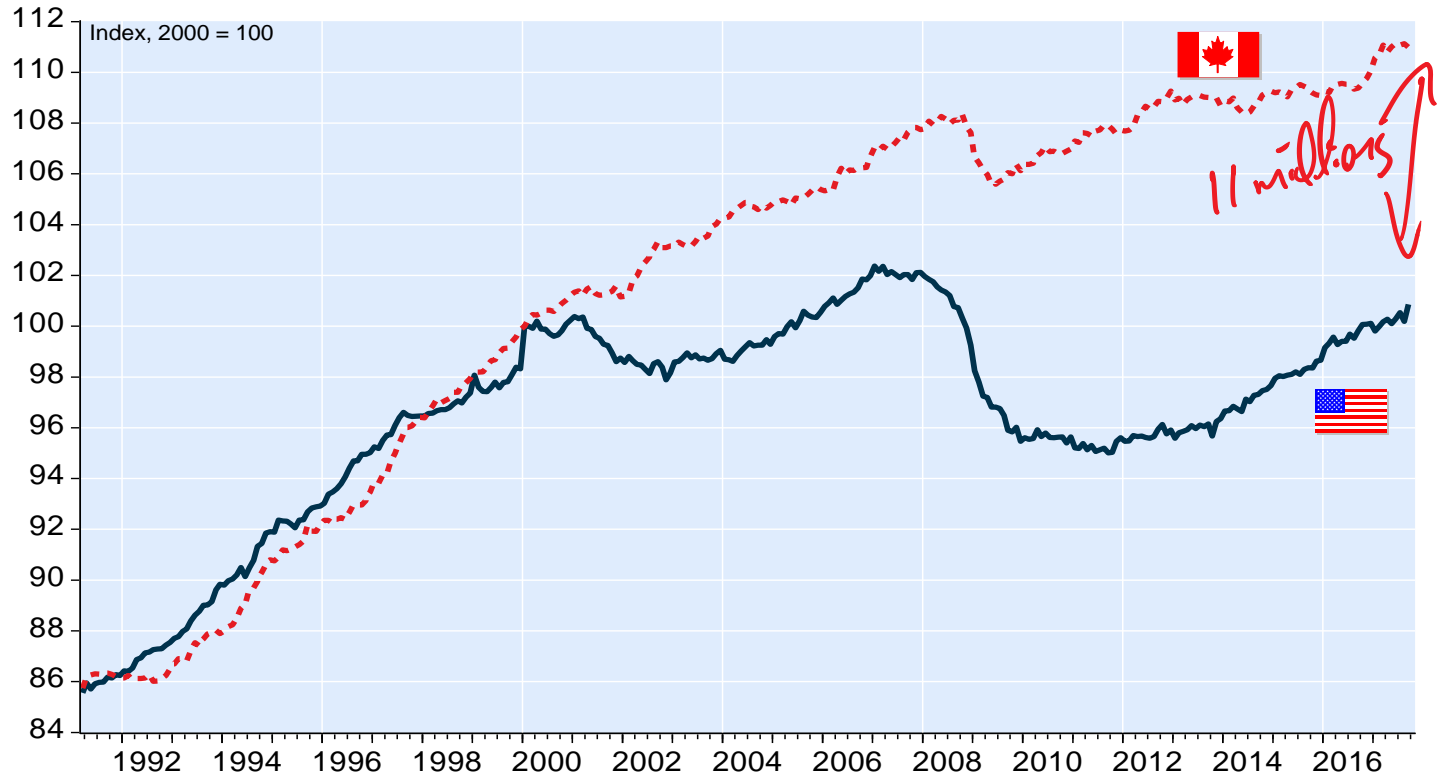
Households & non-profit organizations



NBF Economics and Strategy, data from Statistics Canada, Federal Reserve and BEA through Thomson-Reuters

Perspective on the prime-aged workforce

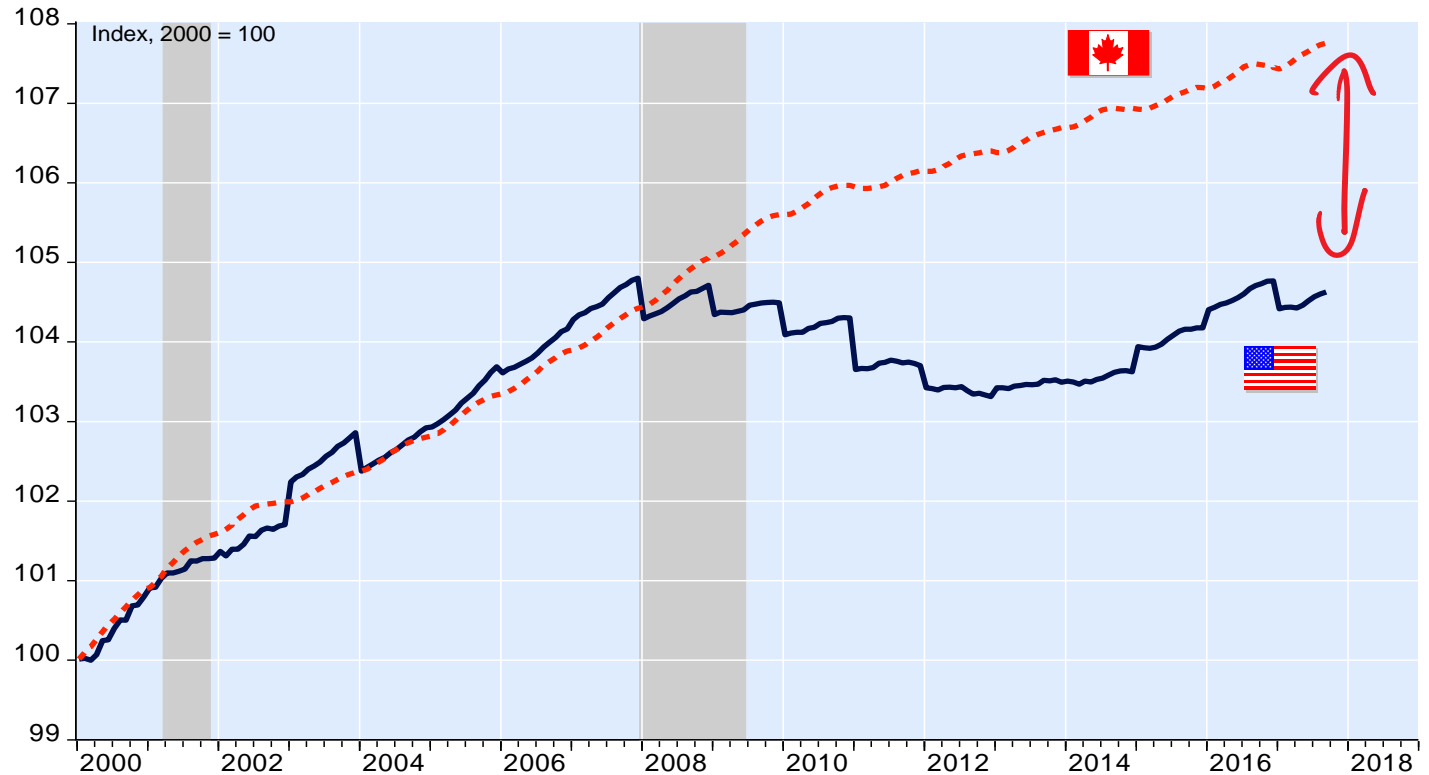
Employment for people aged 25-54: Canada vs. the U.S.



NBF Economics and Strategy (data via Datastream)

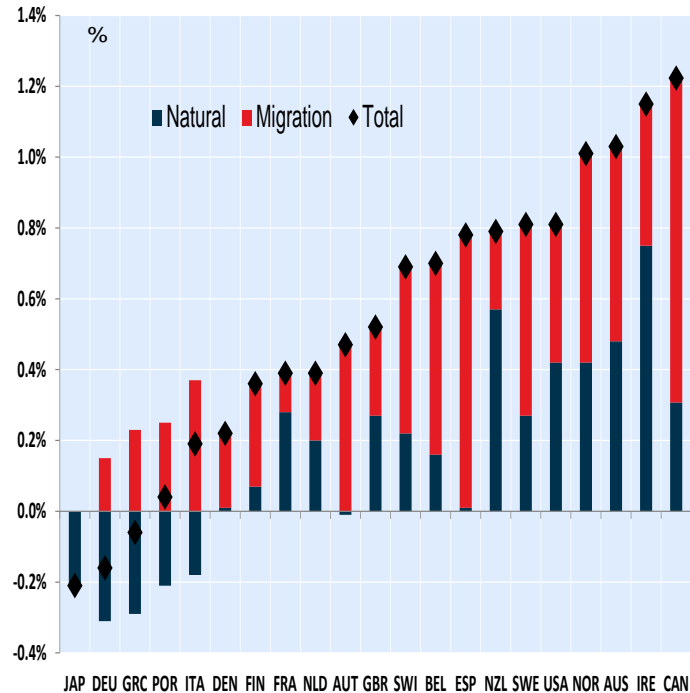
Canada: Population growth

Population aged 25-54: Canada vs. the U.S.

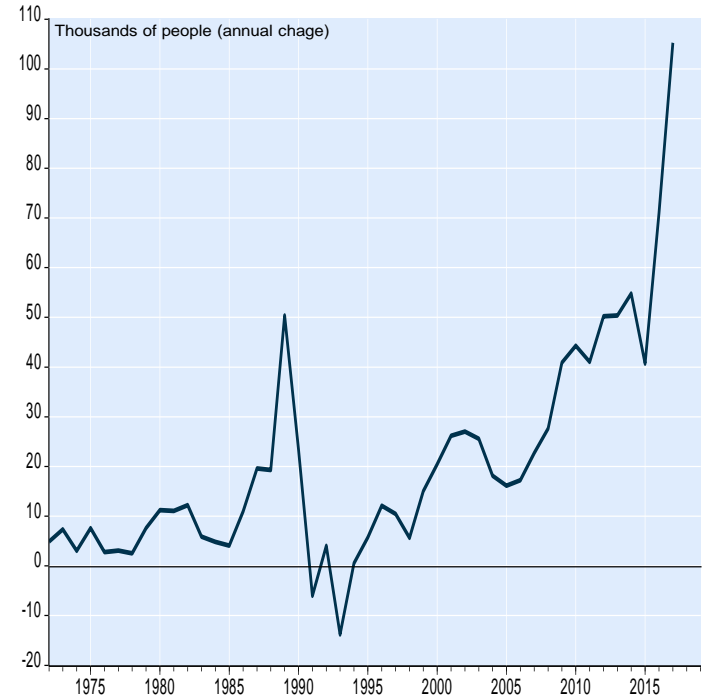


Canada: A magnet for young talent

Components of population growth in 2017
(major advanced countries)



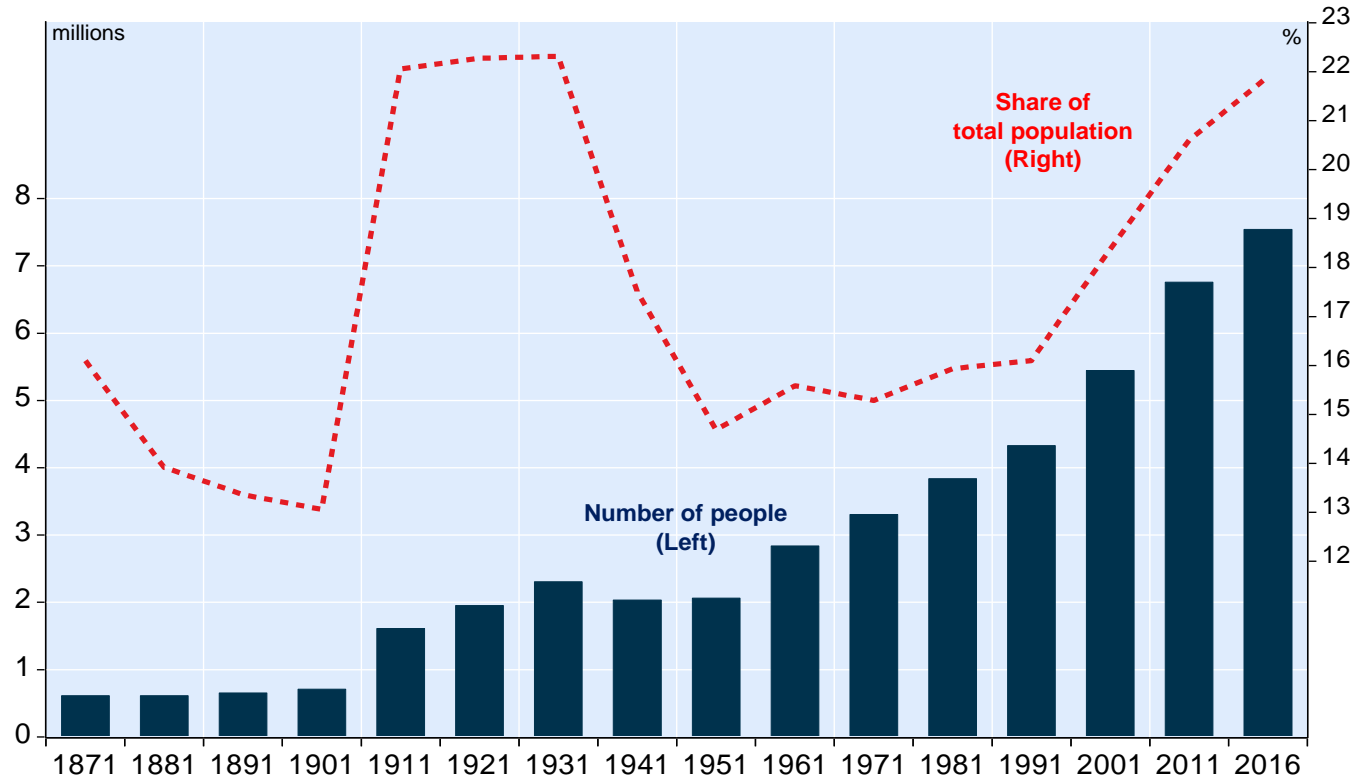
Non-permanent residents aged 15-24
entering Canada



NBF Economics and Strategy (data via Statistics Canada and U.S Census)

Canada: Historical perspective on foreign-born population

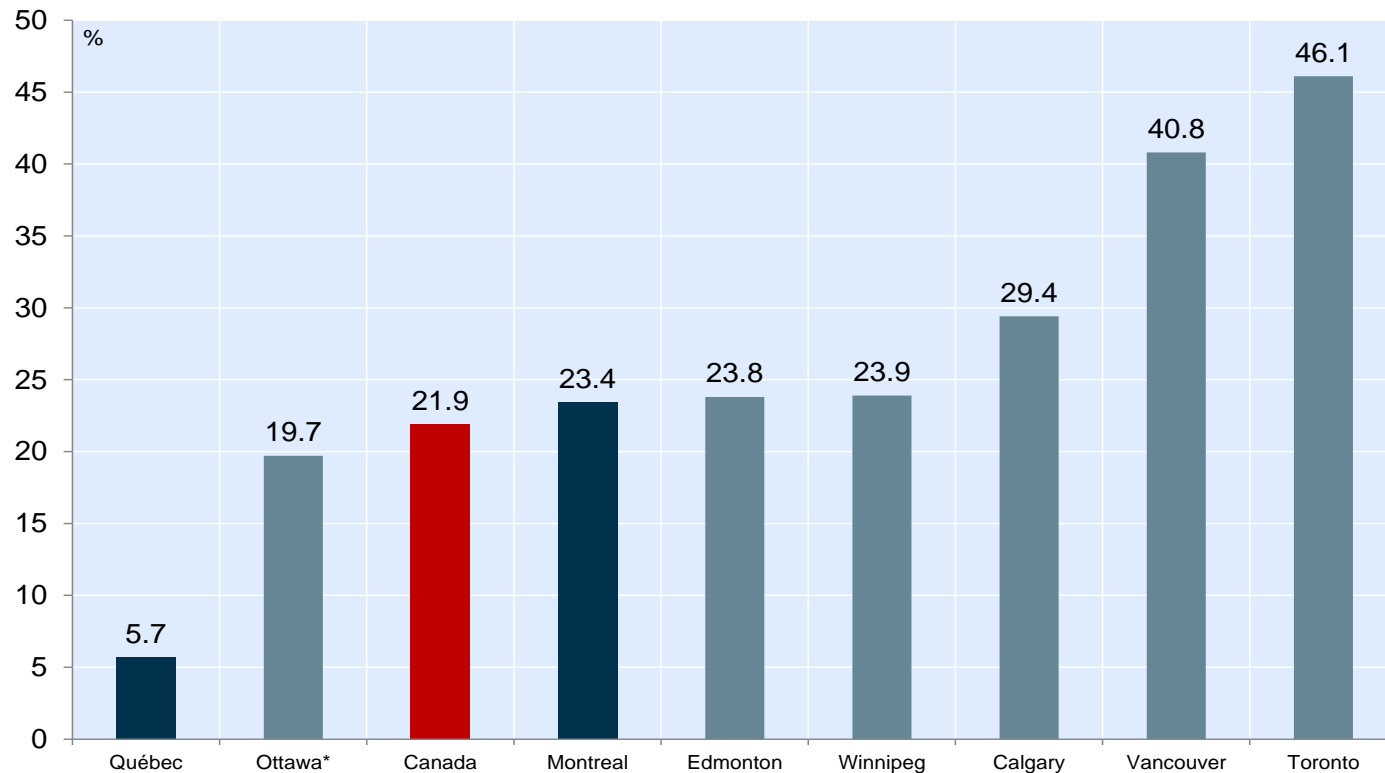
Number of people born outside Canada and their proportion in the population



NBF Economics and Strategy (data via Statistics Canada)

Canada: Perspective on foreign-born population

Foreign-born population as a share of total



* Includes Gatineau

NBF Economics and Strategy (data via Statistics Canada)

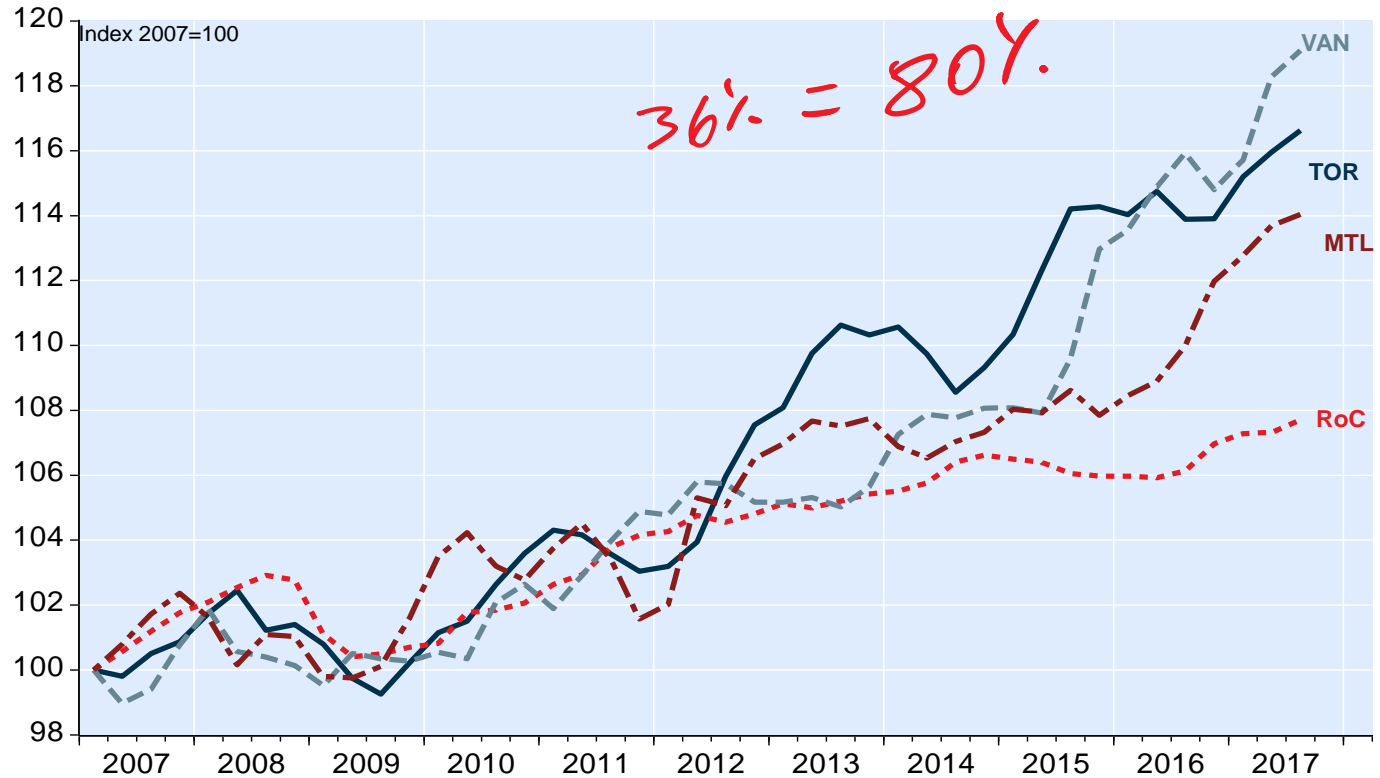


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Canada: Job creation in the main cities

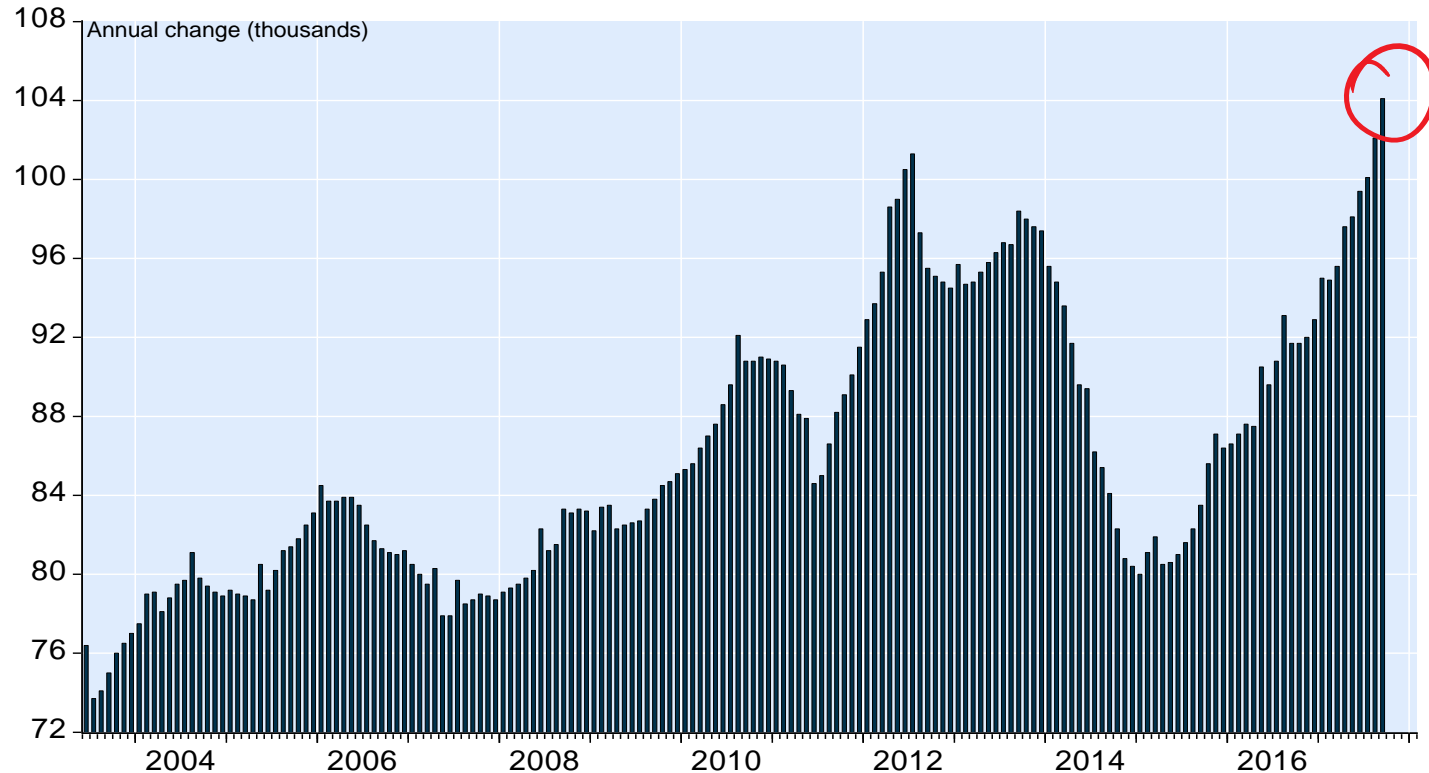
Job creation in greater Vancouver, greater Toronto, greater Montreal and rest of Canada



NBF Economics and Strategy (data via Statistics Canada)

Canada: Population is surging in the GTA

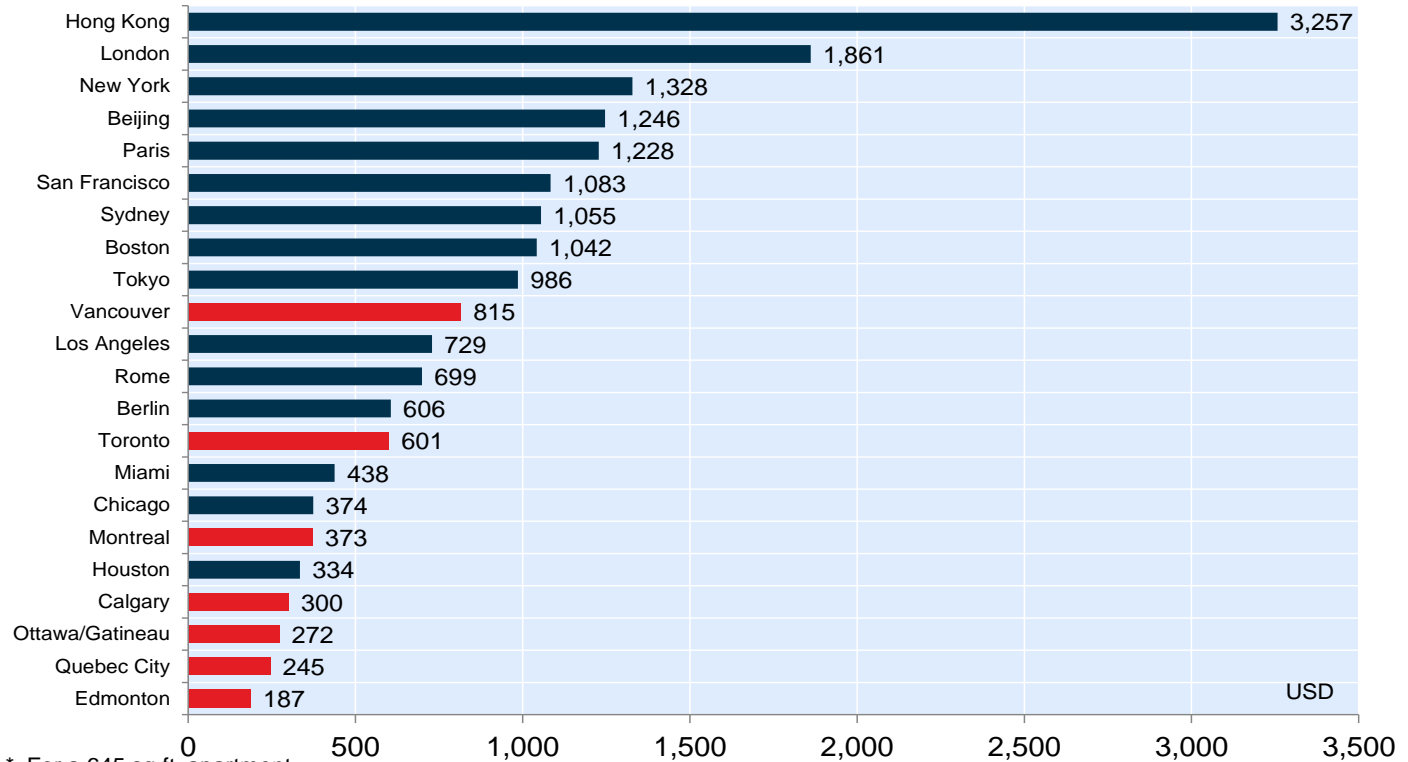
Population growth in the Greater Toronto Area (GTA) – monthly data*



* Civilian population aged 15+ - NBF Economics and Strategy (data via Statistics Canada)

World: Perspective on downtown living cost

Price per square feet in USD for downtown living*

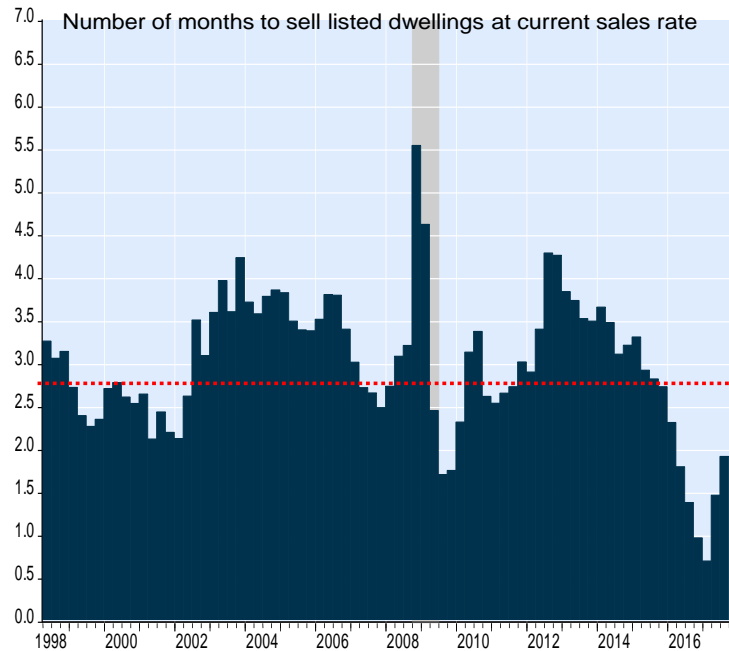


* For a 645 sq.ft. apartment
NBF Economics and Strategy

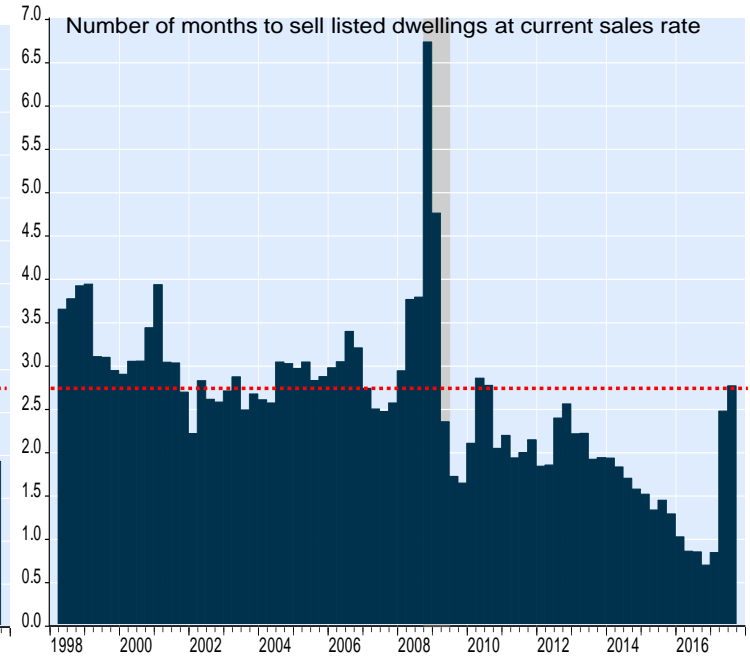
Toronto: Home resale market

Ratio of active listings to sales, seasonally adjusted, quarterly basis

Condos apartments



Other dwellings

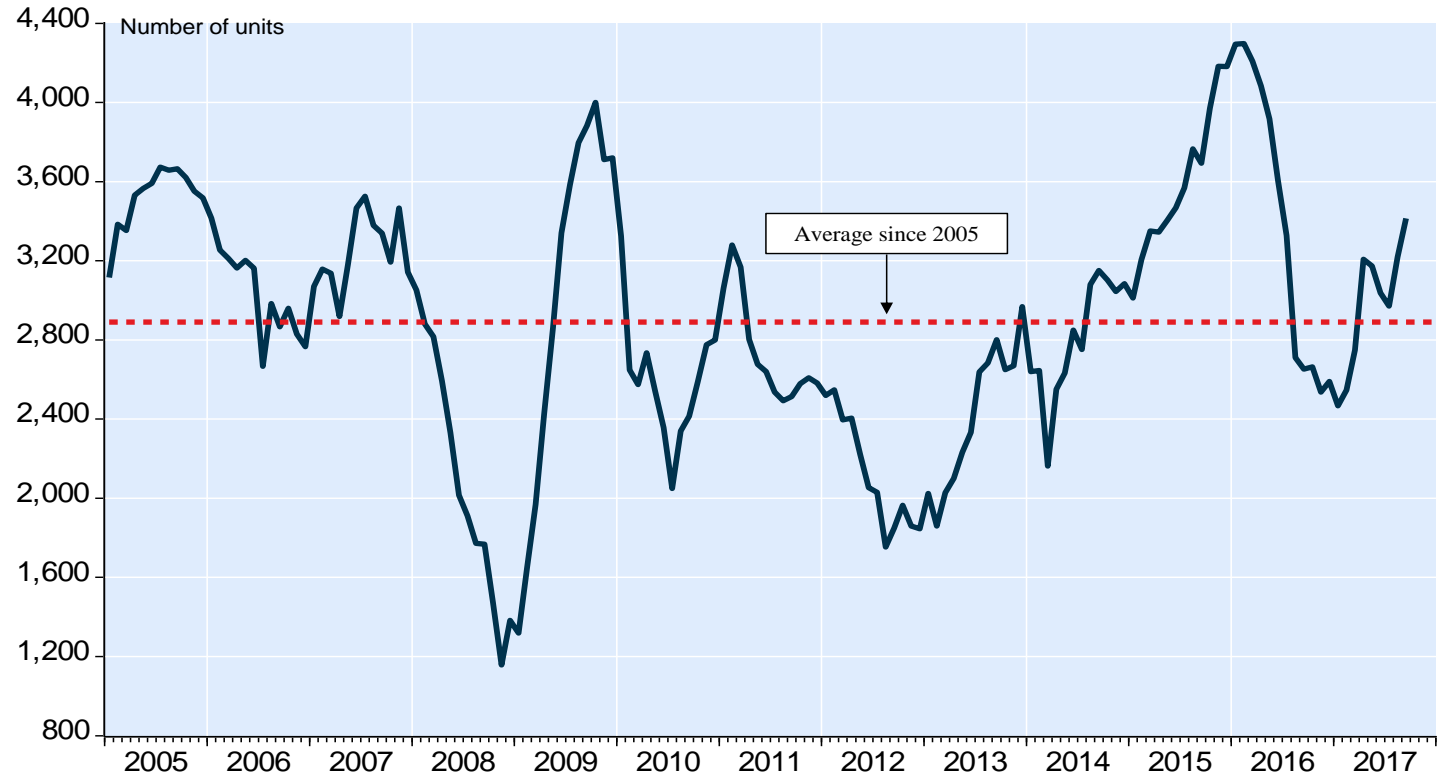


Last observation: Q3 2017

NBF Economics and Strategy, data from CREA and TREB seasonally adjusted by NBF.

Vancouver: Number of homes sold

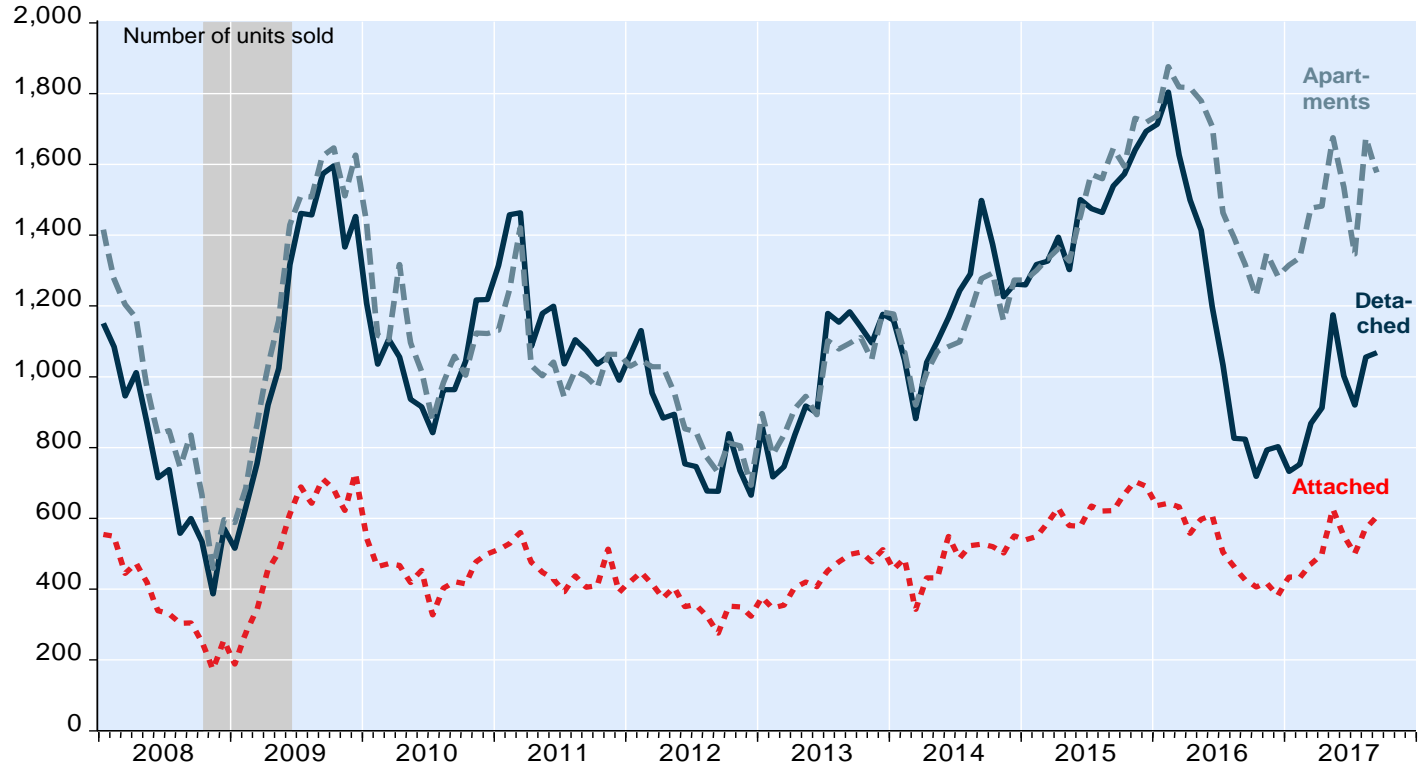
Seasonally adjusted, last observation: September 2017



NBF Economics and Strategy (data from CREA, MLS100093).

Vancouver: Monthly home sales by category

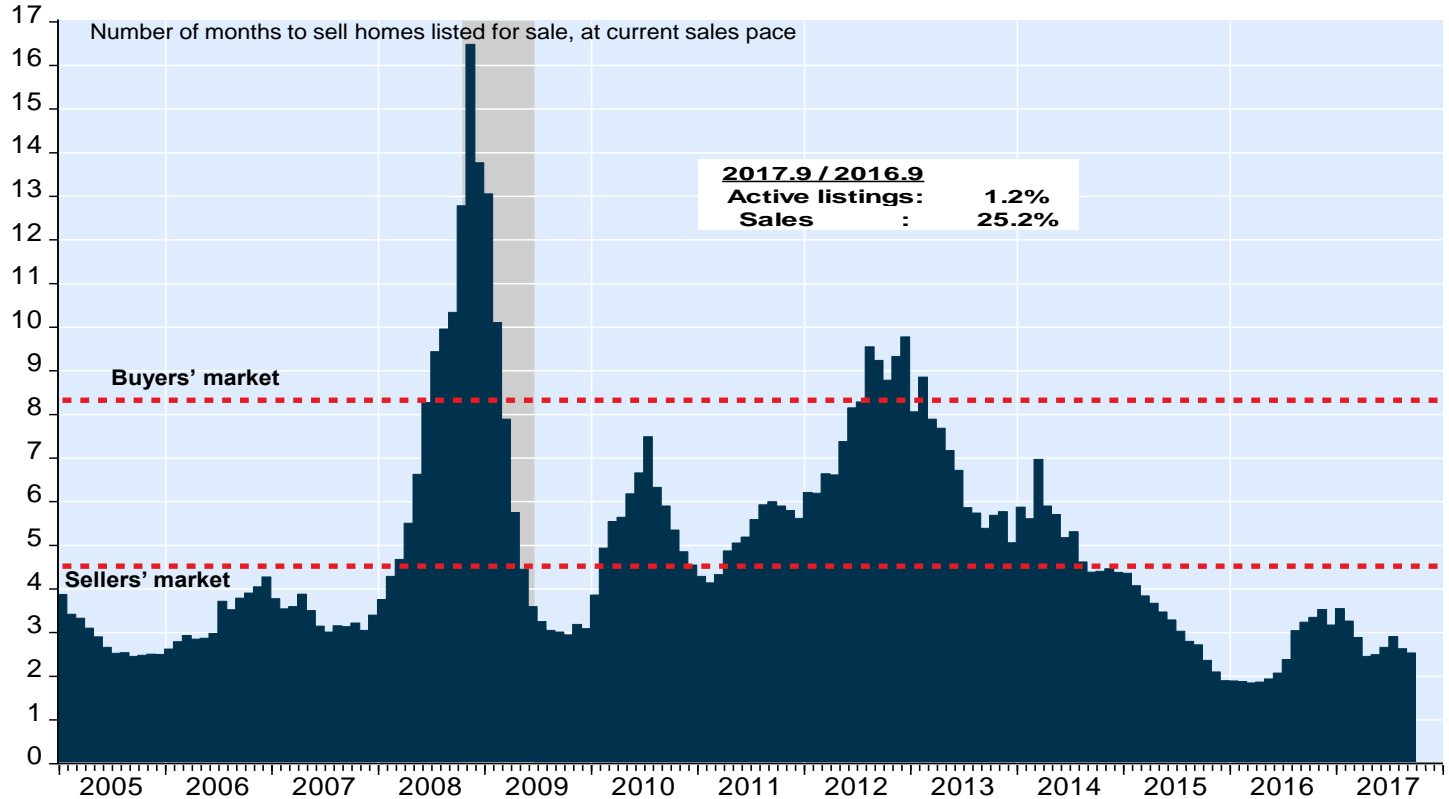
Seasonally adjusted by NBF. Last observation: September 2017



NBF Economics and Strategy (data via Real estate Board of Greater Vancouver, seasonally adjusted by NBF)

Vancouver: Existing home resale market

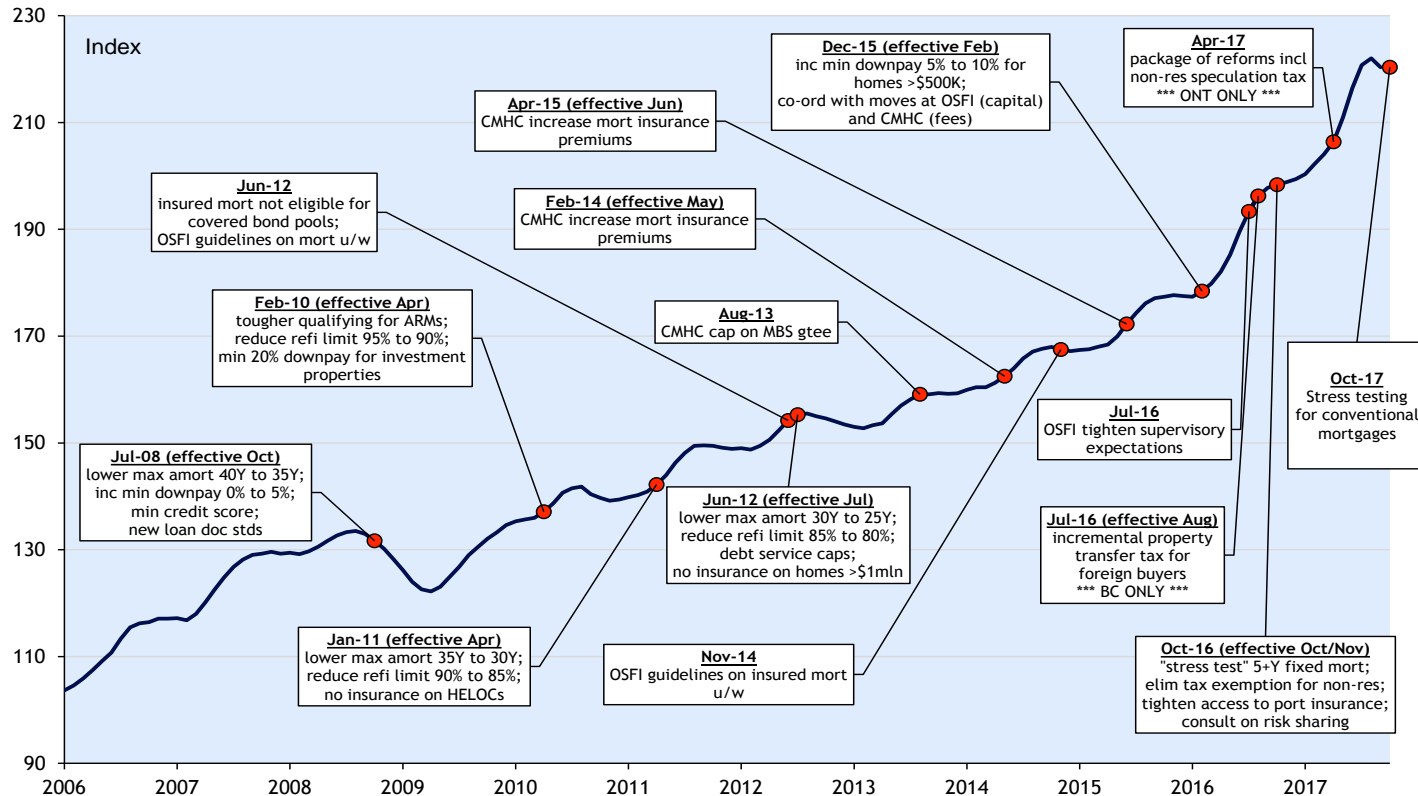
Active-listing-to-sale ratio, last observation: September 2017



NBF Economics and Strategy, REBGV data seasonally adjusted by NBF.

Canada: Regulators have tried to cool housing sector for a decade

Macroprudential measures implemented since 2006



NBF Economics and Strategy

Canada vs. United States: Gloves come off as NAFTA trade talks hit impasse

Foreign Affairs Minister Chrystia Freeland on Tuesday publicly blasted the Trump administration's NAFTA approach for the first time, the clearest sign yet of the divide between the U.S. and Canada.

NEWS 07:58 AM by Daniel Dale *Toronto Star* Hamilton Spectator

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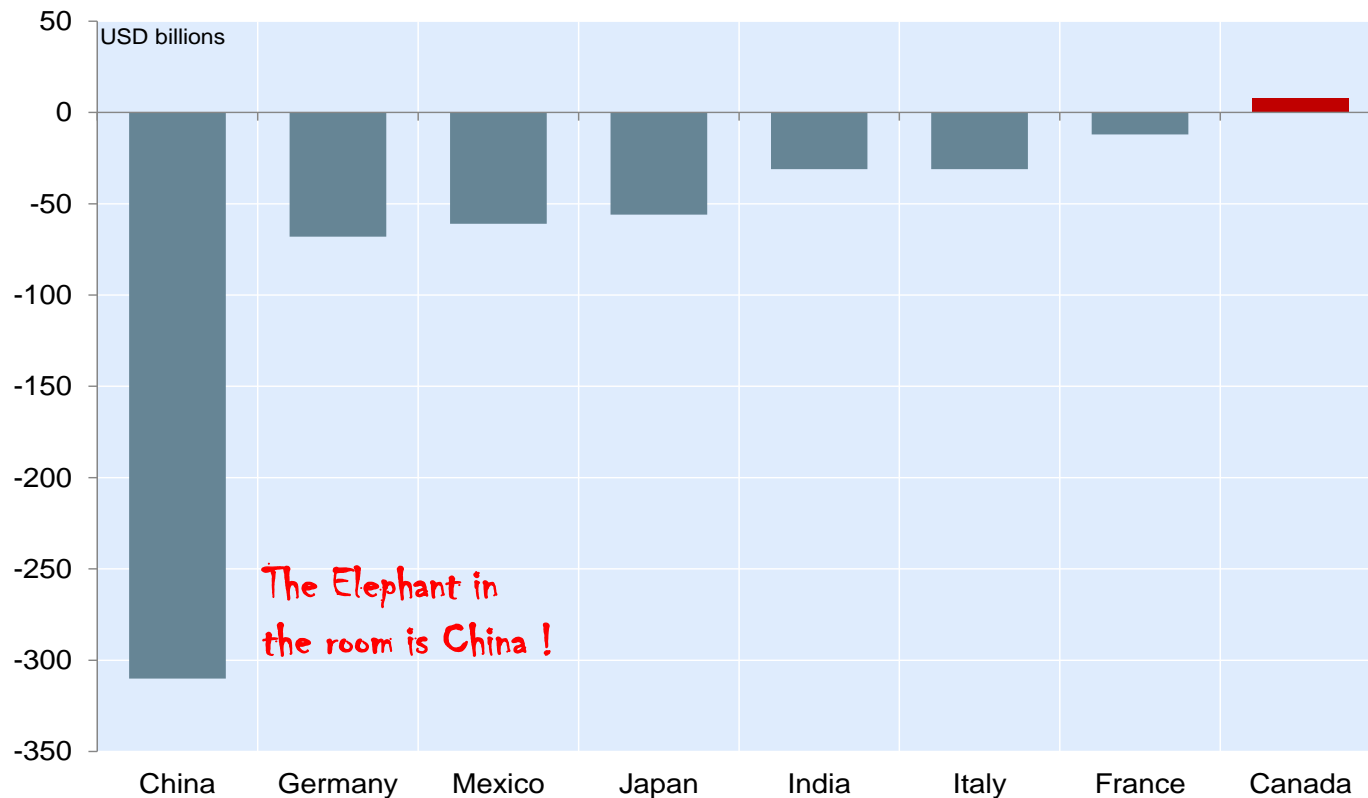


Canadian Minister of Foreign Affairs Chrystia Freeland, speaks during the conclusion of the fourth round of negotiations for a new North American Free Trade Agreement (NAFTA) in Washington on Tuesday - Manuel Balce Ceneta, The Associated Press

WASHINGTON — The vast divide between Canada and the United States over the future of North American trade burst into public view on Tuesday as top officials for Prime Minister Justin Trudeau and President Donald Trump traded blame for their negotiating impasse.

U.S.: Is NAFTA such a bad deal?

U.S. trade balance for goods and services - 2016



NBF Economics and Strategy (data via U.S. Department of Commerce)

Conclusion:

- **World, U.S.**

- Global growth near 3.5% in 2018
- China continues to grow at around 6% (good enough)
- Eurozone, ok
- Geopolitical risks to remain a major source of concern: U.S. Trade Policy?

Interest rates, currency:

- Canadian economy to expand 3.0% in 2017 and 2.5% in 2018. ; U.S. at 2.4% in 2018
Ontario: 2.6% (2018)
- The Fed probably hikes once more in 2017 and 3 times in 2018 ; 10-year Treasury yield near 3.0%.
- Expect the BoC to hike again before the year end, more coming in 2018 (heading towards 2%)
- Canadian dollar in the 1.20-1.30 range ; Oil in the \$45-\$52 range
- Large correction in housing unlikely unless labour markets deteriorate markedly
or mortgage rates surge.

Risk factors: Trump / Morneau / Poloz / Yellen

**Stocks over bonds for now
with some gold (no bitcoins)!**

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