



Economic and Financial Outlook

Vancouver Economic Dinner

Stéfane Marion

Chief Economist and strategist

Fairmont Waterfront

June 13, 2018



NATIONAL
BANK
FINANCIAL MARKETS



World

It's not easy being a Canadian nowadays



NATIONAL
BANK
FINANCIAL MARKETS

Peter Navarro says 'there's a special place in hell' for Justin Trudeau



By Eli Watkins, CNN

Updated 4:57 PM ET, Sun June 10, 2018



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Singapore is another “special place”



4

6/13/2018

Norwegian politicians nominate Donald Trump for Nobel Peace Prize after North Korea summit | The Independent



News › World › World Politics

Norwegian politicians nominate Donald Trump for Nobel Peace Prize after North Korea summit

A growing group of people across the globe have expressed support of a Nobel Prize for the US president

Clark Mindock New York | @ClarkMindock | 2 hours ago | 5 comments



Mr Trump became the first sitting president to meet with a leader from the North Korean regime (Getty Images)

5

MSCI composite index: Price Performance

	Month to date	Quarter to date	Year to date
MSCI AC World	2.3	4.5	2.1
MSCI World	2.3	5.1	2.3
MSCI USA	2.9	5.4	4.3
MSCI Canada	1.2	6.0	0.5
MSCI Europe	1.5	4.5	-0.6
MSCI Pacific ex Jp	0.5	4.1	0.3
MSCI Japan	2.3	4.1	-1.7
MSCI EM	1.8	0.4	0.7
MSCI EM EMEA	1.7	-0.7	-4.3
MSCI EM Latin America	-2.2	-9.3	-4.6
MSCI EM Asia	2.4	2.1	2.5

6/11/2018



NBF Economics and Strategy (data via Datastream)

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World: Perspective on global equities

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



NBF Economics and Strategy (data via Datastream)

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World: Earnings finally exceed pre-recession peak

12-month trailing earnings for the MSCI AC



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World: Trade volumes at a record

Global trade flows (quarterly volumes)



NBF Economics and Strategy (CPB data via Datastream)

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World: Industrial output at a record

Industrial production in volume terms



NBF Economics and Strategy (CPB data via Datastream)

10

World: Labour market is doing well

Unemployment rate in OECD countries

Best in a decade



NBF Economics and Strategy (<http://www.oecd.org/employment/labour-stats/>)

11

World: Perspective on global unease

CDS for emerging countries



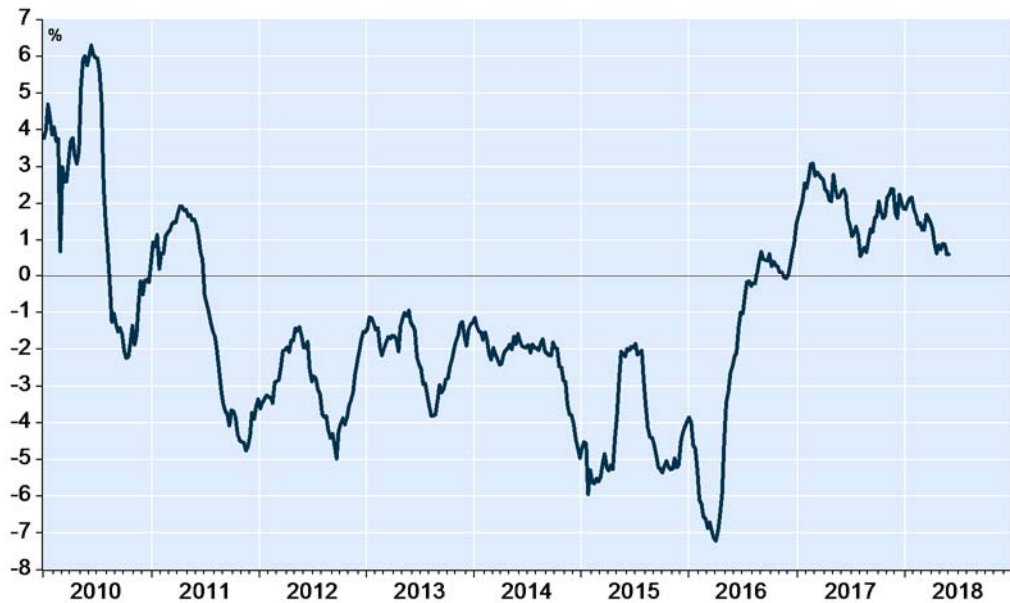
Bloomberg

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World: Profit revisions remain positive for EM

Three-month change in 12-month forward EPS, MSCI Emerging

That is critical

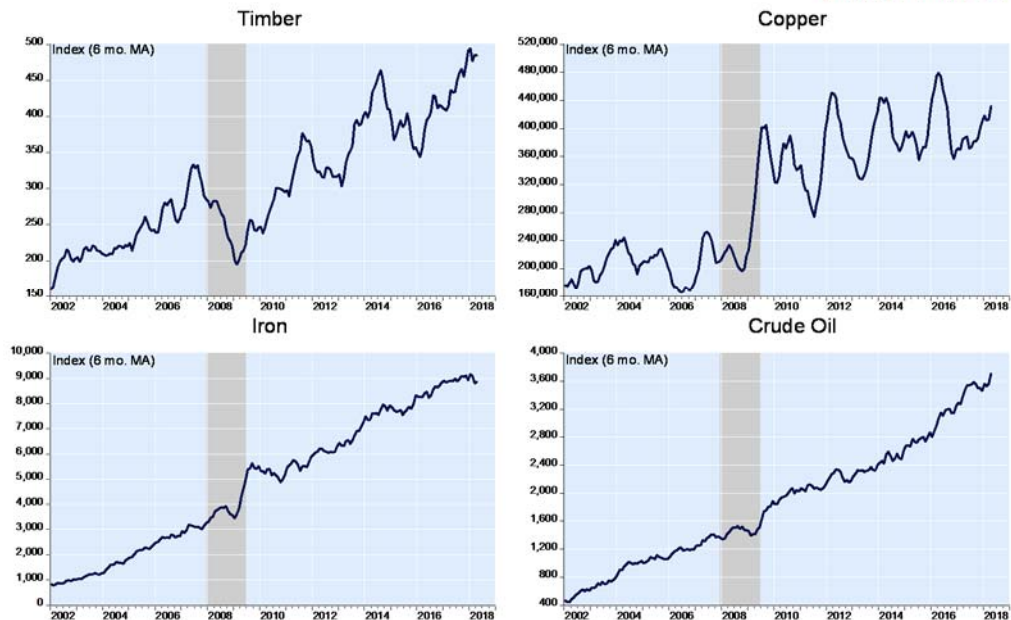


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China: Volume imports of key commodities

The trend is still our friend



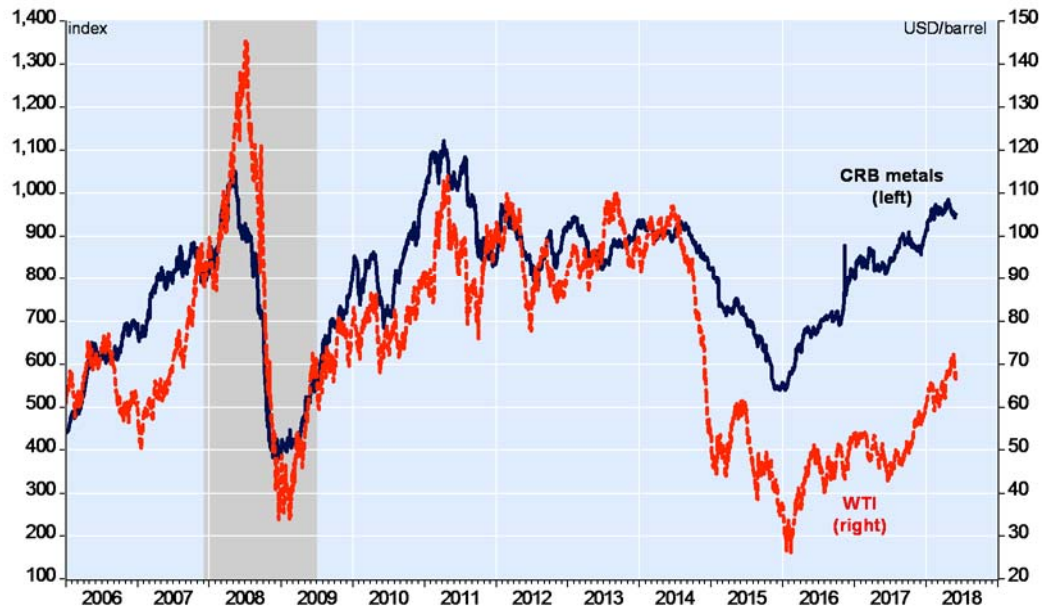
NBF Economics and Strategy (data via Datastream)

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World: Perspective on commodity prices

CRB metals vs. WTI

Still good



NBF Economics and Strategy (data via Datastream)

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World: Most commodity currencies are under pressure

YTD performance vs. the USD

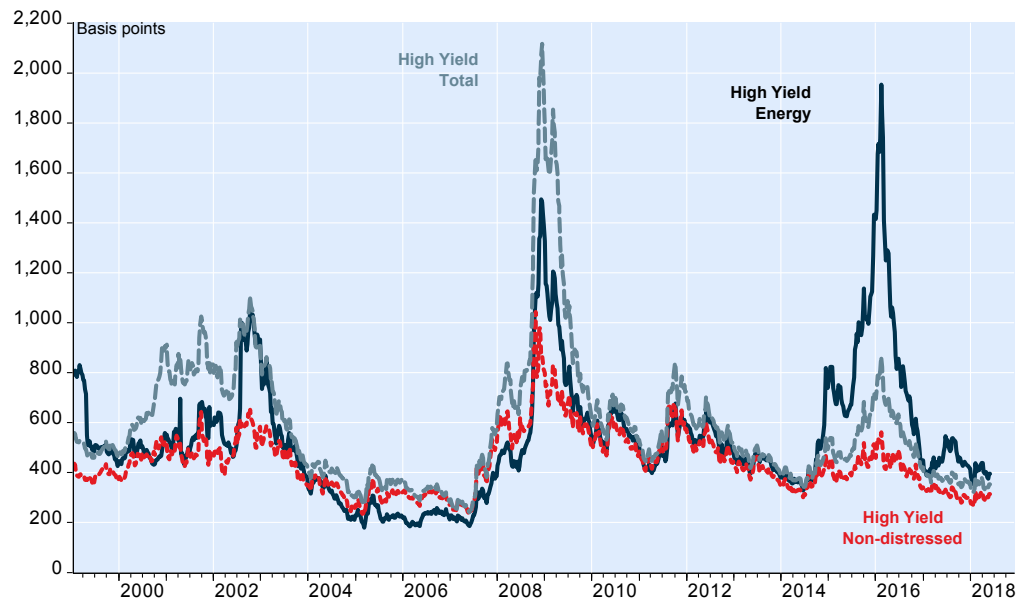


Bloomberg

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U.S.: High-yield corporate spreads

Option adjusted spreads

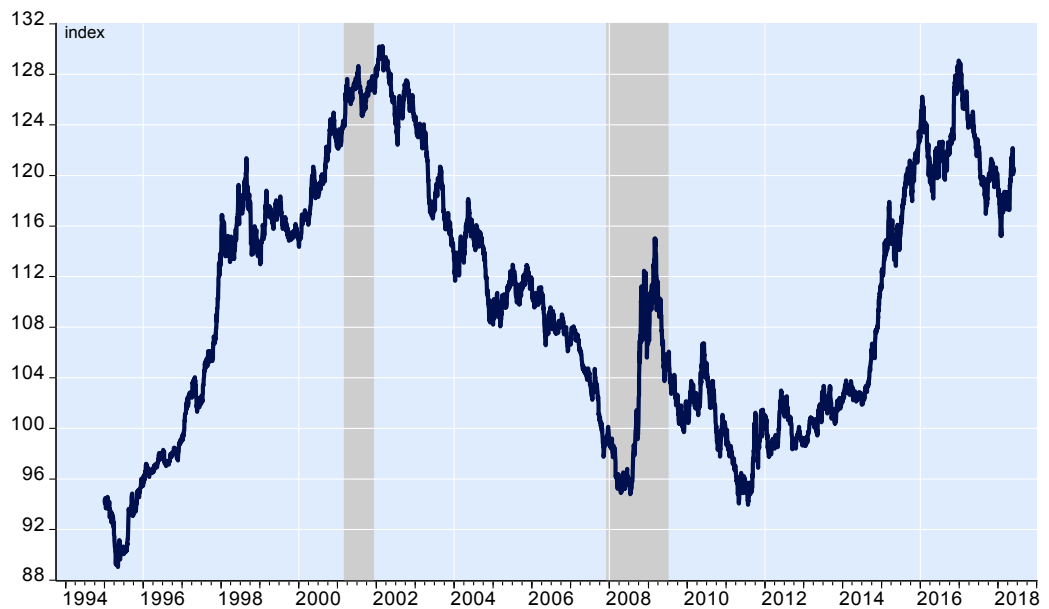


NBF Economics and Strategy (Source ICE BofAML Bond Indices) 2018-05-28

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World: Keep your eyes on the greenback

USD broad index (vs. 26 currencies)



NBF Economics and Strategy (Federal Reserve data via Datastream)

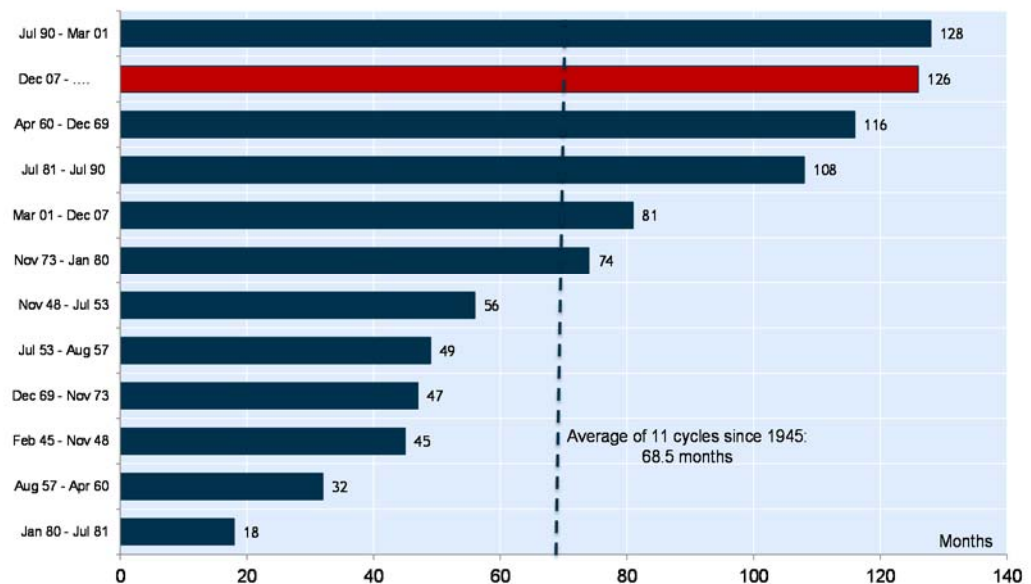
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United States

The end of the cycle?

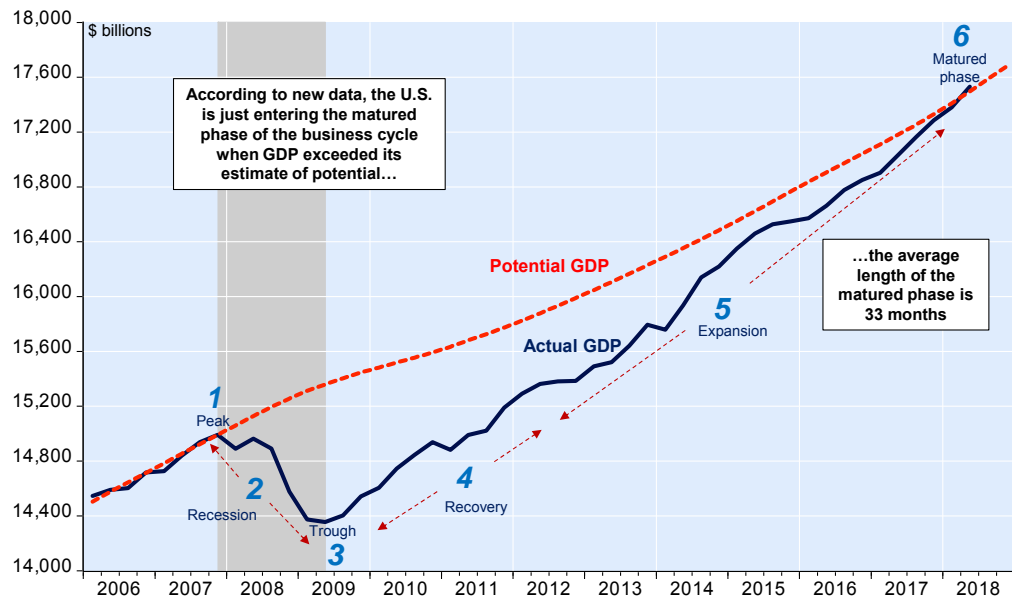
U.S.: The second longest business cycle on record

Duration of economic cycles since 1945 (peak to peak)



U.S.: Perspective on the business cycle

Actual vs. potential* real GDP

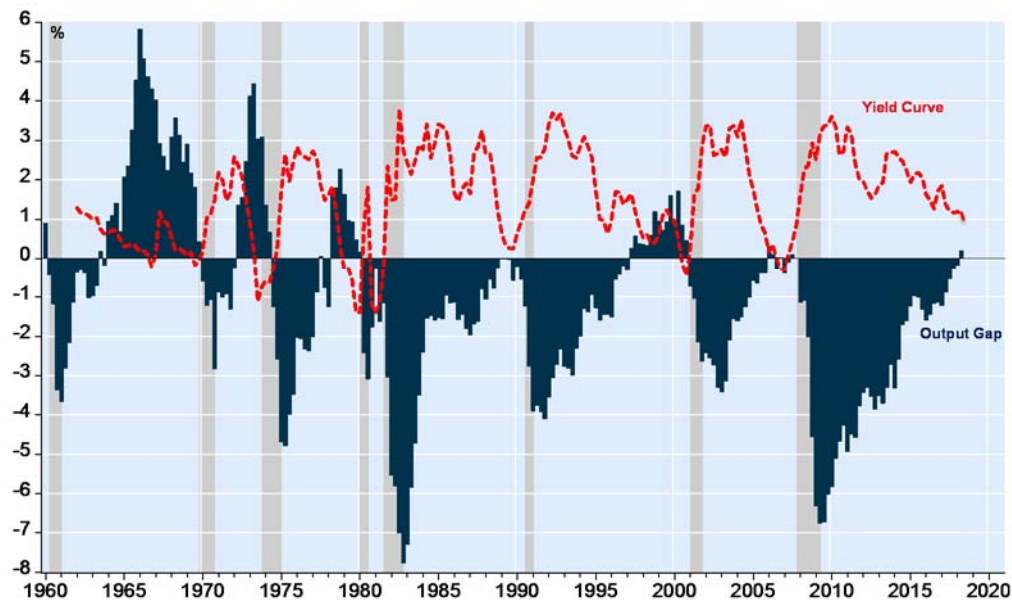


* As calculated by the Congressional Budget Office (CBO) - NBF Economics and Strategy (data via Fed of St-Louis)

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U.S.: Yield curve not that flat at this point in the cycle

Output gap* vs. yield curve (10-year Treasury yield less 3-month T Bill)

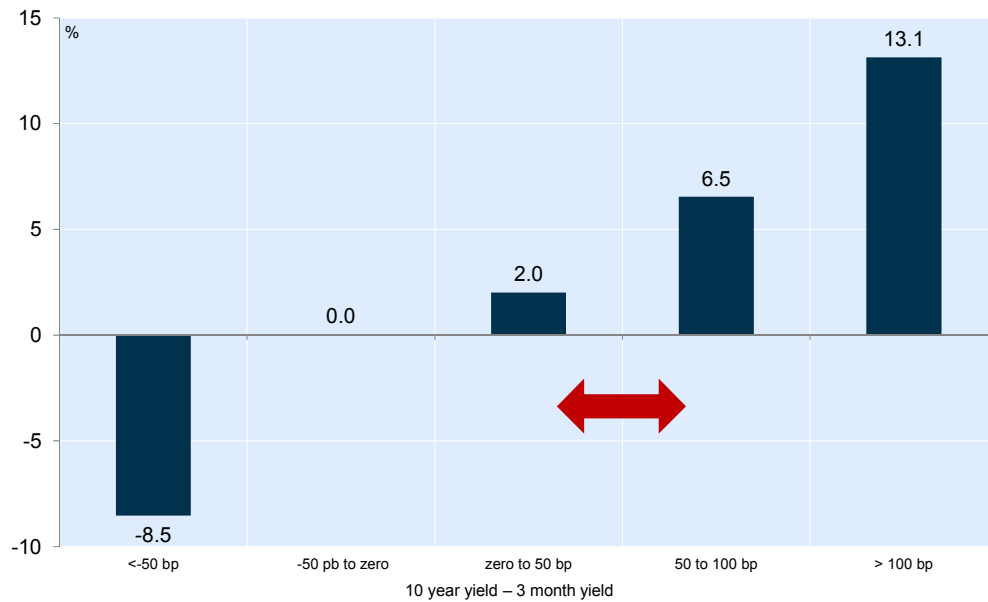


* Using potential GDP calculated by the Congressional Budget Office (CBO) - NBF Economics and Strategy (data via Datastream)

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S&P 500: Perspective on stock market performance

Average 6-month annualized performance depending of the slope of the yield curve in the mature phase

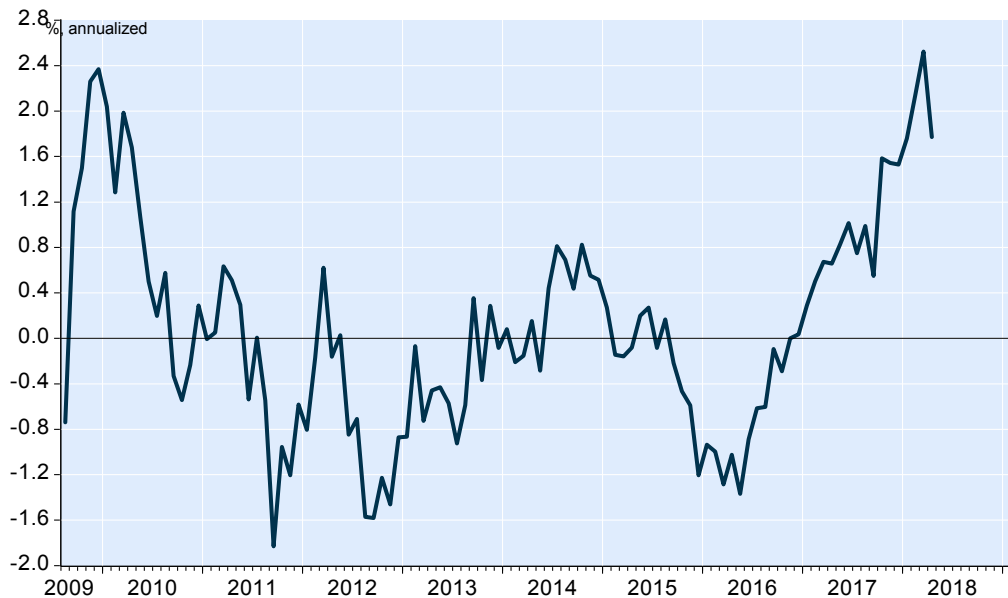


NBF Economics and Strategy (data via Datastream)

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U.S.: Outlook remains positive

Six-month change in the leading economic index (non-financial components)

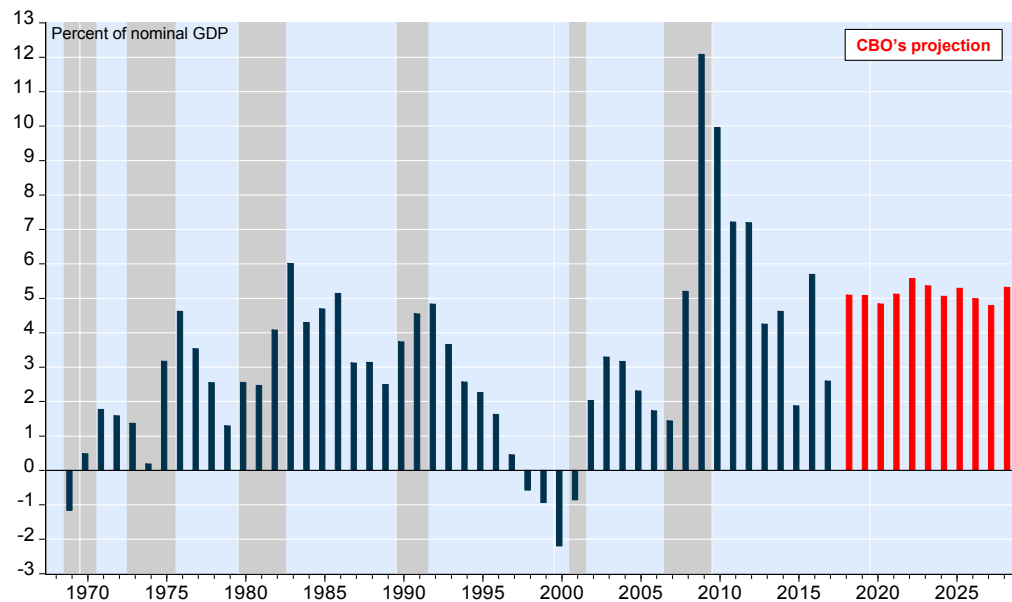


NBF Economics and Strategy (Conference Board data via Datastream)

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US: Treasury borrowing requirements as a percentage of GDP

Net change in debt held by the public, end of the fiscal year



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More than 1,000 economists warn Trump his trade views echo 1930s errors

President's 'economic protectionism' harkens back to errors that fueled Great Depression, say experts including 14 Nobel winners

A repeat of
the 1930s



▲ Trump's rhetoric harkens back to mistakes that drove the world into the Great Depression, the economists say. Photograph: Chicago History Museum/Getty Images

Over a thousand economists have written to **Donald Trump** warning his "economic protectionism" and tough rhetoric on trade threatens to repeat the mistakes the US made in the 1930s, mistakes that plunged the world into

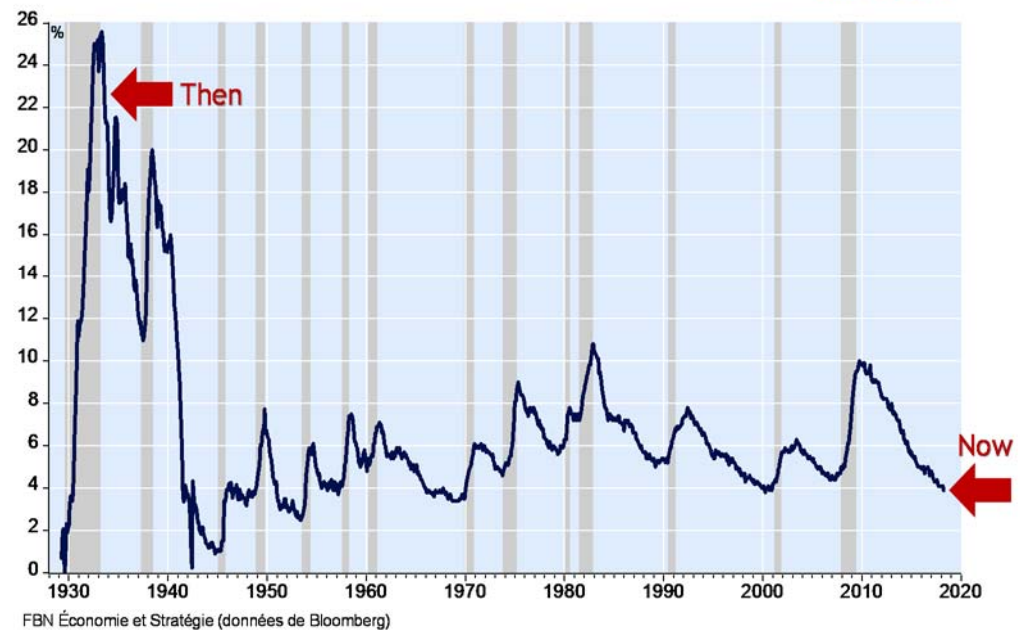
The Guardian

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U.S.: Let's keep things in perspective

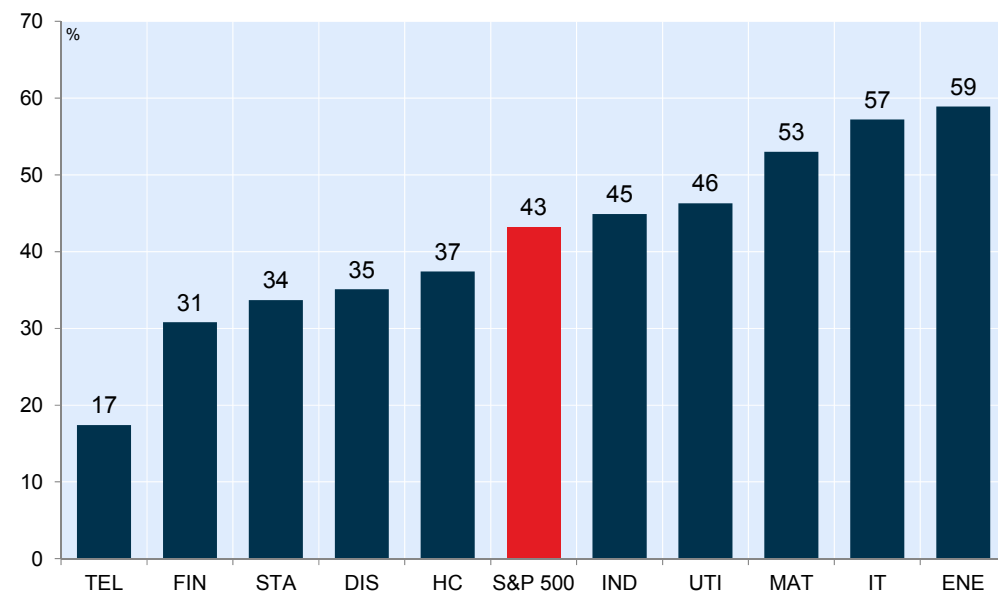
Unemployment rate

This is not
the 1930s



U.S.: Foreign sales are an important component of earnings

Foreign sales as a percentage of total sector sales in S&P 500 (2016)



Canada

It's getting complicated

Canada-U.S.: Perspective on nominal GDP

Nominal GDP growth

Economy is
doing well

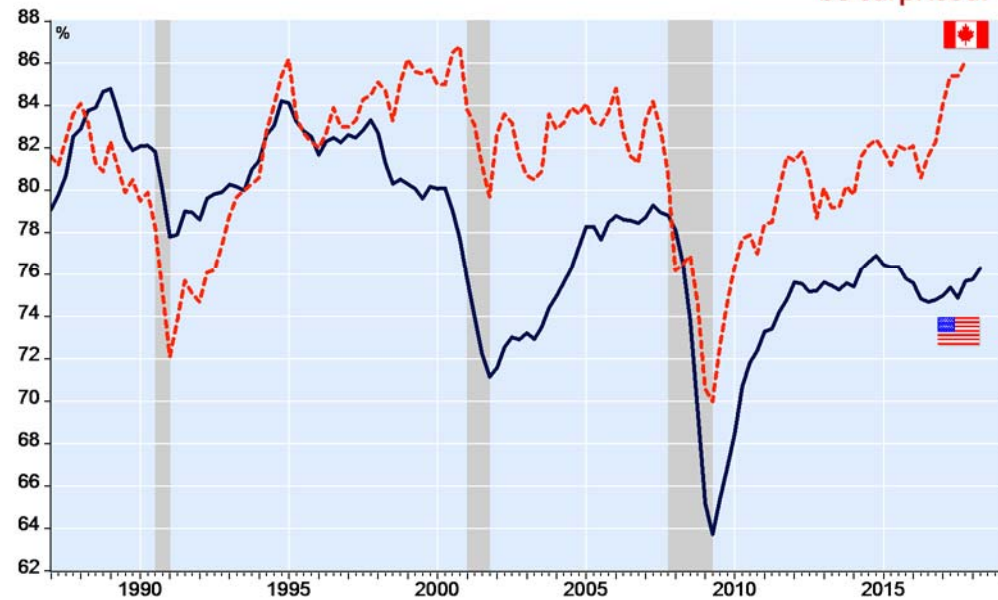


NBF Economics and Strategy (data via Statistics Canada and Datastream)

Canada-U.S.: Perspective on capacity utilization

Capacity utilization in manufacturing sector

But should we
be surprised?



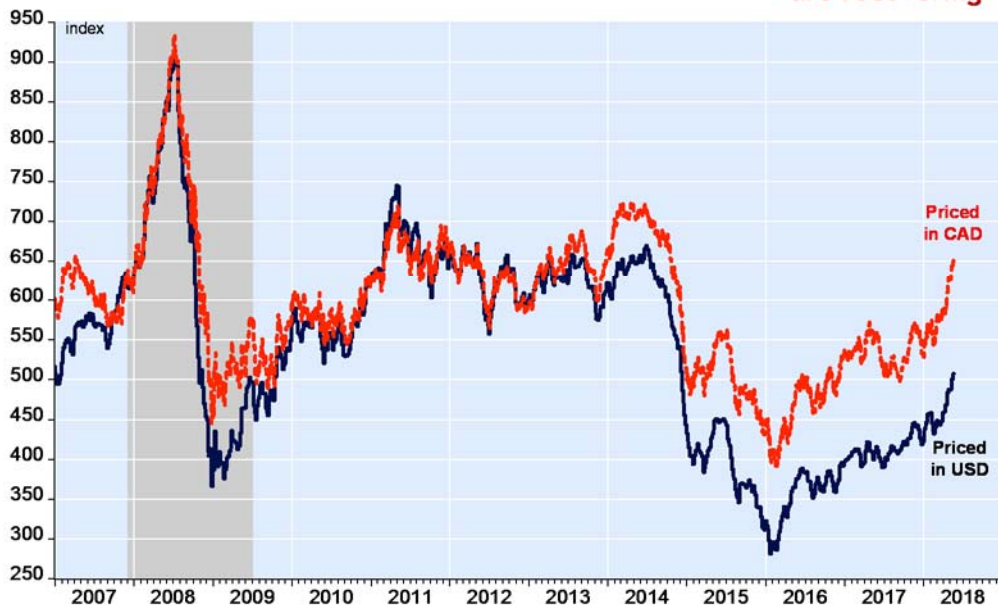
NBF Economics and Strategy (data via Statistics Canada and Datastream)

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Canada: Some respite for commodity producers

BoC commodity price index of 26 commodities produced in Canada

At least prices
are recovering



NBF Economics and Strategy (data via Datastream)

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Canada: Earnings expected to hit a record

Trailing earnings for the S&P/TSX

Profits are
doing well



NBF Economics and Strategy (data via Datastream)

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Canada: Stock market near a record high

S&P/TSX

Profits are
doing well



NBF Economics and Strategy (data via Datastream)

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Canada: Perspective on labour-market slack

Unemployment rate

Labour market
is tight

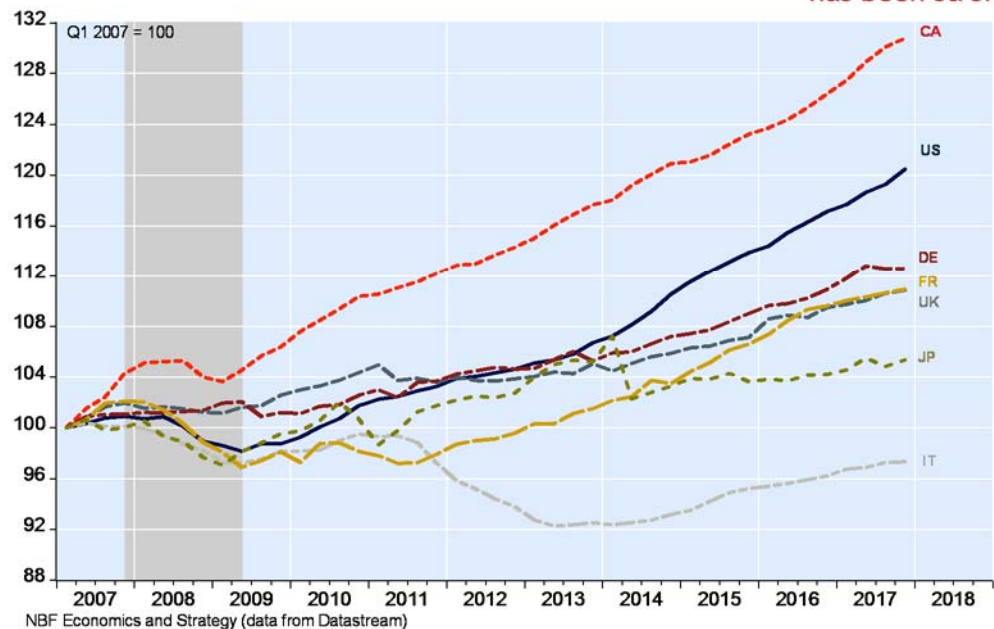


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Canada: Consumer spending well above the rest of the G7

Real consumption since 2017

Consumption
has been strong

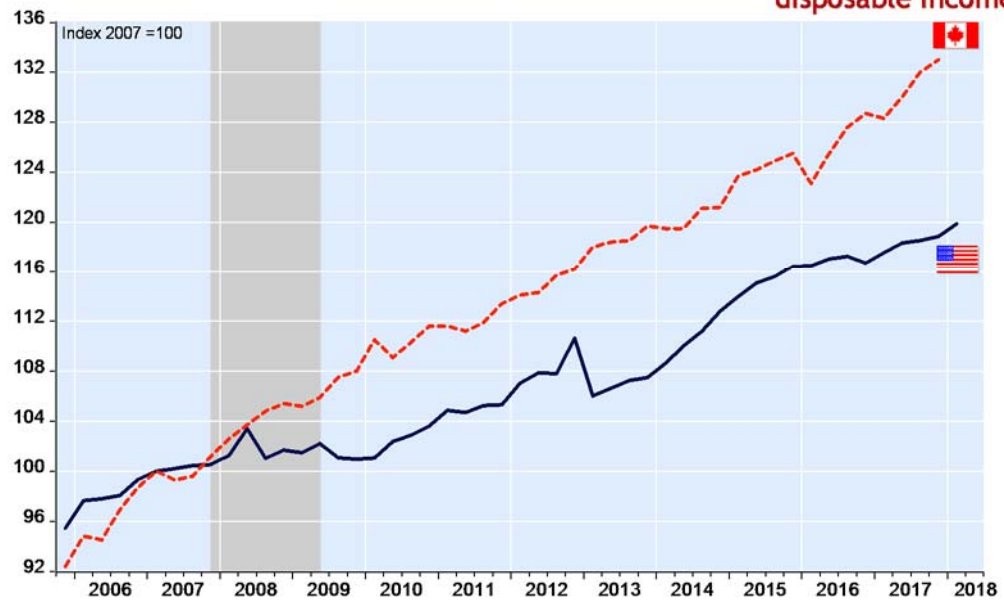


36

Canada: Growth in disposable income has also been strong

Real disposable income: Canada vs. the U.S.

Supported by
disposable income

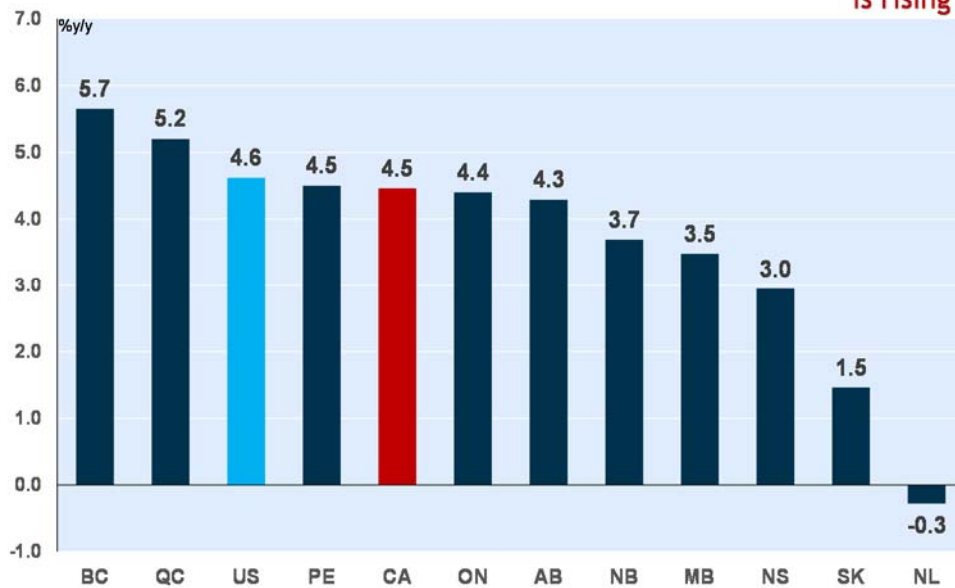


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Canada: Growth in wages & salaries

Q1 2018 vs. Q1 2017

Labour income
is rising



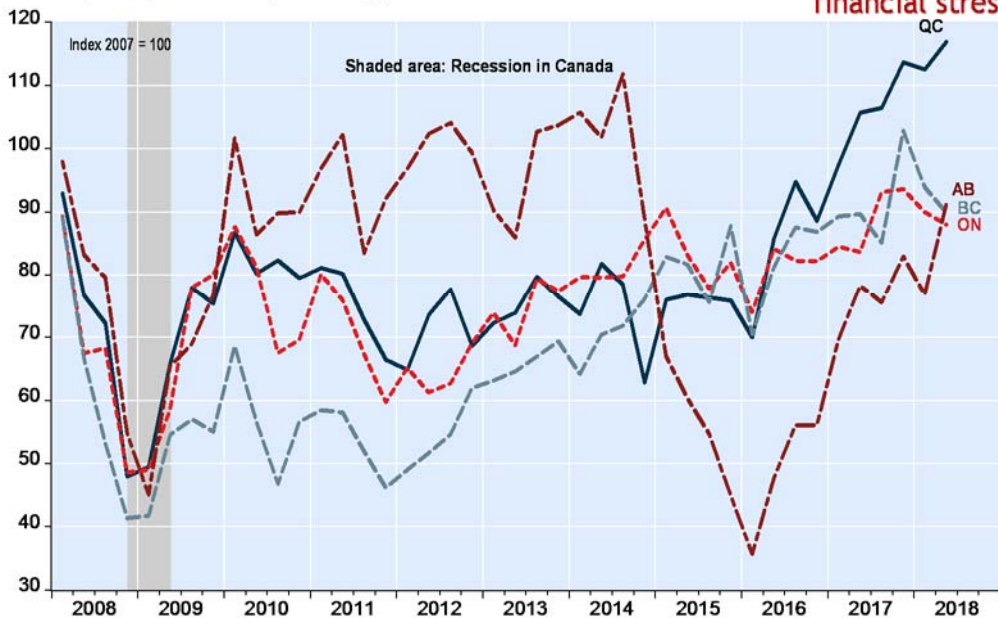
NBF Economics and Strategy (data via Statistics Canada and U.S. BEA)

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Four main provinces: Index of consumer confidence

Quarterly data (Q2 2018 = April and May)

No evidence of financial stress



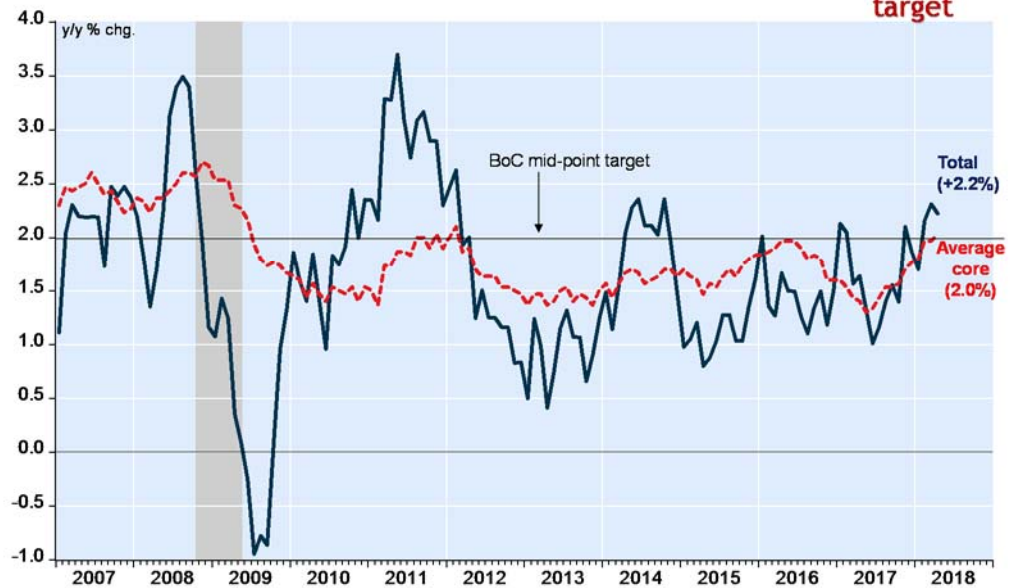
NBF Economy and Strategy, data from Conference Board of Canada

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Canada: Underlying inflation running on target

CPI total and average of the three core measures preferred by the Bank of Canada

Inflation is on target



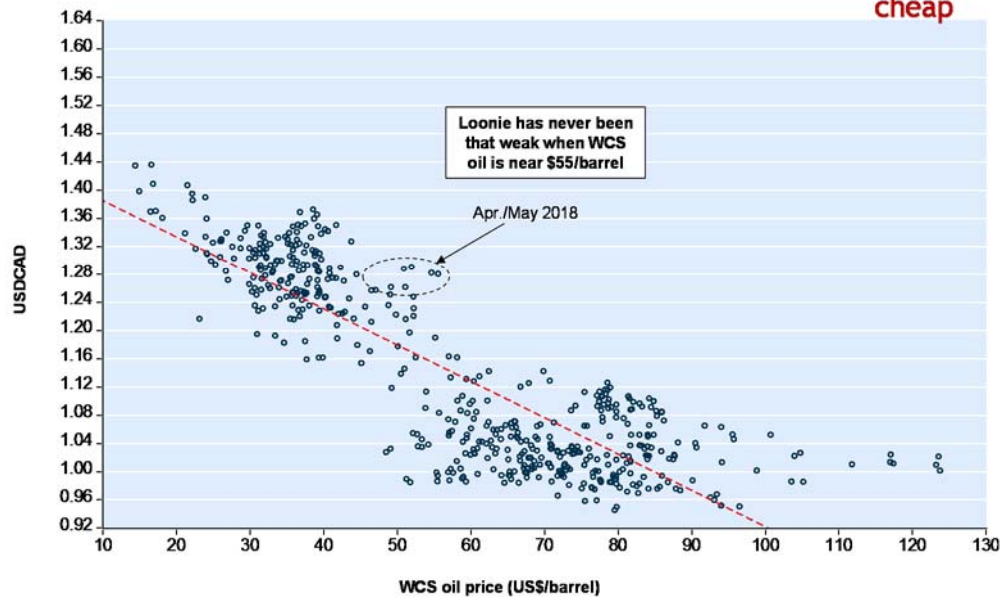
NBF Economics and Strategy (data via Statistics Canada)

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Loonie should be stronger than current levels given current oil price

WCS oil versus USDCAD, weekly data since May 2008

CAD looks
cheap



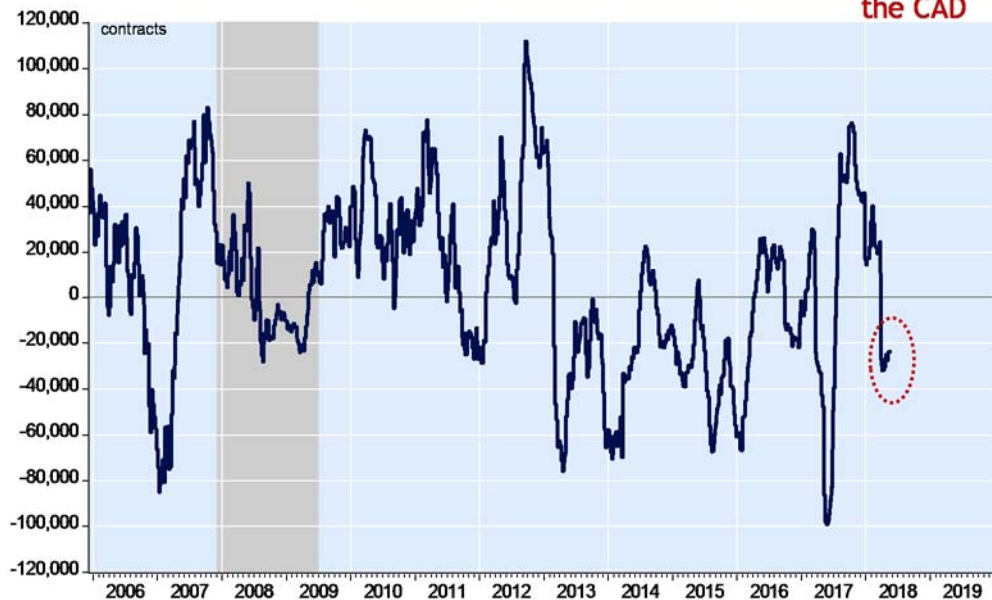
NBF Economics and Strategy (data via Bloomberg)

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Canada: Speculators shorting the loonie

Non-commercial net long positions on the Canadian dollar

Specs still hate
the CAD



NBF Economics and Strategy (data via Bloomberg)

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NAFTA

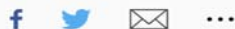
Why does it have to be so hard?

THE STAR

News · World

Trump says he'll punish 'the people of Canada' because of Trudeau's news conference

By **DANIEL DALE** Washington Bureau Chief
ALEX BALLINGALL Ottawa Bureau
Tues., June 12, 2018



WASHINGTON and OTTAWA—Escalating his attack on Prime Minister Justin Trudeau, U.S. President Donald Trump is now pledging to punish “the people of Canada” economically because of the post-G7 news conference in which Trudeau criticized Trump’s tariffs.

“That’s going to cost a lot of money for the people of Canada. He learned. You can’t do that. You can’t do that,” Trump said Tuesday in Singapore after meeting with North Korean dictator Kim Jong Un.



Prepared?
Prepared for what?

Canada 'prepared' if U.S. imposes tariffs on autos: Freeland

PUBLISHED 16 HOURS AGO

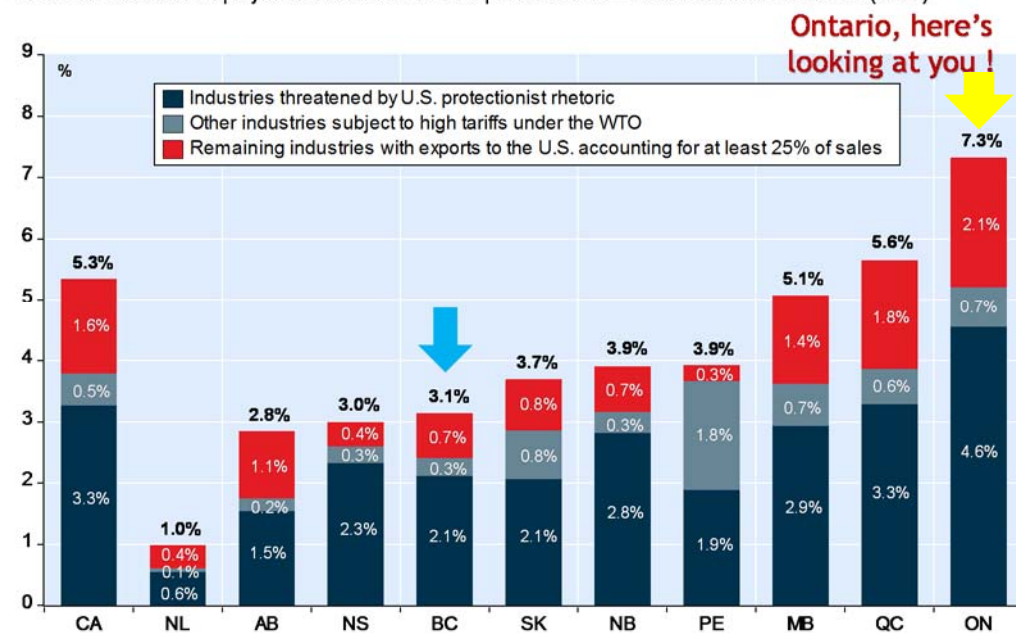


Chrystia Freeland says Ottawa is "prepared for any eventuality," as the U.S. threatens to impose tariffs on Canadian autos. The Foreign Affairs Minister says the government expects "moments of drama" from the Trump administration.

THE CANADIAN PRESS

Canada: Jobs exposed to NAFTA

Share of Canadian employment vulnerable to U.S. protectionism – direct and indirect effects (2013)



NBF Economy and Strategy (data via Statistics Canada, table 381-0032)

These guys seem to be getting along

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Soccer World Cup 2018 Premier League Bundesliga Champions League La Liga Ligue 1 MLS Serie A

Canada wins vote to co-host 2026 FIFA World Cup with U.S and Mexico



Truly historic day in Canadian soccer history

47

Maybe we just need a new trade negotiator

Ex-Chicago Bulls star turned North Korean, uh, diplomat Dennis Rodman weeps over Kim-Trump summit



By Katherine Rosenberg-Douglas
Chicago Tribune

JUNE 12, 2018, 4:25 PM

When it comes to former Chicago Bulls star Dennis Rodman, the world is used to expecting the unexpected.

Late Monday was no exception, with Rodman weeping in a CNN interview after his two friends, President Donald Trump and North Korean dictator Kim Jong Un, met in Singapore for a nuclear summit. Wearing a red

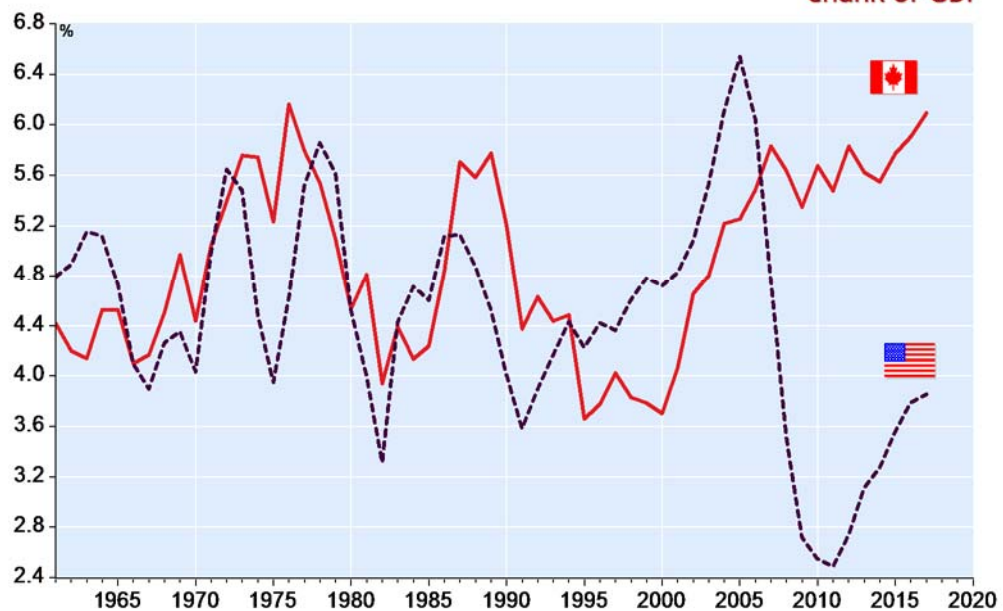
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Housing/Household debt

Crunch time?

Canada vs. U.S.: Residential activity as a % of GDP

Housing is a bigger
chunk of GDP



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

Canada: Perspective on mortgage interest rates

5-year mortgage interest rate

Rates will
move higher



NBF Economics and Strategy (data via National Bank Financial Strategic Data Analytics)

Is he right?

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Home > People in the news > Gurus > Steve Eisman: beware Canada's property bubble

Steve Eisman: beware Canada's property bubble



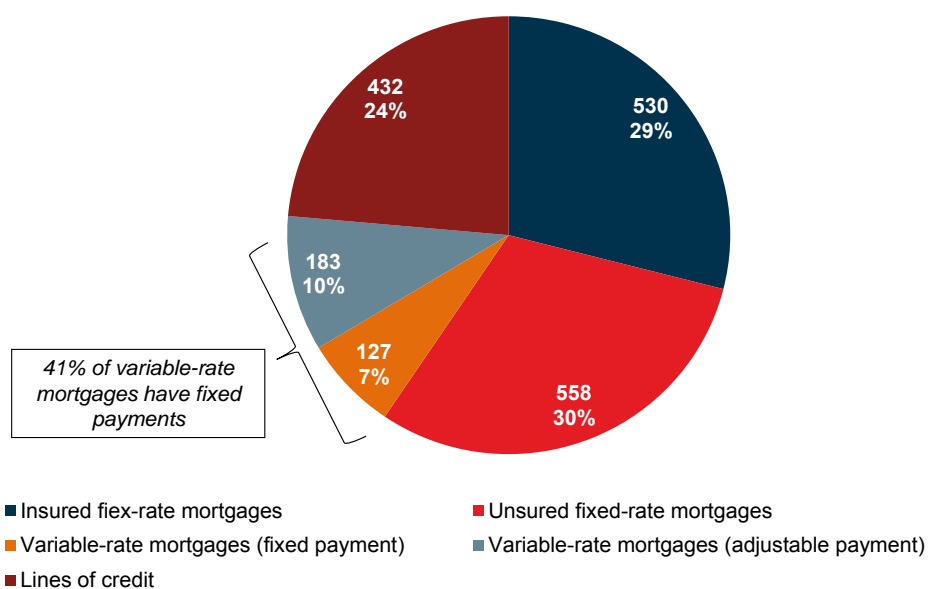
By: Alice Grähns
18/05/2018
0 comments



Steve Eisman, managing director of Neuberger Berman

Breakdown of household debt exposed to interest-payment shock

Year end 2017: \$ 2,131 billion

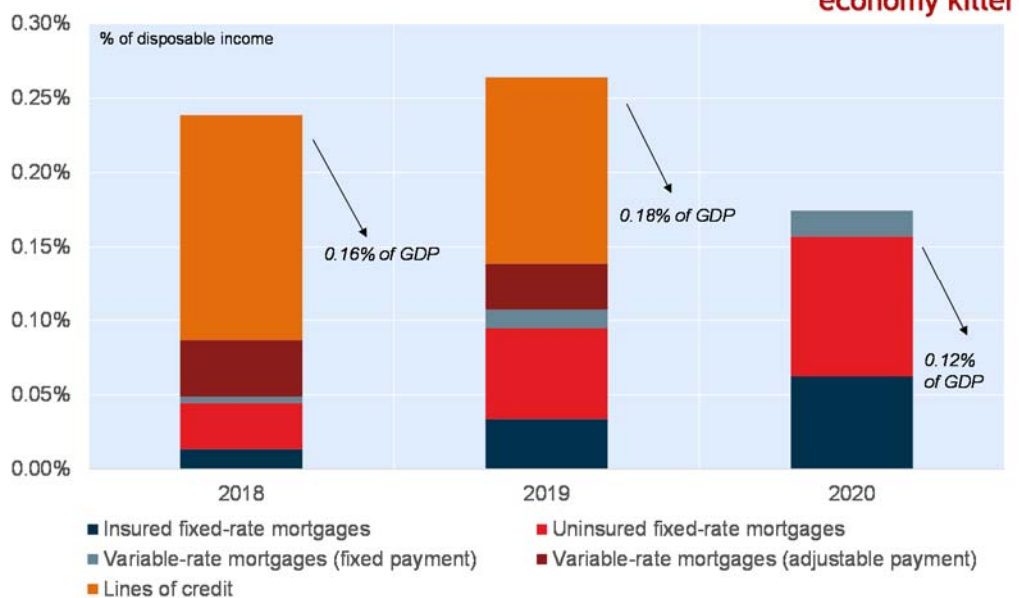


NBF Economics and Strategy (Statistics Canada)

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Canada: Prospective payment shock

Increase in payment as % of disposable income



NBF Economics and Strategy

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Canada: Irrational exuberance in Canada?

Resale price index

Indices don't tell the whole story



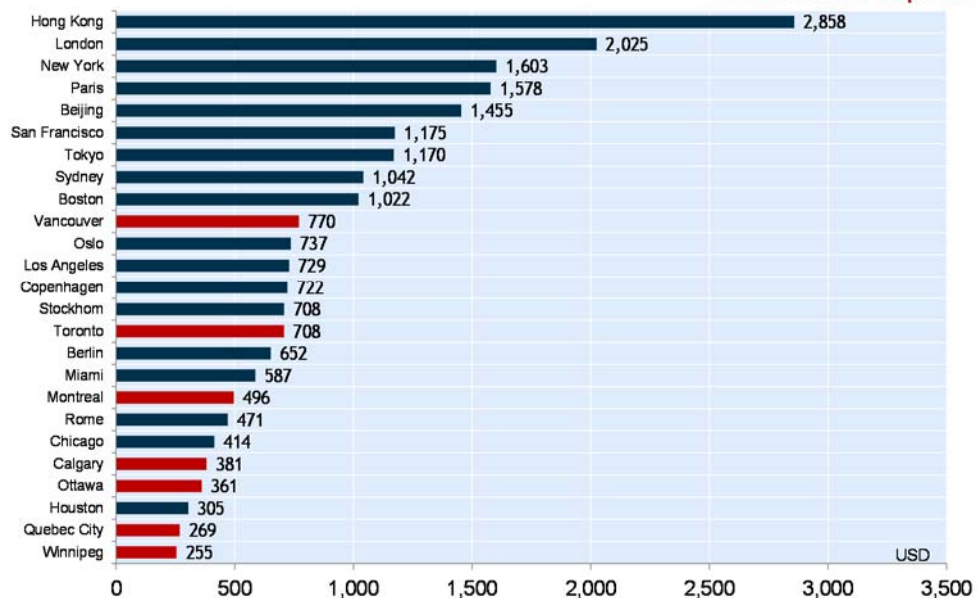
NBF Economics and Strategy (data via Teranet-National Bank and Datastream)

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World: Home prices do not seem extreme in Canada

Price per square foot in USD for downtown living* (May 2018)

Many places are much more expensive

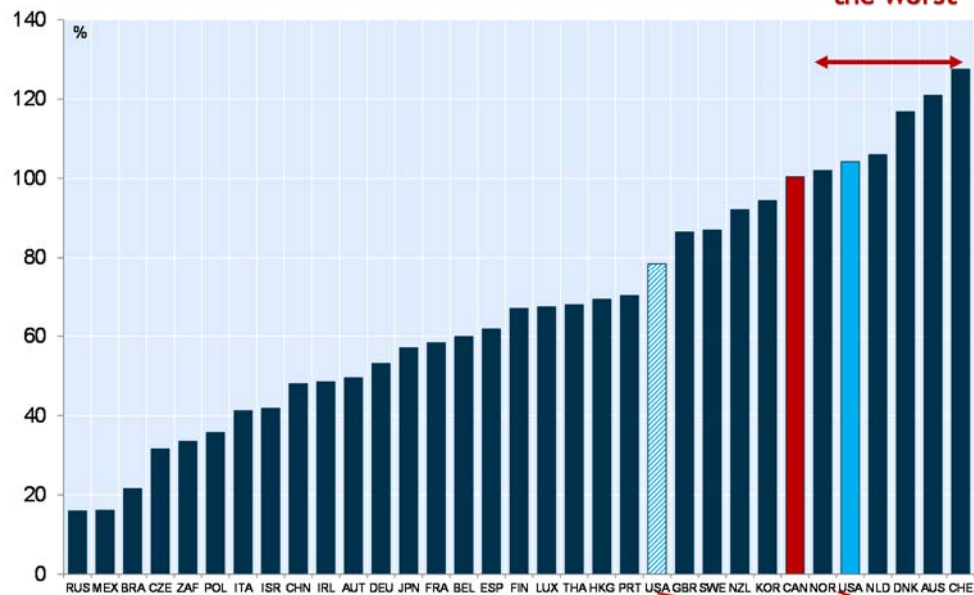


* For a 645 sq.ft. apartment
NBF Economics and Strategy (as of May 14, 2018)

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World: Perspective on household leverage

Household debt as a percentage of GDP



NBF Economics and Strategy (data via the Bank for International Settlements)

U.S. adjusted to Canadian definition

57

Canada: Household debt determinants according to Statistics Canada

Tobit model description from *Household debt in Canada (2012)*

After controlling for income, here are some determinants of household leverage identified by statistics Canada

$$\text{Total household debt} = \beta_1 \text{Income} + \beta_2 \text{Employed} + \beta_3 \text{Tenure} + \beta_4 \text{Immigrant Status} + \beta_5 \text{Education}$$

Key findings:

Employed:

An employee has \$93K more debt than a retiree and +\$37K more debt than others.

The age profile of employees is also important (+\$52K more debt for younger workers vs. others).

Home Tenure:

A homeowner has \$100K more debt than a renter

Immigrants:

Foreign born population has more leverage than natives (+\$34K)

Education:

Postsecondary education = +\$26K more debt than less educated

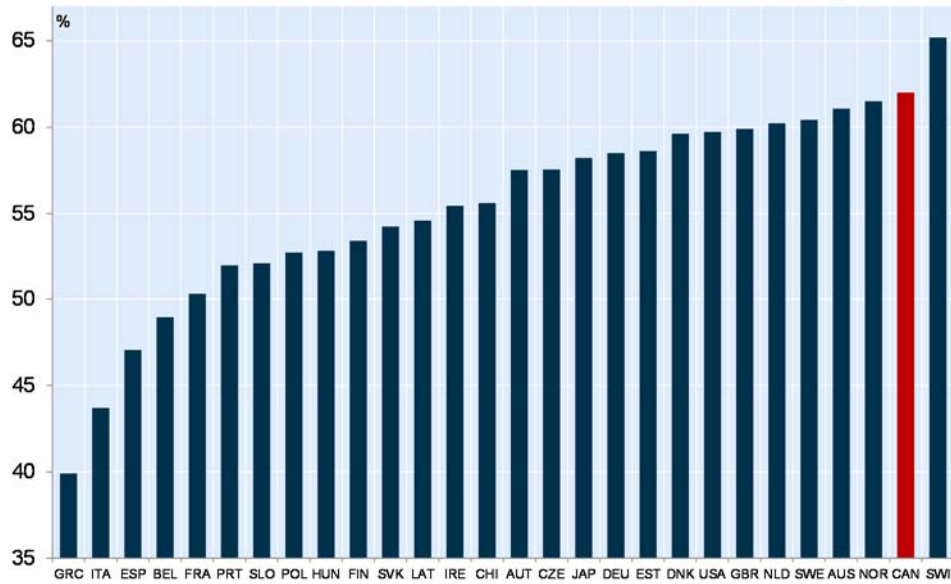
Statistics Canada ("Household Debt in Canada", March 2012)

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World: Perspective on employment rate

Workers as a percentage of population 15+

Second
highest !



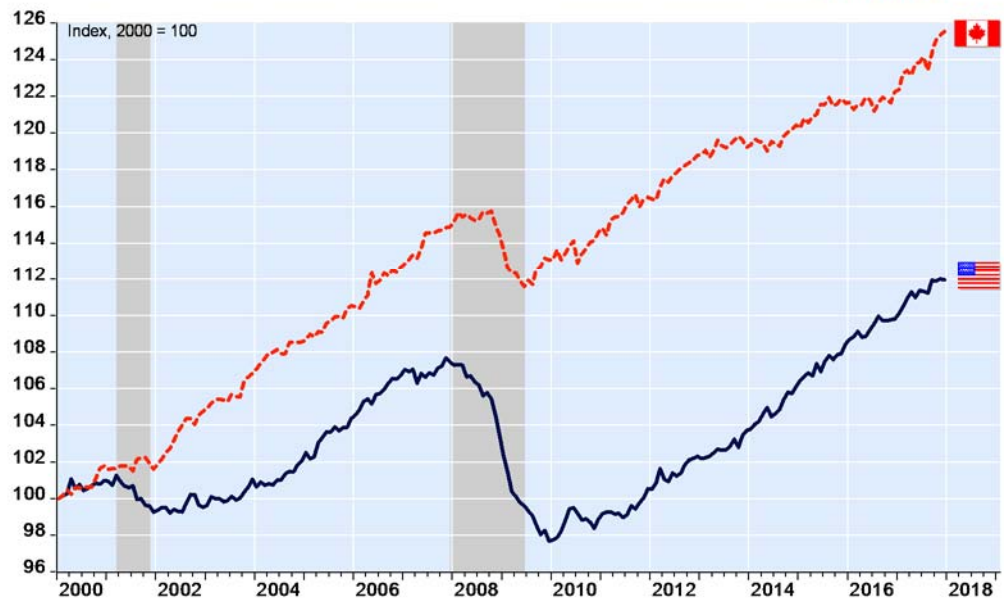
NBF Economics and Strategy (data via OECD, Statistics Canada)

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Perspective on key driver of labour income

Full-time employment: Canada vs. the U.S.

We continue
to do well



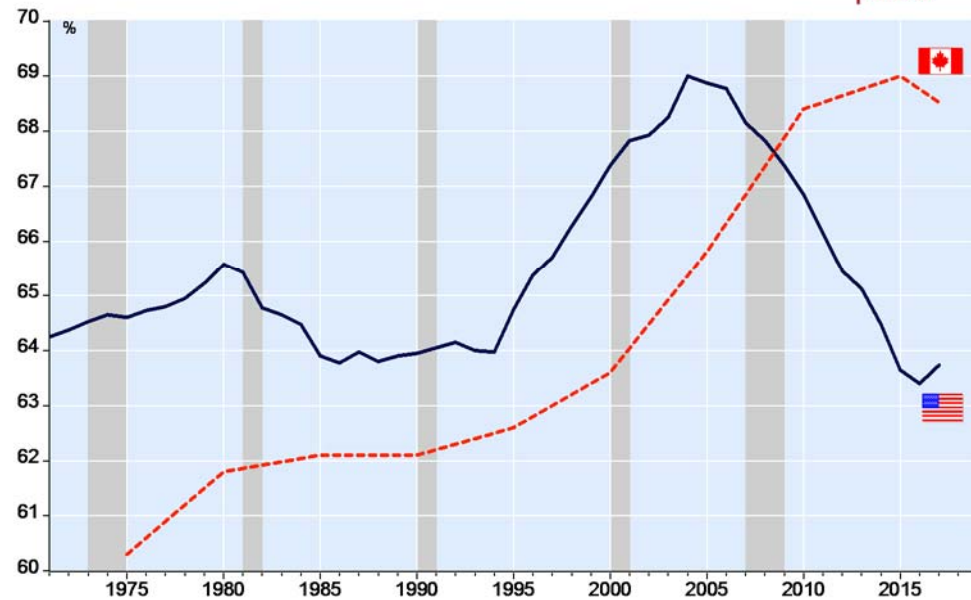
NBF Economics and Strategy (data via Datastream)

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Canada: Perspective on homeownership rate

Homeownership rate in Canada and United States

Should we
panic?



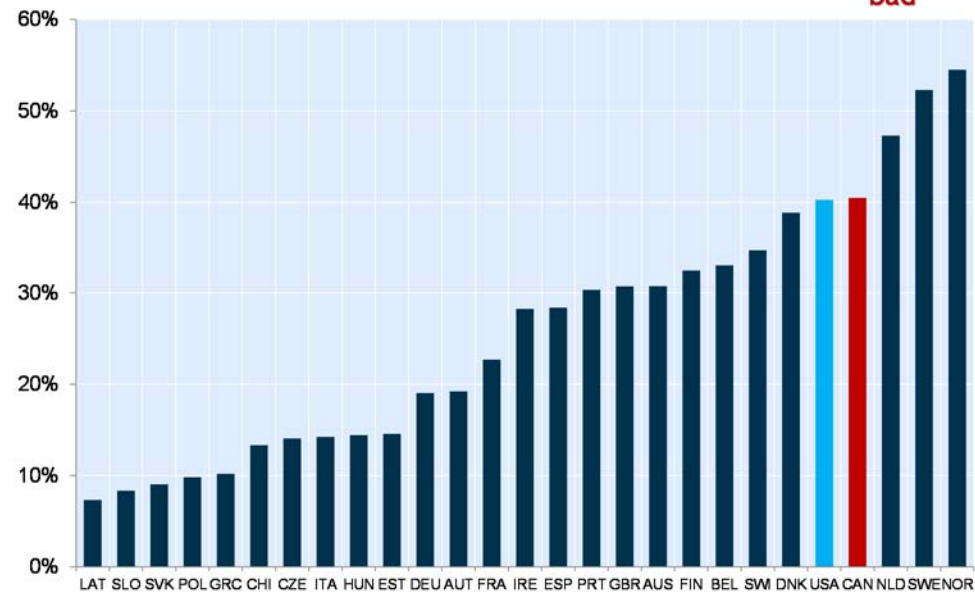
NBF Economics and Strategy (data via Statistics Canada and U.S. Census)

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World: Perspective on mortgage holders

Homeowners having a mortgage as a percentage of total households (2014 or latest)

Not so
bad



NBF Economics and Strategy (data via OECD)

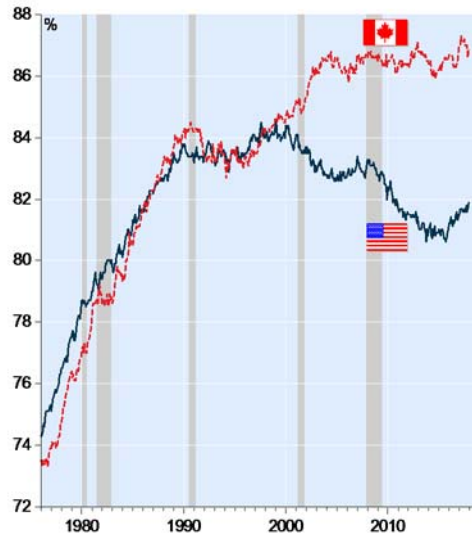
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Canada: The prime-age workforce at full employment

That's a
HUGE deal !

Labour force participation rate for
people aged 25-54

Employment/population ratio
for people aged 25-54



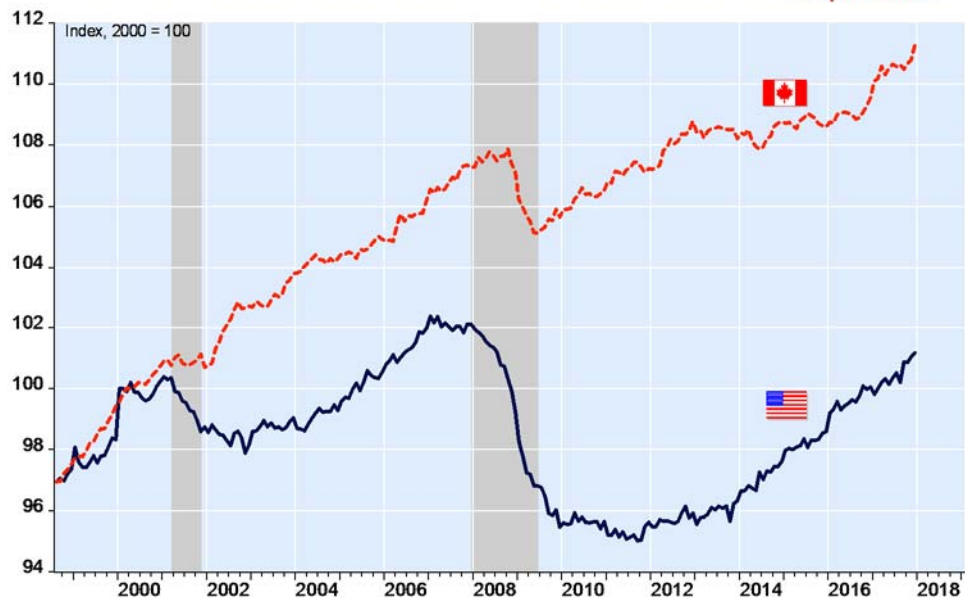
NBF Economics and Strategy (data via Statistics Canada and Datastream)

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Perspective on the prime-aged workforce

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

That's very
impressive



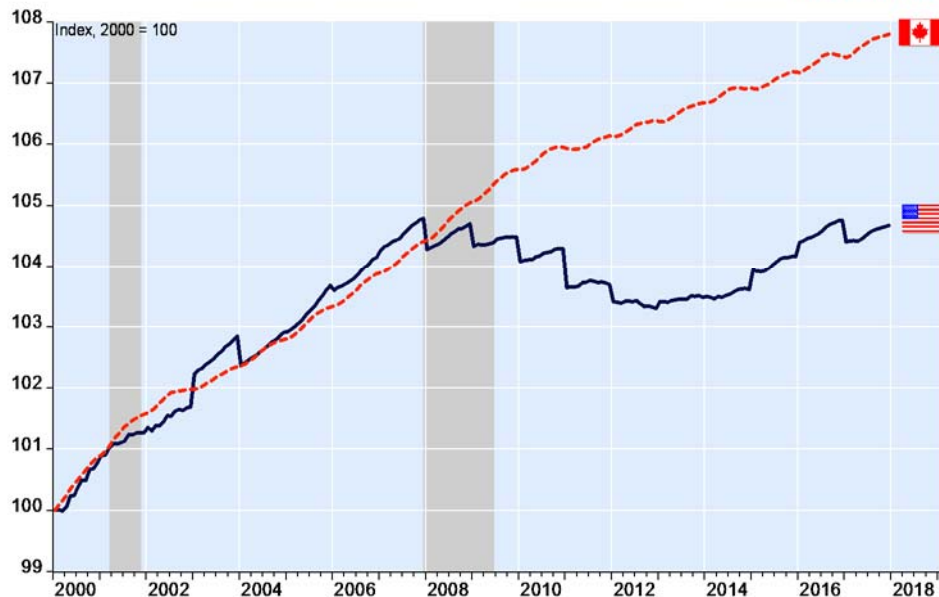
NBF Economics and Strategy (data via Statistics Canada and BLS via Datastream)

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Prime-age population growing in Canada, stalling in the U.S.

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

Did you know this?



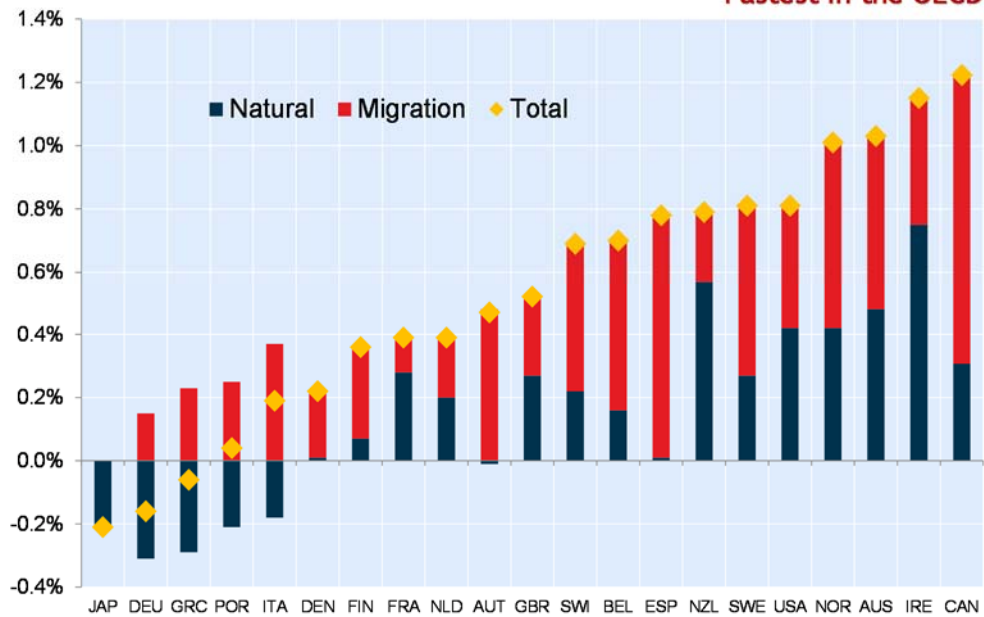
NBF Economics and Strategy (data via Statistics Canada and BLS via Datastream)

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Canada: Leading OECD countries in terms of population growth

2017 population growth, natural vs. caused by migration

Fastest in the OECD



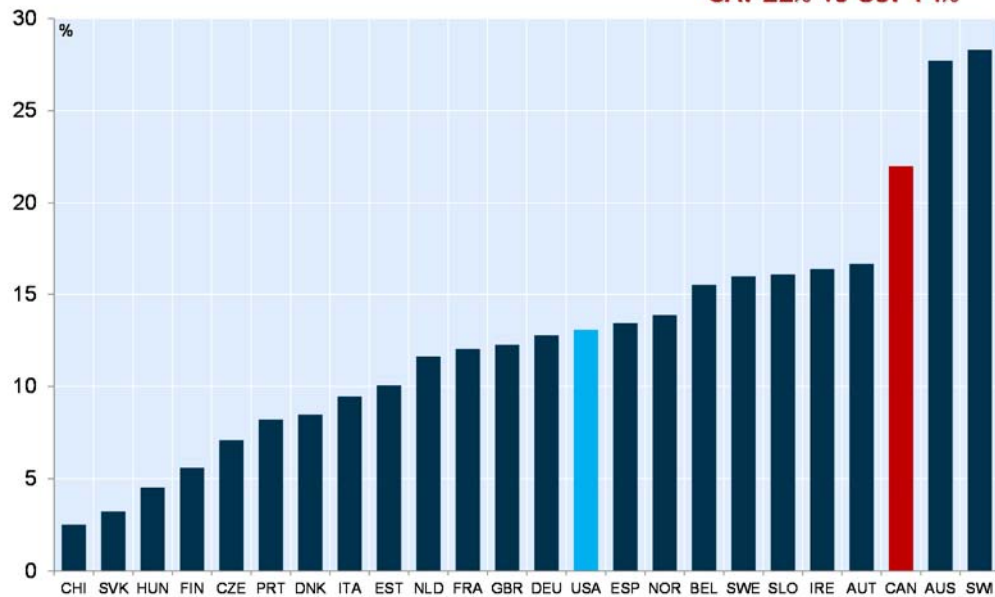
NBF Economics and Strategy (data via Statistics Canada and U.S. Census)

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World: Perspective on foreign-born population

Share of population born abroad

CA: 22% vs US: 14%



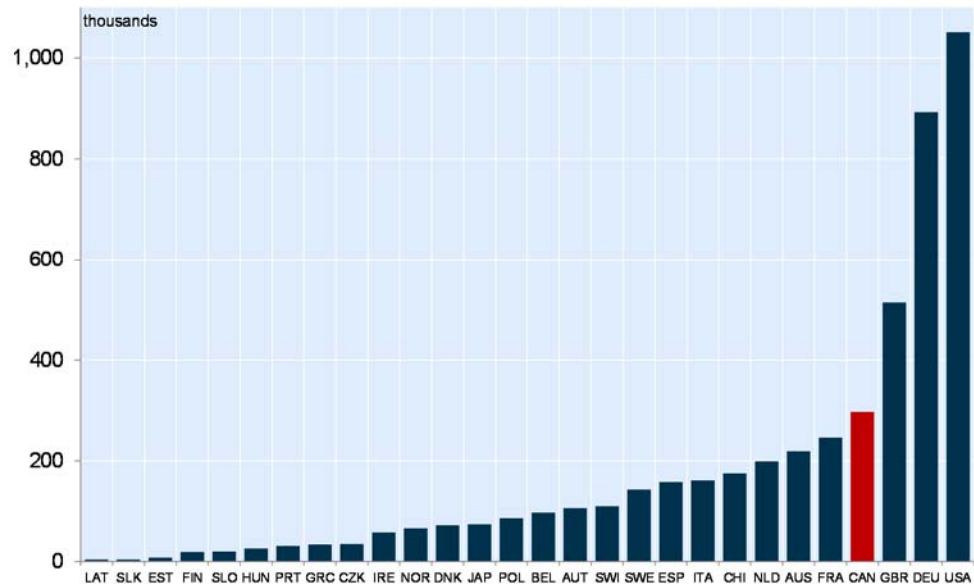
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World: Inflows of permanent immigrants

Permanent immigration in OECD countries in 2016 (2015 if not yet available)

300K/year is a lot!



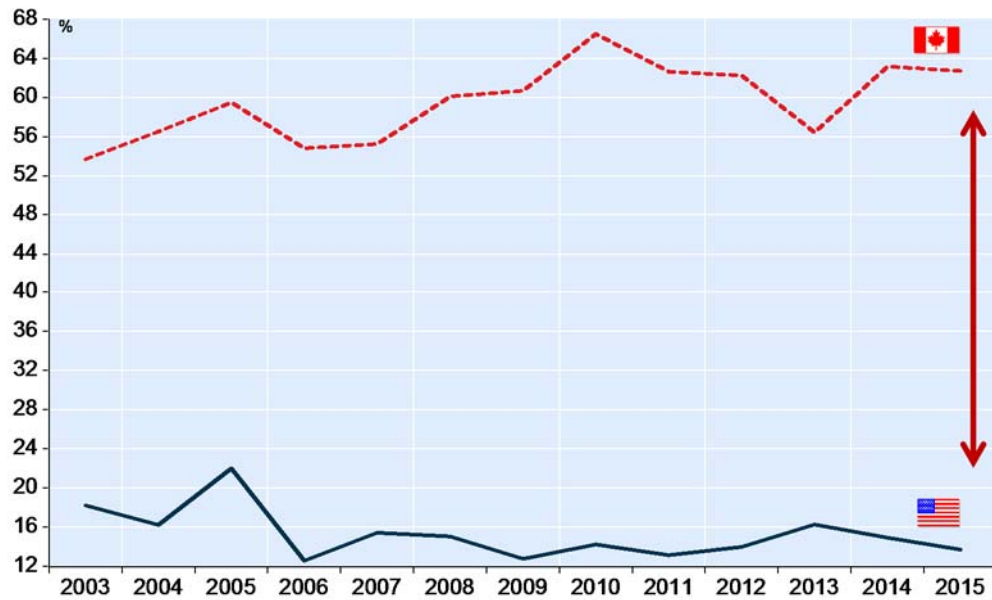
NBF Economics and Strategy (OECD data <https://data.oecd.org/migration/permanent-immigrant-inflows.htm#indicator-chart>)

68

Canada: Immigration policy is key for labour markets

"Economic category" admissions to permanent residence as a share of total immigration

Massive divergence



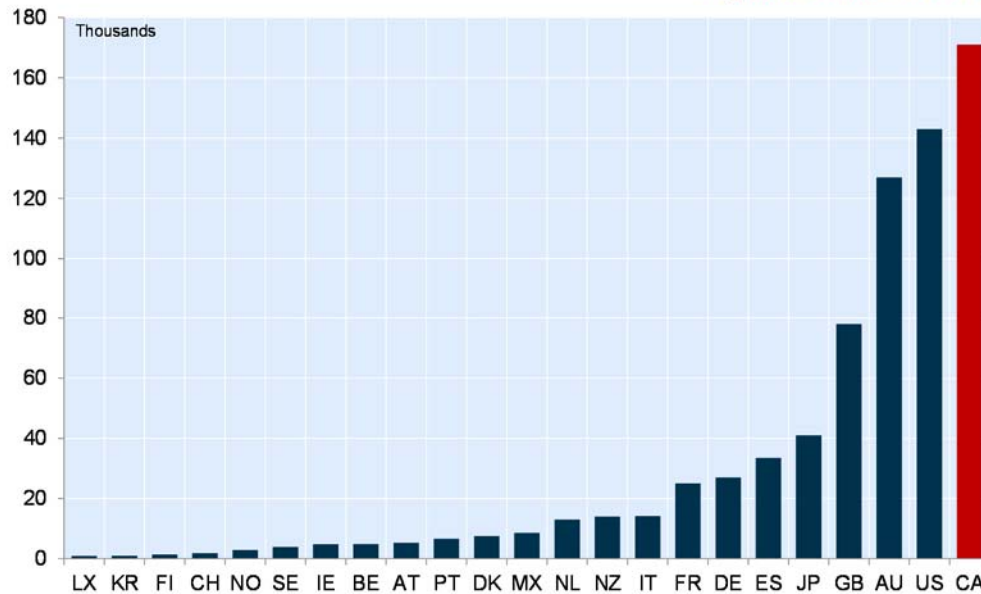
NBF Economics and Strategy (OECD data <https://data.oecd.org/migration/permanent-immigrant-inflows.htm#indicator-chart>)

69

Canada: Highest inflow of workforce-ready immigrants in the OECD

Annual "economic category" admissions to permanent residence (2015)

Highest in the world !



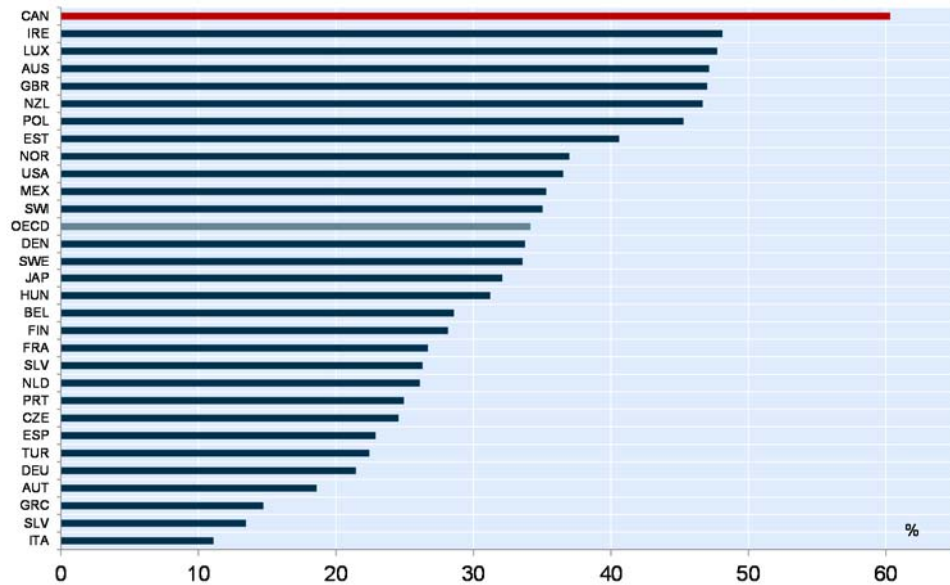
NBF Economics and Strategy (OECD data <https://data.oecd.org/migration/permanent-immigrant-inflows.htm#indicator-chart>)

70

Canada: foreign-born population is highly educated

Percentage of foreign-born 15-64 with post-secondary education

Impressive



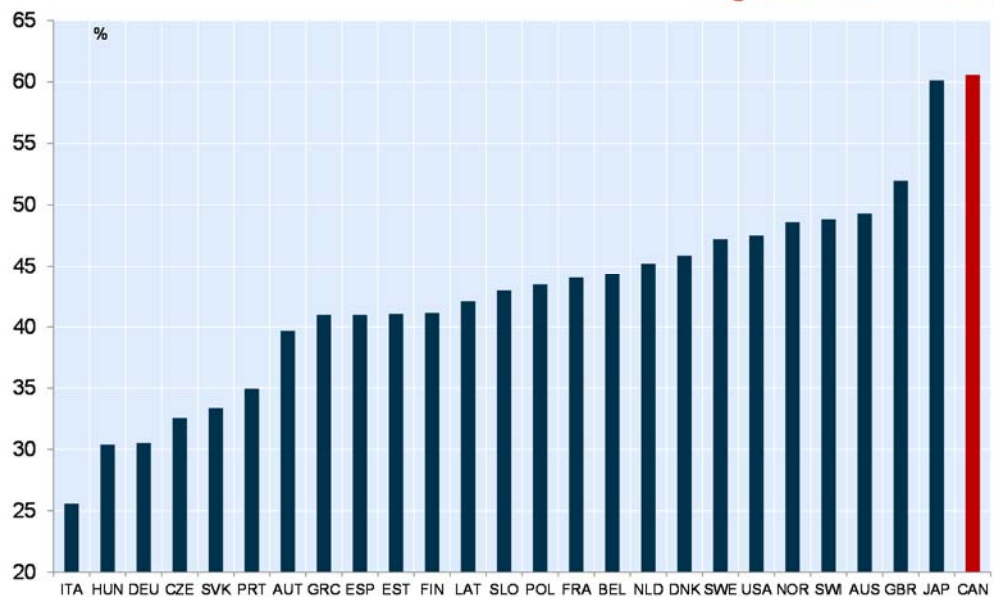
NBF Economics and Strategy (data via <http://www.oecd.org/els/mig/Indicators-of-Immigrant-Integration-2015.pdf> figure 7.1)

71

World: Perspective on education

Share of population aged 25-34 with post-secondary education (2016)

Highest in the world !



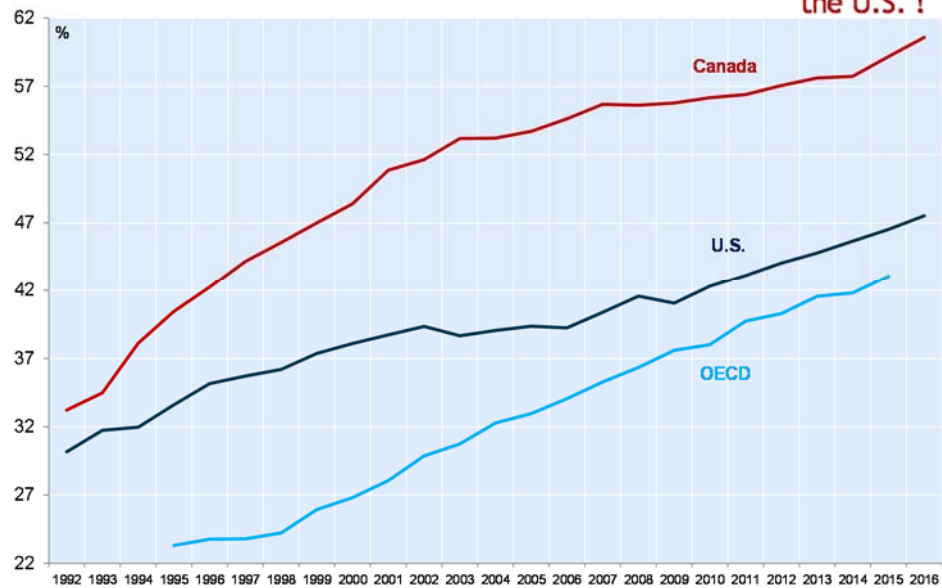
NBF Economics and Strategy (data via OECD)

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Canada: An educated workforce can support higher debt

Share of population aged 25-34 with tertiary education

13 pp gap with the U.S. !



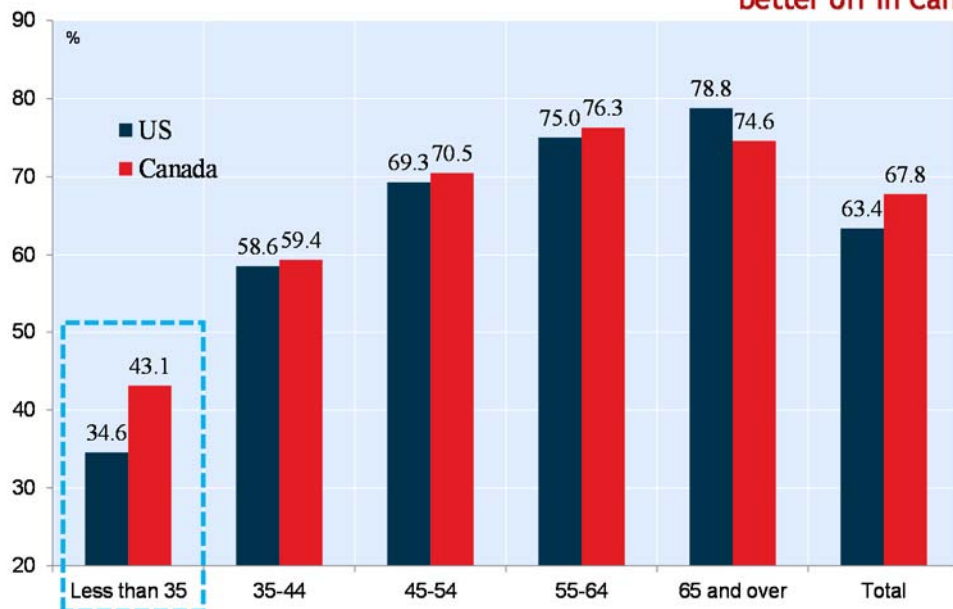
NBF Economics and Strategy (OECD data via <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>)

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Canada: Perspective on homeownership rate

Homeownership rate in Canada and United States (2016)

The below 35 are better off in Canada

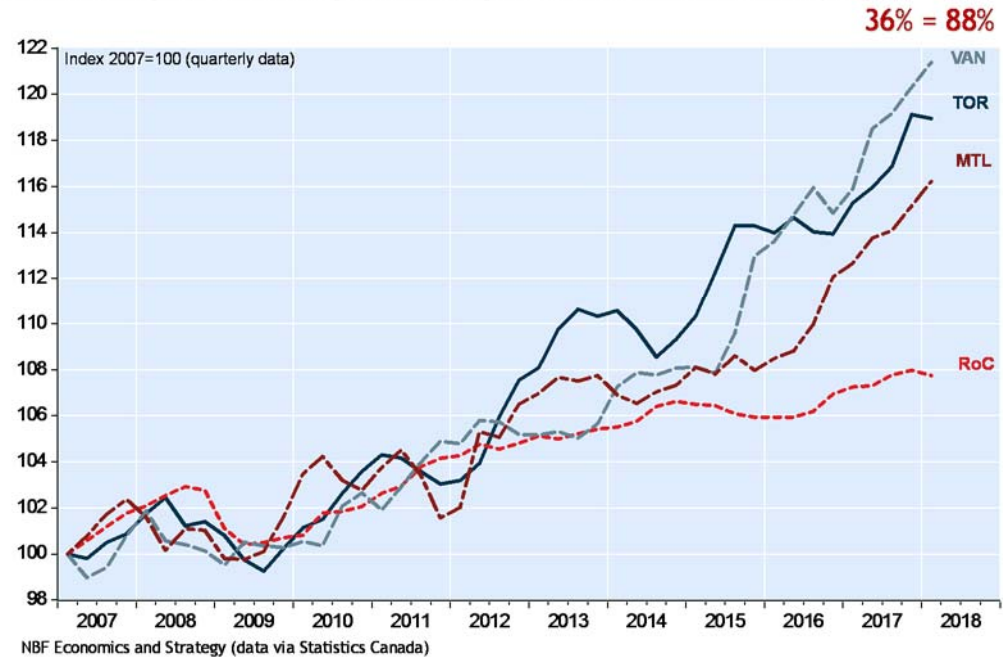


NBF Economics and Strategy (data via Statistics Canada and U.S. Census)

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Canada: Job creation in the main cities

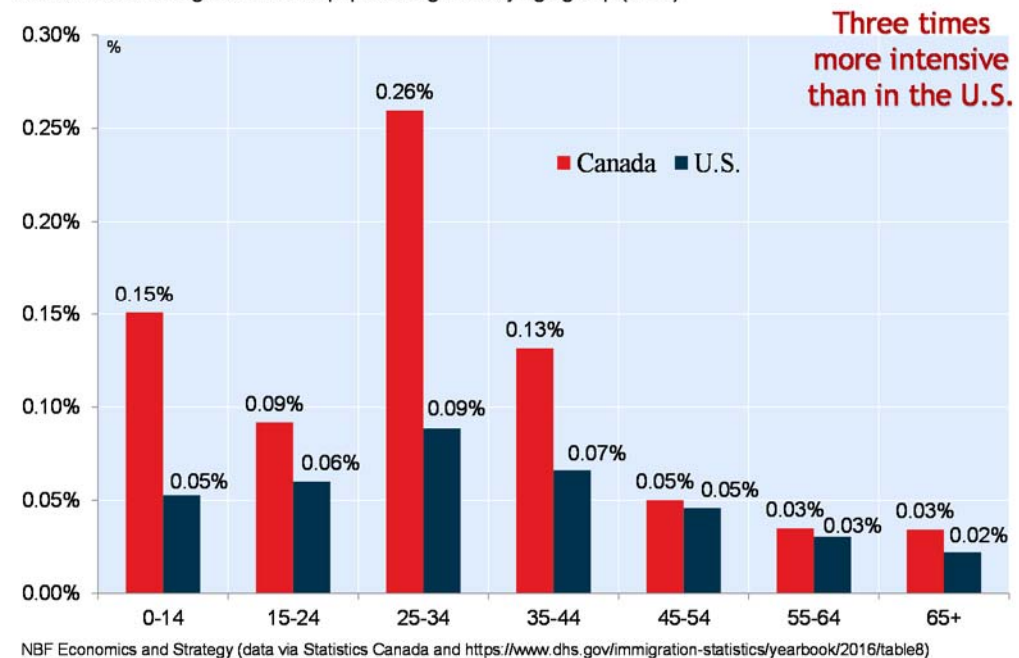
Job creation in greater Vancouver, greater Toronto, greater Montreal and rest of Canada (RoC)



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Canada: Immigration tilted toward first-time home buyers

Contribution of immigration to total population growth by age group (2016)

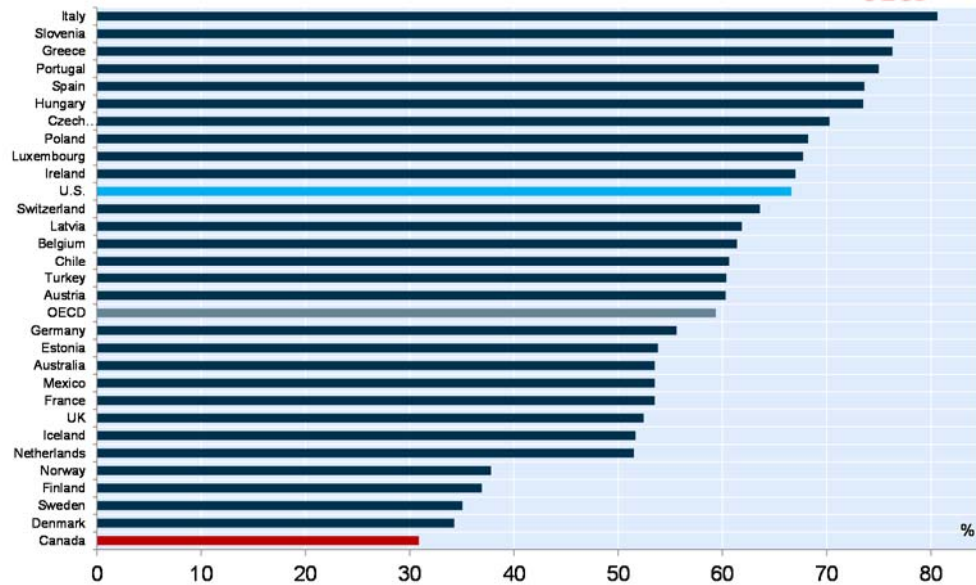


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Canada: A much better lifestyle for parents

Percentage of youth aged 15-29 living with their parents

Lowest in the
OECD



NBF Economics and Strategy (data via OECD Society at a Glance 2016, figure 1.17)

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Conclusion:

• World, U.S.: Another year of above-potential growth

- Global growth near 3.8% in 2018
- China continues to grow at around 6.5% (good enough)
- Eurozone, still great at around 2.0%
- Geopolitical risks to remain a major source of concern: U.S. Trade Policy?

Interest rates, currency:

- Fed probably hikes once more (maybe twice) in 2018 ; 10-year Treasury yield in the 3.0-3.5% range.
- Expect the BoC to hike again in H2 2018 (heading towards 2%); GDP 2.2% in 2018
- Canadian dollar towards 1.20; Oil in \$65-\$75 range
- Large correction in housing unlikely unless labour markets deteriorate markedly or mortgage rates surge.

Equity over bonds for now with an eye on the yield-curve, cycle still
favourable to commodities

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