



Economic and Financial Outlook

Greater Vancouver Board of Trade

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Chief Economist and strategist

Sheraton Vancouver

January 19, 2018

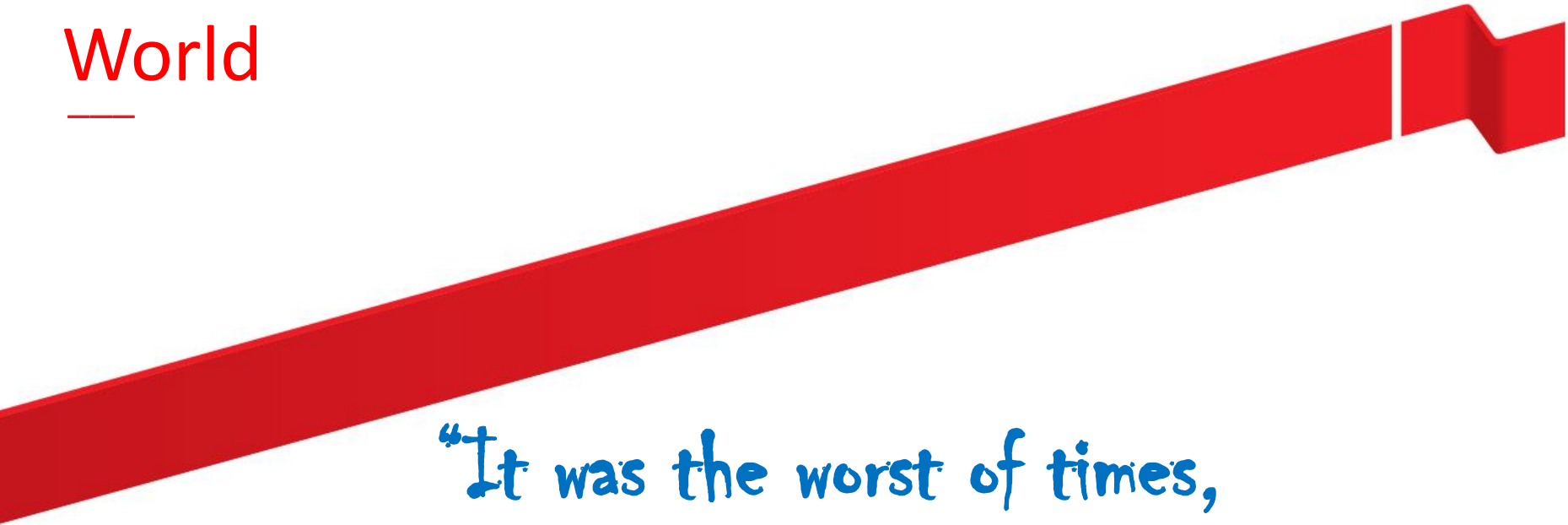


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FINANCIAL MARKETS



World

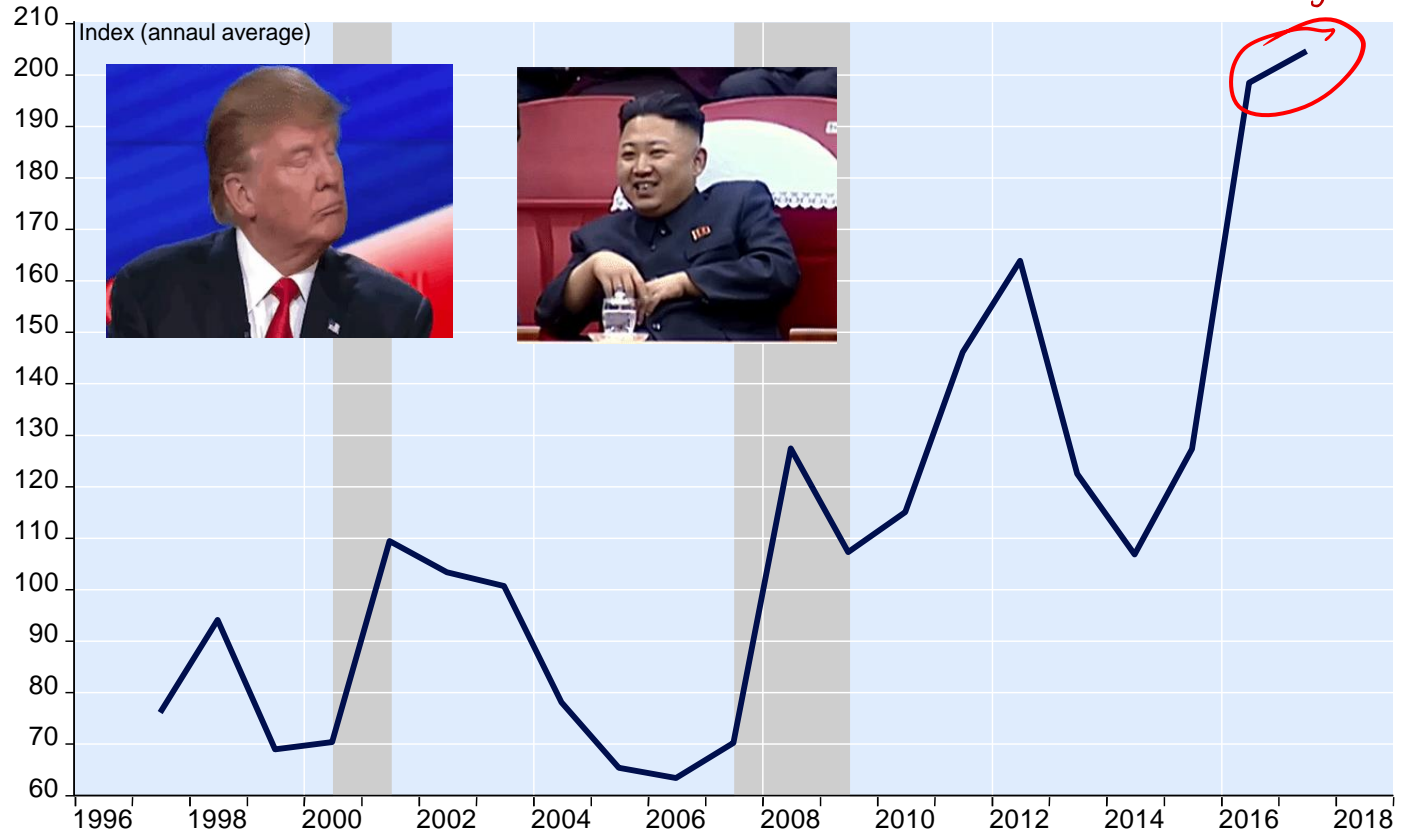


*“It was the worst of times,
it was the best of times”*

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: Economy continues to surprise on the upside

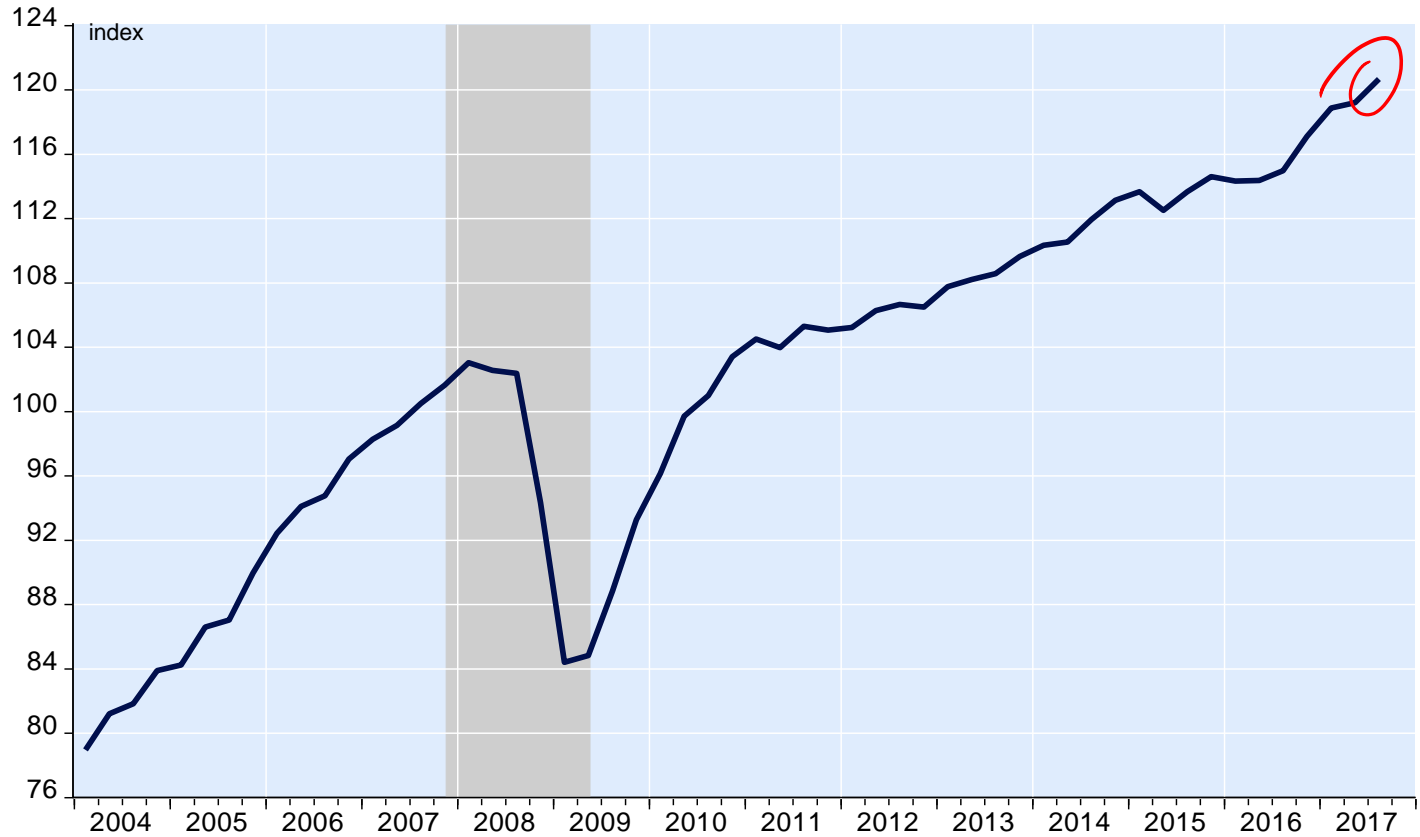
Citi Economic Surprise Index – World composite



NBF Economics and Strategy (data via Bloomberg)

World: Trade volumes at a record

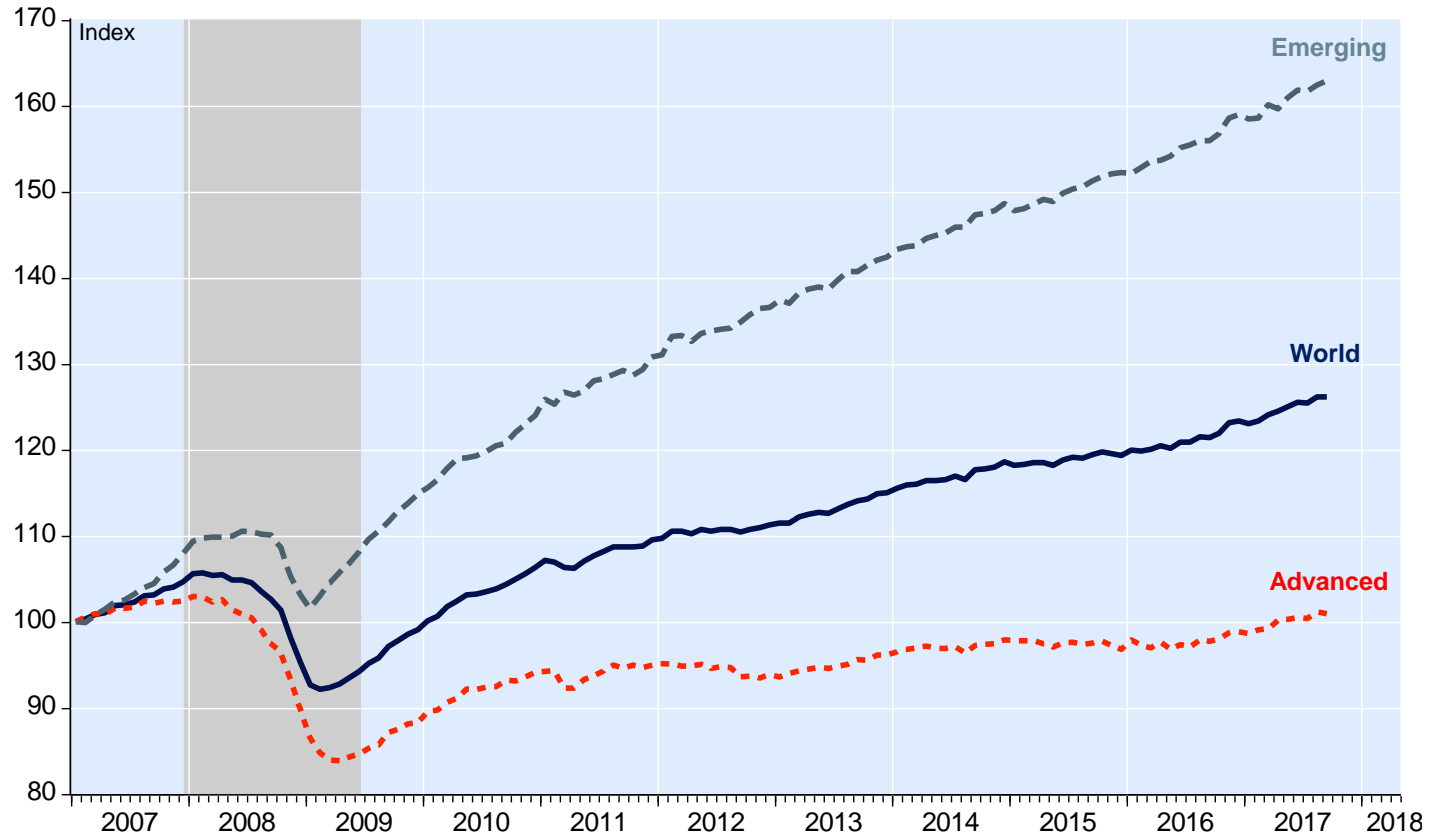
Global trade flows (quarterly volumes)



NBF Economics and Strategy (CPB data via Datastream)

World: Industrial production is at a record high

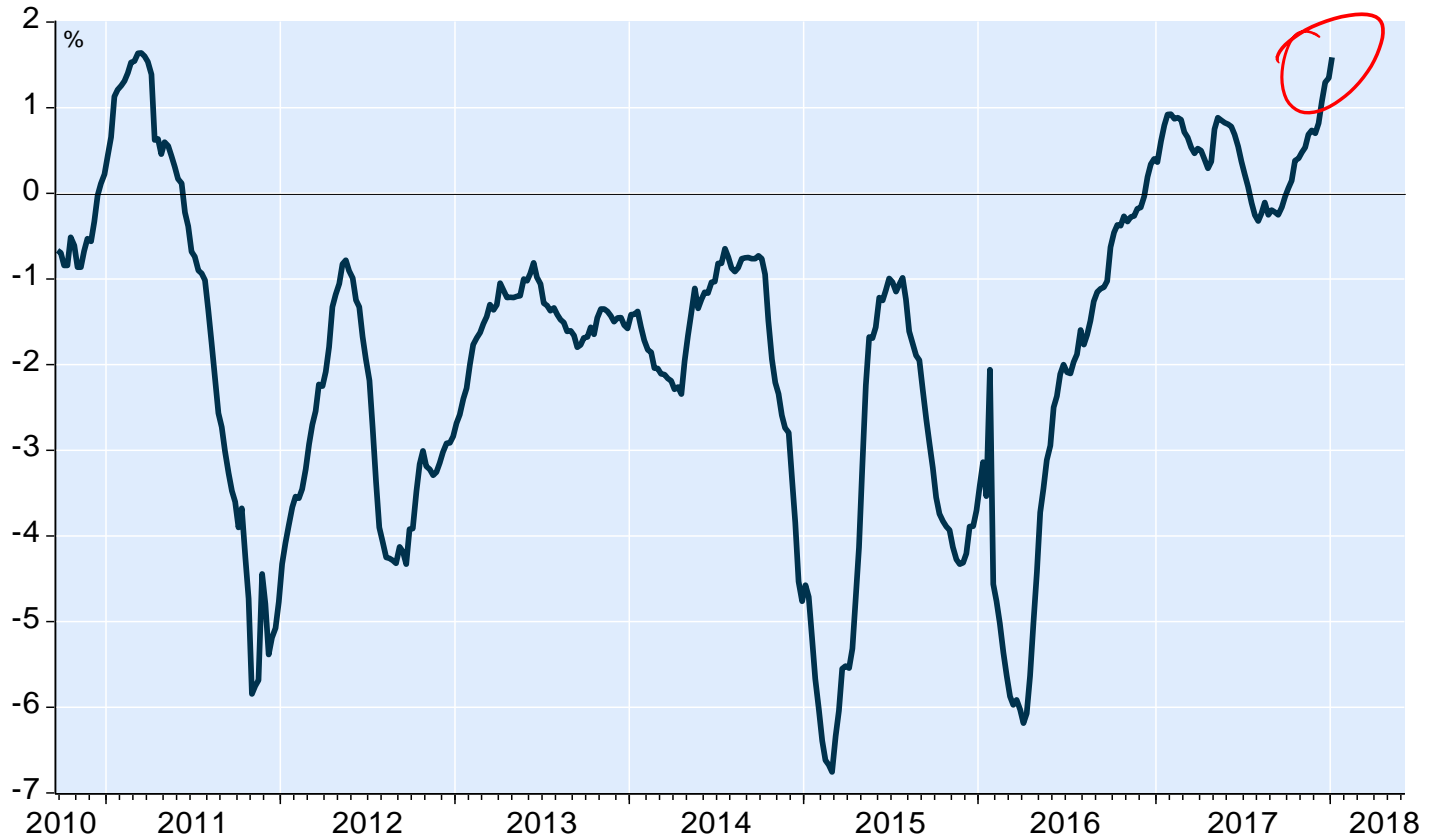
Volume industrial output



NBF Economics and Strategy (data via Bloomberg)

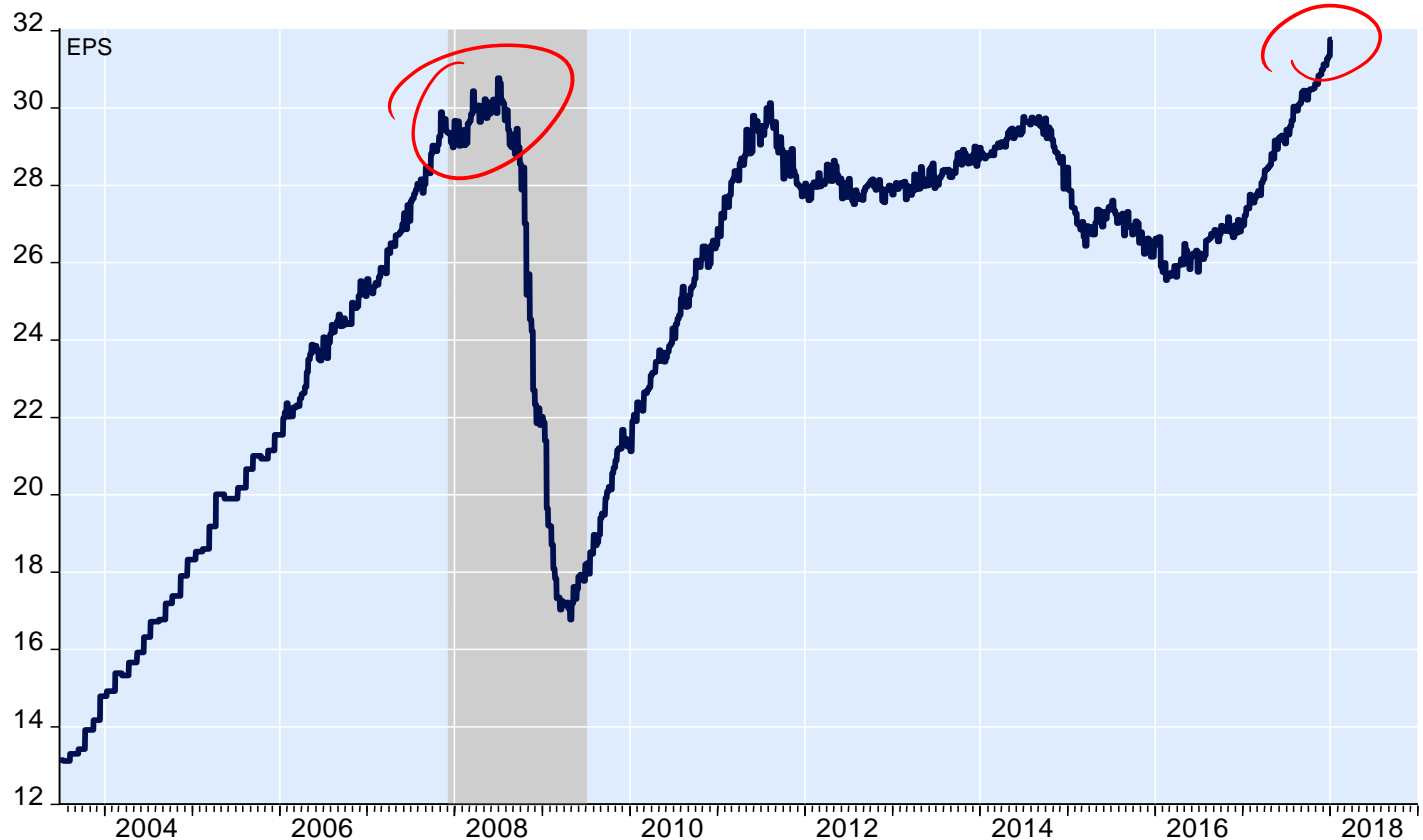
World: Earnings revisions remain positive

3-month change in 12-month forward earnings for the MSCI AC



World: Earnings expectations are not unreasonable

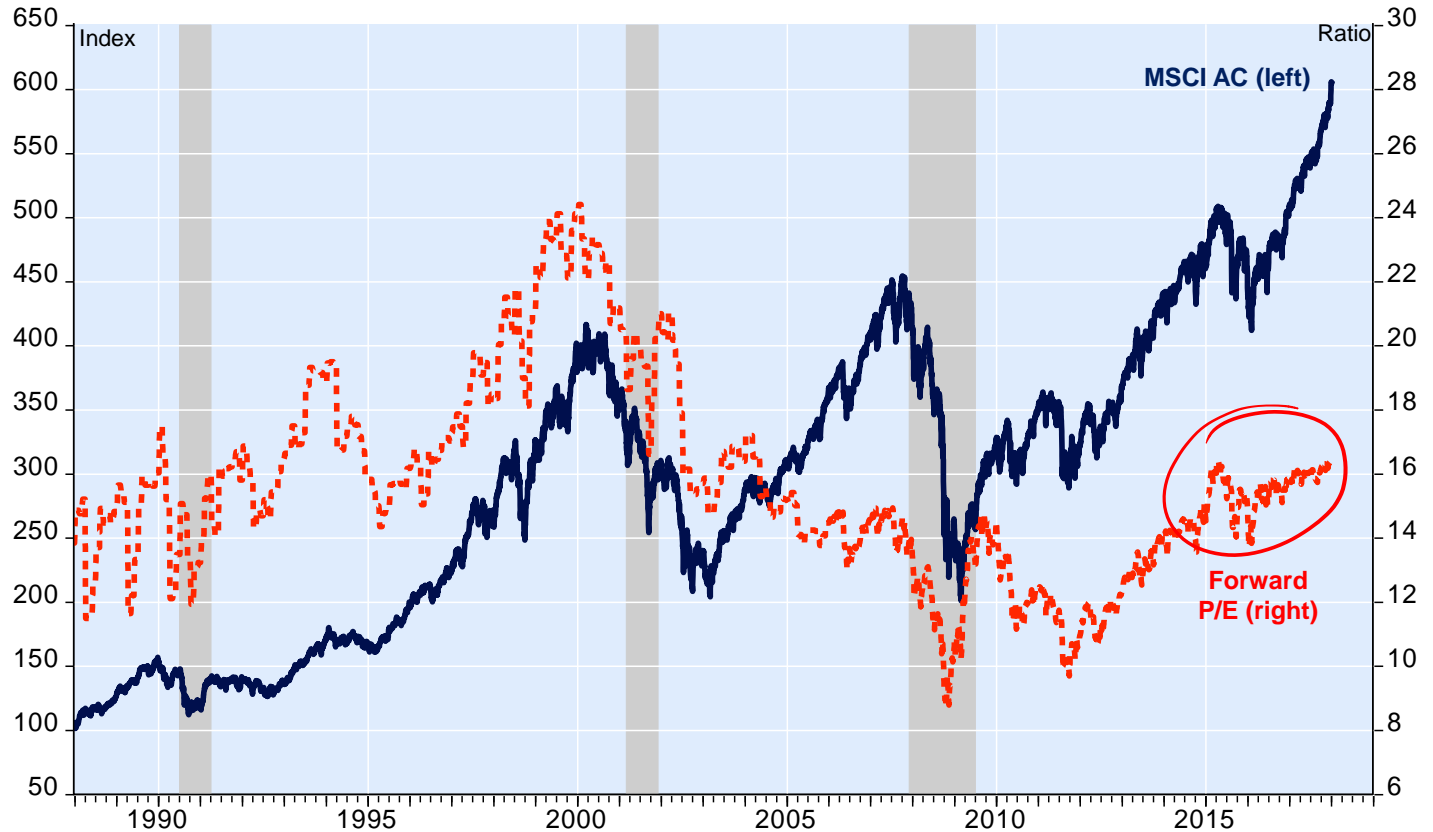
12-month forward earnings for the MSCI AC



NBF Economics and Strategy (data via Datastream)

Global equities: Record high with stable P/E

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



NBF Economics and Strategy (data via Datastream)

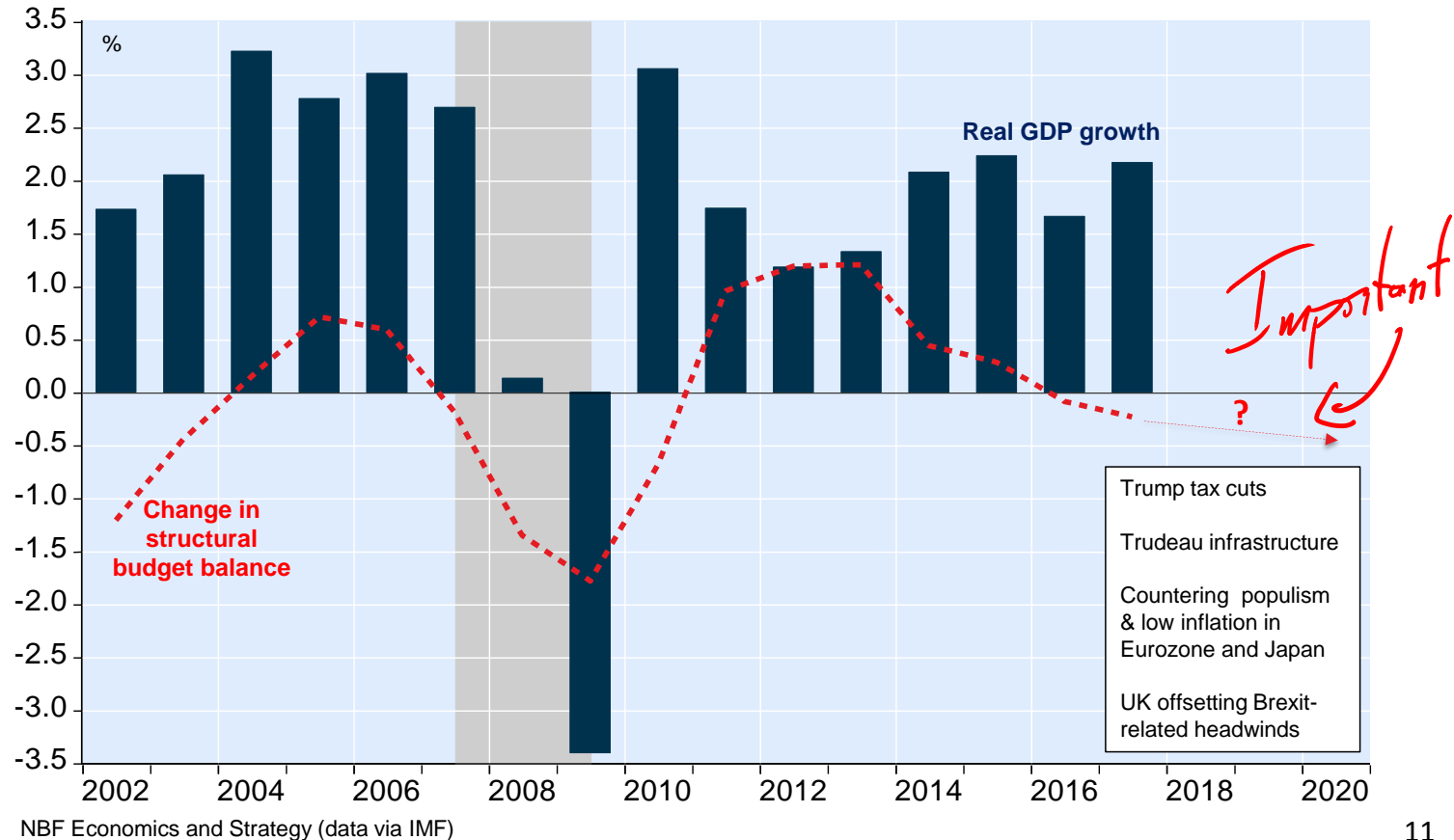
MSCI composite index: EPS Performance

	2016	2017	2018	2019	12 months forward
MSCI AC World	2.9	15.2	10.8	9.8	10.8
MSCI World	2.2	13.9	10.3	9.6	10.4
MSCI USA	2.3	10.6	13.5	10.6	12.8
MSCI Canada	-4.1	26.2	8.1	10.7	8.9
MSCI Europe	1.1	12.5	9.1	8.7	8.9
MSCI Pacific ex Jp	-7.8	15.9	6.4	5.5	6.1
MSCI Japan	NA	13.8	30.5	1.1	4.9
MSCI EM	7.9	22.9	13.3	11.0	13.1
MSCI EM EMEA	6.8	14.2	12.6	9.1	11.7
MSCI EM Latin America	59.6	16.5	10.7	16.5	11.0
MSCI EM Asia	2.9	26.1	13.8	10.7	13.7

1/12/2018

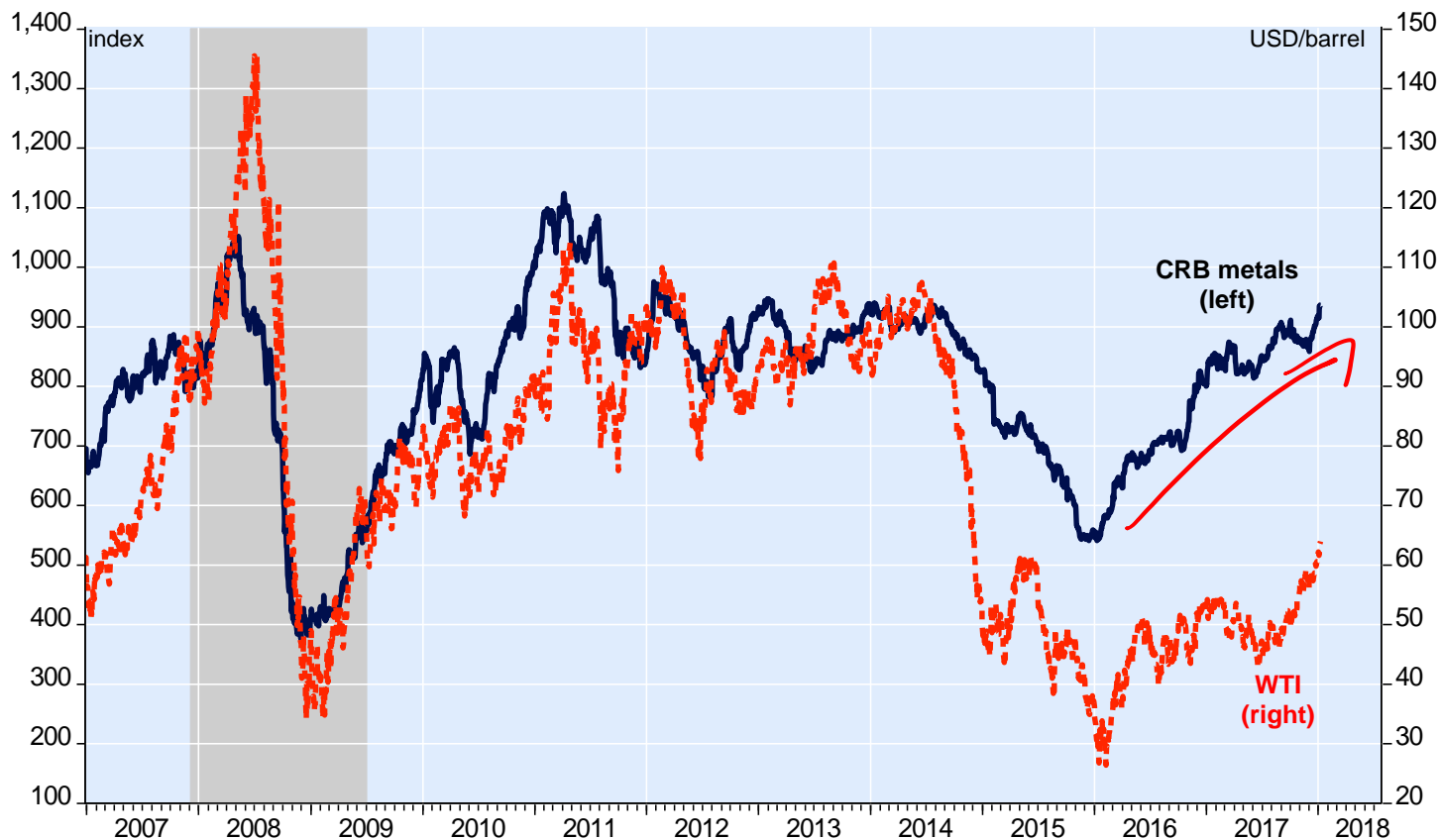
OECD: Pro-cyclical fiscal stimulus?

Advanced economies real GDP growth and change in structural budget balance



World: Perspective on commodity prices

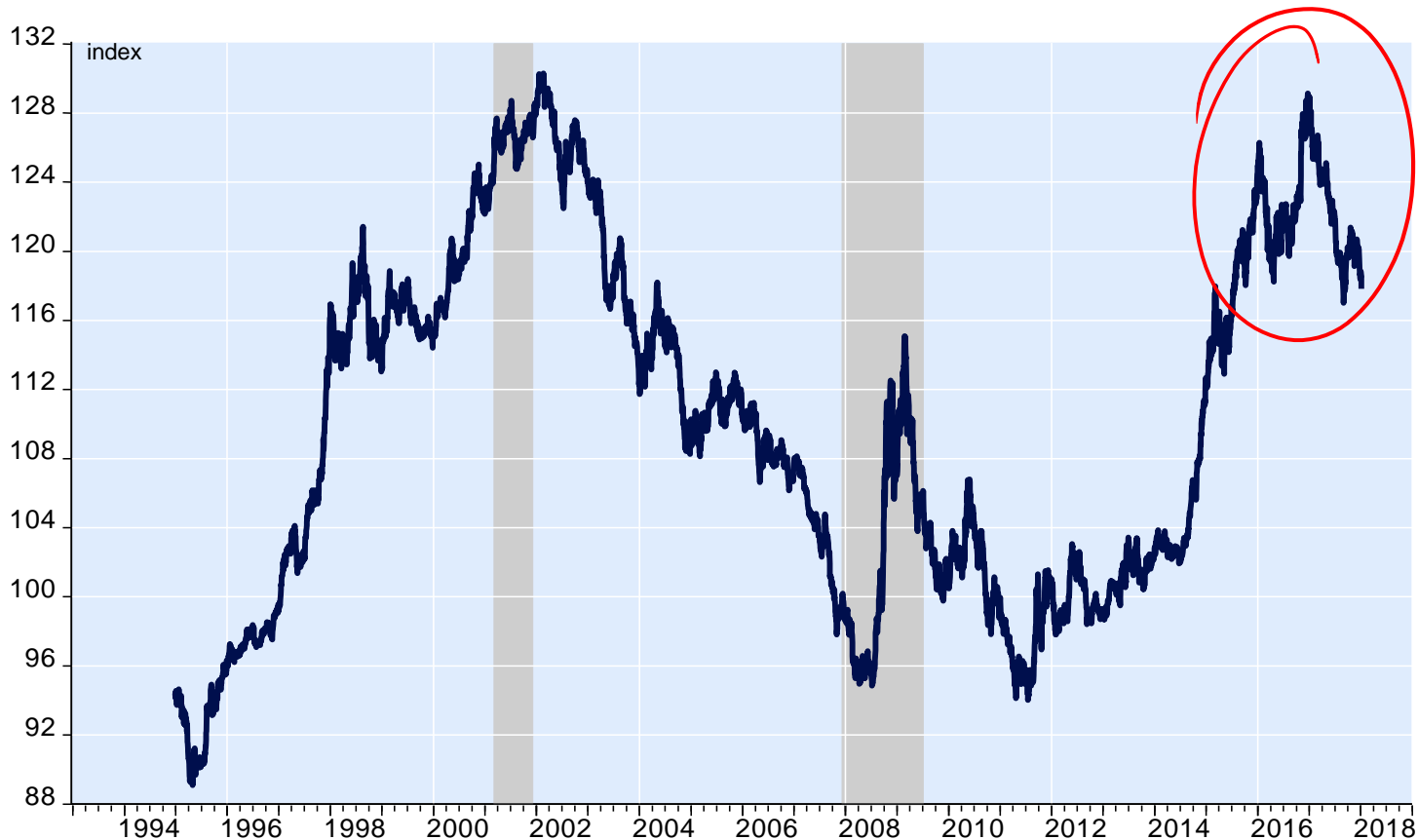
CRB metals vs. WTI



NBF Economics and Strategy (data via Datastream)

World: USD is not a threat at the moment

USD broad index (vs. 26 currencies)



NBF Economics and Strategy (Federal Reserve data via Datastream)

United States

Where are we in the cycle?

What he said last year:

“I will be the
greatest job
producer God ever
created”

Donald Trump
January 11, 2017

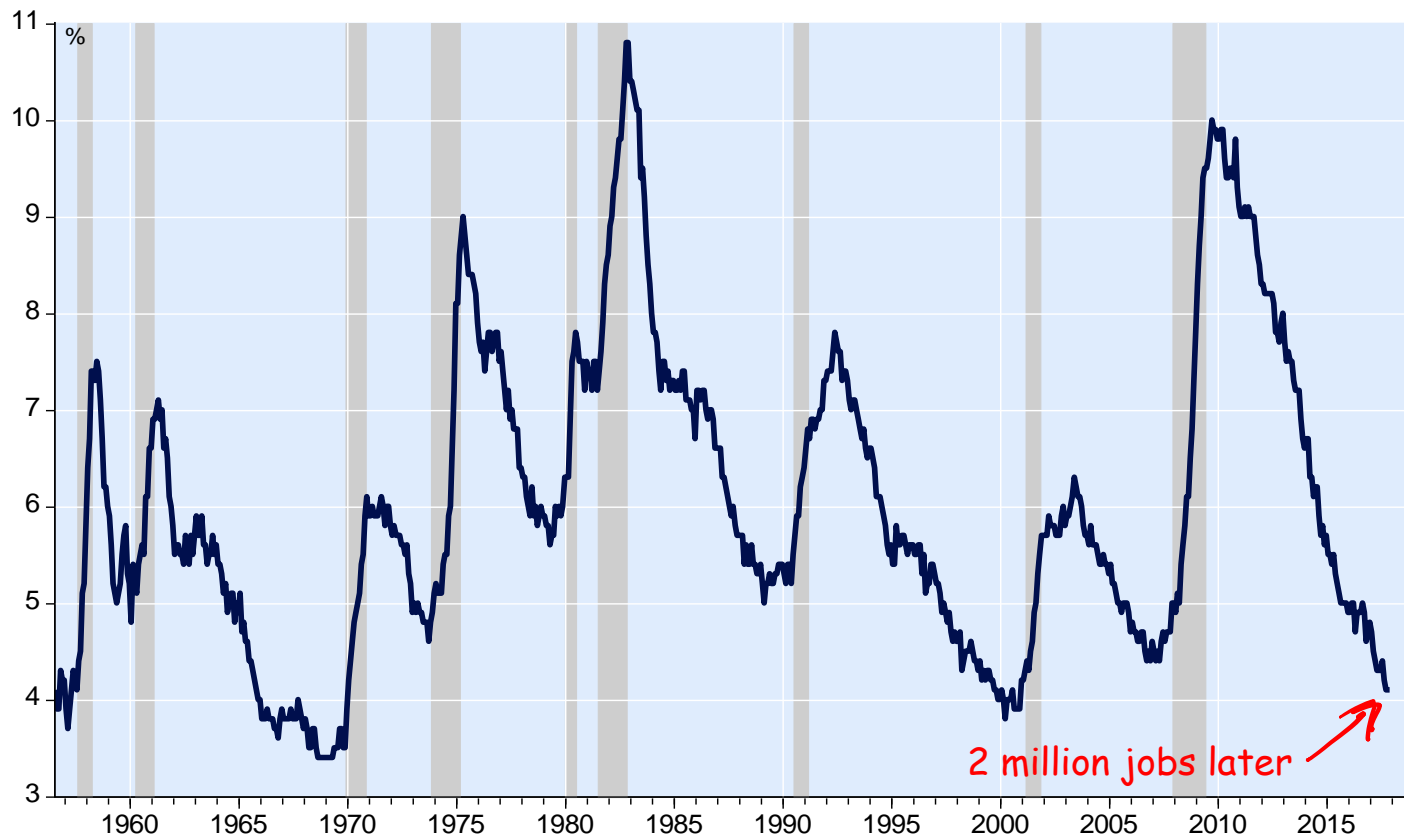


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U.S.: Labour market continues to improve

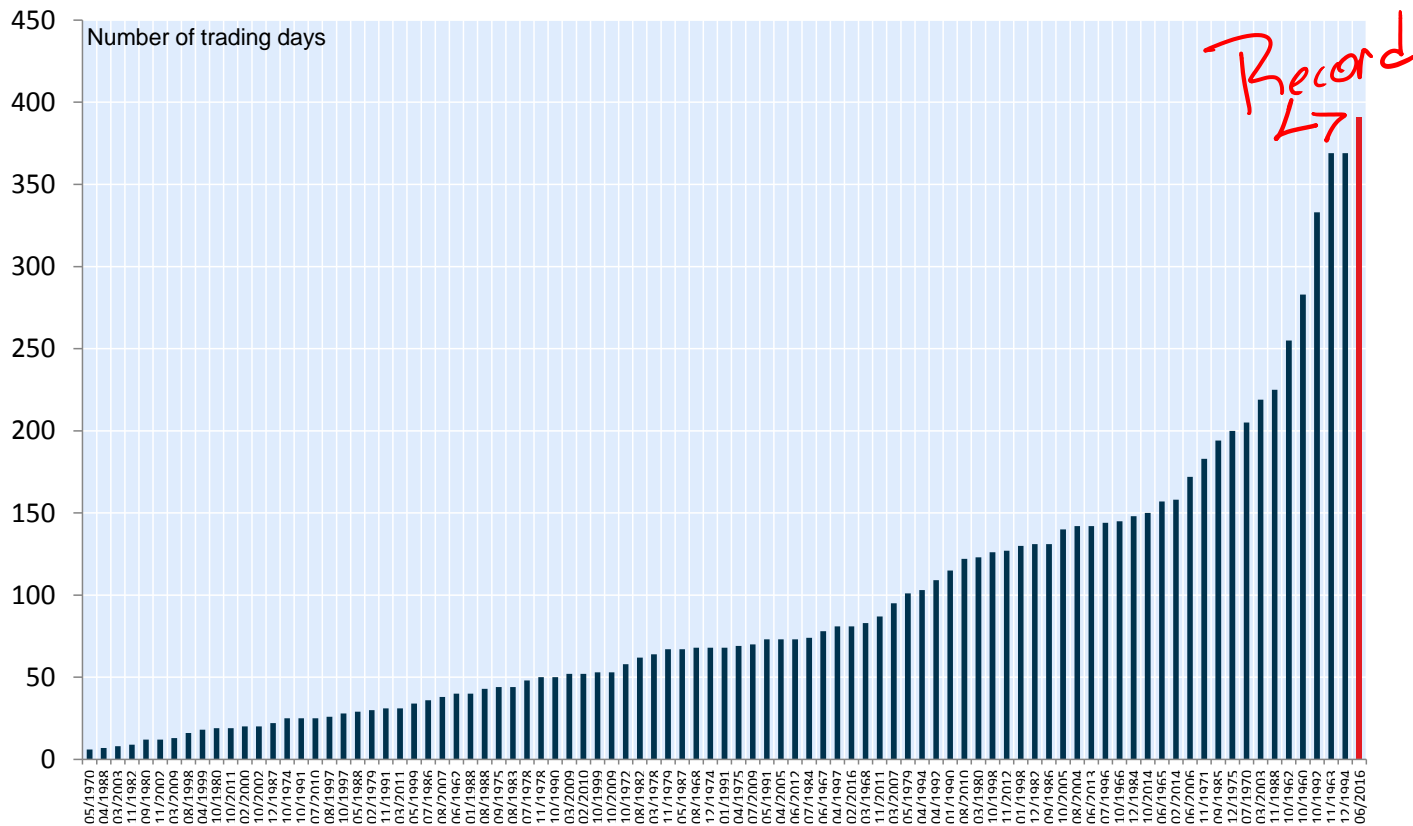
Unemployment rate



NBF Economics and Strategy (data via Bloomberg)

S&P 500: The longest rally since 1960

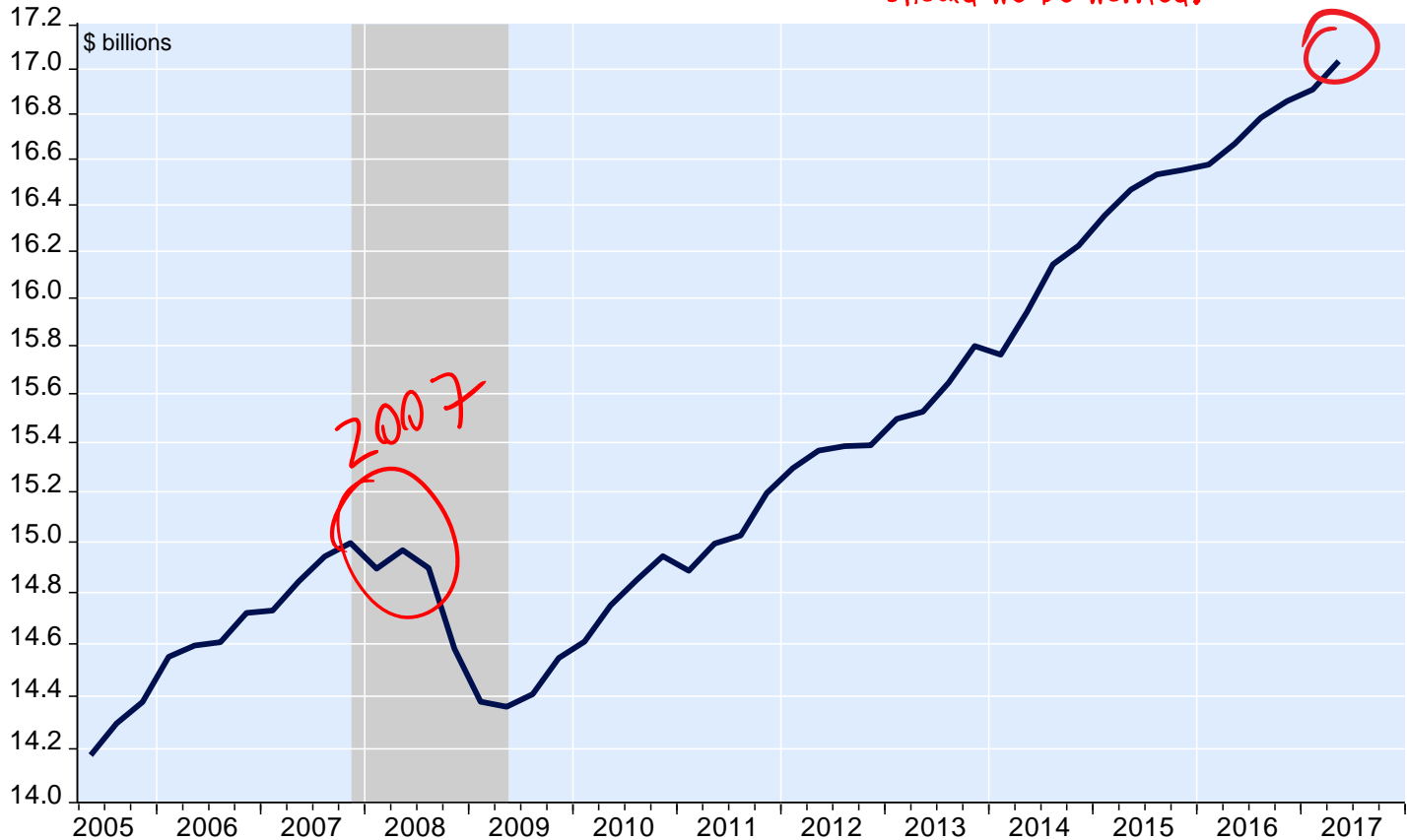
Rallies since 1960 without a 5%+ correction



NBF Economics and Strategy (data via Bloomberg as of Jan 17th, 2017)

U.S.: Already ten years since the last recession

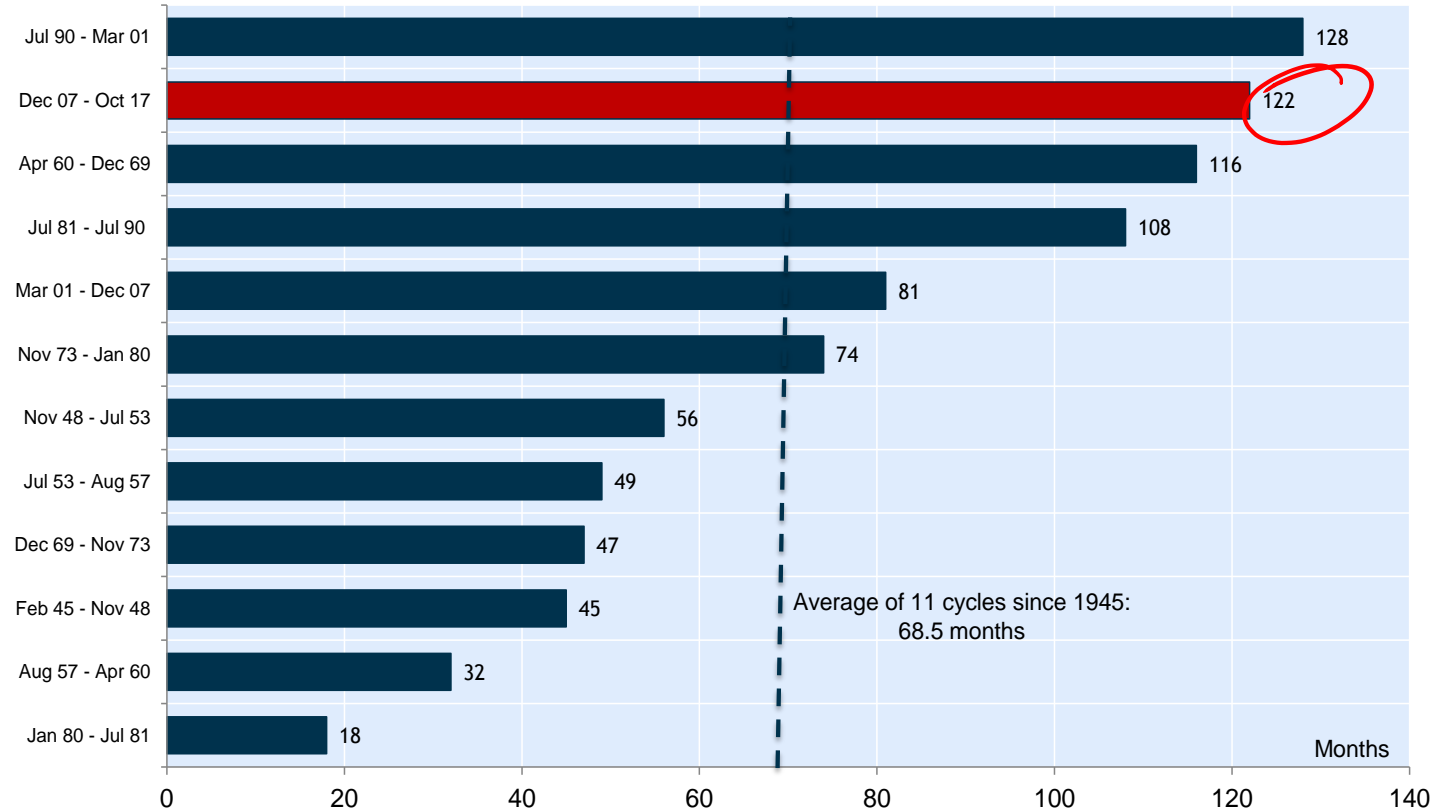
Real GDP



NBF Economics and Strategy (data via Datastream)

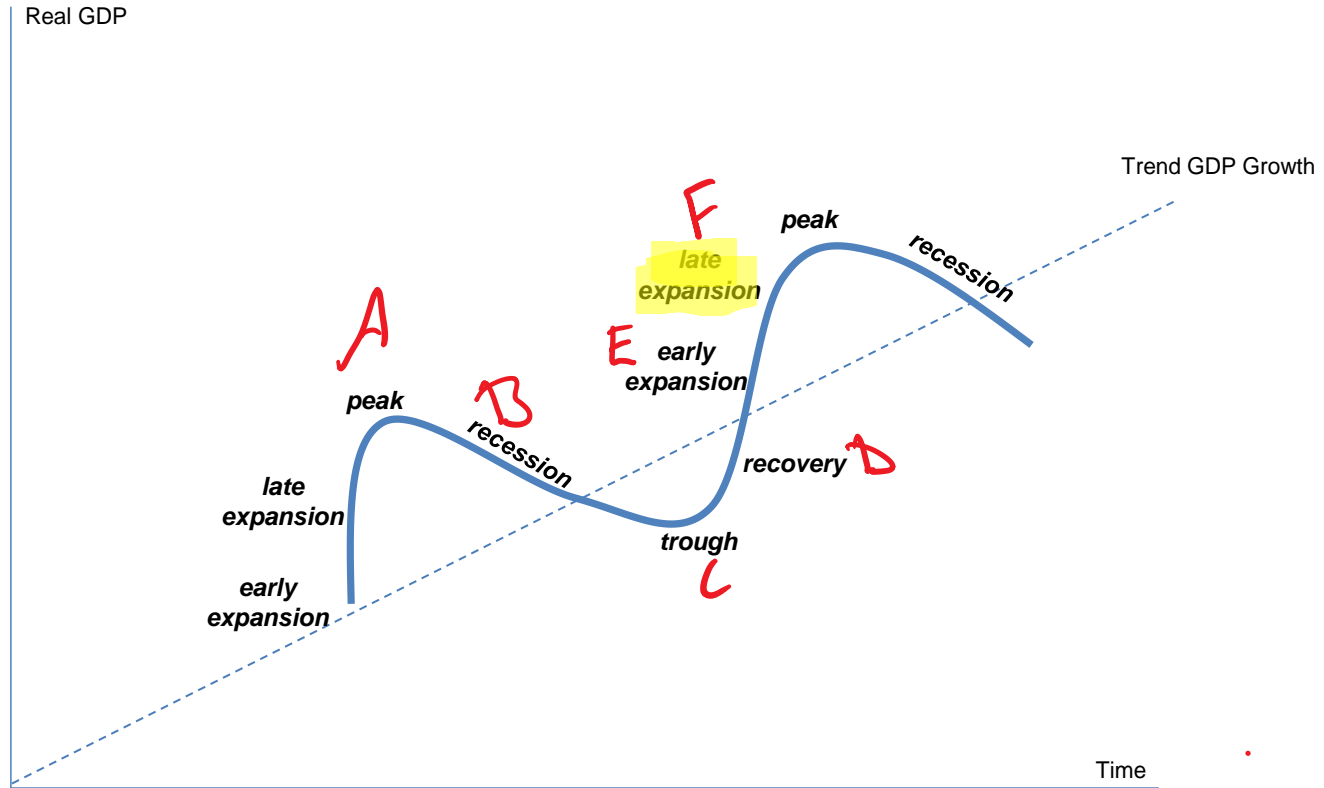
U.S.: The second longest business cycle on record

Duration of economic cycles since 1945 (peak to peak)



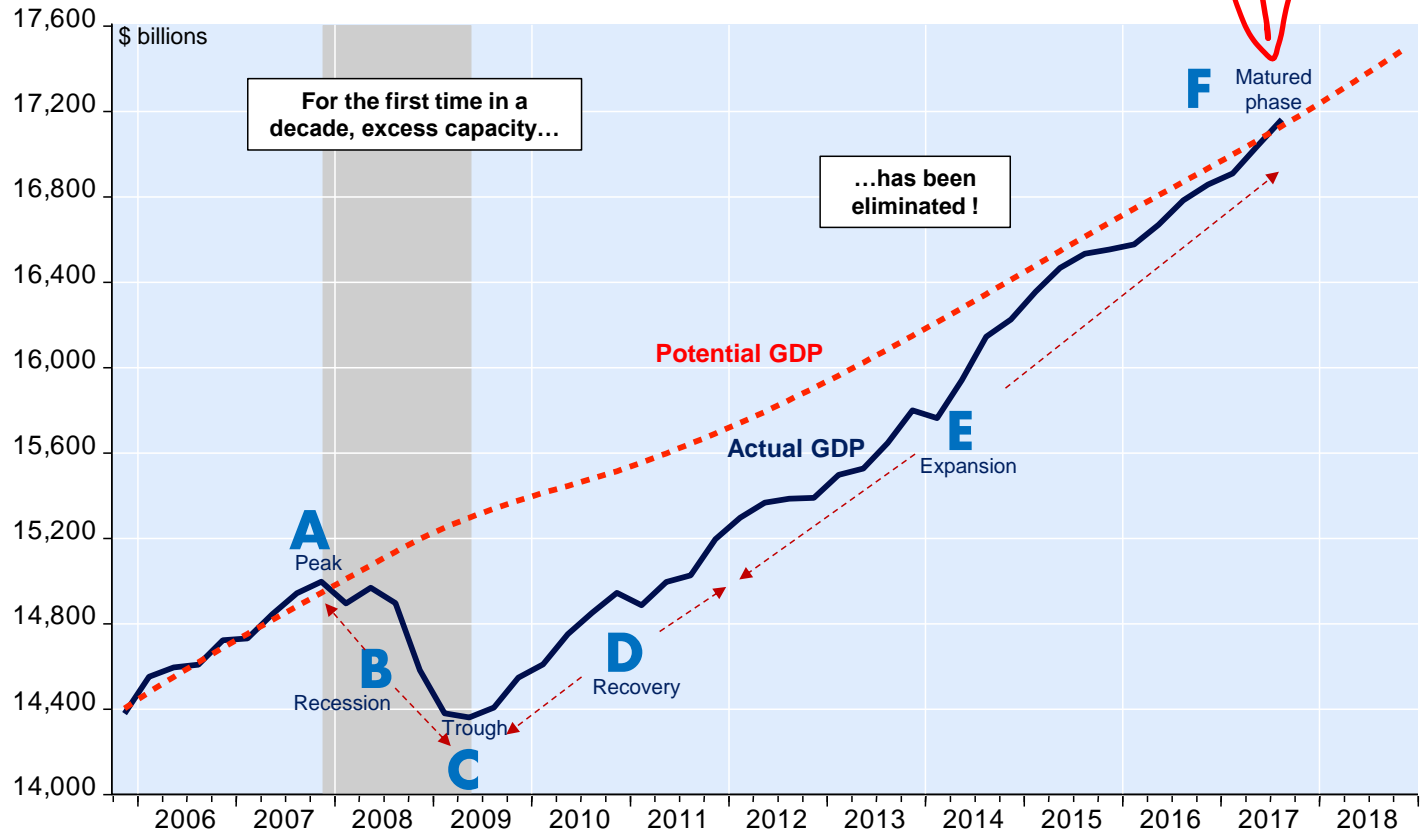
Where are we in the business cycle?

Anatomy of a business cycle



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

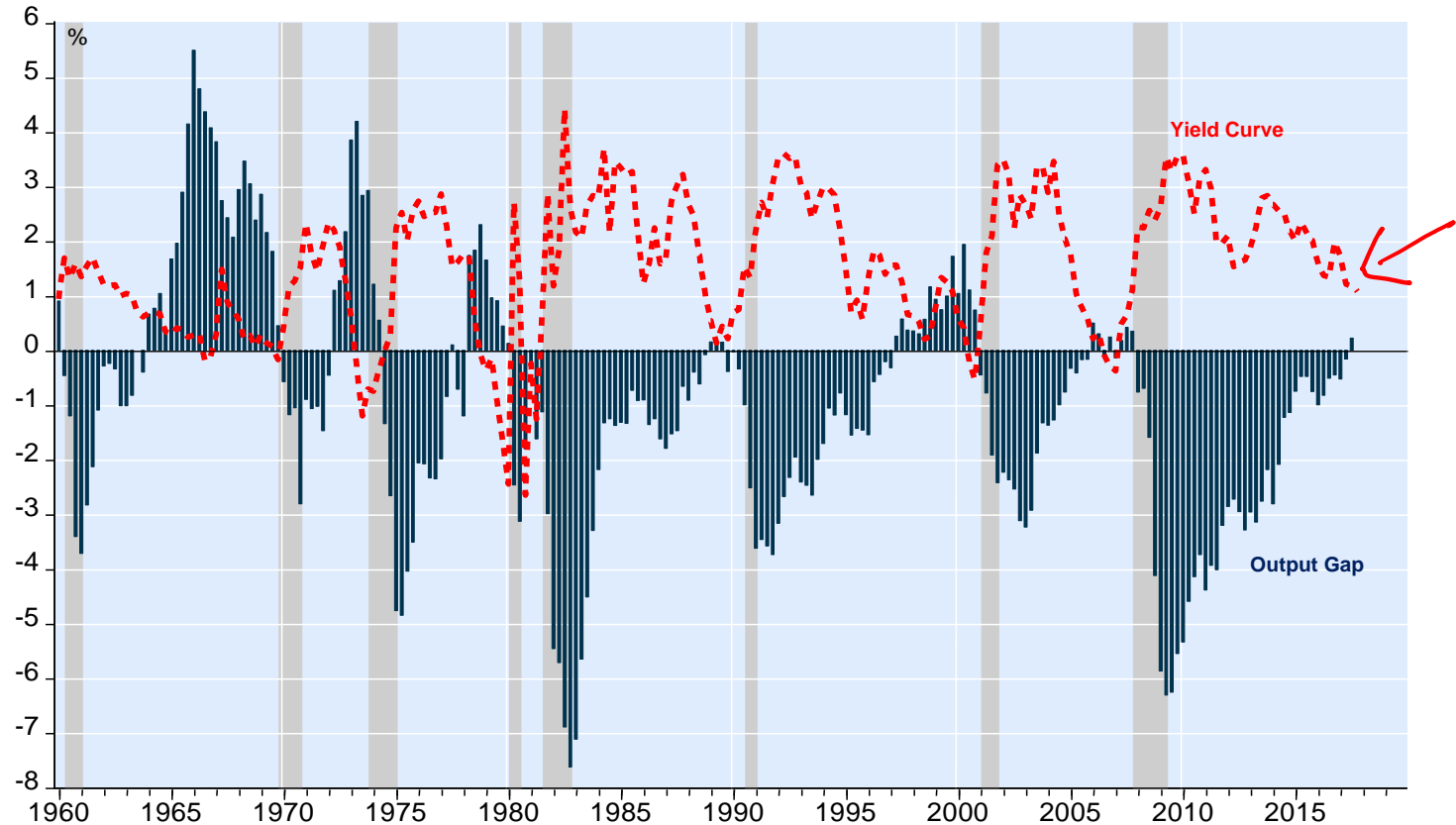
Actual vs. potential* real GDP



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

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

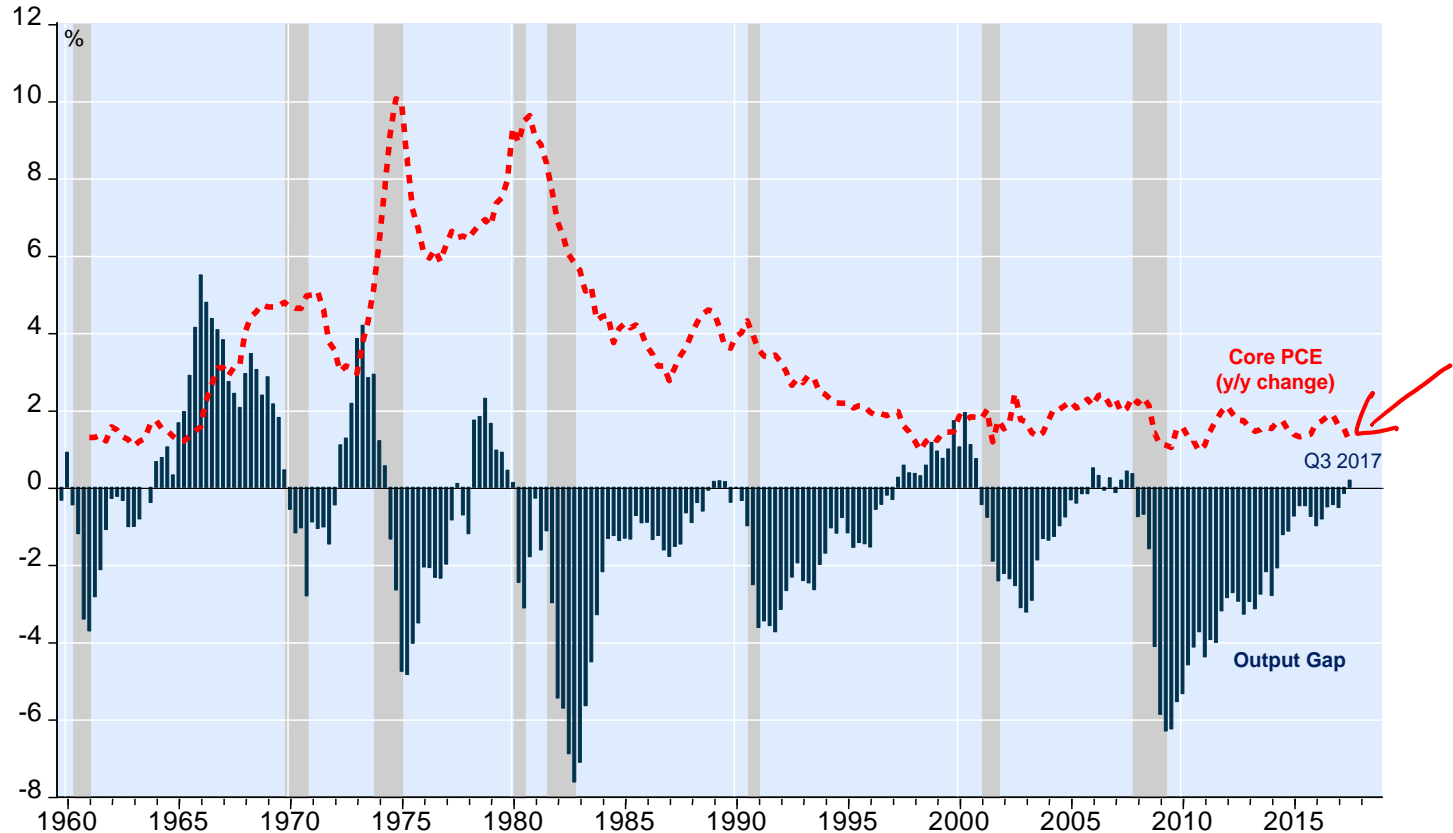
Output gap* vs. yield curve (10-year Treasury yield less 3-month T Bill)



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

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

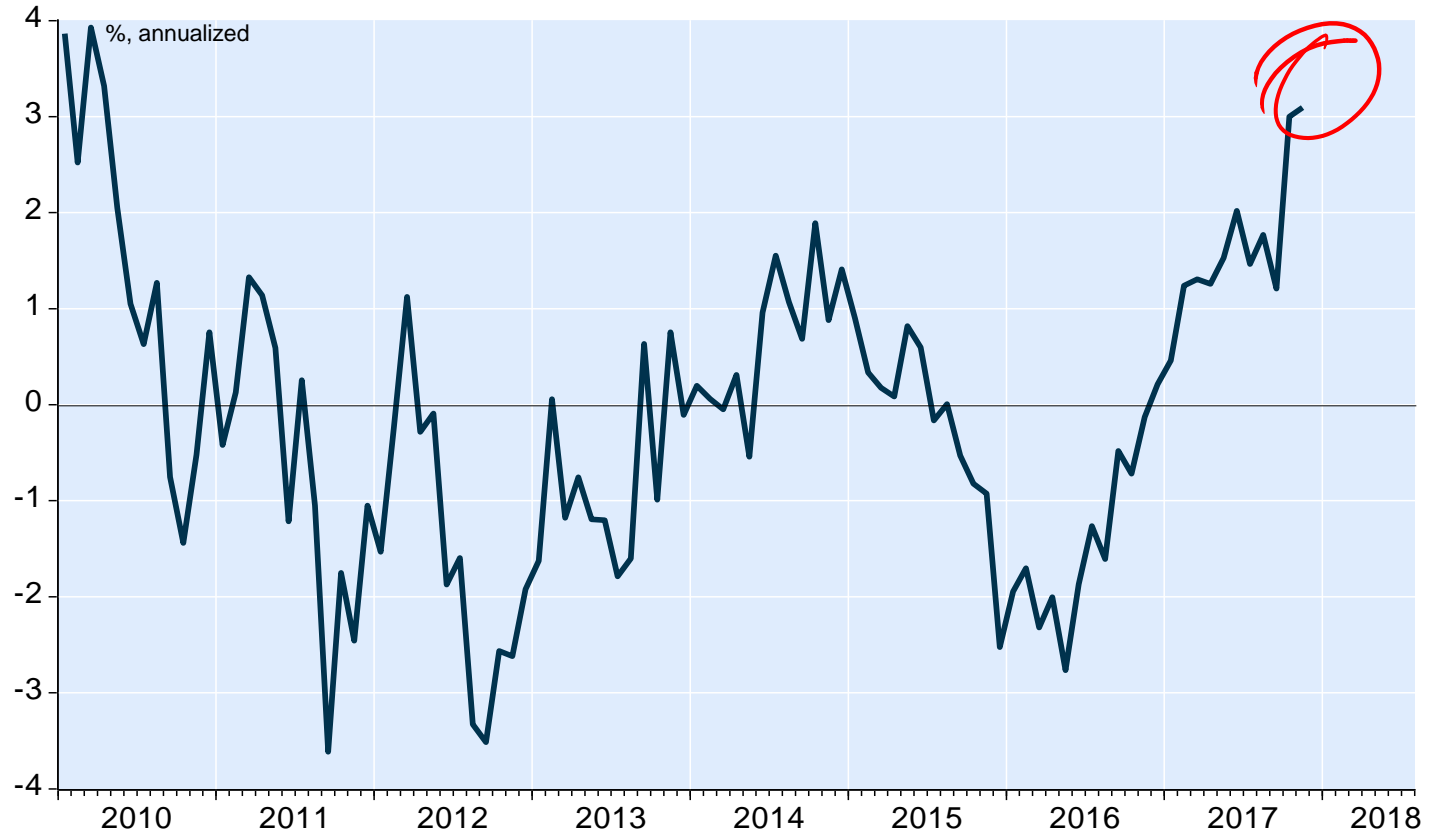
Core PCE deflator vs. output gap*



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

U.S.: Outlook remains positive

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




NBF Economics and Strategy (Conference Board data via Datastream)

Canada

Most resilient!

What he said last year:

THE GLOBE AND MAIL 

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Bank of Canada says rate cut an option amid concern over Trump policies

BARRIE MCKENNA

OTTAWA — The Globe and Mail

Published Wednesday, Jan. 18, 2017 10:04AM EST

Last updated Wednesday, Jan. 18, 2017 9:53PM EST

Poloz on the run: Where is he going?

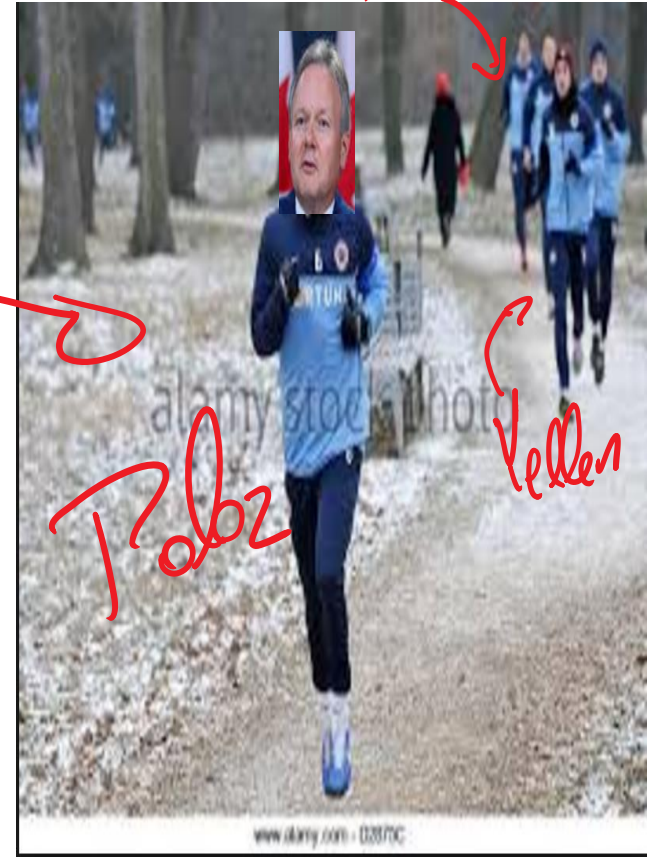
the star.com

Business · Economy

One year later

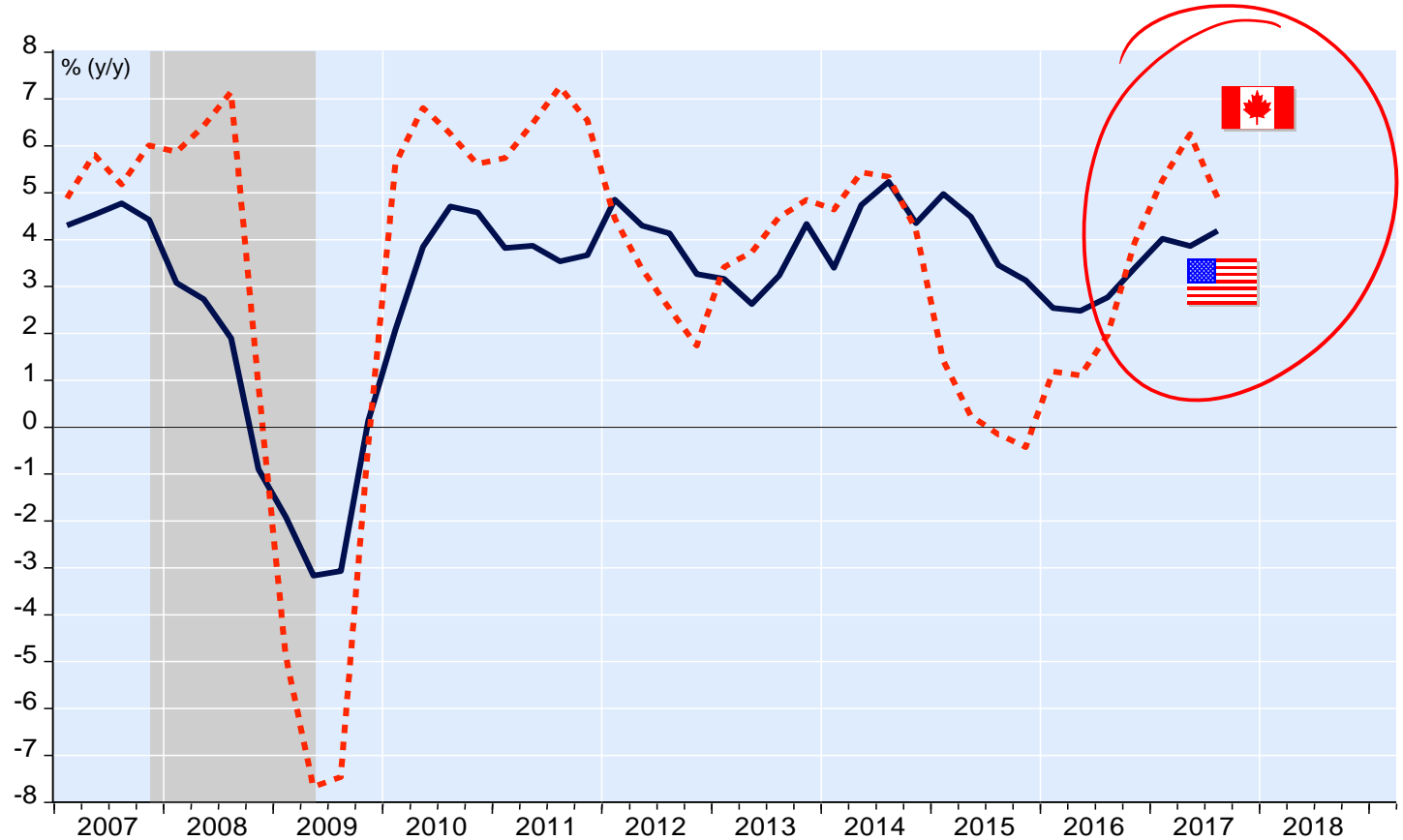
**No set path for interest rates,
says Bank of Canada governor
Stephen Poloz**

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



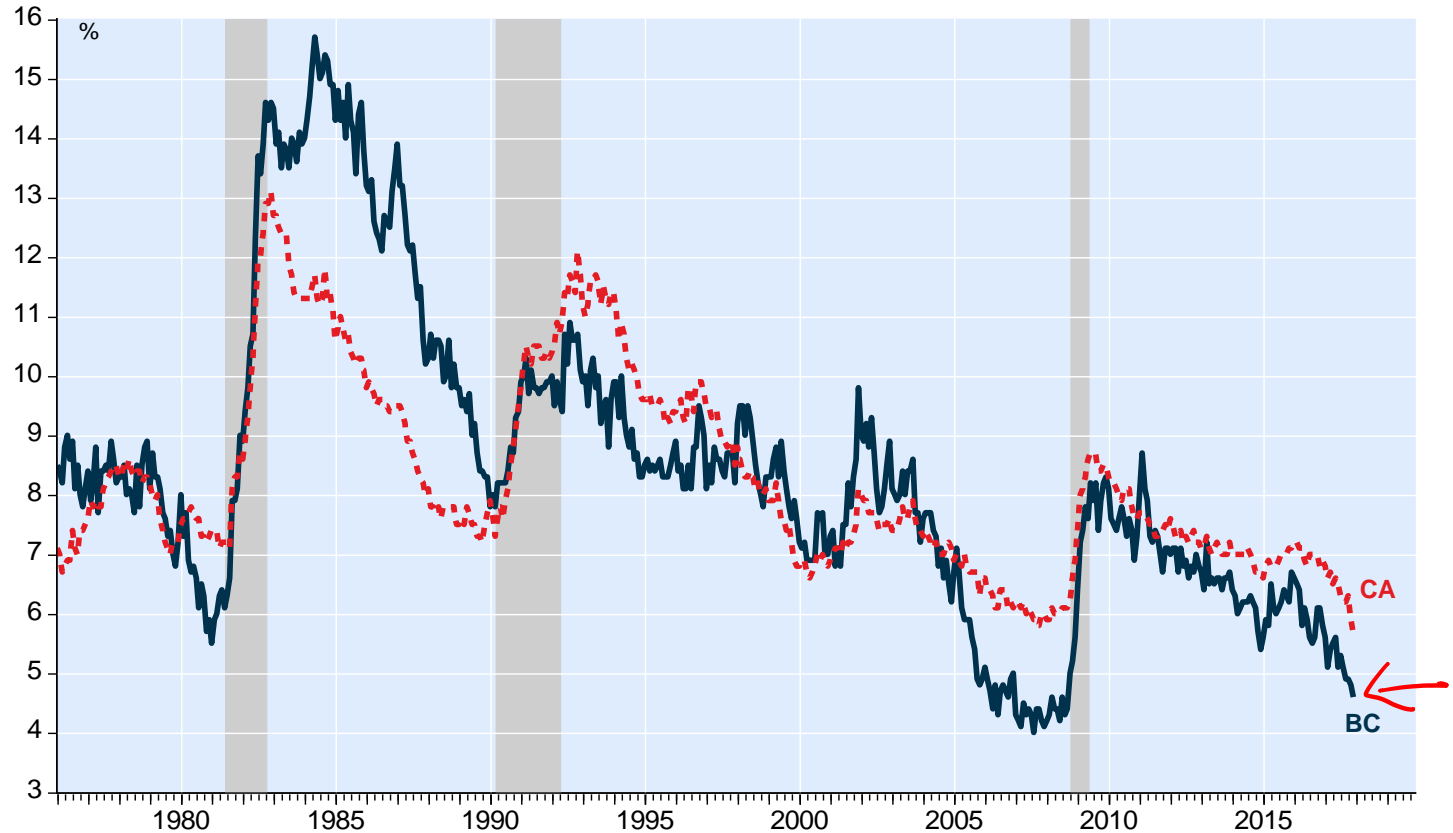
Canada: Economy has done very well in recent quarters

Nominal GDP growth



Canada: Perspective on labour markets

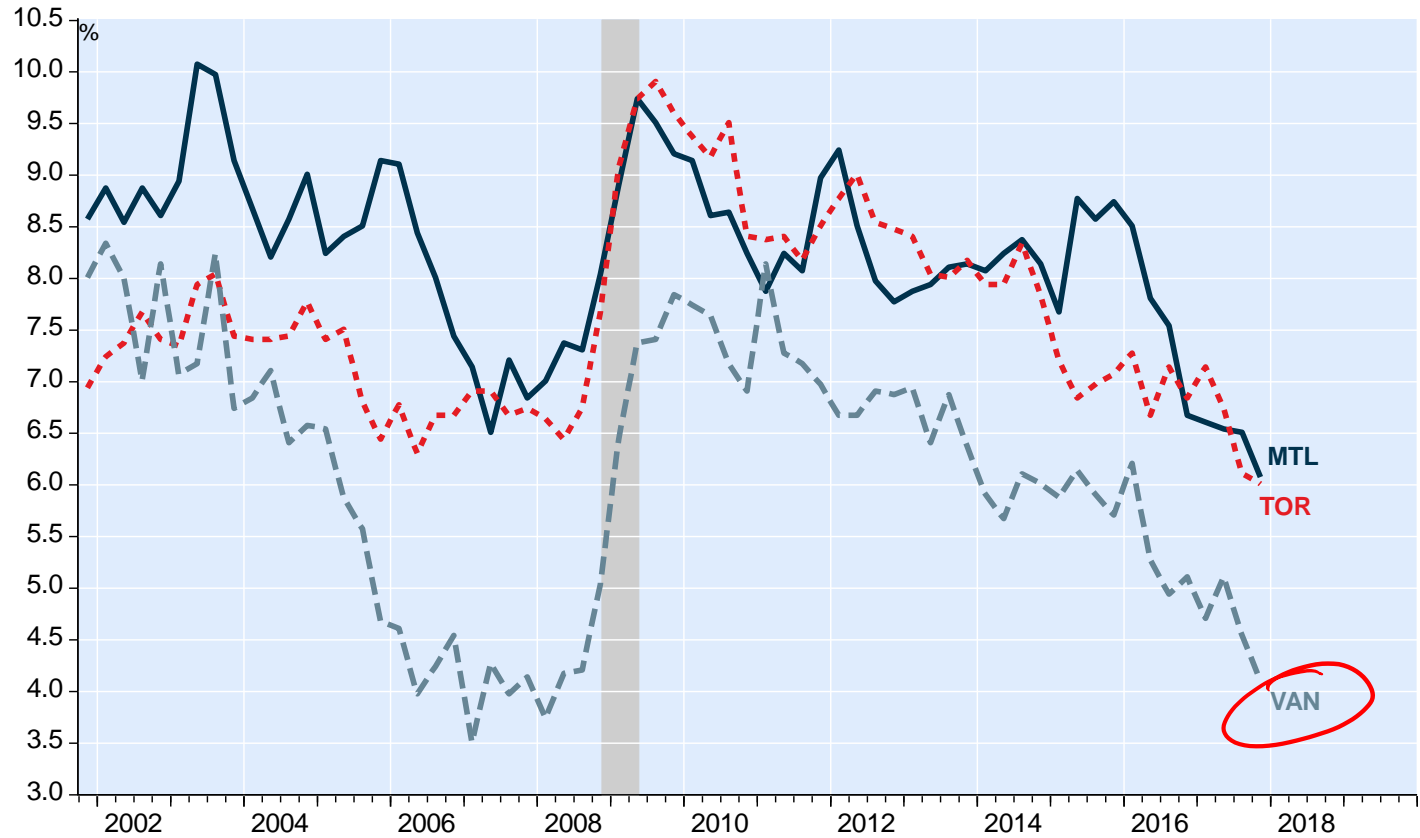
Unemployment rate: Canada vs. BC



NBF Economics and Strategy (data via Statistics Canada)

Canada: Perspective on labour markets

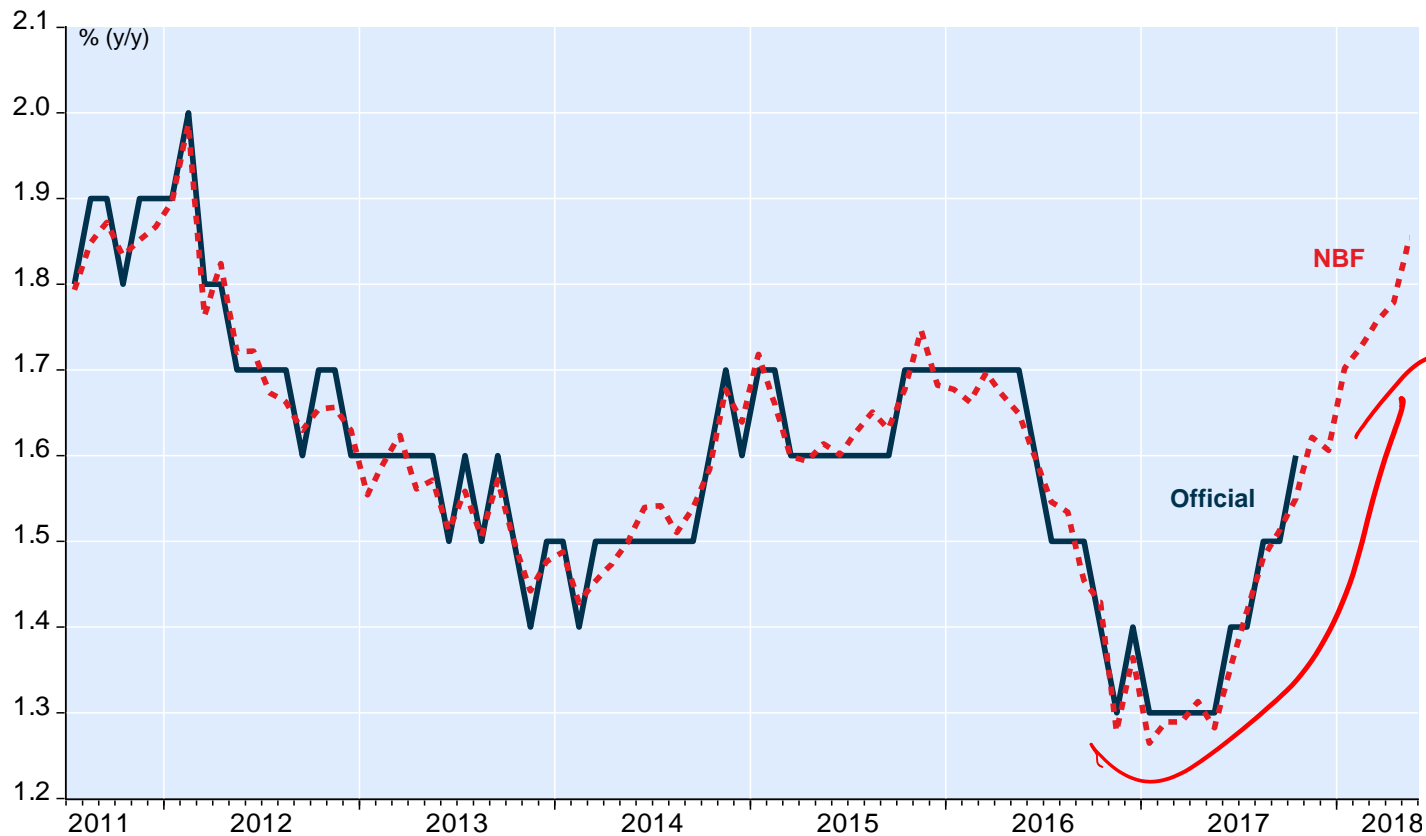
Unemployment rate in the three CMAs: Toronto, Montreal and Vancouver



NBF Economics and Strategy (data via Statistics Canada)

Canada: Perspective on CPI-common

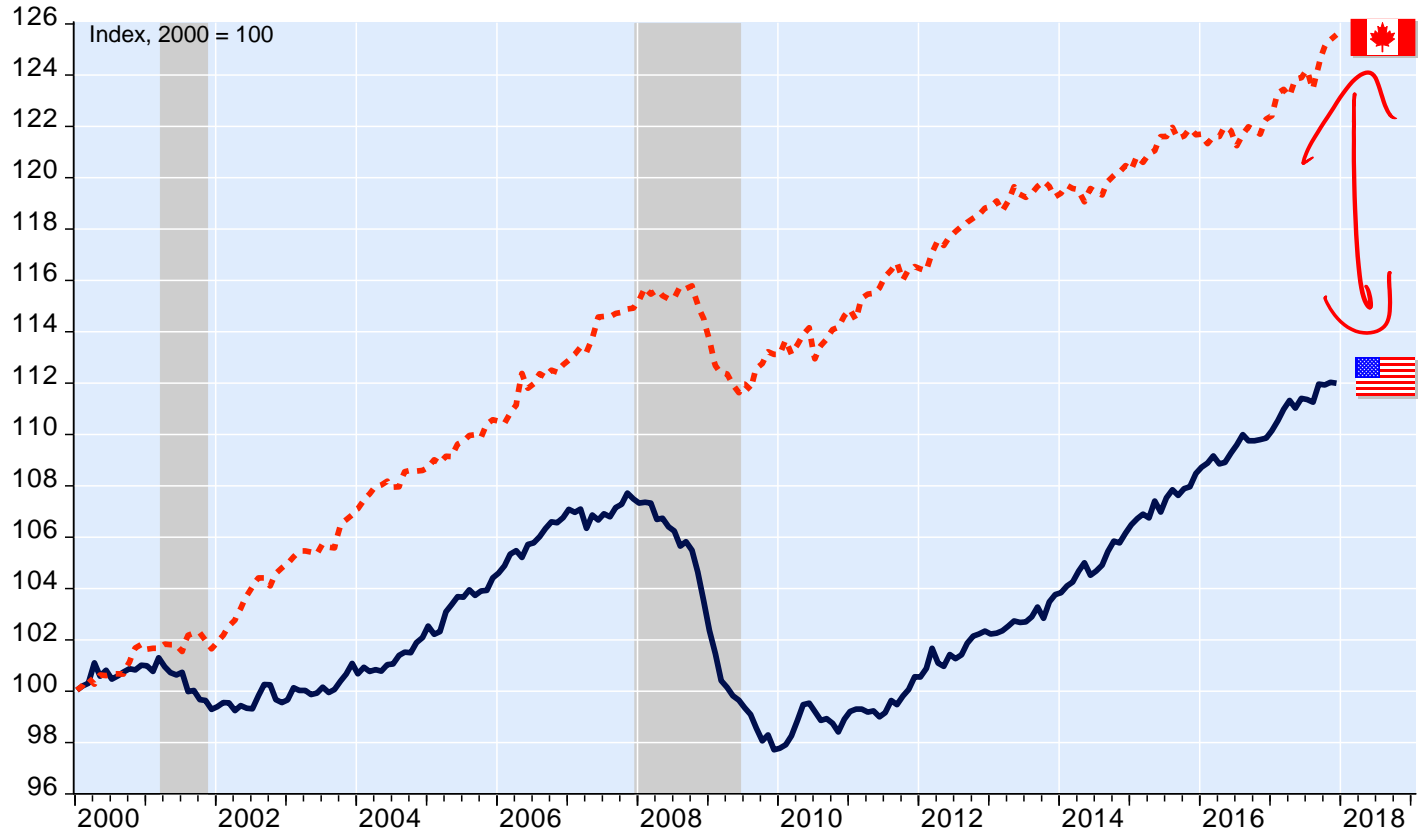
Core inflation based on common component measure



NBF Economics and Strategy (data via Statistics Canada)

Perspective on key driver of labour income

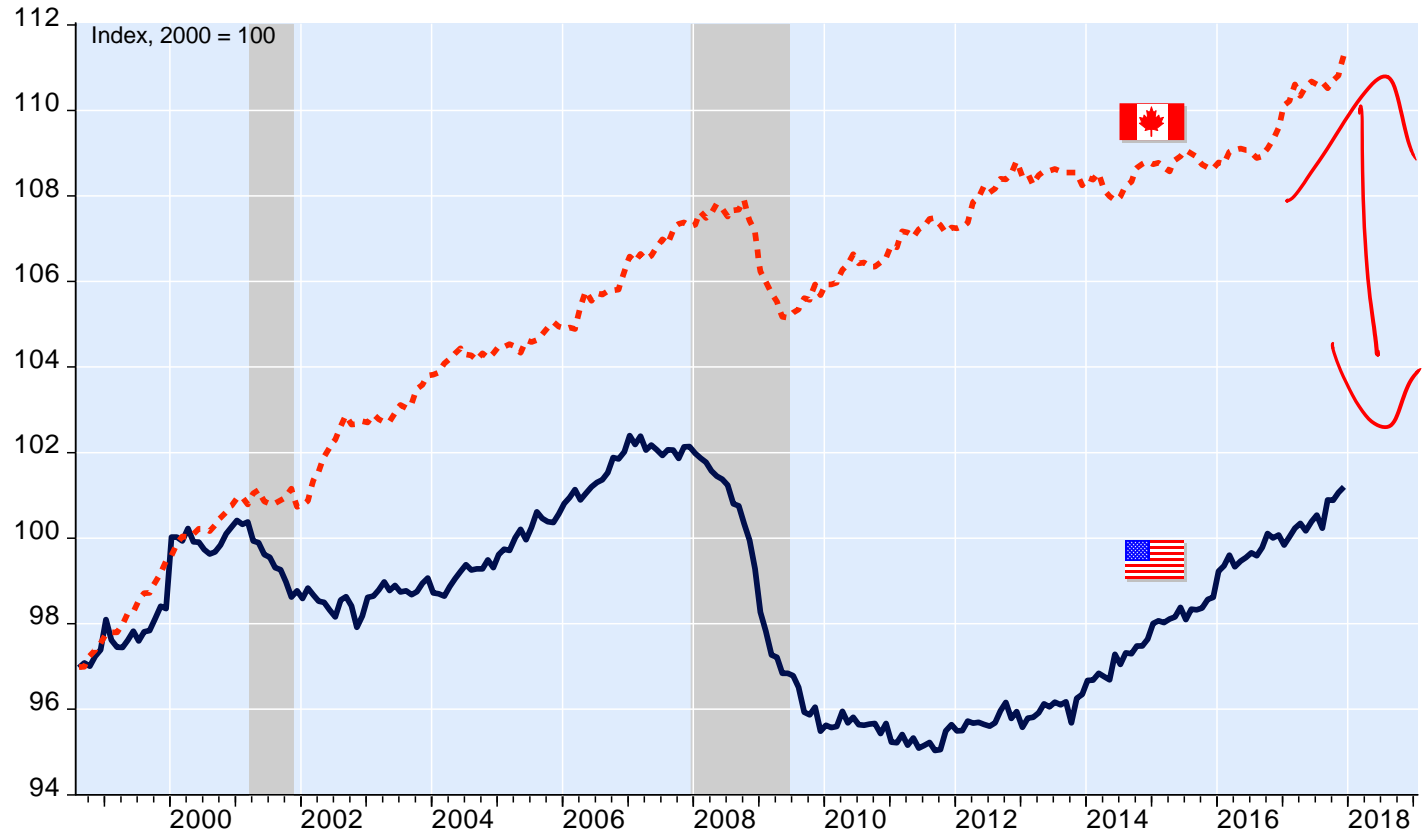
Full-time employment: Canada vs. the U.S.



NBF Economics and Strategy (data via Datastream)

Perspective on the prime-aged workforce

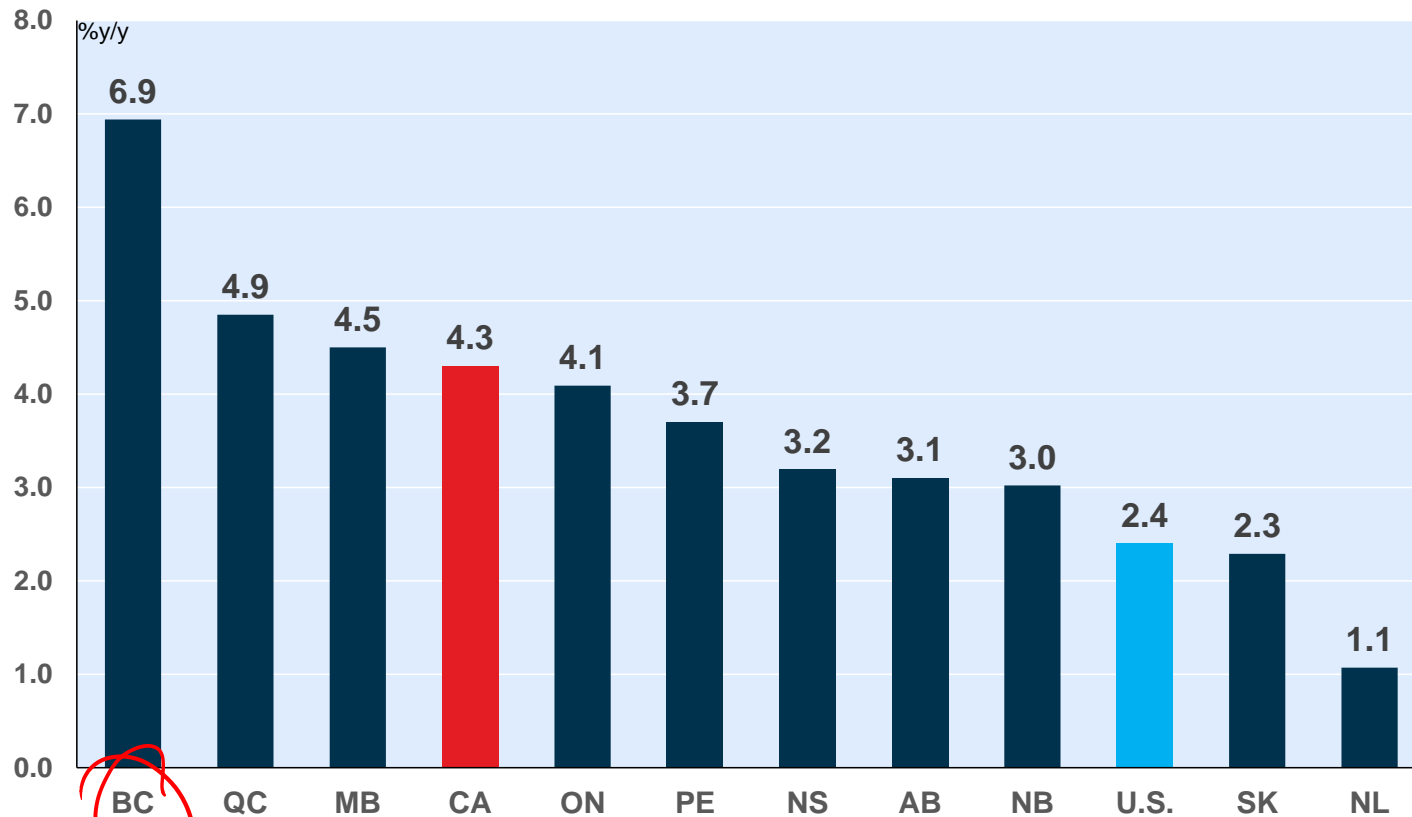
Employment for people aged 25-54: Canada vs. the U.S.



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

Wages and salaries growth

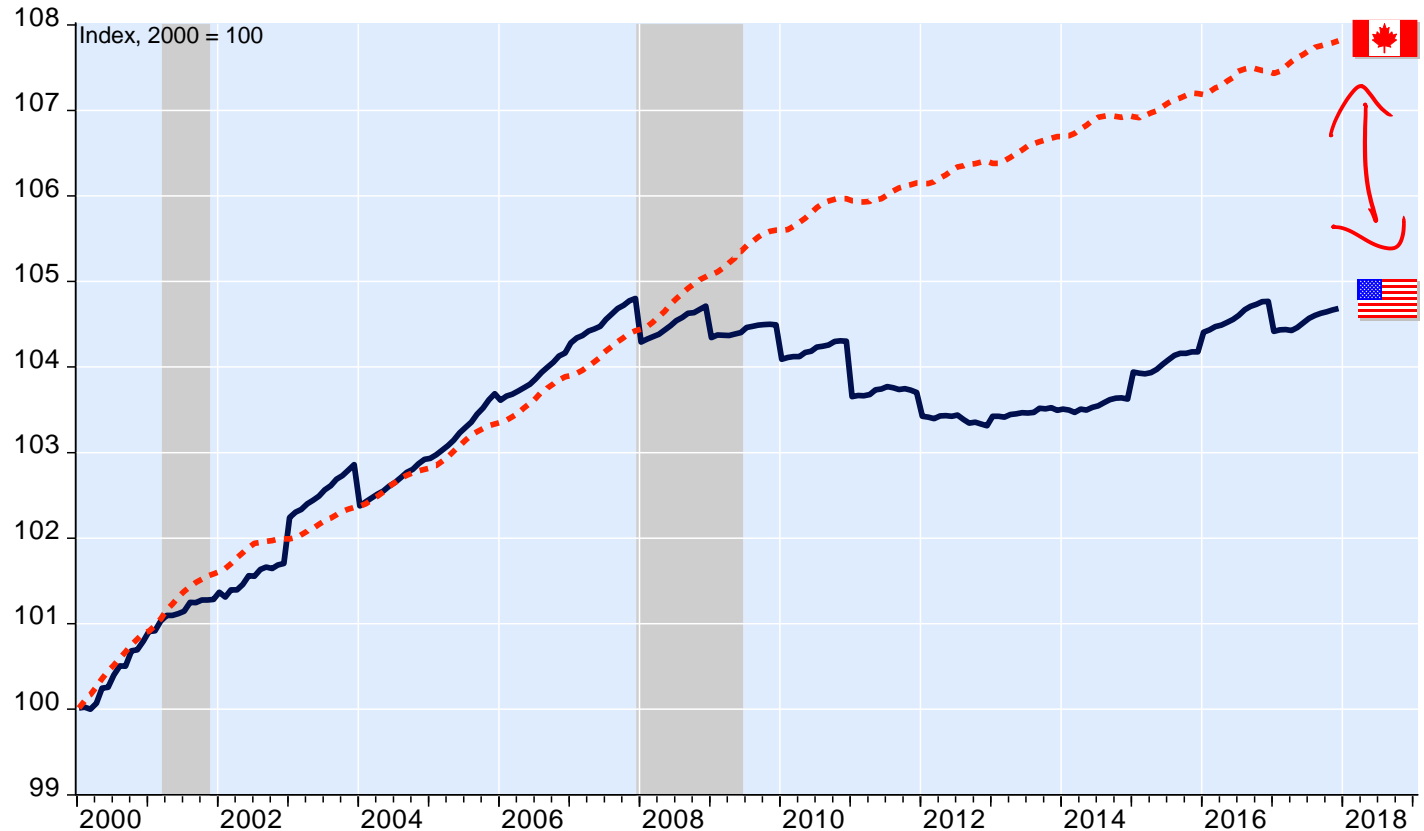
Q3 2017 vs. Q3 2016



NBF Economics and Strategy (data via Statistics Canada)

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

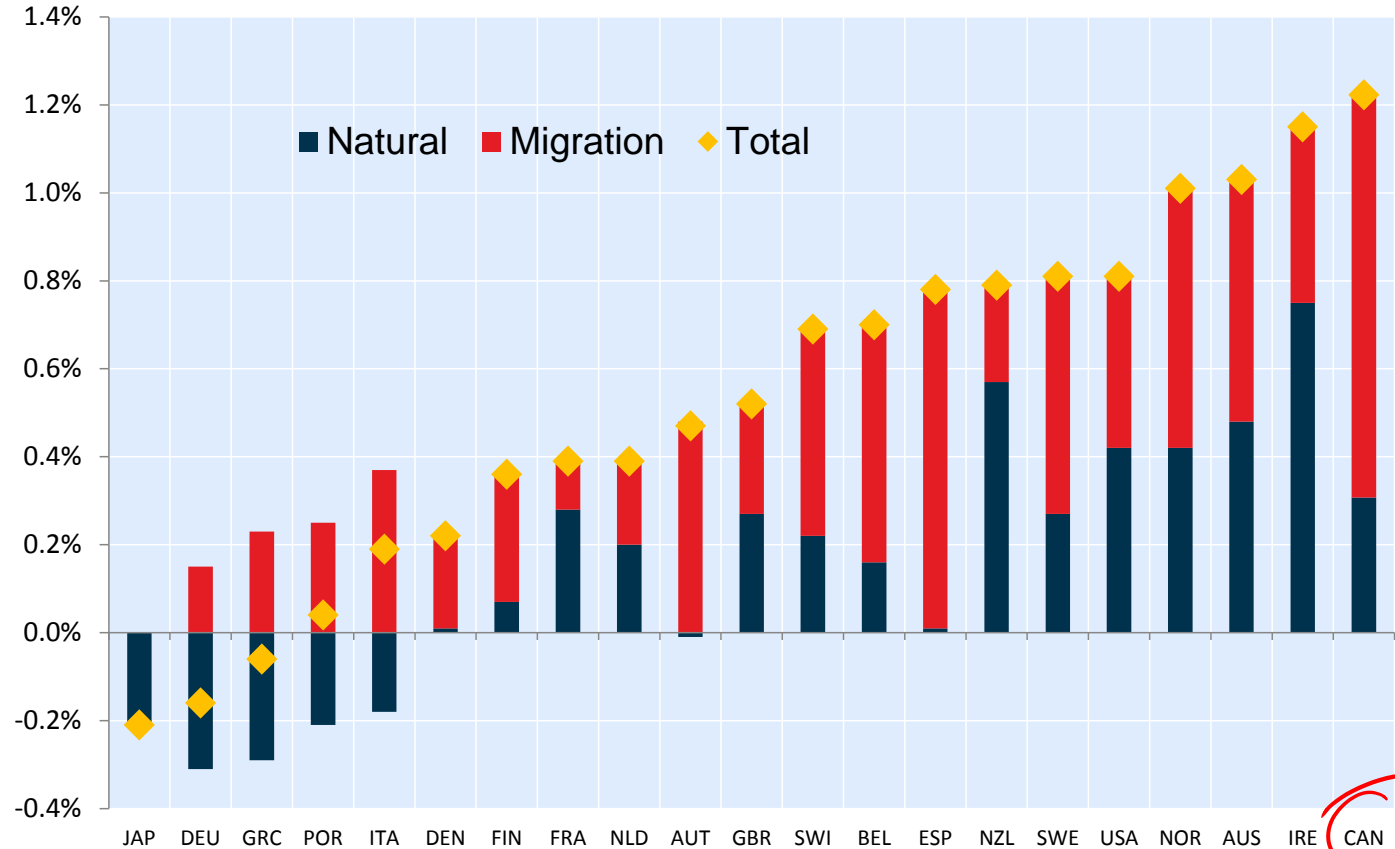
Population aged 25-54: Canada vs. the U.S.



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

Canada: Leading OECD countries in terms of population growth

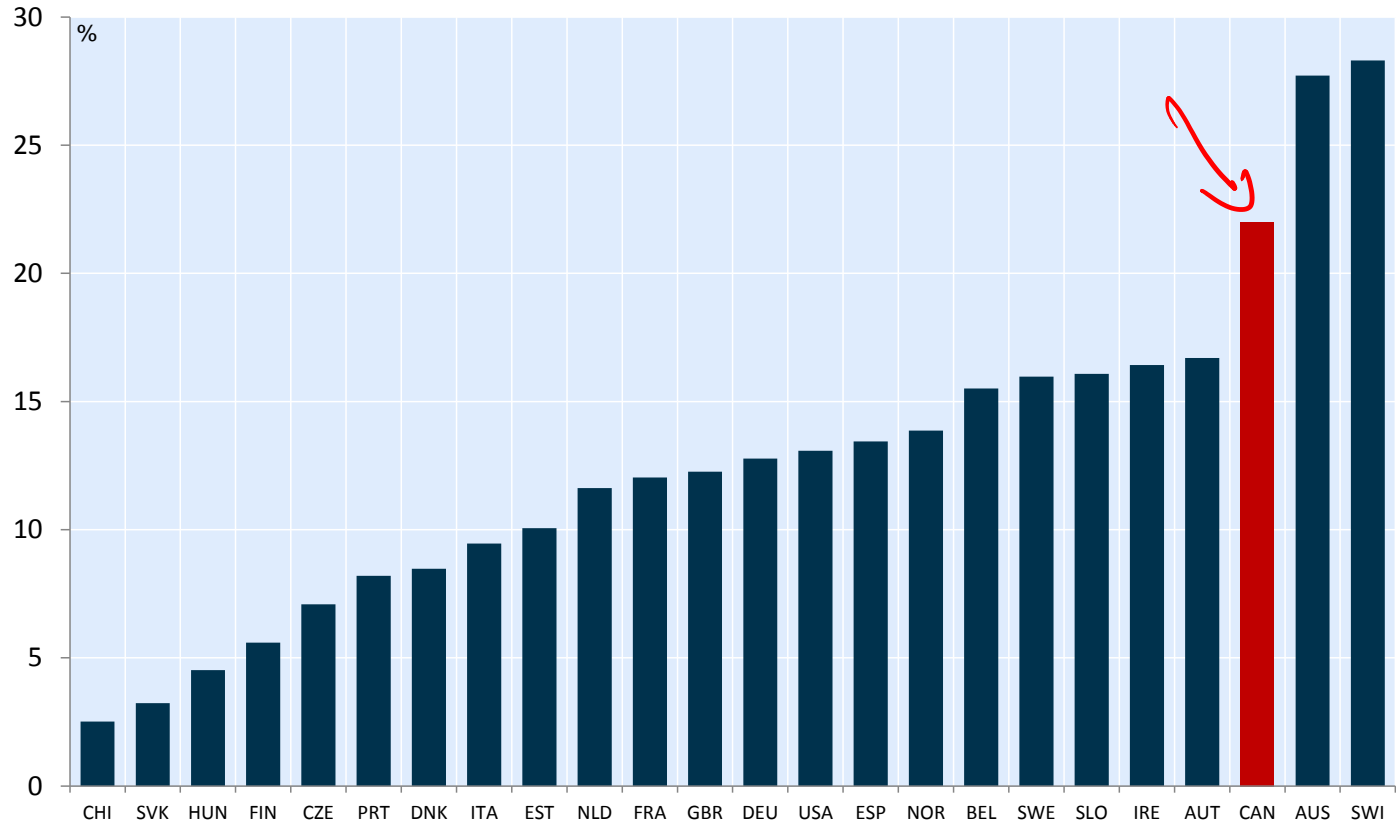
2017 population growth, natural vs. caused by migration



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

World: Perspective on foreign-born population

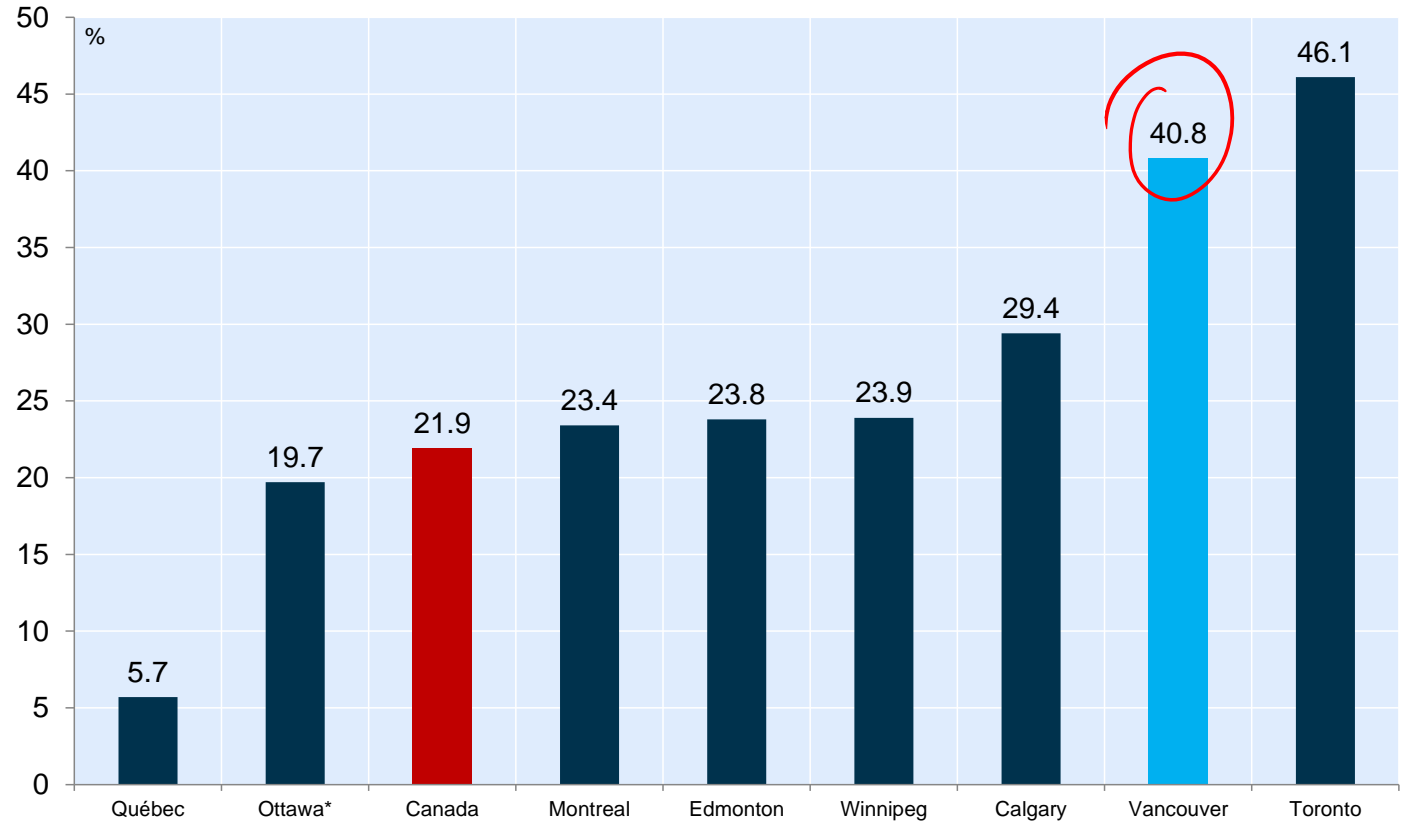
Share of population born abroad



NBF Economics and Strategy (data via OECD)

Canada: Perspective on foreign-born population

Foreign-born population as a share of total in selected CMAs

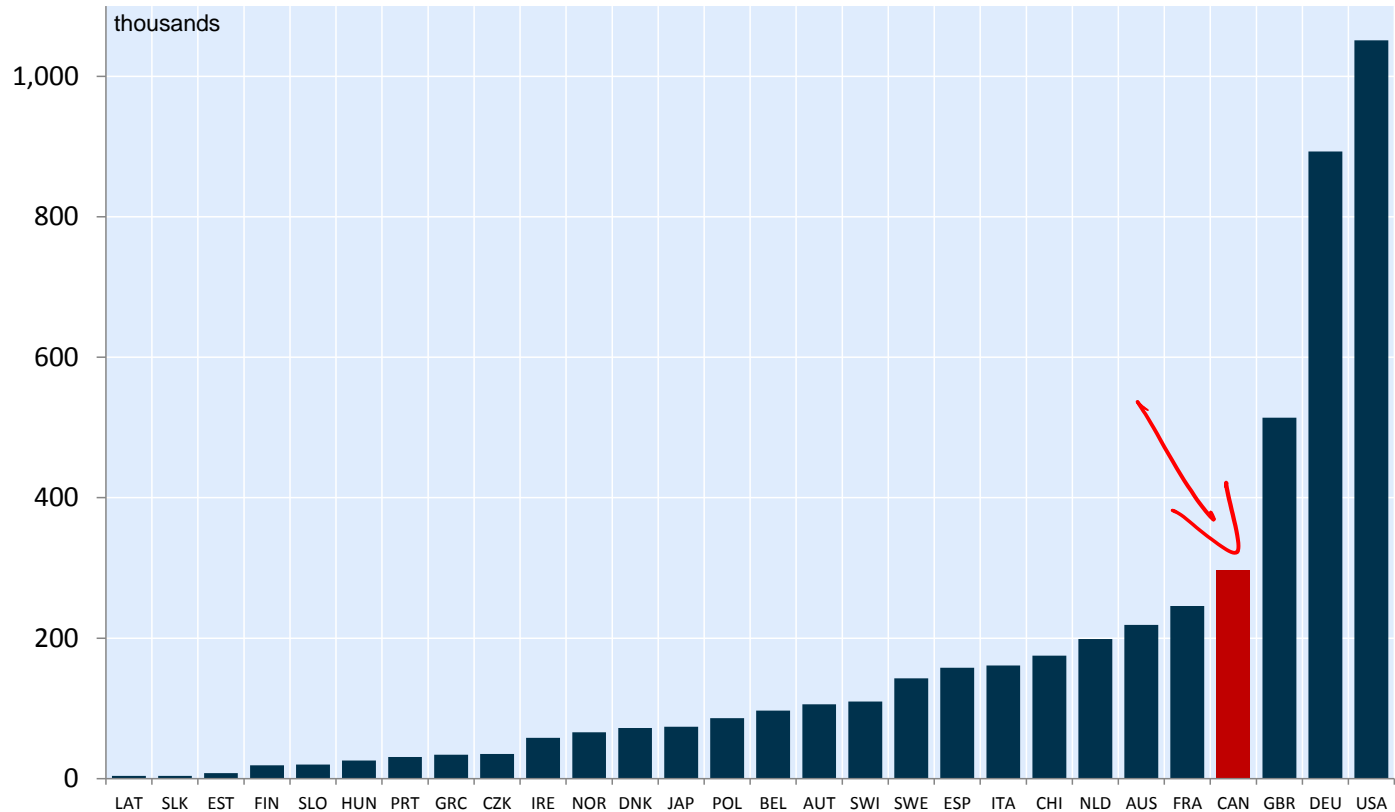


* Includes Gatineau

NBF Economics and Strategy (data via Statistics Canada)

World: Inflows of permanent immigrants

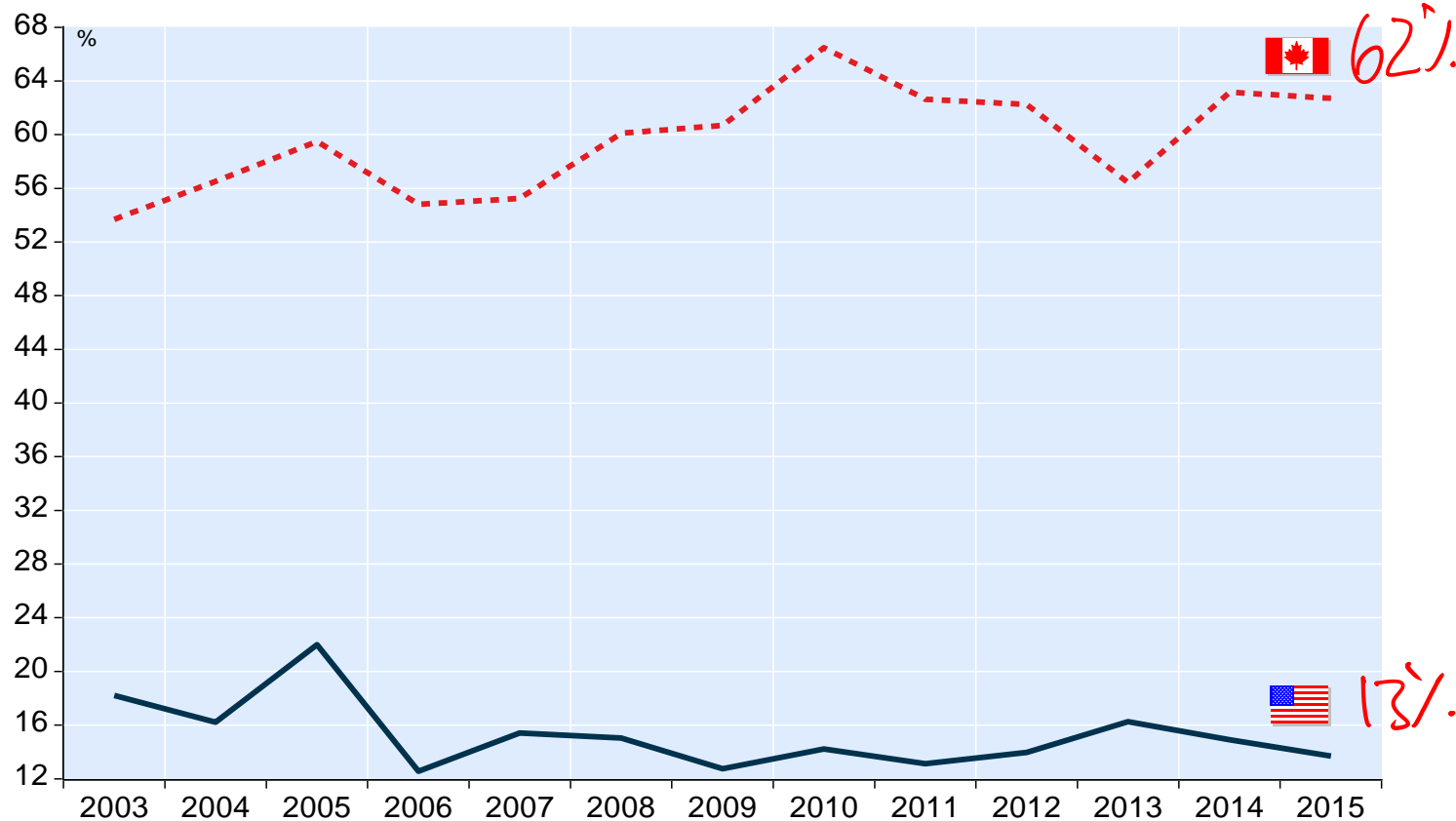
Permanent immigration in OECD countries in 2016 (2015 if not yet available)



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

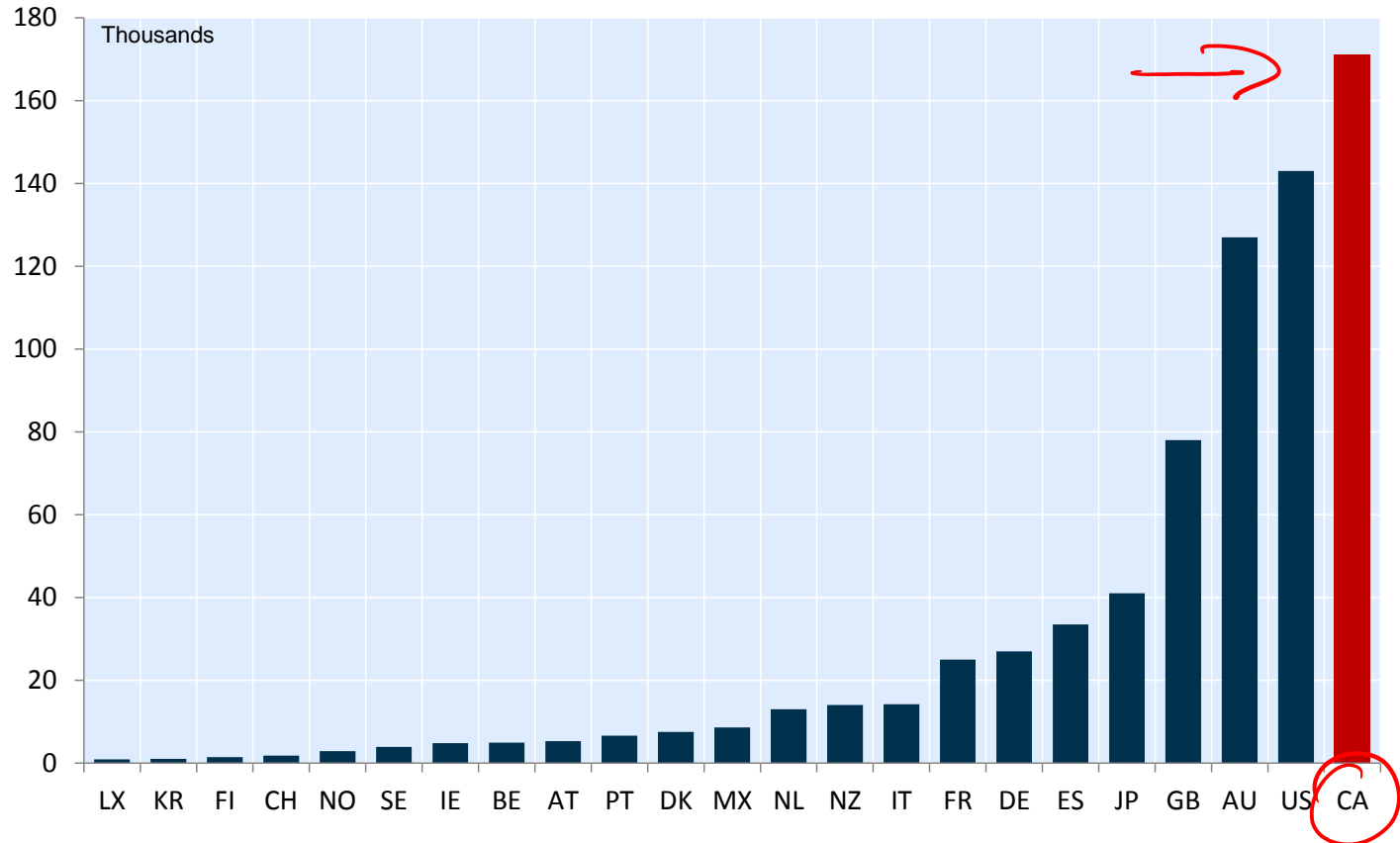
Canada: Immigration policy is key for labour markets

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



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

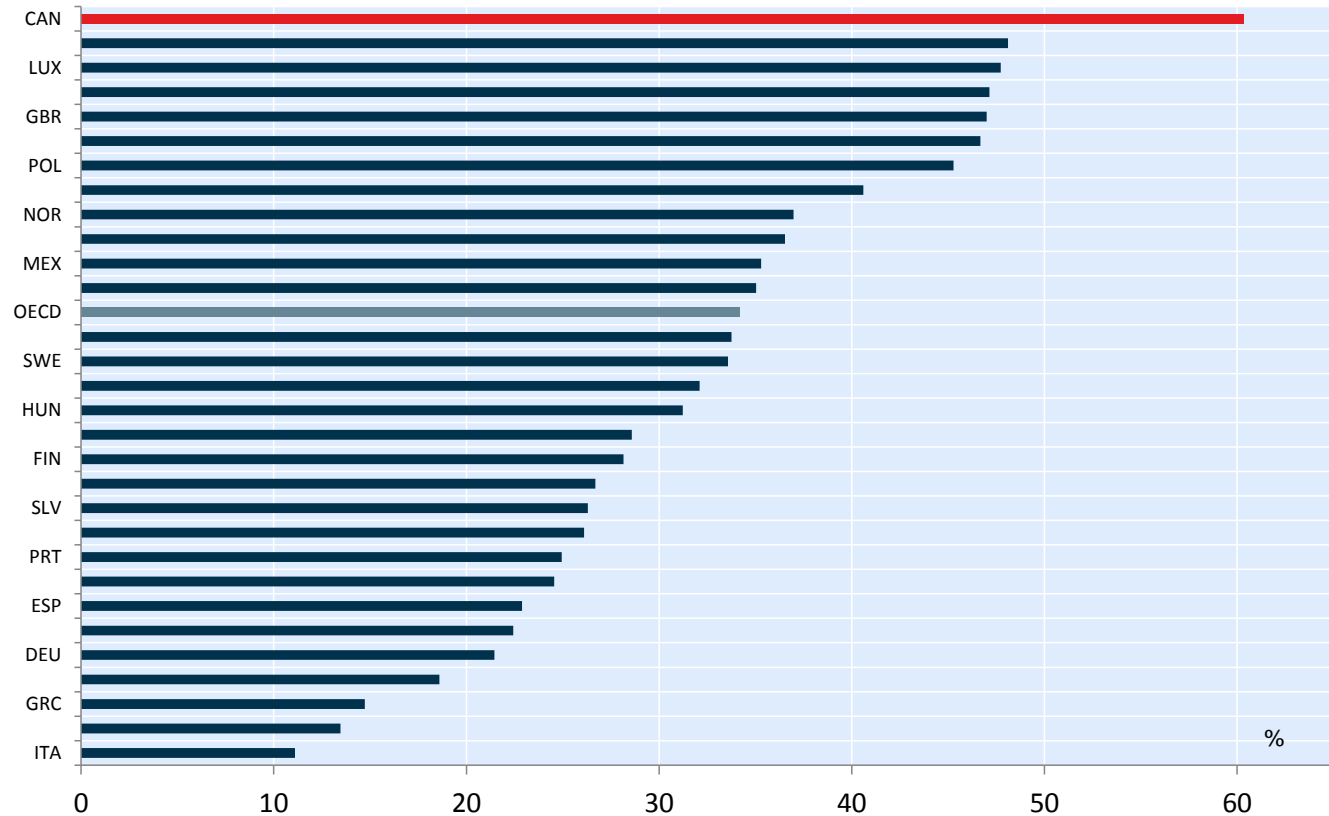
Annual “economic category” admissions to permanent residence (2015)



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

Canada: foreign-born population is highly educated

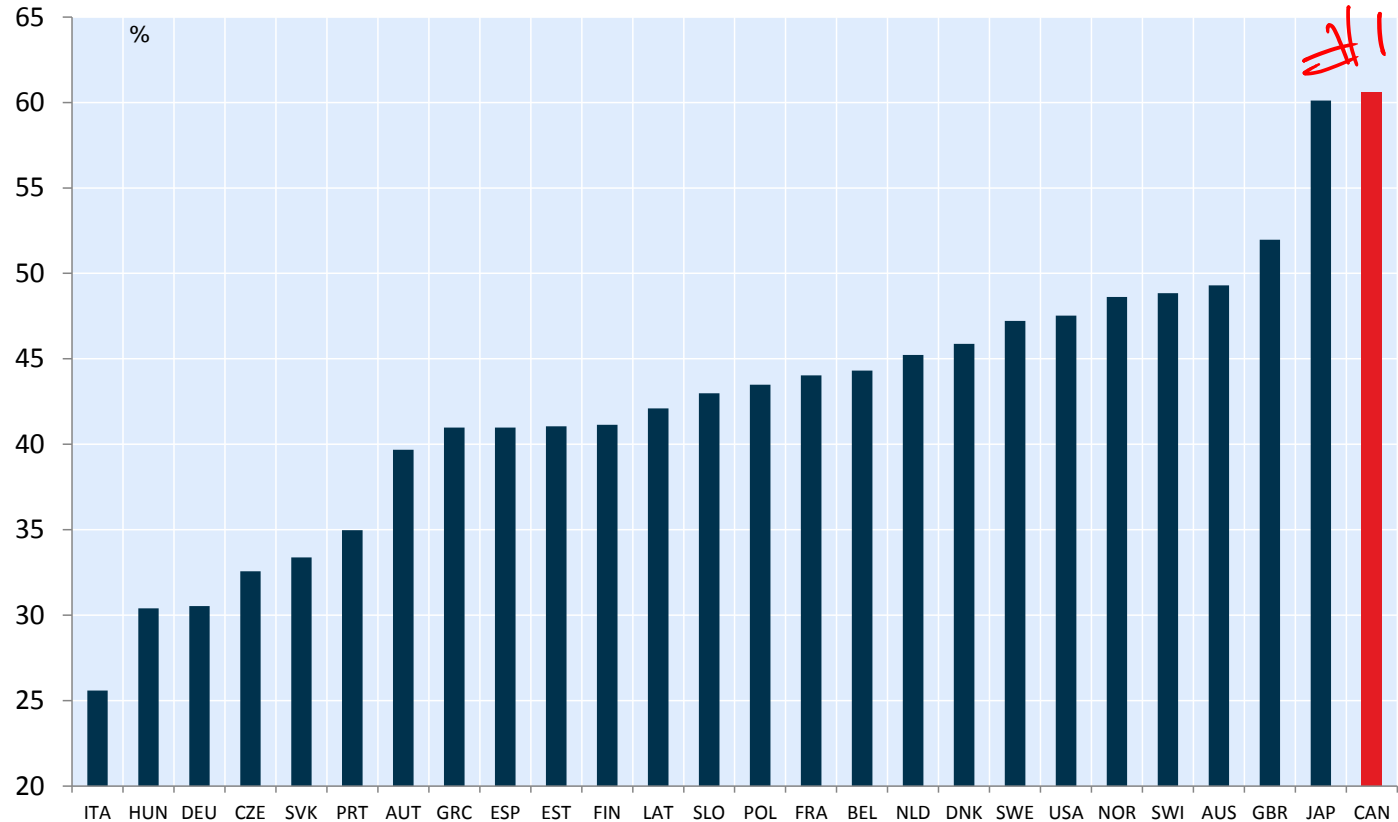
Percentage of foreign-born 15-64 with post-secondary education



NBF Economics and Strategy (data via OECD)

World: Perspective on education

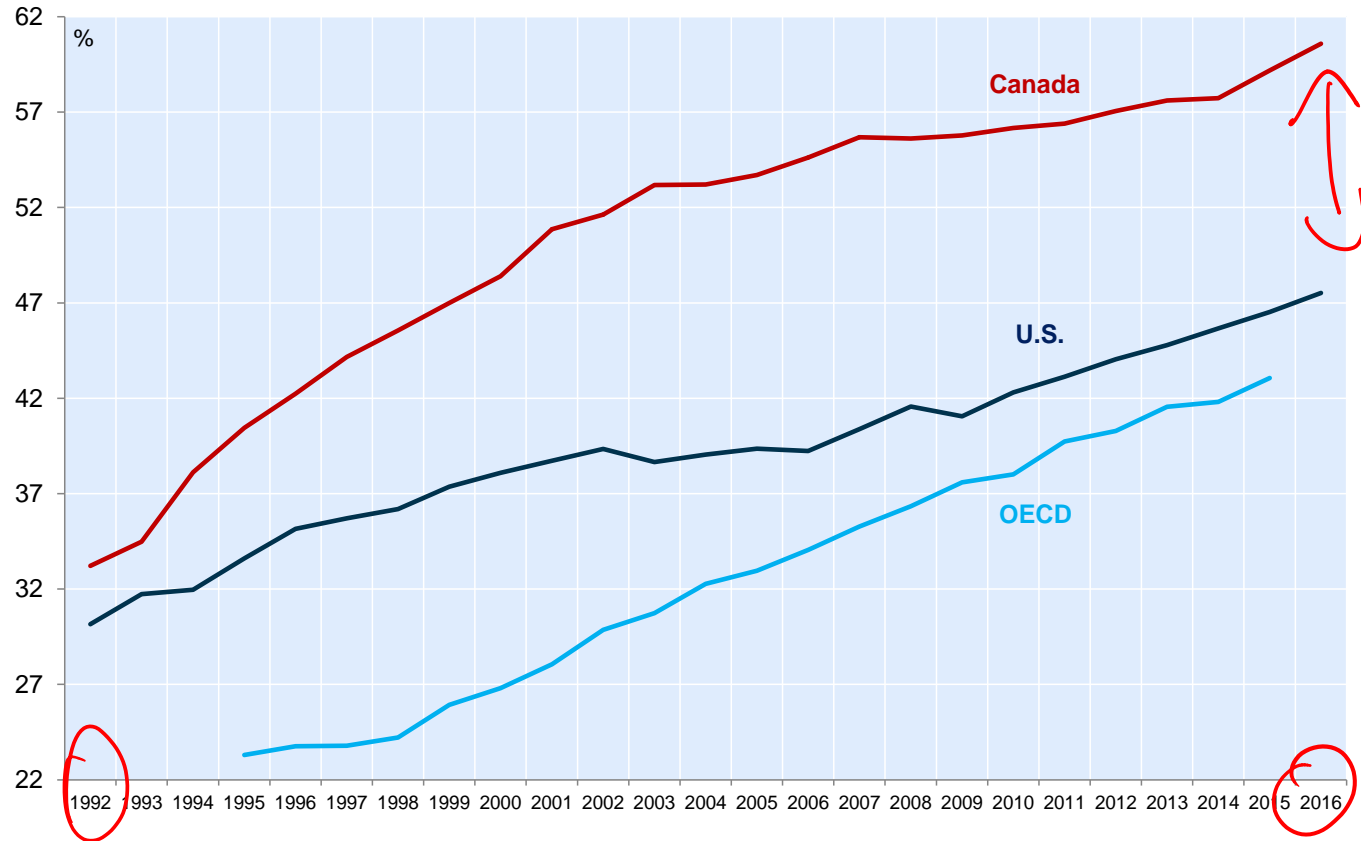
Share of population aged 25-34 with tertiary education (2016)



NBF Economics and Strategy (data via OECD)

Canada: An educated workforce can support higher debt

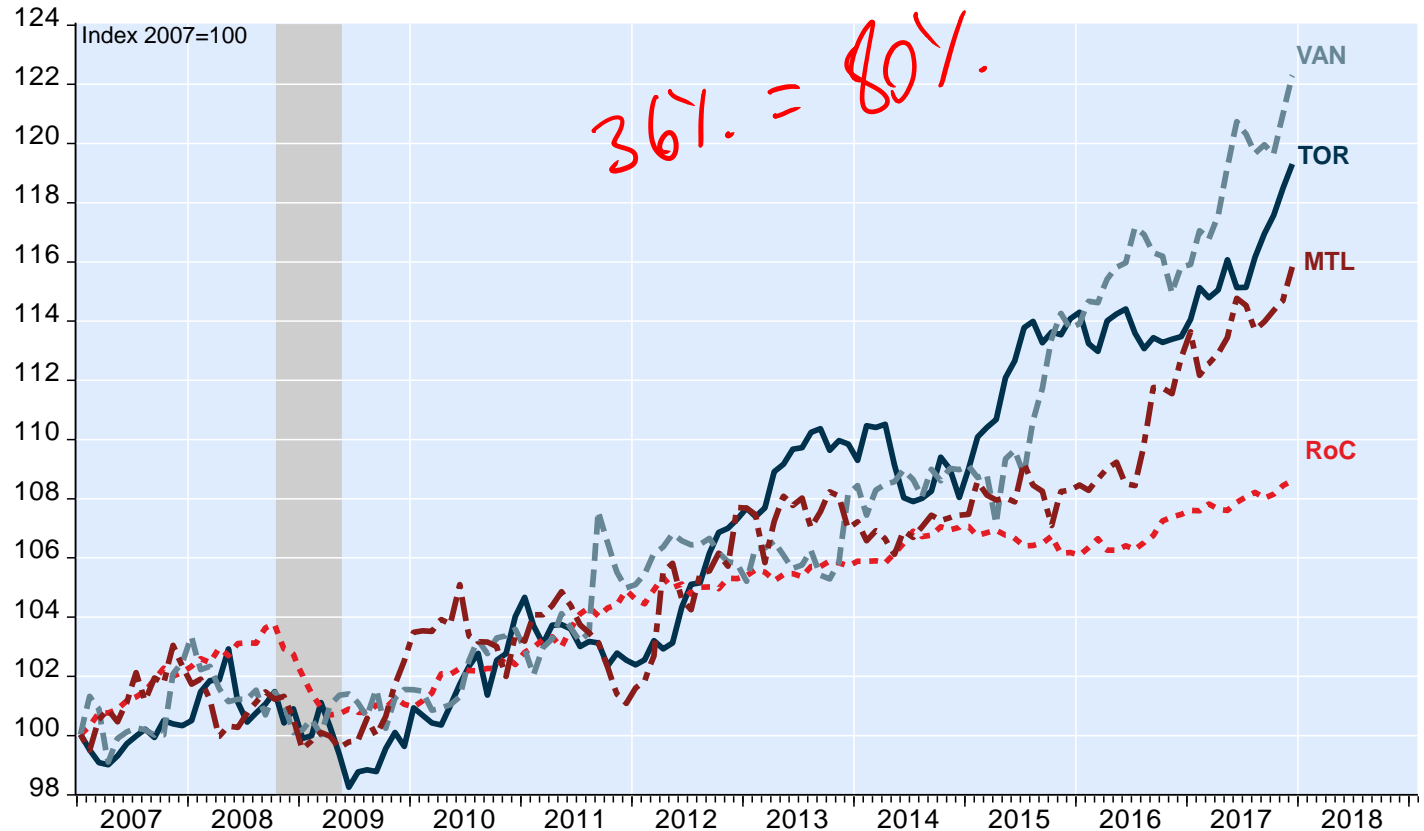
Share of population aged 25-34 with tertiary education



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

Canada: Job creation in the main cities

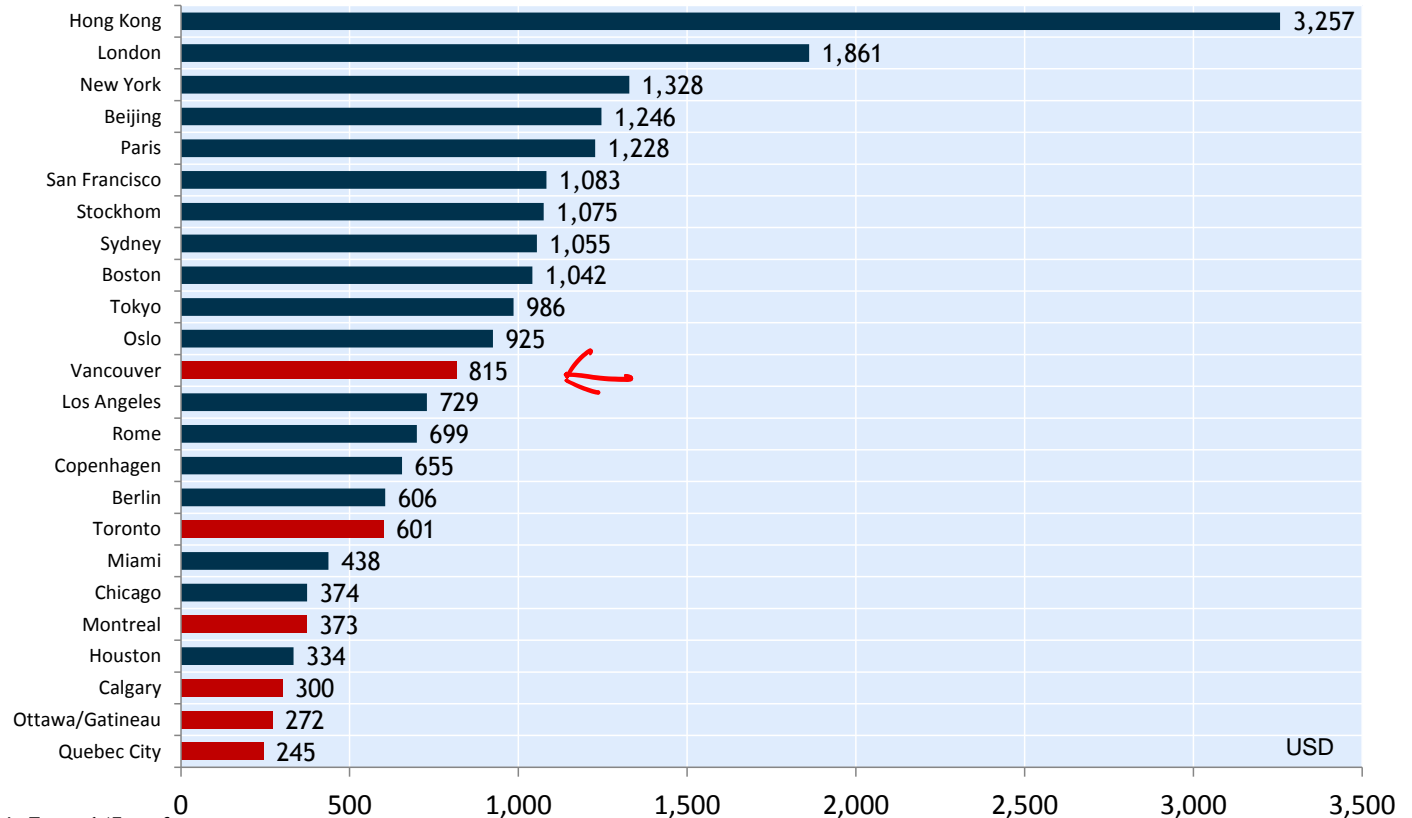
Job creation in greater Vancouver, greater Toronto, greater Montreal and rest of Canada (RoC)



NBF Economics and Strategy (data via Statistics Canada)

World: Home prices do not seem extreme in Canada

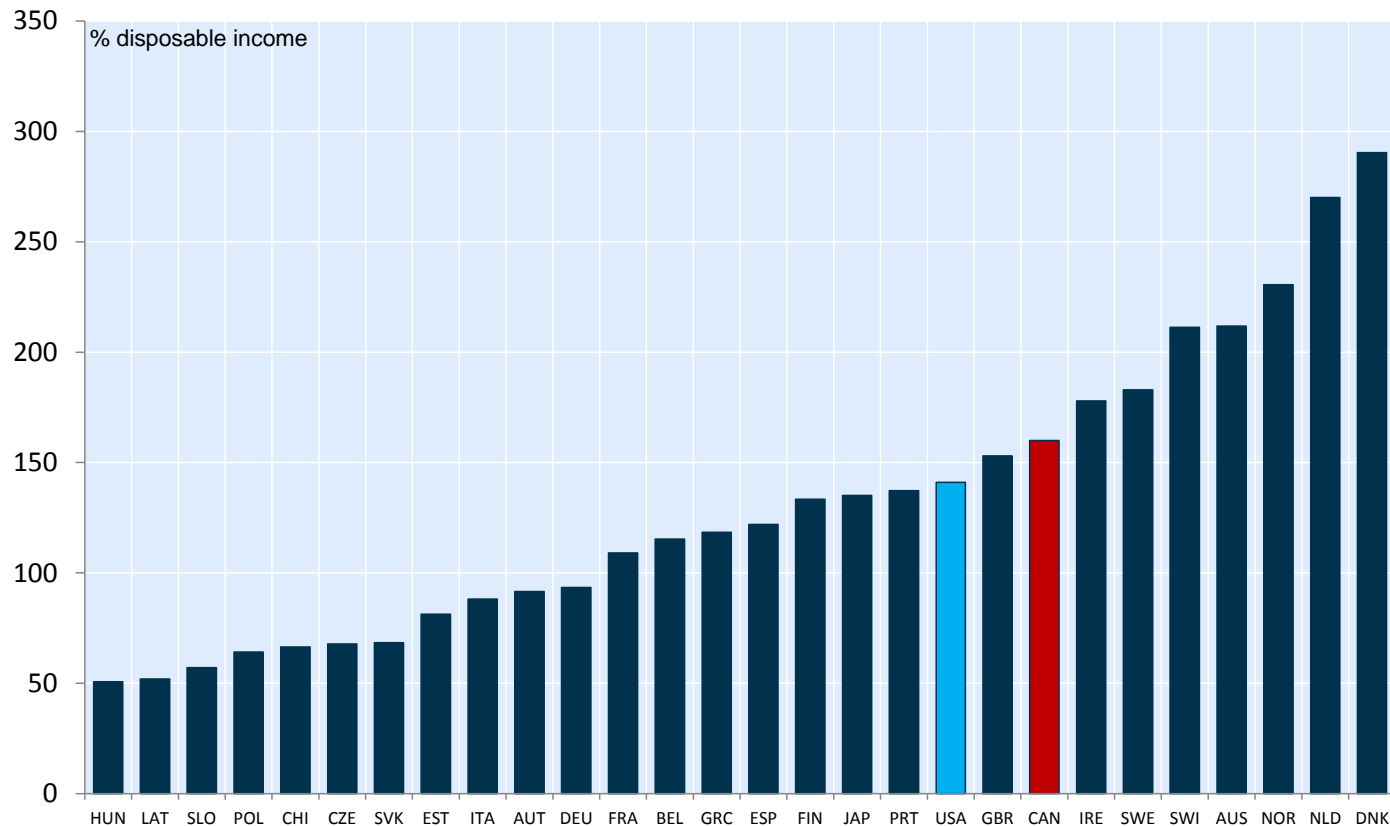
Price per square feet in USD for downtown living* (summer 2017)



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

World: Perspective on household leverage

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



NBF Economics and Strategy (data via OECD)

Things to watch

Trump says terminating NAFTA would yield the 'best deal' in renegotiations

- U.S. President Donald Trump said that terminating the North American Free Trade Agreement would result in the "best deal" to revamp the trade pact with Canada and Mexico
- But lawmakers, and agricultural and industrial groups, have warned Trump not to quit NAFTA
- Still, Trump said he "may" terminate the pact

Published 8:33 PM ET Wed, 17 Jan 2018 | Updated 22 Hours Ago



REUTERS



Trump tells Xi trade deficit with China 'not sustainable'

BY JORDAN FABIAN - 01/16/18 12:18 PM EST

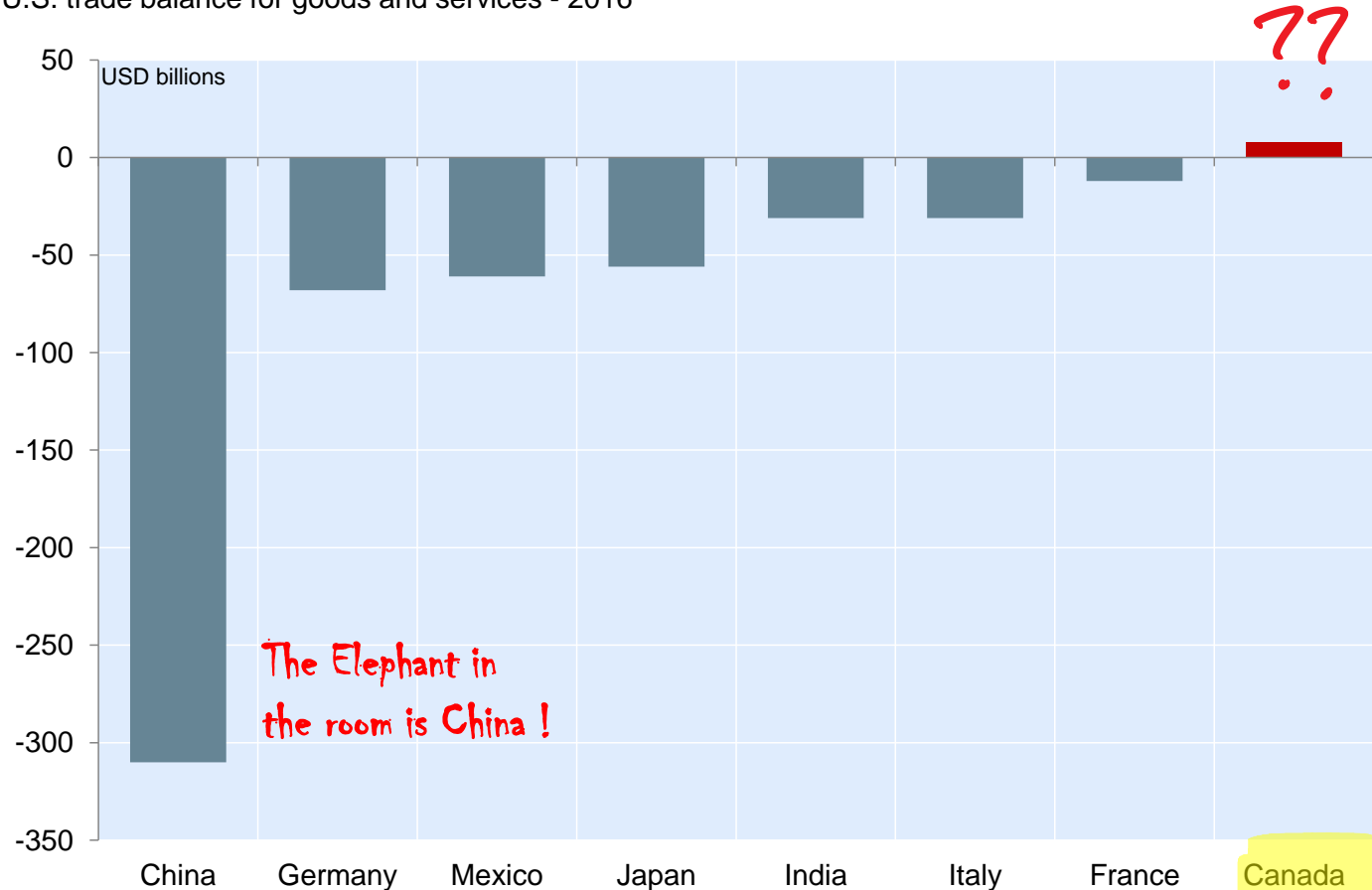
121 COMMENTS

19 SHARES



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)

U.S.: Keep an eye on long term interest rates

Ten-year government yield to maturity



NBF Economics and Strategy (data via Bloomberg)



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Business Lobby Risks Clash With Trump on Trade, Immigration

By **Ben Brody** and **Mark Niquette**

January 10, 2018, 5:00 AM EST *Updated on* January 10, 2018, 3:34 PM EST

- Chamber's Donohue warns on Nafta withdrawal, D.C. dysfunction
- Group more aligned with White House on infrastructure plan

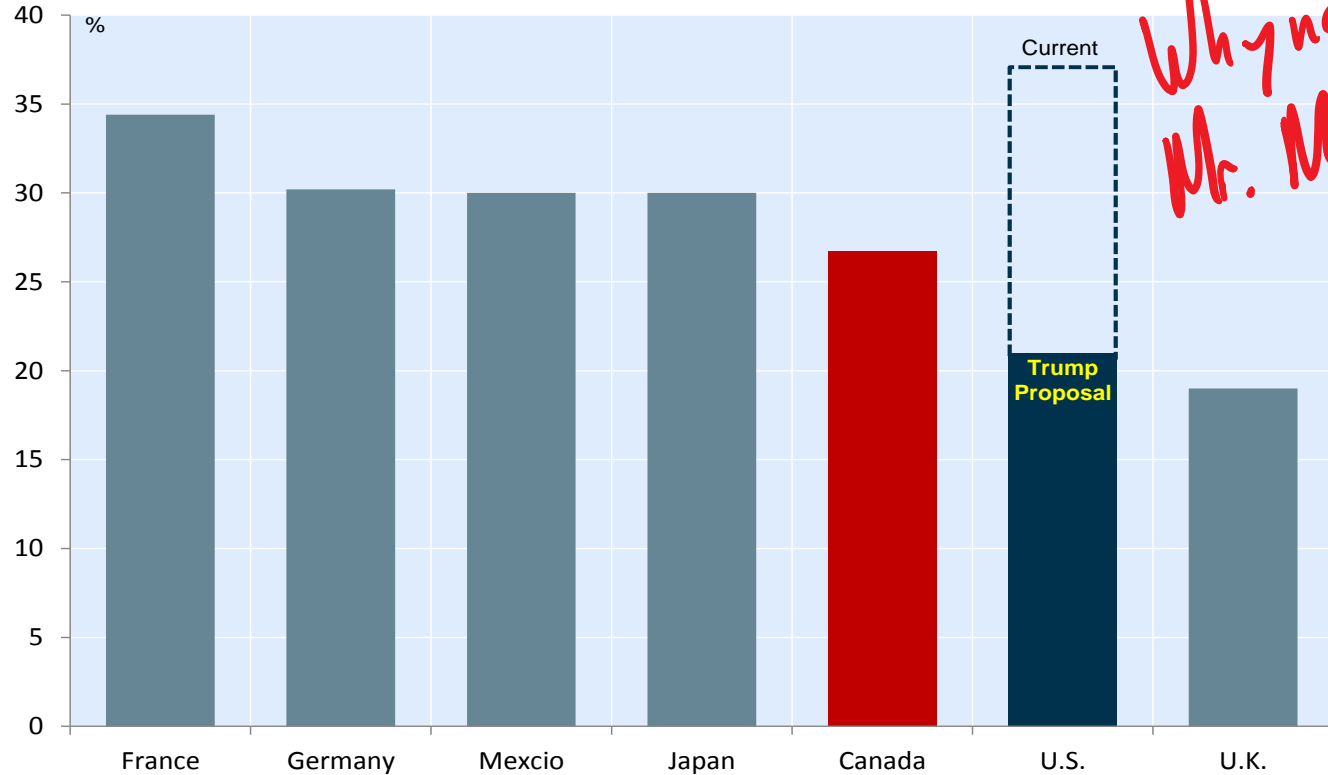


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World: Corporate tax rates in selected countries

Combined statutory corporate tax rates (central and sub-central governments)



NBF Economics and Strategy (data via OECD)

Conclusion:

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

- Global growth near 3.7% in 2018
- China continues to grow at around 6.5% (good enough)
- Eurozone, still great at 1.9%
- Geopolitical risks to remain a major source of concern: U.S. Trade Policy?

Interest rates, currency:

- The Fed probably hikes three times in 2018 ; 10-year Treasury yield near 3.0%.
- Expect a few more hikes from the BoC (heading towards 2%); CA GDP = 2.5% ; BC GDP = 3%
- Canadian dollar in the 1.20-1.30 range (stronger in short-term); Oil in the \$55-\$62 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: Inflation comeback in 2018?

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