



# Parkland County

Economic Update

*September 2018*



CIBC  
Wood Gundy

Hobson Chahal  
Advisory Group

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## **Presenters:**

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# Agenda

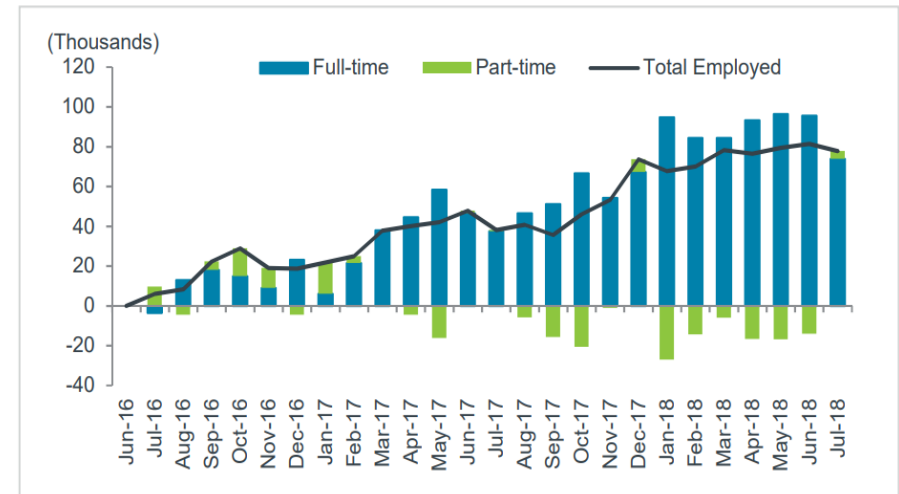
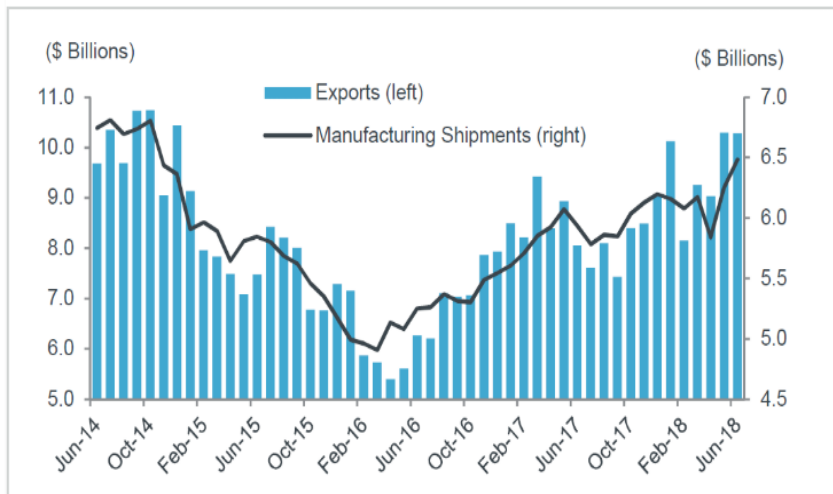
Part	TOPIC
<b>1</b>	<b>Canadian Economic Update</b>
	<ul style="list-style-type: none"><li>• Provincial Review, Heat Map</li><li>• Inflation, Growth, Housing, Interest Rates, Employment</li><li>• Currency and Outlook</li><li>• Update on NAFTA</li><li>• Commodities: Oil &amp; Gas</li></ul>
<b>2</b>	<b>U.S. and Global Economic Update</b>
	<ul style="list-style-type: none"><li>• U.S. Growth Outlook</li><li>• Global Growth Outlook</li></ul>

# Provincial Review

## Alberta

Growth in merchandise exports are leading the economic recovery through the first half of 2018. Broad-based strength in business activity, along with firmer oil prices, played a significant role in improving corporate profits. The combination of a weak Canadian dollar and rising energy prices have pushed CPI to 3.5% in July, but inflation is expected to ease as the impact of temporary factors gradually fades in the upcoming quarters.

Alberta's labour market continues to advance as household earnings perked up amidst gains in higher-earning goods sector and rotation to full-time employment.



# Provincial Heat Map

Latest Data:		Aug	Jun	Aug	Aug	Jun	Jun	Jun	Jul	Jul	Jul
	Y/Y % Chg; 3M Trend	Employment		Jobless Rate	Avg Hrlly Wage	Mfg Shipments	Retail Sales	Wholesale Trade	Housing Starts	Existing Homes	
		Household	Payroll	Y/Y Chg						Sales	Price
West	BC	-0.3	3.9	0.1	5.5	10.4	3.7	7.8	-8.7	-29.0	-0.7
	Alta	1.8	1.8	-1.2	1.8	3.6	2.9	7.1	-5.6	-2.9	-3.1
	Sask	0.3	0.6	0.1	3.6	18.0	2.6	2.6	-35.6	-5.5	-1.1
	Man	0.2	1.5	0.8	1.5	9.4	0.7	-1.6	-3.4	-6.3	2.2
Central	Ont	2.0	2.2	-0.3	4.1	1.8	3.1	3.2	7.7	-5.8	2.3
	Qué	0.5	2.7	-0.4	1.7	7.4	4.1	4.5	16.0	2.8	5.0
Atlantic	NB	0.6	1.3	0.3	2.9	9.6	0.2	-3.4	23.7	9.7	5.2
	NS	1.3	1.1	-0.5	1.6	12.9	1.9	2.9	37.9	0.7	1.0
	PEI	3.1	0.1	-0.7	0.9	0.4	4.8	14.9	-27.5	-14.7	2.2
	N&L	1.6	-2.0	-0.2	3.1	22.1	-1.4	3.1	-31.3	-5.3	-0.3
Canada		1.1	2.3	-0.4	3.2	5.1	3.1	4.1	2.4	-8.6	-2.6

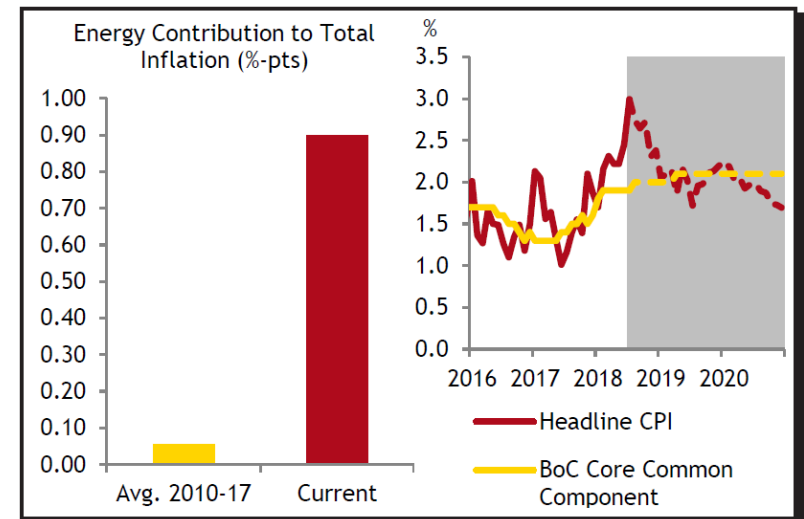
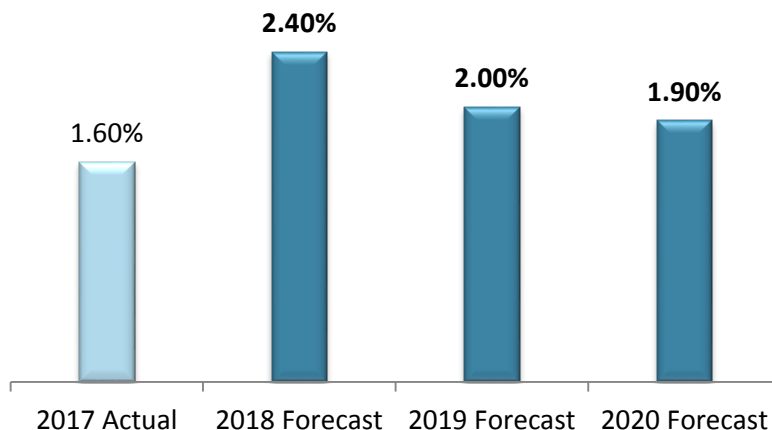
Notes: Unless otherwise noted, figures represent year-over-year % change for latest three-month period;  
 jobless rate represents average level for latest three-month period while jobless rate change represents change in %-pts compared to prior year;  
 based on seasonally adjusted monthly data; in all cases, top-3 performances in each category are shaded

Updated: September 10, 2018

# Canada - Inflation

## Inflation to Settle Back to Target in 2019 After Energy Overshoot in 2018

- Latest headline inflation reading of 3.0% surprised to the upside but stems from the transitory effects of higher energy prices which are set to fade in the upcoming quarters.
- The Bank's core measures remain firmly around its inflation target of 2.0%, consistent with an economy operating near capacity.

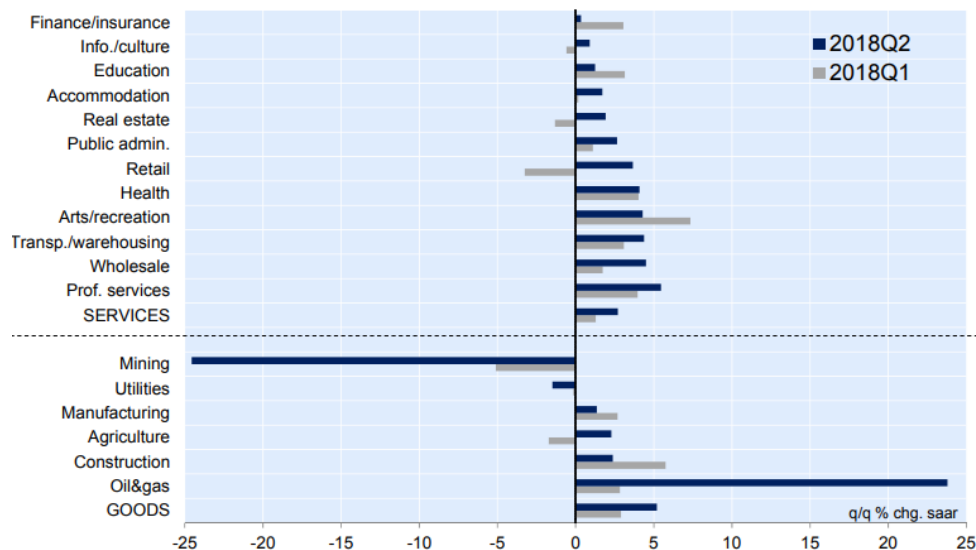


# Canadian Growth

## One-Quarter Wonder?

Canada's 2.9% growth over the second quarter washes away concerns about Q1's modest 1.4% pace, but the flat GDP print for June is a sharp deceleration from May's torrid pace and suggests a soft handoff to Q3.

We view last quarter's export surge as an outlier rather than the norm, in part due to US buyers front running their own country's tariffs. Moreover, our trading partners are themselves on the precipice of a slowdown.

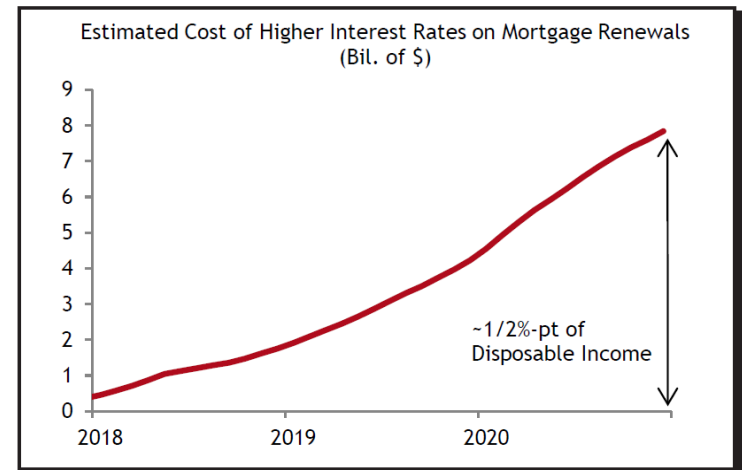


	2018Q2	2018Q1
<b>GDP</b>	<b>2.9%</b>	<b>1.4%</b>
Consumption	1.5%	0.6%
Business investm.	0.2%	1.3%
Nonprofit sector	0.1%	0.0%
Residential investm.	0.1%	-0.8%
Government	0.2%	0.7%
<b>Domestic Demand</b>	<b>2.1%</b>	<b>1.8%</b>
Exports	3.7%	0.7%
Imports	-2.1%	-1.4%
<b>Trade</b>	<b>1.6%</b>	<b>-0.6%</b>
<b>Inventories</b>	<b>-0.4%</b>	<b>0.0%</b>
Stat.discrepancy	-0.3%	0.4%

# Canada - Housing

- Higher borrowing costs, stricter lending rules, and market-cooling policy measures all contributed to the sharp decline in the national housing market to start 2018. The national picture seem to have found its footing as resale data show pockets of improvement since May in several jurisdictions.
- While part of the adjustment can be traced to the temporary pull-forward demand ahead of the January 1<sup>st</sup> B-20 implementation, the new stress test has permanently raised the qualifying bar for mortgage borrowers and caused a structural shift in certain segments of the market.
- We estimate that mortgage renewals at increasingly higher rates will cost Canadians roughly \$8b by the end of 2020. With unemployment rates expected to hover around 6%, households should be able to service their debt loads but will leave fewer dollars available for discretionary spending.

Market	Sales (% Change)		
	Dec - Apr	May - Jul	Jul Y/Y
Ontario	<b>-25.4</b>	13.9	4.4
Alberta	<b>-25.9</b>	5	<b>-1.1</b>
Atlantic	<b>-4.3</b>	7.2	7.5
Quebec	<b>-1.9</b>	0.9	<b>-0.3</b>
MB/SK	<b>-14.3</b>	2.8	<b>-1.8</b>
BC	<b>-31.2</b>	<b>-4.6</b>	<b>-27.5</b>



# Canada

## Interest Rates

The two hikes last year came in response to two strong quarters for growth, while powerful employment gains at the end of 2017 prompted the move in January. Considering the BoC already hiked rates in July (on the basis of a projected 2.8% second-quarter GDP) and the 2% core inflation rate not signaling a need to increase the pace of tightening, an October hike looks highly likely, particularly if we have a resolution to the NAFTA negotiations by then.

Interest Rates Forecast	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	Q2-2020
BofC Overnight Rate	1.75%	1.75%	2.00%	2.00%	2.00%	2.00%
90 Day T-Bill Yield	1.70%	1.75%	1.80%	1.95%	2.00%	1.80%
2-Year Bond Yield	2.30%	2.35%	2.45%	2.45%	2.50%	2.30%
10-Year Bond Yield	2.55%	2.65%	2.75%	2.75%	2.70%	2.70%
30-Year Bond Yield	2.50%	2.60%	2.85%	2.80%	2.80%	3.10%

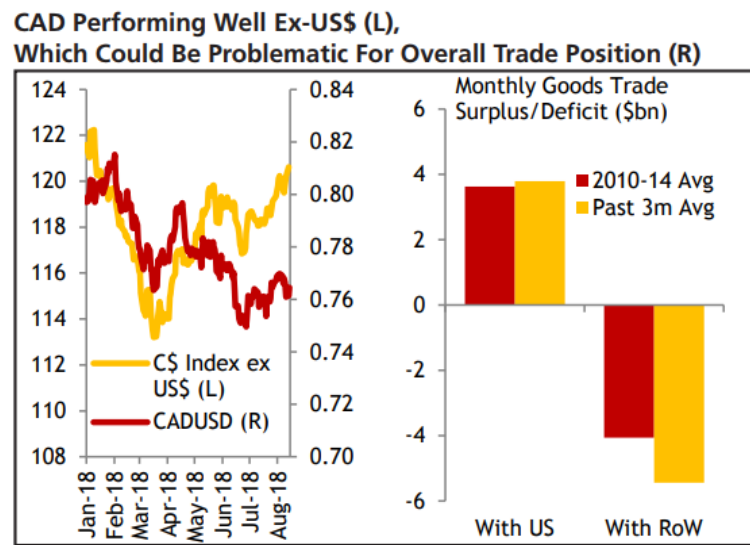
## Employment

The Canadian economy unexpectedly dropped 51.6k jobs in August to retrace most of July's 54.1k gain. Ontario lost 80.1k jobs (all part-time), the biggest decline since 2009. Thus far in 2018, Canada has shed 14.6k jobs, but the soft headline number masks a 97.3k gain in full-time positions against the loss of 111.9k part-time positions. Wage growth also decelerated to 2.9% after seven straight months above 3.00%



# Currency

- Despite a healthy economic backdrop, trade uncertainty continues to cloud the CAD outlook against the USD.
- CAD has outperformed against a basket of non-US currencies this year, but trade deficits with the rest of the world could weigh on the loonie beyond 2018.
- Expectation for an October hike should contain CAD to the downside.



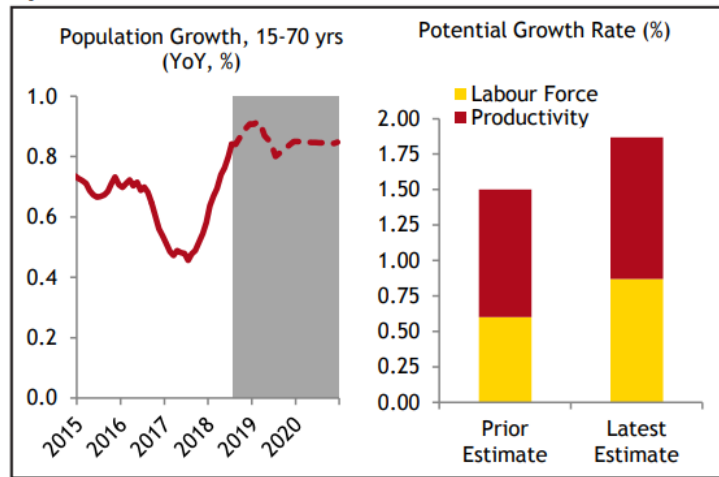
Exchange Rates Forecast	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	Q2-2020
CAD/USD	0.76	0.76	0.78	0.76	0.75	0.76
USD/CAD	1.32	1.32	1.28	1.32	1.33	1.32

# Canadian Outlook

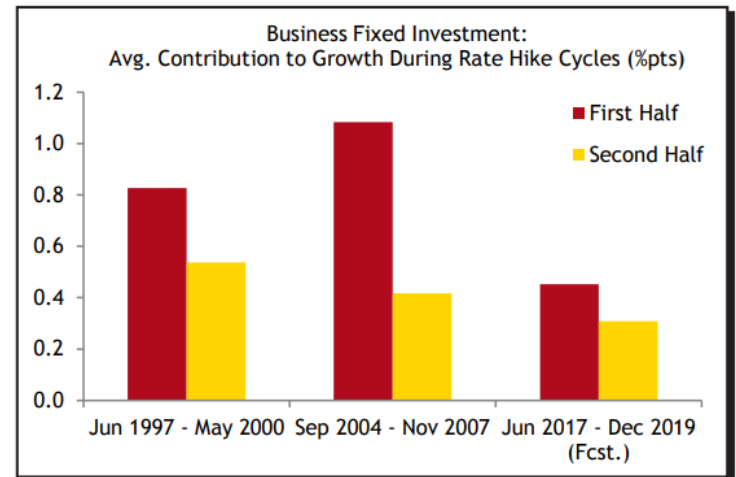
**A Longer Runway** - The economy has come a long way since the depths of the financial crisis and subsequent oil price crash, and is now up against its non-inflationary speed limit. However, with population growth picking up on the back of elevated immigration flows, Canada has a slightly longer runway before inflationary pressures take flight.

**New Headwinds** - The US has become more aggressive in imposing tariffs on Canadian exports, a red flag for capital investments. Moreover, the massive overhaul of the American tax code and regulatory rollbacks have whittled away at Canada's relative attractiveness as a destination for business investment.

**Population Growth (L) Has Increased Economic Speed Limit (R)**



**As Rate Hiking Cycles Progress, Capital Spending Growth Slows**



# NAFTA – Three's a Party

- US and Mexico reached a breakthrough in trade talks by striking a deal at the end of August. President Trump has threatened to move ahead with Mexico on a bilateral basis if an agreement with Canada is not reached before October 1<sup>st</sup>.



- While talks to wrap Canada into the deal are underway, initial optimism for a quick resolution has dimmed as Chapter 19 dispute settlement, cultural exemption, and dairy remain sticky points.
- The BoC has continuously trimmed growth projections to account for trade uncertainty. Thus, any resolution on the NAFTA front should lift the Bank's outlook and support a rally in CAD.



# Commodities: Oil

- Rising global demand combined with a tightening supply has kept the benchmark WTI averaging US\$67 per barrel this year.
- OPEC agreed in June to ramp up production and has so far proven capable of backstopping shortages from Iran and Venezuela, reflected in subdued oil prices. However, uncertainty surrounding Iran remains.
- Data suggest heavier deferred turnarounds as refiners have been running at full throttle this year to take advantage of attractive crack spreads and wide regional feedstock differentials. Combined with global trade risk-off sentiment, we expect seasonal builds to weigh down prices at the front end of crude curves.

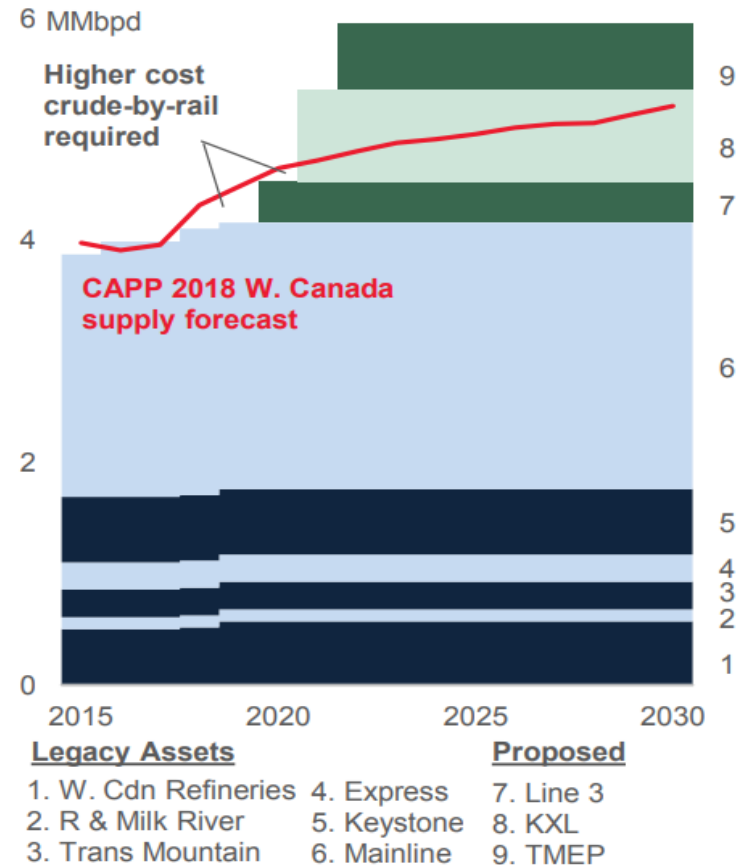




# Supply

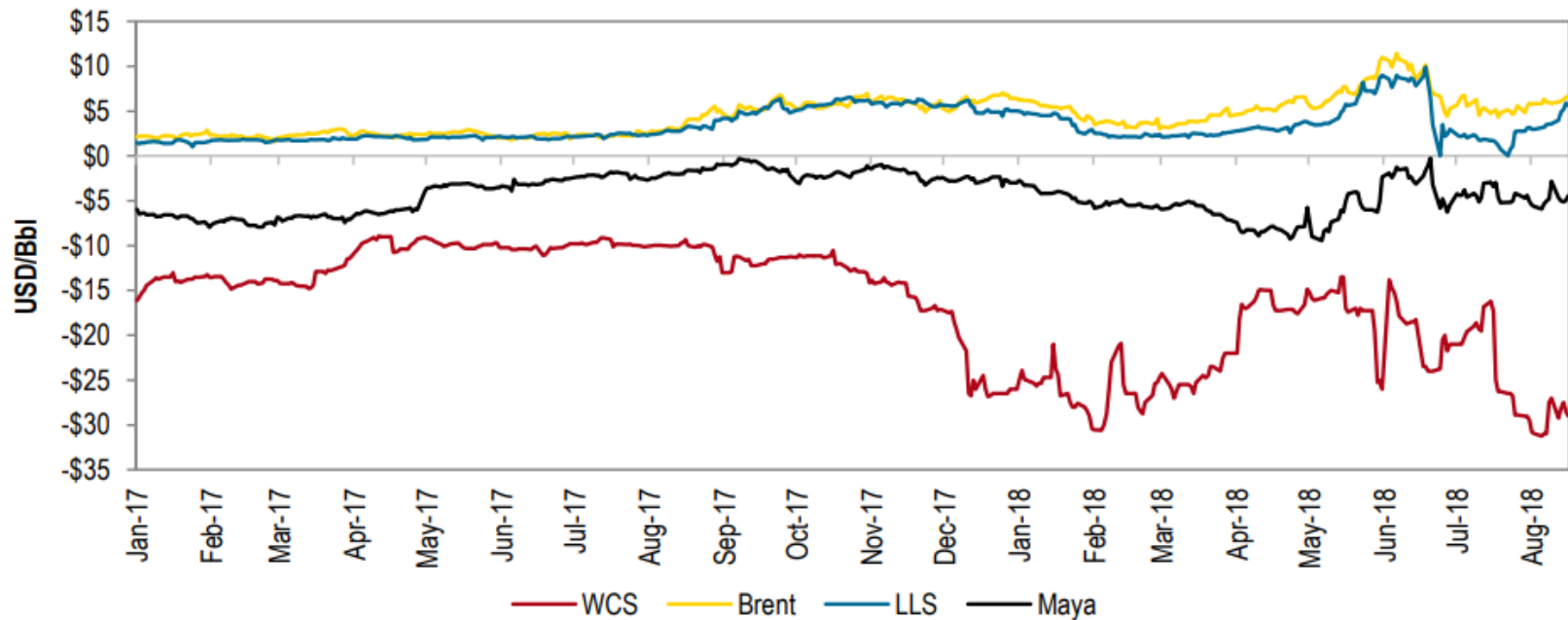
## Pipeline Constraints Weigh on Energy Sector

- IEA forecasts has crude-by-rail exports growing to 250,000 bbls/d this year and 390,000 bbls/d by 2019. Recent NEB data shows exports of crude-by-rail breaking the 200,000 bbls/d mark for the first time in June.
- Enbridge's Line 3 expansion coming online in 2020 is expected to ease capacity constraints. However, the added 370,000 bbl/d will be offset by production growth in Western Canada.
- The Trans Mountain Pipeline project suffered a major setback after the Federal Court of Appeal nullified Ottawa's approval, casting doubts on the future of the Government's new C\$4.5b investment. Premier Rachel Notley responded by pulling Alberta out of the federal climate plan.



# Commodities: Oil

## Crude Oil Differentials (Specified Crude Less WTI)

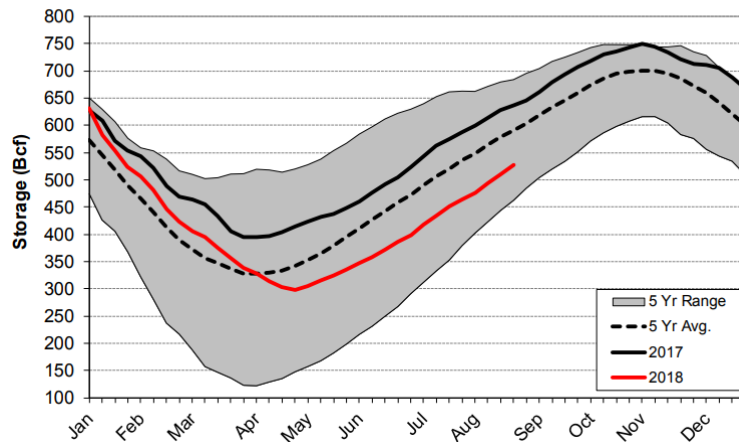


WCS has shared in the price appreciation seen in WTI, averaging \$45/bbl at the end of July. However, with no incremental pipeline capacity coming online in the near future, the light-heavy (WTI-WCS) differential has widened and is expected to remain volatile despite rising railed volumes.

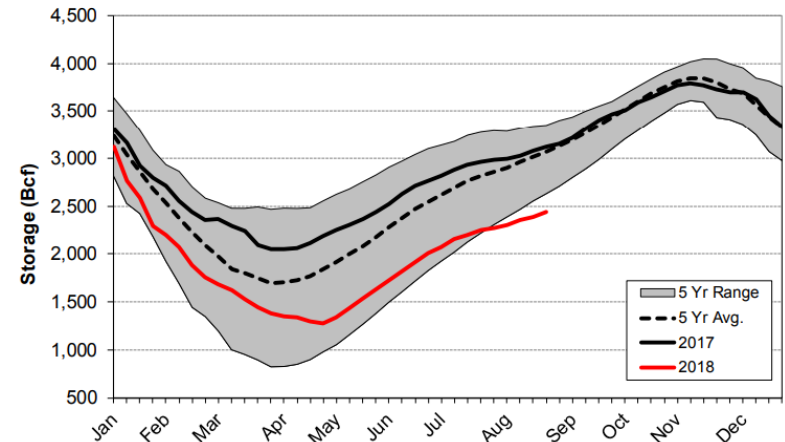
# Commodities: Natural Gas

- After trading in the C\$1.25-\$1.50/Gj range for much of summer, AECO prices have weakened substantially to ~C\$0.67/Gj with NGTL system maintenance as the key driver of the weakness.
- Below-normal stockpiles have buoyed front-month gas south of the border. Contracts for delivery in the winter months have sold off on speculation that record production can outpace consumption, but sets up a risky market dynamic.

Canadian Natural Gas Storage



U.S. Natural Gas Storage

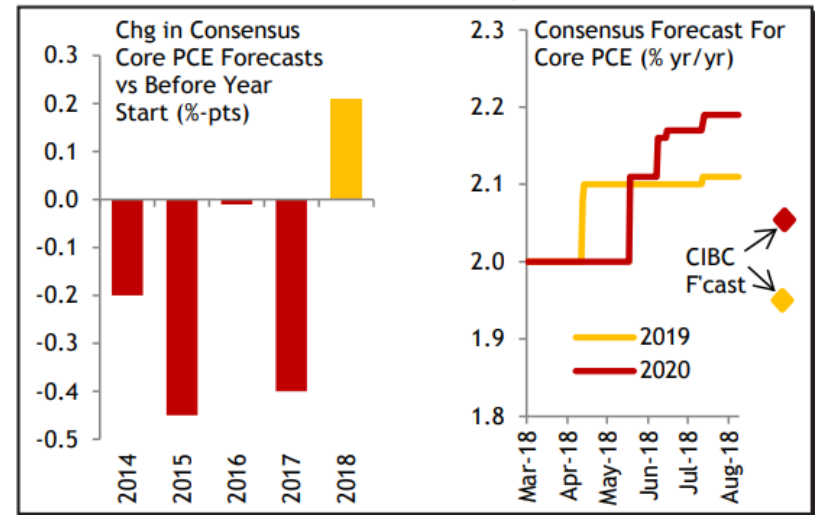




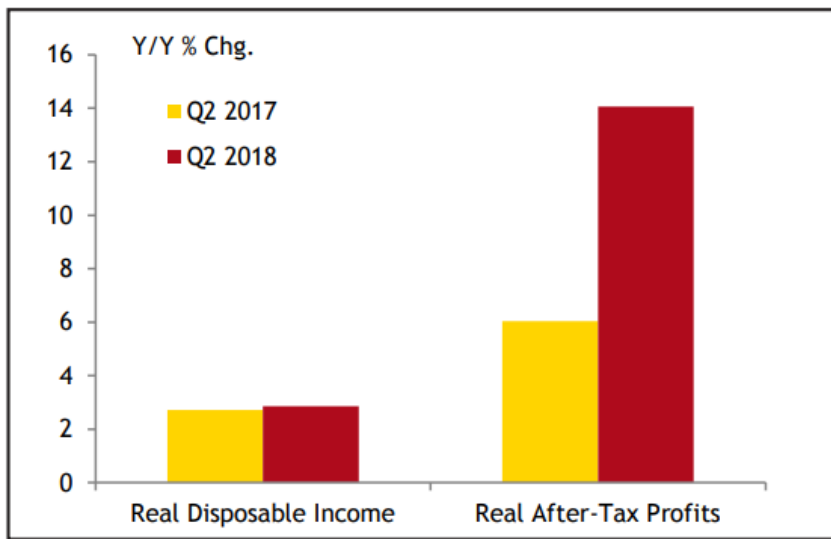
# U.S. Economics

## Inflation Surprise in US Could Be a One-Off

- Accelerating growth and core inflation is on track to produce a rare upside surprise, helping the Fed to hike interest rates up to four times this year.
- Growth is expected to slow in 2019 and beyond. Inflation is set to disappoint the now higher expectations, which could all lead to a broad weakening of the US\$ next year.



## Tax Benefits More Apparent for Businesses



## Tax Cuts Not a Clear Win for Everyone

- Corporations saw profit soar in the second quarter with business investment to remain a key driver of growth going forward.
- However, increase in gasoline prices and inflationary pressures have eroded tax cut benefits for consumers.

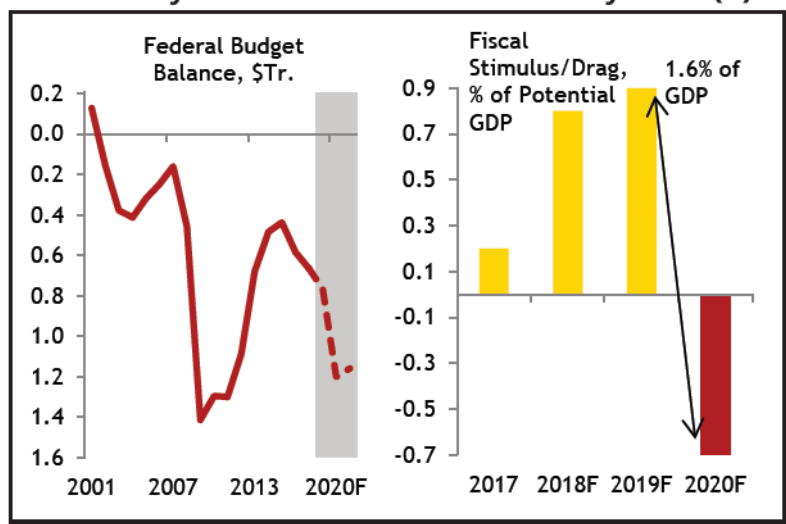
# U.S. Outlook

## An Outlook With 2020 Vision

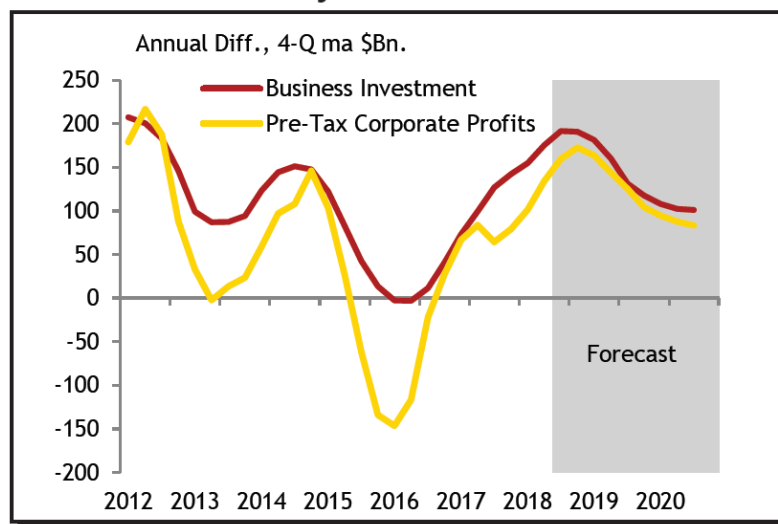
The 4% growth seen in Q2 is probably the strongest reading we will see for a long time. Housing starts have lagged lately with mortgage rates slated to continue rising. We see the Fed adding only 50bps next year. By Mid-2019, the Fed is likely to face slightly elevated inflation, but growth concerns will prompt a slower pace to rate hikes and a mid-cycle easing by 2020.

The tax code overhaul may have lowered taxes for producers and consumers this year, but come 2020, the Fed will be grappling with a burgeoning budget deficit that will lead to a reduction in spending. A swing from fiscal stimulus to outright restraint could shave roughly 1½% off GDP growth.

**Budget Deficit Still Under Pressure (L),  
Fiscal Policy to Subtract From Growth by 2020 (R)**



**Business Investment Healthy,  
But Growth Slows by 2020**



# Global Growth

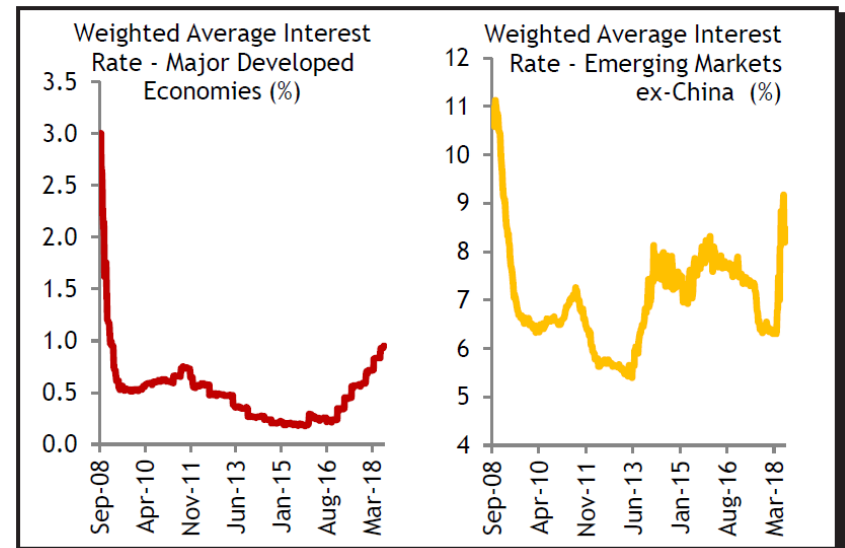
## The Emerging Global Slowdown

- The US aside, most major countries are already seeing a slowdown in growth following the surprisingly robust 2017. The global pace of expansion could tumble to 2.9%, its slowest since the 2007/08 financial crisis.
- Higher interest rates and diminishing investment efficiency in emerging markets are contributing factors to slower growth ahead.
- Escalating trade tension between China and the US could cause a spillover effect into other emerging markets.
- Overseas majors have room to run against the USD as the Fed completes its tightening cycle, while European and Japanese central banks are only getting started.

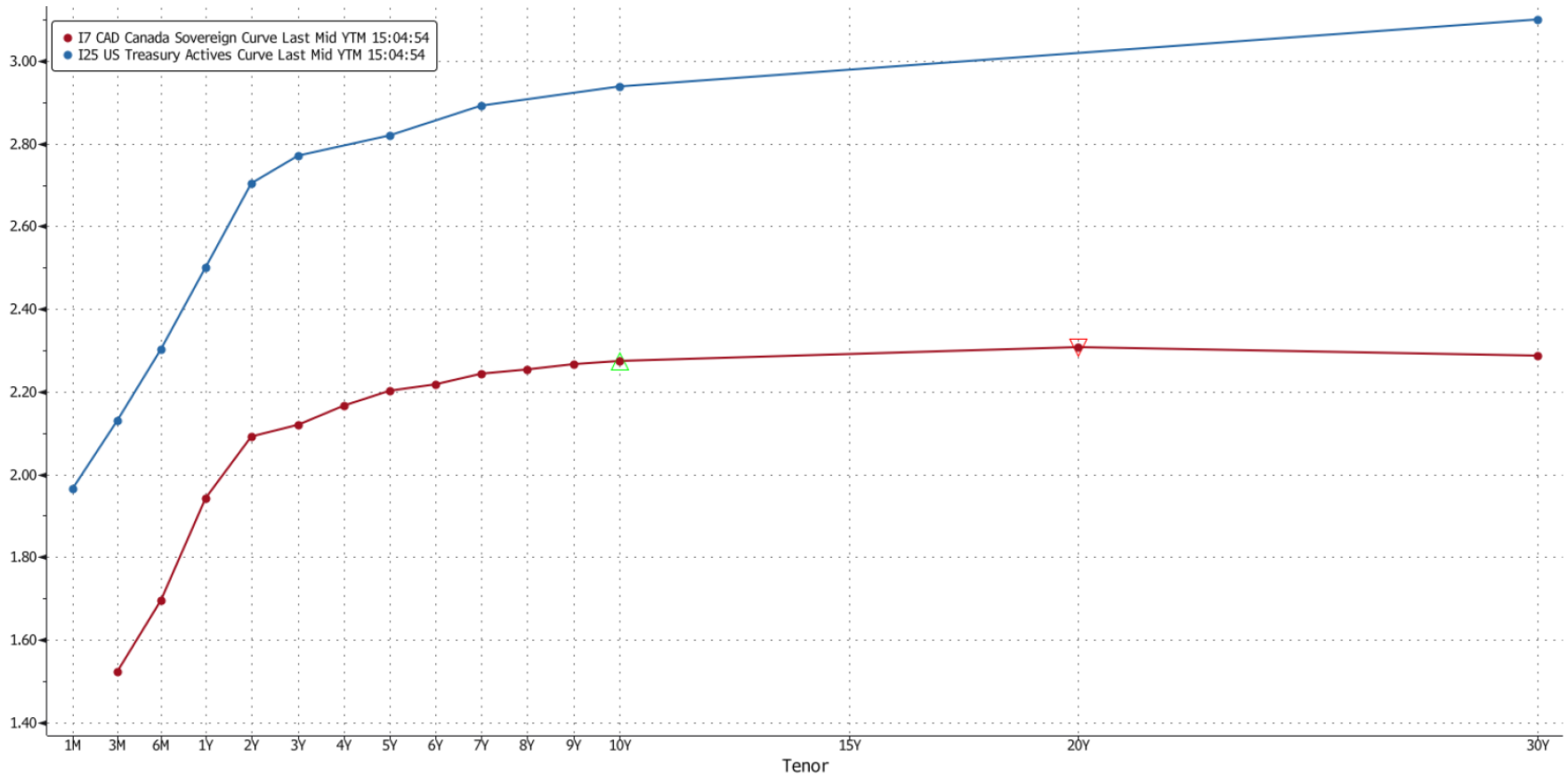
### Real Global Growth Rates

	5 yrs before recession, avg	2015A	2016A	2017A	2018F	2019F	2020F
World*	4.8	3.5	3.2	3.7	3.4	3.2	2.9
US	2.9	2.9	1.6	2.2	2.8	2.2	1.4
Canada	2.6	1.0	1.4	3.0	2.0	1.8	1.3
Euroland	2.2	1.9	1.8	2.5	2.0	1.5	1.2
UK	3.3	2.3	1.8	1.7	1.3	1.1	1.3
Japan	1.8	1.4	1.0	1.7	1.0	0.9	0.9
China	11.6	6.9	6.7	6.9	6.5	6.2	6.0

\* at Purchasing Power Parity



# Understanding the Yield Curve



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BCE Inc.	2a,2c,2e,2g,7,9
Canadian Imperial Bank of Commerce	2a,2c,2e,2g,3a,3c,6a,7,9,CD37
Laurentian Bank	2a,2c,2e,2g,7
RioCan REIT	2g,7
Royal Bank of Canada	2a,2c,2e,2g,3a,3c,7
Sun Life Financial Inc.	2a,2c,2e,2g,7
TELUS Corporation	13,2a,2c,2e,2g,7,9
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