Parkland County

Economic Update

April 2018

CIBC Wood Gundy | Poland Hobson Advisory Group

Presenters:

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Agenda

Part	TOPIC
1	**Canadian Economic Update**
	• Provincial Outlook • Inflation, Growth, Interest Rates, and CAD$ • Canada – US Trade Relations and NAFTA • Commodities: Oil
2	**U.S. and Global Economic Update**
	• U.S. Growth Outlook • Global Growth Outlook
3	**Case Study**
	• Impact of Rising Rates

Provincial Outlook

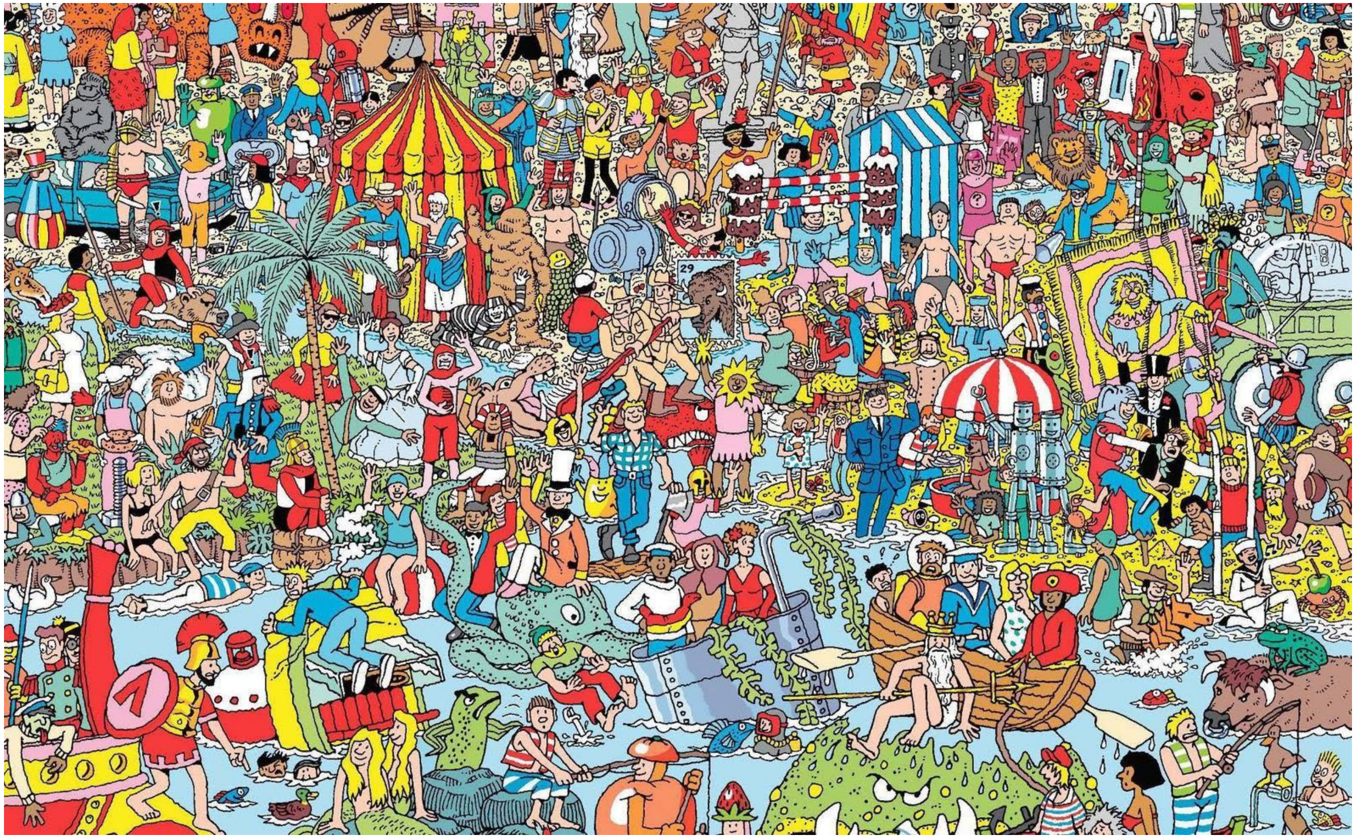
Alberta

Alberta's economy bounced back sharply last year with nominal GDP now estimated at 5.5%. The growth forecast is supported by strong increases in retail sales and manufacturing shipments combined with a rebound in oil. Unemployment in the province is expected to fall by ~1.10% from the levels seen in 2017.

	Real GDP Y/Y % Chg				Nominal GDP Y/Y % Chg				Employment Y/Y % Chg				Unemployment Rate %			
	2016A	2017F	2018F	2019F	2016A	2017F	2018F	2019F	2016A	2017A	2018F	2019F	2016A	2017A	2018F	2019F
BC	3.5	3.3	2.5	1.5	4.9	5.4	4.8	3.4	3.2	3.7	1.3	0.9	6.0	5.1	4.8	4.8
Alta	-3.7	3.8	1.9	1.9	-4.9	7.1	5.5	5.2	-1.6	1.0	1.4	1.1	8.1	7.8	6.7	6.4
Sask	-0.5	2.3	2.1	1.8	-4.0	5.6	5.5	4.7	-0.9	-0.2	0.3	0.8	6.3	6.3	5.6	5.4
Man	2.2	2.9	2.0	1.8	2.3	5.0	4.1	3.7	-0.4	1.7	0.5	0.8	6.1	5.4	5.7	5.5
Ont	2.6	2.9	2.1	1.7	4.3	5.0	4.6	3.6	1.1	1.8	1.4	1.1	6.5	6.0	5.6	5.5
Qué	1.4	3.0	2.3	1.5	2.7	5.0	4.2	3.2	0.9	2.2	1.6	0.9	7.1	6.1	5.4	5.3
NB	1.2	1.8	1.1	1.0	3.6	3.9	3.0	2.7	-0.1	0.4	0.4	0.1	9.5	8.1	8.0	7.9
NS	0.8	1.7	1.2	0.9	2.8	3.8	3.0	2.6	-0.4	0.6	0.1	0.0	8.3	8.4	8.2	8.2
PEI	2.3	2.4	1.7	0.8	4.0	4.5	3.5	2.6	-2.3	3.1	1.5	0.5	10.8	9.8	9.3	8.9
N&L	1.9	-1.8	-0.9	1.5	2.6	1.6	2.5	4.4	-1.5	-3.7	0.4	0.2	13.4	14.8	14.1	13.9
Canada	**1.4**	**3.0**	**2.1**	**1.6**	**2.0**	**5.3**	**4.6**	**3.7**	**0.7**	**1.9**	**1.3**	**1.0**	**7.0**	**6.3**	**5.8**	**5.7**

Source: CIBC, Statistics Canada

Where's Inflation?



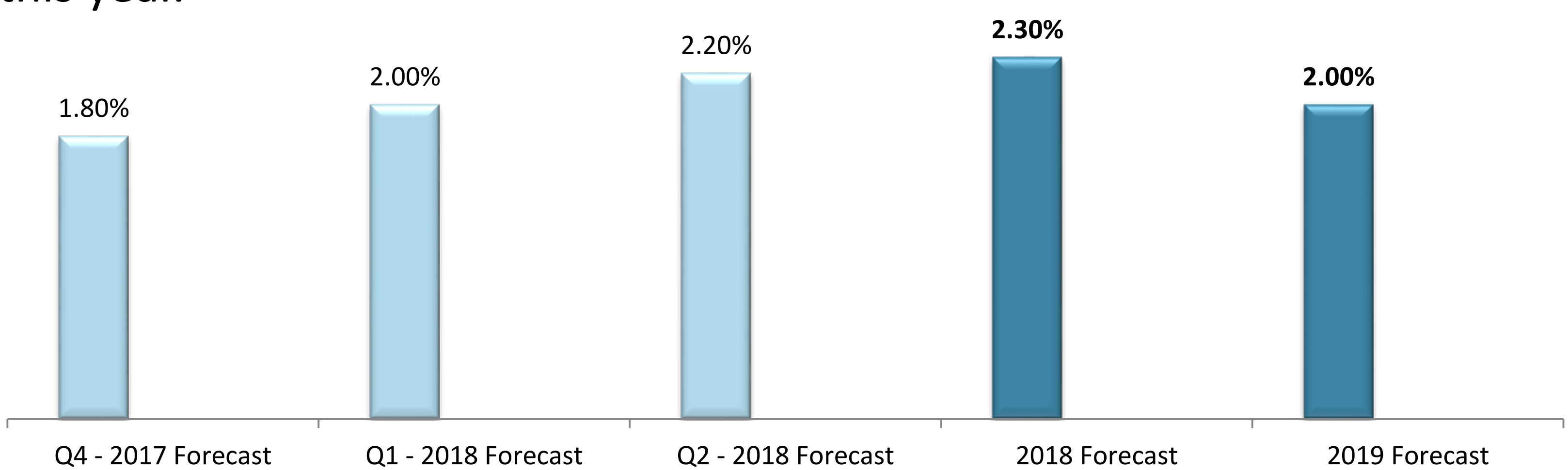
Source: Youtube (Image)

Inflation

Back, But Not Yet With A Vengeance

Our CPI forecast for this year has edged up slightly on energy prices and the pass-through from Ontario's minimum wage increase coming through a little faster than previously anticipated.

We still think the recent slowing in growth will be more important for the Bank in assessing the longer-term inflation trend and when to hike interest rates again, and remain comfortable with our call for only one more move this year.

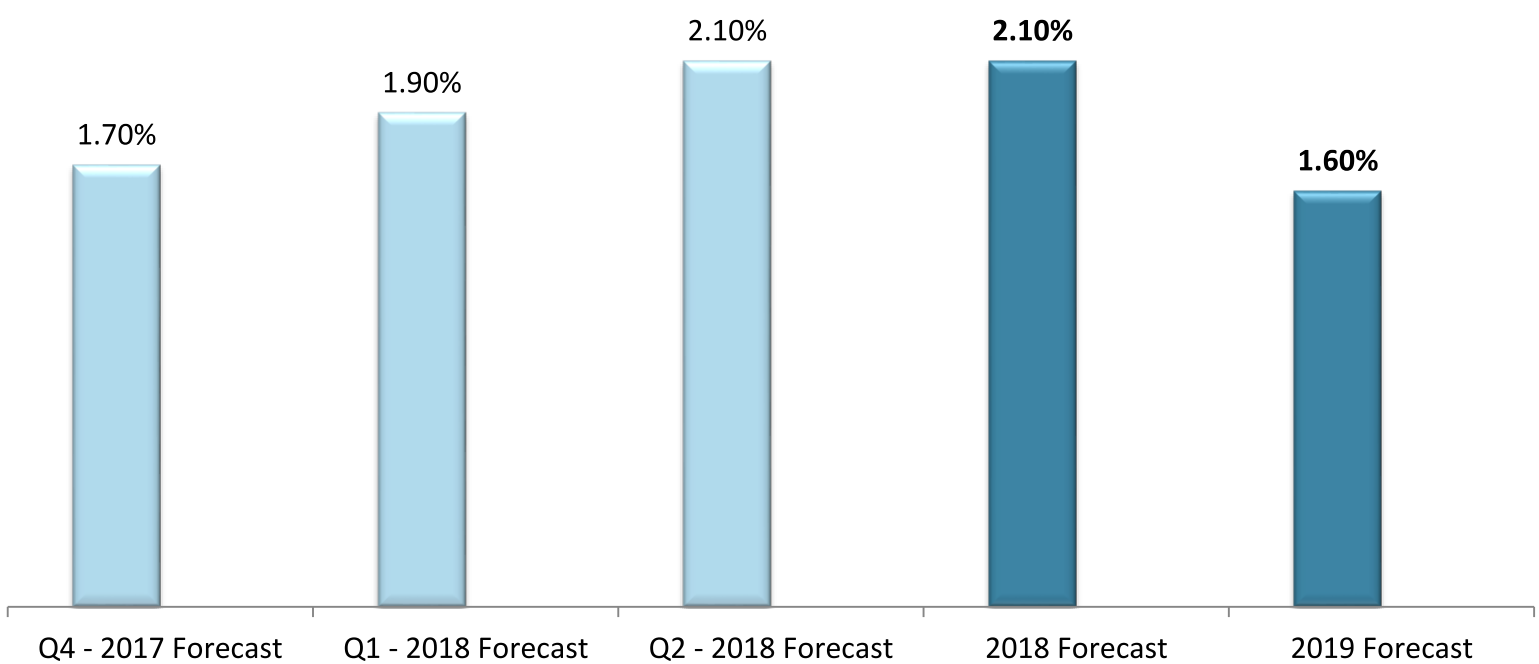


Source: CIBC World Markets

Canadian GDP

A Tough Start, But Better Than Headlines Suggest

Fourth quarter figures confirmed the slowdown in Canadian growth during the second half of the year. However, the deceleration seen was no worse than we had feared, and was largely focused on inventories and net trade.



Source: CIBC World Markets

Canadian Growth

What Caused The Slowdown?

- Since the B20 rules kicked in, home sales have plunged in Canada, and early indications suggest that the sector will again weigh on GDP in February.
- The largest negative contribution came from an unexpected decline in the mining, oil and gas category. Unscheduled maintenance shutdowns at some non-conventional oil extraction facilities drove the 3.6% drop in oil and gas extraction. It's not immediately clear how long the output will be offline, but it is expected that activity will completely rebound, meaning it isn't indicative of a broader slowdown in the economy.
- Furthermore, other industries including wholesaling, retailing and construction all expanded in January. Even manufacturing activity, which in previously released industry sales data showed a slowdown, posted a healthy growth rate.

Source: CIBC World Markets

Canada

Interest Rates

The Bank of Canada’s January rate hike was a rear-view mirror move. But they have recently started to change their commentary hinting that the view out of the front window isn't quite as sunny. Future rate hikes wont come as fast as the market thinks. Given the apparent slowdown, the Bank of Canada will have to decide how much further monetary tightening is warranted. We continue to see central bankers raising rates only once more in 2018.

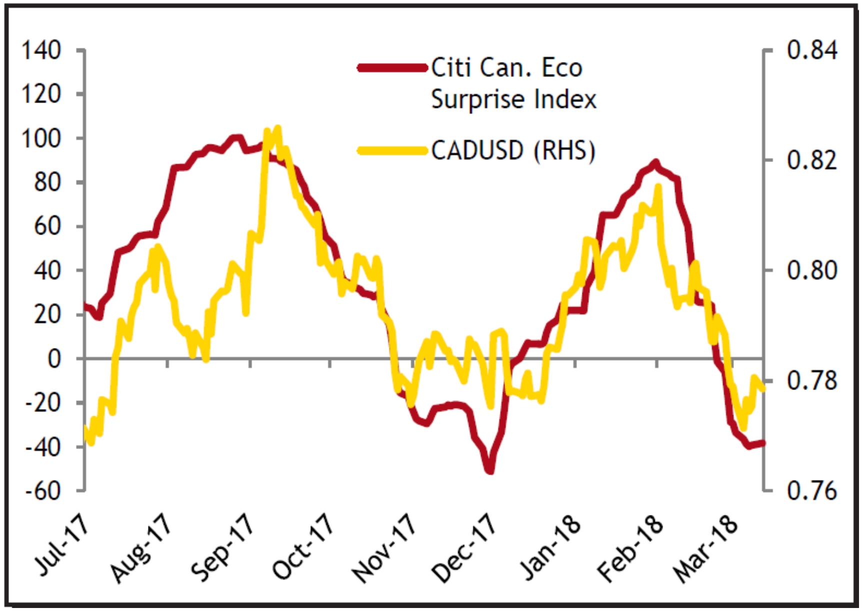
5 Year Forecast	Forecast 2018	Forecast 2019	Forecast 2020	Forecast 2021	Forecast 2022
BofC Overnight Rate	1.38%	1.88%	2.15%	2.25%	2.25%
90 Day T-Bill Yield	1.34%	1.85%	2.20%	2.25%	2.30%
2-Year Bond Yield	1.95%	2.18%	2.55%	2.55%	2.60%
10-Year Bond Yield	2.36%	2.50%	2.75%	2.95%	3.00%
30-Year Bond Yield	2.60%	2.88%	2.90%	2.90%	3.05%

Source: Calgary Economic Development, CIBC World Markets

Currency

The Stagnant Dollar

- Weak economic forecasts put pressure on the CAD dollar.
- The uncertainty surrounding trade will keep the dollar capped from increasing too high.
- Solid U.S. growth lend support to the U.S. dollar.



FX Forecast	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
CAD/USD	$ 0.78	$ 0.77	$ 0.76	$ 0.76	$ 0.78	$ 0.78	$ 0.76	$ 0.77
USD/CAD	$ 1.28	$ 1.30	$ 1.32	$ 1.32	$ 1.28	$ 1.28	$ 1.32	$ 1.30

Weak forecasts, trade uncertainty and strong U.S .growth will keep the CAD dollar in a tight range with pressure to the downside.

Source: CIBC World Markets, Bloomberg

Canadian Trade

Narrow…

- Exports have disappointed for a number of months now, and with increased uncertainty for the future due to steel/aluminum tariffs and NAFTA renegotiations, the BoC will be correct in sounding more cautious regarding that part of their forecast and taking it very slowly in moving interest rates higher from here.

Per/Per % chg	Q2 - 2017	Q3 - 2017	Q4 - 2017
Exports	10.3	-27.10	21.50
Imports	17.2	-18.20	4.10

** annualized*

- The decline in nominal exports would have been even worse were it not for a rise in energy prices during the month. While export prices overall were up 1.5%, excluding energy they would have been down 1.8%. Statistics Canada noted that since July energy exports have risen almost 30%, but that was entirely due to higher prices rather than volumes.

Source: CIBC World Markets

NAFTA – the latest

- The U.S. softened their stance on one of its core demands for 50 percent U.S.-content for autos, which was previously rejected by Canada and Mexico as completely unworkable.

- Canada and Mexico, both major exporters of steel to the U.S. are exempt from the U.S. tariffs on steel (25%) and aluminium (10%) for now, but Trump has threatened to impose the tariffs by May 1st should talks not progress to his liking.

- Another major gap between the parties include Canada's desire to retain dispute resolution panels (which is needed more than ever given recent U.S. actions against Canadian lumber, paper, and pipe).

Source: CIBC World markets


LUFKIN

Supply

Transportation Bottlenecks

- With Canadian pipelines at capacity, demand for Crude-by-Rail is growing.
- Shortage of locomotives, track space and pipeline capacity is making it hard for Canadian crude to get to market.

Source: U.S Energy Department, Bloomberg

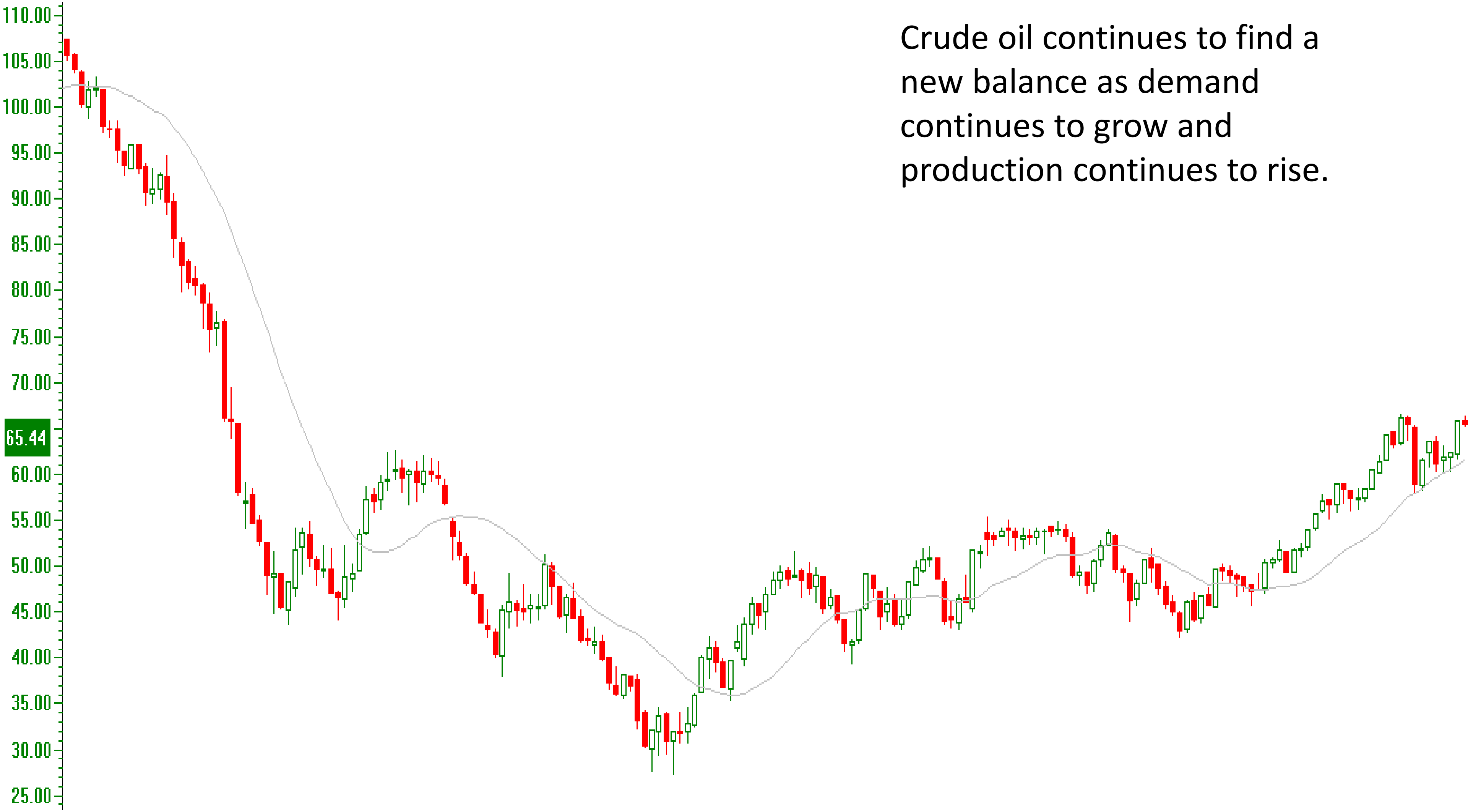
Commodities: Oil

Making Sense of The Noise

- Oil continues to gain as OPEC suggesting they may extend production cuts past 2018.
- Potential sanctions on Iran adding to geopolitical conflict.
- Increased production from U.S. shale producers adding downward pressure to prices.
- Increase in demand as refiners come back online after Spring turnaround season.

Source: EIA, Bloomberg

Commodities: Oil



Crude oil continues to find a new balance as demand continues to grow and production continues to rise.

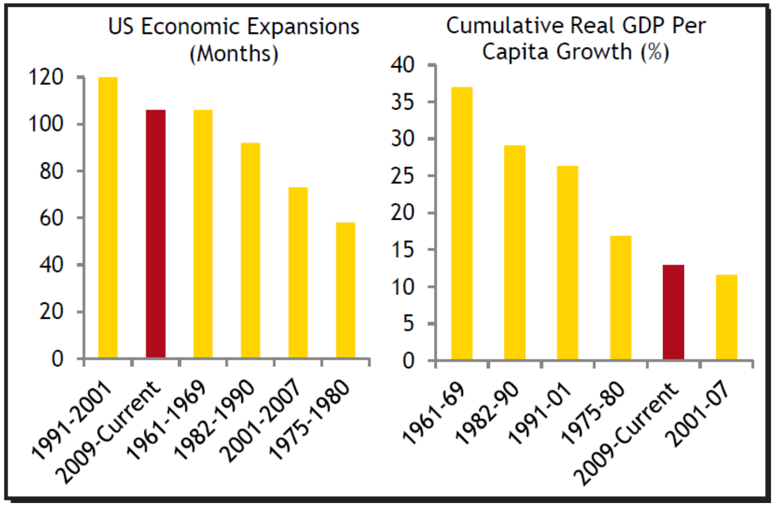
Source: Bloomberg

U.S. Economics

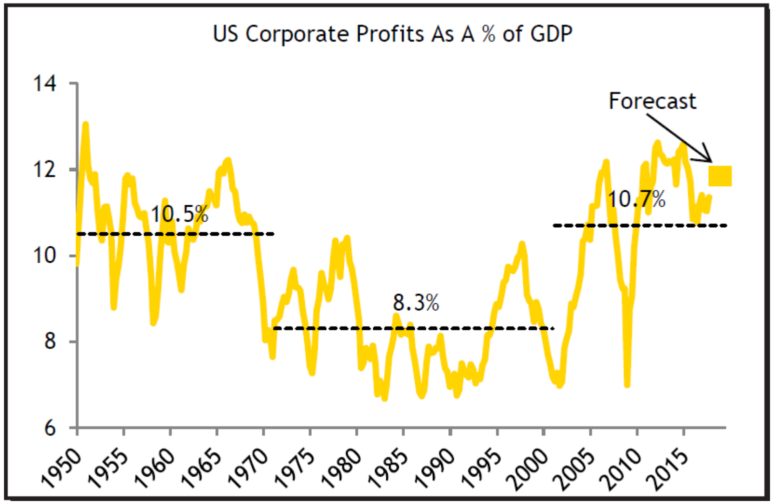
Focusing On The Fundamentals

- The current expansion is now the second oldest in history, with the oldest now in sight.
- In terms of cumulative growth per capita, the current expansion has made barely a third of the progress made during the 1961-69 expansion.

Expansion Has Been Long (L), But Not Strong (R)



Corporate Profits Remain Healthy And Will be Supported by Tax Cuts



- Corporate bottom lines, which have been a reliable leading indicator of recessions, are running in healthy territory and showing few signs of fatigue.
- U.S. exports have been on an uptrend, a sign that more synchronized growth across regions is spilling over into demand .

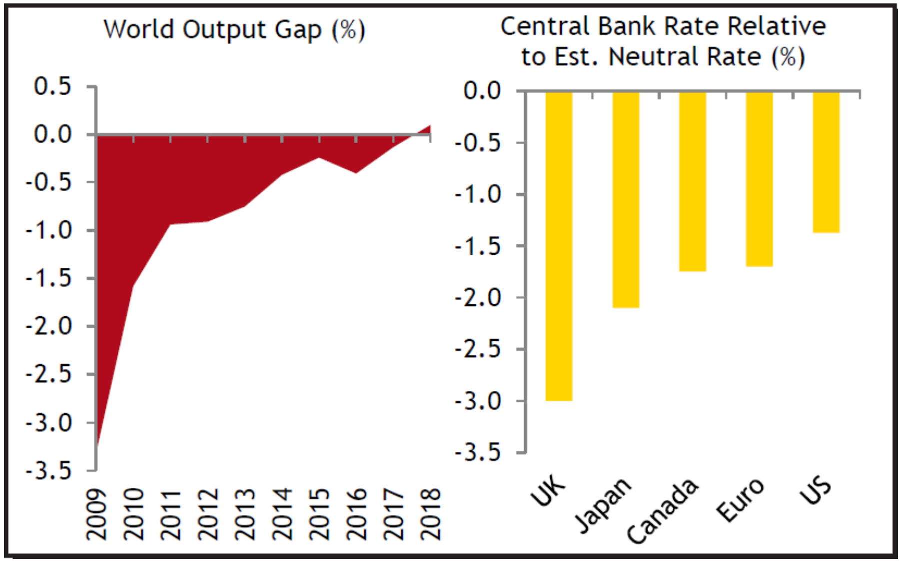
Source: BEA, CIBC World Markets

Global Growth

Support From Global Stimulus

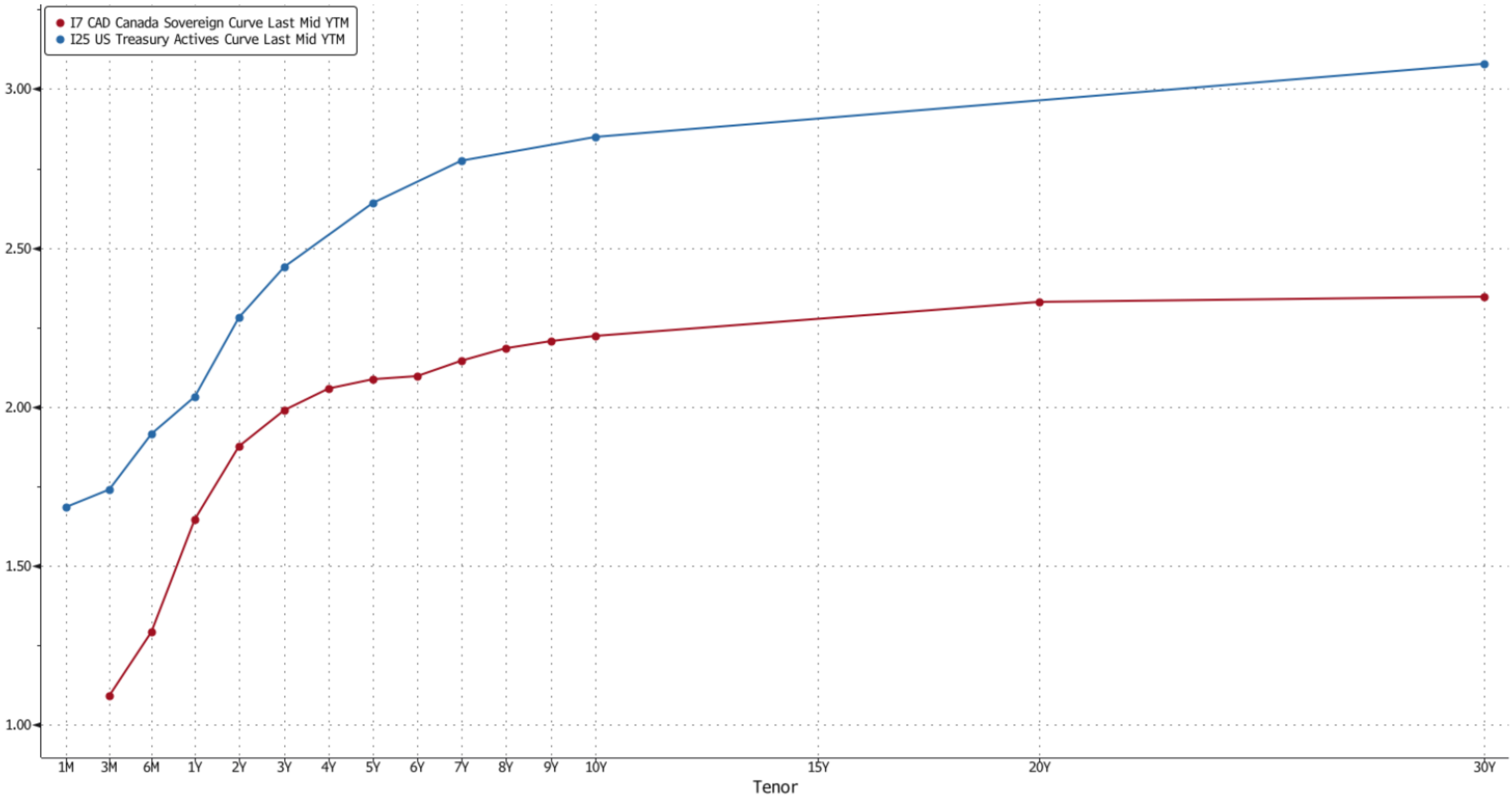
- A stronger global backdrop is also creating a favourable environment for the U.S. economy.
- Major central banks continue to provide ample stimulus to the global economy.

Global Output Gap Has Closed (L),
But Central Banks Still Providing Stimulus (R)



Source: BEA, CIBC World Markets

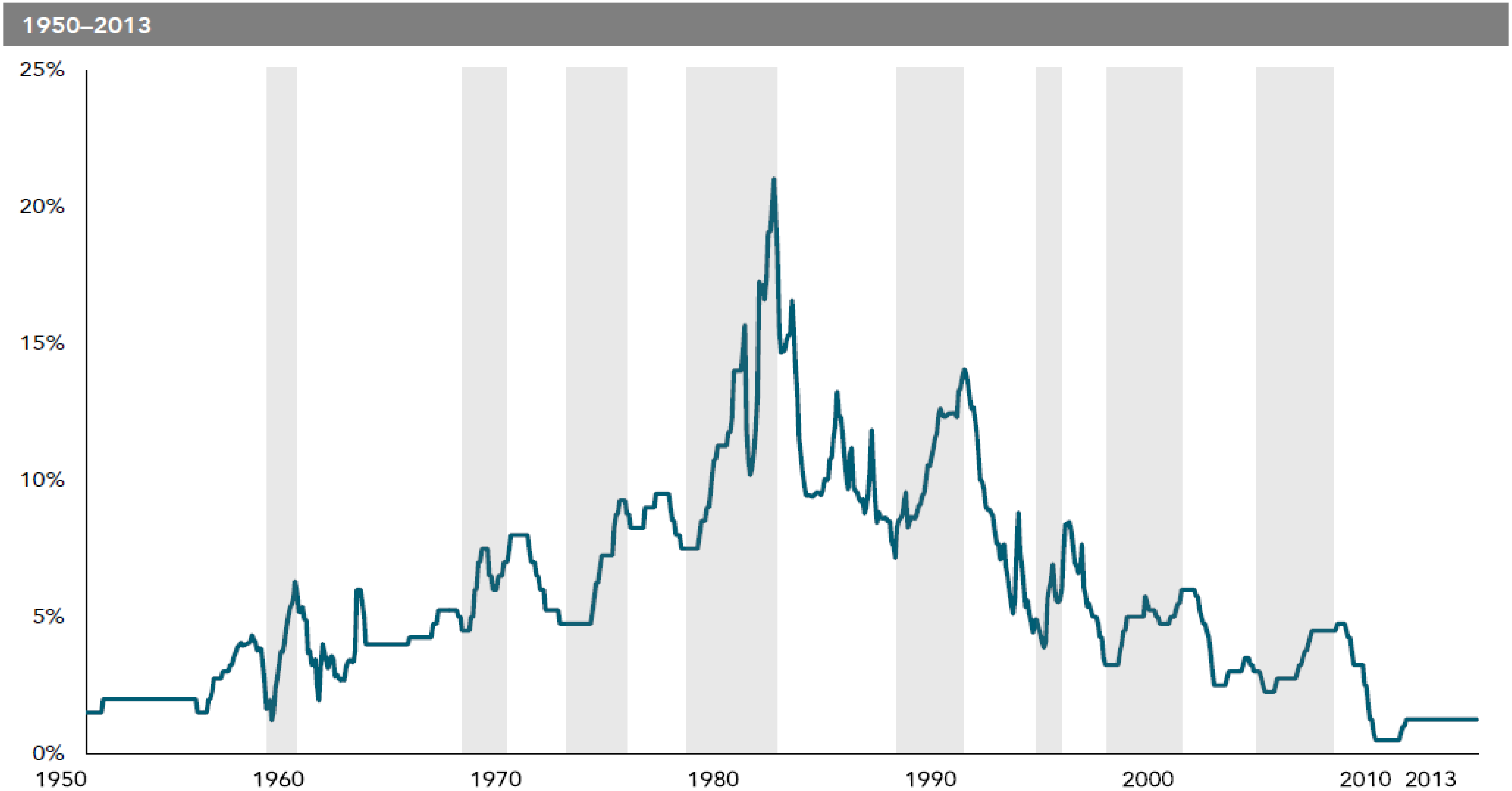
Understanding the Yield Curve



Source: Bloomberg

Managing Risk in this Environment: Interest Rate Risk

Periods of Rising Rates



Source: Bank of Canada, Data and Statistics Office

Case Study: Periods of Rising Rates

Have shorter-term bonds outperformed in rising rate environments?

PERIOD	Beginning of Period	End of Period	Change
August 2004–November 2007	2.25	4.75	+2.50
June 1997–December 2000	3.25	6.00	+2.75
January 1994–March 1995	3.88	8.47	+4.59
January 1987–May 1990	7.74	14.05	+6.31

Source: Bank of Canada, Data and Statistics Office & Data provided FTSE TMX

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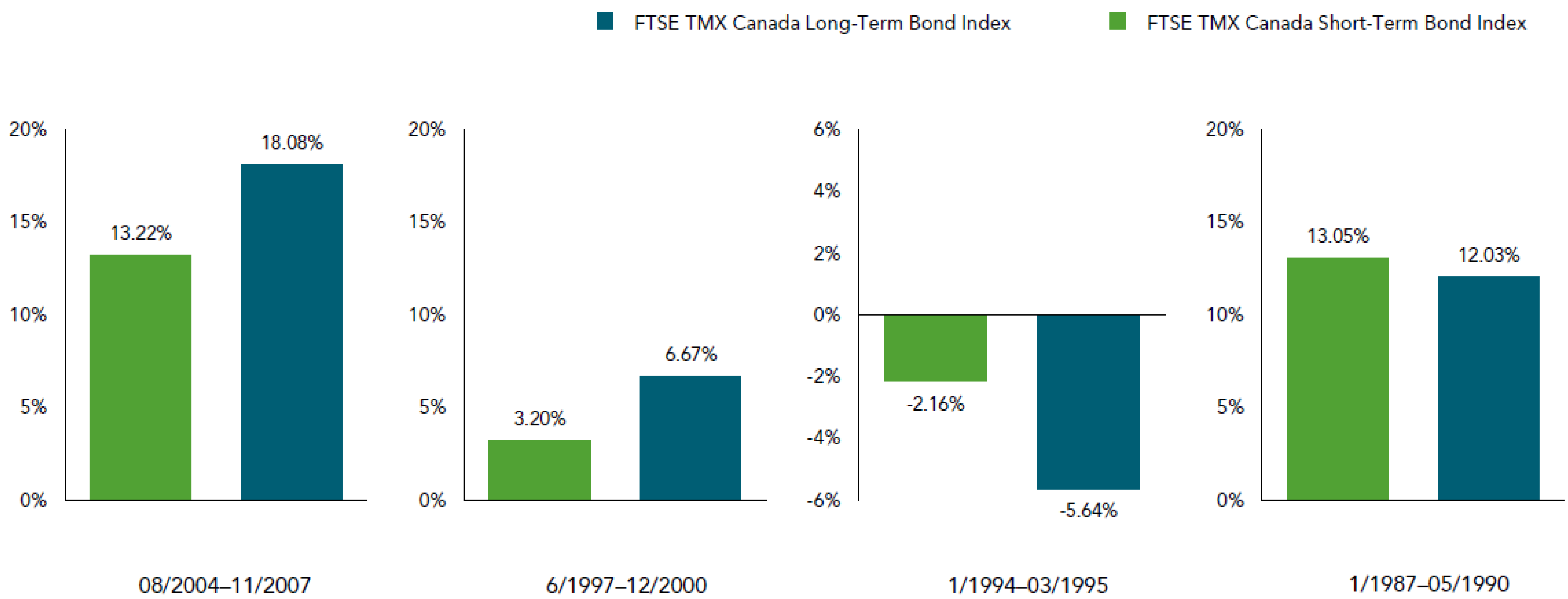

Source: Bank of Canada, Data and Statistics Office & Data provided FTSE TMX

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Bank of Nova Scotia	2a,2c,2e,2g,3a,3c,7
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
Toronto-Dominion Bank	2a,2c,2d,2e,2g,3a,3c,7

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