



# Sturgeon County

## Economic Update

*November 2018*



CIBC  
Wood Gundy

Hobson Chahal  
Advisory Group

### **Presenters:**

James Hobson, CFA, Investment Advisor, Portfolio Manager

Charet Chahal, CIM, Investment Advisor

# 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 / USMCA</li><li>• Commodities: Oil &amp; Gas</li></ul>
<b>2</b>	<b>U.S. Update</b>
	<ul style="list-style-type: none"><li>• U.S. Growth Outlook</li></ul>

# Provincial Heat Map

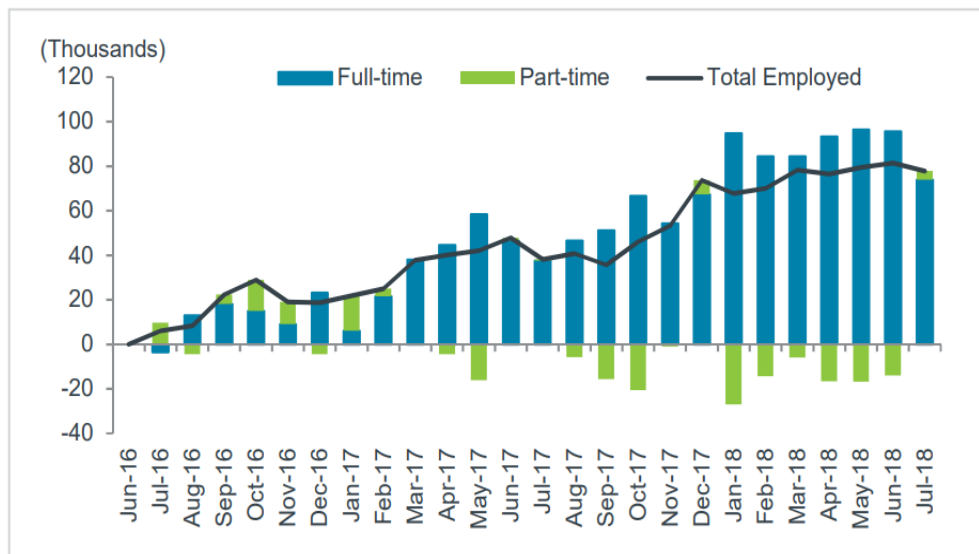
- Alberta and B.C. are forecast to top provincial economic growth in 2019, with the biggest boost coming from growth in oil production.
- All provinces are expected to continue expanding through 2020.
- Alberta's unemployment rate forecast at 6.5% in 2019, still above the national rate.

## Provincial Forecast

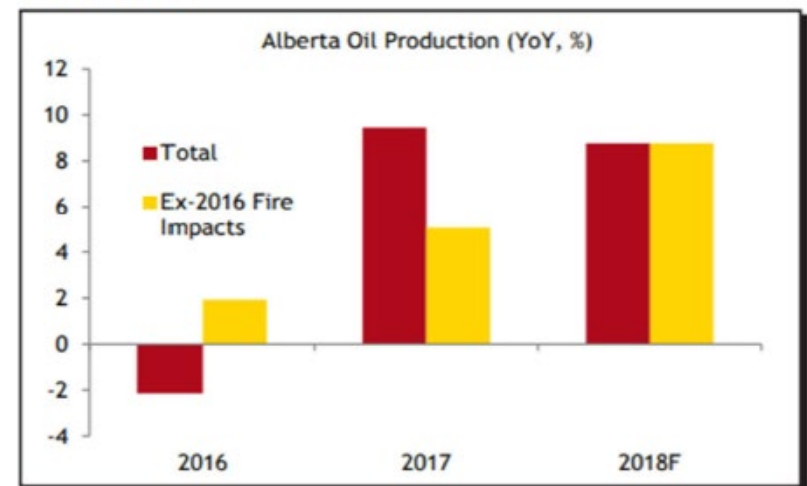
	Real GDP Y/Y % Chg				Nominal GDP Y/Y % Chg				Unemployment Rate %				Housing Starts 000s Units			
	2017F	2018F	2019F	2020F	2017F	2018F	2019F	2020F	2017A	2018F	2019F	2020F	2017A	2018F	2019F	2020F
BC	3.6	2.1	2.0	2.2	5.7	4.2	4.3	4.2	5.1	5.0	4.9	5.0	43.5	40.0	34.0	32.0
Alta	4.6	2.4	1.9	1.1	8.4	5.3	4.4	2.6	7.8	6.6	6.5	6.7	29.3	30.0	31.0	30.0
Sask	2.8	1.5	1.8	1.3	6.3	4.2	4.3	2.8	6.3	6.2	6.0	6.3	5.0	4.0	6.0	6.0
Man	2.8	1.8	1.8	1.5	4.9	3.6	3.8	3.3	5.4	5.9	5.7	5.9	7.6	7.0	8.0	7.0
Ont	2.7	2.1	1.8	1.3	4.8	4.1	4.1	3.2	6.0	5.6	5.5	5.8	80.2	74.0	68.0	63.0
Qué	2.9	2.5	1.7	1.1	5.0	4.4	3.8	2.9	6.1	5.6	5.5	5.8	46.3	42.0	34.0	31.0
NB	1.7	0.9	1.0	0.8	3.8	2.7	3.0	2.6	8.1	8.1	8.2	8.5	2.3	2.0	2.0	2.0
NS	1.0	1.2	0.9	1.5	3.1	3.0	2.9	3.3	8.4	7.6	8.0	8.3	4.0	4.0	3.0	3.0
PEI	2.9	1.7	0.8	1.0	5.0	3.5	2.8	2.8	9.8	9.6	9.7	9.9	1.0	1.0	1.0	0.8
N&L	1.9	-0.9	1.5	-0.8	5.3	1.7	4.0	0.7	14.8	14.5	14.3	14.3	1.4	1.5	1.5	1.0
<b>Canada</b>	<b>3.0</b>	<b>2.1</b>	<b>1.8</b>	<b>1.3</b>	<b>5.4</b>	<b>4.3</b>	<b>4.1</b>	<b>3.1</b>	<b>6.3</b>	<b>5.9</b>	<b>5.8</b>	<b>6.1</b>	<b>220</b>	<b>205</b>	<b>188</b>	<b>176</b>

# Provincial Review

- Broad-based strength in business activity, along with firmer oil prices, played a significant role in improving corporate profits in 2018.
- Oil production and demand has been stronger than the market originally assumed, leaving Alberta GDP tracking higher this year than previously projected.
- Transportation bottlenecks of Canadian crude remain a challenge for new investment.
- Alberta's labour market continues to advance as household earnings perked up amidst gains in the higher-earning goods sector and rotation to full-time employment.

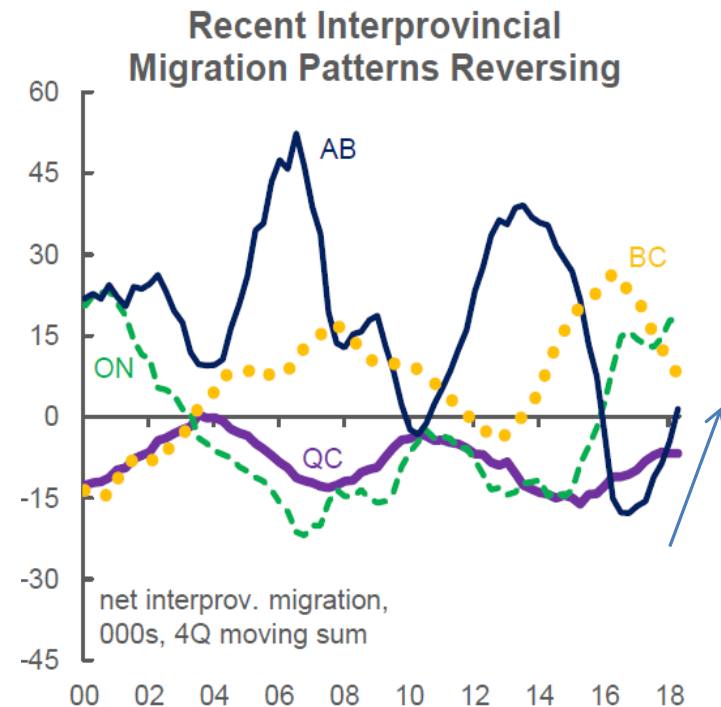
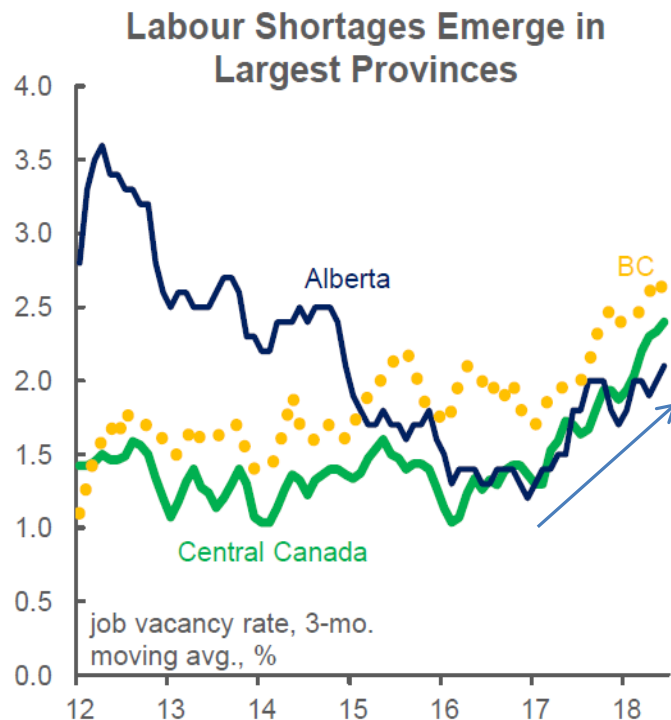


## Strong Growth in Alberta Oil Production Maintained



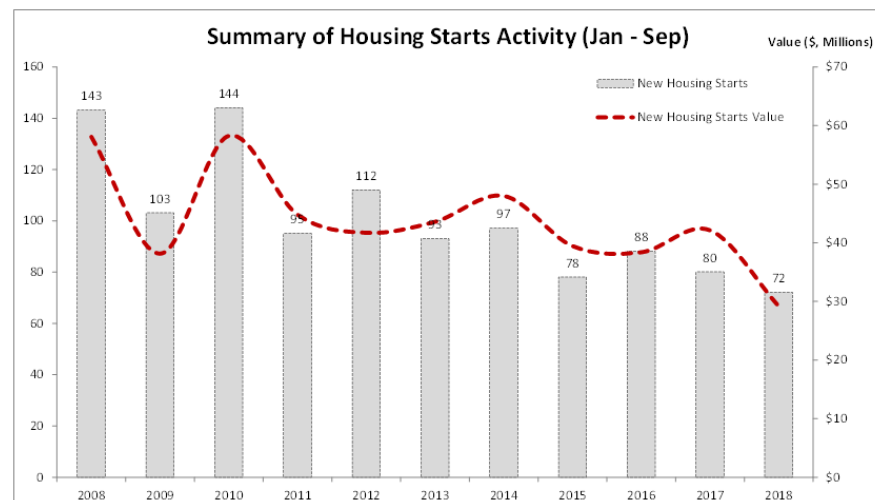
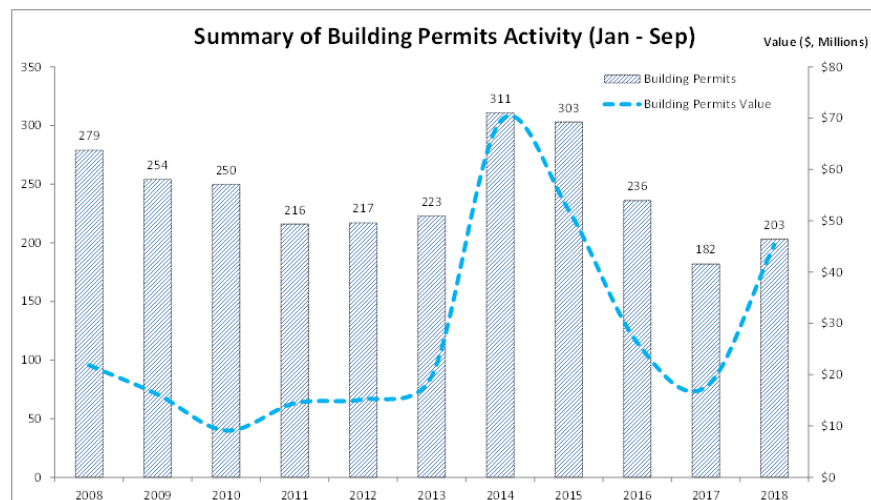
# Provincial Review

- Following strong job creation in 2017, labour shortages are emerging and pushing wages higher. Job vacancy rates in Alberta have reached a post-2014 high (chart left).
- Alberta's improving employment prospects and competitive wages are increasing its draw following the 2015-2016 recession (chart right).
- Housing affordability and a cooling economy are weakening BC's attraction.



# Sturgeon County

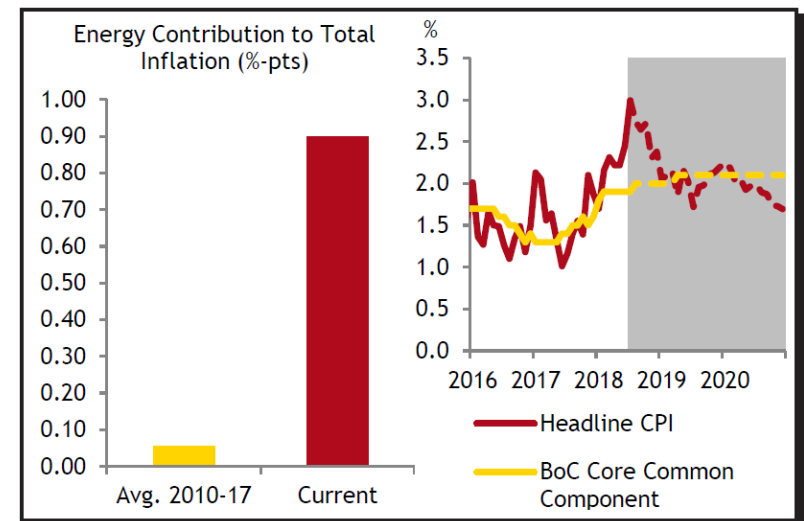
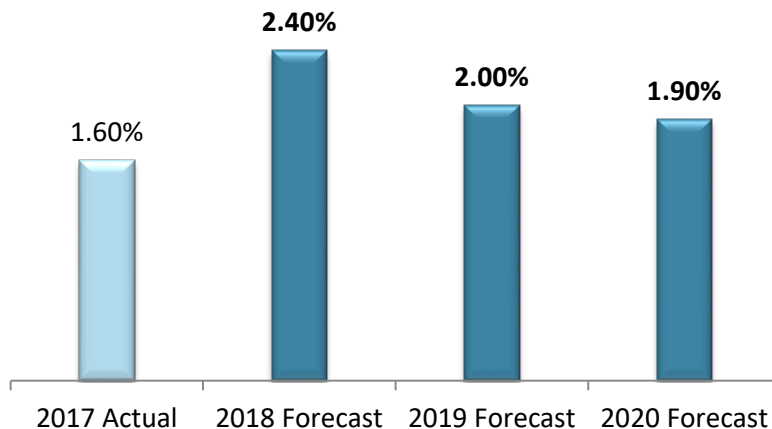
- Building Permit Activity showed growth led by Industrial and Institutional, along with a slight increase in residential. This is a positive leading indicator of future industrial activity in the County.
- Housing starts decreased slightly compared to 2017 levels.



# 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.

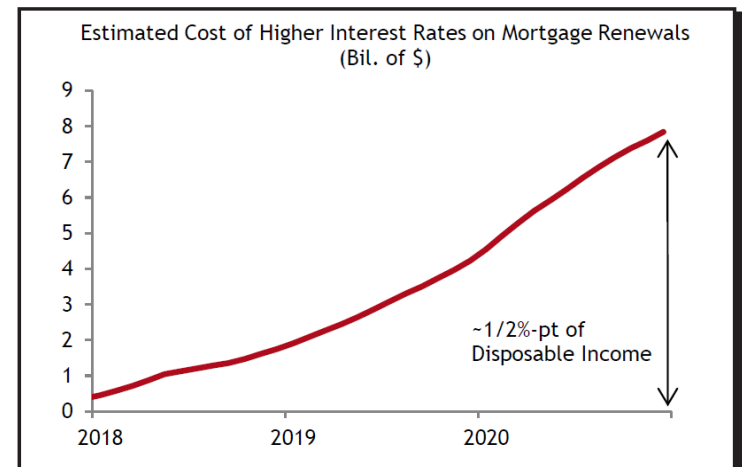




# Canada – Housing

- 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 – Rates

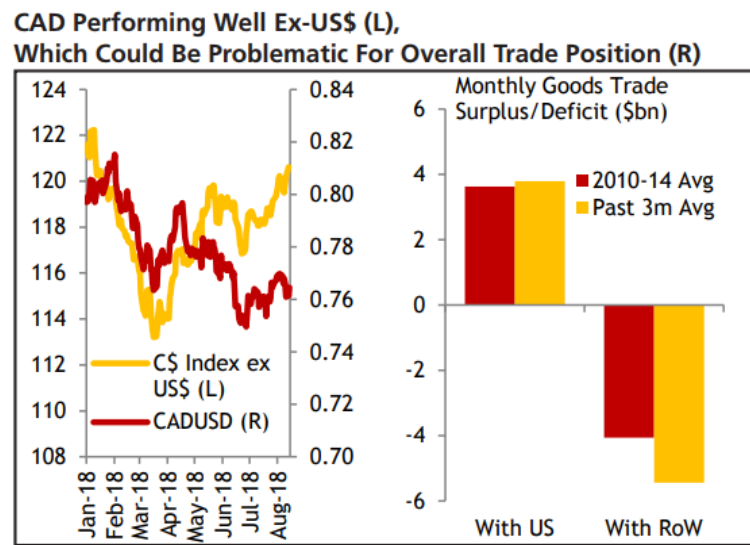
## Interest Rates

- 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.
- The BoC hiked rates in July and October (five hikes since last summer) and the 2% core inflation rate is not signaling a need to increase the pace of tightening.

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%

# Currency

- 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.
- Additional rate hikes will be supportive of the Canadian dollar over the coming year.



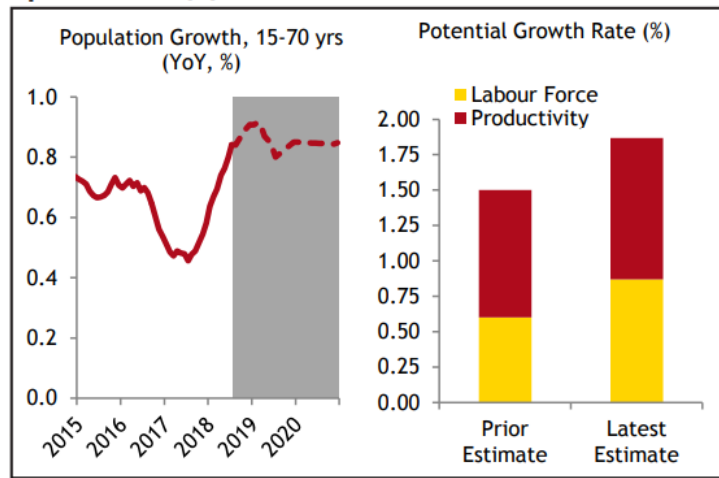
Exchange Rates Forecast	Q4-2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	Q2-2020
CAD/USD	0.76	0.76	0.78	0.76	0.75	0.76
USD/CAD	1.32	1.32	1.28	1.32	1.33	1.32

# Canadian Outlook

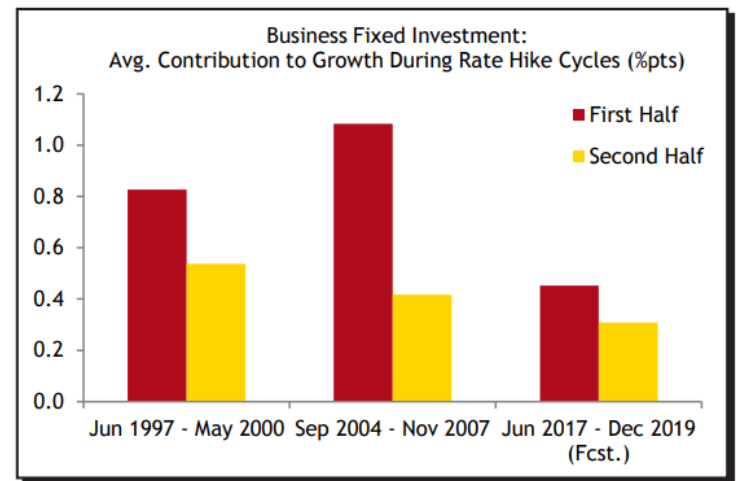
**A Longer Runway** - The economy has come a long way since the depths of the financial crisis and subsequent oil price crash, and is now up against its non-inflationary speed limit. However, with population growth picking up on the back of elevated immigration flows, Canada has a slightly longer runway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

**New Headwinds** - The 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**



# USMCA

- **Avoiding Punitive Auto Tariffs** - Although President Trump could move forward with the imposition of auto tariffs on global vehicle imports under section 232 national security grounds, Canada will be shielded.
- **The Preservation of Chapter 19 Dispute Resolution** - This mechanism limits the ability of US or Mexico to impose arbitrary anti-dumping and anti-subsidy duties at their discretion.
- Other key wins for the Canadian side were in the US agreeing to drop a troublesome demand for a sharp reduction in access to American government procurement contracts, and the US agreement to at least a 16-year term with highly likely extensions ahead.

# USMCA

- **Dairy Supply Management** - Canada agreed to eliminate a new tariff class that had been a point of contention for US dairy, and also opened up a larger slice of the dairy market to the US. That's a "give" from the viewpoint of Canadian producers, but potentially a benefit to consumers.
- **Costs** – Healthcare costs in Canada could be impacted since US drug makers will have their patent protection period extended by two years.
- **Aluminum & Steel** - No deal was reached to remove the recent US-imposed aluminum and steel tariffs, or the retaliatory tariffs imposed by Canada. It does appear, however, that talks on that issue will ensue, so there's hope that with a warming of trade relations in the wake of this deal, progress might be made on base metals.



# Commodities: Oil

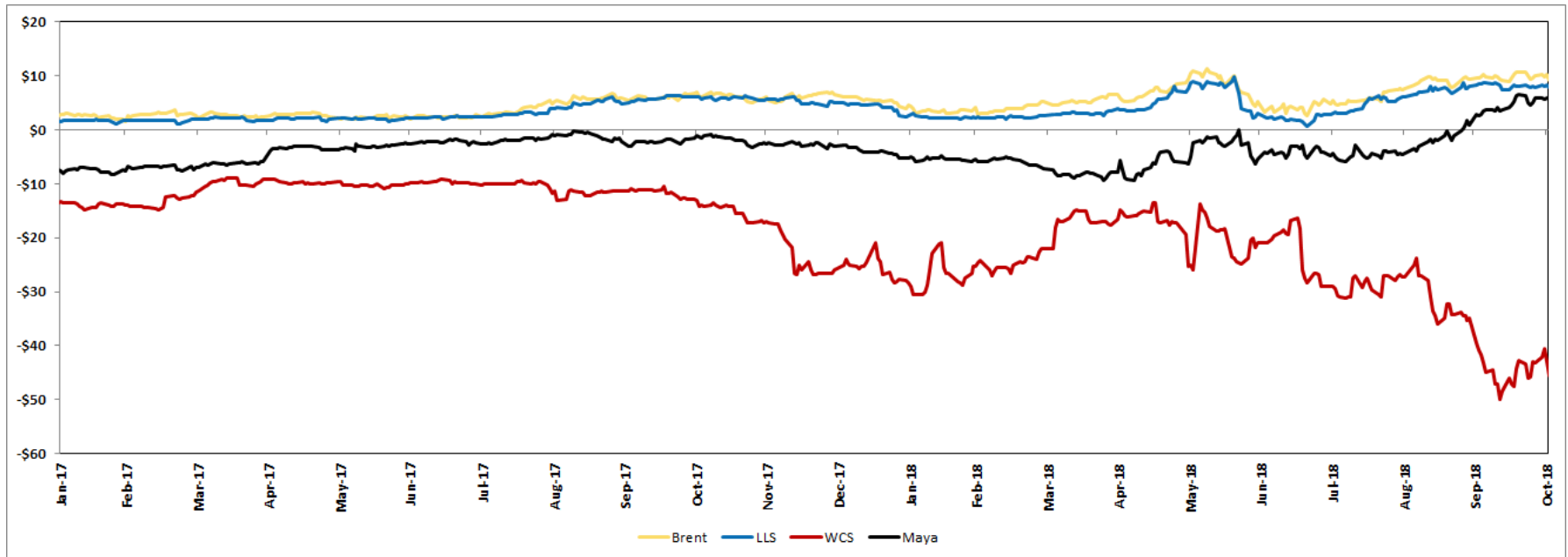
- Rising global demand combined with a tightening supply has kept the benchmark WTI averaging US\$67 per barrel this year.
- IEA forecasts has crude-by-rail exports growing to 250,000 bbls/d this year and 390,000 bbls/d by 2019. Recent NEB data shows exports of crude-by-rail breaking the 200,000 bbls/d mark for the first time in June.
- 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.





# Commodities: Oil

## Crude Oil Differentials (Specified Crude Less WTI)



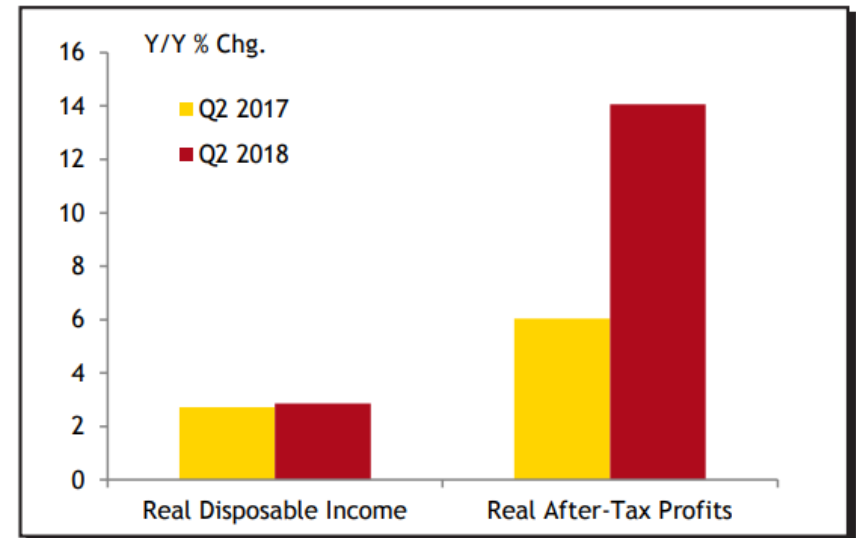
WCS has shared in the price appreciation seen in WTI, averaging \$45/bbl at the end of July. However, with no incremental pipeline capacity coming online in the near future, the light-heavy (WTI-WCS) differential has widened and is expected to remain volatile despite rising railed volumes.

# U.S. Economics

## 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.

Tax Benefits More Apparent for Businesses



## Cooling Begins, But Still On-Track For Record-Long Expansion

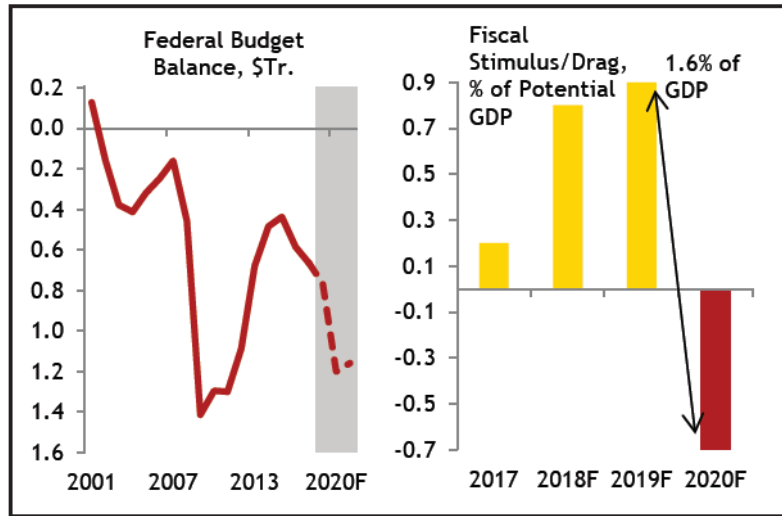
- The US continues to lead major developed market growth, tracking 2.9% in 2018, as a result of the late-cycle fiscal boost it has received from federal tax changes and additional public spending during 2018.
- While this additional expansionary impulse is expected to wane going into 2019—with US growth projected to decelerate to 2.4% in 2019 and 1.7% in 2020—the US economy is not forecast to head into recessionary territory in our forecast horizon given that the sources of growth are widely spread across the major components of the US economy.

# U.S. Outlook

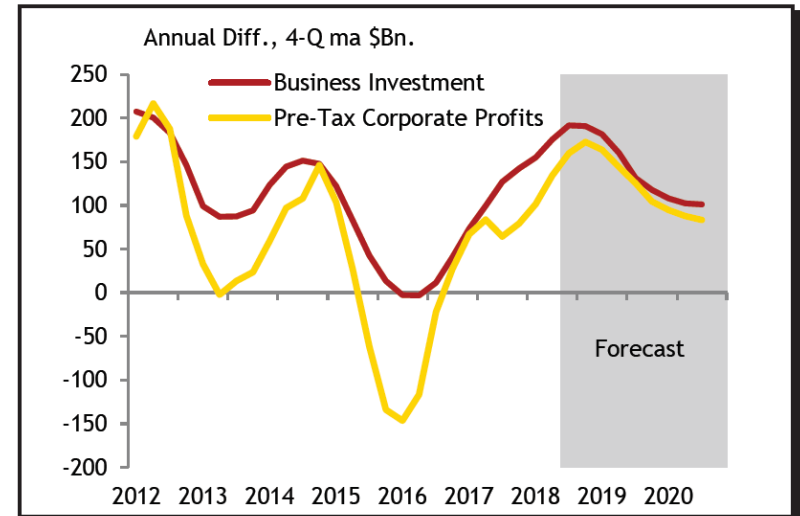
## An Outlook With 2020 Vision

- 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**



## U.S. Markets

## NASDAQ 100



## Russell 2000



U.S. Markets continue to experience increased levels of volatility and take a breath before entering the mature phase of the business cycle.

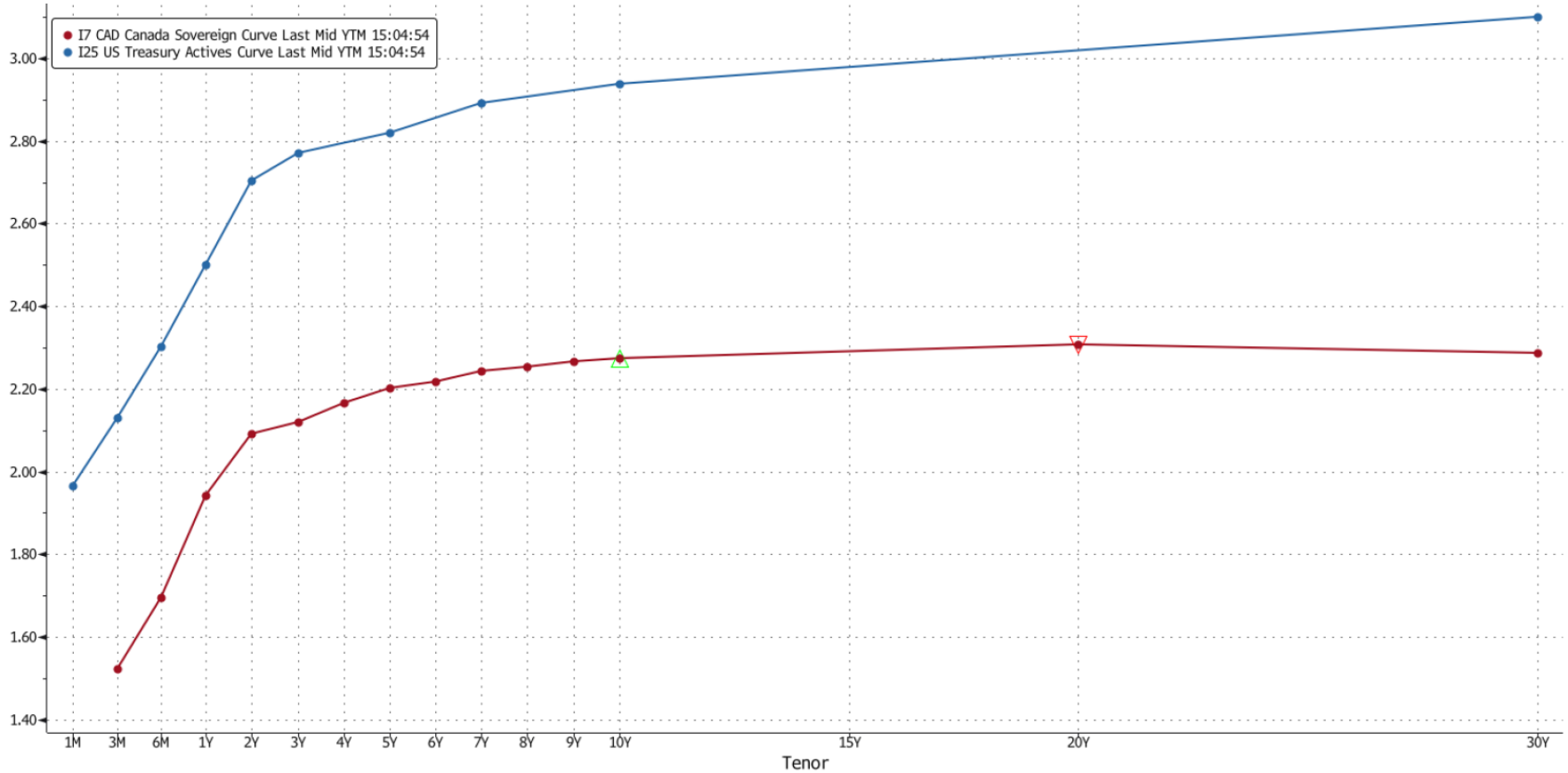
# Canadian Stocks vs. U.S. Stocks

XIU CN Equity		97 Settings		Comparative Returns		
Range	11/01/2013	-	10/31/2018	Period	Daily	No. of Period 1825 Day(s)
Table						
Security	Currency	Price Change	Total Return	Difference	Annual Eq	
1) XIU CN Equity	CAD	17.17%	34.30%	-30.01%	6.08%	
2) XSP CN Equity	CAD	51.23%	64.31%	--	10.44%	
3)						
4)						
5)						
6)						



The TSX60 (Canadian Large-cap) has underperformed the S&P500 (U.S. Large-cap) for the duration of the bull market

# Understanding the Yield Curve



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# Securities

Bank of Montreal	2a,2c,2e,2g,3a,3c,7
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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## Questions?

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