Global growth slowing – but not all ‘bad’ reasons

- Loss of momentum in global growth – but in part just because global economic recovery looks ‘mature’
- Developed economy urates below pre-recession averages
- UK among the strongest, although that could change depending on Brexit outcome
But no inflation pressure (!) Central banks rethinking interest rate hikes

- Central bank messaging has shifted sharply – essentially all central banks on hold for now.
- Still more likely to hike than to cut, but inflation trends are very benign, so no rush.
- Any move in the UK highly dependent on Brexit outcome
Term interest rates have moved sharply lower – still look for gradual increases from here.

- Term yields still more likely to drift higher than lower from here, but very gradually.
- Inverting yield curve: good or bad? Bad if signaling an economic downturn – if global liquidity excess, easy monetary policy abroad, then just means cheaper borrowing costs.

Source: Haver, RBC Economics Research
U.S. growth also slowing – but still looks solid

- 2018 fiscal tailwind (tax cuts, spending increases) tough to replicate – so growth slowing
- But industrial sector still looks okay, and that’s really what matters for Canadian exports
- Labour markets still look solid

**U.S. growing beyond capacity**

**Canadian Export Drivers Improving**

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Source: WTO, U.S. Federal Reserve, RBC Economics Research
Canada growth softer, but ‘transitory’ factors at play

- O&G weakness recently probably transitory
- Bad weather probably weighed on Q1 growth.
- Outside of energy sector and weather impacts, economic growth has still looked okay.
Oil prices perking up, rail transport easing (oil) transportation bottlenecks

- Global oil benchmarks up and western Canadian price spreads are low
- No new pipeline capacity, but crude by rail capacity has increased – not all new capacity, higher oil rail shipments also crowding out other products.
- AB oil production cuts to ease – more oil will be shipped by rail again as production resumes and weather improves

**Western Canadian Oil Prices**

Source: Bloomberg, RBC Economics Research

**U.S. imports of crude by rail from Canada**

Source: US EIA, RBC Economics Research
Broader global trade ‘war’ concerns seem to be easing

- U.S.-China have boosted tariffs collectively on ~$US 340 billion of bilateral trade – but total U.S. trade was ~$US5.7 trillion last year, China’s was ~$US5 trillion. IE, to-date disruptions not that big
- Hike in ‘average’ U.S. tariff to-date probably not big enough to put a meaningful dent in growth...same for Canada
Canadian business seem to be adjusting more quickly than Americans

- US import tariffs more broadly-based geographically, domestic purchasers unable to avoid higher tariff costs.
- Canadian businesses with more options to avoid Canadian retaliatory tariffs. Imports of products targeted up overall, but the share coming from the U.S. is down sharply.
China targeting ag in trade dispute

- Canada canola prices down, but were already softening before China’s canola ban put in place.
- Global supply/demand conditions probably more important than bilateral trade relationships in determining price.
- Broader ag commodity prices also down ytd compared to last year at this time
Still over-arching concern: economy running at capacity, and labour shortages not going away any time soon

- Nationally, economy looks like it’s running at or above capacity – not everywhere but on balance.
- Urates low (everywhere but Alberta). Labour shortages increasingly reported as a constraint on production/sales growth.
- Rising share of population is hitting retirement age – acts as a constraint on labour supply growth
Activity stronger than it seems, but growth still remained by structural speed-limits

- O&G weakness recently *probably* transitory – but growth still trending lower on balance
- Higher interest rates Household spending growth slowing – some offset from stronger business investment and exports.
- Benign forecasts. But probably more that can go wrong than right at this point.

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### Canada Household Disposable Income Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>4.7</td>
</tr>
<tr>
<td>2018</td>
<td>4.1</td>
</tr>
<tr>
<td>2019</td>
<td>3.4</td>
</tr>
<tr>
<td>2020</td>
<td>3.5</td>
</tr>
</tbody>
</table>

**Forecast**
- 2020: 3.1%

Source: Statistics Canada, RBC Economics Research

### Canada GDP growth forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage point contribution to annual GDP growth</th>
</tr>
</thead>
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<tr>
<td>2016</td>
<td>4.7</td>
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<td>2018</td>
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</tr>
<tr>
<td>2019</td>
<td>1.8</td>
</tr>
<tr>
<td>2020</td>
<td>1.5</td>
</tr>
</tbody>
</table>

**Forecast**
- 2020: 1.8%

Source: Statistics Canada, RBC Economics Research
BoC on hold means CAD getting weaker

C$ Exchange Rates

C$/foreign currency

Source: Haver, RBC Economics Research
Canadian government still with some room to maneuver

- Deficits still sizeable – but government debt levels enviable compared to other advanced economies, in Saskatchewan and in Canada more generally.

Source: IMF Fiscal Monitor Apr/18, RBC Economics Research