

Economic Update

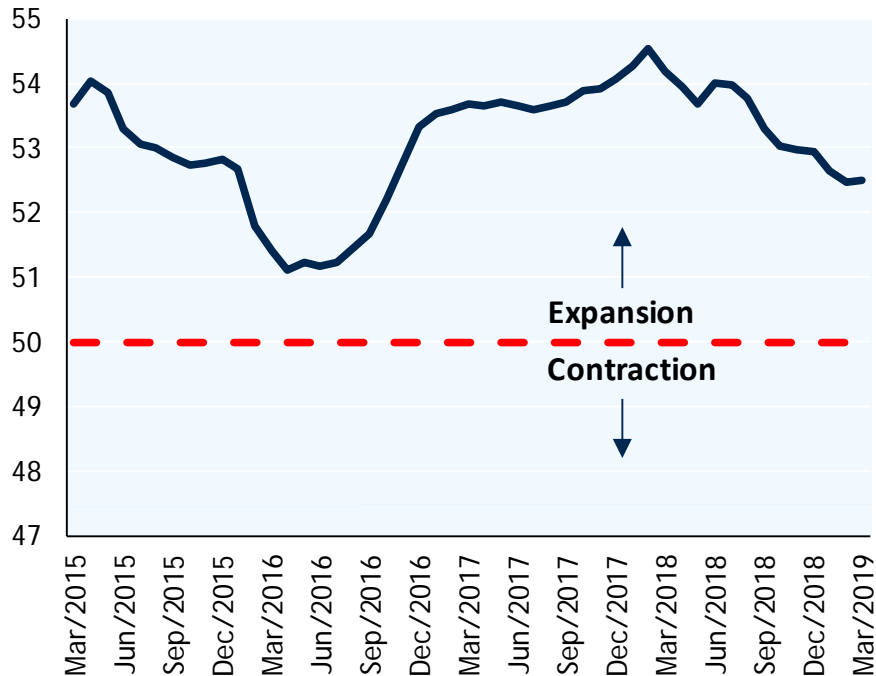
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Global growth slowing – but not all ‘bad’ reasons

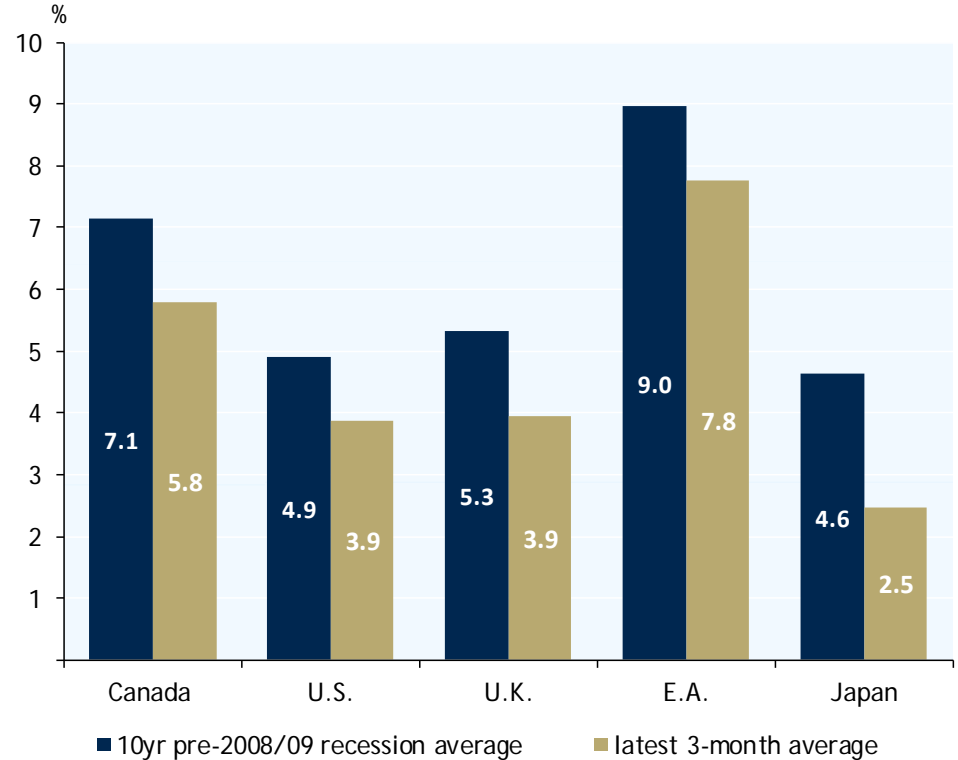
Markit/JPM Global PMI: Composite Output

PMI index: above-50=expansion, below 50=contraction



Source: Haver, RBC Economics Research

Adv. Economy Unemployment rates: Now vs Then



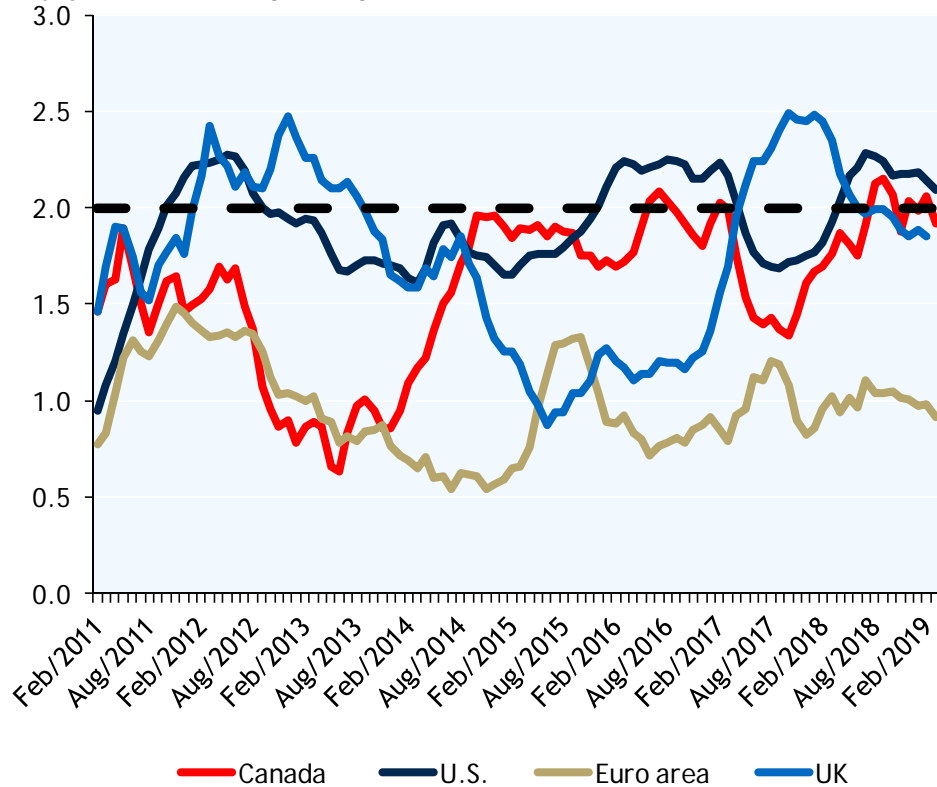
Source: Haver, RBC Economics Research

- Loss of momentum in global growth – but in part just because global economic recovery looks ‘mature’
- Developed economy unrates 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

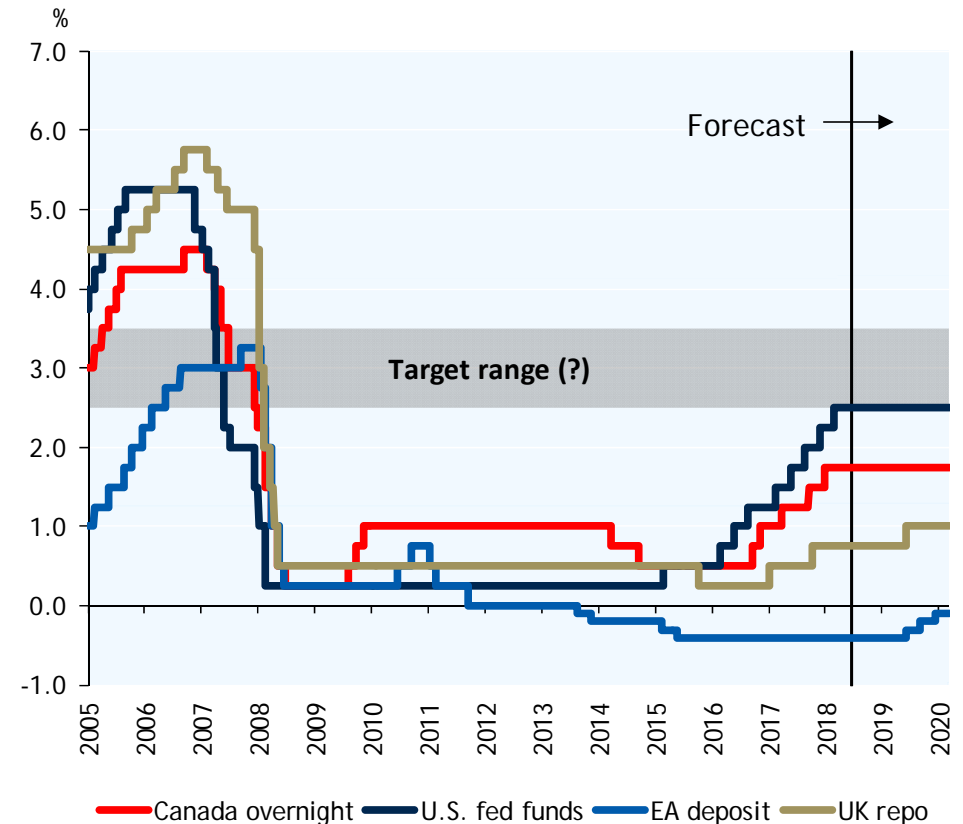
Advanced Economy 'Core' Inflation

y/y %, 3mth moving average



Source: Haver, RBC Economics Research

Global Central Bank Policy Rates

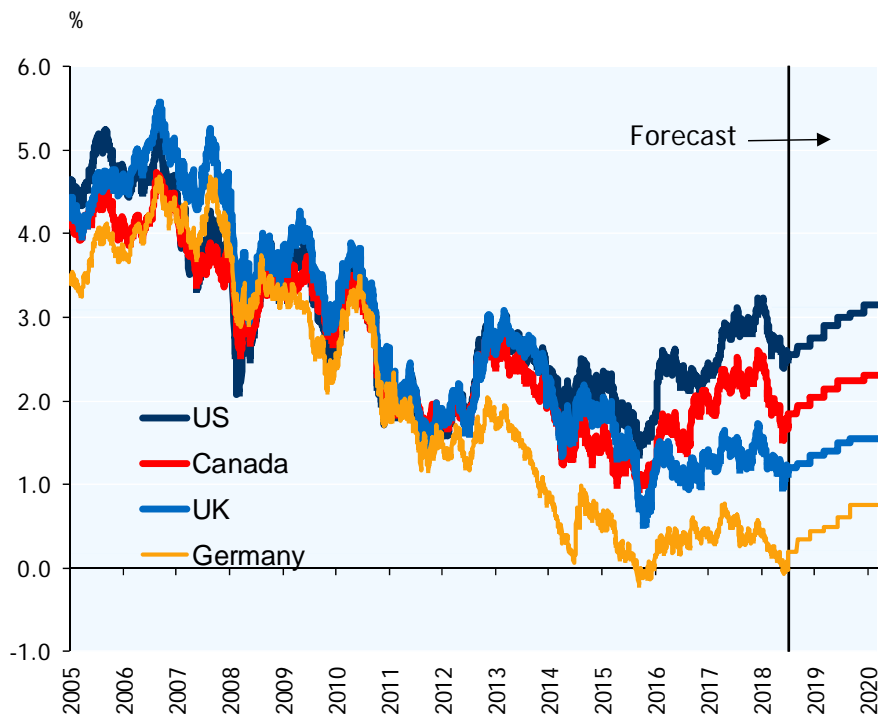


Source: Haver, RBC Economics Research

- 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

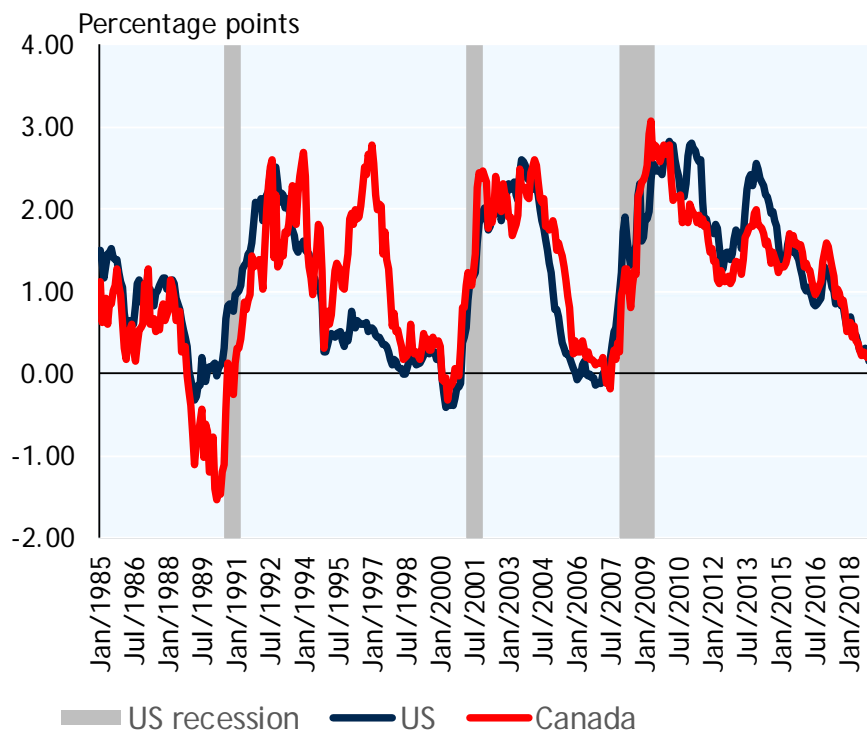
Term interest rates have moved sharply lower – still look for gradual increases from here

10-year Government Bond Yields



Source: Haver, RBC Economics Research

10y vs 2y Gov't Yield Curve

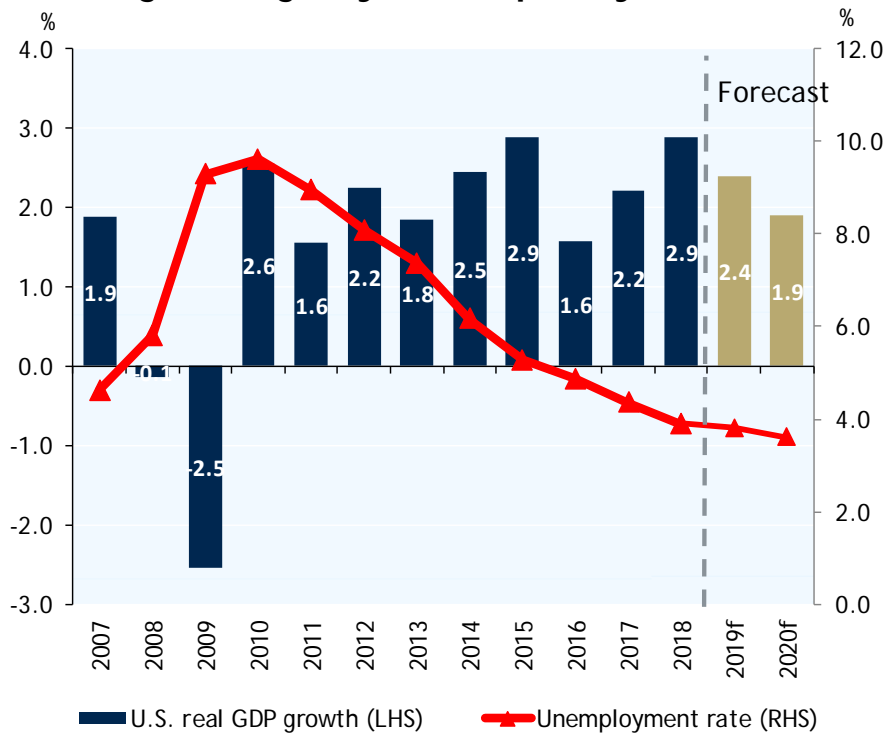


Source: Haver, RBC Economics Research

- 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.

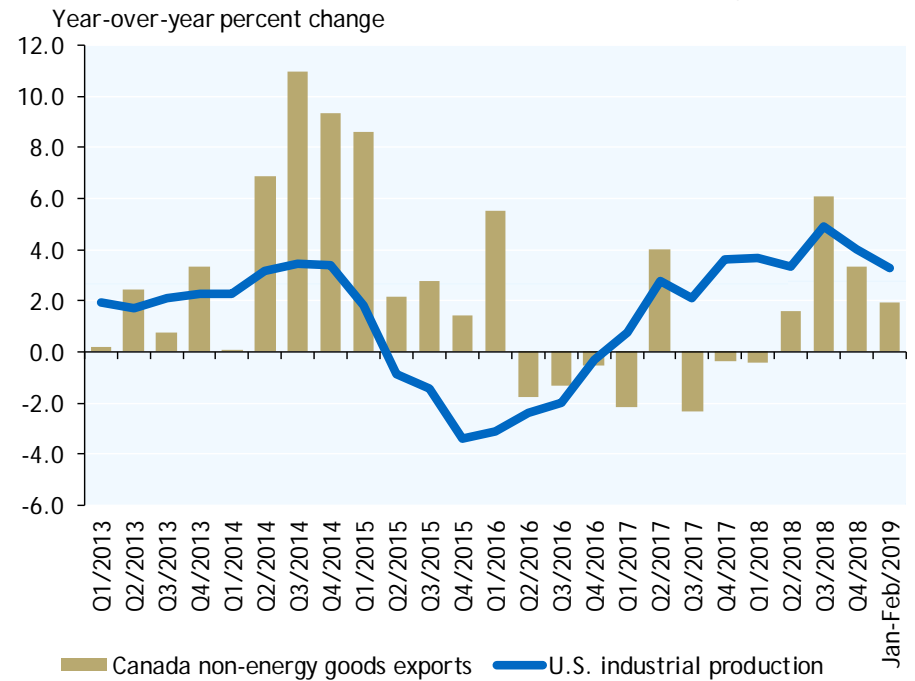
U.S. growth also slowing – but still looks solid

U.S. growing beyond capacity



Source: Bureau of Labor Statistics, Bureau of Economics Analysis, RBC Economic

Canadian Export Drivers Improving

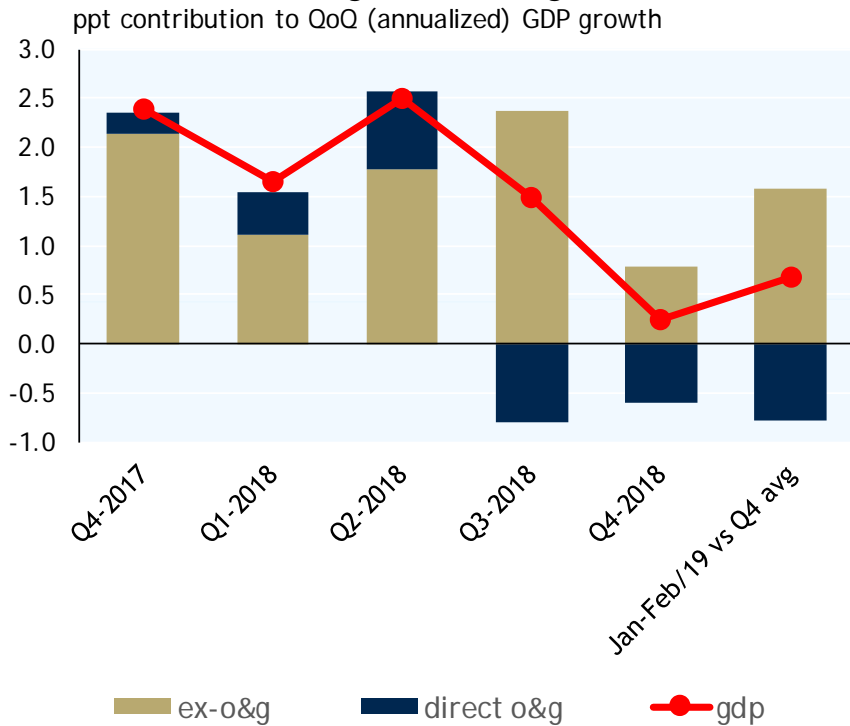


Source: WTO, U.S. Federal Reserve, RBC Economics Research

- 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

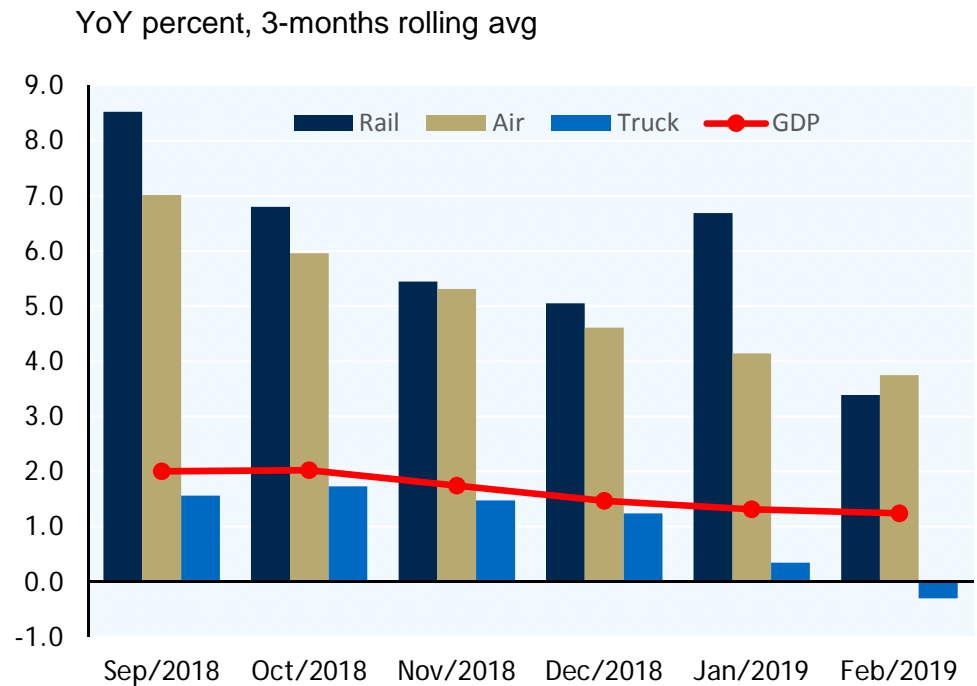
Canada growth softer, but 'transitory' factors at play

Canada GDP by Industry



Source: Statistics Canada, RBC Economics Research

Canada Transportation Production

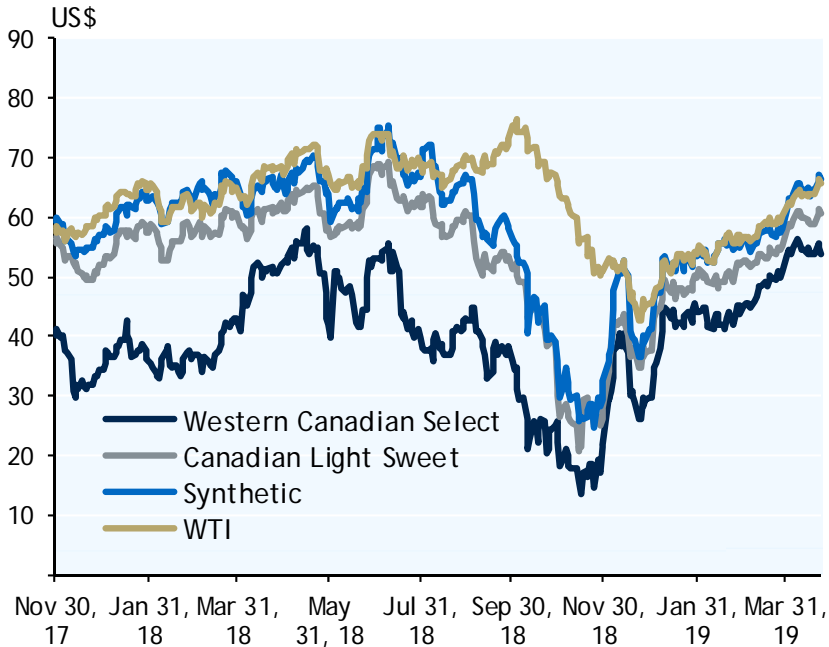


Source: Statistics Canada, RBC Economics Research

- 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

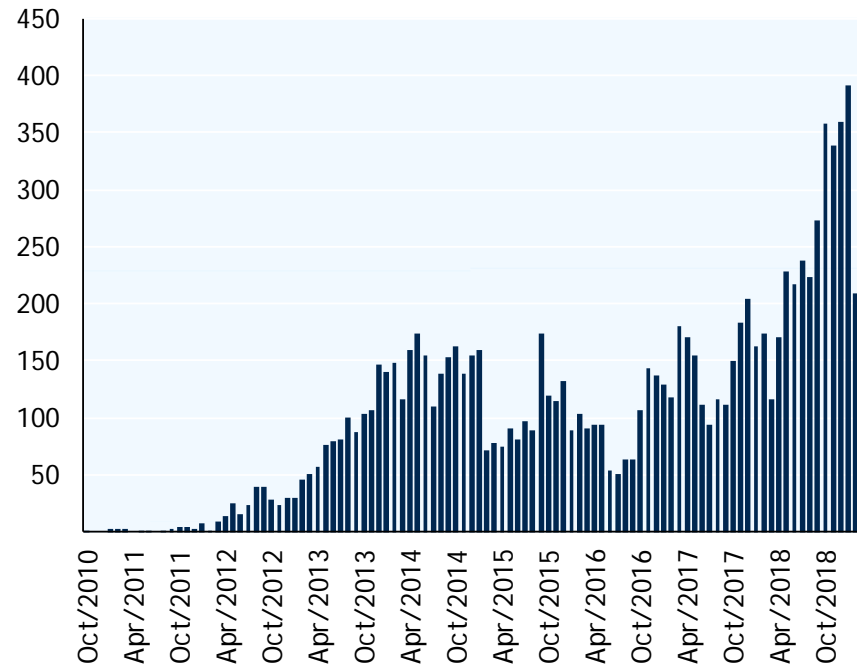
Western Canadian Oil Prices



Source: Bloomberg, RBC Economics Research

U.S. imports of crude by rail from Canada

,000s bbl/d



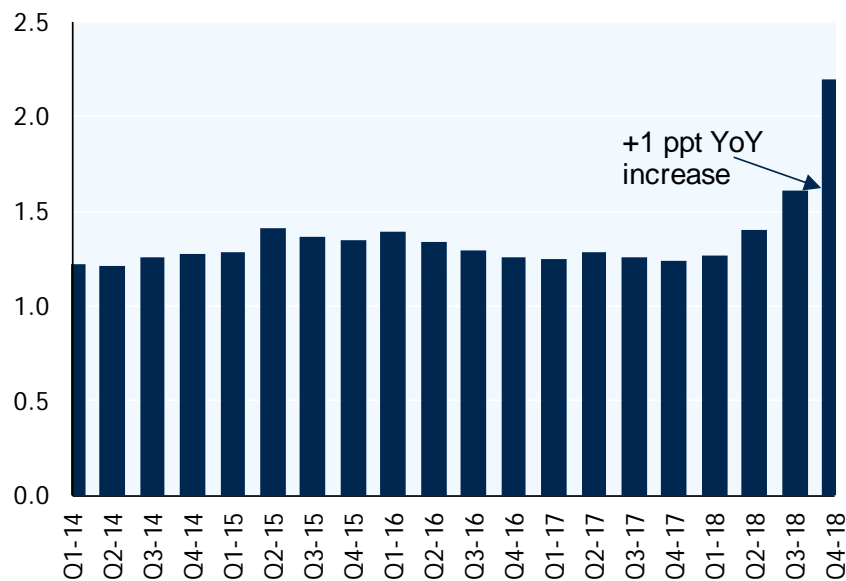
Source: US EIA, RBC Economics Research

- **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**

Broader global trade 'war' concerns seem to be easing

U.S. Average Tariff Rate

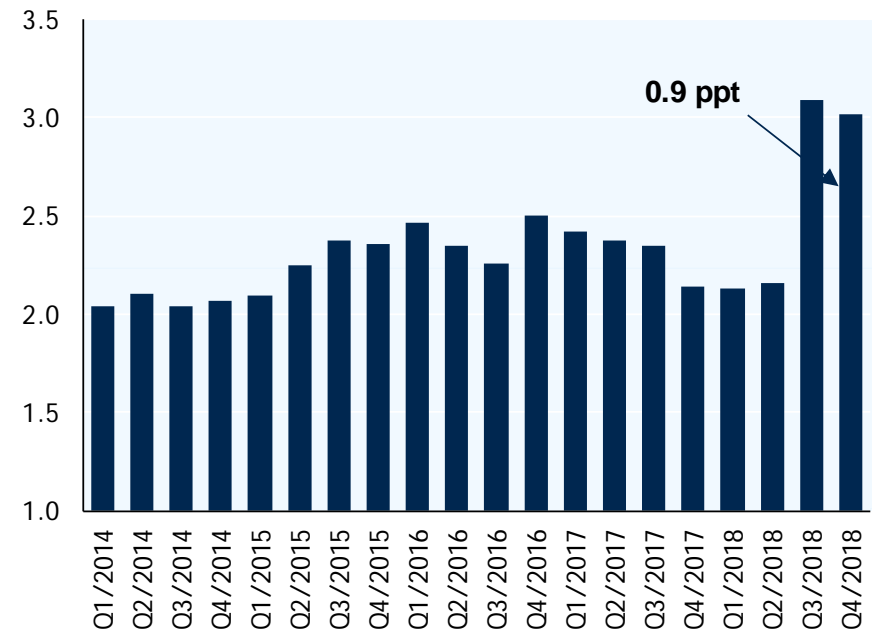
Custom duties to imports ratio, percent



Source: Haver, RBC Economics Research

Canada 'average' import duties

%, custom duties collected share of total imports



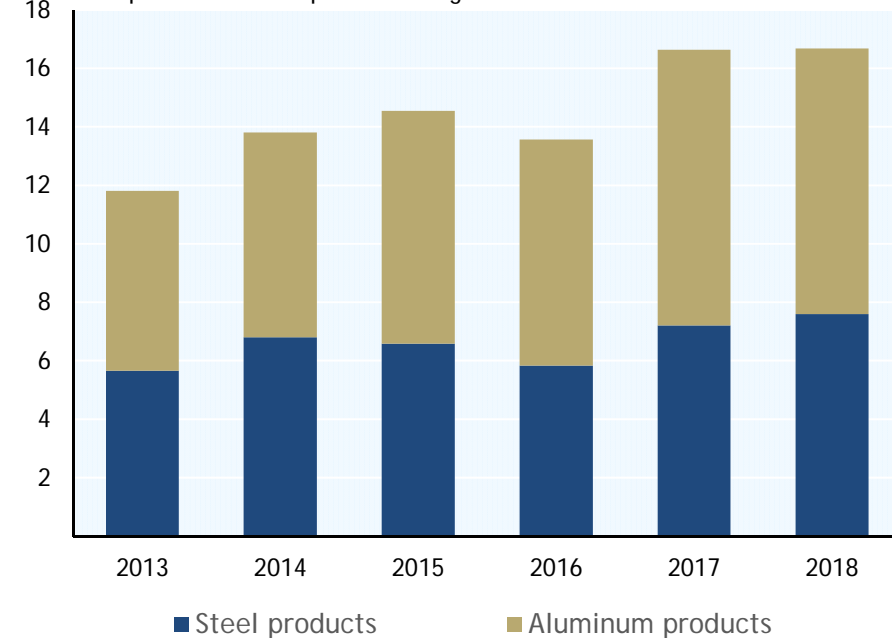
Source: Haver, RBC Economics Research

- 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

Canada Steel and Aluminum Exports

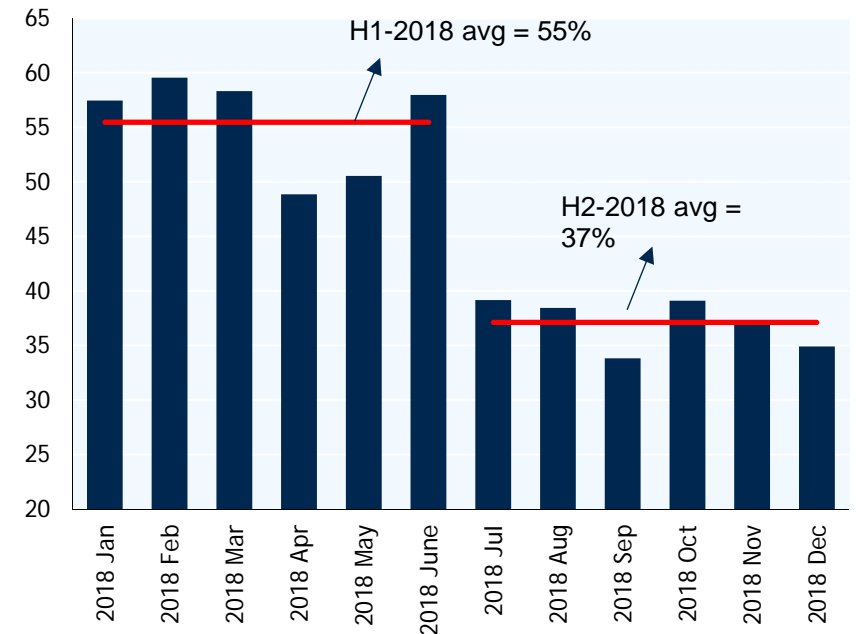
\$C, bil. Exports to U.S. of products targeted with section 232 tariffs in 2018



Source: Industry Canada, RBC Economics Research

Share of steel imports from U.S.

% of steel products w/ tariffs imposed as part of 2018 Canada countermeasures

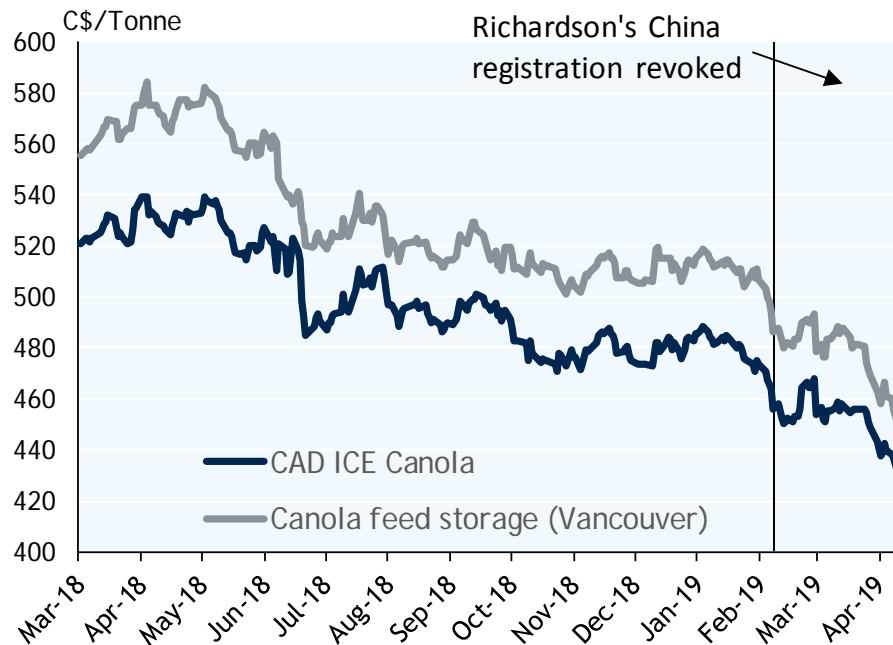


Source: RBC Economics Research

- 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.

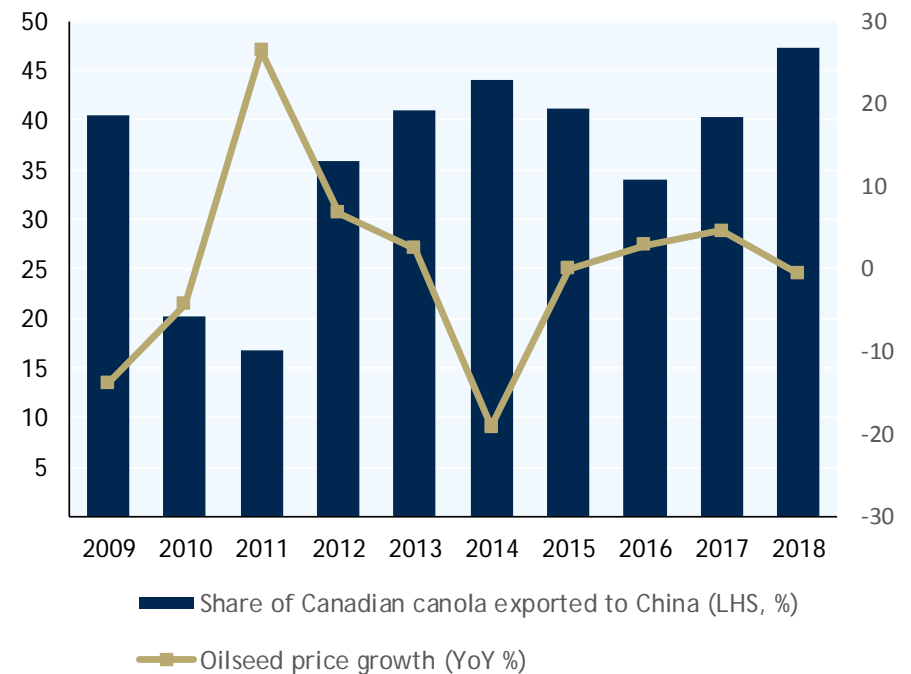
China targeting ag in trade dispute

Canola Prices



Source: RBC Economics Research

Canada and China Canola Data

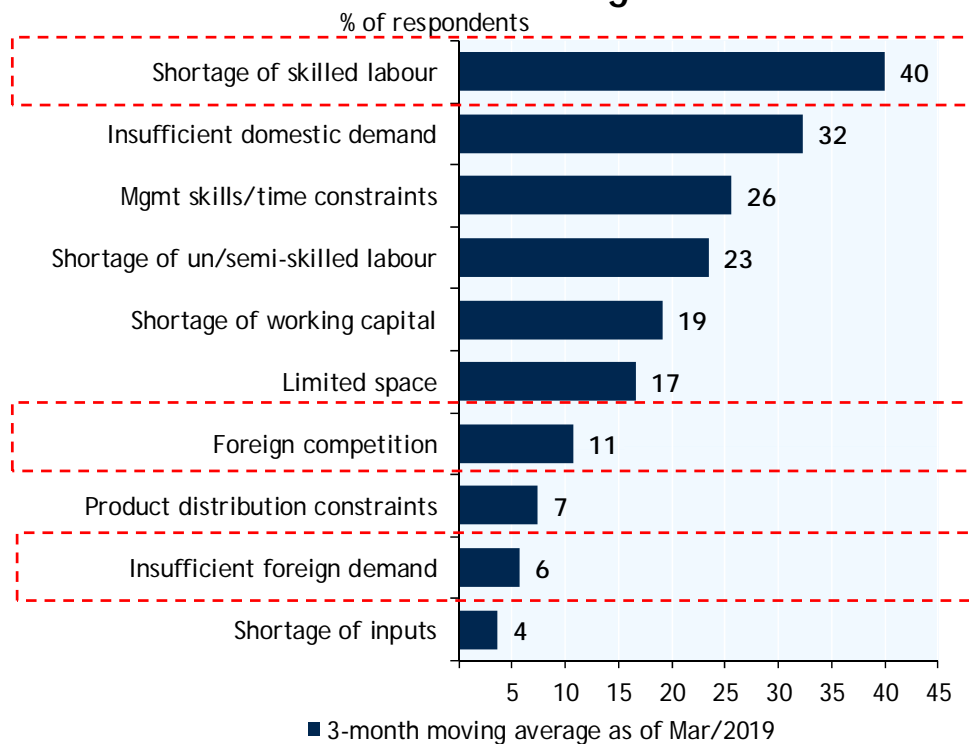


Source: Industry Canada, RBC Economics Research

- **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**

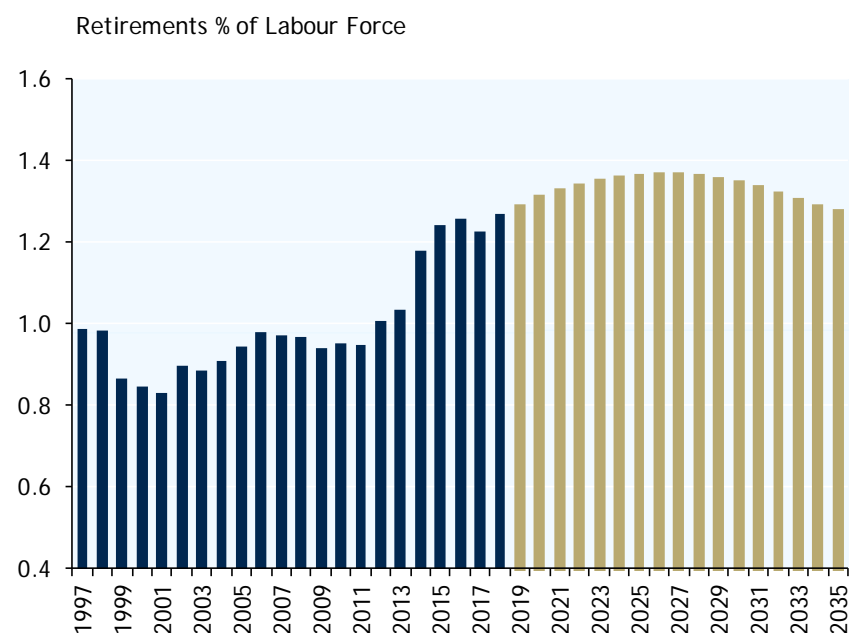
Still over-arching concern: economy running at capacity, and labour shortages not going away any time soon

CFIB: Factors Constraining Production



Source: CFIB Business Barometer, RBC Economics Research

Canada Annual Retirement Rate

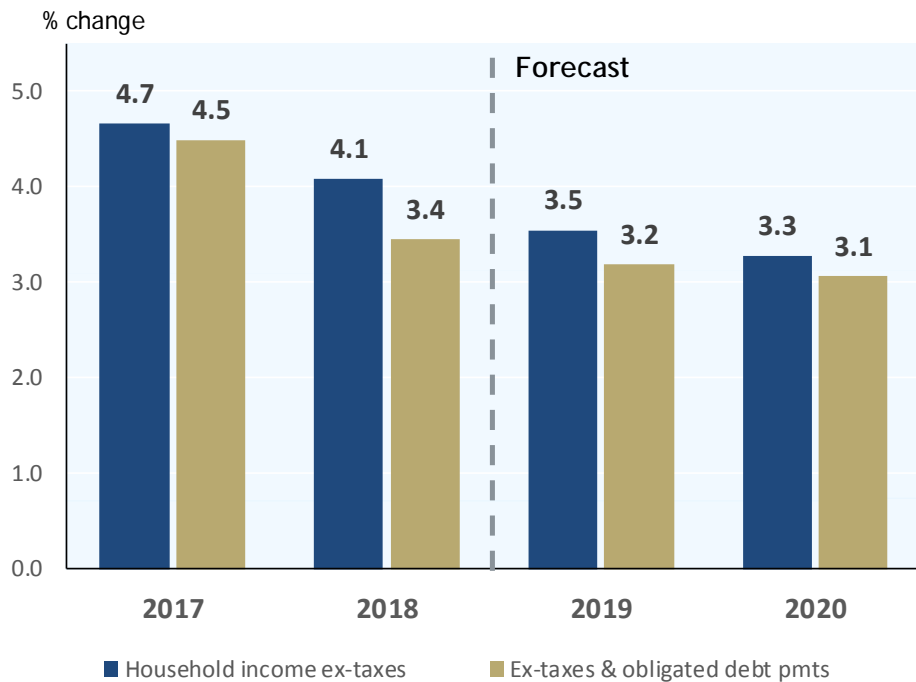


Source: Statistics Canada, RBC Economics Research

- 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

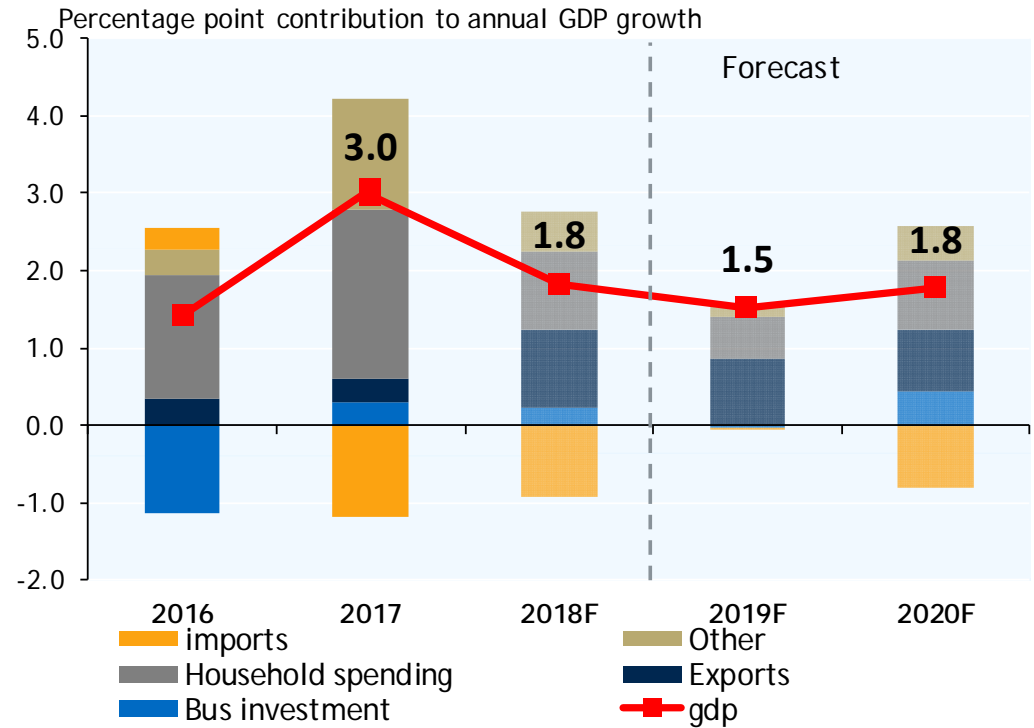
Activity stronger than it seems, but growth still remained by structural speed-limits

Canada Household Disposable Income Growth



Source: Statistics Canada, RBC Economics Research

Canada GDP growth forecast



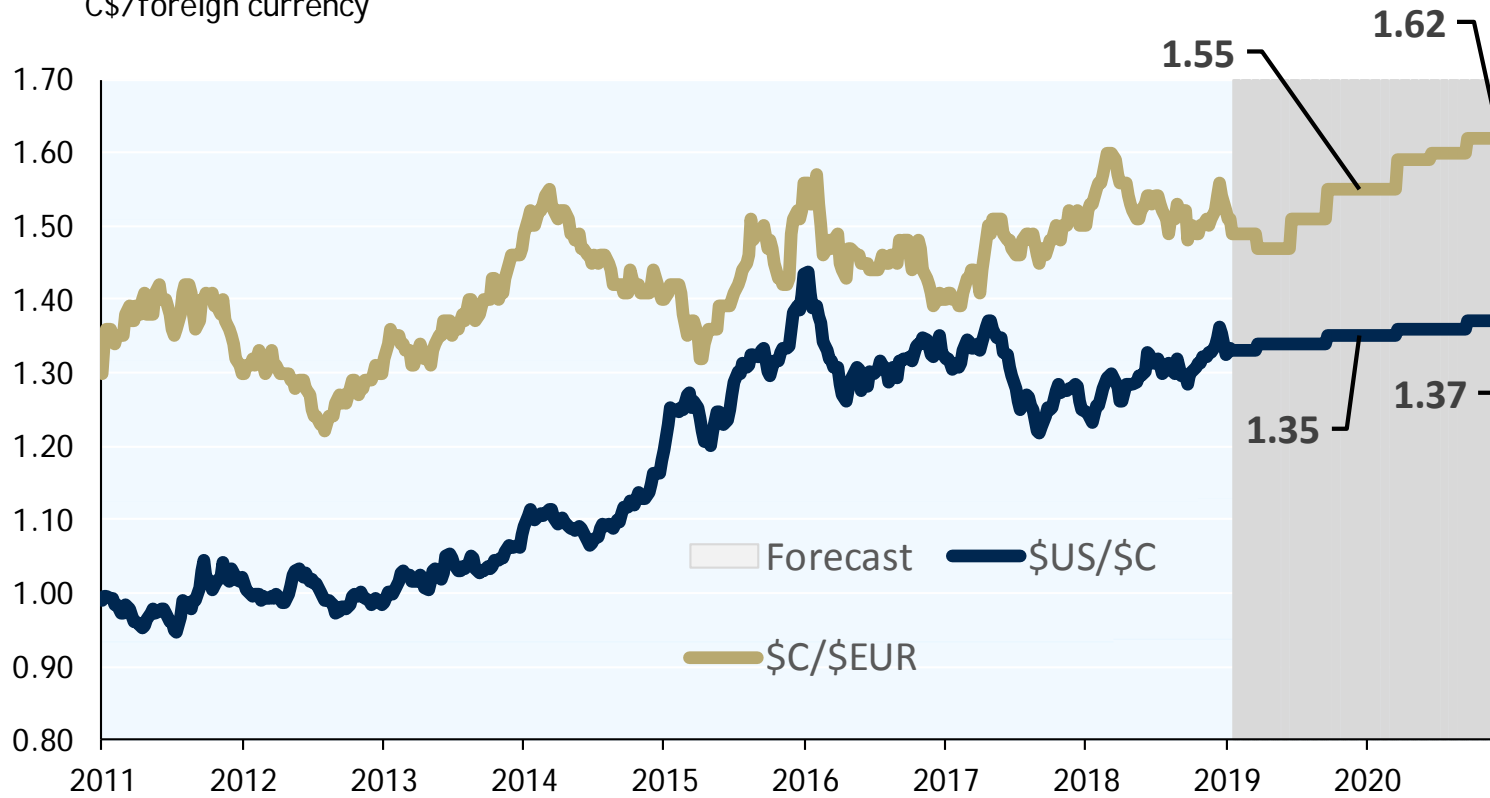
Source: Statistics Canada, RBC Economics Research

- 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.

BoC on hold means CAD getting weaker

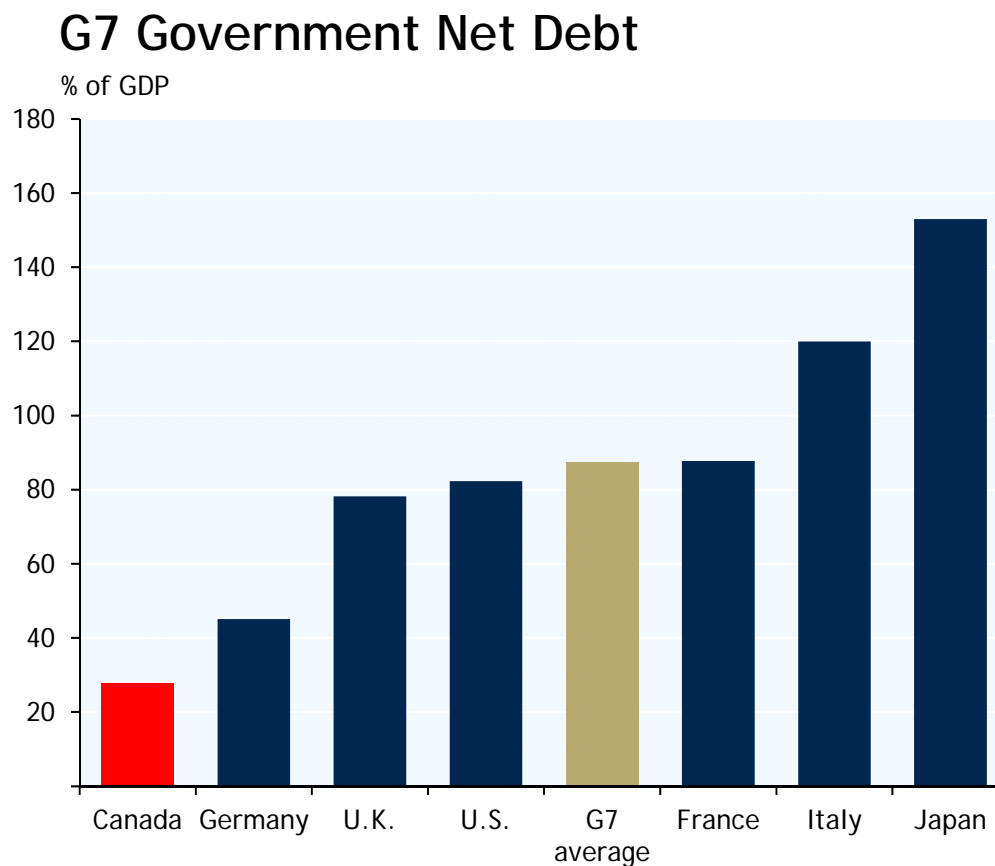
C\$ Exchange Rates

C\$/foreign currency



Source: Haver, RBC Economics Research

Canadian government still with some room to maneuver



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

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

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