Economic Update

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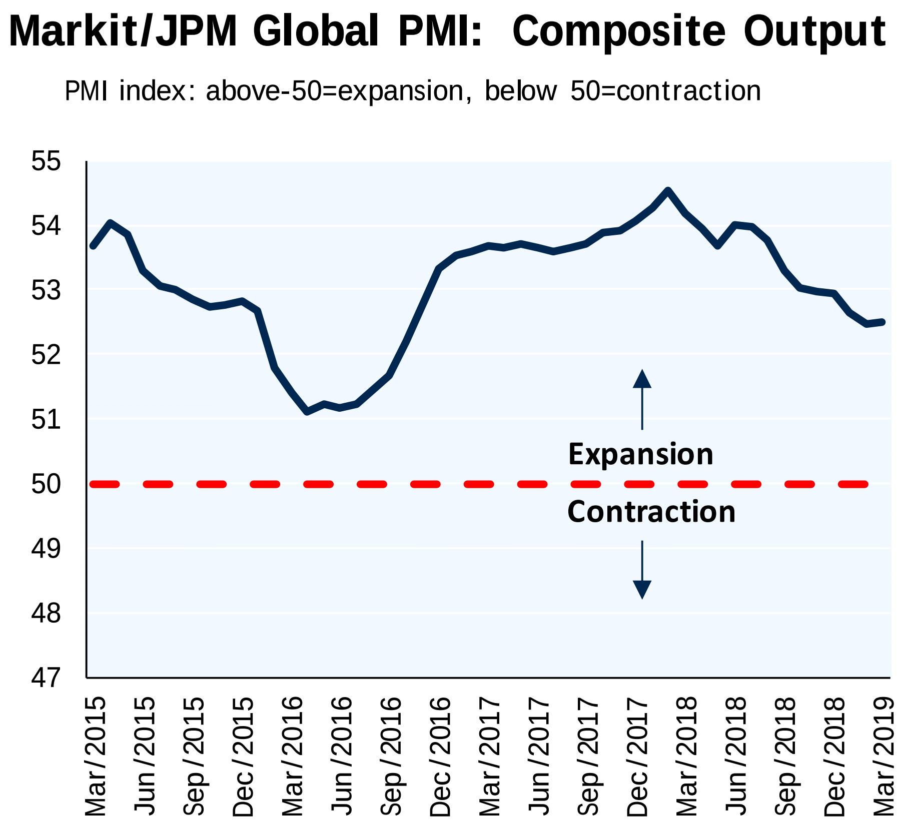
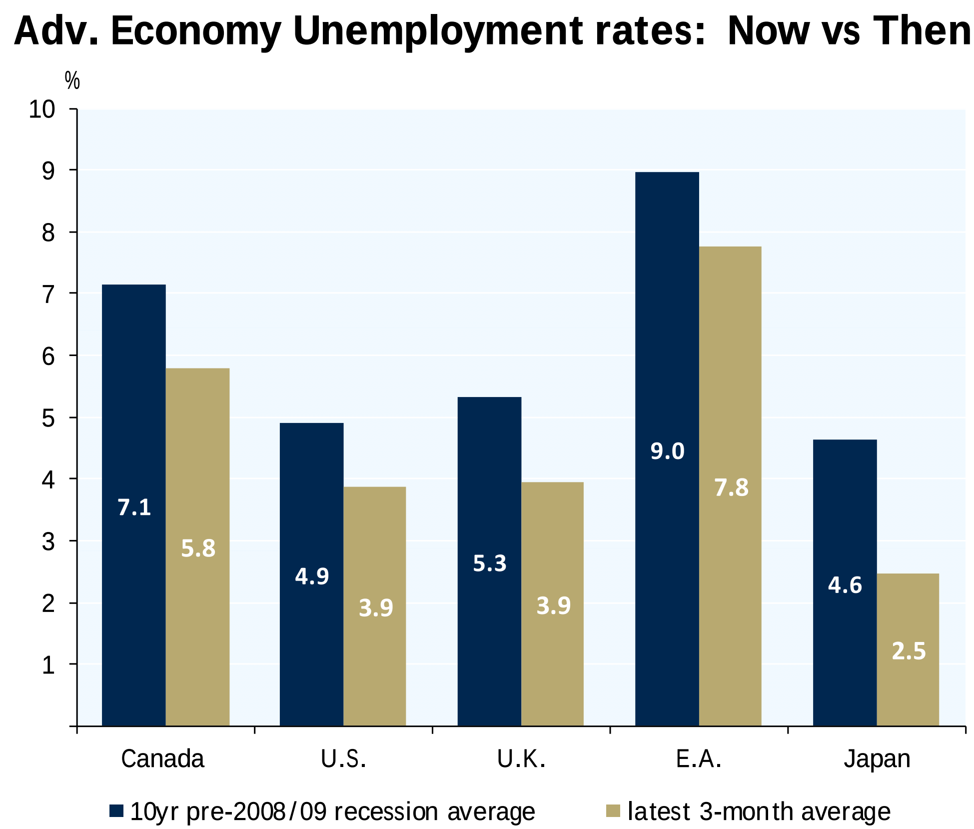
Global growth slowing – but not all 'bad' reasons



Source: Haver, RBC Economics Research

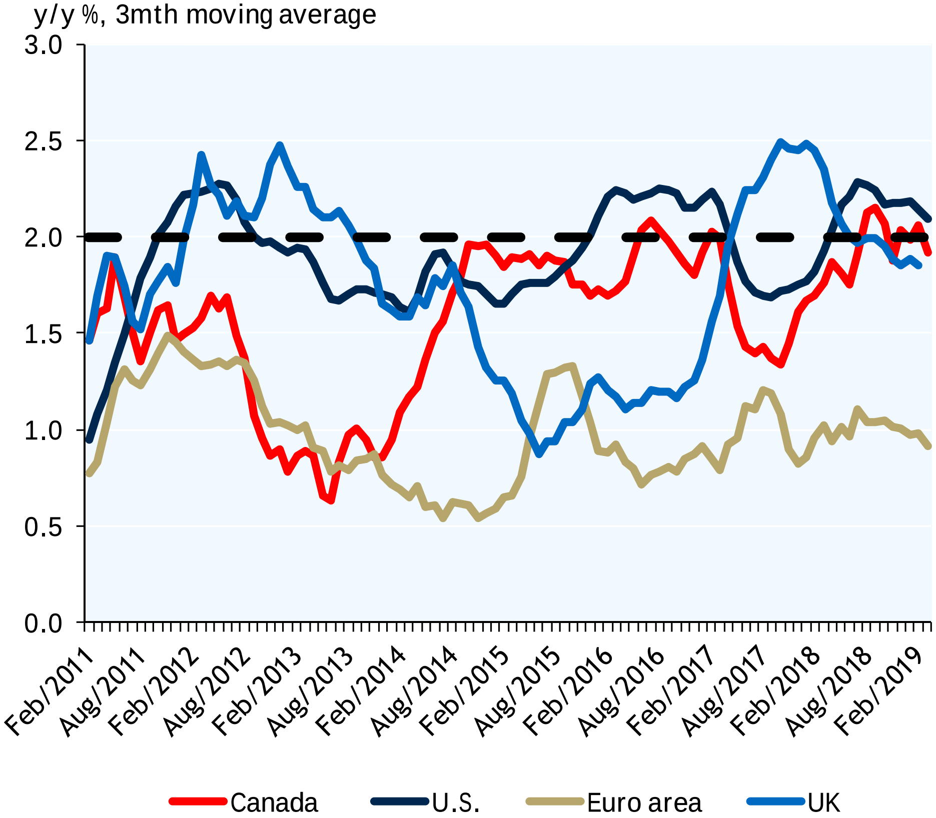


Source: Haver, RBC Economics Research

- 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

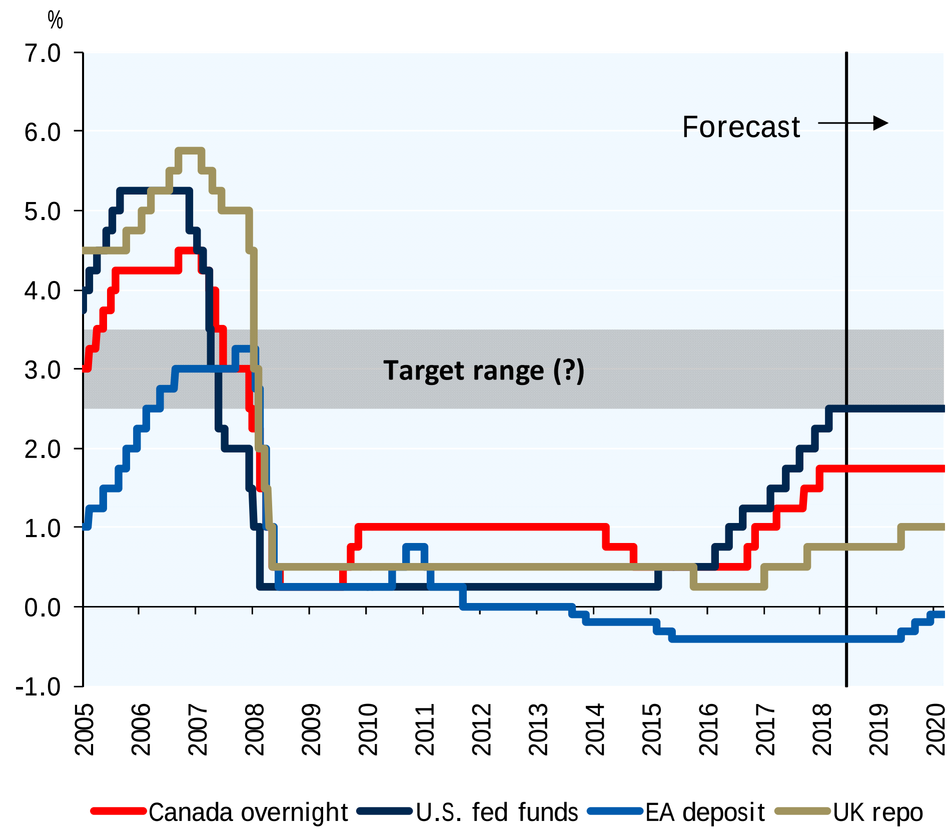
But no inflation pressure (!) Central banks rethinking interest rate hikes

Advanced Economy 'Core' Inflation



Source: Haver, RBC Economics Research

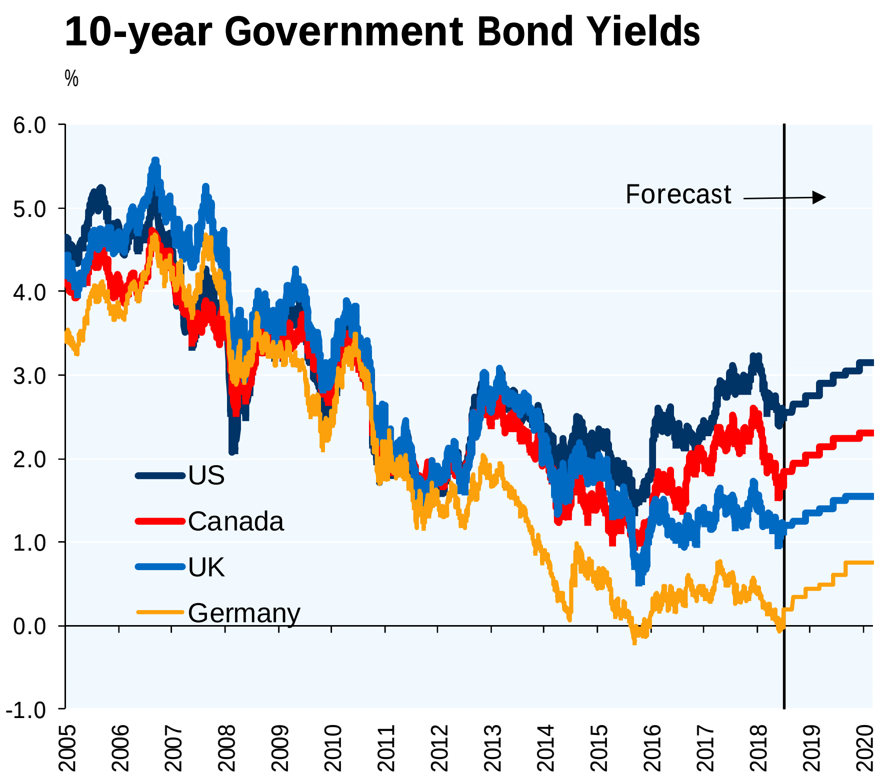
Global Central Bank Policy Rates



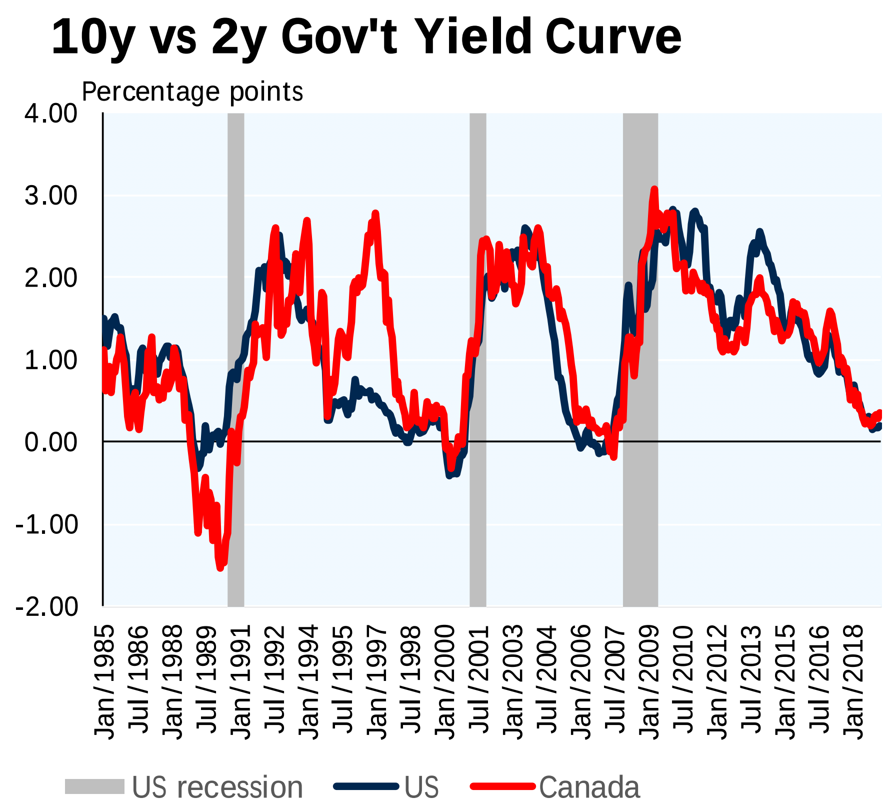
Source: Haver, RBC Economics Research

- 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



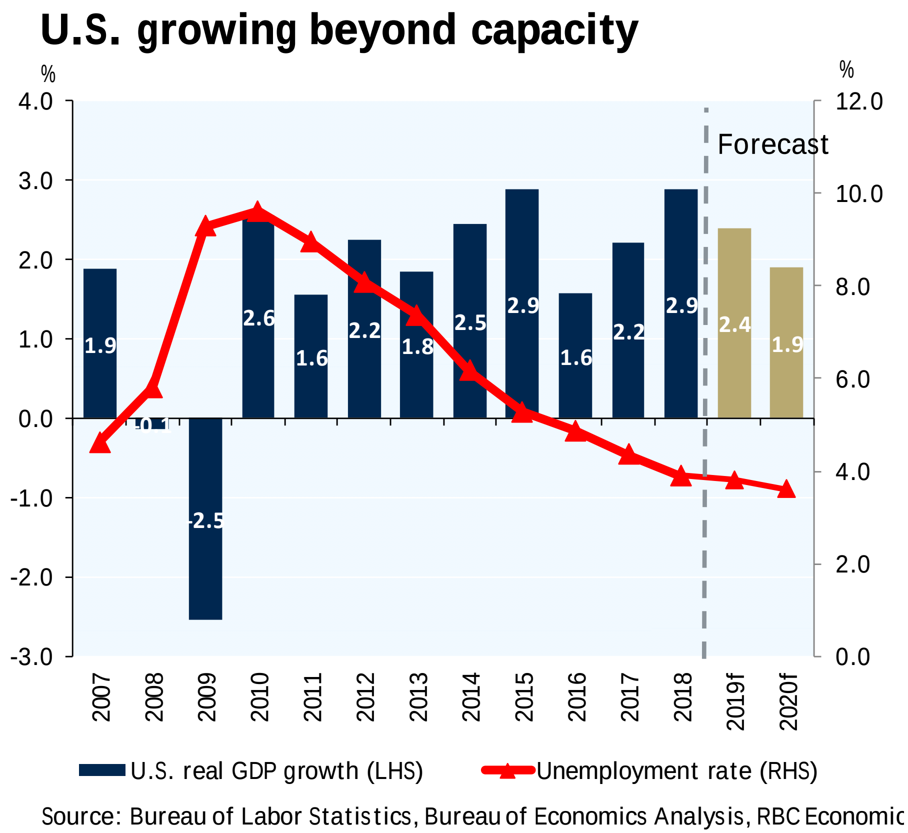
Source: Haver, RBC Economics Research



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.

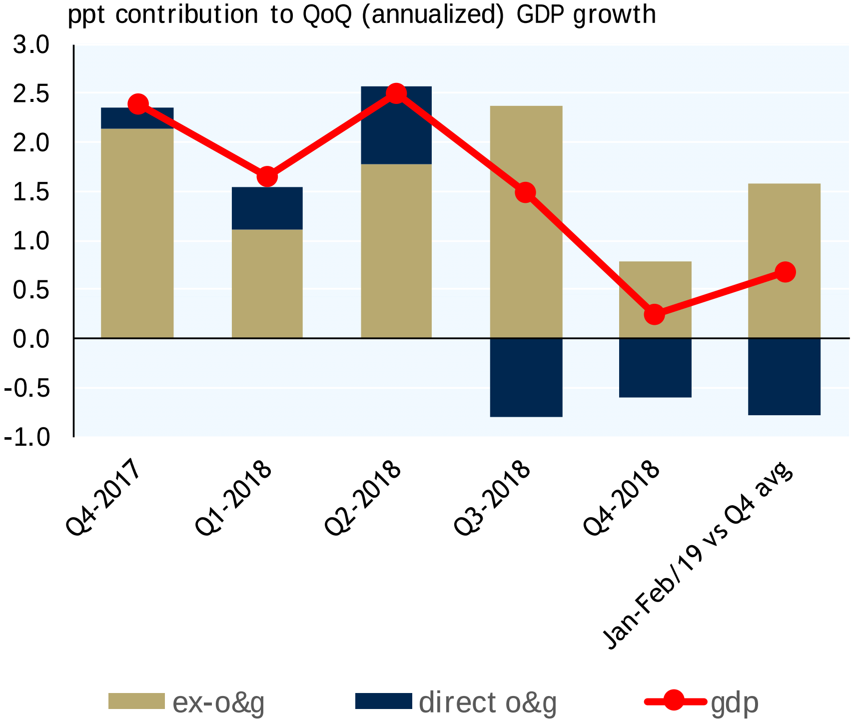
U.S. growth also slowing – but still looks solid



- **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**

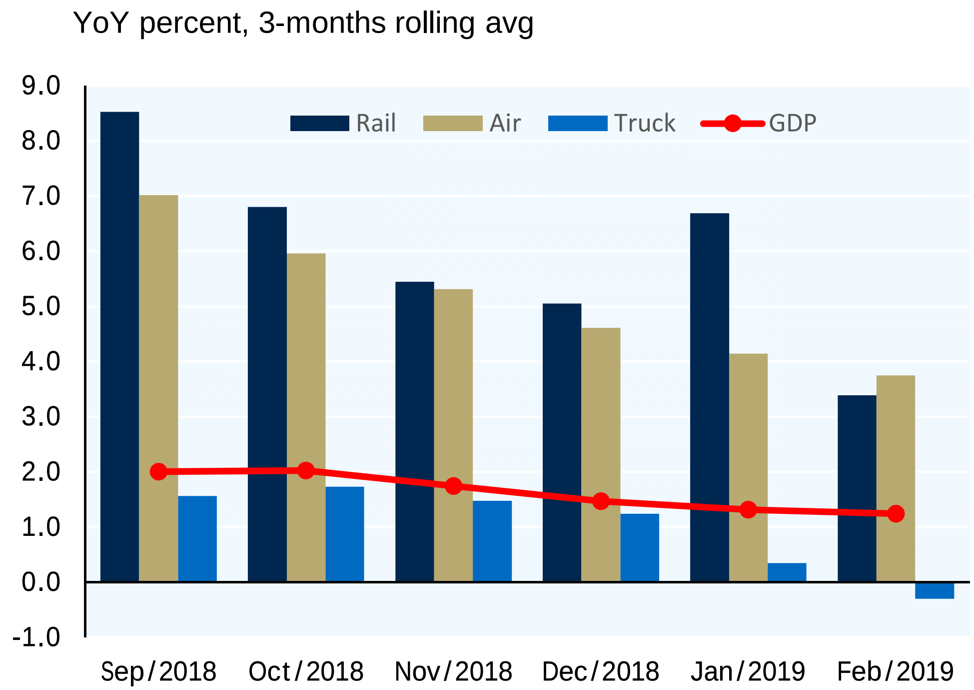
Canada growth softer, but 'transitory' factors at play

Canada GDP by Industry



Source: Statistics Canada, RBC Economics Research

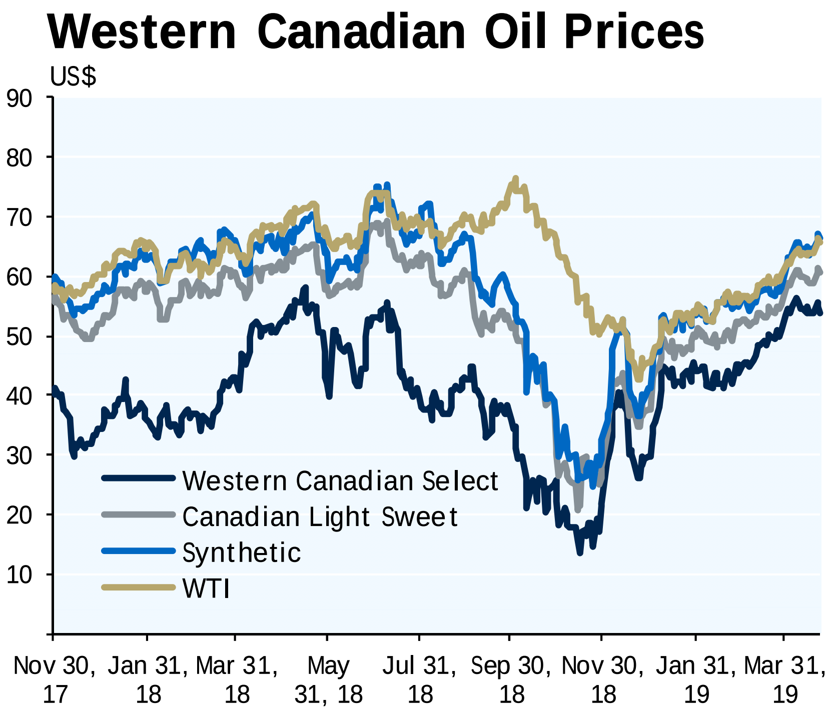
Canada Transportation Production



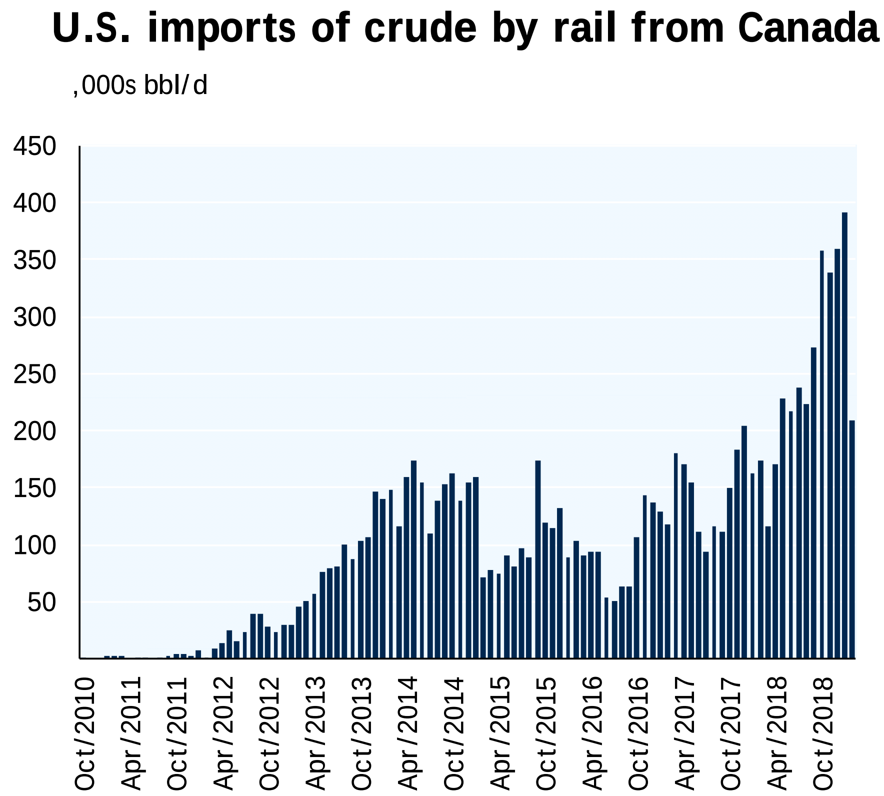
Source: Statistics Canada, RBC Economics Research

- **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



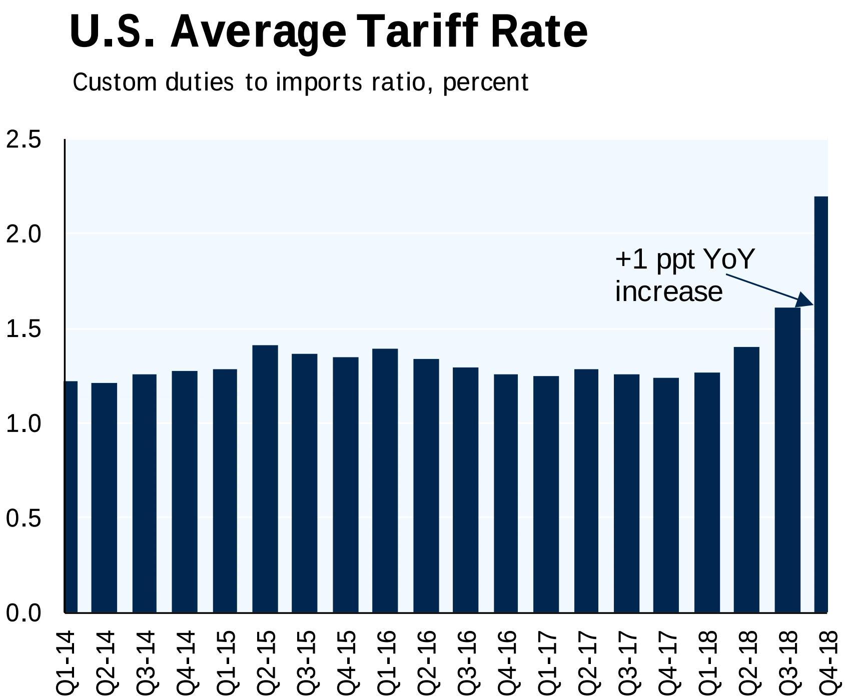
Source: Bloomberg, RBC Economics Research



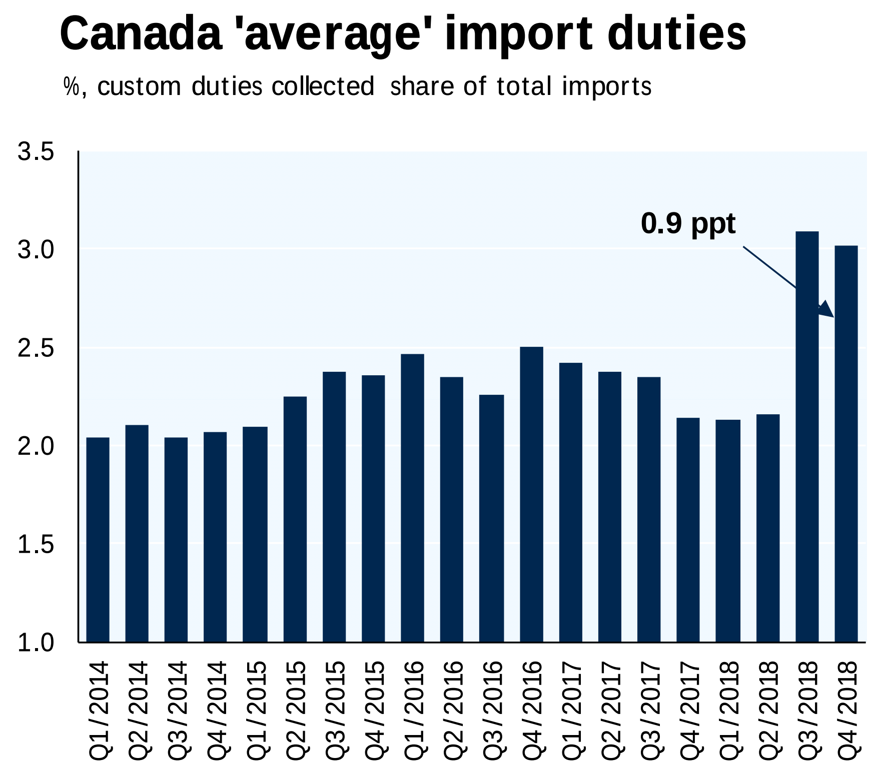
Source: US EIA, RBC Economics Research

- **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



Source: Haver, RBC Economics Research



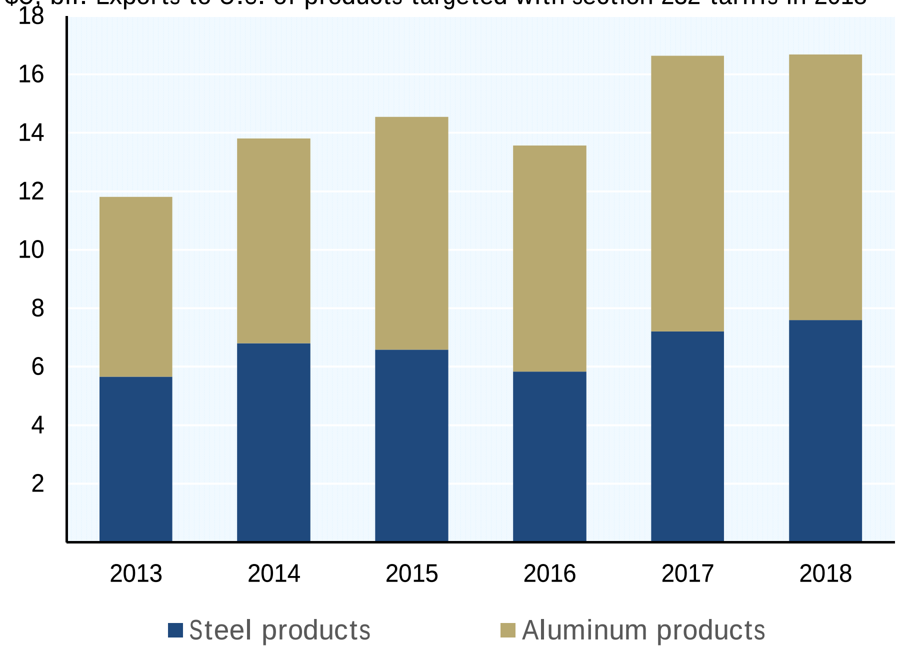
Source: Haver, RBC Economics Research

- **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

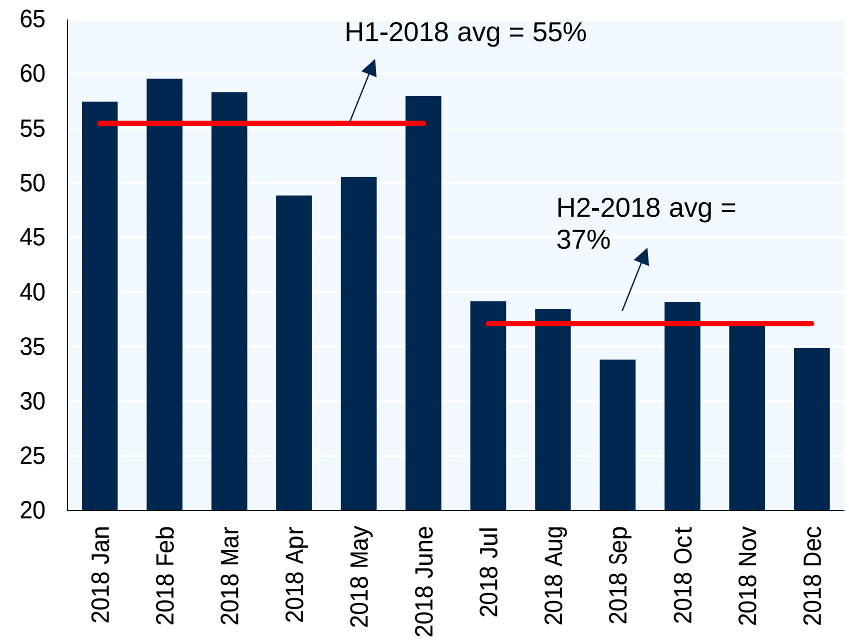
$C, bil. Exports to U.S. of products targeted with section 232 tariffs in 2018



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

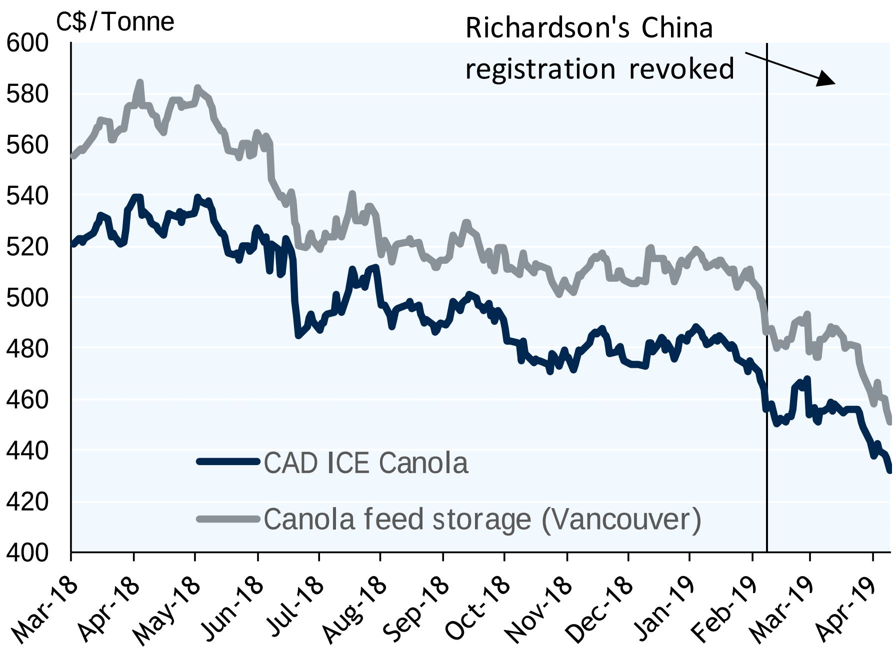


Source: RBC Economics Research

- **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.**

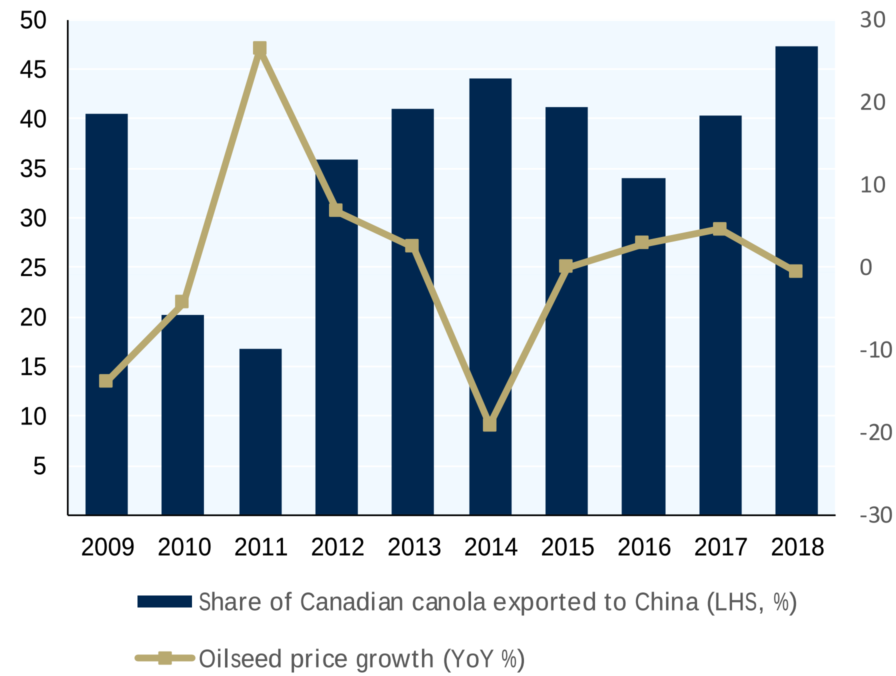
China targeting ag in trade dispute

Canola Prices



Source: RBC Economics Research

Canada and China Canola Data

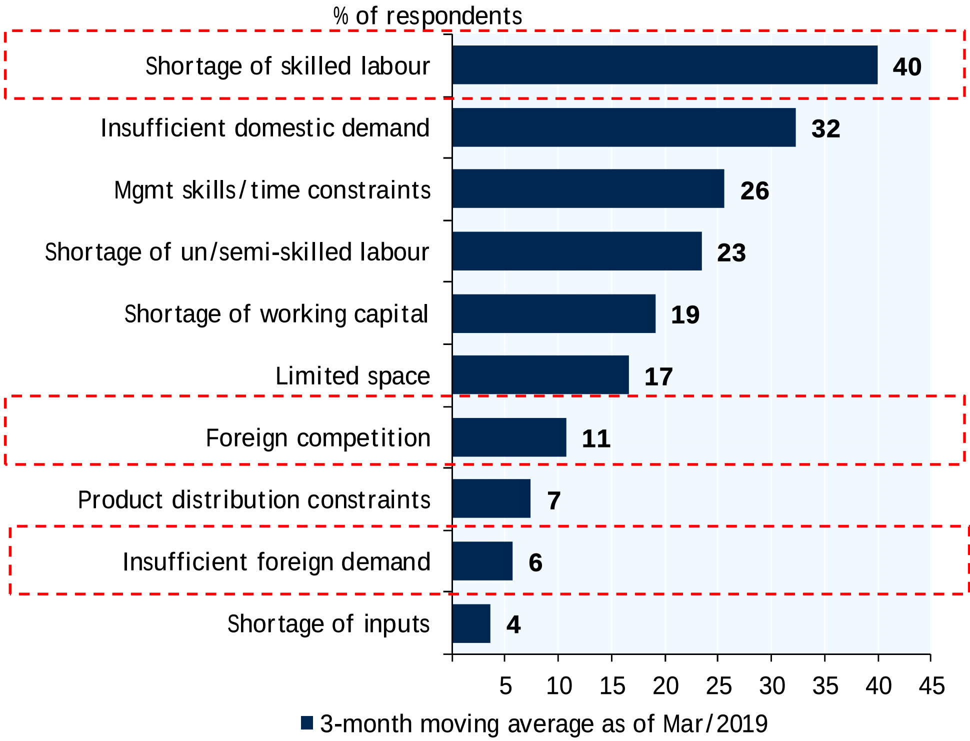


Source: Industry Canada, RBC Economics Research

- **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**

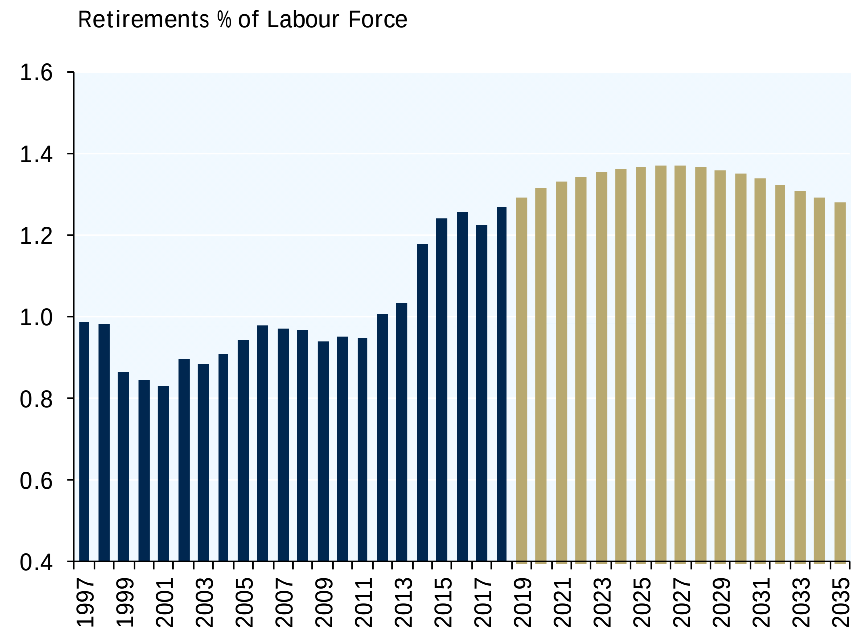
Still over-arching concern: economy running at capacity, and labour shortages not going away any time soon

CFIB: Factors Constraining Production



Source: CFIB Business Barometer, RBC Economics Research

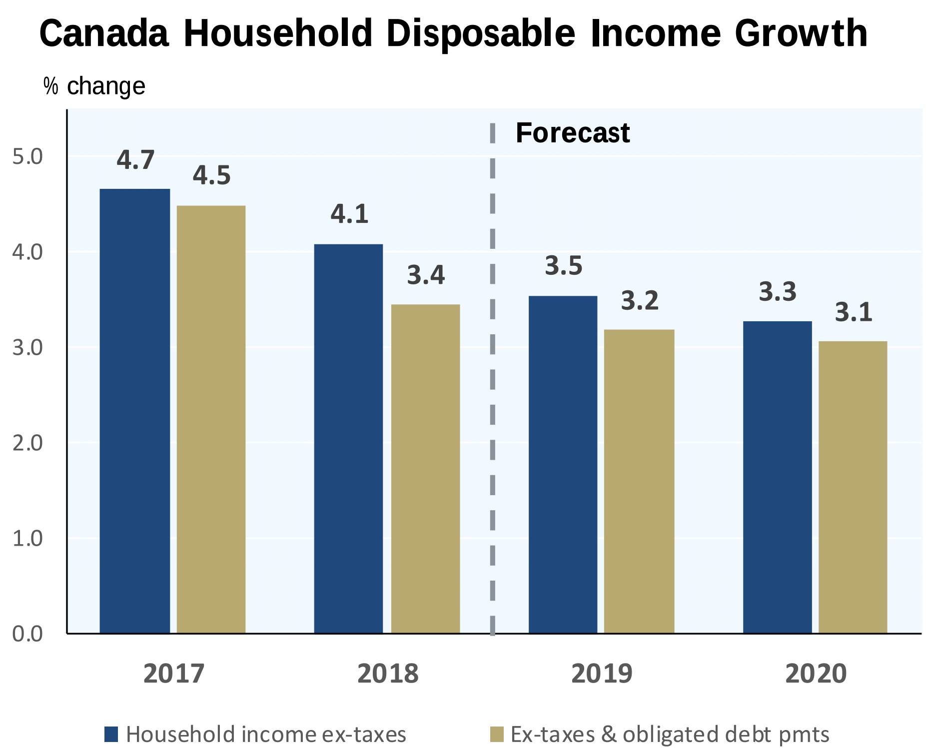
Canada Annual Retirement Rate



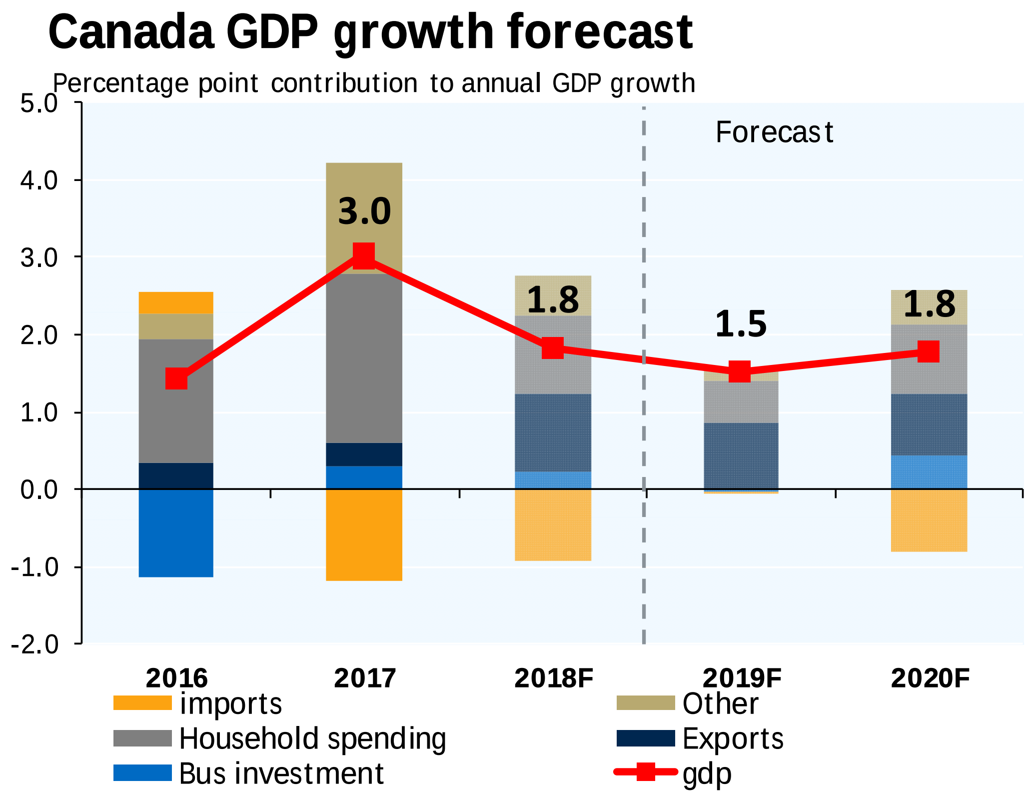
Source: Statistics Canada, RBC Economics Research

- **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



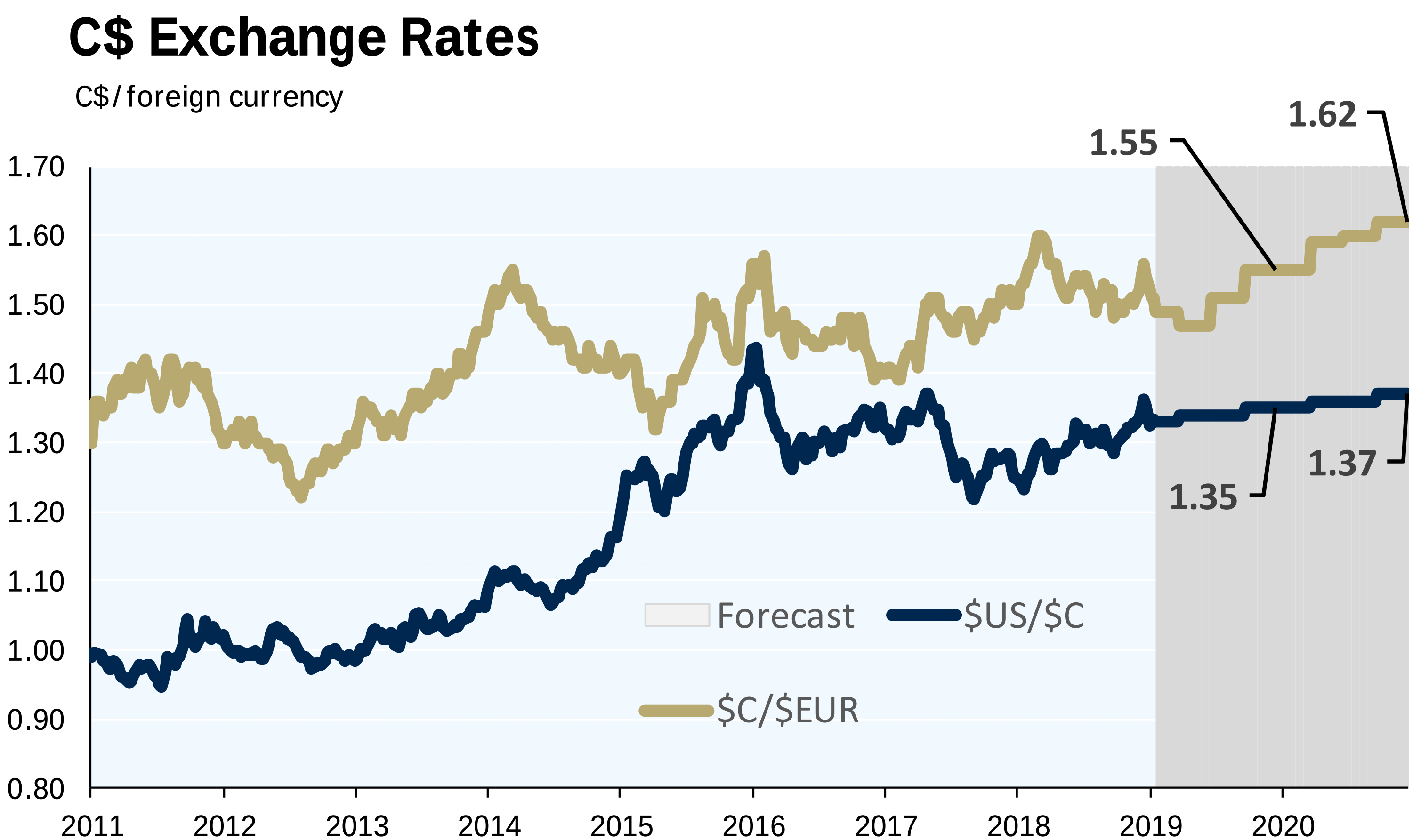
Source: Statistics Canada, RBC Economics Research



Source: Statistics Canada, RBC Economics Research

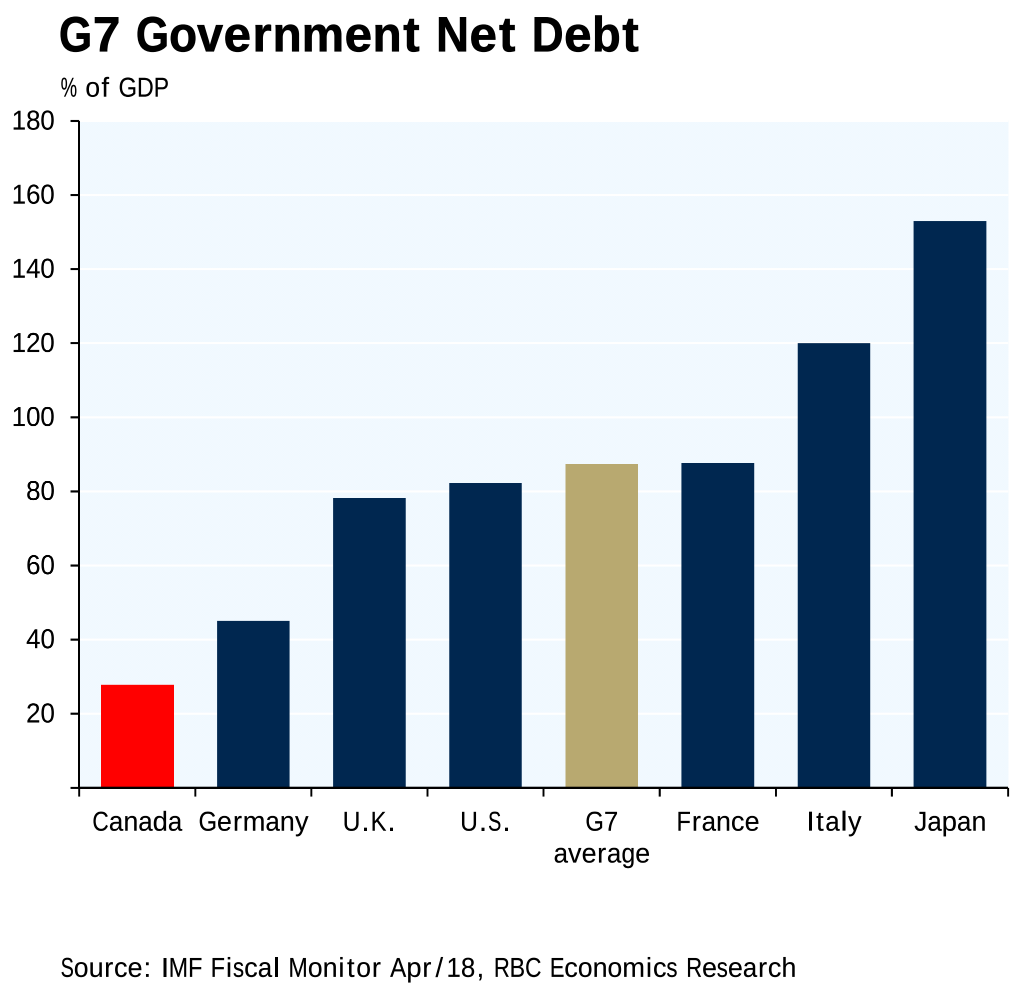
- O&G weakness recently *probably* transitory – but growth still trending lower on balance
- Higher interest rates Household spending growth slowing – some offset from stronger business investment and exports.
- Benign forecasts. But probably more that can go wrong than right at this point.

BoC on hold means CAD getting weaker



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.**

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