

# The Economy is Back...With a Difference



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September 2017



# The Ten Plagues



Harvey, Irma, North Korea, ISIS....

# Growth Outlook: Not “Great Again”, But Good Enough

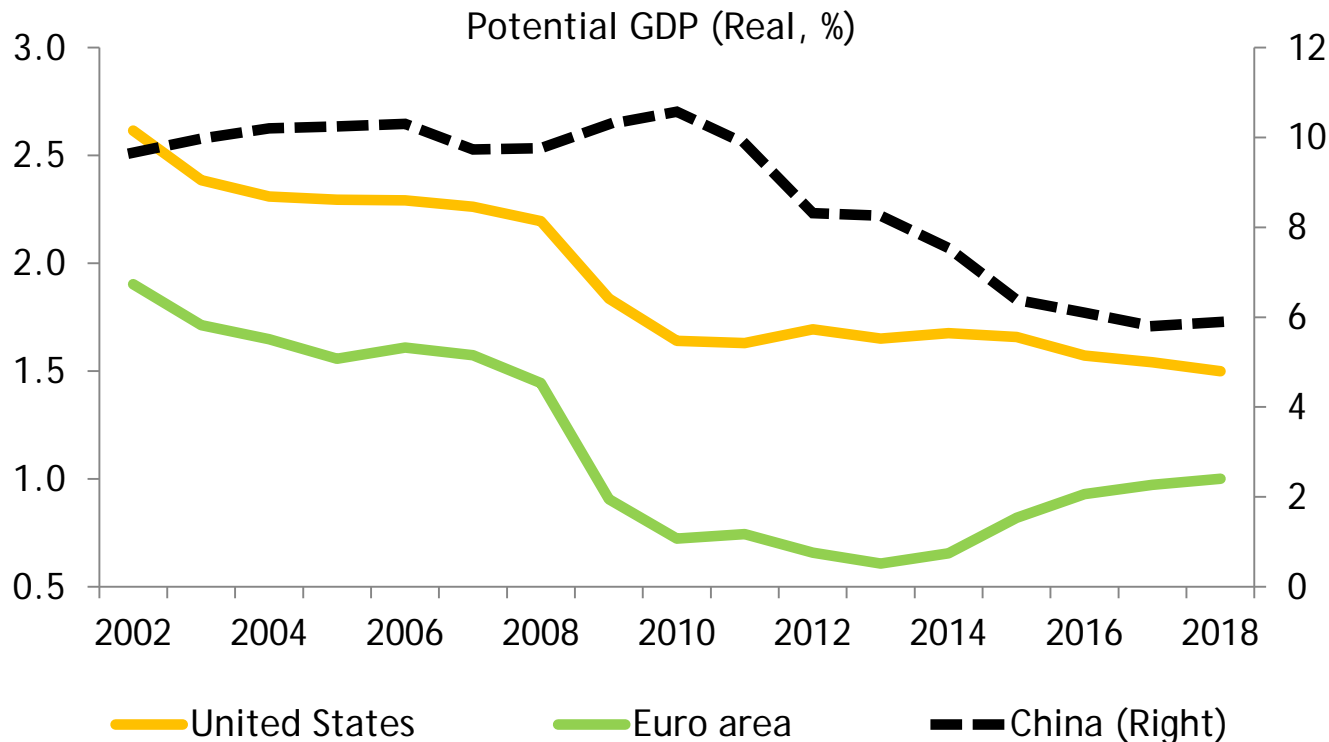
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	5 yrs before recession, avg	2014A	2015A	2016A	2017F	2018F	2019F
World*	4.8	3.4	3.2	3.0	3.4	3.1	3.0
US	2.9	2.6	2.9	1.5	2.1	2.2	1.9
Canada	2.6	2.6	0.9	1.5	3.0	2.1	1.6
Euroland	2.2	1.3	1.9	1.7	2.0	1.7	1.4
UK	3.3	3.1	2.2	1.8	1.5	1.3	1.4
Japan	1.8	0.2	1.1	1.0	1.3	1.1	0.8
Brazil	4.0	0.5	-3.8	-3.6	0.2	1.6	2.5
Russia	7.5	0.7	-2.8	-0.2	1.2	1.5	2.0
India	8.9	6.4	7.5	8.0	7.5	7.2	7.2
China	11.6	7.3	6.9	6.7	6.7	6.5	6.2

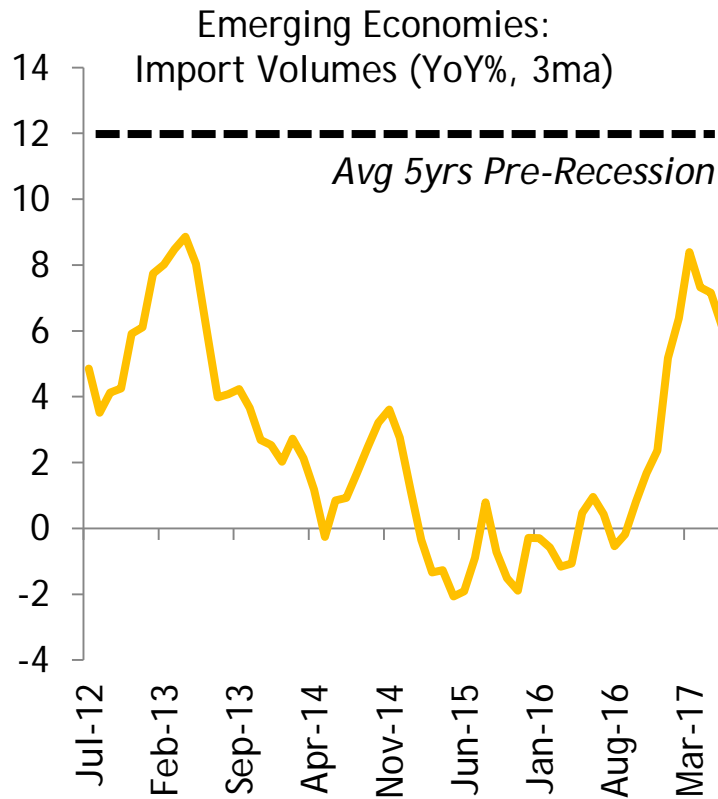
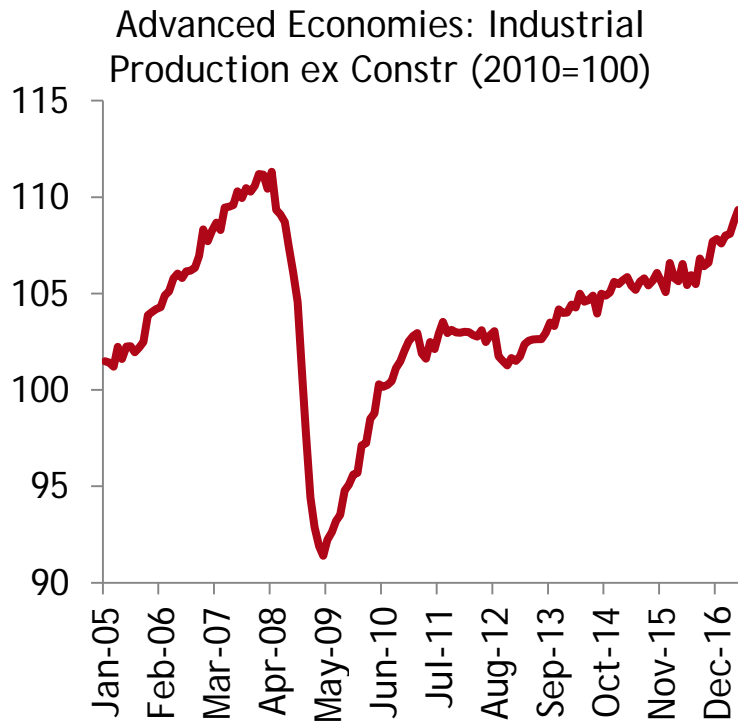
\* at Purchasing Power Parity



# Slower Speed Limits: GDP Bar is Lower for Full Employment



# Advanced Economies Fully in Gear; EM Imports Better, But Still Pale vs. Prior Cycle

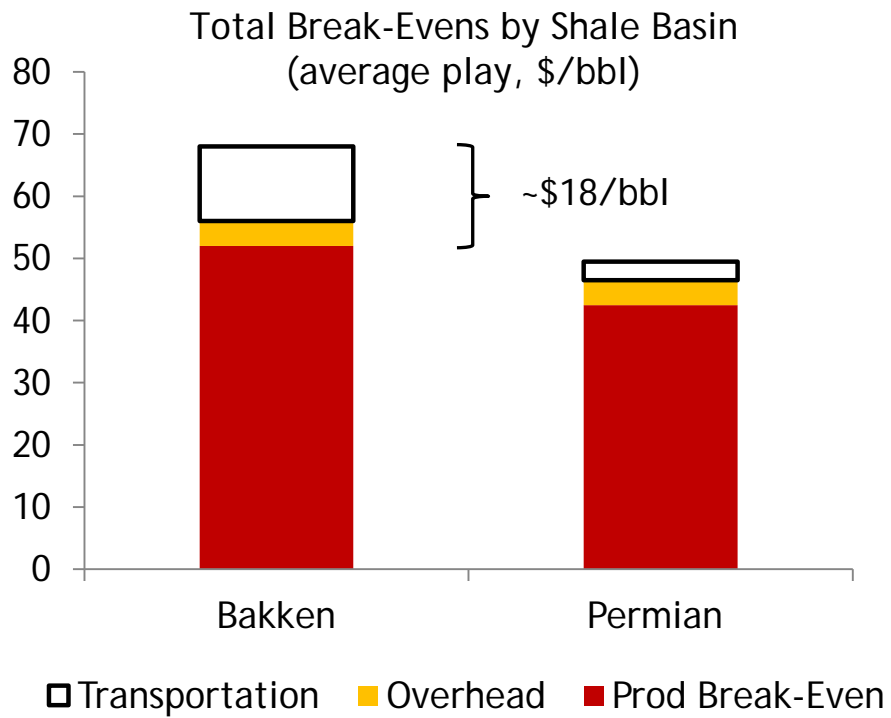


# Resource Outlook: Not So Golden

		5-Sep	2014	2015	2016	2017 (f)	2018 (f)	2019 (f)
Oil (WTI)	\$/bbl	48	93	49	43	49	53	55
Natural Gas (Henry)	\$/Mn Btu	2.90	4.35	2.61	2.49	2.95	2.80	2.90
Gold*	\$/troy oz	1331	1184	1061	1148	1275	1250	1225
Silver*	\$/troy oz	17.92	15.7	13.8	15.9	18.0	18.1	18.0
Iron Ore (62% Fe)	\$/mt	78	97	56	58	74	70	67
Copper	\$/lb	3.13	3.12	2.50	2.21	2.80	2.89	2.59
Aluminum	\$/lb	0.95	0.85	0.76	0.73	0.91	0.92	0.82
Nickel	\$/lb	5.54	7.68	6.38	4.37	4.89	5.11	4.74
Zinc	\$/lb	1.46	0.98	0.95	0.95	1.36	1.39	1.24
Lumber**	\$/'000 bd ft	387	338	268	300	370	395	370
Potash	\$/tonne	218	297	304	246	220	230	230

\* end of period, \*\*1st CME Futures

## Oil Prices Need to Be Above \$50 to Sustain US Rebound

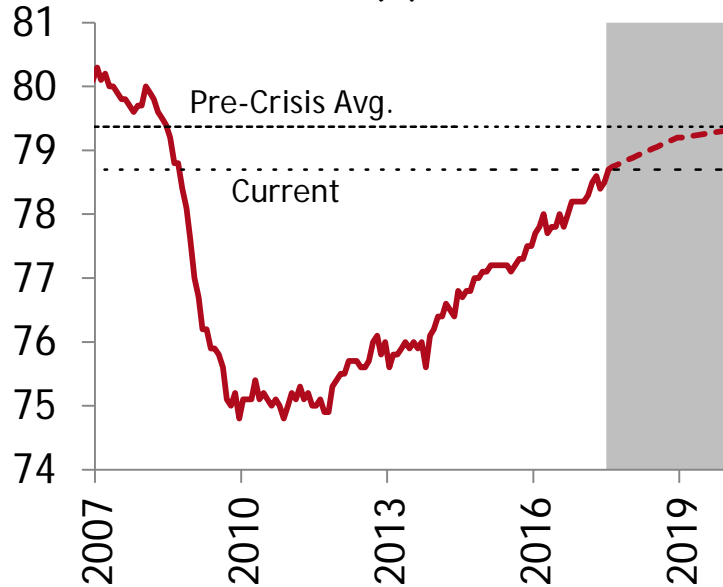


Source: CIBC, EIA, Bloomberg

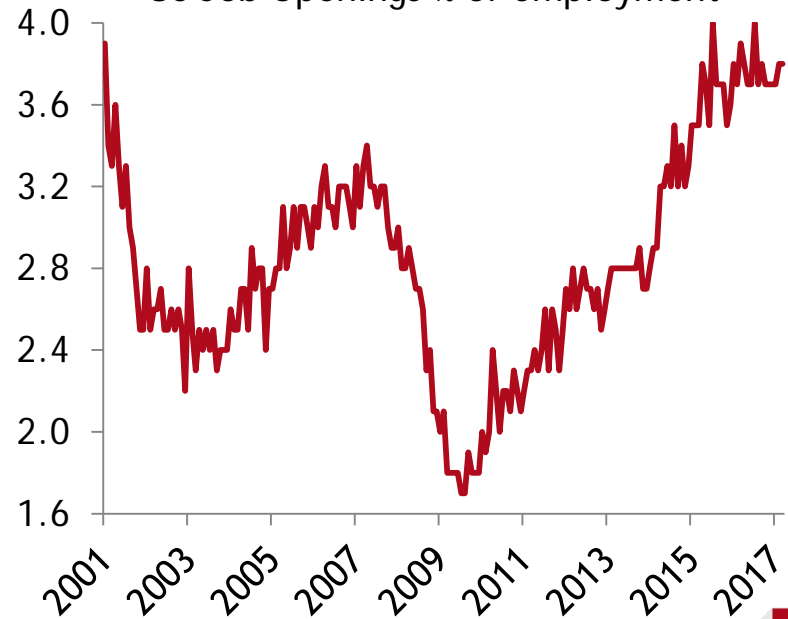


# US Employment Recovery Still Has Some Room (L), But Businesses Having Hard Time Filling Vacancies (R)

### Prime-Age Employment-to-Population Ratio (%)

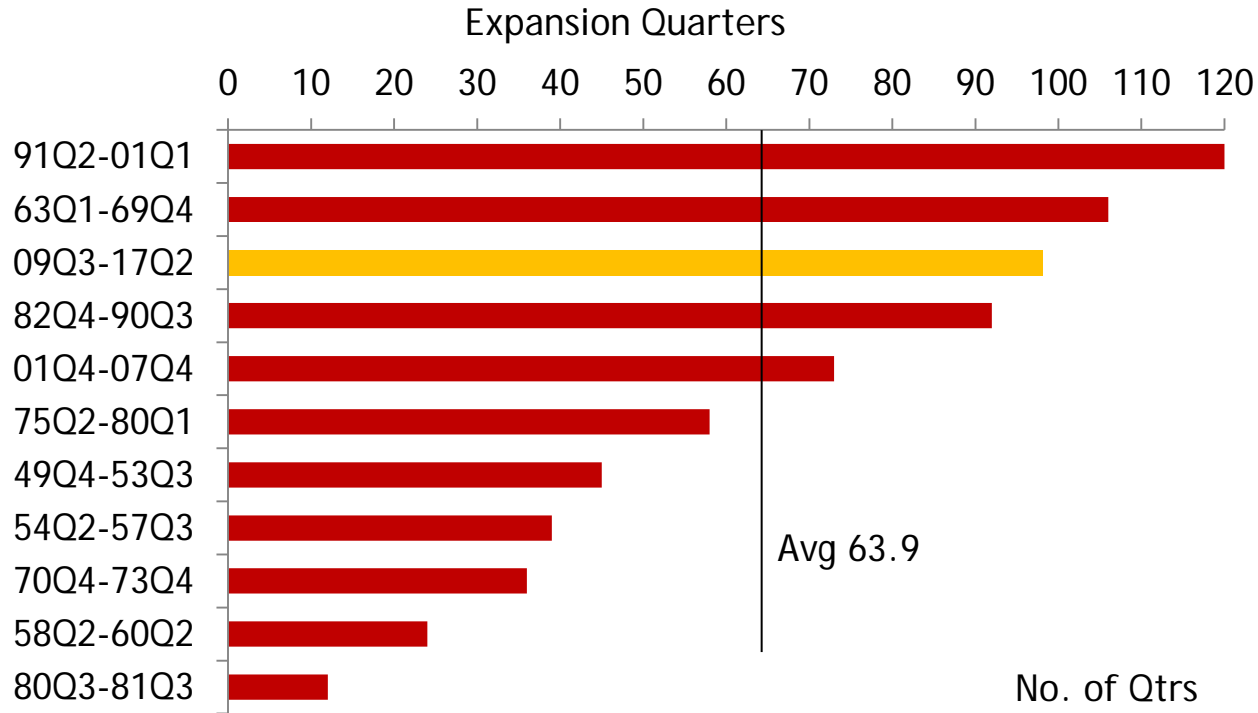


### US Job Openings % of employment





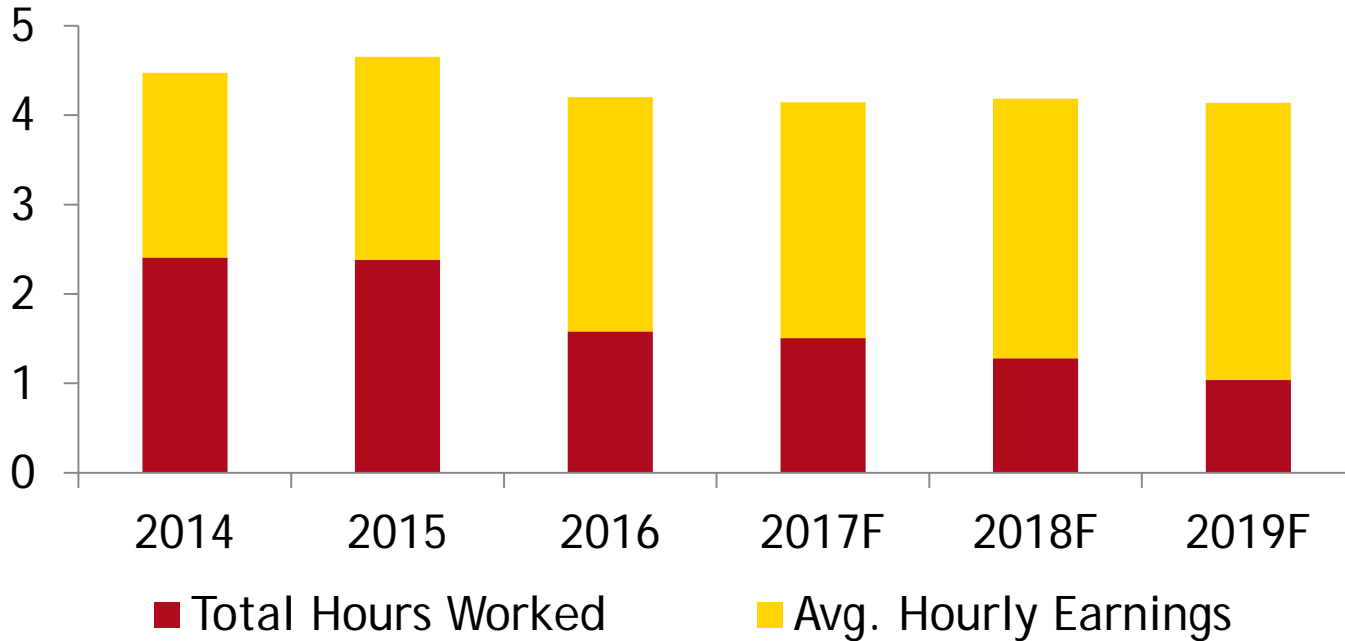
# The Cycle is Old. Should We Worry?



Source: BEA, CIBC



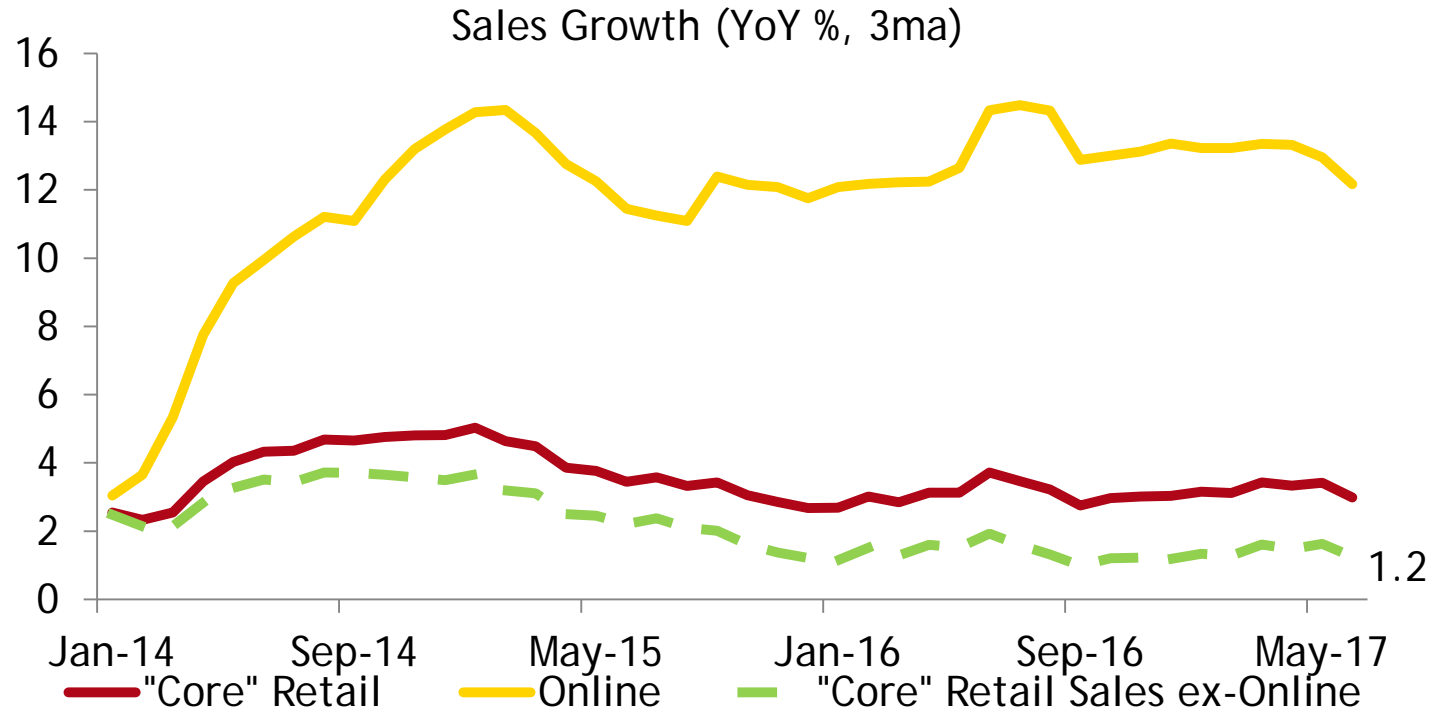
## Composition of Income Growth (%)



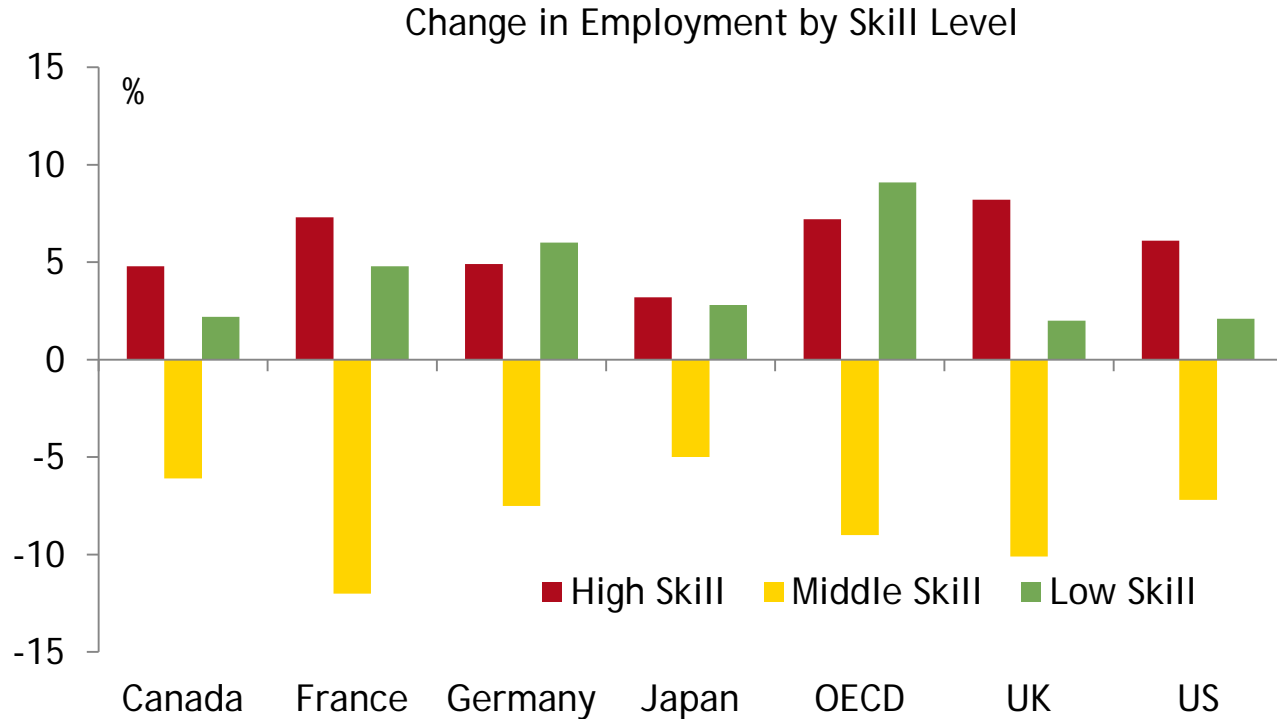
Source: Haver Analytics, CIBC



# Retail Spending: Not as Robust in Terms of Need for Bricks and Mortar



# The Shrinking Middle Class: Dollar Stores and Luxury Services



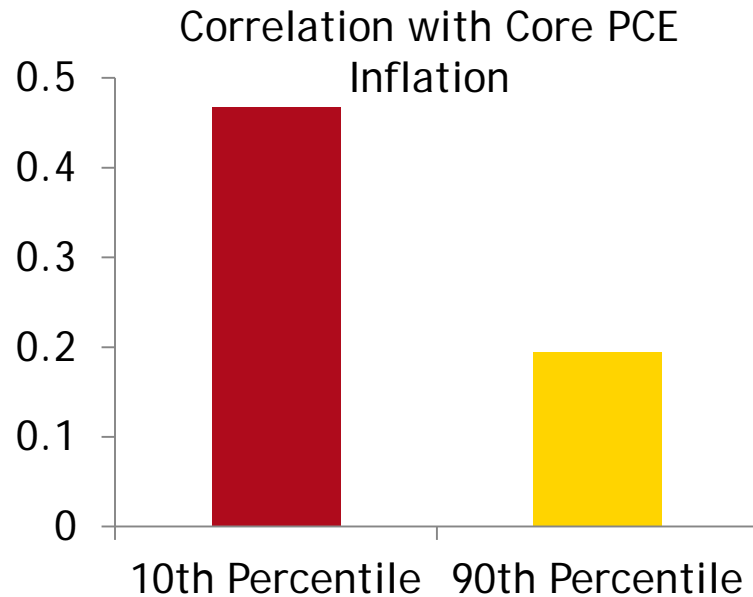
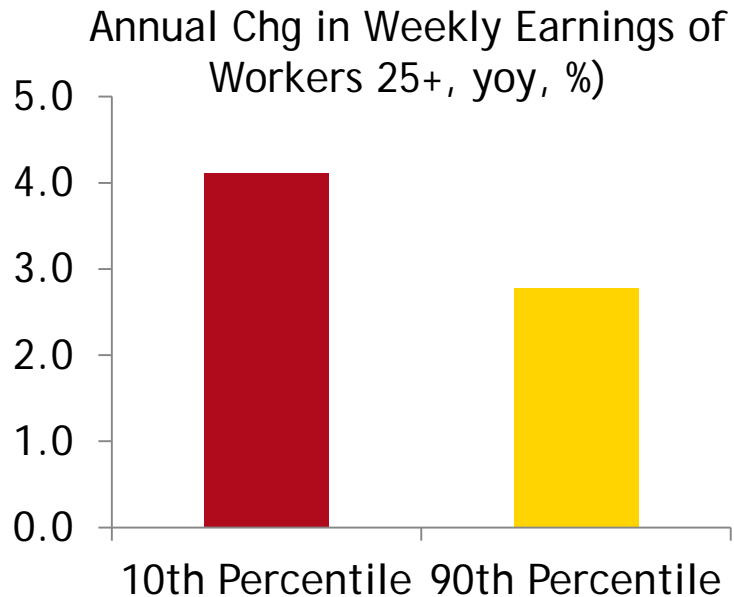
Source: OECD, CIBC



# Where's Waldo?



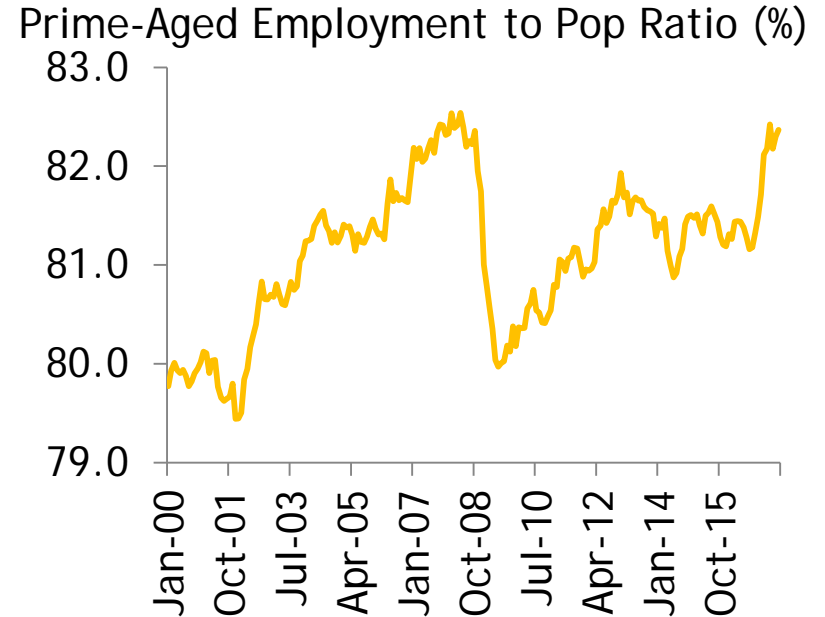
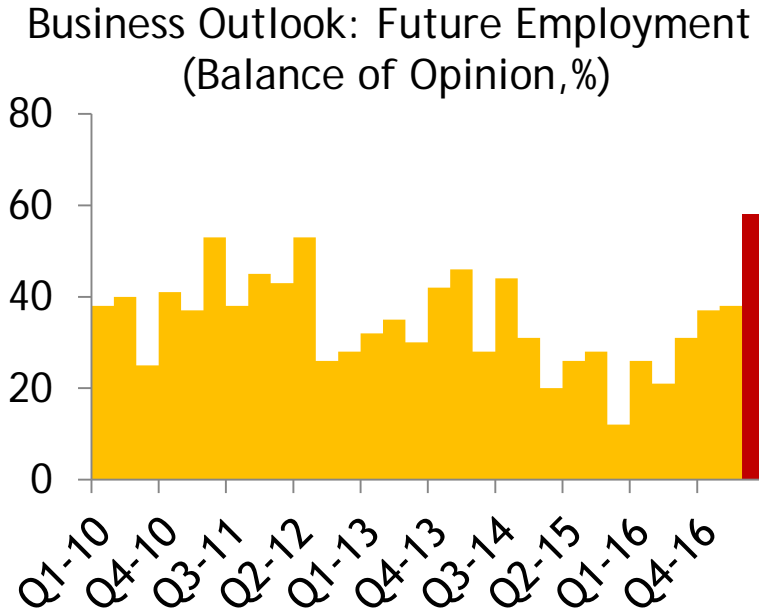
# Low Income Earners Seeing Better Wage Gain (L), Tied to Higher Inflation in the Past (R)



Source: Haver Analytics, CIBC

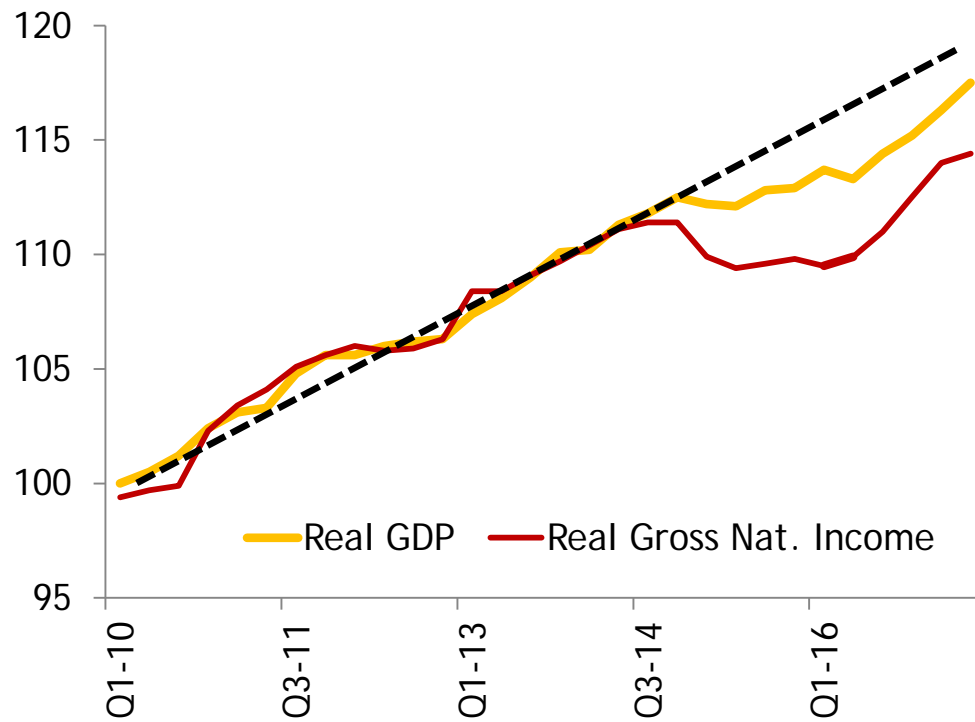


# Canadian Business Plans a Hiring Spree (L) But Canadians are Already Working (R)



Source: Statistics Canada, CIBC



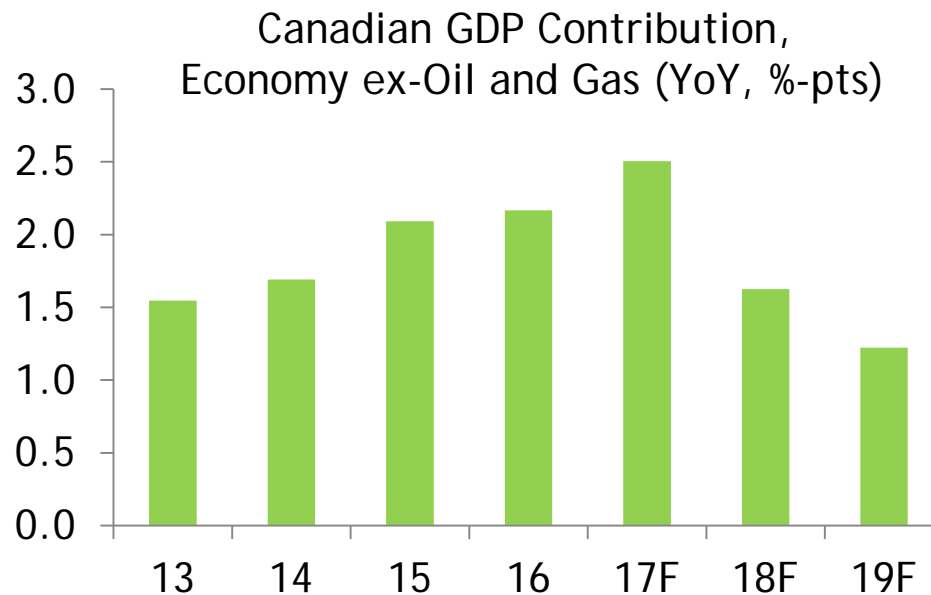
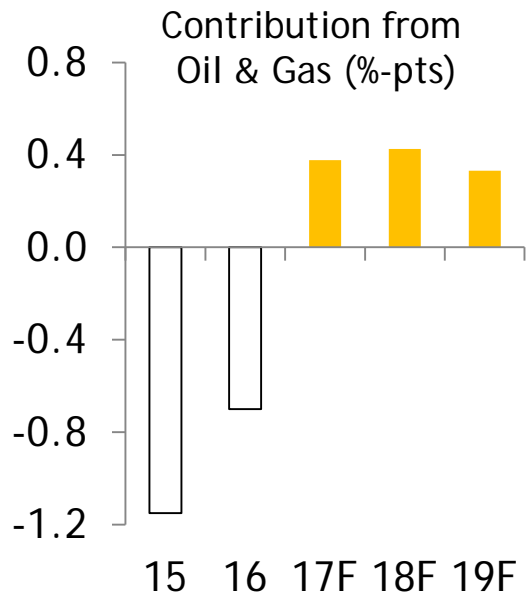


Source: Statistics Canada, CIBC





# Both Energy Sector (L) and Rest of Economy (R) Helped 2017 Growth Spurt



Source: Statistics Canada, CIBC



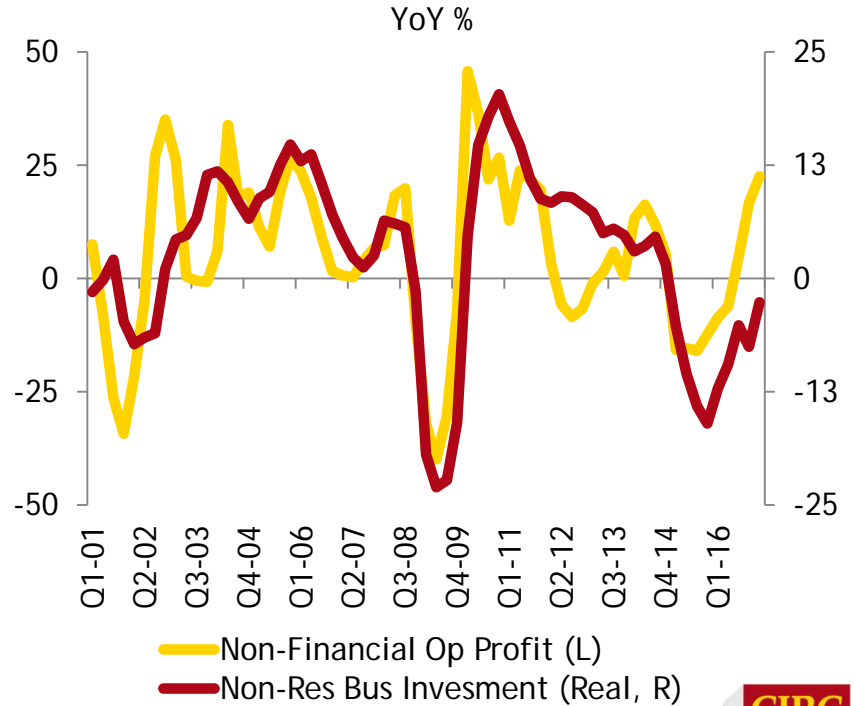
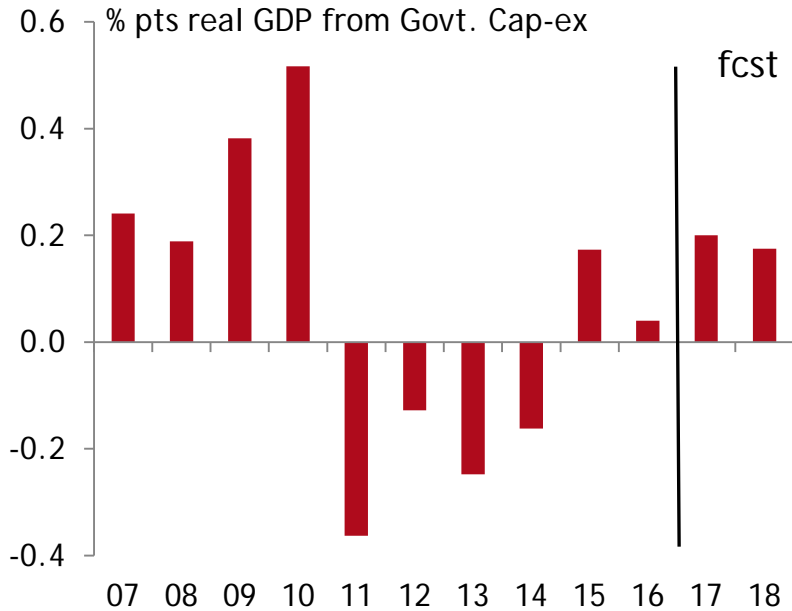
# Provincial Forecast Table: Alberta Climbing From a Hole Previous Leaders to Decelerate

	Real GDP Y/Y % Chg				Nominal GDP Y/Y % Chg			
	2016E	2017F	2018F	2019F	2016E	2017F	2018F	2019F
BC	3.4	3.2	2.2	1.5	4.8	5.4	4.2	3.4
Alta	-3.3	3.1	2.3	1.9	-5.8	7.4	6.0	5.3
Sask	-0.9	2.9	2.1	1.8	-3.1	6.5	5.5	4.8
Man	2.2	2.6	2.0	1.8	3.7	4.8	4.0	3.8
Ont	2.8	3.2	2.3	1.7	4.3	5.4	4.3	3.6
Qué	2.3	2.8	1.8	1.5	3.8	5.0	3.8	3.5
NB	1.2	1.8	1.1	1.0	2.7	4.0	3.1	3.0
NS	1.0	1.7	1.2	0.9	2.5	3.9	3.2	2.9
PEI	2.0	1.4	1.1	0.8	3.5	3.6	3.1	2.8
N&L	1.5	-1.8	-0.9	0.4	-0.7	1.9	2.5	3.4
<b>Canada</b>	<b>1.5</b>	<b>3.0</b>	<b>2.1</b>	<b>1.6</b>	<b>2.1</b>	<b>5.5</b>	<b>4.4</b>	<b>3.8</b>

Source: Statistics Canada, CMHC, CIBC



# The Austin Powers Infrastructure Stimulus (L), Will the Private Sector Join In? (R)



“We will modernize NAFTA so that it is a win-win for all our trading partners”  
(Pence)

“More than our entire deficit (with Canada) comes from hydrocarbons and electric energy...I don't call that blameful exports” (Ross)

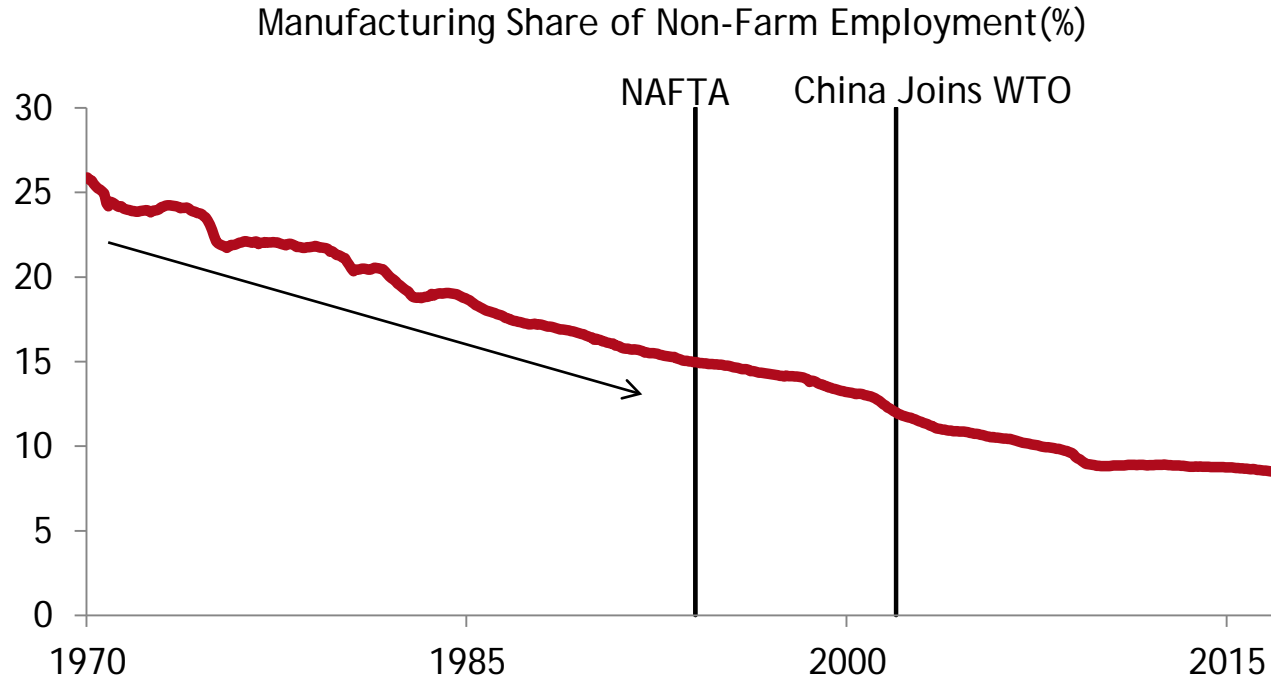


“We can’t let Canada...take advantage and do what they did to our workers and farmers... I want to just mention included in there is lumber, timber and energy”

“We lose with Canada — big-league. Tremendous, tremendous trade deficits with Canada.”



# Manufacturing Share of US Employment Fell Before NAFTA and China's WTO Membership

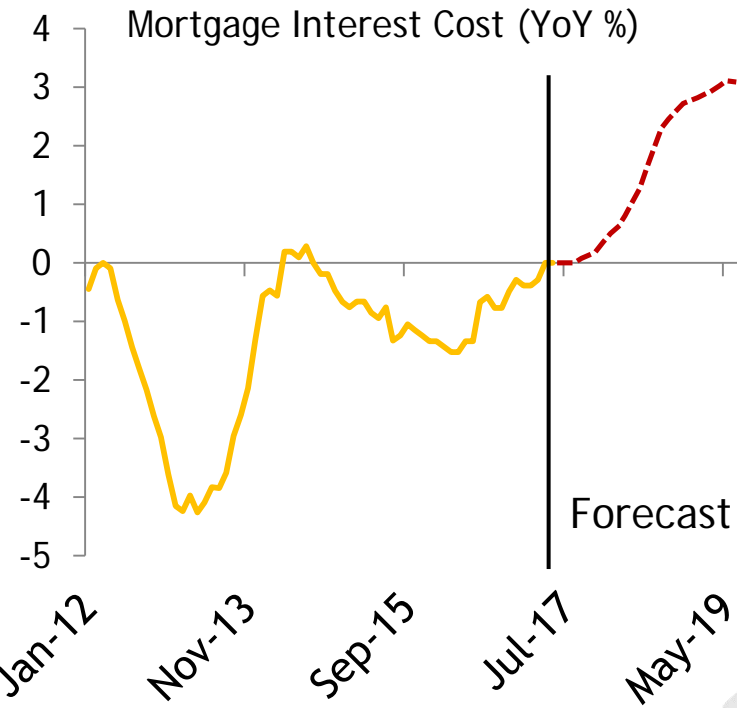
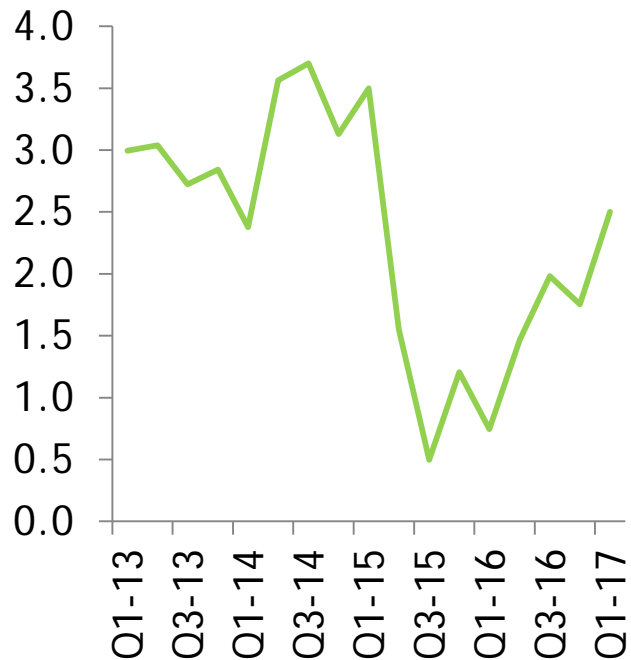


Source: Bureau of Labor Statistics, CIBC



# Compensation Firming After Oil-Shock Lull (L) Mortgage Interest Costs Will Feed into CPI (R)

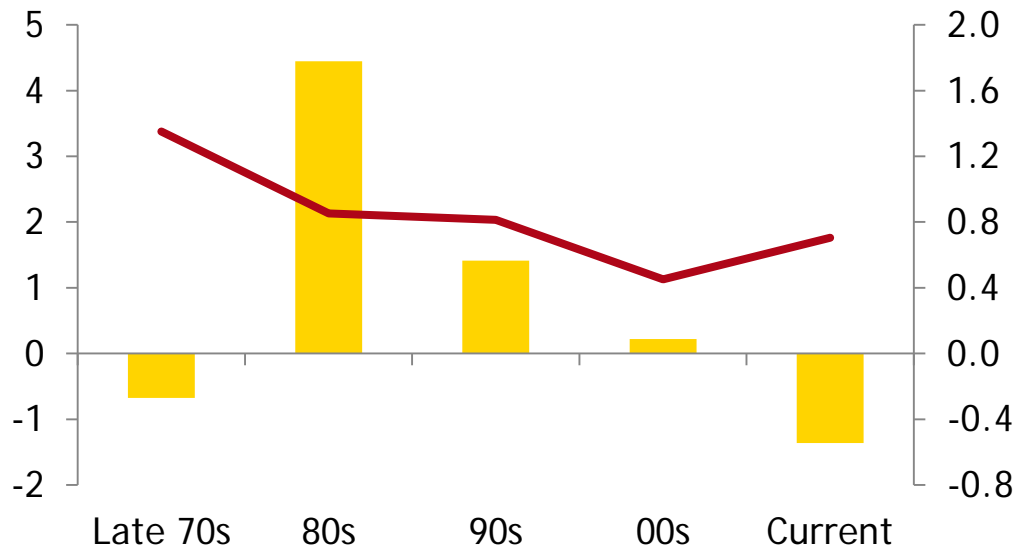
### Compensation per Hour (% YoY)



Source: Statistics Canada, CIBC



# Why Will US Rates Rise Less in this Cycle? Less Capital Spending at Any Given Real Interest Rate



■ Real Fed Funds (% , left)    — Private Fixed Inv GDP Cont (%-pts, right)

*Excludes Recession Quarters*

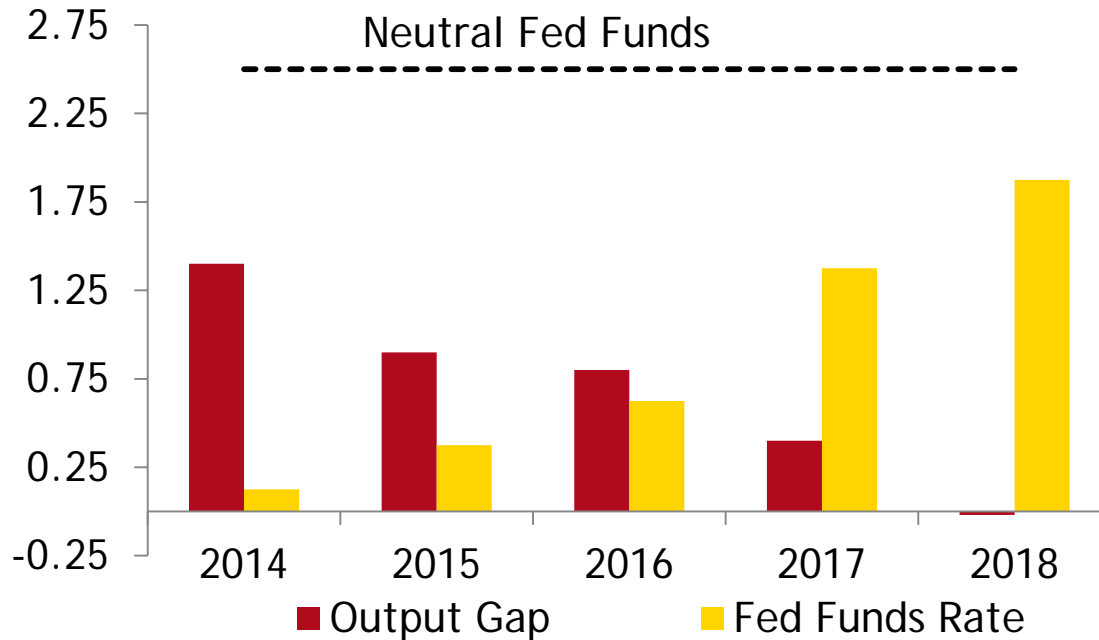




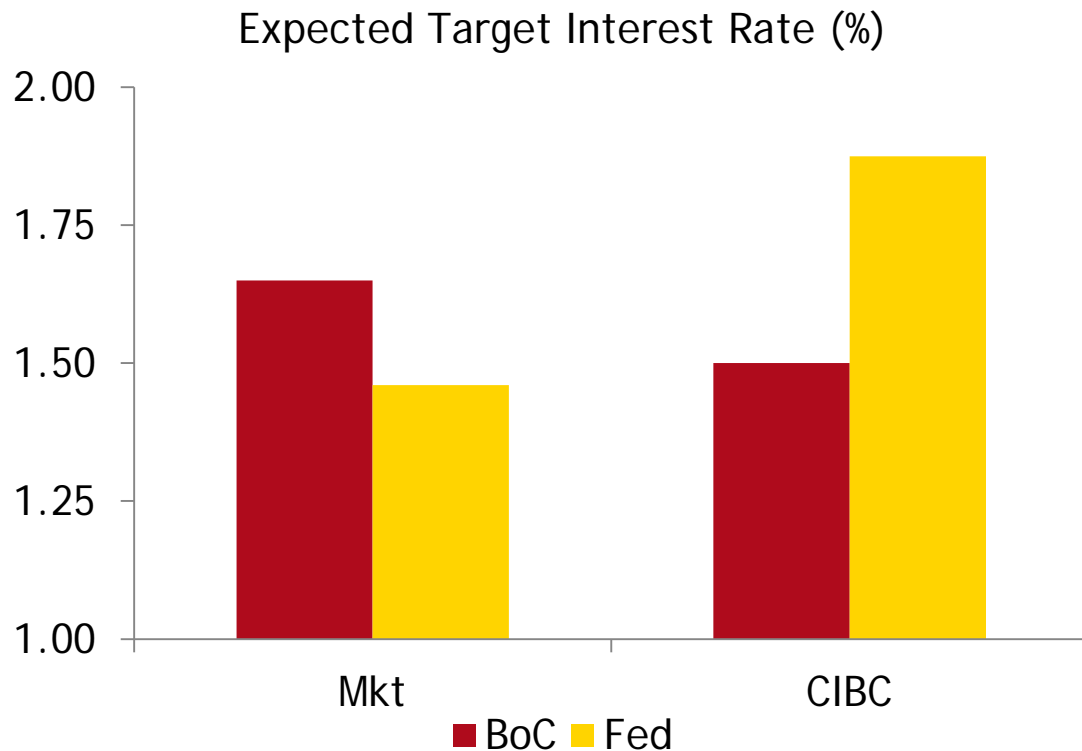


# Nearly at Neutral by End of 2018 as US Output Gap (Economic Slack) Narrows

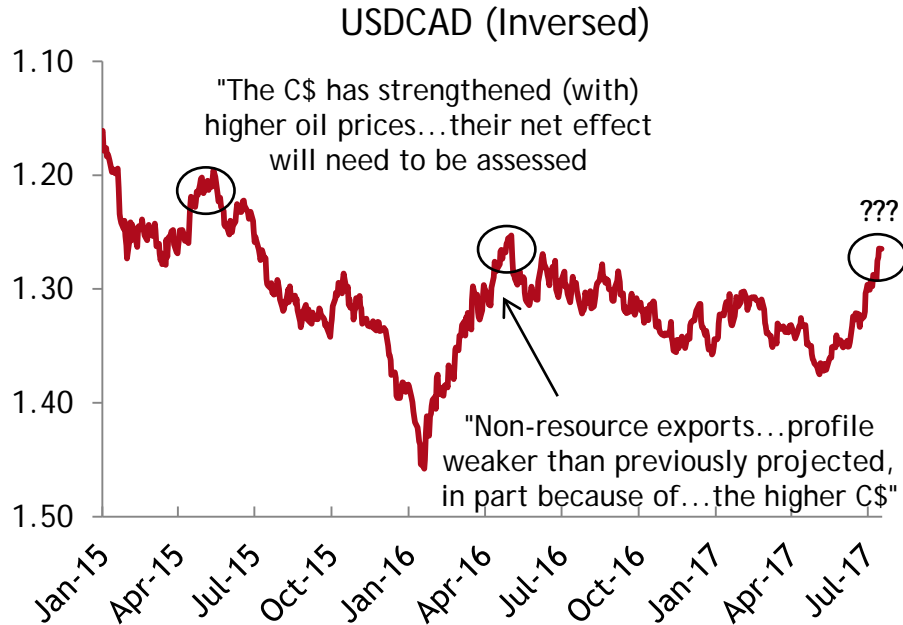
Estimate of the Output Gap and Fed Funds Rate(%)



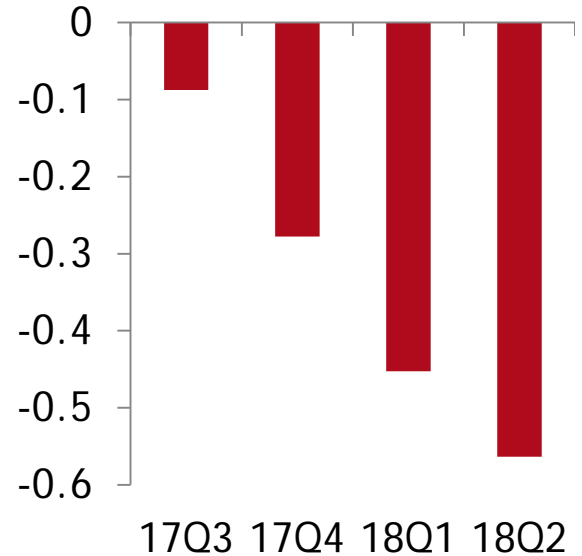
# Markets Now Slightly Too Hawkish on BoC But Much Too Dovish on Fed



# Limit on BoC Rates: C\$ Soaring to Worrisome Level (L) Stronger C\$ Would Delay Getting to 2% Inflation (R)

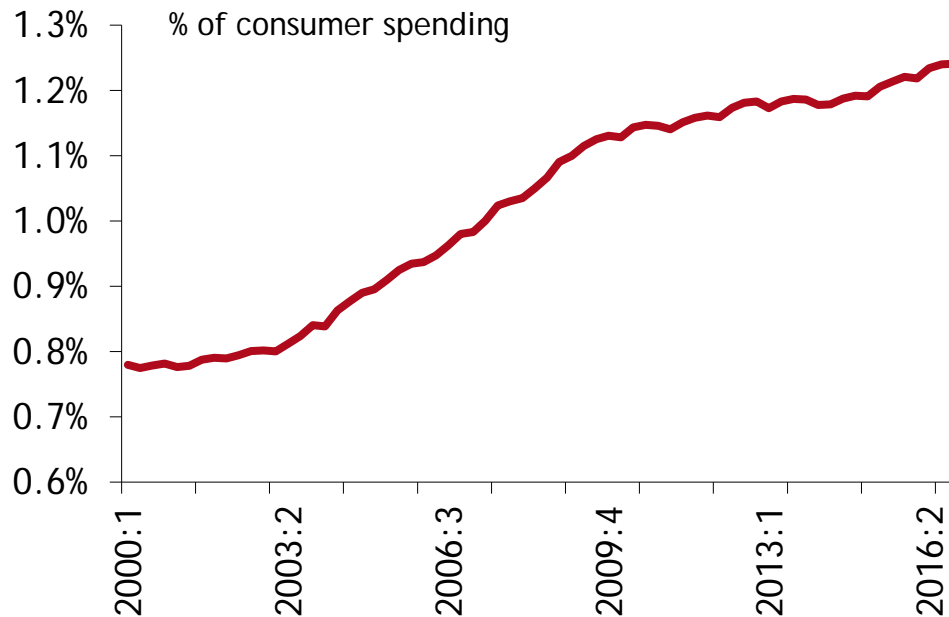


### Impact on YoY CPI From 1.20 USCAD vs Baseline (%-pts)



# A Mountain of Debt, at Very Low Rates Makes Each 100 bps a Greater Squeeze on Consumers

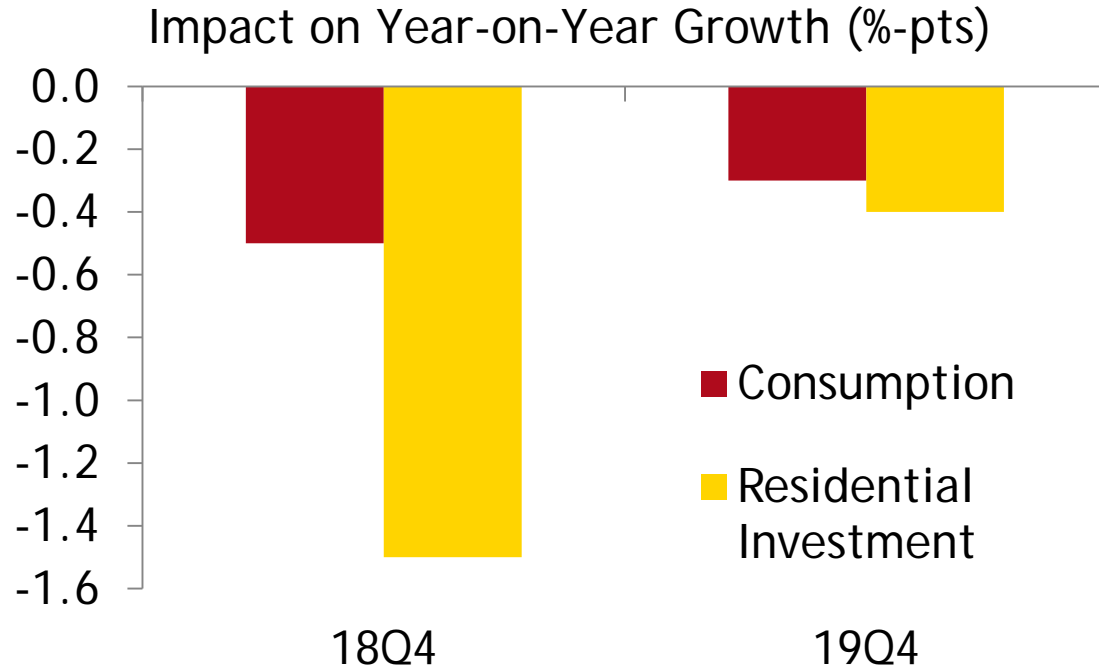
### Impact of 100-bp Increase in Effective Interest Rate



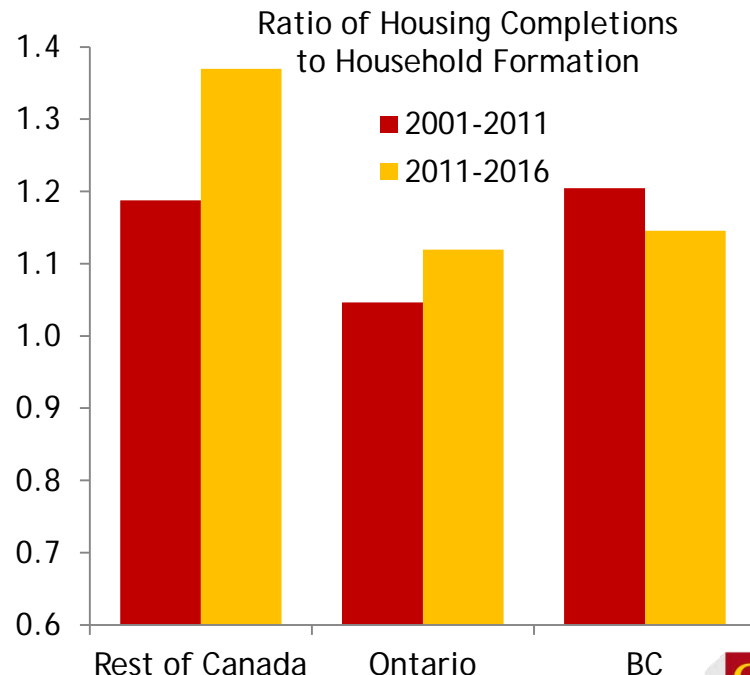
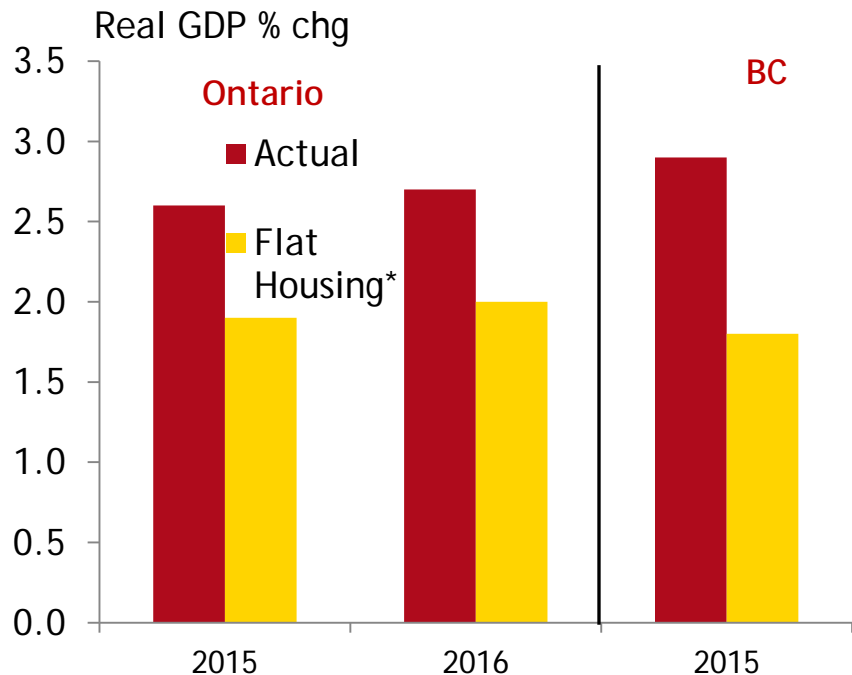
Source: Statistics Canada, CIBC



# Pushing House Prices Down 10% Nationally Has Material Impacts According to BoC Model



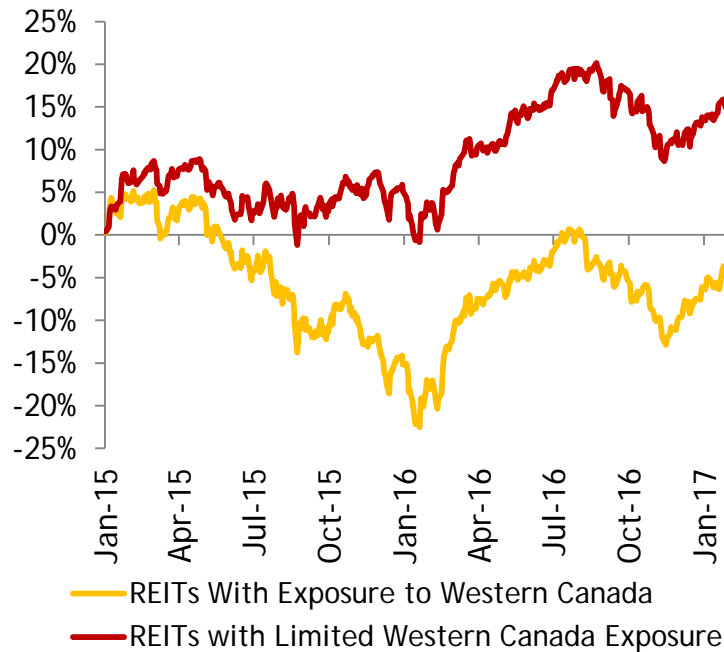
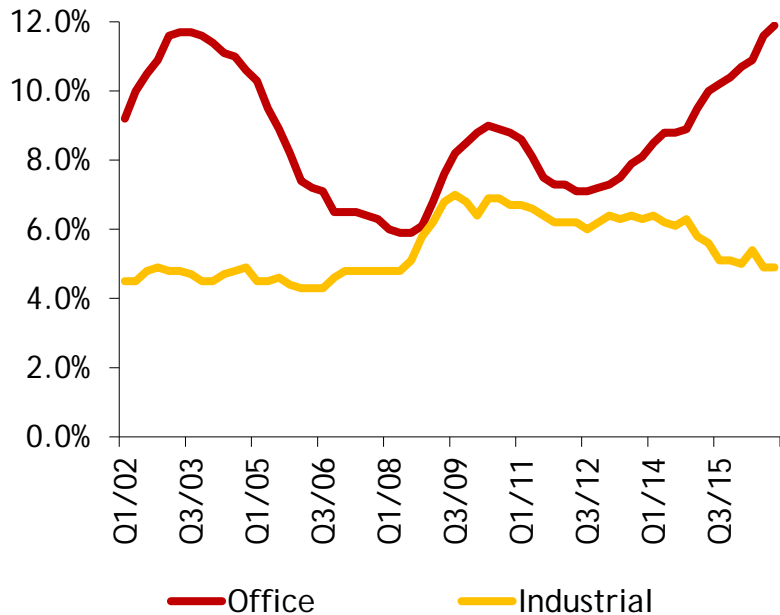
# Housing a Large Growth Contributor in Ontario, BC (L) But No Overbuilding vs Household Formation (R)



*\*Growth rate assuming unchanged levels for residential construction industry and real estate services*



# Oil Shock Saw Office Vacancies Soar, Mostly in Alberta REIT Prices Have Maintained the Gap

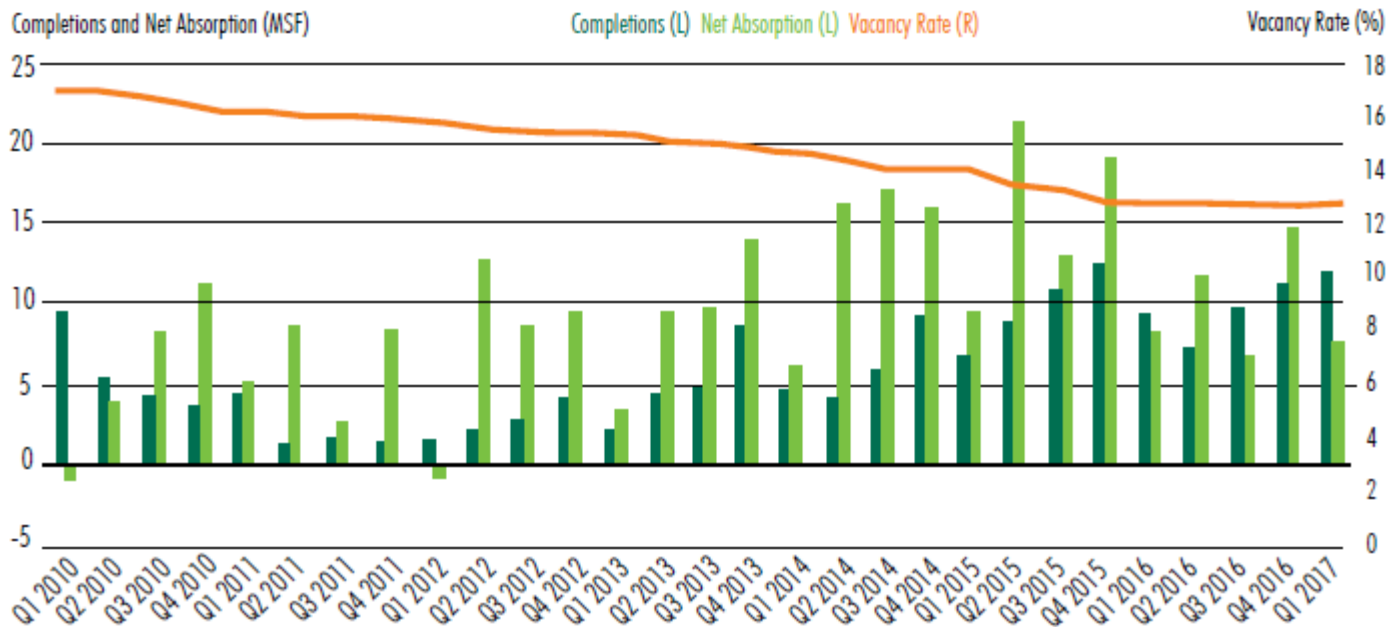


Source: Urbanation, CIBC





Figure 2: U.S. Metro Office Supply and Demand



Source: CBRE Research, Q1 2017.



- ❑ Two is the New Three. 2% growth in US and Canada next year, 2% inflation. A less rosy resource price era.
- ❑ US in a virtuous cycle of job growth and household spending, but continued pressure on retail space. Canada not as badly affected...yet. Services vs. goods in retail space.
- ❑ Canada to slow due to softer housing sector, higher interest rates, but needs to keep C\$ competitive to let exports and capital spending grow. C\$ a few cents weaker in 2018.
- ❑ BoC won't outgun the Fed on rate hikes. Short term rates reach 2½% in US, 2% in Canada likely by end of 2019; Long term rates drift higher as inflation returns to 2%.
- ❑ Best window to buy US\$: now to October; BoC will slow rate hikes if C\$ sees much further appreciation. C\$ a few cents weaker in 2018.

