



## CIM-MES ECONOMIC OUTLOOK SESSION

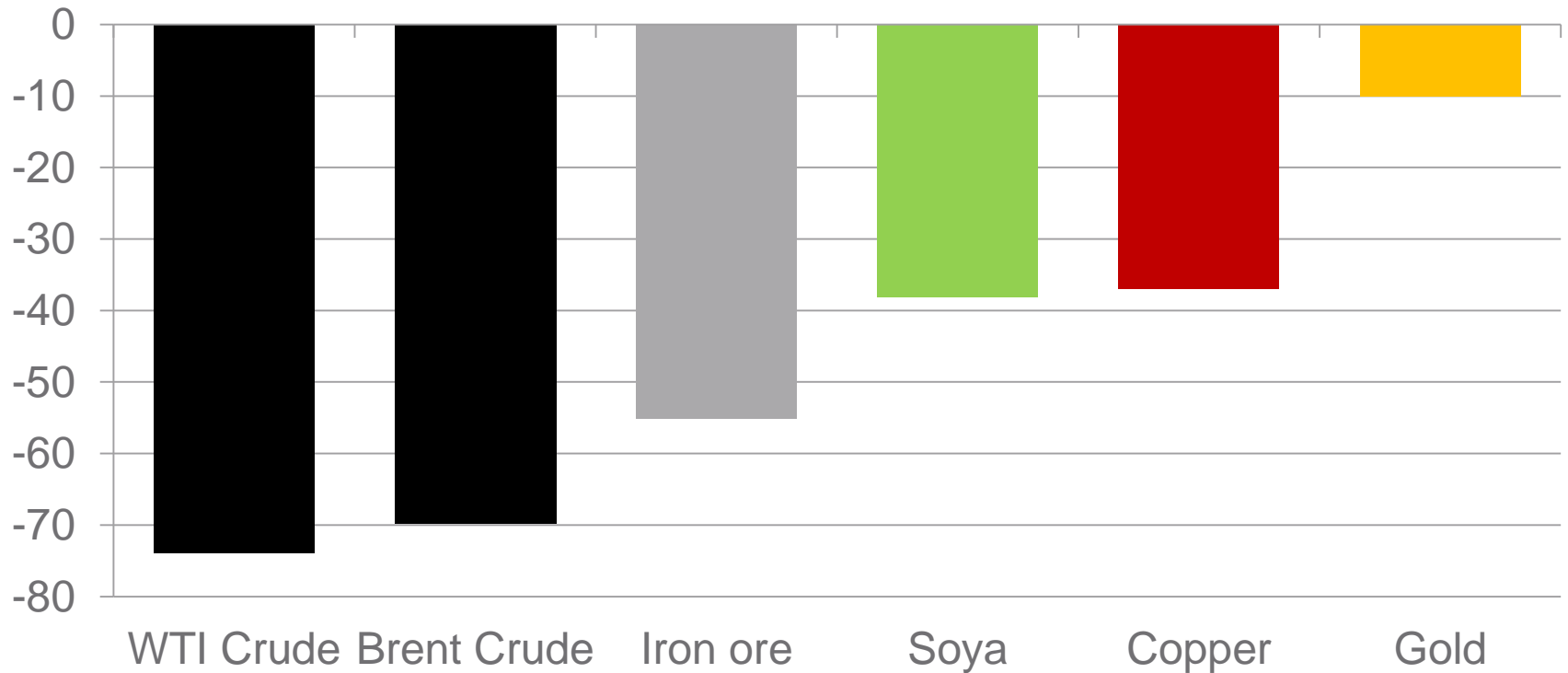
### *The Price Paradox (Demand Ain't Dead)*

February 24, 2016  
BLG LLP – Scotia Plaza, Toronto

Peter Hall  
Vice-President and Chief Economist

# COMMODITY PRICE PLUNGE

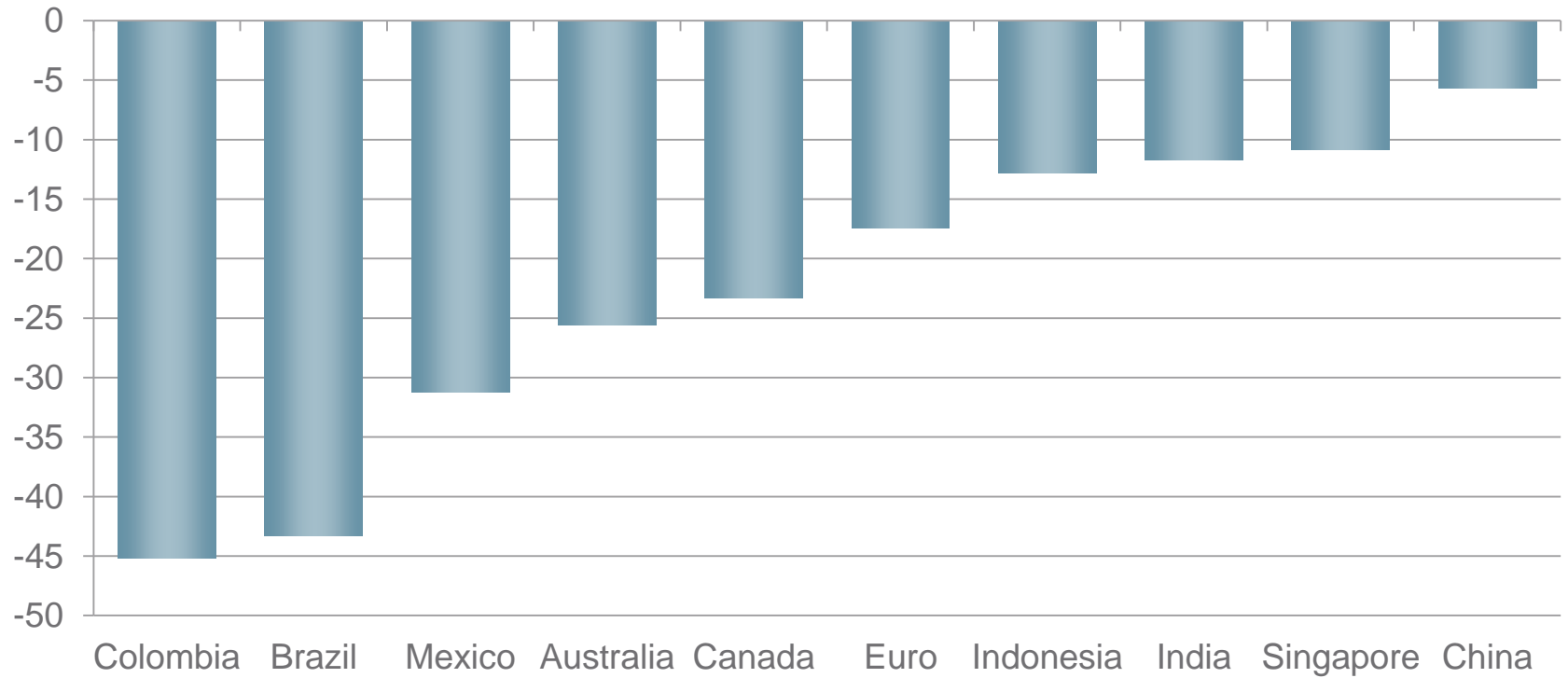
*Percentage loss since mid-2014*



Sources: EIA, Financial Times, WSJ, Haver Analytics

# CURRENCY PLUNGE

*Percentage depreciation vs. USD since mid-2014*



Sources: EIA, Financial Times, WSJ, Haver Analytics

# IMPACT OF OIL PRICES ON THE GLOBAL ECONOMY

Top Global Oil Importers and Exporters  
*(based on 2013 data; mmbd, USD billions)*  
*Scenario: \$30 average for 2016*

<u>Net importers</u>	<u>Amount</u>	<u>Savings (\$B)</u>
1 EU	10.4	\$72
2 United States	8.9	\$62
3 China	6.6	\$46
4 Japan	4.6	\$32
5 India	2.8	\$20
6 South Korea	2.5	\$17
7 Germany	2.4	\$17

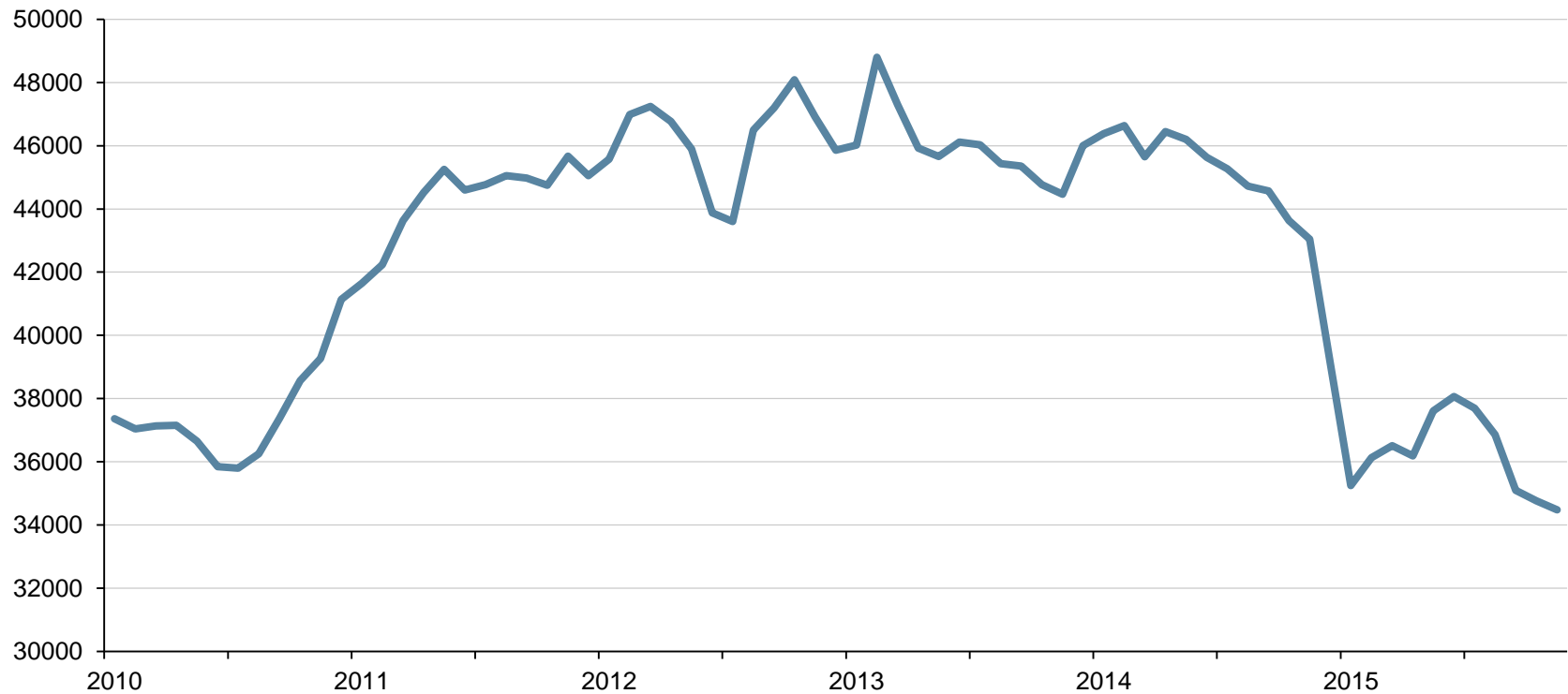
  

<u>Net exporters</u>	<u>Amount</u>	<u>Cost (\$B)</u>
1 Saudi Arabia	8.5	\$59
2 Russia	7.5	\$52
3 Iraq	3.1	\$22
4 UAE	2.9	\$20
5 Kuwait	2.6	\$18
6 Nigeria	2.3	\$16
7 Venezuela	1.8	\$13
11 Canada	1.6	\$11
17 Mexico	0.9	\$6
19 Colombia	0.7	\$5
22 Ecuador	0.3	\$2



# THE \$100 BILLION BONUS

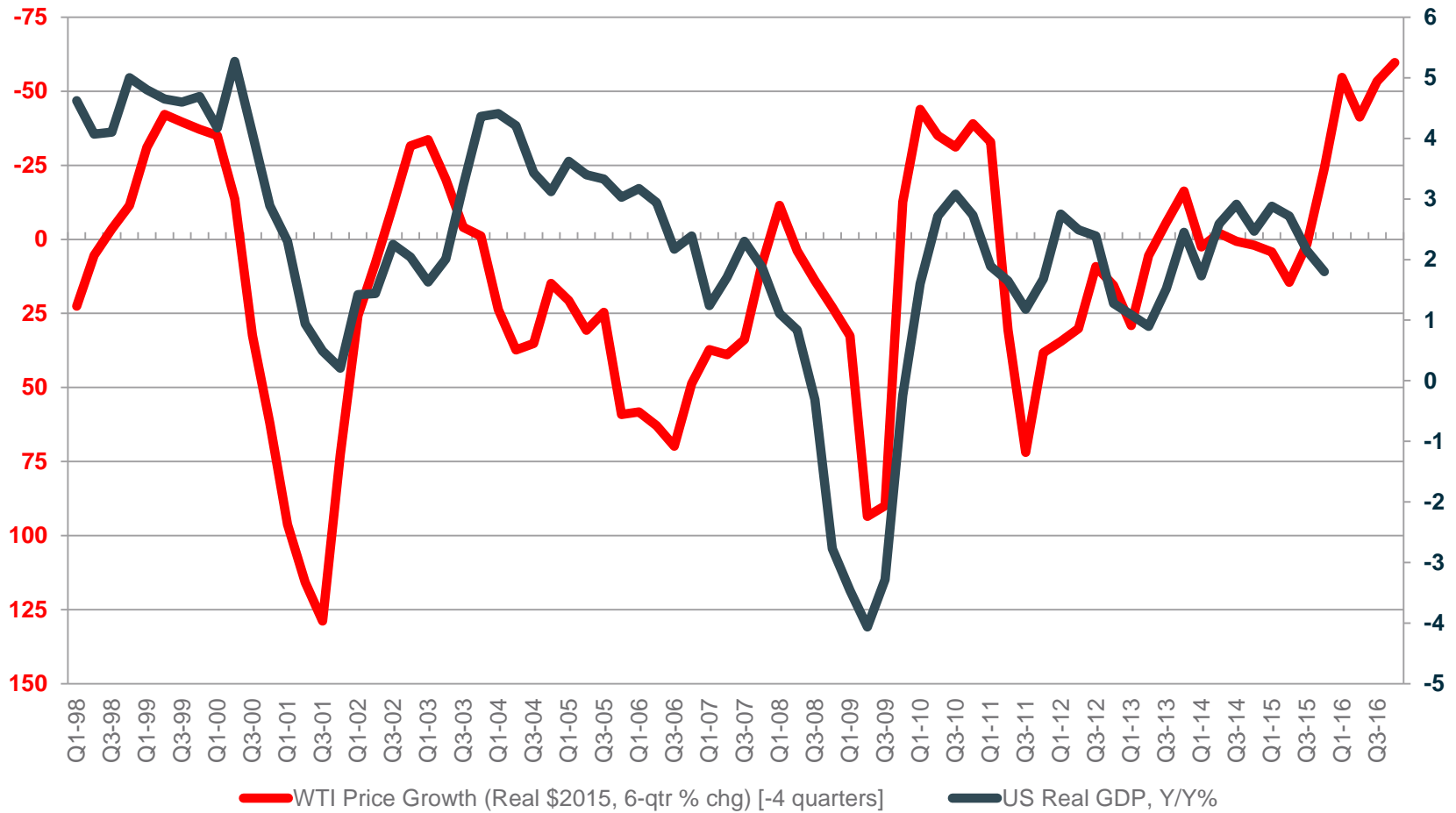
*Retail sales, gasoline stations, \$M*



Sources: Census Bureau, Haver Analytics

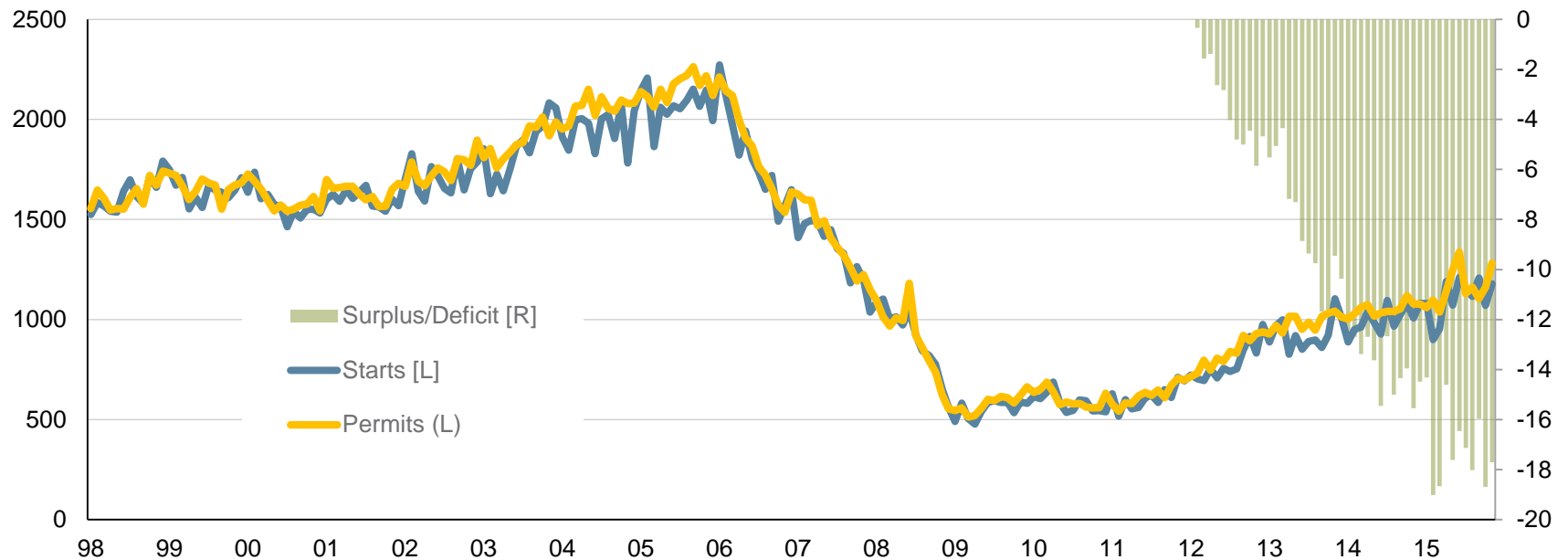


# OIL PRICE CHANGES: THE NORMAL RESPONSE



# PENT-UP DEMAND: US HOUSING

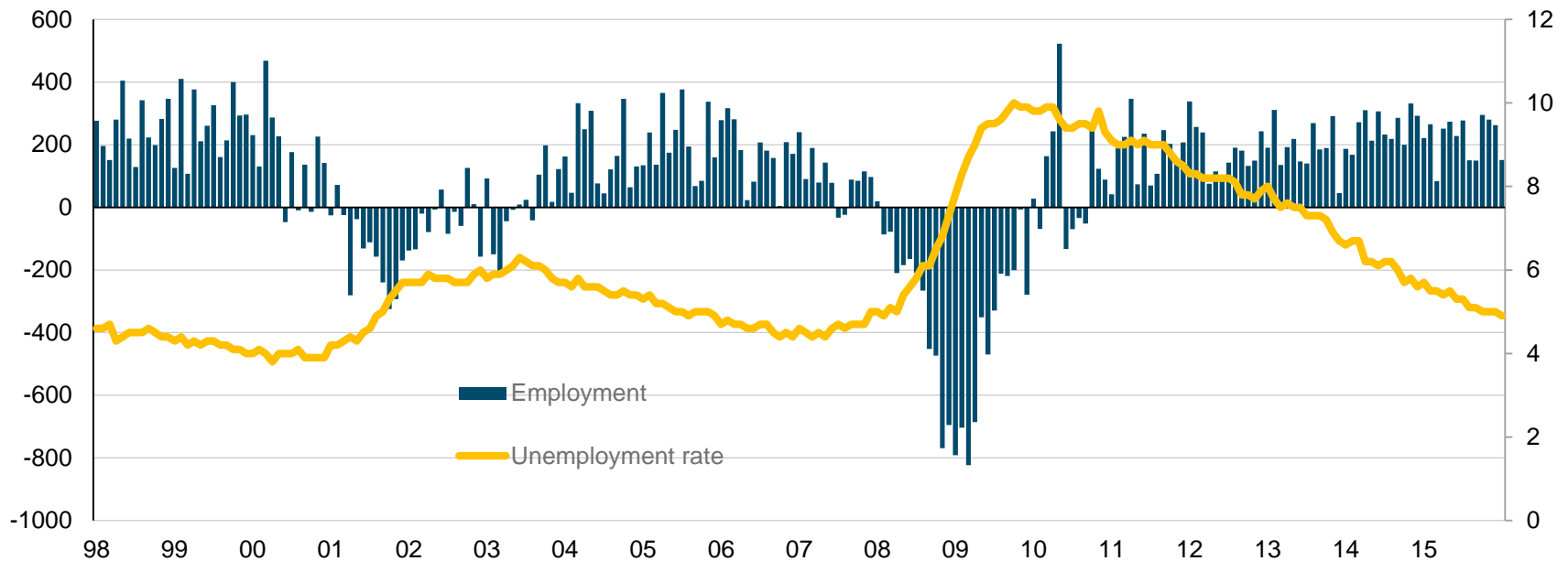
*Housing starts, permits, balance since 2012, SAAR, '000 units*



Sources: US Census Bureau, NAR, Haver Analytics

# US EMPLOYMENT: GOING CRITICAL?

Monthly employment change, '000, unemployment rate (%)



Sources: US Census Bureau, NAR, Haver Analytics



# US CONSUMER CONFIDENCE: COMFORTABLE

*National aggregate, 1985=100*



Sources: The Conference Board, Haver Analytics



# AMERICANS ARE SPENDING!

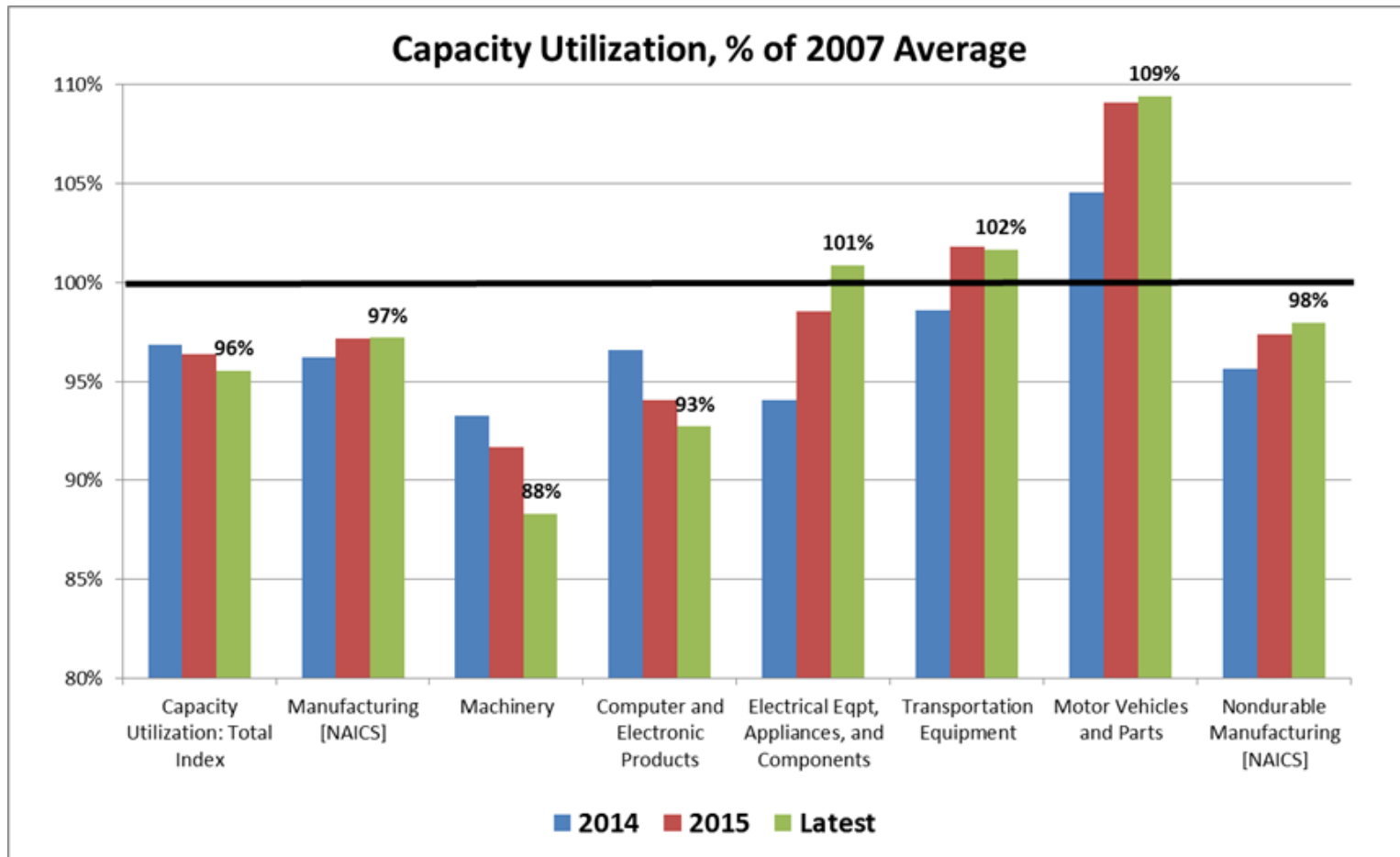
*Retail sales, motor vehicles and parts, \$M*



Sources: Census Bureau, Haver Analytics

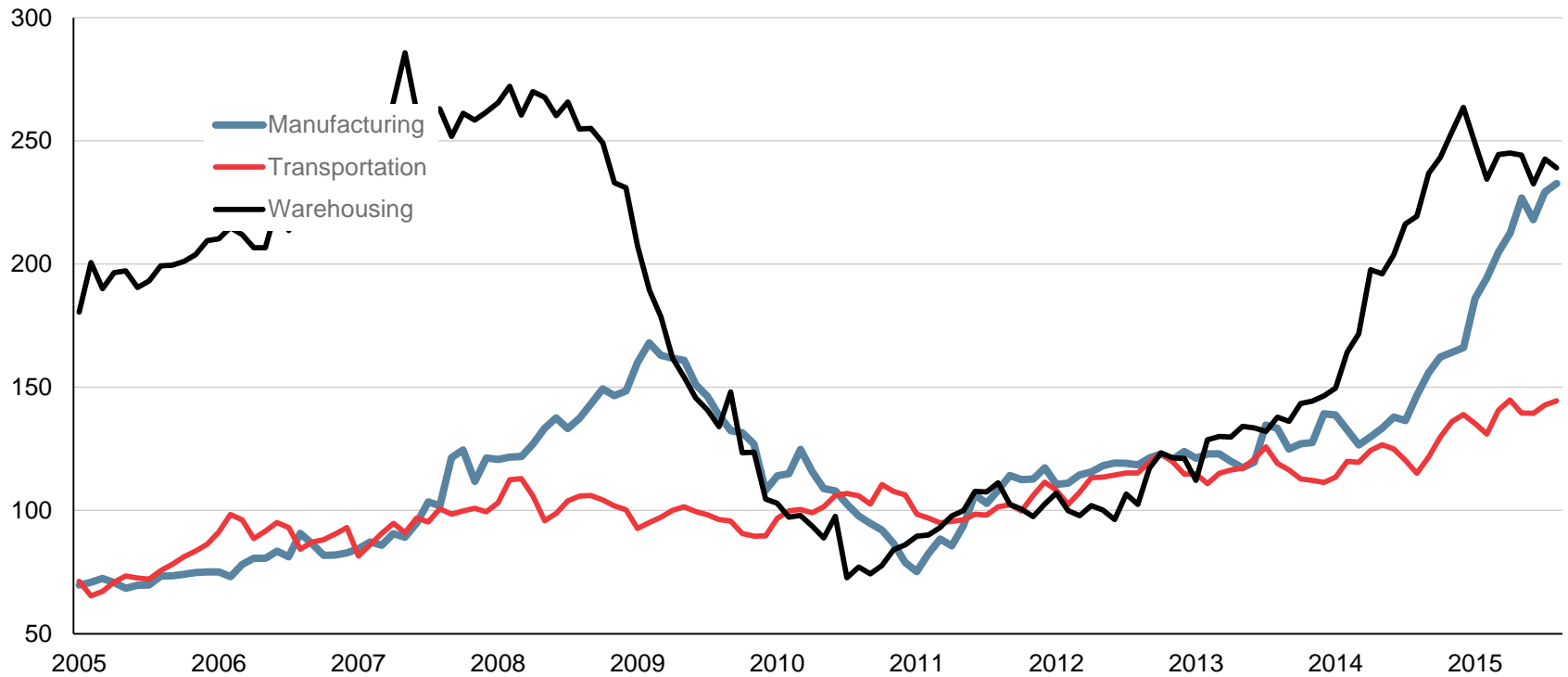


# THE US MANUFACTURING CAPACITY CRUNCH



# US CONSTRUCTION SPENDING

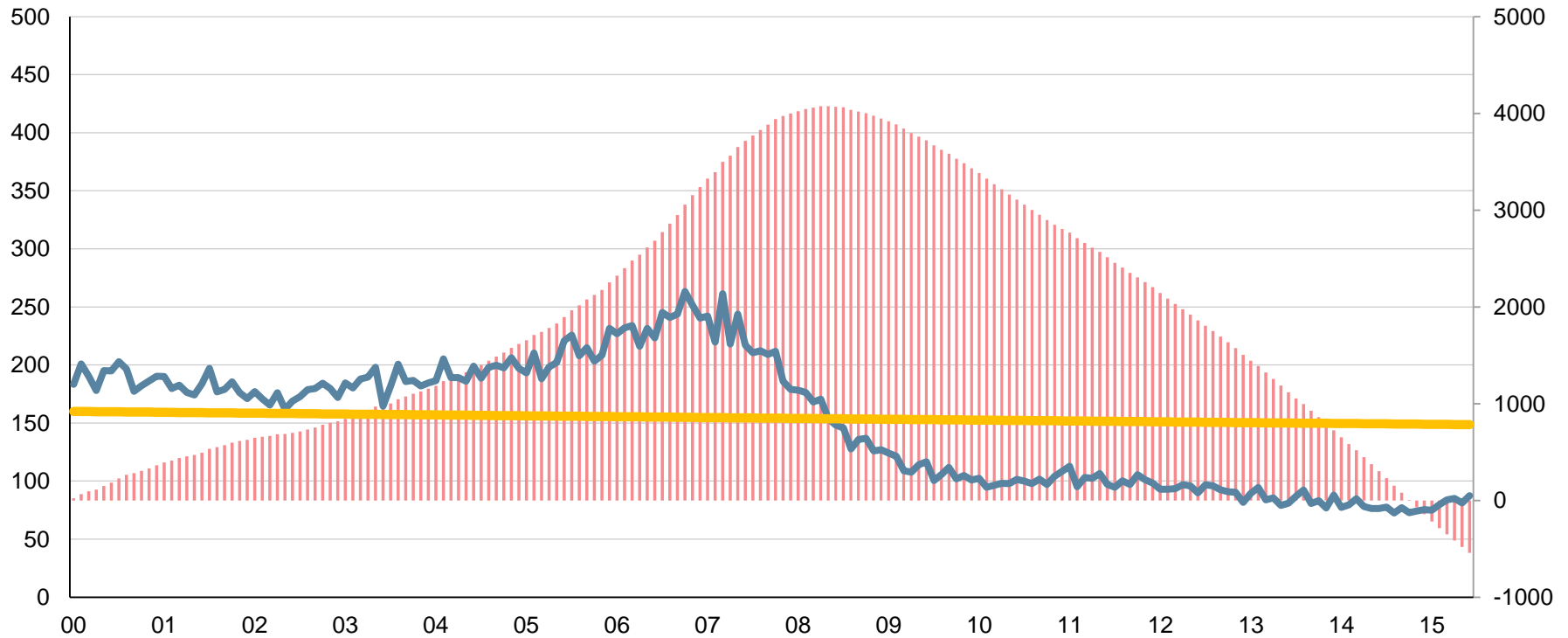
*Value of construction put in place, private sector index, 2011=100*



Sources: Census Bureau, Haver Analytics

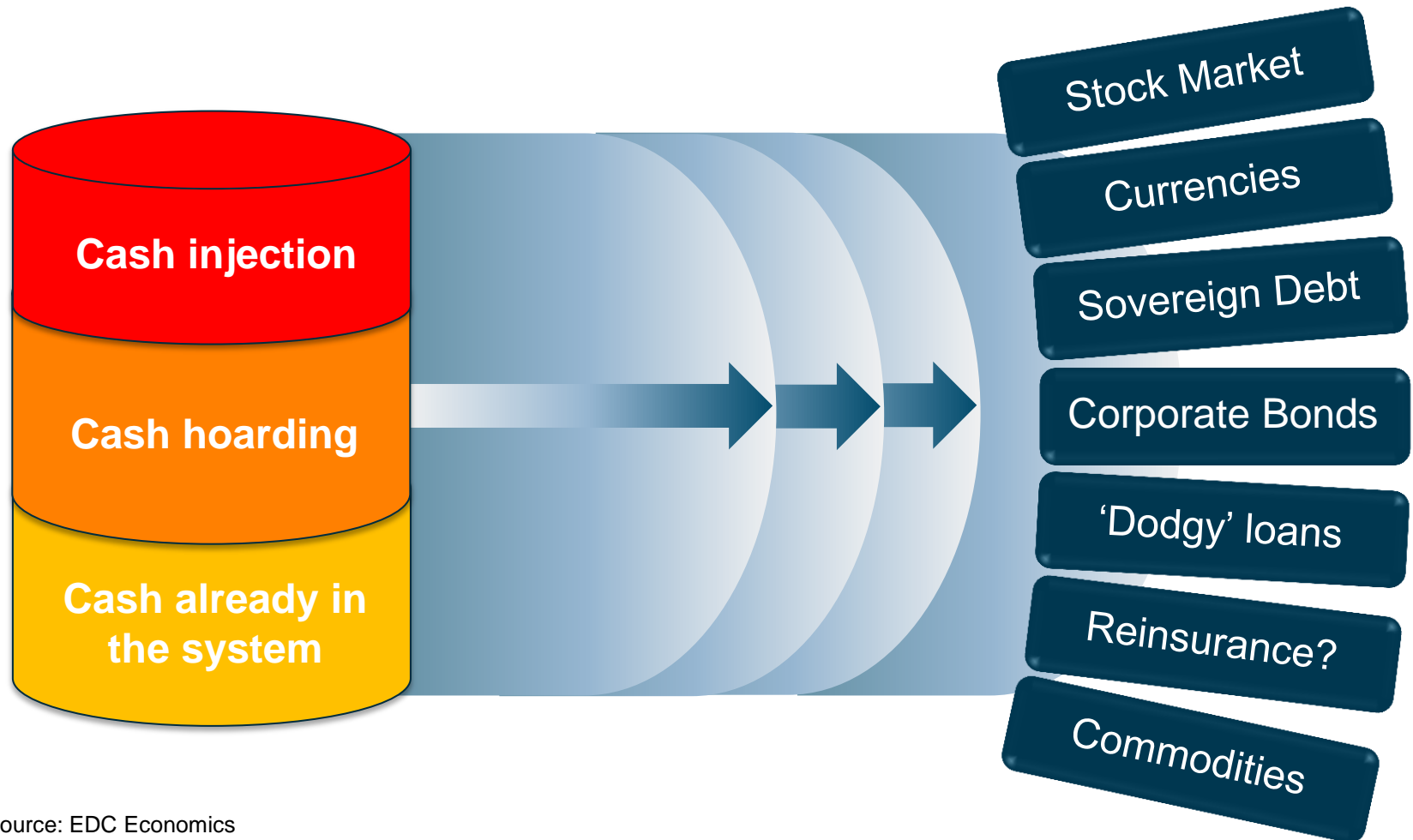
# EU: RETURNING TO BALANCE?

*EA building permits, all buildings, '000 m<sup>2</sup>*



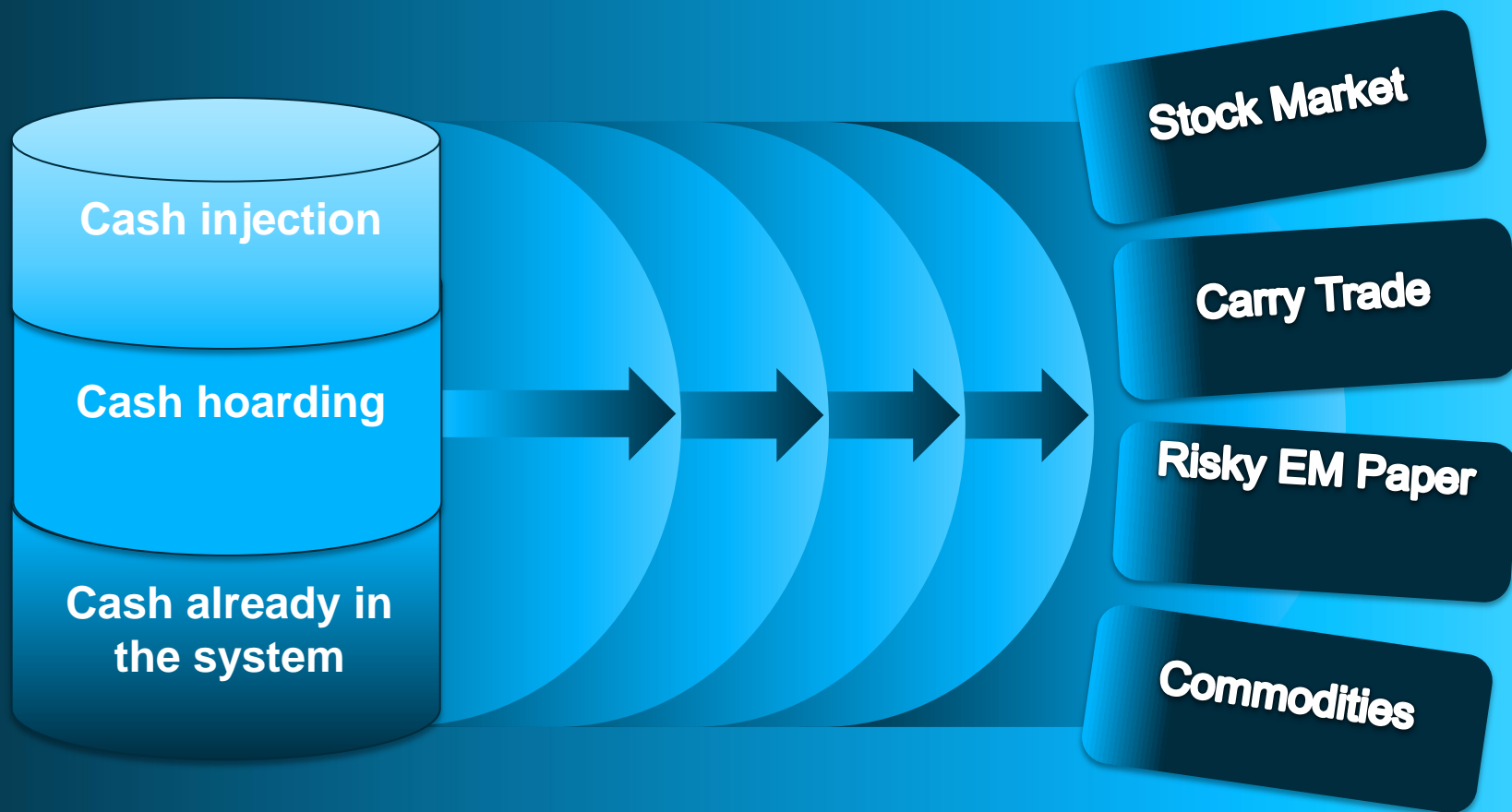
Sources: Eurostat, Haver Analytics

# EXCESS LIQUIDITY: DISTORTIONS?

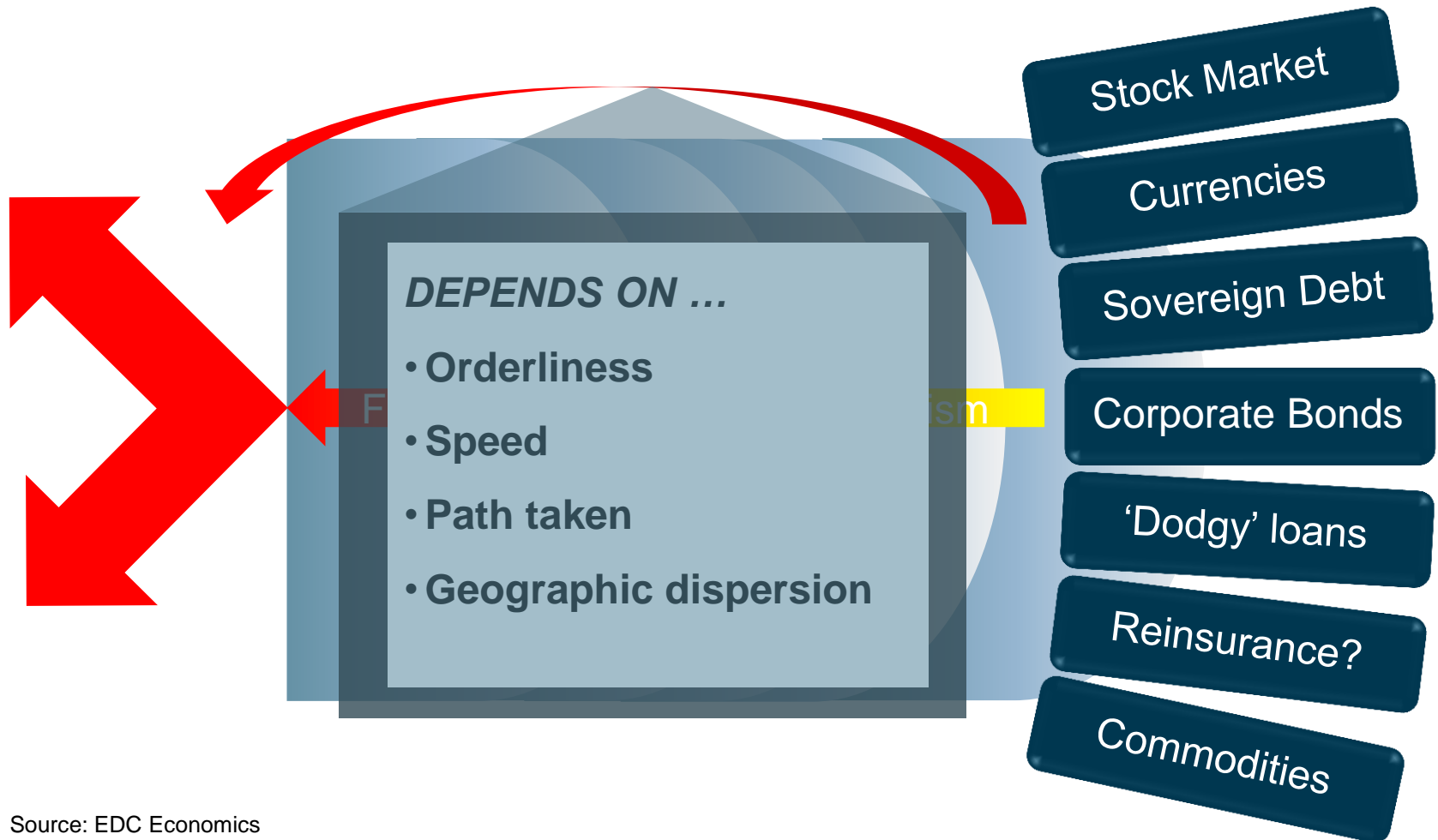


Source: EDC Economics

# Excess liquidity: distortions?



# ADD A LITTLE GROWTH, AND...



Source: EDC Economics



# THE GREAT UNWIND: WHO IS VULNERABLE?

## Country Vulnerability Index

Real credit growth

C/A Balance, % of GDP

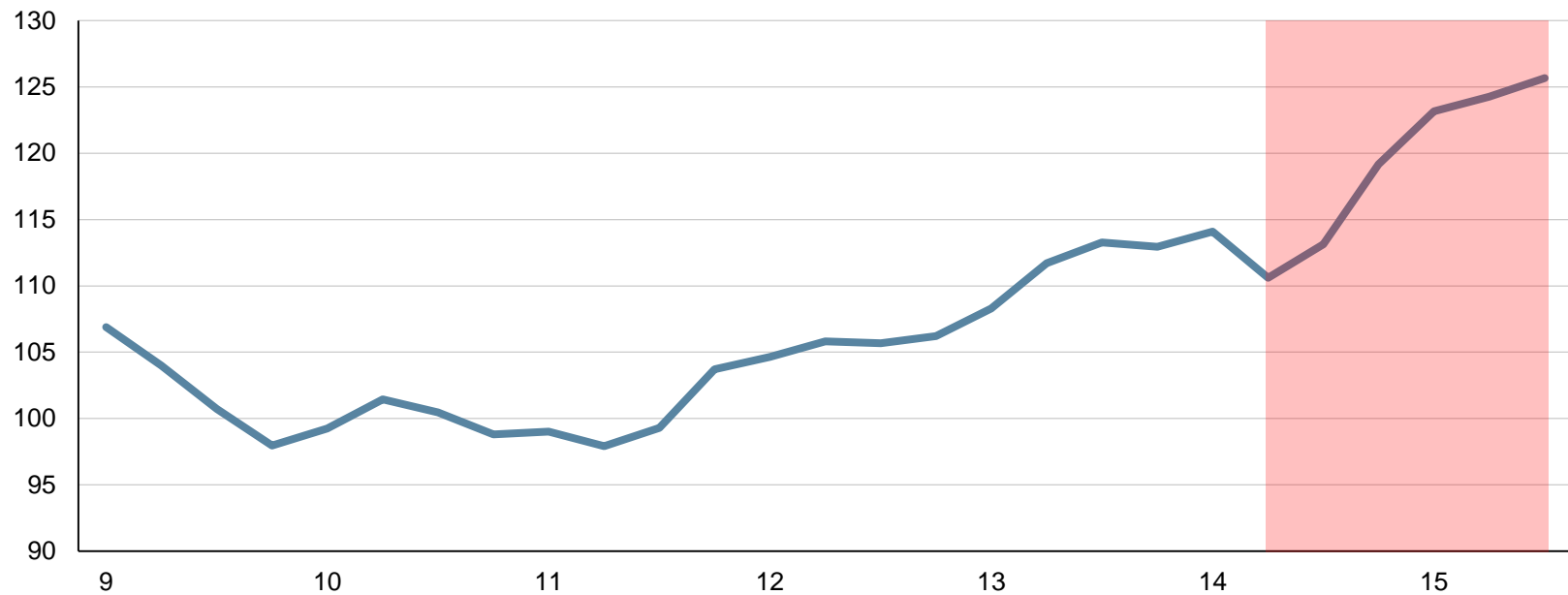
Portfolio Investment Liabilities

1-yr Probability of Default

Source: EDC Economics

# CHINA: WHAT'S UP WITH THE RMB?

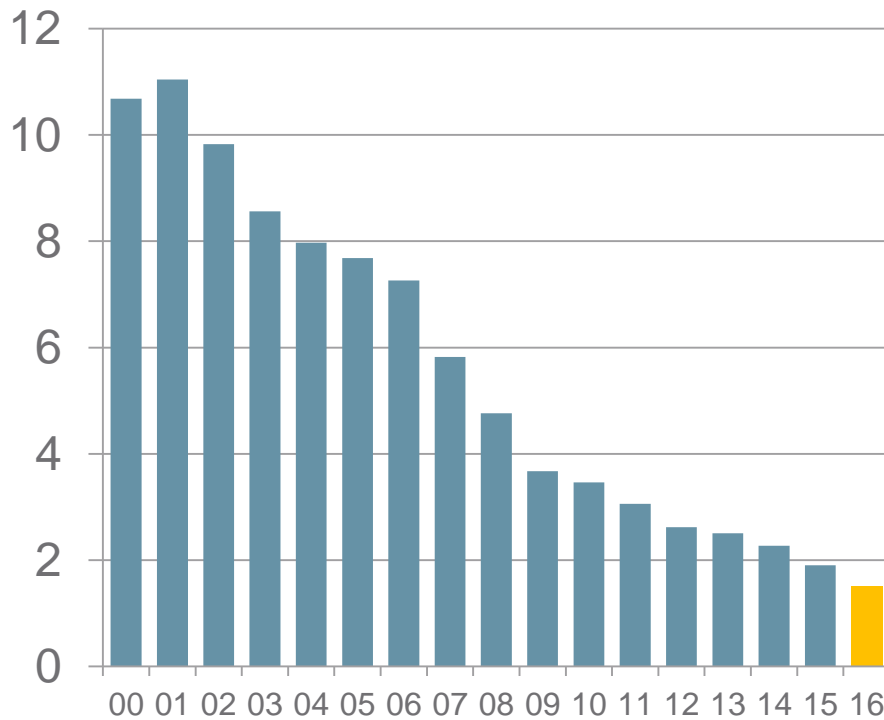
*Trade-weighted broad effective exchange rate, 2010 = 100*



Sources: JP Morgan, Haver Analytics

# CHINA'S PAIN IS MEXICO'S GAIN

*Labour costs in Mexico relative to China*

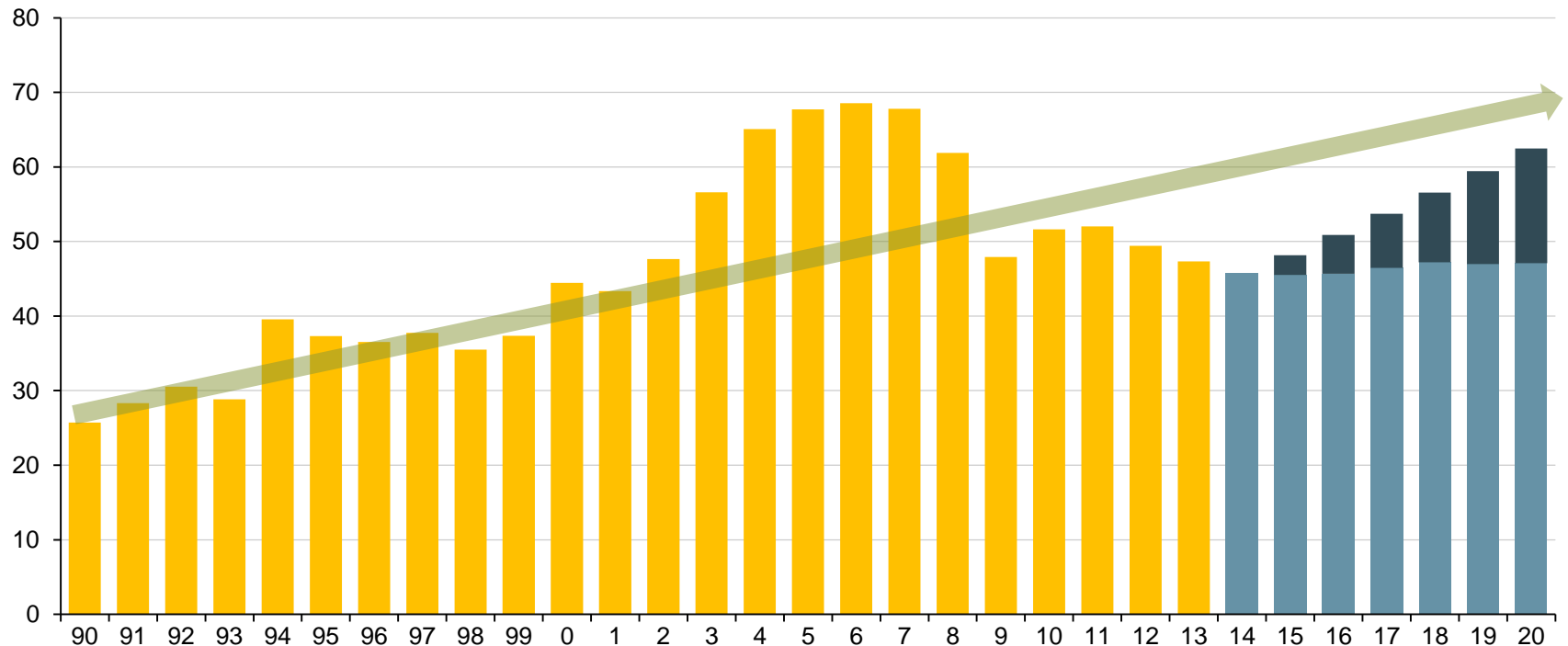


	Mexico: Manufacturing hourly labour costs (\$US)	China: Manufacturing hourly labour costs (\$US)
2000	4.70	0.44
2001	5.41	0.49
2002	5.60	0.57
2003	5.31	0.62
2004	5.26	0.66
2005	5.61	0.73
2006	5.88	0.81
2007	6.17	1.06
2008	6.48	1.36
2009	5.69	1.55
2010	6.13	1.77
2011	6.49	2.12
2012	6.36	2.43
2013	6.84	2.73
2014	6.84	3.01
2015	6.24	3.28
2016	5.47	3.60

Sources: EIU, Haver Analytics

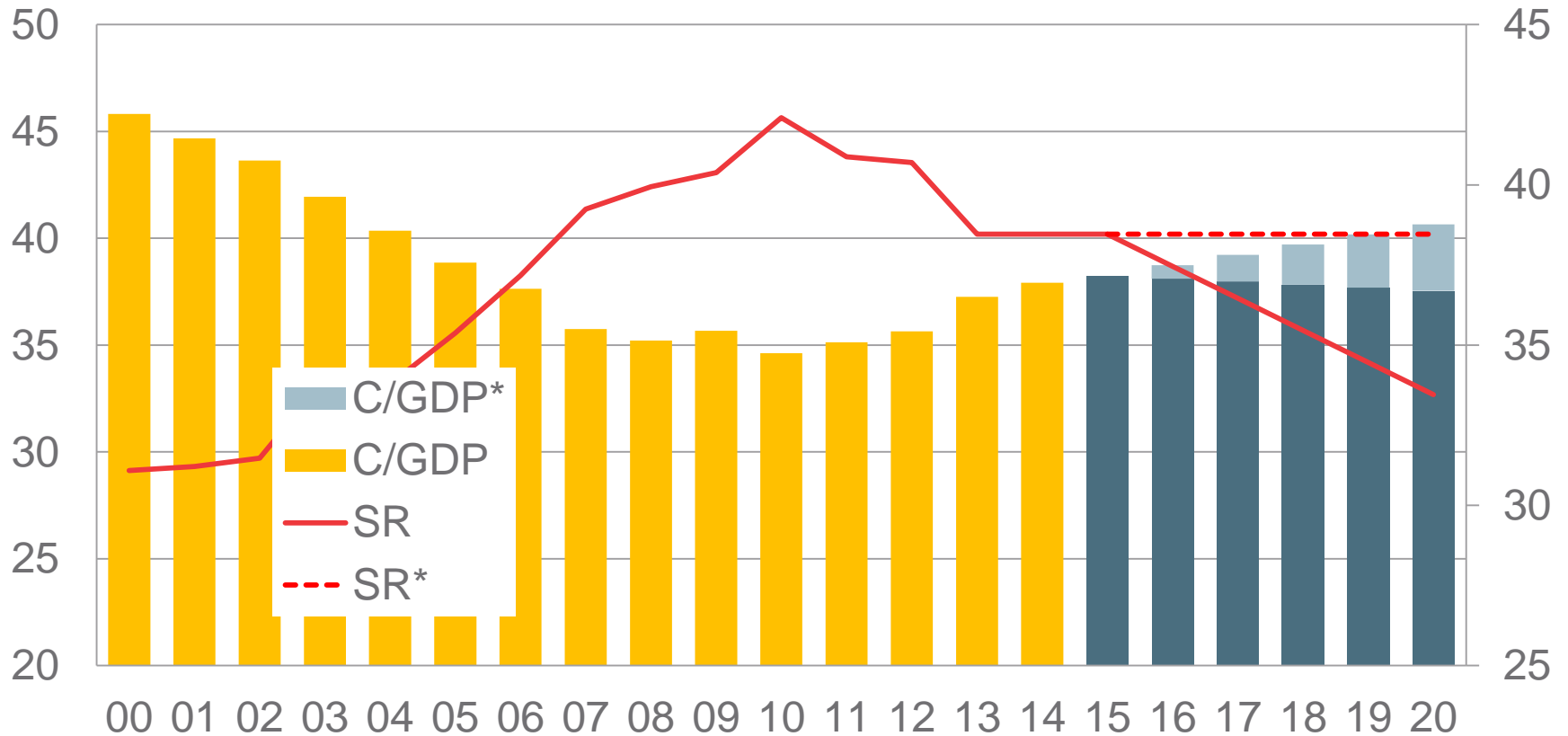
# CHINA'S TRADE COMEBACK

*Trade as a share of GDP, per cent*



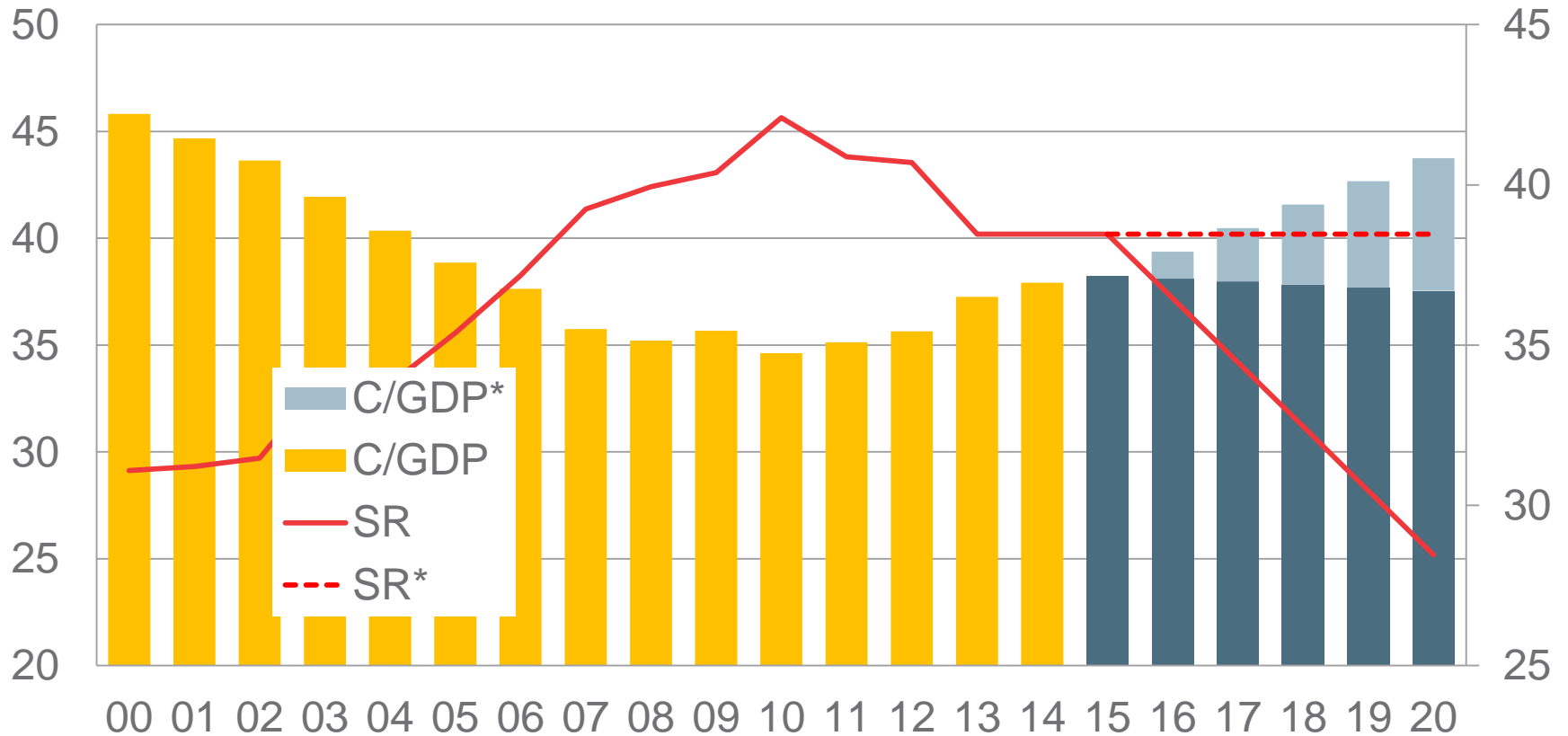
Sources: EIU Country Data, Haver Analytics

# THE POWER OF SAVING LESS



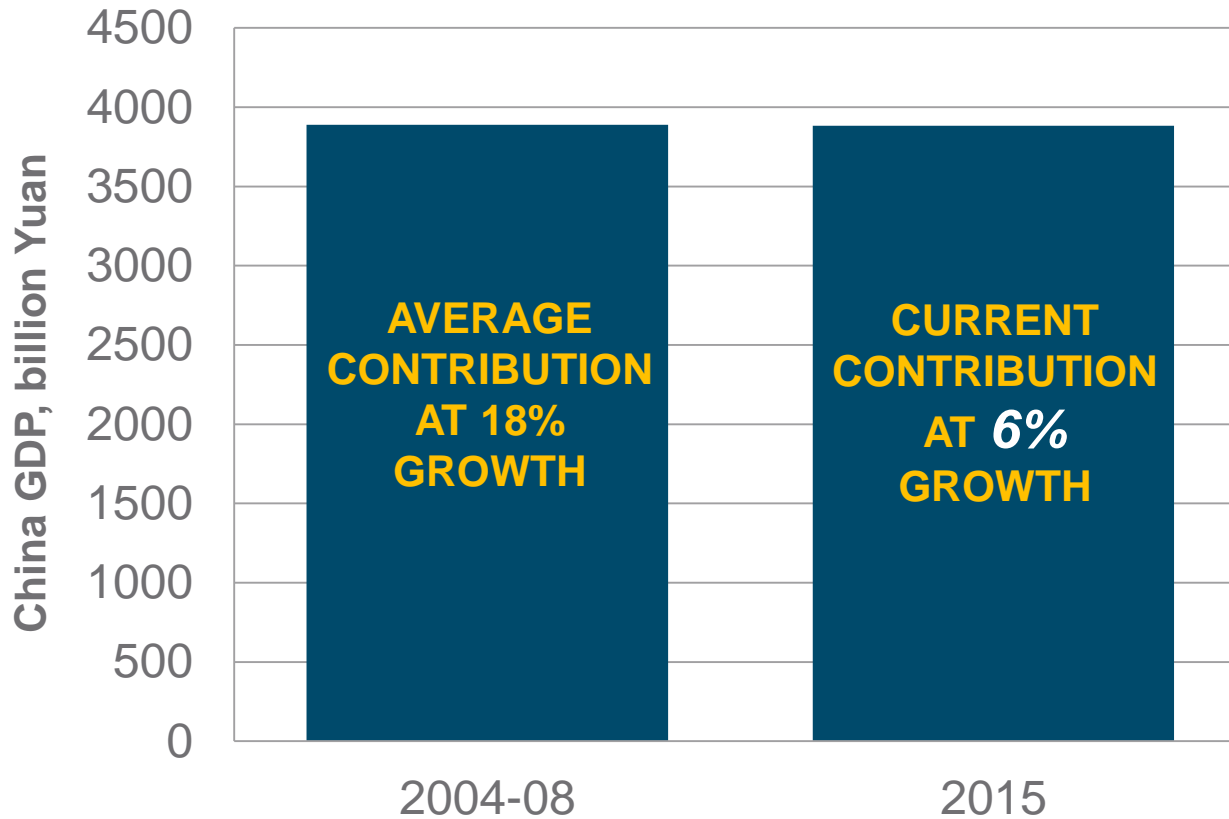
Sources: China National Bureau of Statistics, Haver Analytics

# THE POWER OF SAVING *EVEN* LESS



Sources: China National Bureau of Statistics, Haver Analytics

# CHINA HAS GROWN!

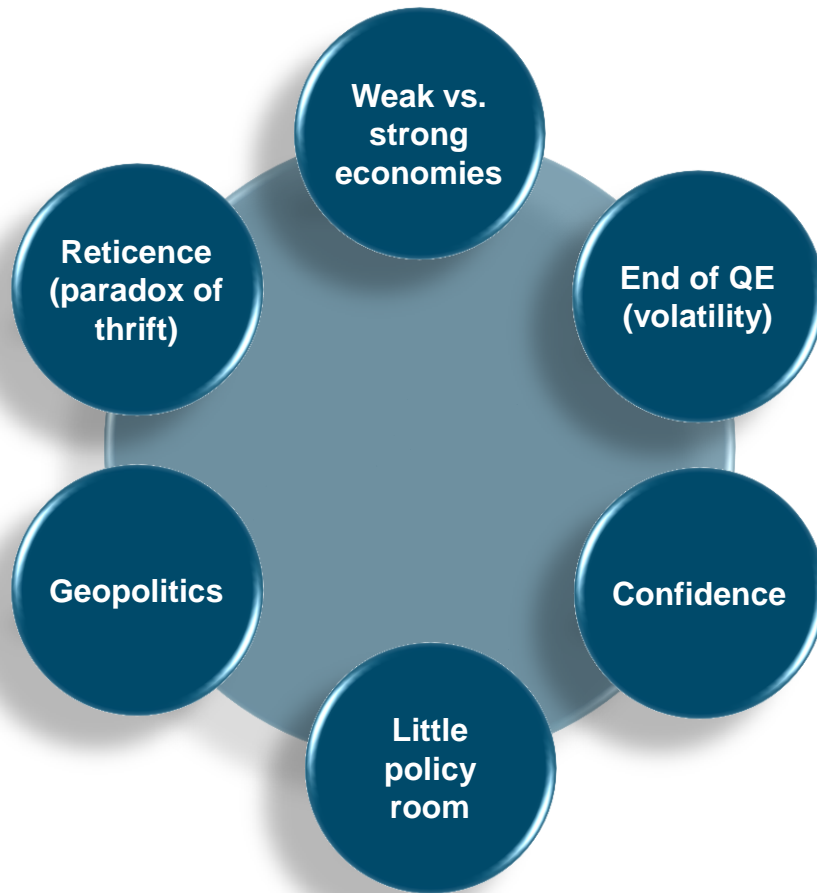


# GLOBAL GROWTH FORECAST

Market	Share (2014)	2013	2014	2015 (f)	2016 (f)
US	16.1	1.5	2.4	2.5	2.9
Canada	1.5	2.0	2.4	1.3	2.3
Mexico	2.0	1.4	2.1	2.4	3.1
Euro Area	12.2	-0.4	0.8	1.4	1.8
Japan	4.4	1.6	-0.1	0.9	1.5
<b>Industrialized</b>	<b>43.1</b>	<b>1.4</b>	<b>1.8</b>	<b>2.0</b>	<b>2.4</b>
Emerging Asia	29.5	7.0	6.8	6.6	6.7
› China	16.3	7.7	7.4	6.9	6.8
› India	6.8	6.9	7.3	7.4	7.5
LatAm/Caribbean	8.7	2.9	1.3	0.3	1.6
› Brazil	3.0	2.7	0.1	-2.0	0.2
Emerging Europe	8.0	4.2	3.4	-1.2	0.7
› Russia	3.3	1.3	0.6	-5.0	-2.0
Africa/Mideast	6.8	2.5	2.7	2.6	3.8
<b>Emerging</b>	<b>56.9</b>	<b>5.0</b>	<b>4.6</b>	<b>3.8</b>	<b>4.4</b>
<b>Total World</b>	<b>100.0</b>	<b>3.4</b>	<b>3.4</b>	<b>3.0</b>	<b>3.6</b>



# KEY RISKS



# DRIVERS OF THE CANADIAN DOLLAR

**Oil & gas prices**

**Non-energy commodity prices**

**Interest rate spreads**

**US dollar movements\***

**The 'halo' effect**

**Canadian dollar**

Source: EDC Economics

# IMPACT OF OIL PRICES ON THE CANADIAN ECONOMY

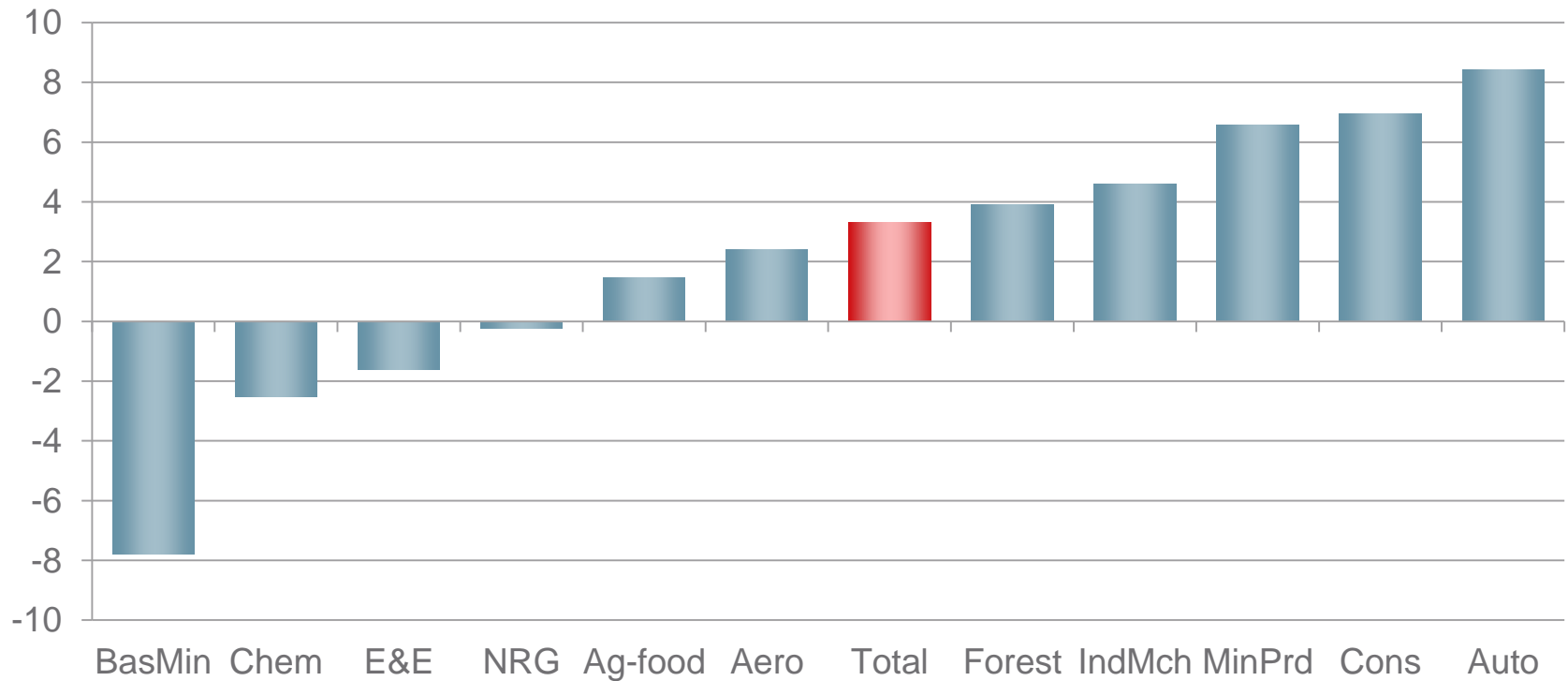
## Oil Price Impact by Economic Sector, % of GDP

Category	Oil Price, WTI Crude, \$US			
	\$75	\$60	\$40	\$25
<b>Oil price scenario:</b>				
<b>O&amp;G direct</b>	<b>-1.6%</b>	<b>-2.6%</b>	<b>-3.8%</b>	<b>-4.8%</b>
<b>Indirect investment</b>	<b>-0.2%</b>	<b>-0.3%</b>	<b>-0.4%</b>	<b>-0.5%</b>
<b>Manufacturing (cost)</b>	<b>0.6%</b>	<b>1.0%</b>	<b>1.5%</b>	<b>1.8%</b>
<b>Manufacturing (effect of \$)</b>	<b>0.7%</b>	<b>1.2%</b>	<b>1.8%</b>	<b>2.2%</b>
<b>Consumer</b>	<b>0.4%</b>	<b>0.6%</b>	<b>0.9%</b>	<b>1.2%</b>
<b>Fiscal</b>	<b>-0.1%</b>	<b>-0.2%</b>	<b>-0.3%</b>	<b>-0.4%</b>
<b>Net impact, % of GDP</b>	<b>-0.16%</b>	<b>-0.26%</b>	<b>-0.39%</b>	<b>-0.48%</b>

Source: EDC Economics

# IT'S ALL ABOUT MO...

*Built-in growth, inflation-adjusted exports, %*



Sources: EIA, Financial Times, WSJ, Haver Analytics

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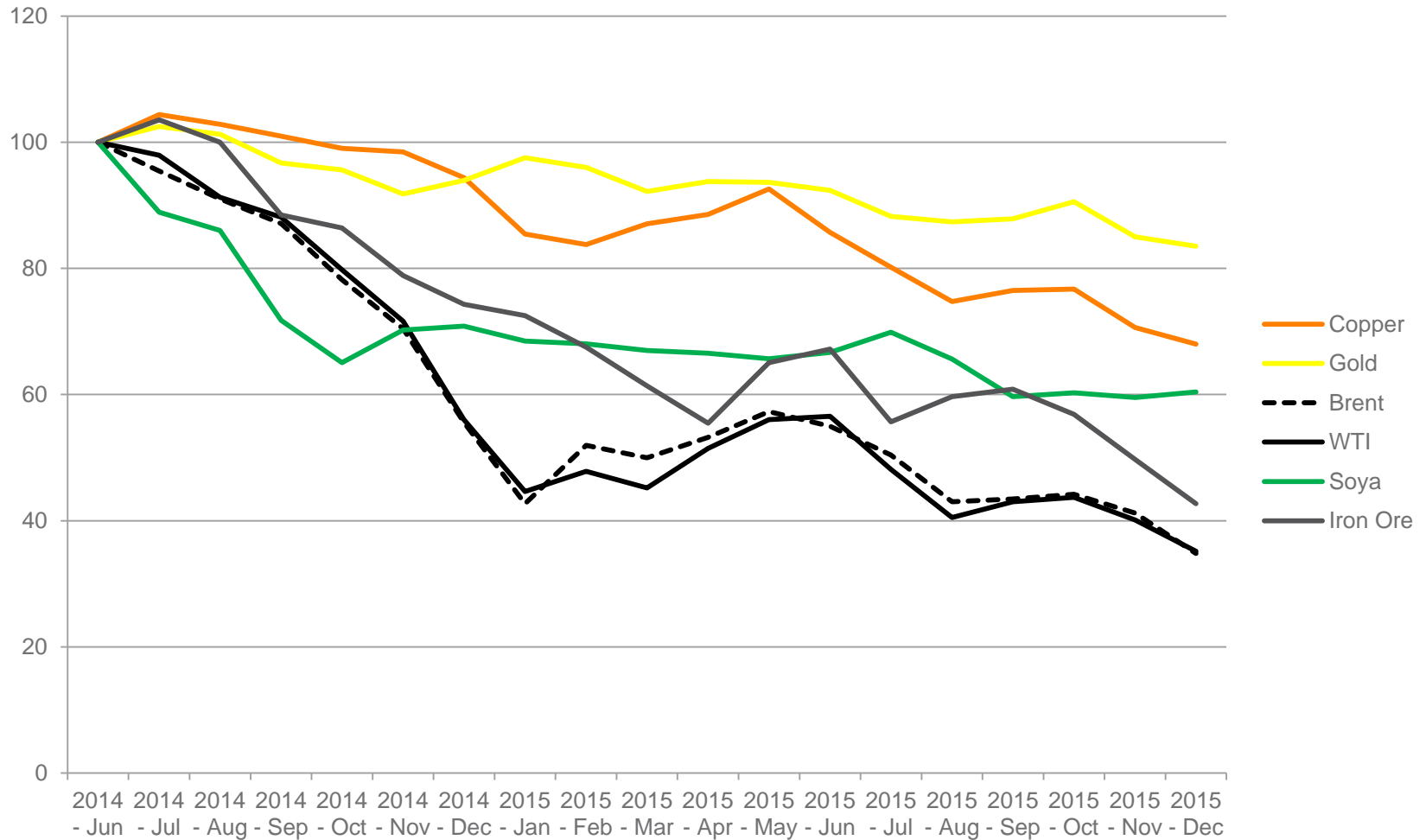
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