

Global Outlook: 2019/2020

Cracks Emerge As Trade War Intensifies Recession Fears Growing

Presented at

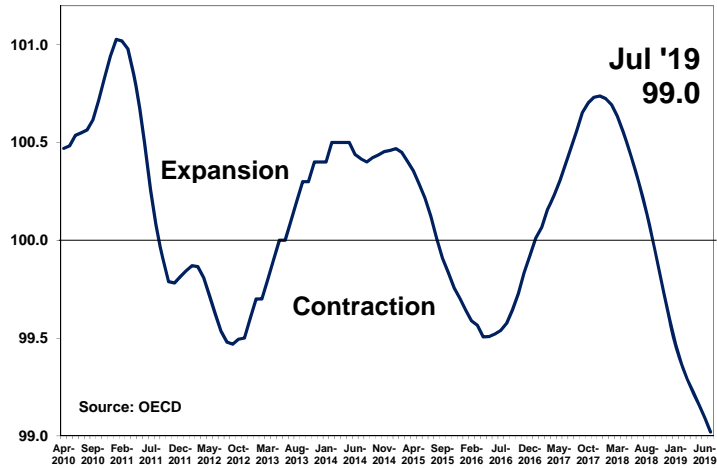
**ECONOMIC FORECAST DAY
ELECTRO-FEDERATION CANADA**

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September 19, 2019

Global Economy Downside Risks Intensify

OECD Composite Leading Indicator – Amplitude Adjusted



July 2019 – OECD Indicators

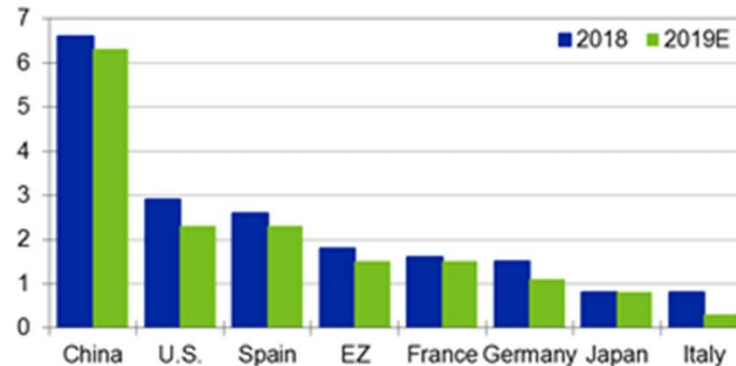
	July	Monthly Change
Total	99.0	↓
Brazil	102.2	↔
India	99.8	↓
Japan	99.3	↔
France	99.2	↔
Major 5 Asia	99.1	↔
Eurozone	99.0	↓
G7	98.9	↓
Canada	98.9	↔
U.K.	98.9	↔
China	98.8	↑
USA	98.7	↓
Germany	98.6	↓

Source: OECD

Moody's Analytics Survey of Business Confidence
Diffusion Index 4 wk MA



Major Markets Slow in Unison
Real GDP growth, % change yr ago



Global Economy on Deceleration Path

Late-Cycle Challenges Gather Momentum

Trade Issues Dominate – Recession Fears Mount

2019

- Evidence of economic slowdown spreading around world.
- Trade wars dominate outlook: U.S./China; U.S./Japan; U.S./Europe.
- Manufacturing recession unfolds.
- Global growth forecast at 2.6% 2019, 2.5% 2020. Downside risks evident.
- Key supports remain U.S. and China (but both slowing).
- U.S. expansion now in 10th year – recession fears mounting.
- China's stimulus now is about stabilizing growth at lower level, rather than reinvigorating the economy.
- Europe: growth slowing as troubles mount; Brexit and Italy. ECB moves to prop up economy.
- Asia under pressure. Heavily dependent on export demand, vulnerable to rising protectionism.
- South America on bumpy recovery path.
- Global unemployment rates continue to fall and the output gaps around the world are closing. Core inflation remains contained.
- Central Banks led by the Federal Reserve have adopted a dovish pivot.
- Global economic correction (recession) likely to occur in 2020.
- The yield curve currently signaling caution!

Elevated Geopolitical Events Present Significant Downside Risks

- U.S. Trade Wars.
- China's New World Role: conflicts with U.S. position.
- European disruption: Brexit, Italian debt, and changing Merkel role.
- Geopolitical events:
 - Brexit
 - North Korea
 - Iran
 - Russia
 - Middle East
 - United States leadership
- Recession fears ahead. Business cycle getting long in tooth!
- Democracy challenged by anti-elite politics.

Global Growth: Synchronized Deceleration Trade Wars Dominate Picture!

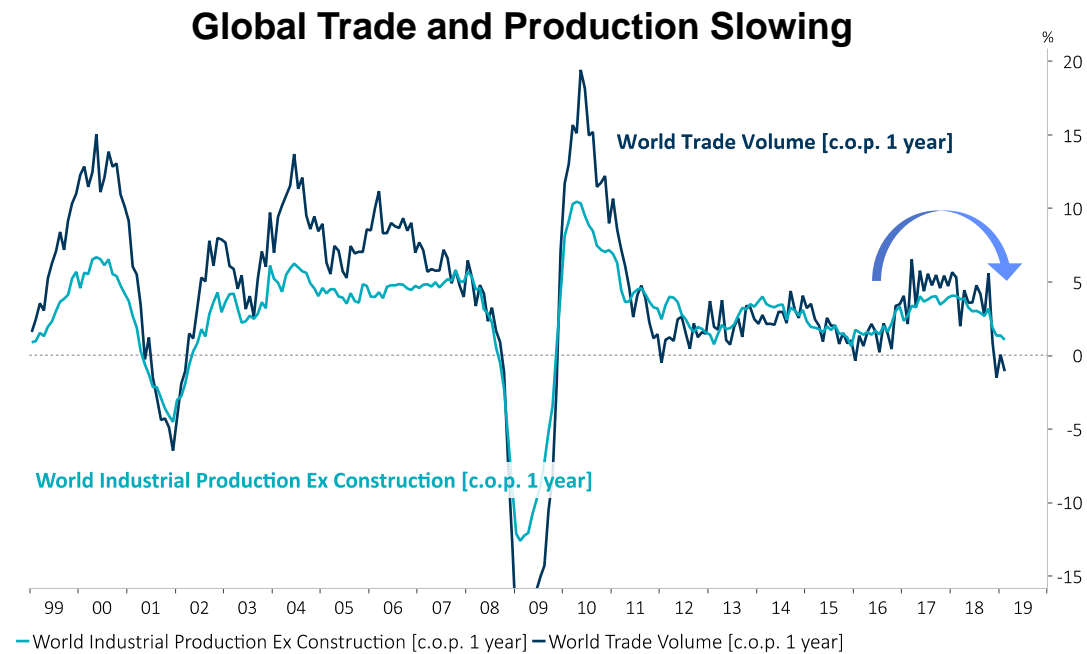
THE SCORE CARD		Real GDP Growth						
		2014	2015	2016	2017	2018	2019	2020
U.S.	Business Confidence Weakens as Trade War Intensifies	2.5	2.9	1.6	2.2	2.9	2.3↓	1.7
CHINA	Growth Now on Slowing Path	7.3	6.9	6.7	6.9	6.6	6.2↓	5.9↓
JAPAN	The Struggle Continues Aging Population Puts a Drag on Growth Prospects	0.3	1.3	0.6	1.9	0.8	0.7	0.3↓
EUROZONE	Growth Slows / Recession Fears Rise Political Uncertainties Dominate	1.4	2.0	1.9	2.6	1.9	1.1	1.2↓
INDIA	Prospects Brighten / Election 2019 Positive But Serious Issues Must be Addressed	7.4	8.0	8.2	7.2	6.8	6.8↓	7.0↓
LATIN AMERICA	Bumpy Recovery Path	0.4	0.2	-0.4	1.9*	1.4*	1.1*↓	2.2*↓
CANADA	Challenged China Trade War Canada / U.S. Economic Relations Commodity Tidal Route Election 2019 – Uncertain Outcome	2.9	0.7	1.1	3.0	1.9	1.5	1.7
WORLD	Global Growth Moderates	2.5	2.8	2.4	3.1	3.2	2.6	2.5↓

Arrow indicates direction of revision to forecast

* Ex-Venezuela

Where Are The Cracks?

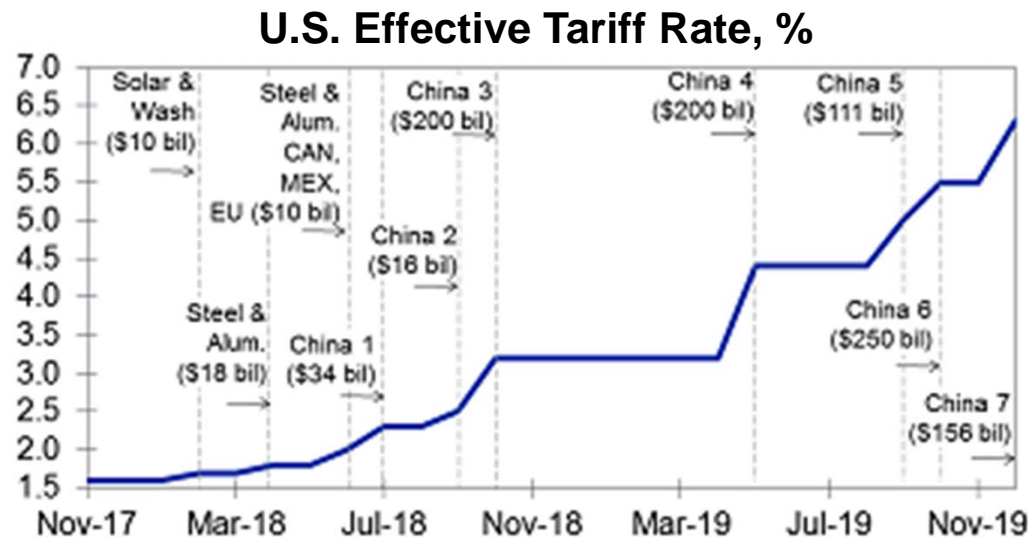
- Trade Wars.
- Brexit.
- Collapse in Business Confidence.
- Manufacturing Recession.
- Inverted Yield Curve.



Source: Macrobond, Netherlands Bureau for Economic Policy Analysis (CPB)

Trade War Intensifies

The Dispute is a Complex Economic & Geopolitical Set of Issues



Sources: Census Bureau, USTR, USITC, Moody's Analytics

BACKDROP

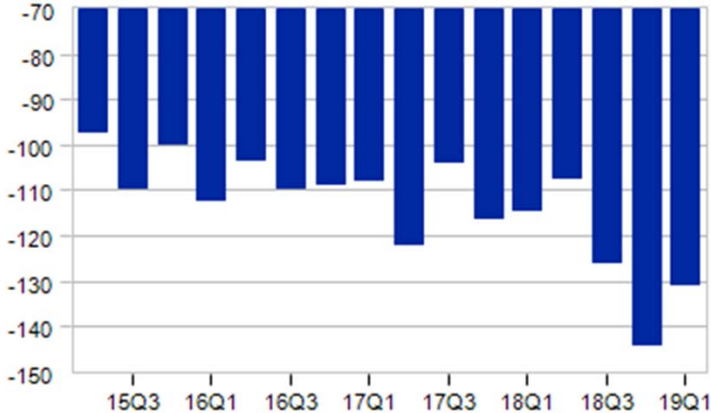
- China's rising global power. Washington attempting to get Beijing to curb activities.
- Understanding China's perspective leads to why an agreement is hard to reach.
- Bottom-line: Will Trump push too hard?

DAMAGE TO DATE

- U.S.A. – estimated tariffs now like a tax on business and consumers of US\$100 billion per annum, equal to 0.5% of U.S. GDP.
- China – has responded by hitting imports, particularly agricultural products and yuan has fallen sharply.

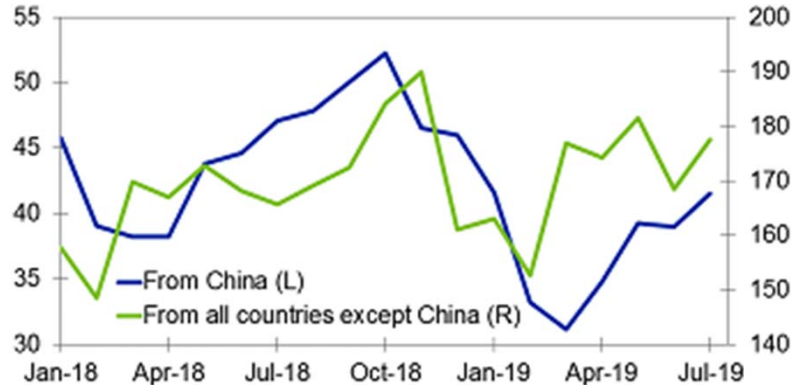
No Winner Yet!

U.S. Trade Deficit
\$bil



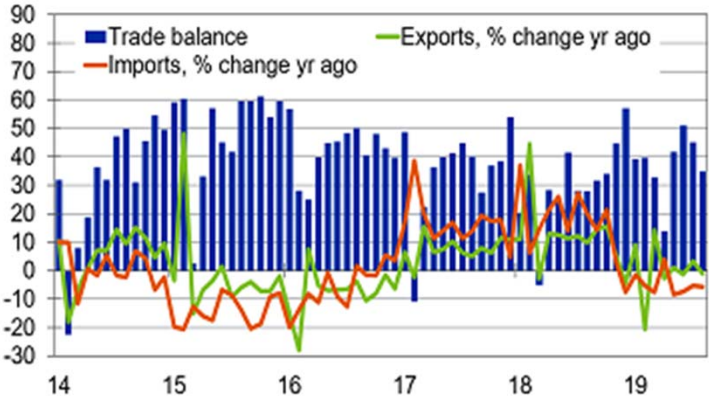
Source: US BEA

Trade War Shifts the Mix of Imports
U.S. merchandise imports, \$bil, NSA



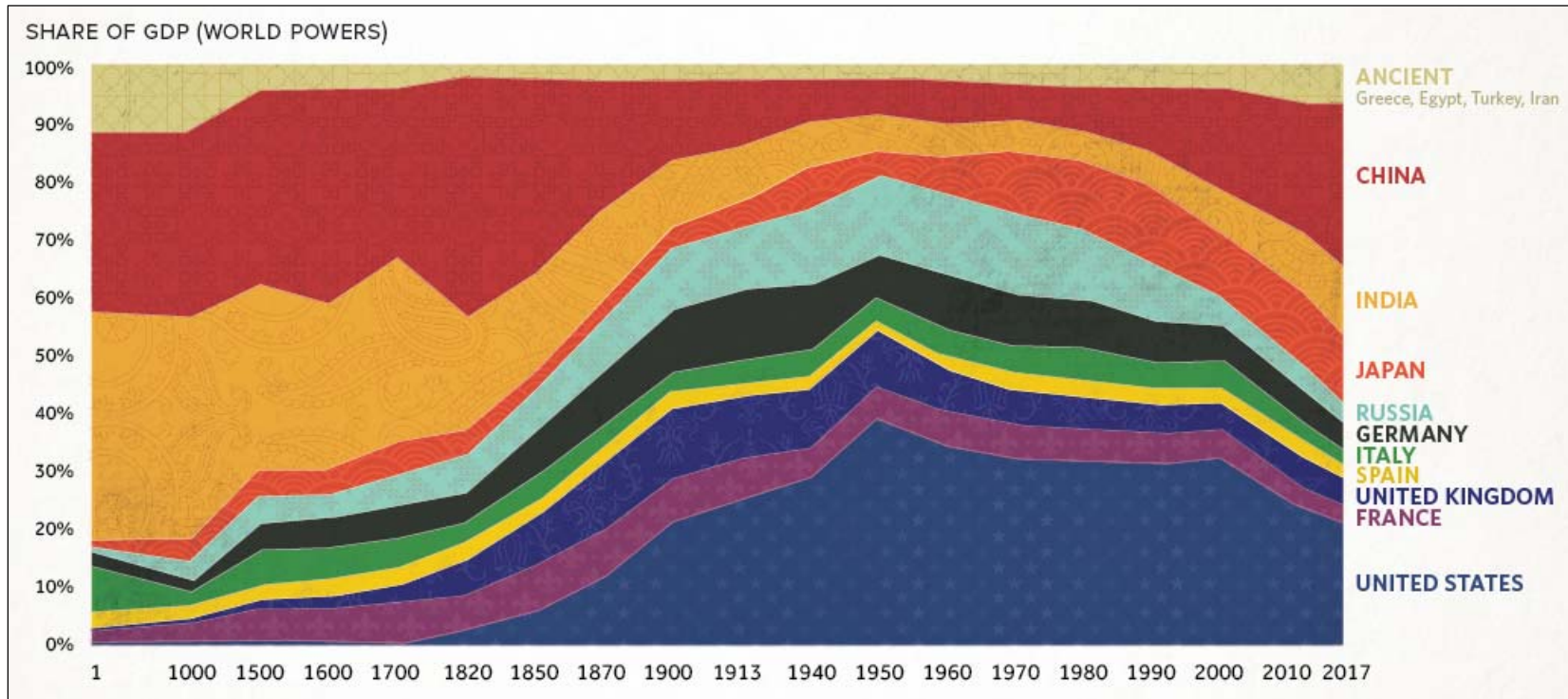
Source: Census Bureau, Moody's Analytics

China's Ongoing Weak Export Picture
China monthly merchandise trade, US\$ bil



Sources: China National Bureau of Statistics, Moody's Analytics

China Playing a Long Game



Source: Visual Capitalist Web site (data from Angus Maddison & IMF)

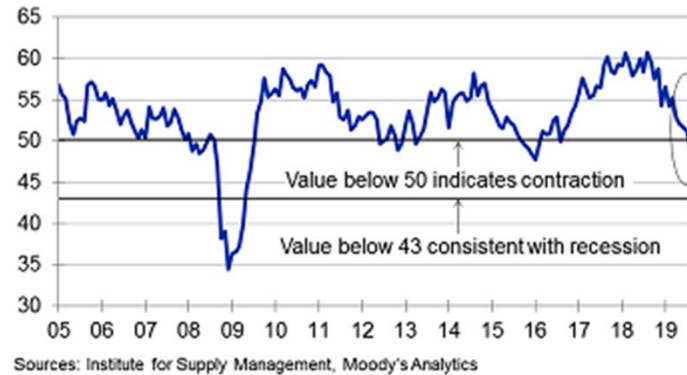
Global Manufacturing Slowdown/Recession

Global Leading Indicator
JP Morgan Global Purchasing Managers' Index



Source : Haver Analytics

U.S. Manufacturing Sector is in Recession
Purchasing Managers' Index, SA



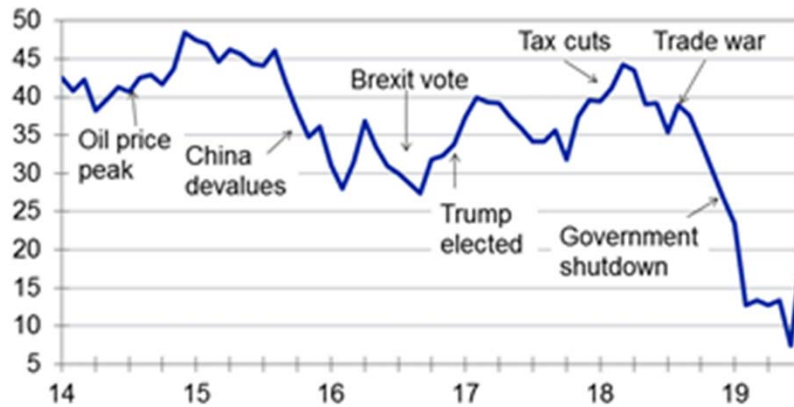
Global Purchasing Managers' Indices
Manufacturing – as of August 2019

	Current	Recent Trough	Cycle Peak
Canada	60.6	45.4 (Jan-15)	73.2 (Mar-11)
Brazil	52.5	41.6 (May-16)	57.8 (Jan-10)
India	51.4	47.9 (Jul-17)	59.0 (May-10)
France	51.1	42.7 (Sep-12)	58.8 (Dec-17)
China	50.4	47.2 (Sep-15)	57.4 (Jan-10)
Japan	49.3	45.0 (Dec-12)	56.6 (Jan-14)
United States	49.1	47.8 (Jan-16)	60.8 (Feb-18)
Russia	49.1	47.6 (May-15)	55.6 (Mar-11)
Italy	48.7	43.3 (Oct-11)	59.0 (Jan-18)
United Kingdom	47.4	45.5 (Jul-12)	58.9 (Feb-11)
Germany	43.5	43.0 (Jul-12)	63.3 (Dec-17)

Source: Markit, Haver Analytics

Business Confidence Deteriorates

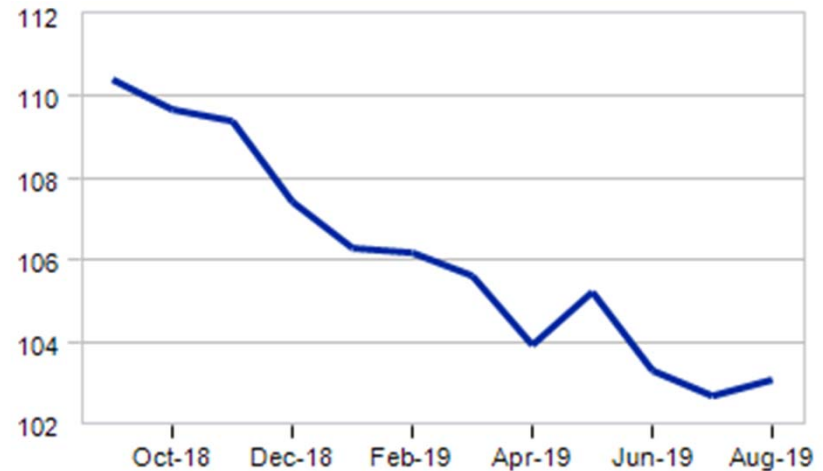
Businesses Are Losing Faith
Business sentiment diffusion index, net % positive



Source: Moody's Analytics

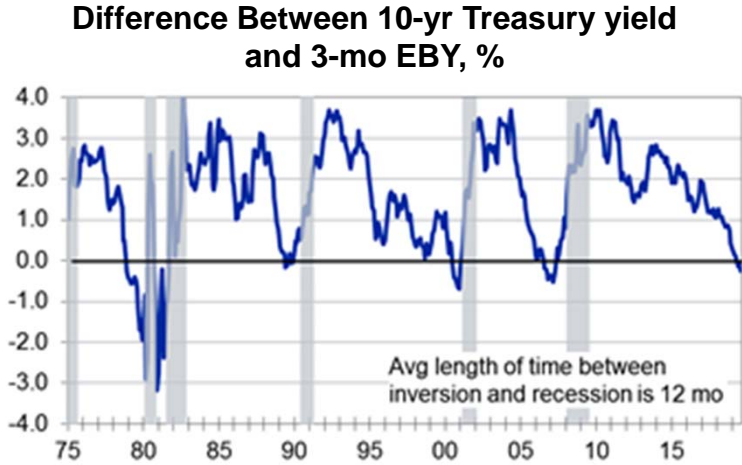
- According to Duke University U.S. CFO's Survey, 2/3 believe a recession will occur before end of 2020.

Eurozone Economic Sentiment Index
Long term average = 100, SA



Source: European Commission

Yield Curve Signals Recession



Source: Federal Reserve, Moody's Analytics

Negative Yielding Debt Passes \$17tn

Global Value of Negative-yielding Bonds (\$tn)



Source: Bloomberg, Financial Times

The Inverted Yield Curve?

WHY SHOULD WE BE CONCERNED?


- Bond markets are signalling slowdown/recession.
- Bond market usually leader in identifying economic trends / inflexion points.
- The 10-year U.S. treasury bond has tumbled from 3.2% last November to 1.72% on September 10.
- There is a flight to safety: currently around US\$17 trillion worth of bonds around the world are yielding below zero %. The highest number since 2016.

ARE WE WORRIED? YES A LITTLE!

- The Fed will continue to cut rates if recession fears mount.
- This is not 2008/2009 – next global slowdown will be less severe.
- The risk of contagion is unlikely – although global debt levels have grown – mostly government debt in advanced economies and Chinese domestically funded.

Global Gross Debt / GDP Rates with IMF Forecasts

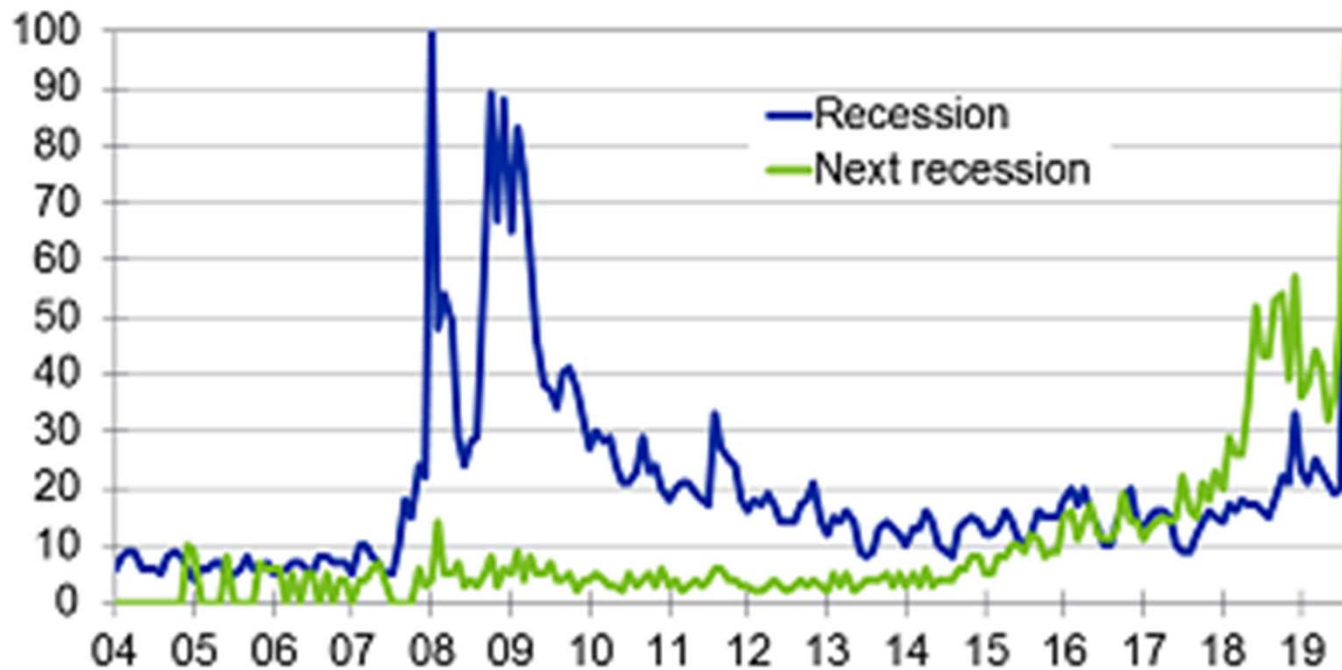
	United States	Canada	France	Germany	Italy	Japan	United Kingdom
2009	86.7	79.4	83.0	72.6	112.5	201.0	63.7
2010	95.4	81.3	85.3	81.0	115.4	207.9	75.2
2011	99.7	81.9	87.8	78.6	116.5	222.1	80.8
2012	103.2	85.5	90.6	79.9	123.4	229.0	84.1
2013	104.8	86.2	93.4	77.4	129.0	232.5	85.2
2014	104.4	85.7	94.9	74.5	131.8	236.1	87.0
2015	104.7	91.3	95.6	70.8	131.6	231.6	87.9
2016	106.9	91.8	96.6	67.9	131.4	236.3	87.9
2017	106.2	90.1	98.5	63.9	131.3	235.0	87.1
2018	105.8	90.6	98.6	59.8	132.1	237.1	86.9
2019	106.7	88.0	99.2	56.9	133.4	237.5	85.7
2020	107.5	84.7	98.7	53.8	134.1	237.0	84.4
Prior Peak	83.2	101.0	77.4	72.5	121.8	217.6	68.2
Anticipated Deficit/GDP Ratio for 2019	-4.6	-0.6	1.1	-3.3	-2.7	-2.8	-1.3

Note:  anticipated peak

Source: IMF

Recession Concerns Spike

U.S. Google search term, 100=peak popularity



Source: Google Trends, Moody's Analytics

**Monetary Policy To The Rescue!
How Effective Can It Be
This Time?**

Monetary Policy Gets Re-Calibrated

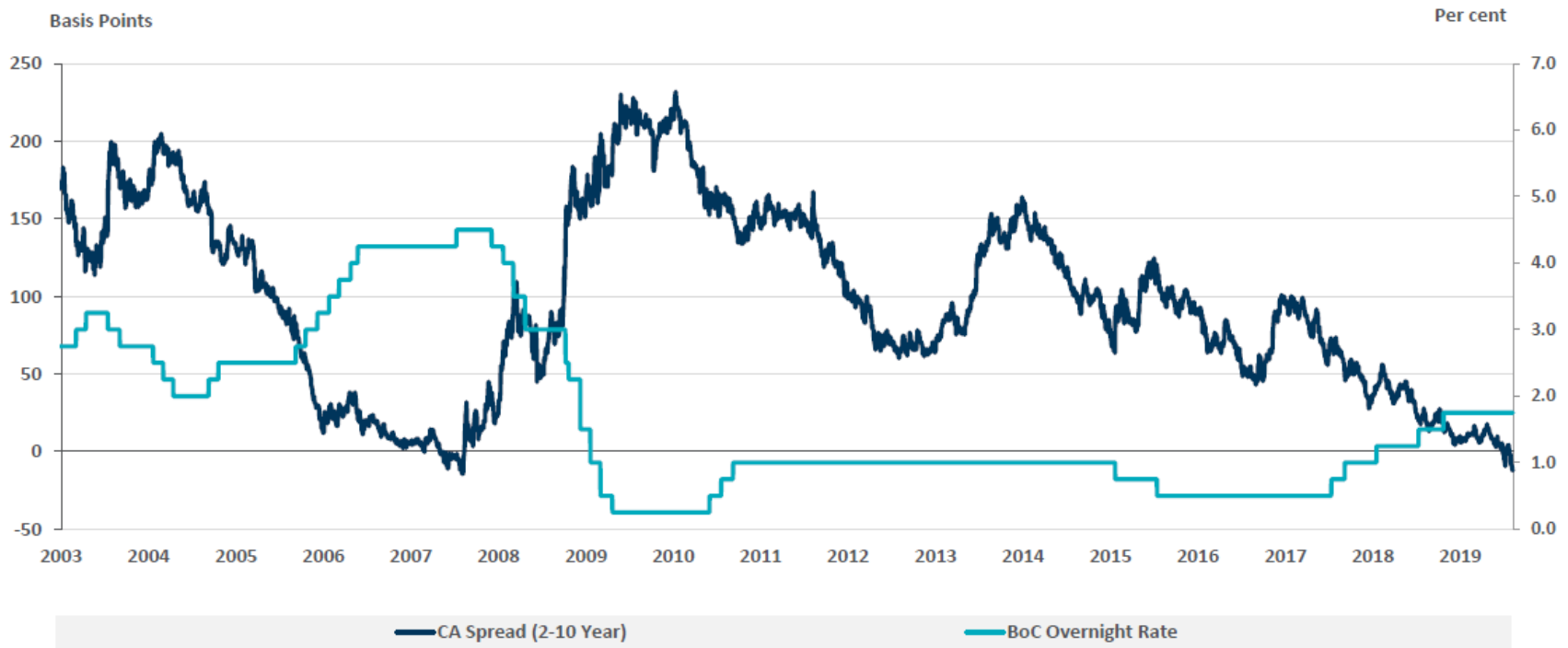
Central Banks Turn More Dovish, Hit the Pause Button And Start to Cut Rates

- Global economic conditions deteriorate.
- Trade frictions/issues continue.
- Core Inflation remains relatively well behaved.
- Geopolitical issues: Brexit, Italian Debt etc., hurt business and consumer confidence.

Central Banks yet again key to supporting national economies.

Tightening cycle over – looking at a period of low interest rates.

The Hiking Cycle is Dead



Source: Bloomberg

Short-Term Interest Rates: Globally, Balance Has Shifted Towards Further Easing of Monetary Policy



Regions included: U.S., Canada, U.K., Eurozone, Switzerland, Sweden, Norway, Japan, Australia, China, India, South Korea, Russia, Brazil, Mexico. PPP weights by GDP share.
Source: Haver Analytics, RBC GAM

The tightening trends that were in place in many regions appear to have stalled as over half of major central banks are now easing.



Regions included: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Korea, Taiwan, Thailand and Turkey. PPP weights by GDP share
Source: RBC GAM, Haver Analytics

	Current Policy Rate	Latest Move	Trend**	Since March 2009		
				# of Rate Hikes	# of Rate Cuts	Unorthodox Monetary Policy
U.S.	2.25	-0.25	Tightening	9	1	QE I, II and III, Operation Twist
Canada	1.75	-	Tightening	8	4	
U.K.	0.75	-	Tightening	2	2	QE
Eurozone*	-0.40	-	Easing	3	13	LTRO, relaxed collateral req., QE
Switzerland	-0.25	-	Easing	0	3	
Sweden	-0.25	-	Tightening	3	5	
Norway	1.25	-	Tightening	8	10	
Japan*	-0.06	-	Easing	-	-	QE
Australia	1.00	-	Easing	8	16	
China	4.35	-	Easing	5	8	QE
India	5.40	-0.35	Easing	17	17	QE (reduced bank holding req.)
South Korea	1.50	-	Easing	7	9	
Russia	7.25	-	Easing	11	33	
Brazil	6.00	-	Easing	25	27	Bank recapitalizations
Mexico	8.00	-0.25	Tightening	15	10	
Turkey	19.75	-	Tightening	4	12	

*Deposit facility rate shown for Eurozone. Overnight call rate shown for Japan.

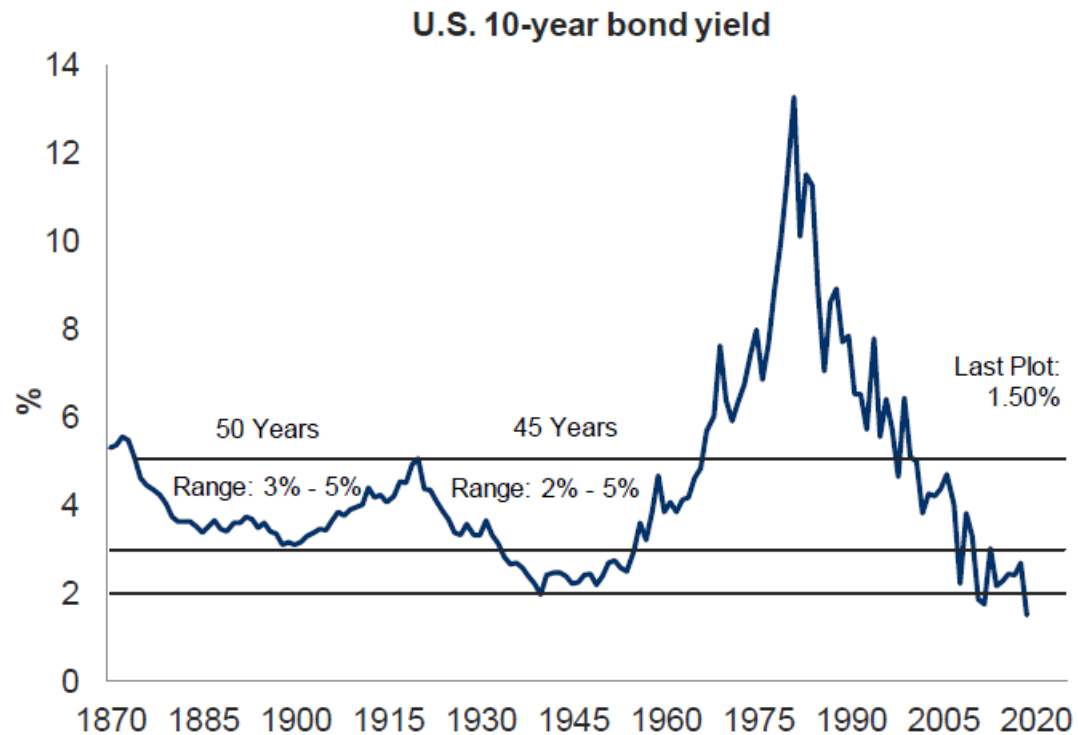
**In the past 12 months

QE = Quantitative Easing

Source: RBC GAM, Haver Analytics

Nine nations now easing policy vs. seven still tightening.

A Very Long-Term Perspective for U.S. Long-Term Yields Indicates: Rates are “Normalizing” Think “Low for Longer”



Source: RBC GAM, RBC CM

September 10, 2019 1.72%

A longer-term perspective of bond yields shows that the late 60's through to the late 90's was a very unusual period for interest rates. Aside from then, yields have generally held within a range defined by 2-3% at the low and 5% at the peak. The recent drops below 2% are also extraordinary, even placed within the context of almost 150 years of U.S. interest rate history.

Average Yield for Canada 10 Yr+ Bonds

1936 – 2017



Source: Bank of Canada

September 10, 2019 1.34%

Central Banks at Mid-2019

Fed, ECB, BofE, BoJ, RBA and BoC

A Dovish Pivot by Central Banks

Central Banks have hit the pause button

- **Federal Reserve:** Hit pause button. Now pressing on the patience pedal. Balance sheet run-off ends September. Expects to keep rates below the long-run equilibrium rate through 2020 / 21. Seismic Shift. Anticipate flat yield curve! **Rate cuts now the plan.** Rethinking execution of mandate “Listening Project”.
- **ECB:** Moved aggressively to support economic activity at September meeting. Cut deposit rate to -0.5% from -0.4%. Announced new round of QE (€20 billion a month) November and extended maturity of TLTRO III programme. Linked forward guidance to the 2% inflation target.
- **BoJ:** Maintaining current QE program and low interest rate policy.
- **RBA:** Moved to sidelines. Rate cuts have begun.
- **BofE:** Prepared to support economy as it gets hit by Brexit fallout.
- **BoC:** Moved to sidelines – **Anticipate a rate cut before year-end.**

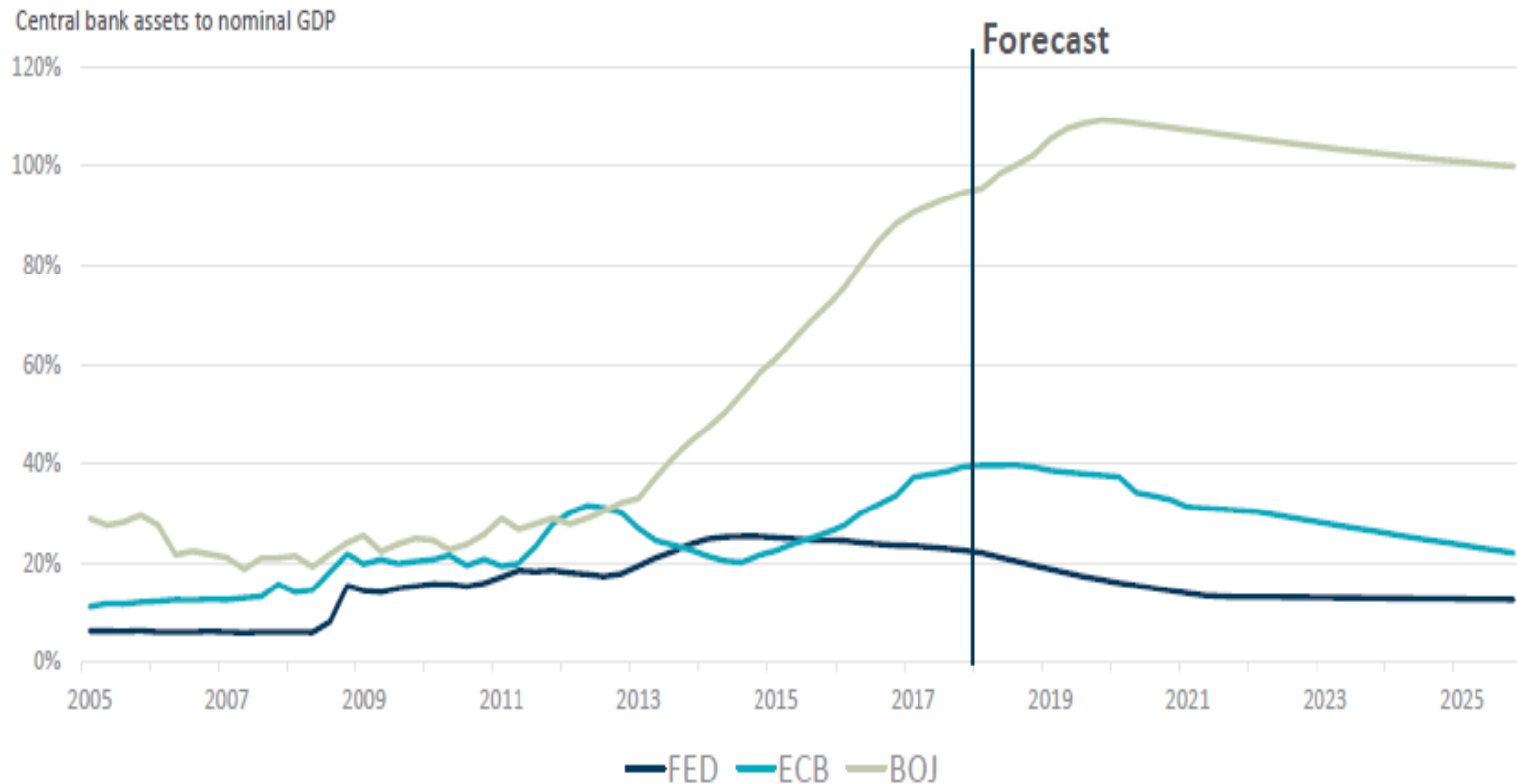
North American Monetary Policy Eases Caution and Flexibility Set the Scene! Dovish Pivot: Flat Yield Curve!

	2016				2017				2018				2019				2020			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Canada																				
Overnight Rate	0.50	0.50	0.50	0.50	0.50	0.50	0.83	1.00	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50
91-Day Treasury Bills	0.45	0.51	0.50	0.48	0.47	0.54	0.81	0.92	1.14	1.21	1.47	1.66	1.65	1.67	1.65	1.40	1.40	1.40	1.40	1.40
10 - Year Gov't Bond	1.22	1.28	1.06	1.45	1.71	1.51	1.95	1.96	2.24	2.28	2.28	2.32	1.86	1.62	1.30	1.35	1.50	1.60	1.65	1.75
	2016				2017				2018				2019				2020			
U.S.A.	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fed Funds Rate	0.38	0.38	0.38	0.46	0.71	0.96	1.13	1.21	1.46	1.71	1.96	2.21	2.38	2.38	2.13	1.63	1.63	1.63	1.63	1.63
90 - Day Treasury Bills	0.29	0.26	0.30	0.43	0.60	0.90	1.06	1.23	1.58	1.87	2.08	2.36	2.44	2.35	2.60	1.60	1.55	1.60	1.65	1.65
10 - Year Gov't Bond	1.92	1.75	1.56	2.13	2.44	2.26	2.24	2.37	2.76	2.92	2.93	3.03	2.65	2.33	1.75	1.70	1.80	1.90	2.00	2.10
Canada/U.S. T-Bill Spread	0.16	0.25	0.20	0.05	-0.13	-0.36	-0.25	-0.31	-0.44	-0.66	-0.61	-0.70	-0.79	-0.68	-0.95	-0.20	-0.15	-0.20	-0.25	-0.25
Canada/U.S. 10 - Yr Bond Spread	-0.70	-0.47	-0.50	-0.68	-0.73	-0.75	-0.29	-0.41	-0.52	-0.64	-0.65	-0.71	-0.79	-0.71	-0.45	-0.35	-0.30	-0.30	-0.35	-0.35

Forecast

Source: Bank of Canada and ECONOMAP

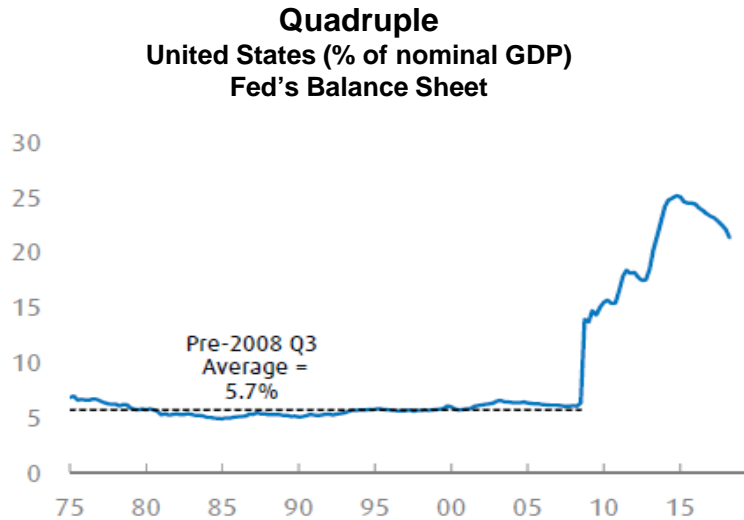
But QE Will Be Around For A Long Time



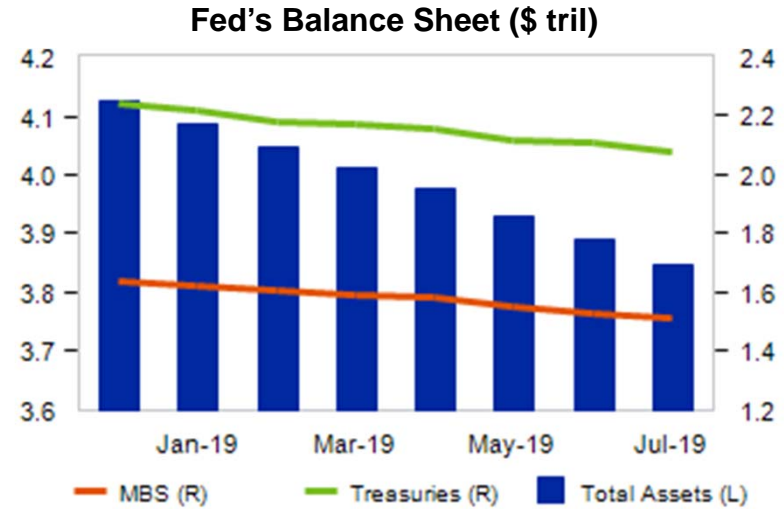
Source: Haver Analytics, Forecast Oxford Economics

The FED's "New Normal" Balance Sheet?

Plans to end run-off of Balance Sheet by end of September. And rundown of Treasury holdings began slowing in May. Earlier ending to QT than originally planned.

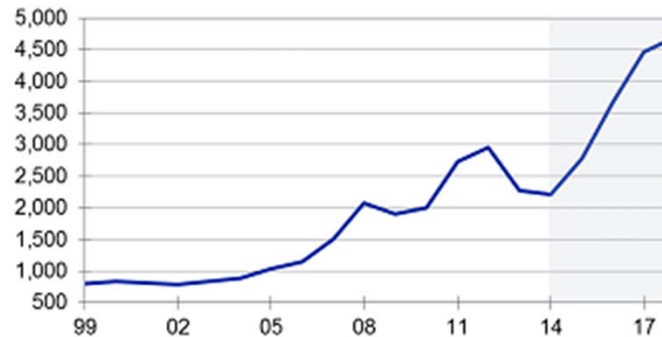


Sources: BMO Economics, Haver Analytics



Source: Federal Reserve Board

ECB's Ever-Growing Portfolio Total assets €bil, shaded area start of QE



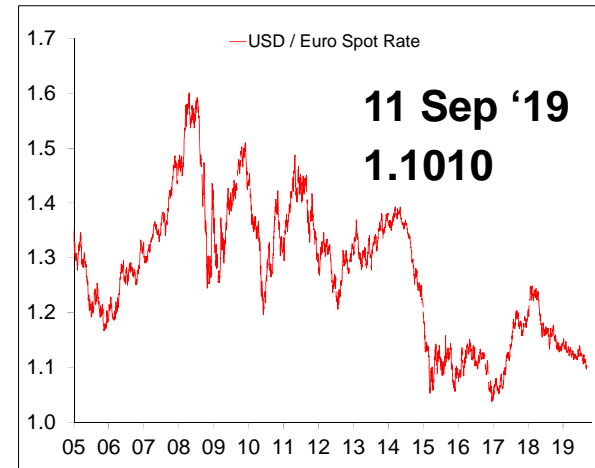
Source: ECB, Moody's Analytics

Currencies

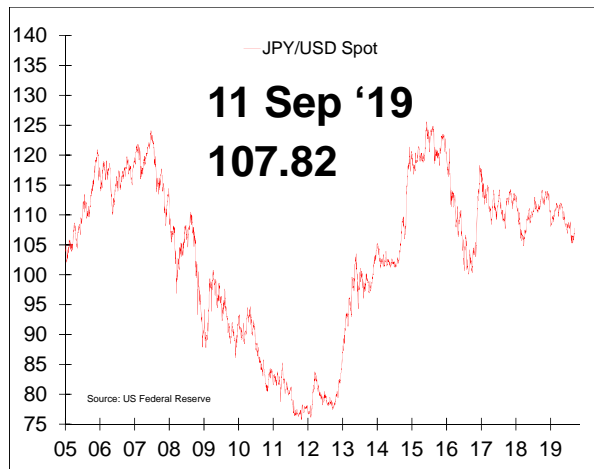
U.S. Dollar - Trade-weighted Broad Index



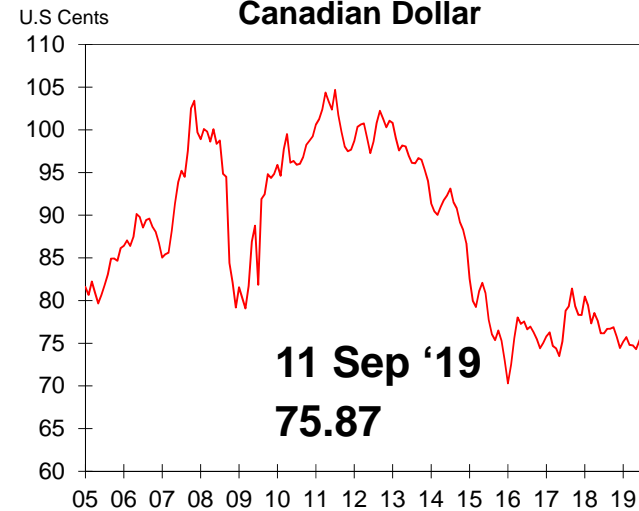
EURO



Japanese Yen



Canadian Dollar



**Core Inflation Remains Contained
Good News for Central Banks as They
Re-Calibrate Monetary Policy**

Global Price Environment Still Remains Relatively Well Behaved

Global CPI (% change)



Source: Moody's Analytics

Inflation Snapshot
Latest Data – July CPI % change year ago

Country	YoY	Direction
U.S.	+1.8	↘
Canada	+2.0	↘
U.K.	+2.1	↘
Germany	+1.7	↘
Euro Zone	+1.0	↘
China	+2.8	↘
India	+3.1	↘
Global	+4.7	↘
Developed Economies	+1.5	↔
Developing Economies	+6.6	↘

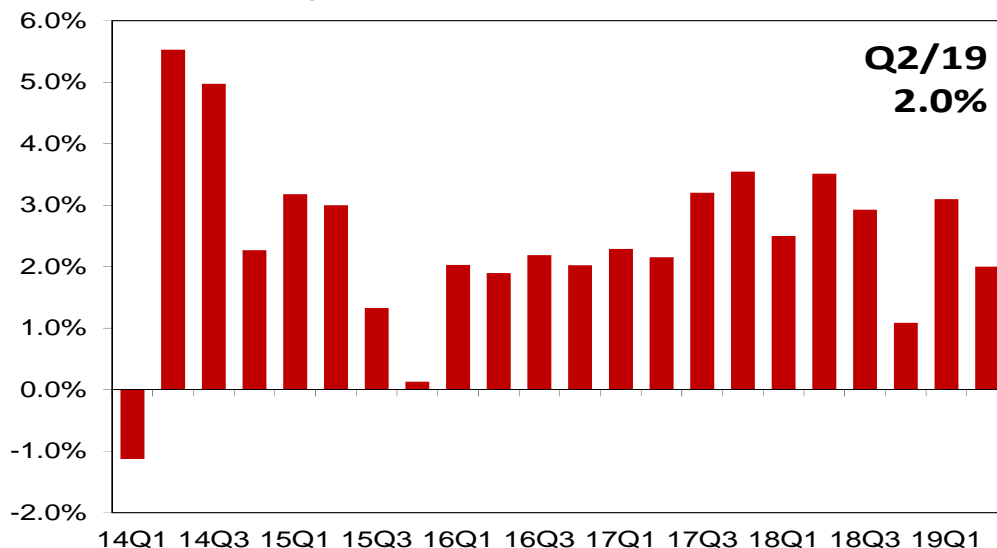
Source: ECONOMAP

United States Economy Key to Shaping Cycle

**Trade Wars and Washington Politics
Threaten U.S. and Global Outlook
Fed Re-Calibrating Monetary Policy
But Will it Be Enough?**

U.S. Economy Approaching Late Cycle Stage Growth Profile Moderating

Annualized QoQ % Change (Chained 2012 Dollars)



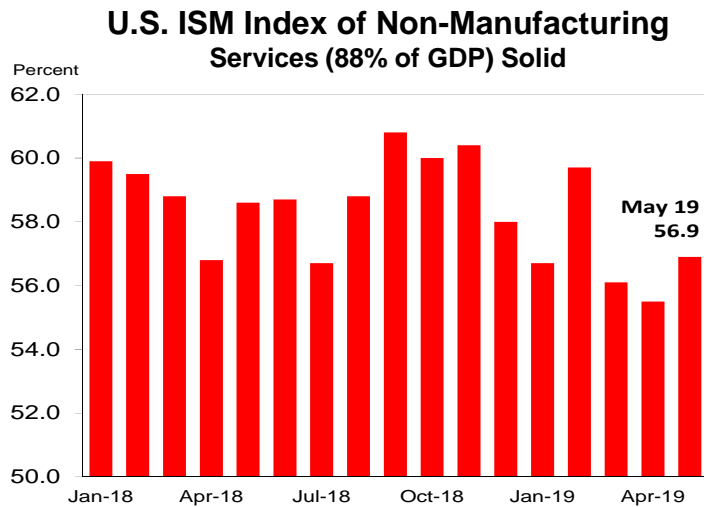
	GDP
2009	2.6%
2010	2.6%
2011	1.6%
2012	2.2%
2013	1.8%
2014	2.5%
2015	2.9%
2016	1.6%
2017	2.4%
2018	2.9%
2019	2.3%
2020	1.7%

- Tax cuts and Fed spending accelerate growth in 2018. Now fading.
- Job creation has been solid, wage gains starting.
- Unemployment headed to low 3s.
- Consumers key to next phase of cycle! Consumers reluctant to take on debt.
- Housing peaked for this cycle?
- Business investment has cooled.
- Capex dampened by trade issues / threats.
- Inflation contained.
- Fed moves to support economy.
- Risks: Trump policies and politics.

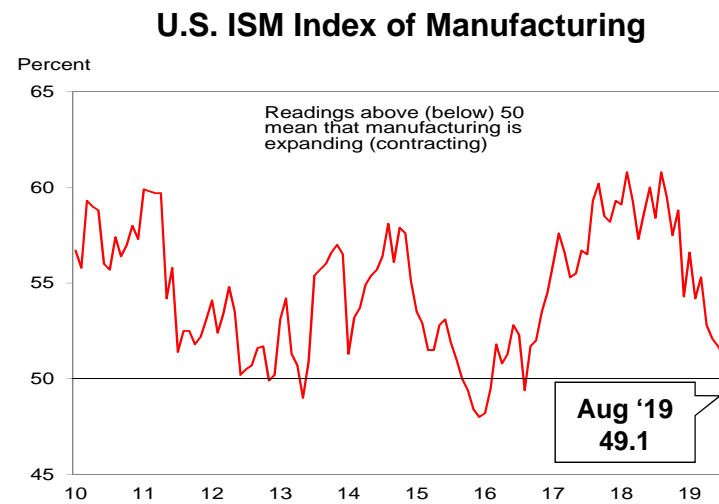
	QUARTERLY GROWTH PROFILE (QoQ% AR)			
	Q1	Q2	Q3	Q4
2013	3.6	0.5	3.2	3.2
2014	-1.1	5.5	5.0	2.3
2015	3.2	3.0	1.3	0.1
2016	2.0	1.9	2.2	2.0
2017	2.3	2.2	3.2	3.5
2018	2.5	3.5	2.9	1.1
2019	3.1	2.0	1.9	1.6
2020	1.7	1.9	2.0	1.9

Economy Still Growing For Now But Cracks Appearing

SOLID



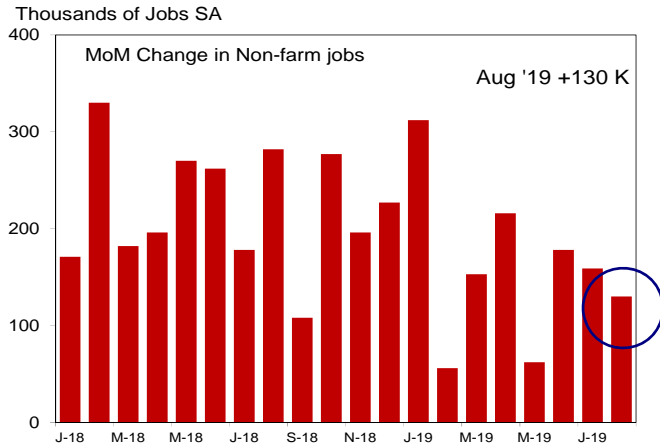
DETERIORATING



Labour Markets Remain Healthy?

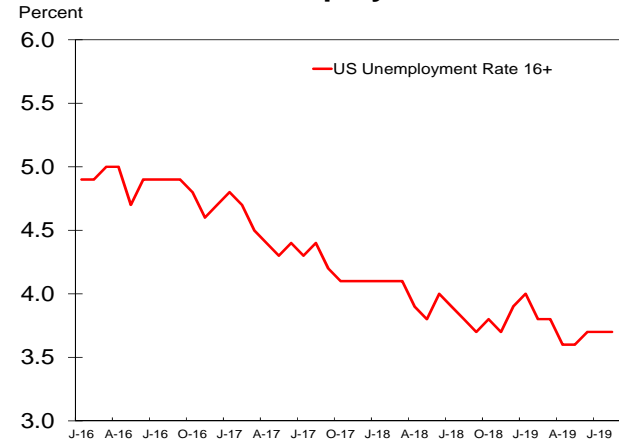
2018 Average Monthly Gains 223,000 – In 2019 Slowed to 158,000

U.S. Total Employment



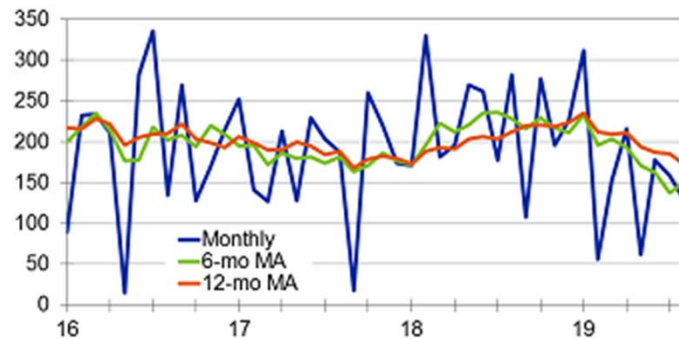
Source: US BLS

U.S. Unemployment Rate



Source: Statistics Canada

Trend Job Growth Slowing, But Still Solid
Nonfarm employment, change, ths



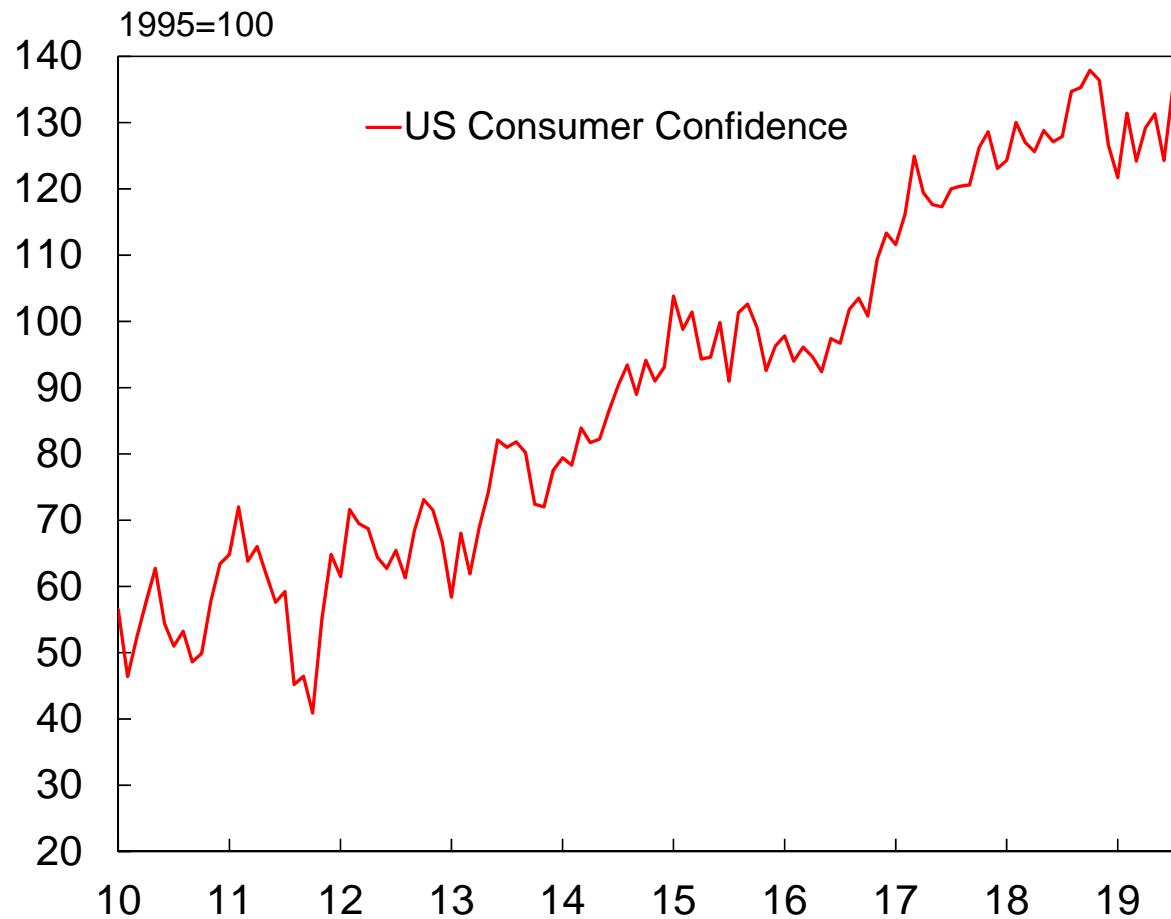
Sources: BLS, Moody's Analytics

Initial Claims Remain Favourable
Initial claims for unemployment insurance benefits, ths



Sources: BLS, Moody's Analytics

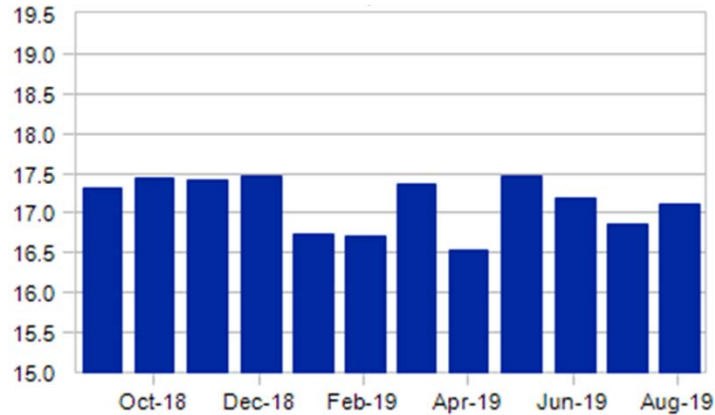
Consumer Confidence Still Close to Highs



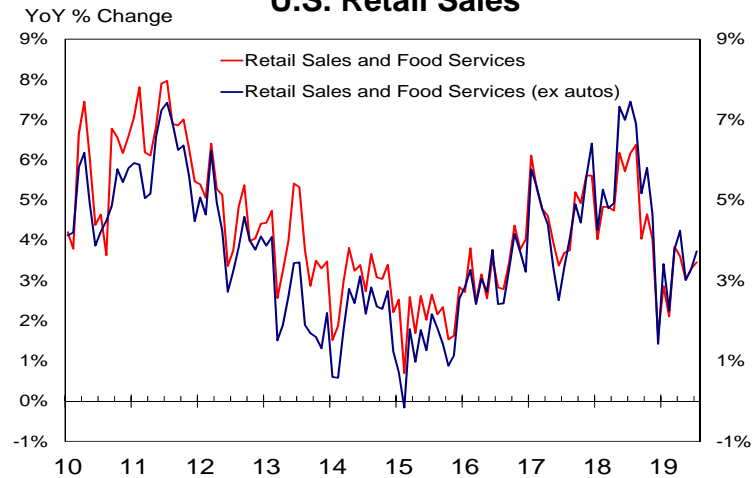
Source: Conference Board

Americans' Buying Moderating For Cars and Goods!

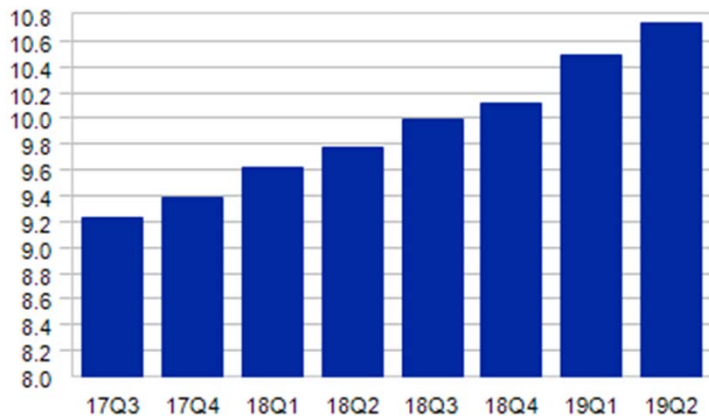
U.S. Vehicle Sales
Mil Units, SAAR



U.S. Retail Sales



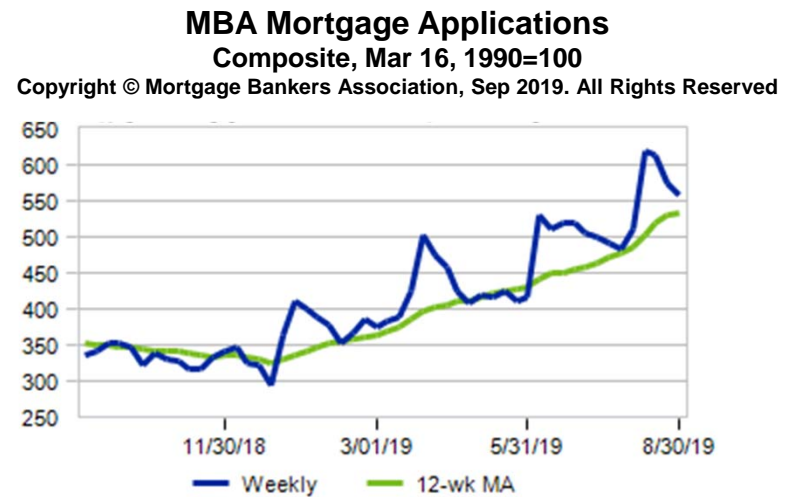
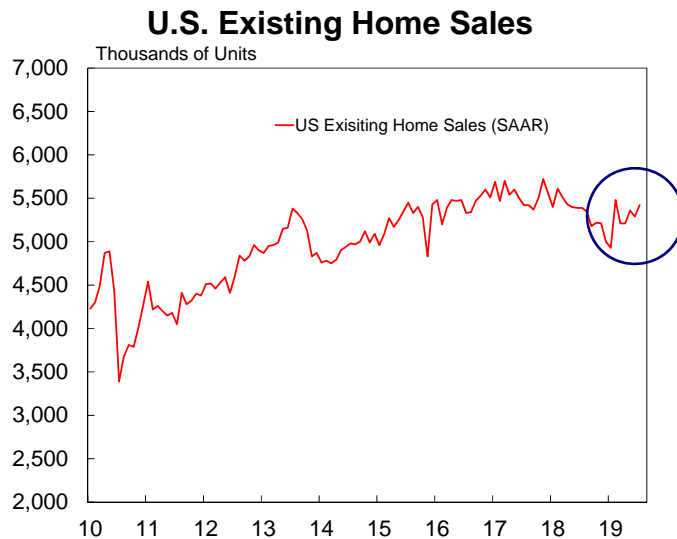
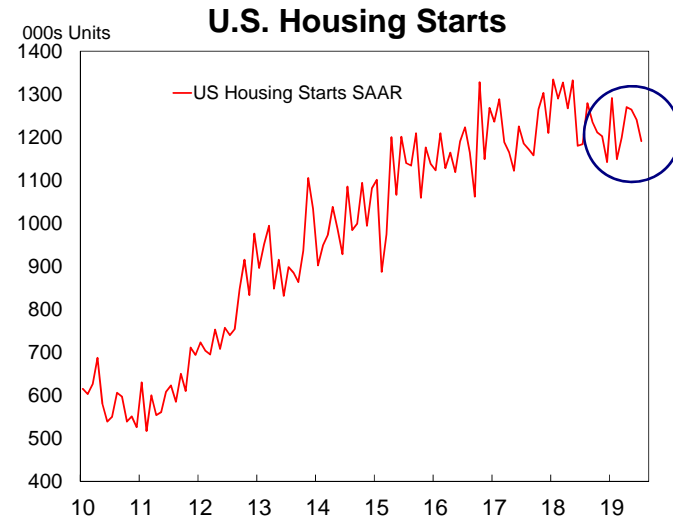
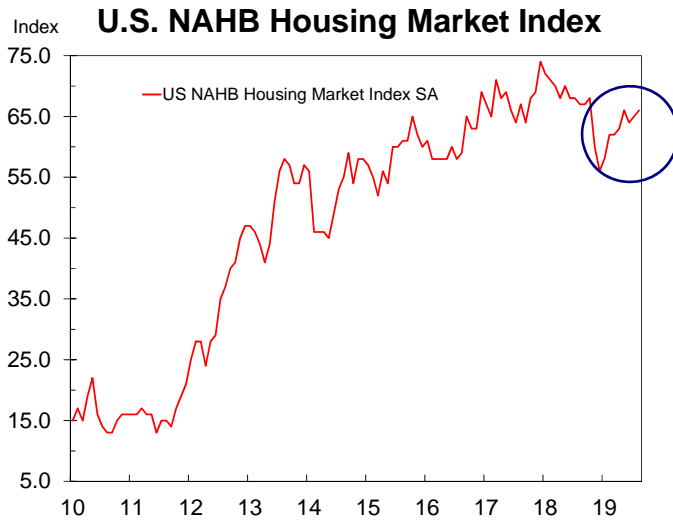
Internet Sales
E-Commerce
% of total sales



Shopping Patterns Changing

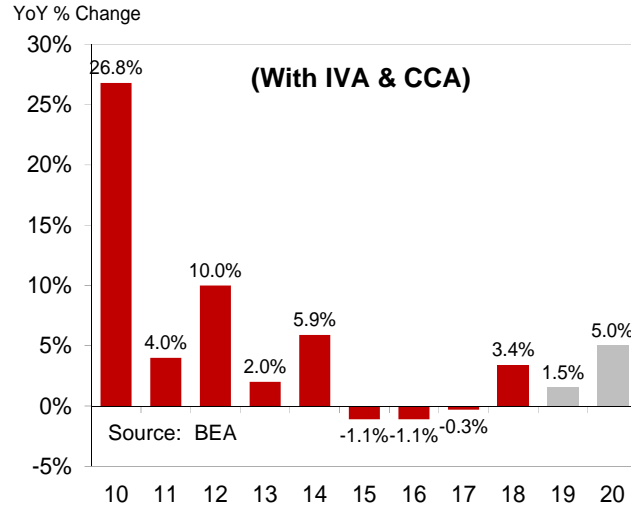
INTERNET SALES	19Q2	19Q1	18Q4	18Q3	18Q2	18Q1	17Q4
E-Commerce sales, \$ bil	146.2	140.3	135.0	132.8	129.0	125.3	121.5
<i>% change</i>	4.2	4.0	1.6	2.9	3.0	3.2	4.1
<i>% change yr ago</i>	13.3	12.0	11.1	13.8	14.2	15.9	16.8
E-Commerce as a % of retail sales	10.7	10.5	10.1	10.0	9.8	9.6	9.4

Housing Market Growth Slows

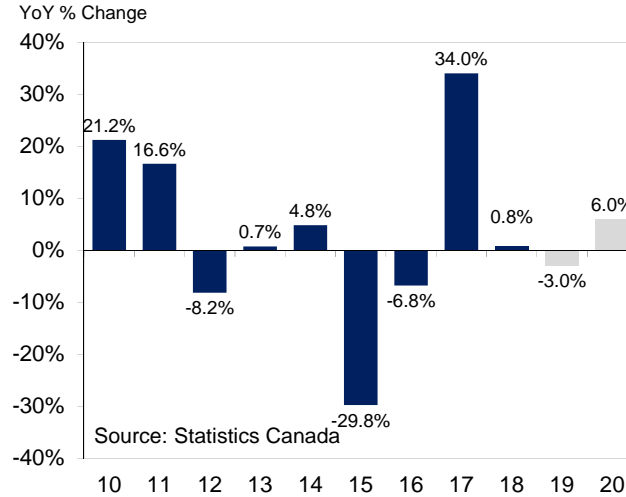


U.S. Corporate Earnings Supported by Corporate Tax Cuts Canadian Earnings Hurt by Commodity Cycle

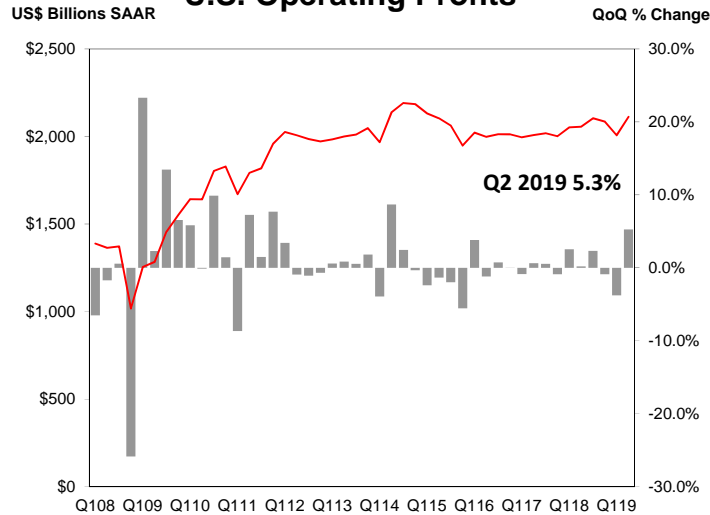
U.S. Corporate Profits Before Taxes



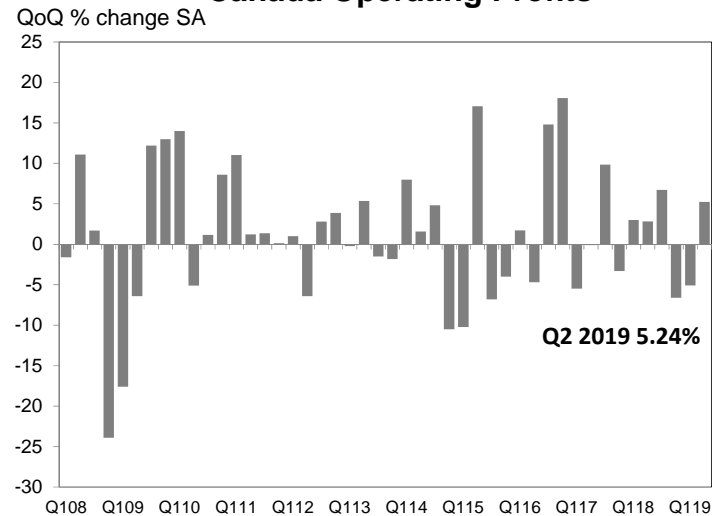
Canada Corporate Profits Before Taxes



U.S. Operating Profits



Canada Operating Profits

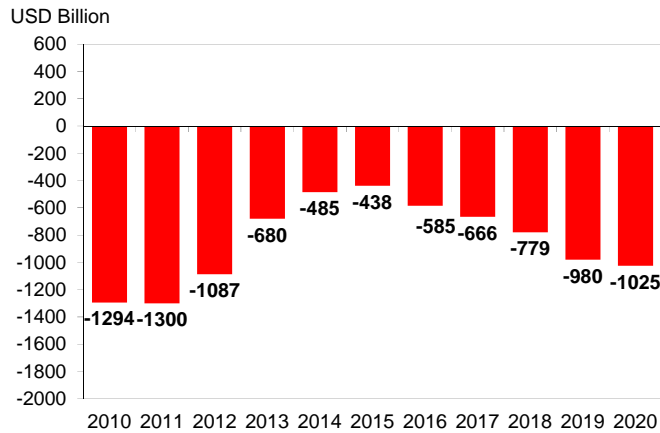


Trump Fiscal Stimulus = Higher Deficits / Debt

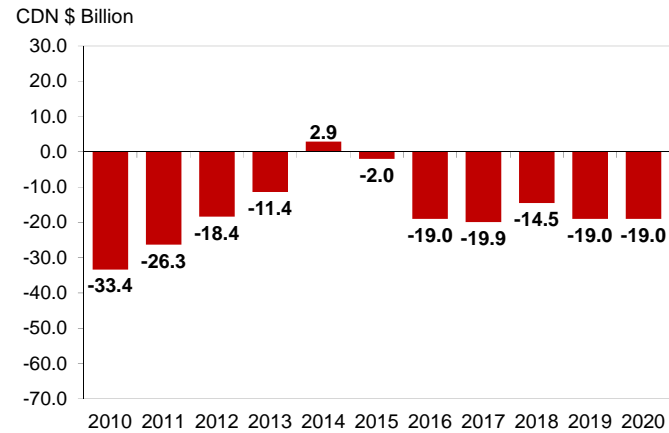
Longer Term U.S. Debt a Major Global Imbalance and Risk

Canada Deficits Grow – Provincial Deficits / Debt Builds!

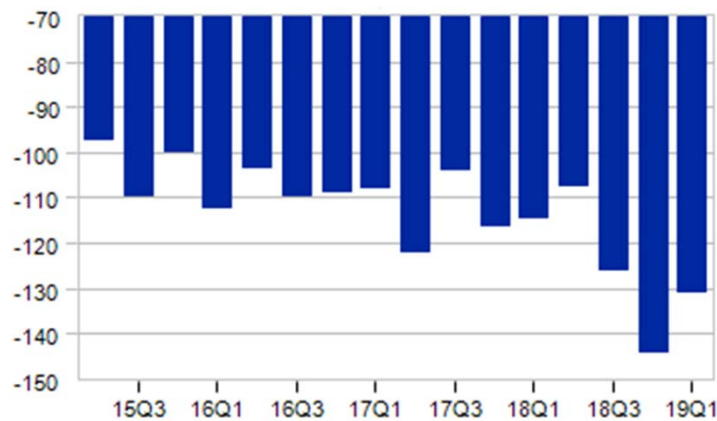
U.S. Government Deficit



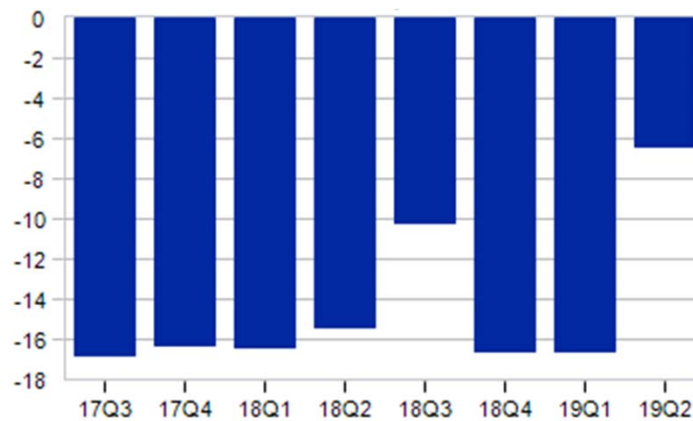
Canadian Government Deficit



U.S. Current Account Deficit (US\$ Bil)



Canada Current Account Deficit (C\$ Bil)



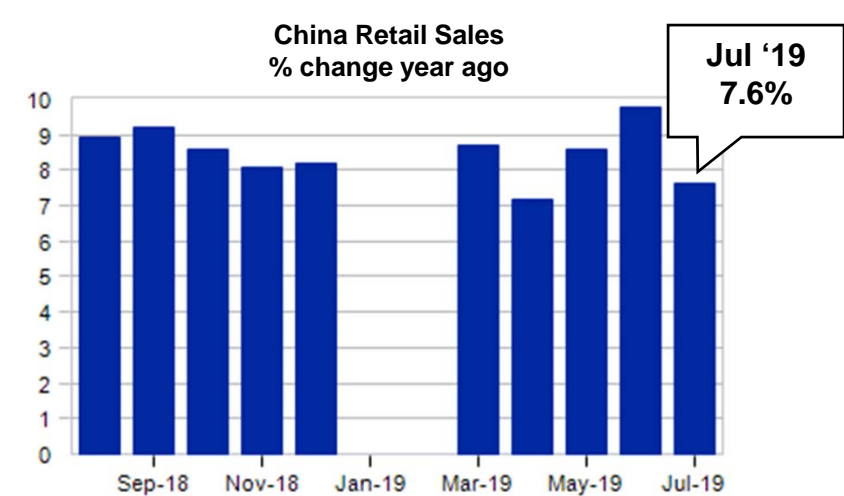
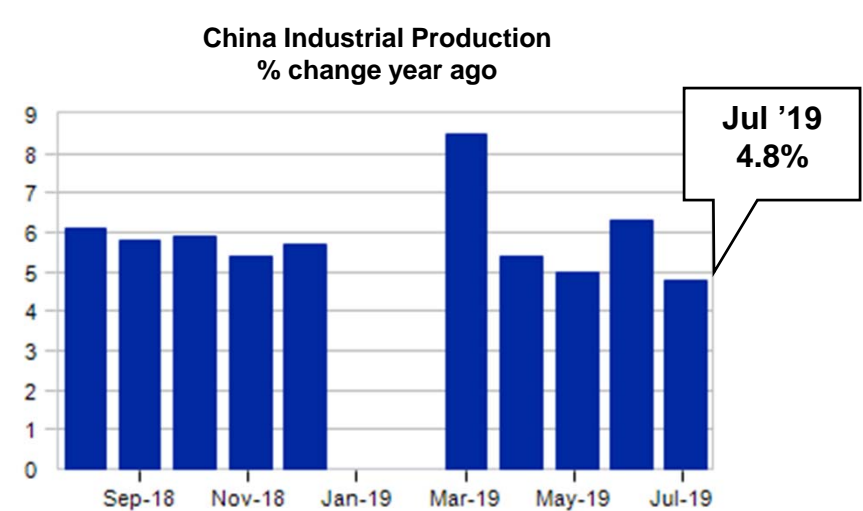
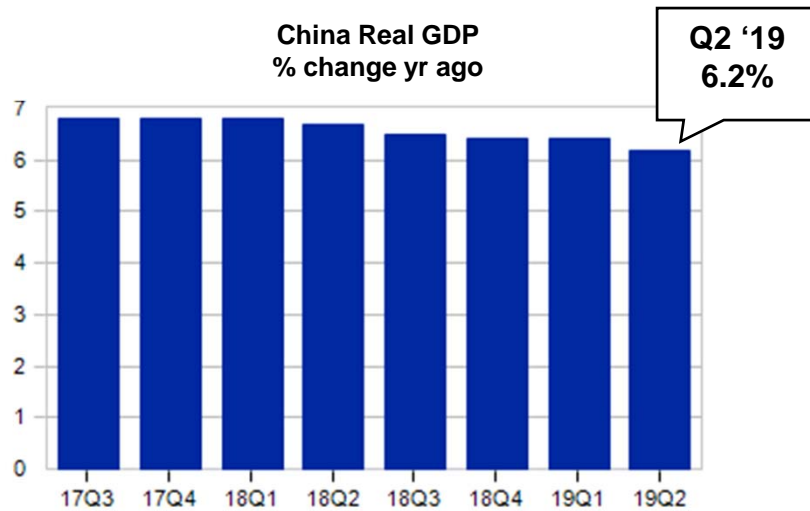
Asia

**Chinese Economy on Entrenched Slowing Path
Japan Muddles Along
India – Challenged**

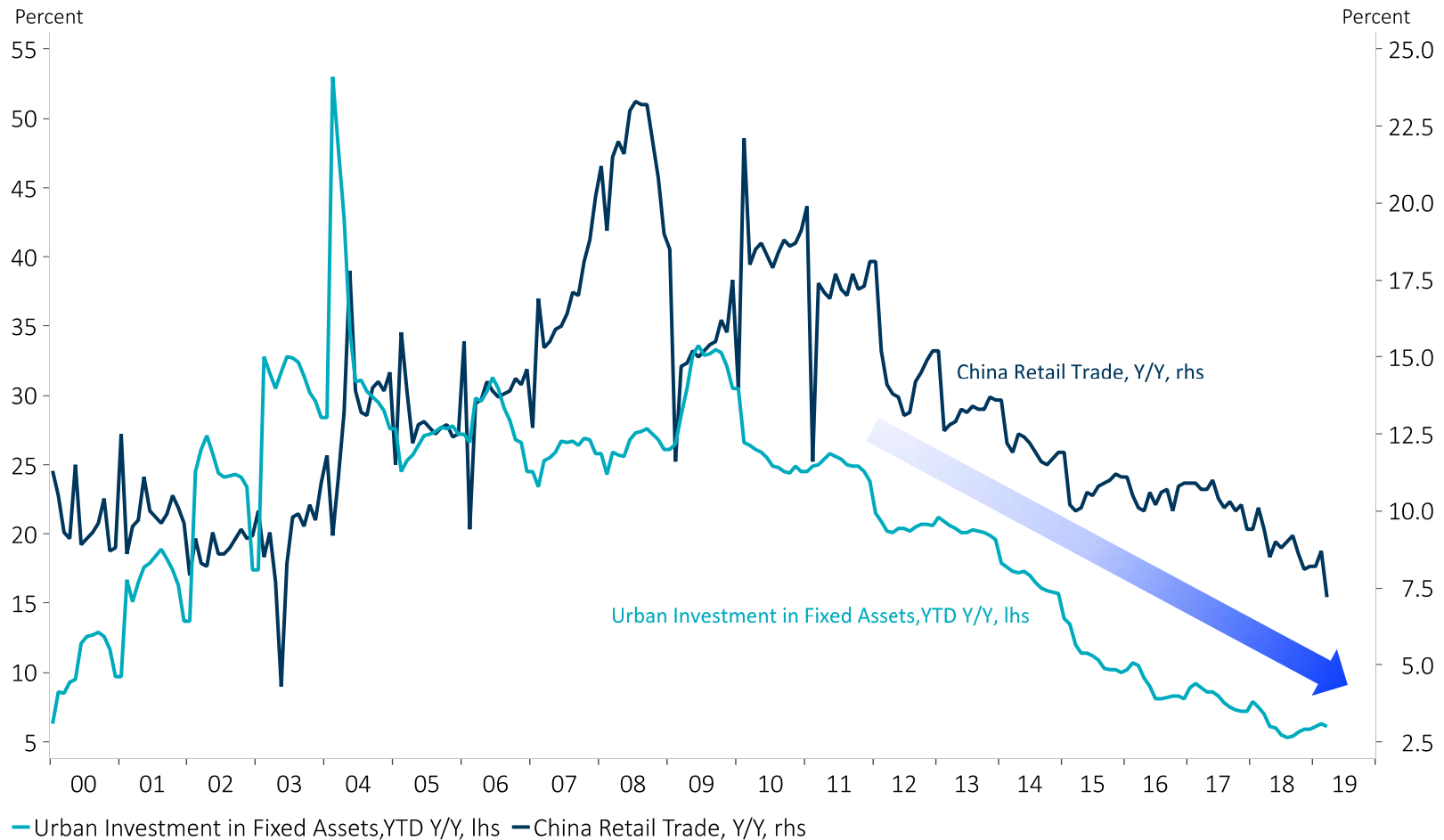
Risks:

**U.S. / China Trade War
U.S. / Japan Trade Issues
U.S. / India Trade Issues
North Korea**

China – Losing Steam / Struggling to Balance Challenges At Home and Abroad Supported by Targeted Policy Measures as Trade War with U.S. Drags On



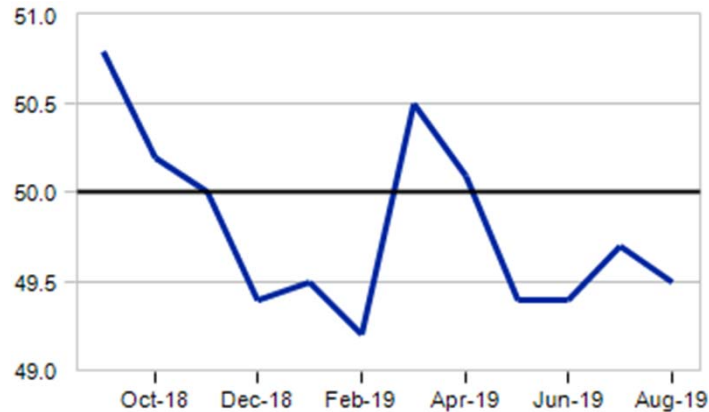
Slowing Chinese Domestic Activity Has Been a Key Drag on Growth



Source: Macrobond, China National Bureau of Statistics (NBS)

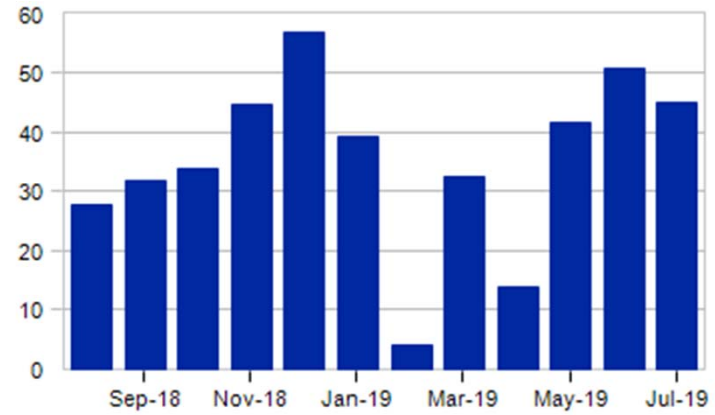
China Turns to Selective Stimulus

China Official Manufacturing Purchasing Managers Index
 > 50 is expansionary



Source: Moody's Analytics

China Trade Balance
 US\$ bil



Source: China General Administration of Customs

China's Ongoing Weak Export Picture
 China monthly merchandise trade, US\$ bil



Source: China National Bureau of Statistics, Moody's Analytics

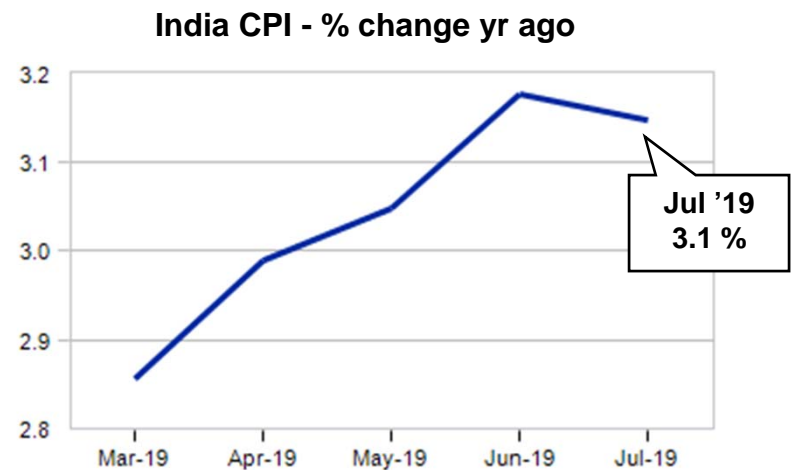
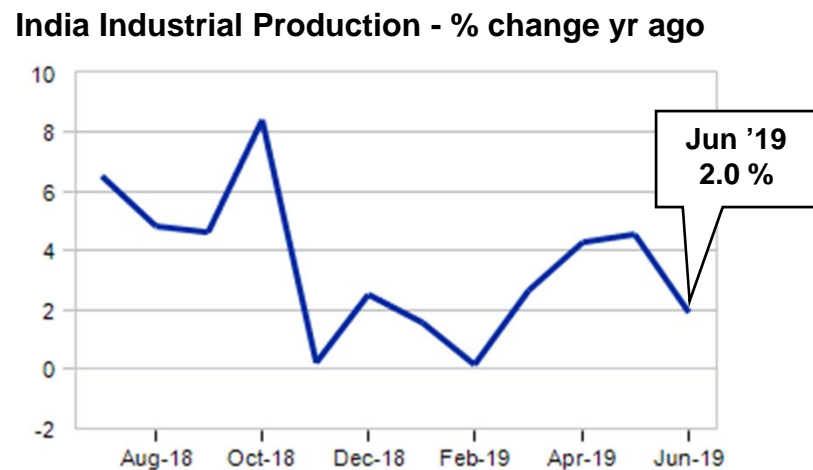
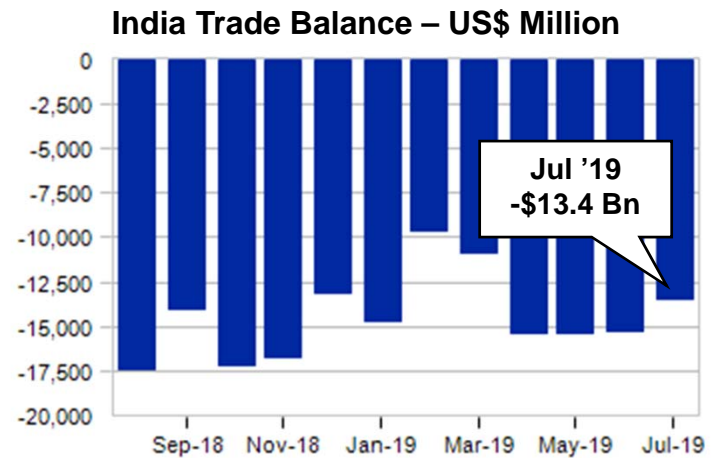
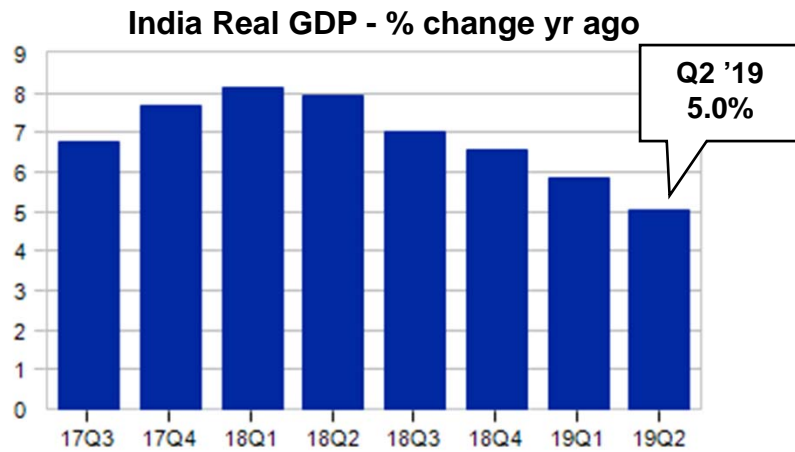
A Wild Ride Lower for The Yuan
 CNY per USD



Source: Bloomberg, PBoC, Moody's Analytics

Prospects Brighten

**India Economy Returns to Growth Path / Election Result Favours Stability
Long Term – India's Growth to Outpace China's Performance
But Challenged in Short Term**



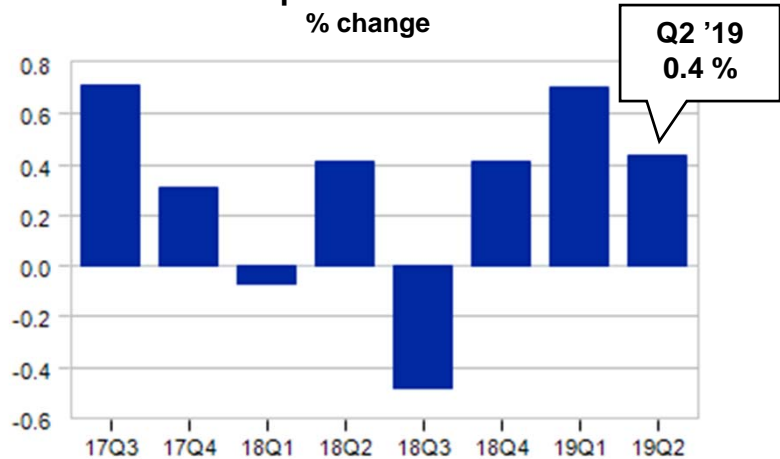
Japan – The Struggle Continues!

Yen's Depreciation Boosts Exports - Risk, U.S. Trade Action

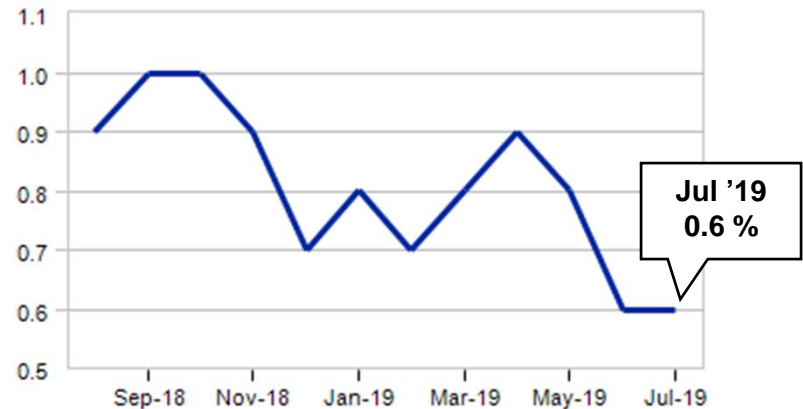
Build Out of Tokyo 2020 Olympic Games Will Support Growth

2% Increase in Planned Consumption Tax in Oct. Will Hurt Consumer Spending in 2020

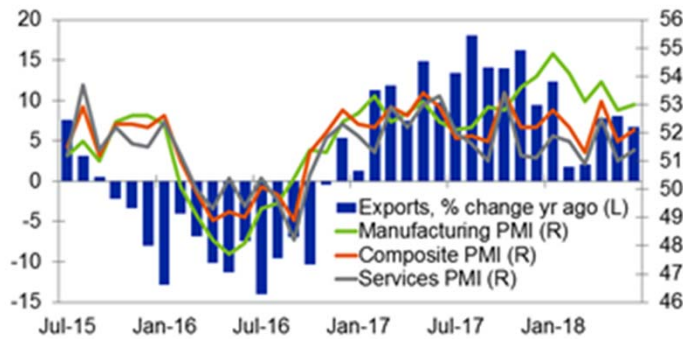
Japan Real GDP
% change



Japan Core CPI
% change yr ago, NSA

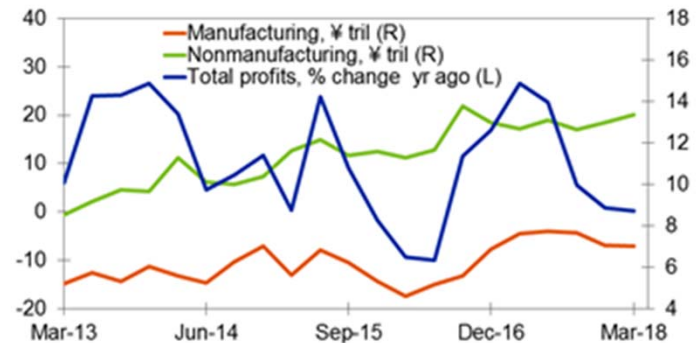


Slowing, But Further Increases Expected



Sources: Bloomberg, IHS Markit, Ministry of Finance, Moody's Analytics

Corporate Profits Stable But Remain High

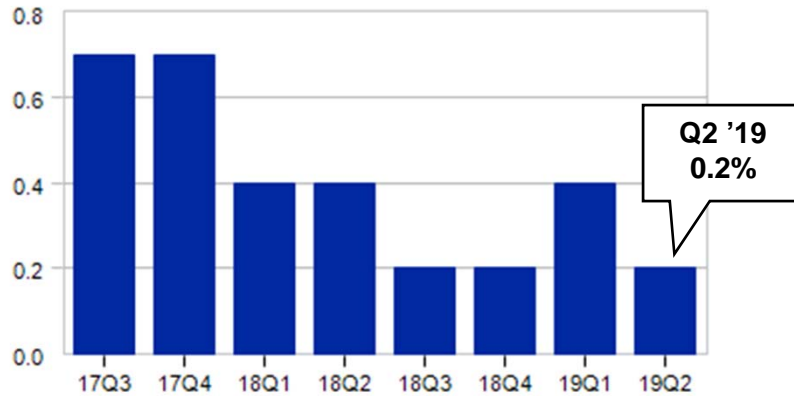


Sources: Ministry of Finance, Moody's Analytics

**Euro Zone Flirts With Recession
As Troubles Mount
ECB & BofE to Remain Supportive
Risks:
Brexit; Italian Debt/Gov't;
U.S. Trade Uncertainties**

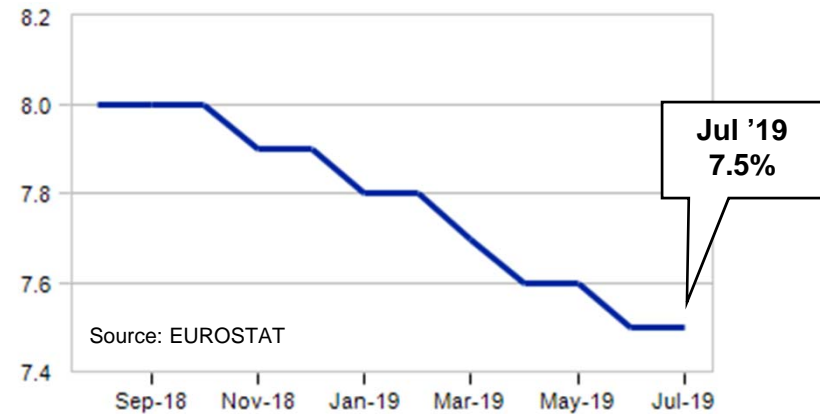
Euro Zone Growth Slows Political Risks Cloud Picture Germany Flirting with Recession

**Euro Zone Real GDP
% change, SA**



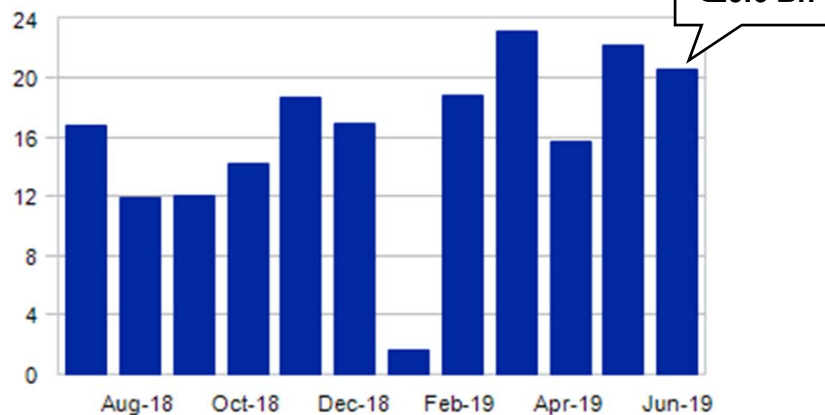
Source: EUROSTAT

**Euro Zone Unemployment Rate
%, SA**



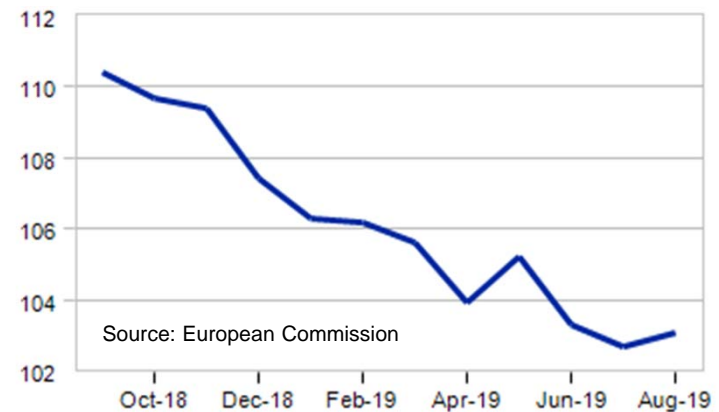
Source: EUROSTAT

**Euro Zone External Trade Balance
€bil**



Source: EUROSTAT

**Euro Zone Economic Sentiment Index
Long term average = 100, SA**



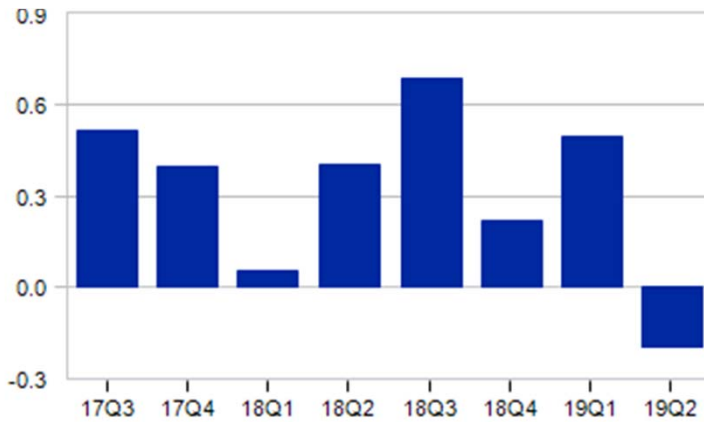
Source: European Commission

United Kingdom What Now?

New PM, Boris Challenged

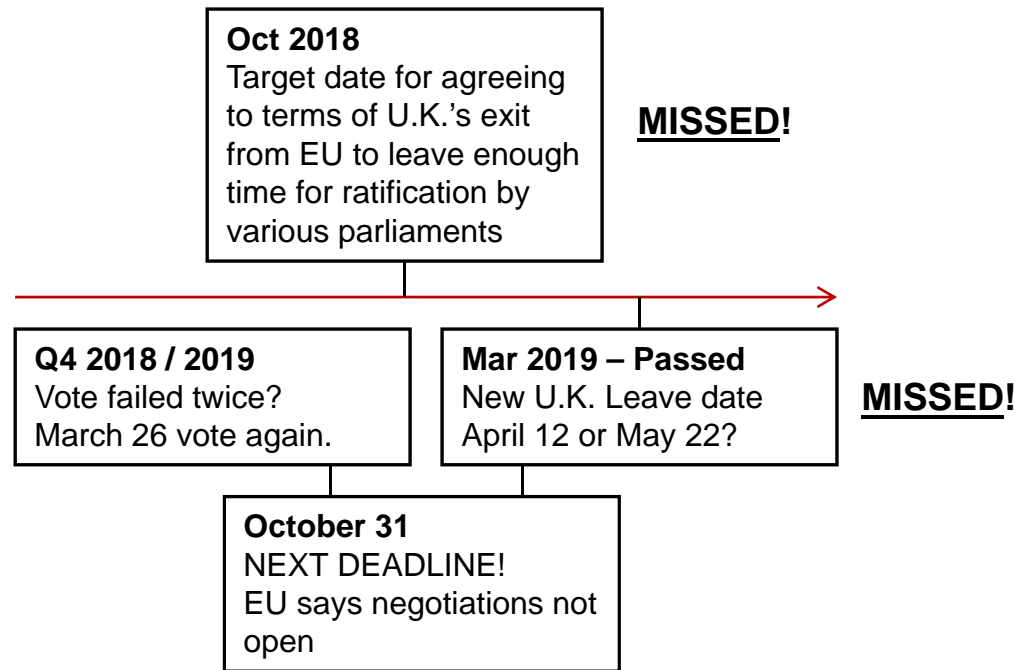
Political Chaos Reigns!

U.K. Real GDP
% change



Source: Office of National Statistics

Brexit Timeline Now Closing in



Impact so Far

- Pound depreciation
- Drop in M&A activity
- Drop in Capex
- Inflation accelerated in 2017/2018
- Consumer spending softens
- Minority government
- **Political confusion**

Canada Challenged

Key Issues:

China Trade Issues

Canada / U.S. Economic Relations

Market Access for Resources

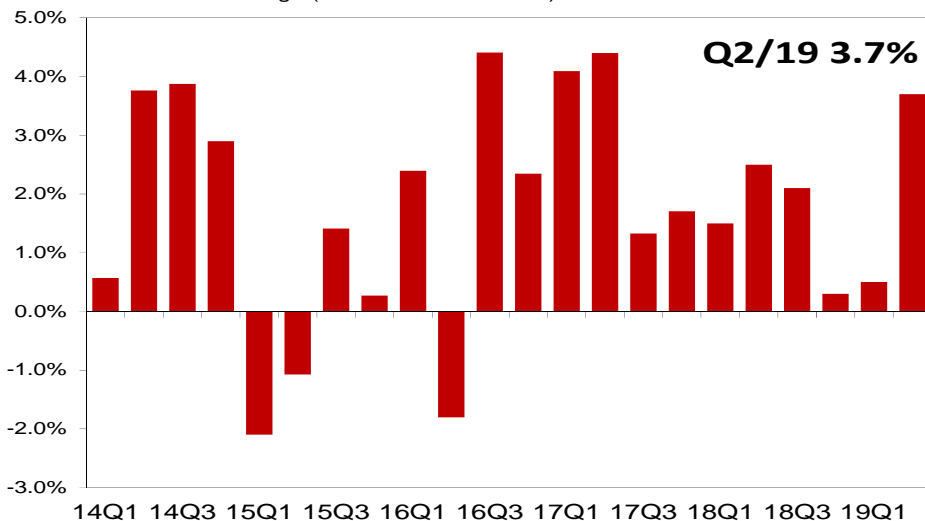
Capital Investment / Tax Competitiveness

High Household Debt Levels

Federal Election 2019

Canadian Economy Soft Spell Likely Behind Us? But Trade Issues Still Major Risk!

Annualized QoQ % Change (Chained 2012 Dollars)



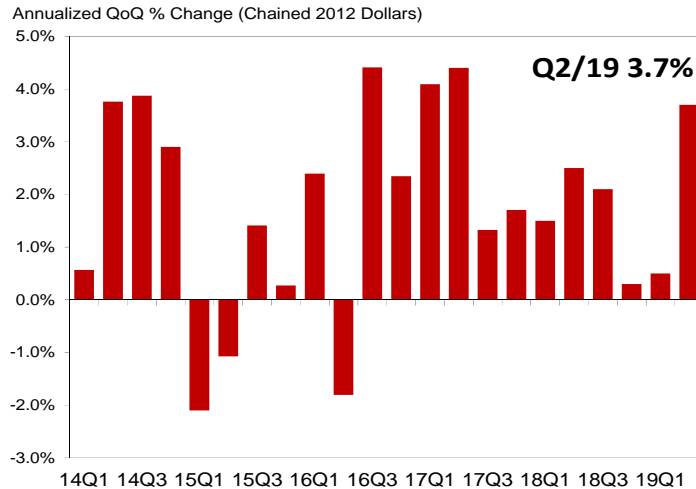
- Awaiting USMCA ratification still!
- Low oil prices hurt Alberta and Saskatchewan
- U.S. supports central Canada and exports.
- High level of household debt curtails spending in 2019/2020. Consumer fatigue sets in.
- Housing market gets regulation: home construction slowing but still solid.
- Business investment uncertain / tax competitiveness an issue.
- Auto sector restructuring.
- Monetary policy on pause.
- Provincial deficits and Federal deficit rise.
- Getting resources to tidal water a major problem.
- Infrastructure program still outstanding.
- Changed U.S. relations. Trade protectionism.
- Federal election uncertainty.

	GDP
2009	-2.9%
2010	3.1%
2011	3.1%
2012	1.8%
2013	2.3%
2014	2.9%
2015	0.7%
2016	1.1%
2017	3.0%
2018	1.9%
2019	1.5%
2020	1.7%

	QUARTERLY GROWTH PROFILE (QoQ% AR)			
	Q1	Q2	Q3	Q4
2013	3.6	2.4	3.3	4.3
2014	0.6	3.8	3.9	2.9
2015	-2.1	-1.1	1.4	0.3
2016	2.4	-1.8	4.4	2.3
2017	4.1	4.4	1.3	1.7
2018	1.5	2.5	2.1	0.3
2019	0.5	3.7	1.4	1.4
2020	1.6	1.7	1.7	1.6

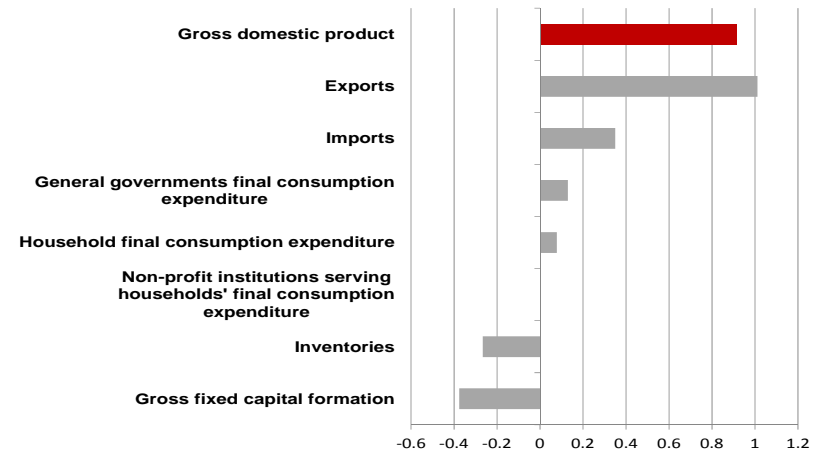
Q2 Canada Growth Propelled by Exports!

Canada Real GDP



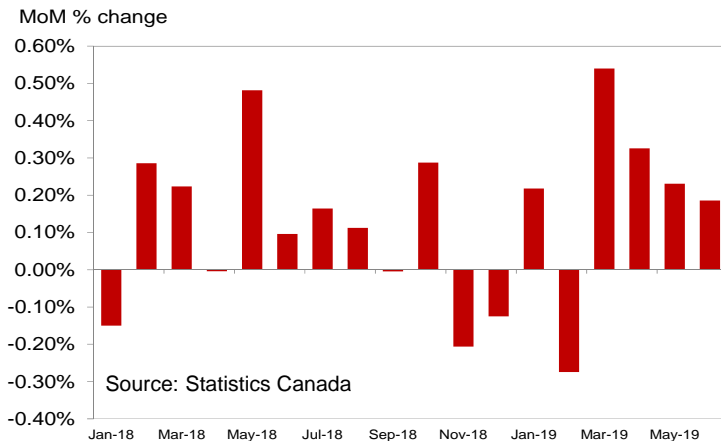
Source: Statistics Canada

Contributions to percentage change in Real GDP Q1/19



Source: Statistics Canada

Canada GDP by Industry at Basic Prices



Source: Statistics Canada

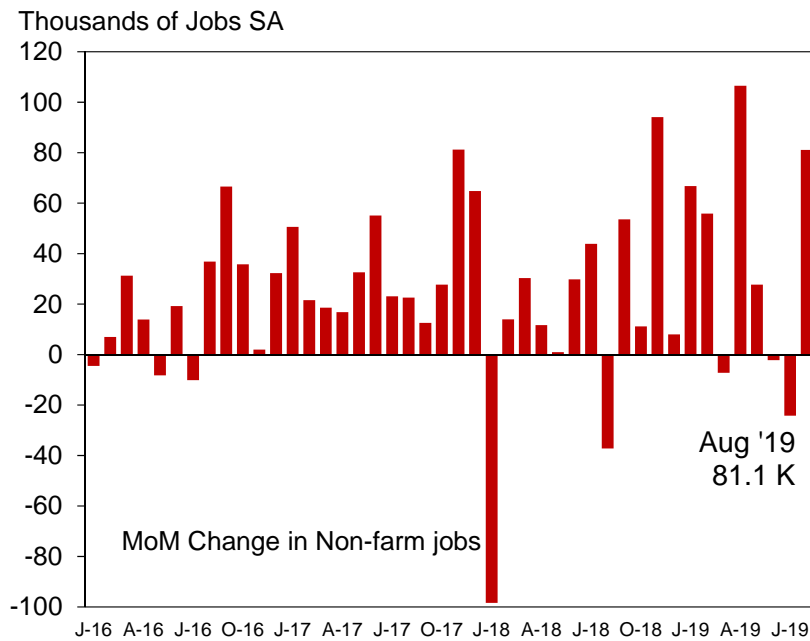
Business Confidence Retreating Purchasing Manager Index, >50 is expansionary



Sources: Institute for Supply Management, PMAC, Moody's Analytics

Job Growth OK / Household Debt Rises Consumer Spending To Be Restrained in 2019/2020

Canada Employment

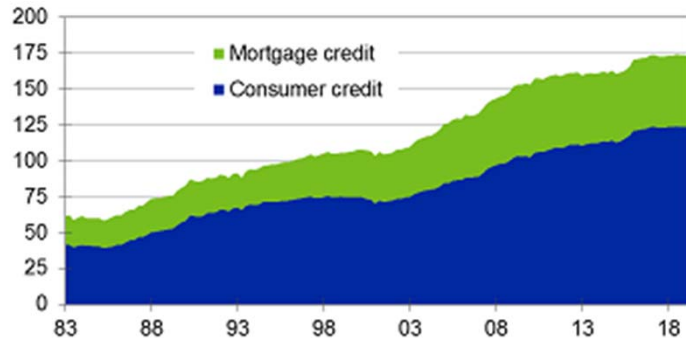


Canada Unemployment Rate



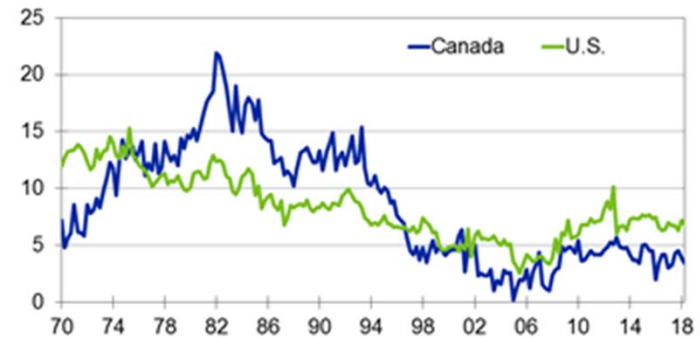
Consumer Spending to Cool

Consumer Finances in Need of Repairs
Household debt-to-disposable income ratio, %



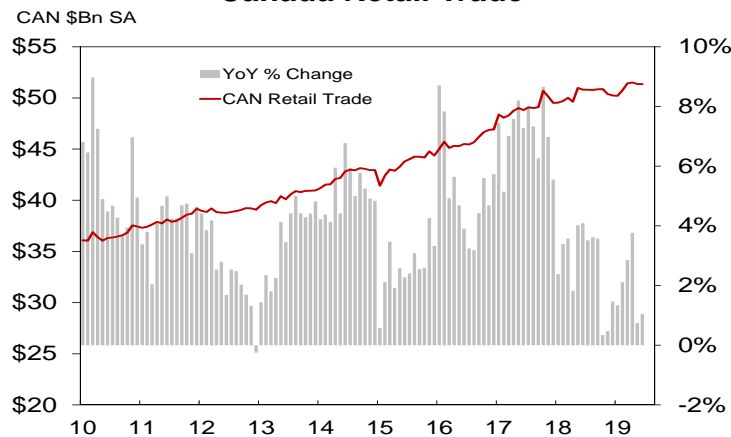
Sources: Statistics Canada, Moody's Analytics

Canada Savings Rate Slipping
Personal savings as a share of disposable income, %



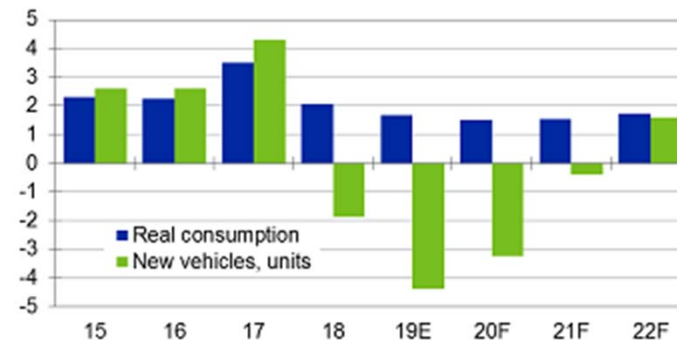
Sources: BEA, Statistics Canada, Moody's Analytics

Canada Retail Trade



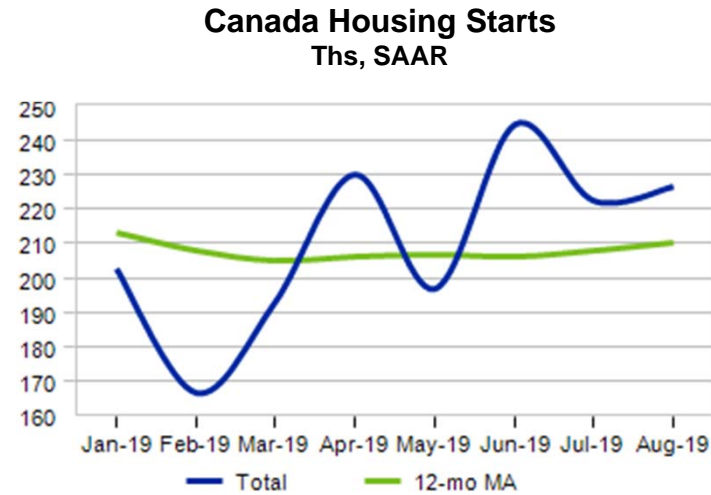
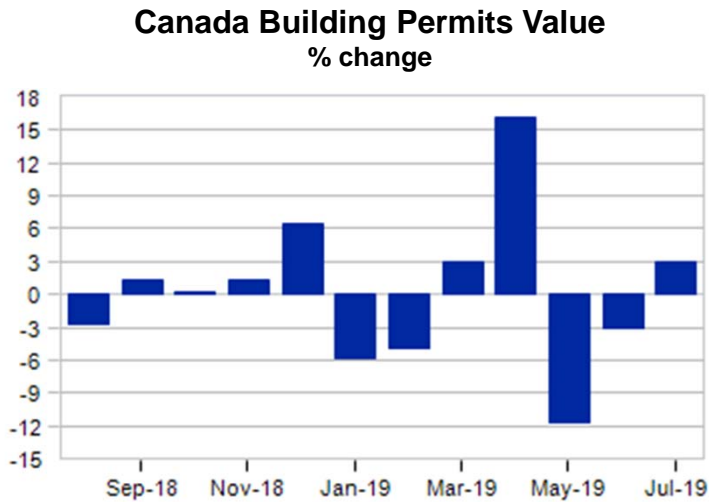
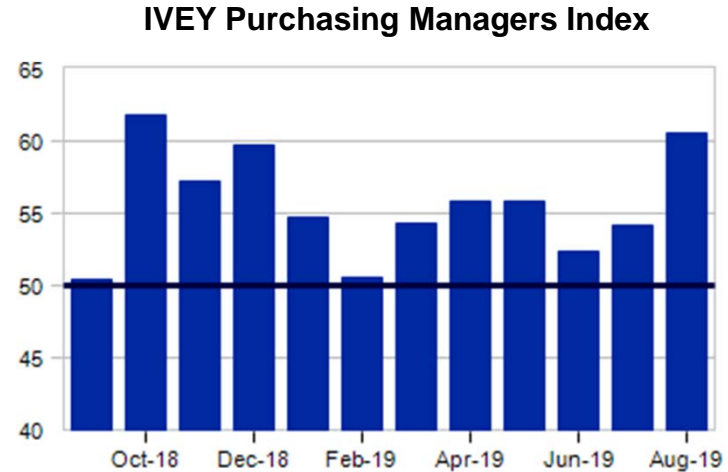
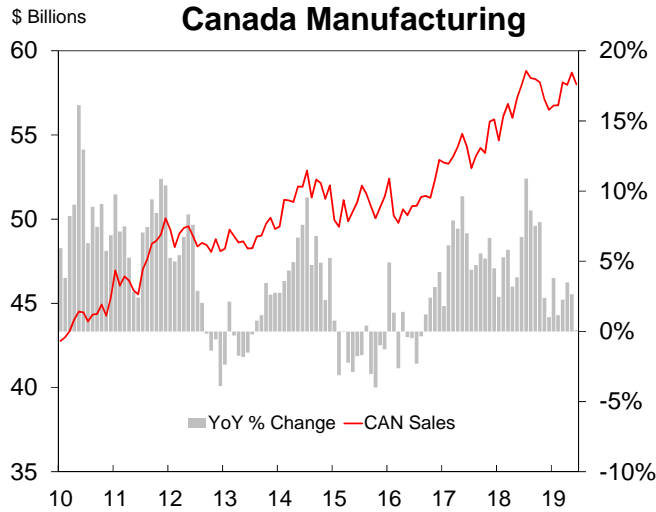
Source: StatsCan

Vehicle Sales Will Retreat Further
% change yr ago



Sources: Statistics Canada, Moody's Analytics

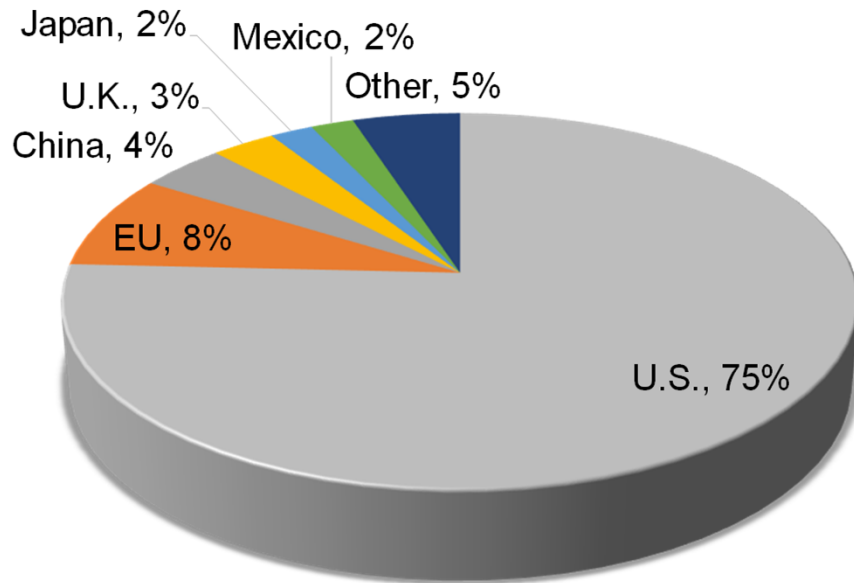
Canada: Growth to Slow in H2-2019/2020



Canada Overexposed to United States

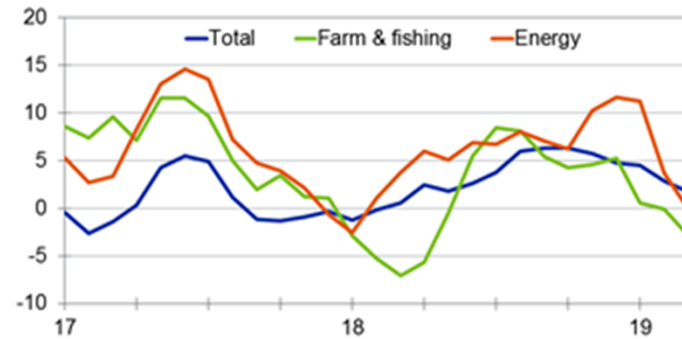
Need to Execute CETA and Trans-Pacific Partnership and Complete NAFTA – USMCA

Diffuse Chinese Issues



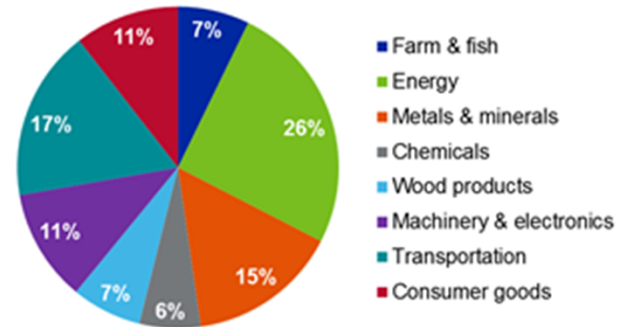
Sources: Statistics Canada, Moody's Analytics

Trade War Hurts Exports
Merchandise exports, 2012\$ mil, 3-mo MA, % change yr ago



Sources: Statistics Canada, Moody's Analytics

Autos Are Key Component of Exports
Merchandise exports to all countries, BOP basis, 2018



Sources: Statistics Canada, Moody's Analytics

Canada Faces Trade Uncertainties

Resource Regions Under Pressure – Need Route to Tidal Water
Manufacturing Benefits From U.S. Economic Pick Up and
Depreciation of Loonie

Real GDP

	2014	2015	2016	2017	2018	2019	2020
CANADA	2.9	0.7	1.1	3.0	1.9	1.5	1.7
B.C.	3.2	3.3	3.5	3.8	2.4	1.8	2.2
ALBERTA	4.8	-3.6	-3.7	4.4	2.3	1.4	1.6
SASKATCHEWAN	1.9	-1.3	-0.5	2.2	1.6	1.0	1.2
MANITOBA	2.3	2.2	2.2	3.2	1.3	1.5	1.6
ONTARIO	2.7	2.5	2.6	2.8	2.3	1.6	1.7
QUEBEC	1.5	1.2	1.4	2.8	2.5	1.6	1.5
NEW BRUNSWICK	-0.3	2.3	1.2	1.8	0.1	0.5	0.7
NOVA SCOTIA	0.6	1.0	0.8	1.5	1.2	0.7	0.7
PEI	1.5	1.3	2.3	3.5	2.6	1.2	0.9
NEWFOUNDLAND	-2.0	-2.0	1.9	0.9	-2.7	2.0	0.5