

# Canadian Headwinds



May 27, 2015  
Coquitlam, BC



# Global Outlook... Soft Spots



U.S. Strongest in G-7

Europe Still Weak

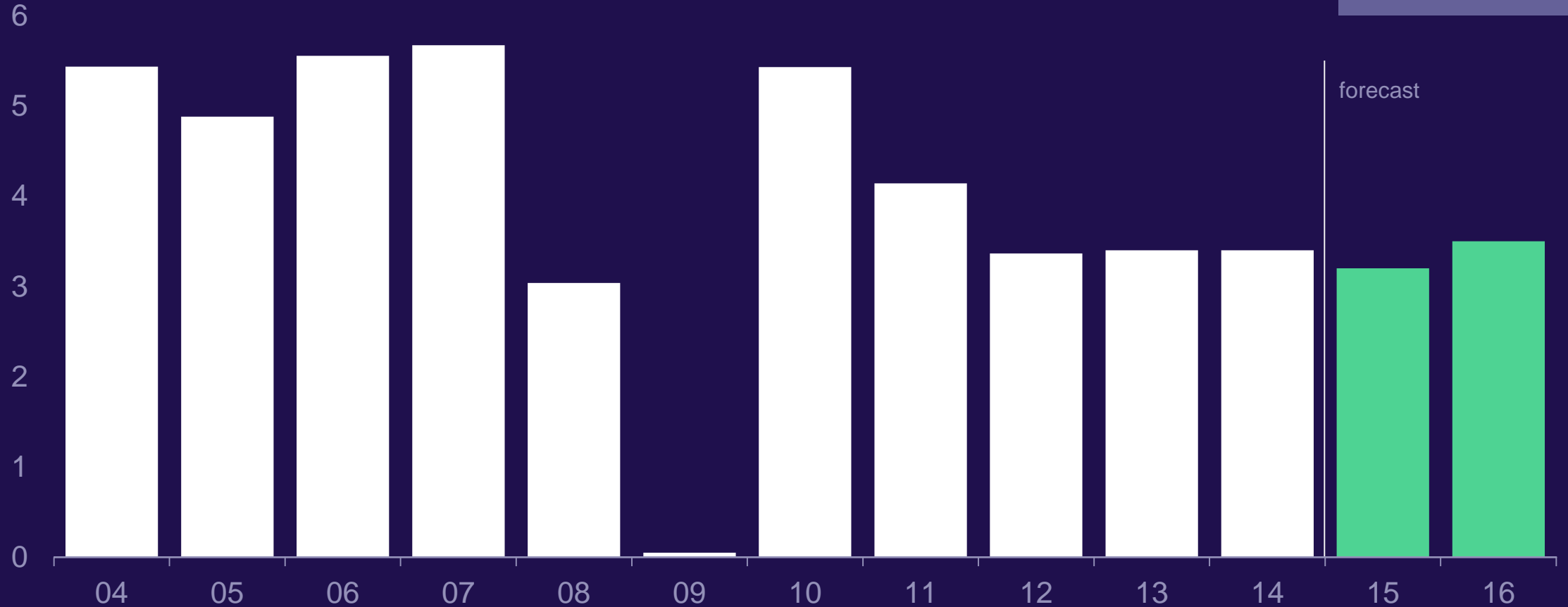
China Slows

Canada Hit By Oil Decline

# Global Growth Edges Downward in 2015

Real GDP  
(year/year % change)

	14	15	16
World	3.4	3.2	3.5



Forecast = BMO Capital Markets  
Source: OECD, BMO Capital Markets

# U.S. Economy Picking Up Steam



Job Creation

Consumer Confidence

Boom In Shale Energy

Auto Sales Strong

Housing Recovery

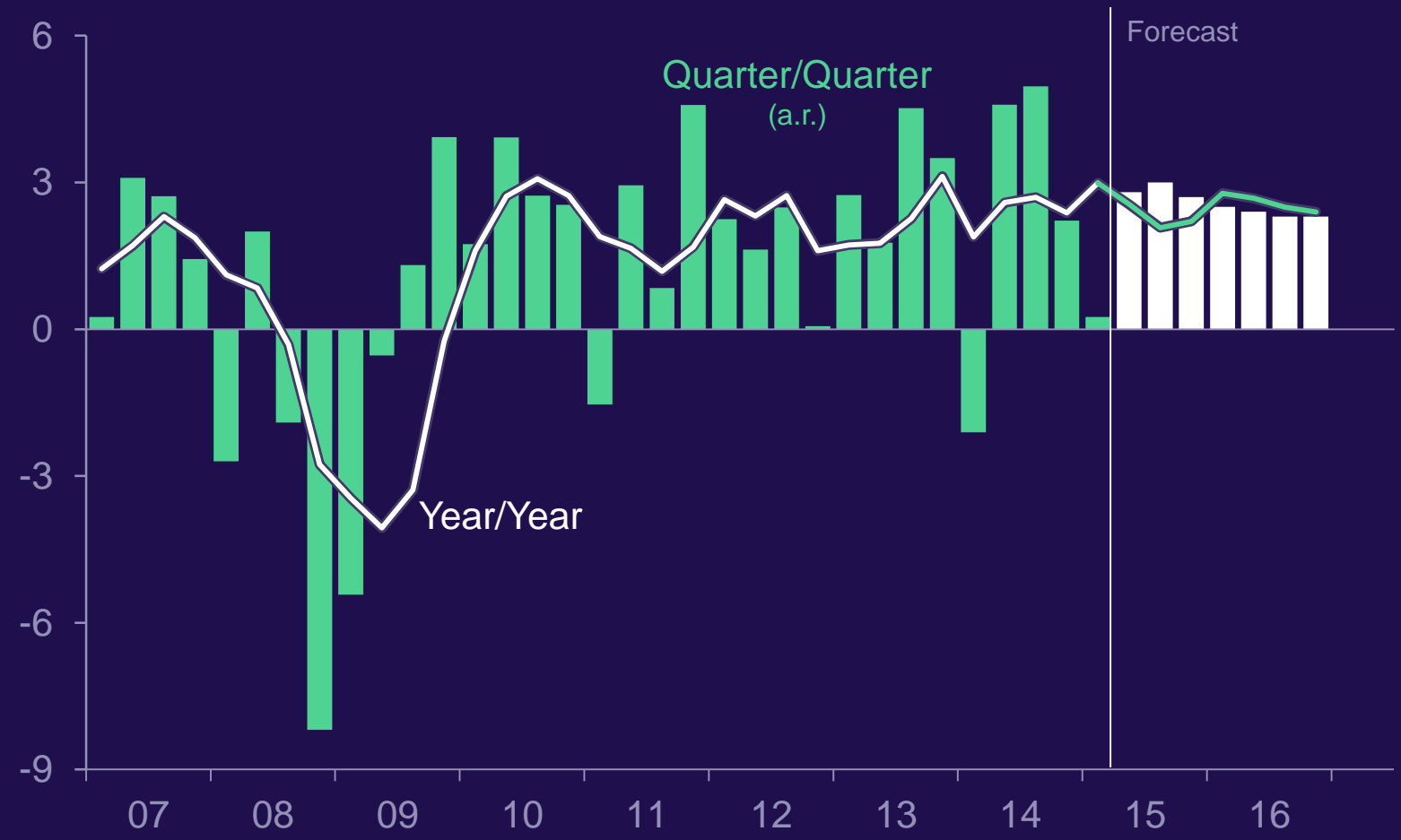
Export Growth

Wealth Effects

# U.S. Growth Slower Than Expected

Real GDP  
(percent change)

2013	2014	2015	2016
2.2	2.4	2.5	2.6



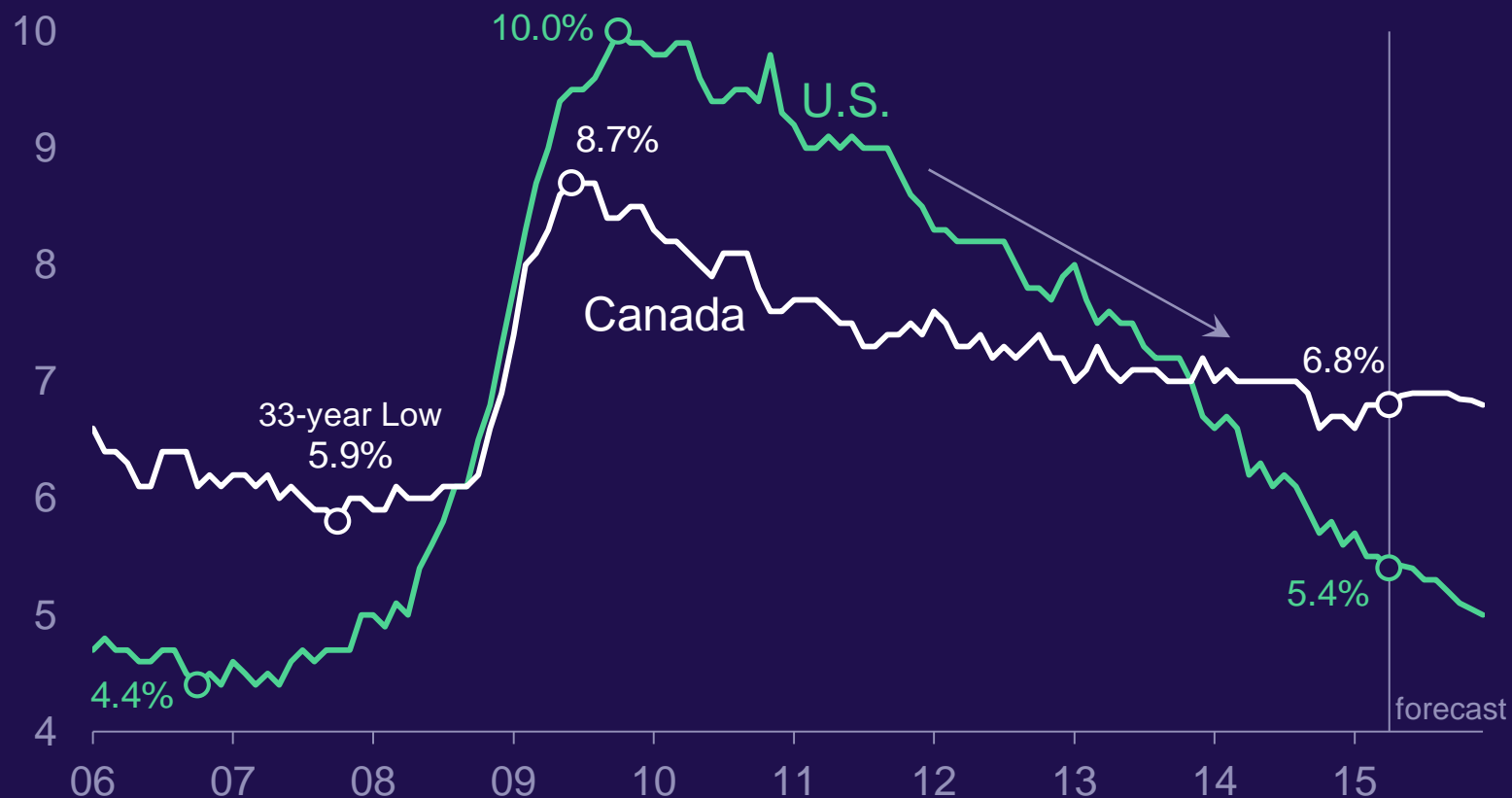
- Energy production
- Wealth Rising
- Consumer spending
- Monetary ease

Forecast = BMO Capital Markets  
Source: Haver Analytics, Bureau of Economic Analysis



# Jobless Rates Fall in U.S.

Unemployment Rate  
(percent)



(data as of April 2015)

Greece	25.7
Spain	23.0
Portugal	13.5
Italy	13.0
France	10.6
Ireland	9.8
Canada	6.8
Australia	6.1
U.K.	5.5
<b>U.S.</b>	<b>5.4</b>
Germany	4.7
Japan	3.5

# Long-Term Unemployment For Some

## United States

### Broader Unemployment Rate<sup>1</sup> (%)



### Labour Force Participation Rate of Men (%)



### Average Duration of Unemployment (weeks)



## Skills Obsolescence A Problem

<sup>1</sup> Comprehensive measure

Source: Haver Analytics, Bureau of Labor Statistics

# Canada Headwinds And Cross Currents



Demand For Oil Down

Fiscal Tightening

C\$ Still Too Strong

Trade Deficit Grows

Manufacturing Still Too Slow

Business Investment Weak



# Canadian Growth Modest

Real GDP  
(percent change)

2013	2014	2015	2016
2.0	2.5	1.7	2.2



## Slowing

- Government spending
- Consumer spending

## Hope for Future

- Business investment
- Exports

## U.S. Pick-Up Helps

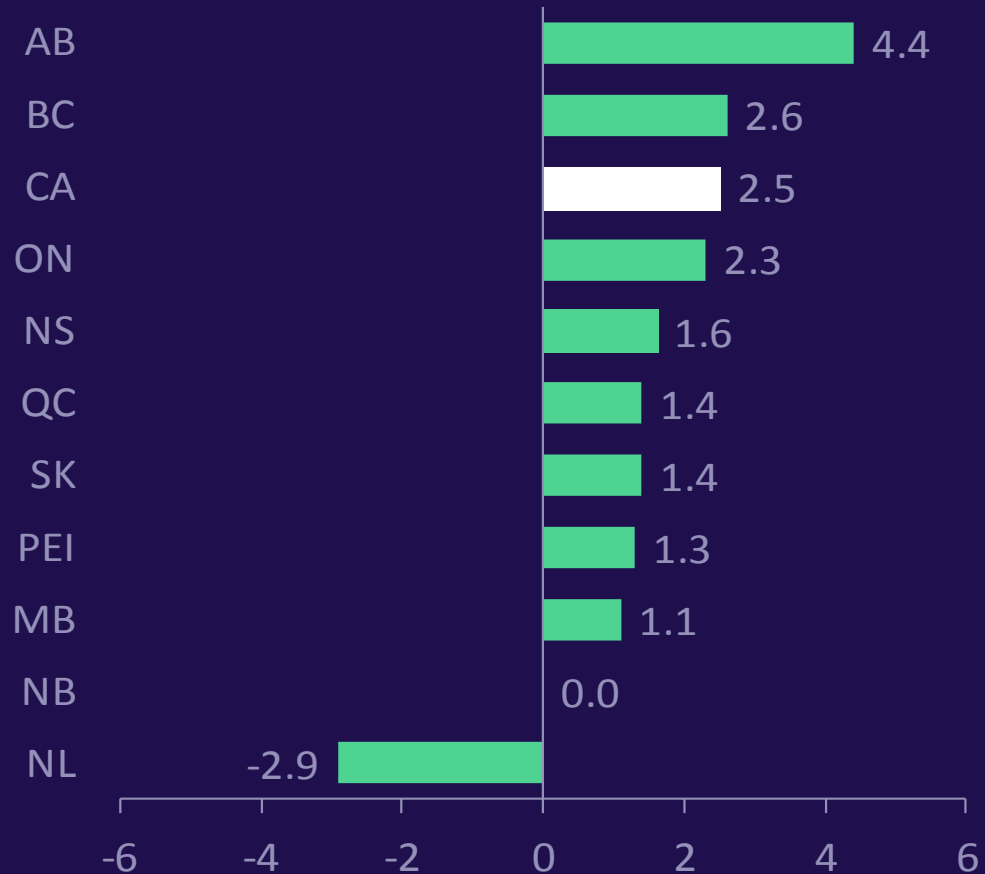
Forecast = BMO Capital Markets

Source: Haver Analytics, Statistics Canada, BMO Capital Markets

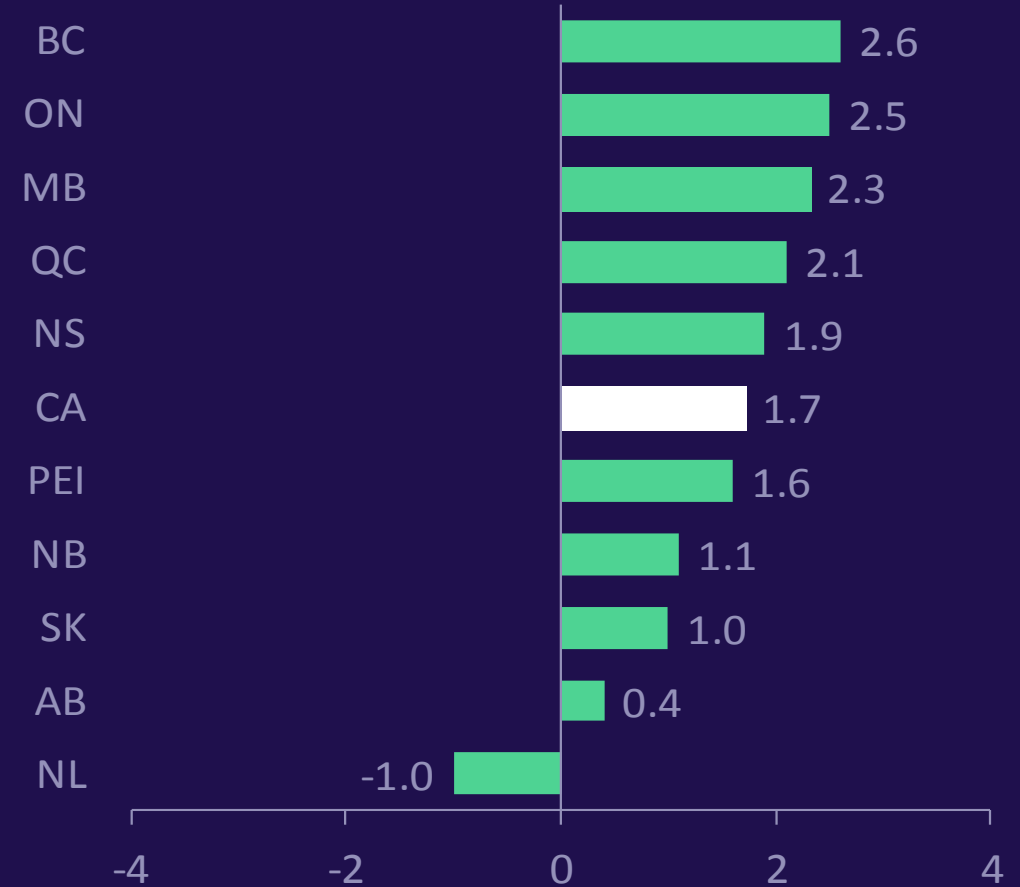
# British Columbia Now On Top

Canada: Real GDP  
(year/year % change)

2014 (f)

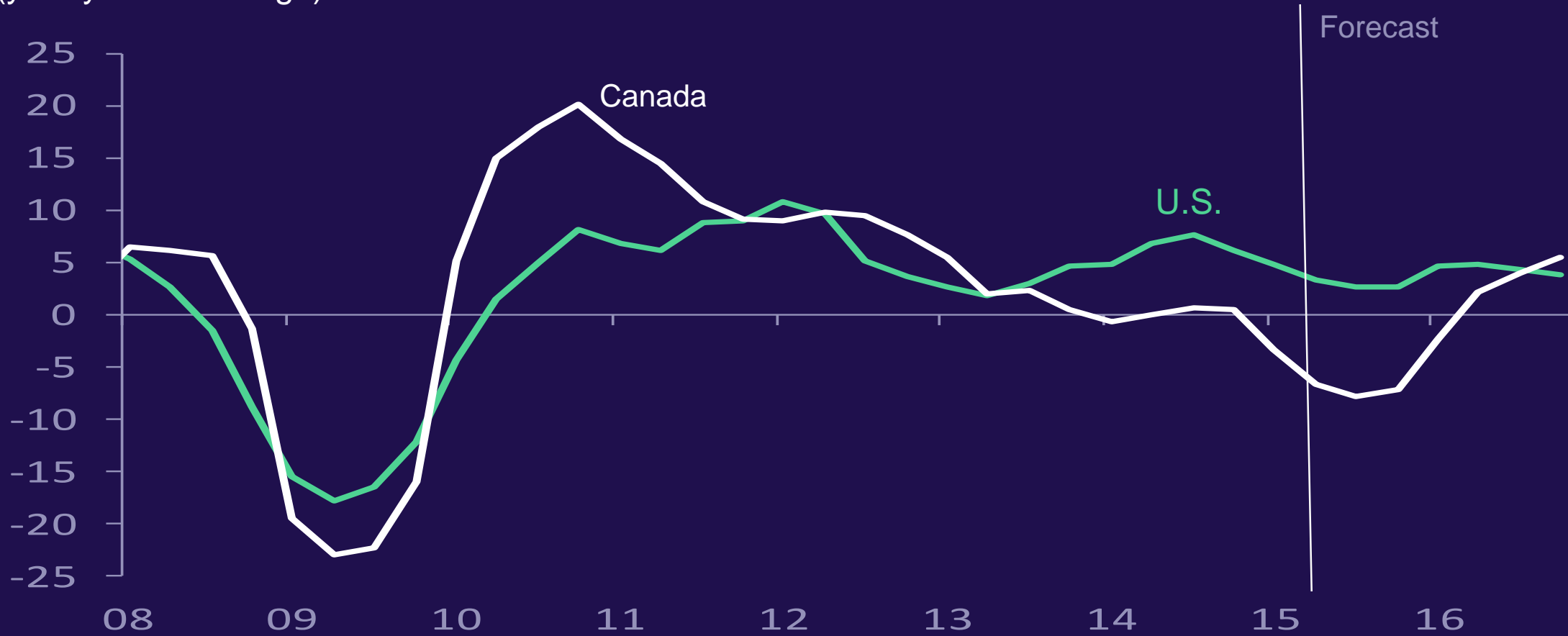


2015 (f)



# Oil Shock Erodes Canadian Business Investment

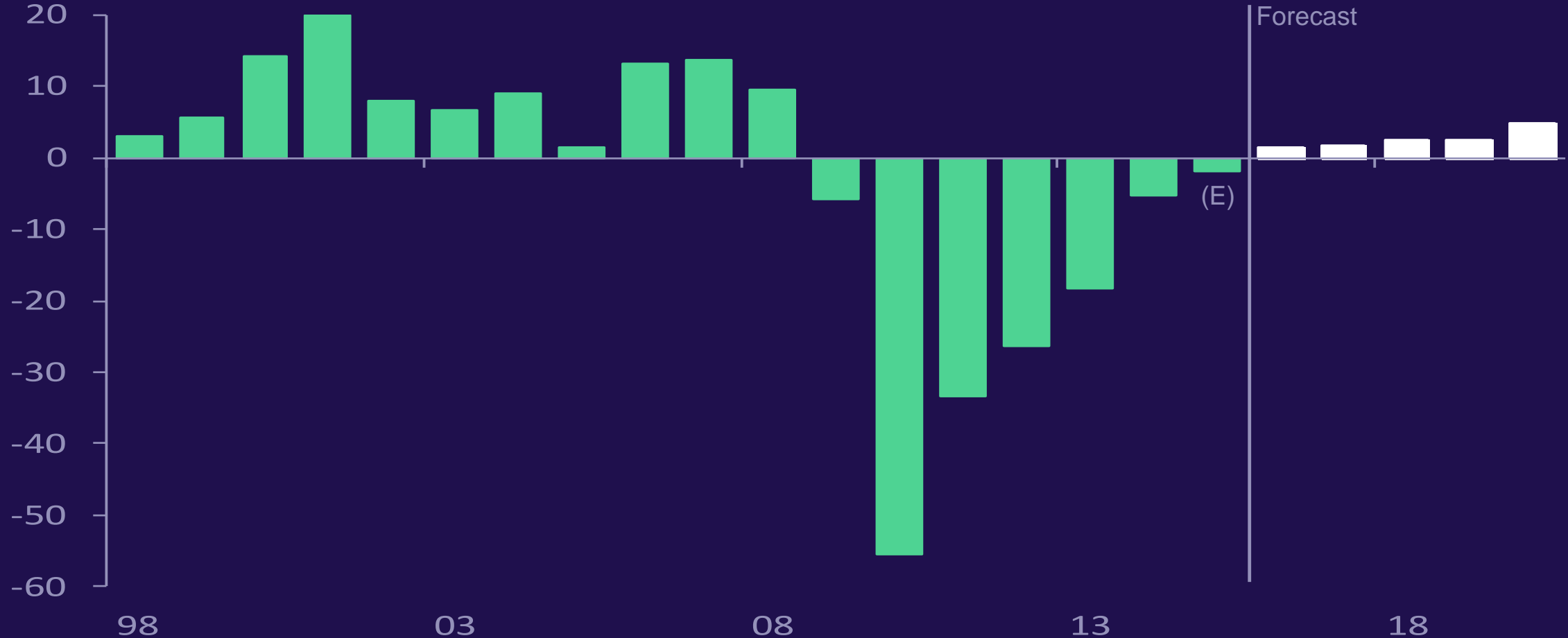
Real Non-Residential Business Investment  
(year/year % change)



Forecast = BMO Capital Markets  
Source: Haver Analytics, Statistics Canada, Bureau of Economic Analysis

# Federal Government Back In The Black

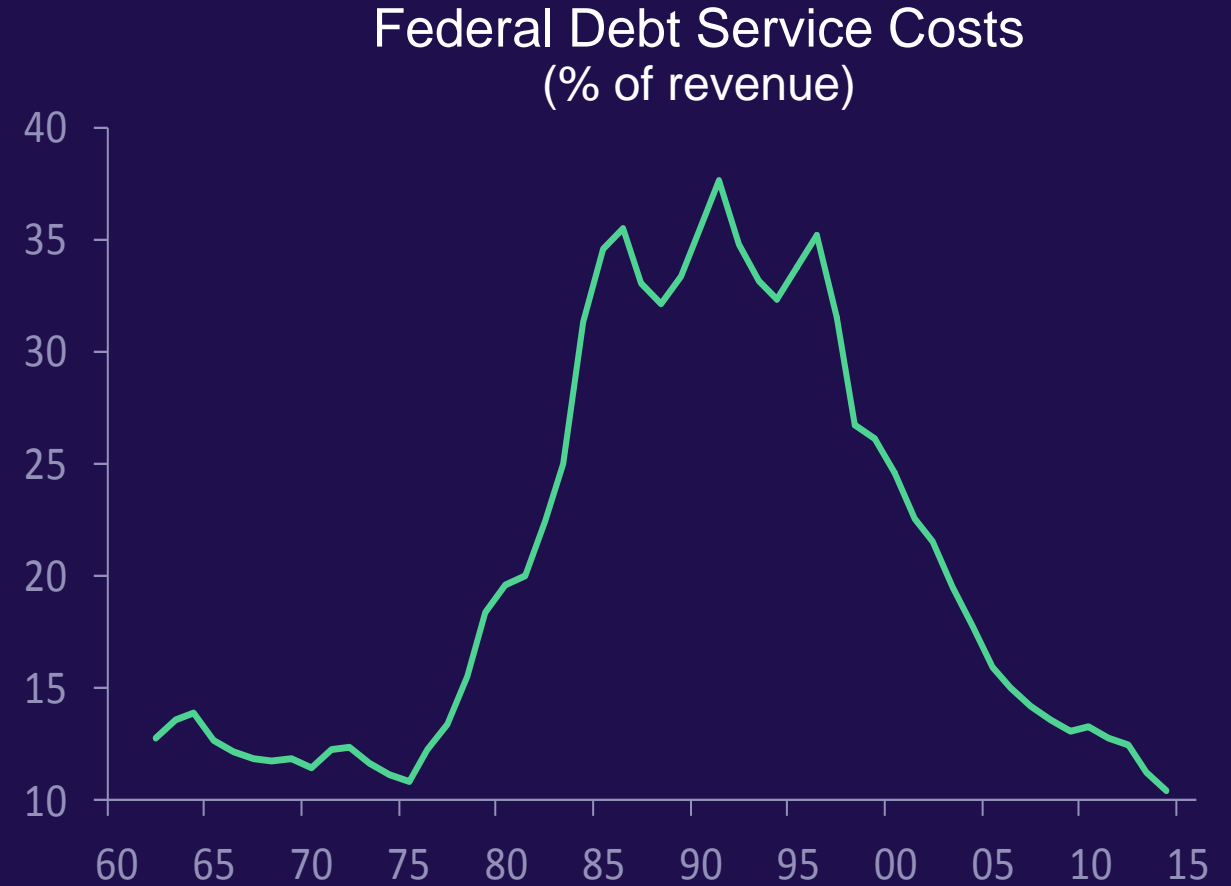
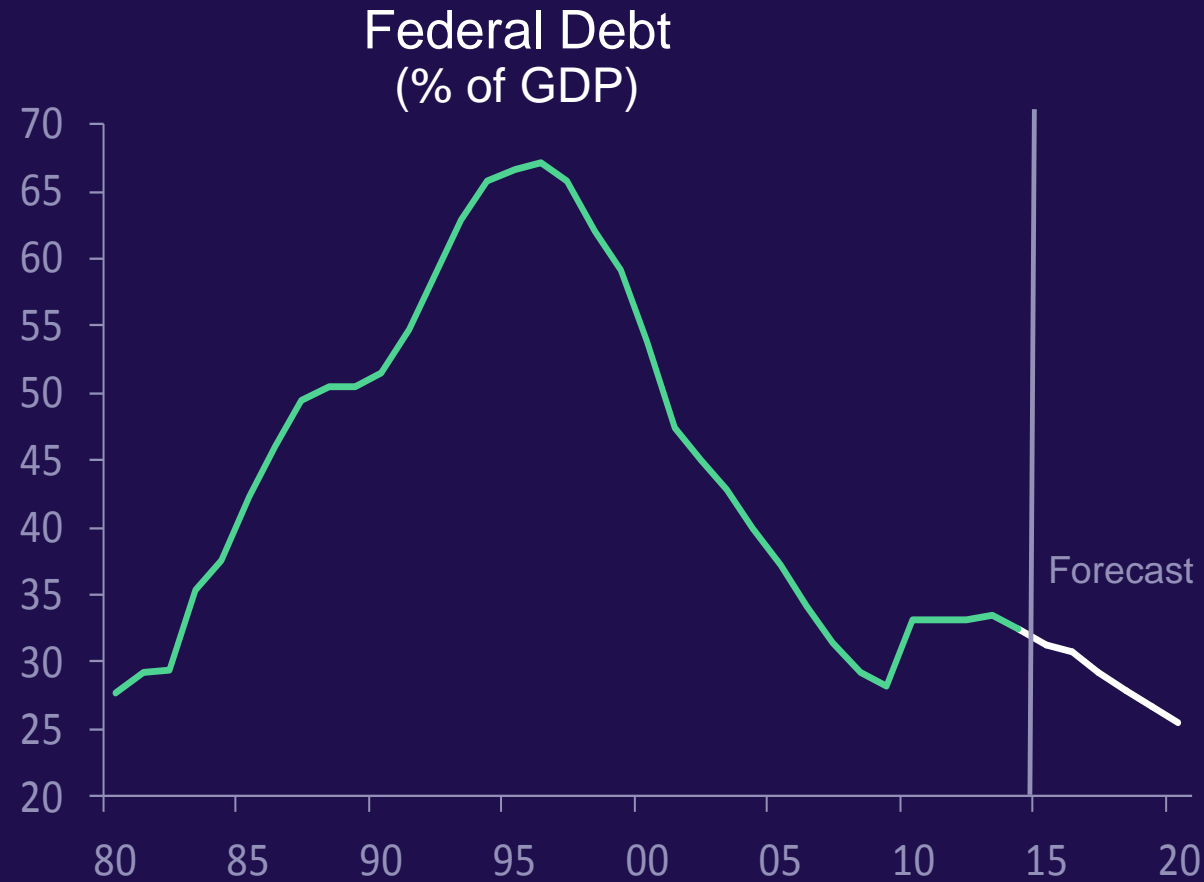
Canada: Budget Balance  
(C\$ blns)



E = Estimate  
Source: Haver Analytics, Federal Budget

# Government Debt Burden Plunges

Canada: Budget Balance





# Consumers and Housing

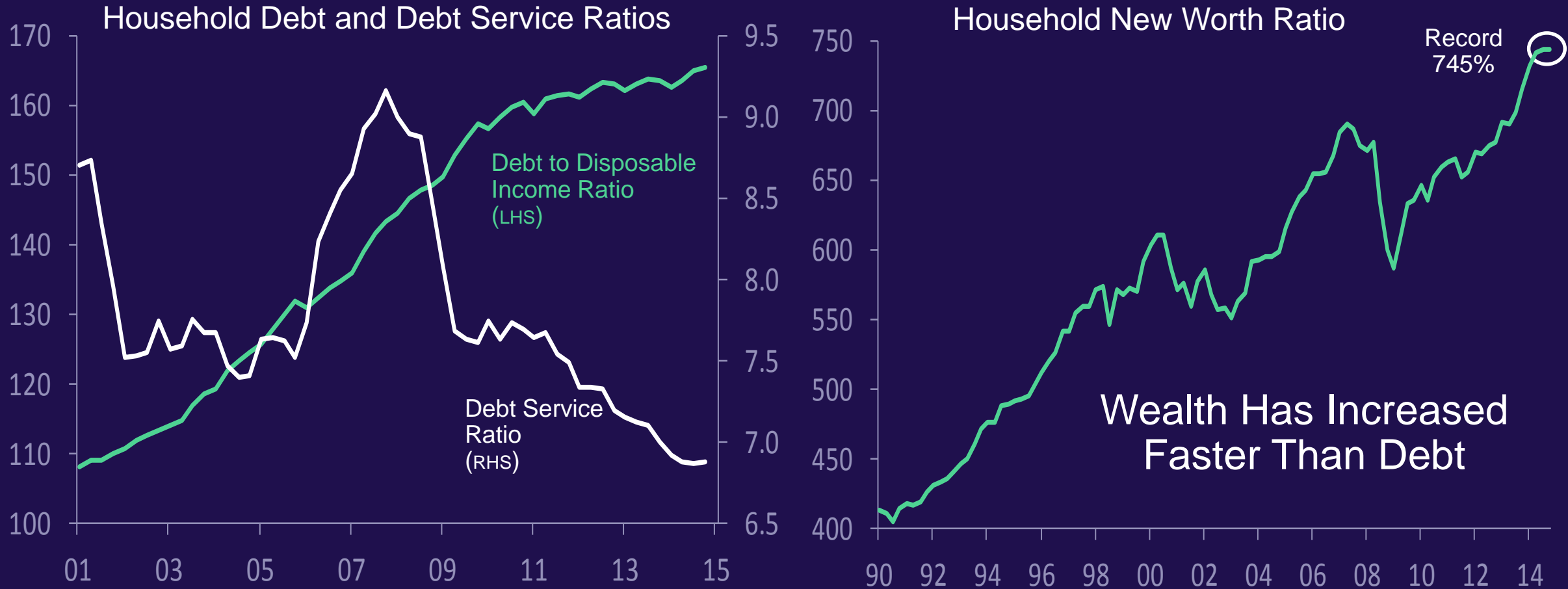


10 Million Aging Boomers  
9 Million Millennials  
Debt Loads Heavy  
But Wealth Hits Records  
Housing Strong  
Toronto  
Vancouver



# Household Debt and Wealth Ratios At Record High

Canada (percent)



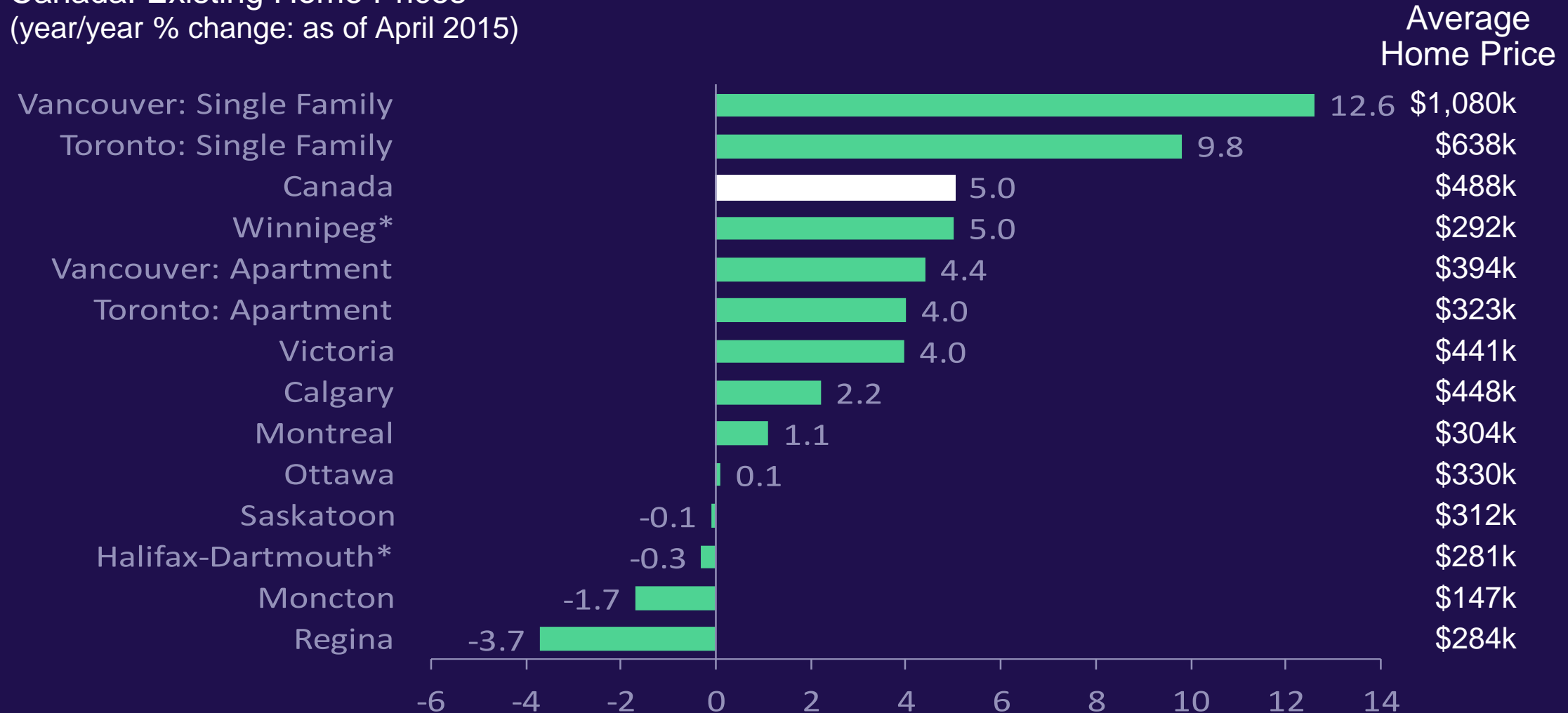
# Housing Looms Large

Canada (percent)



# House Prices: Location, Location, Location

Canada: Existing Home Prices  
(year/year % change: as of April 2015)

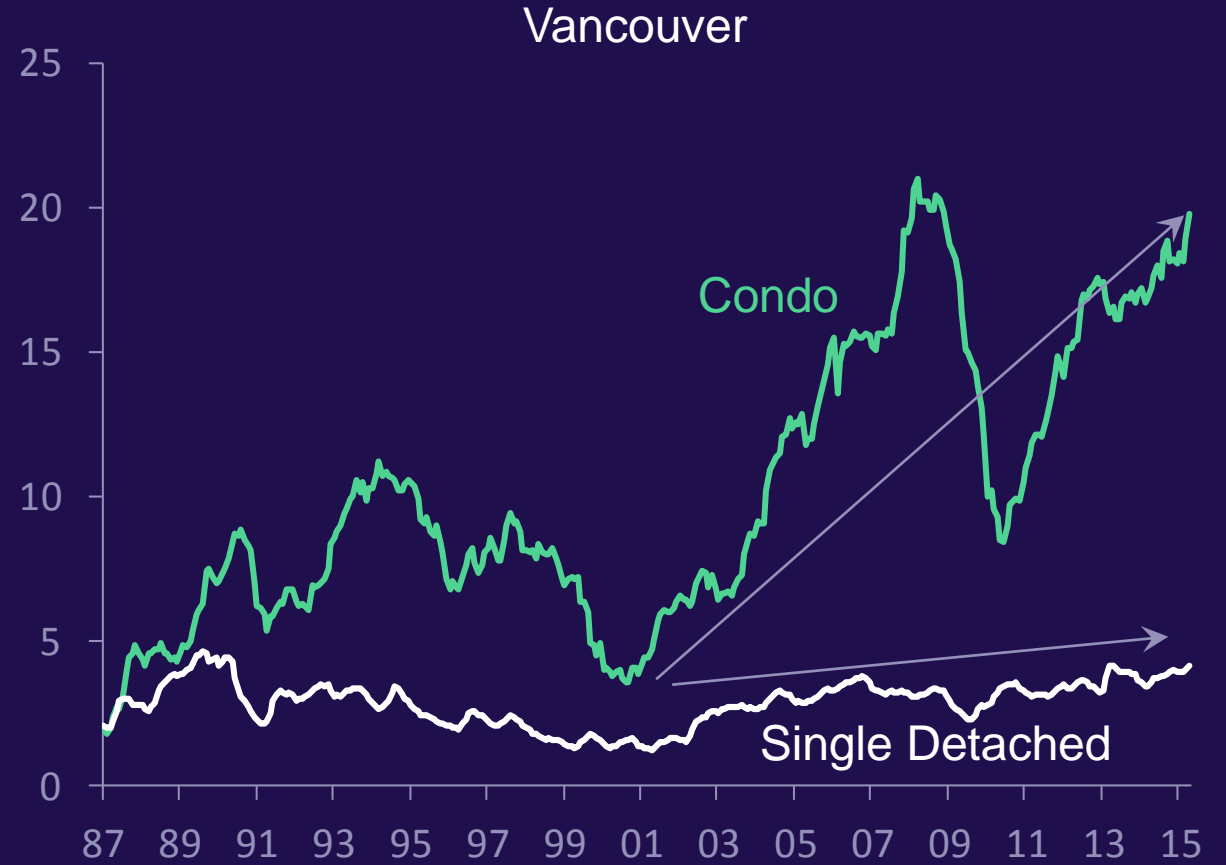
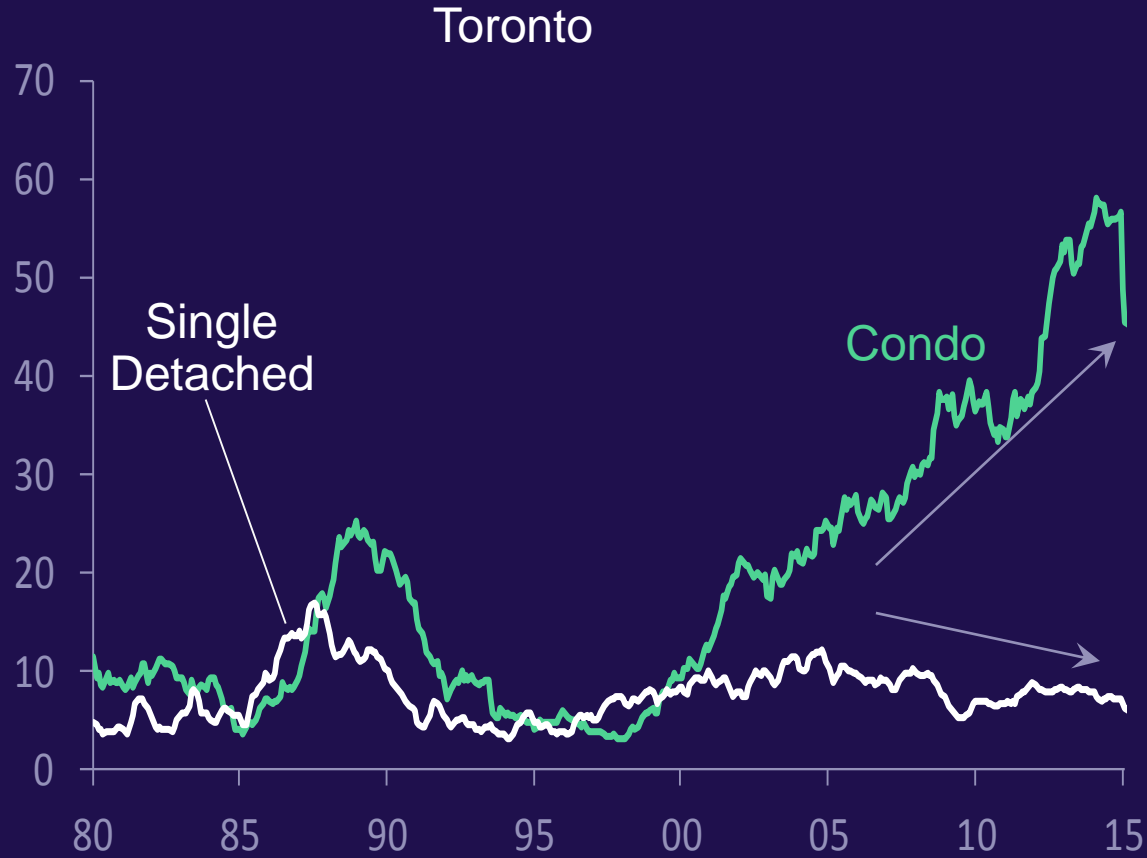


\*Using average home prices

Source: Canadian Real Estate Association (CREA)

# Scarce Land ... Build Condos

Dwellings Under Construction  
(000s of units)

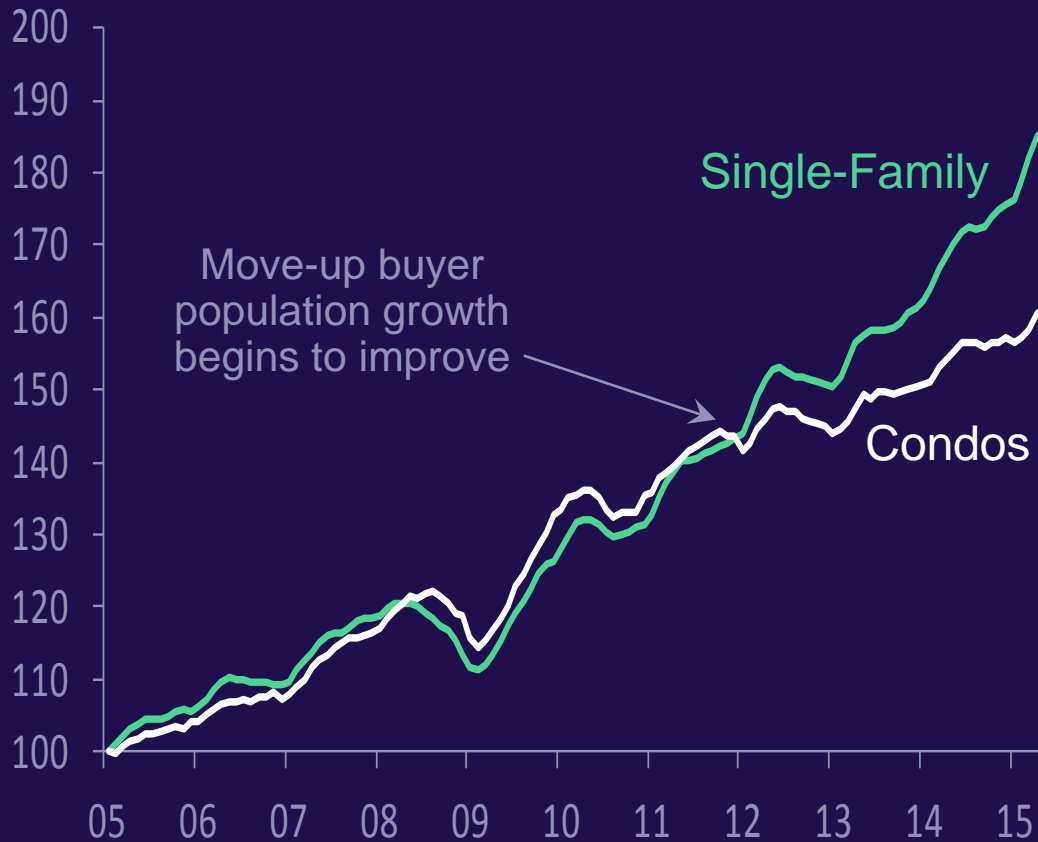




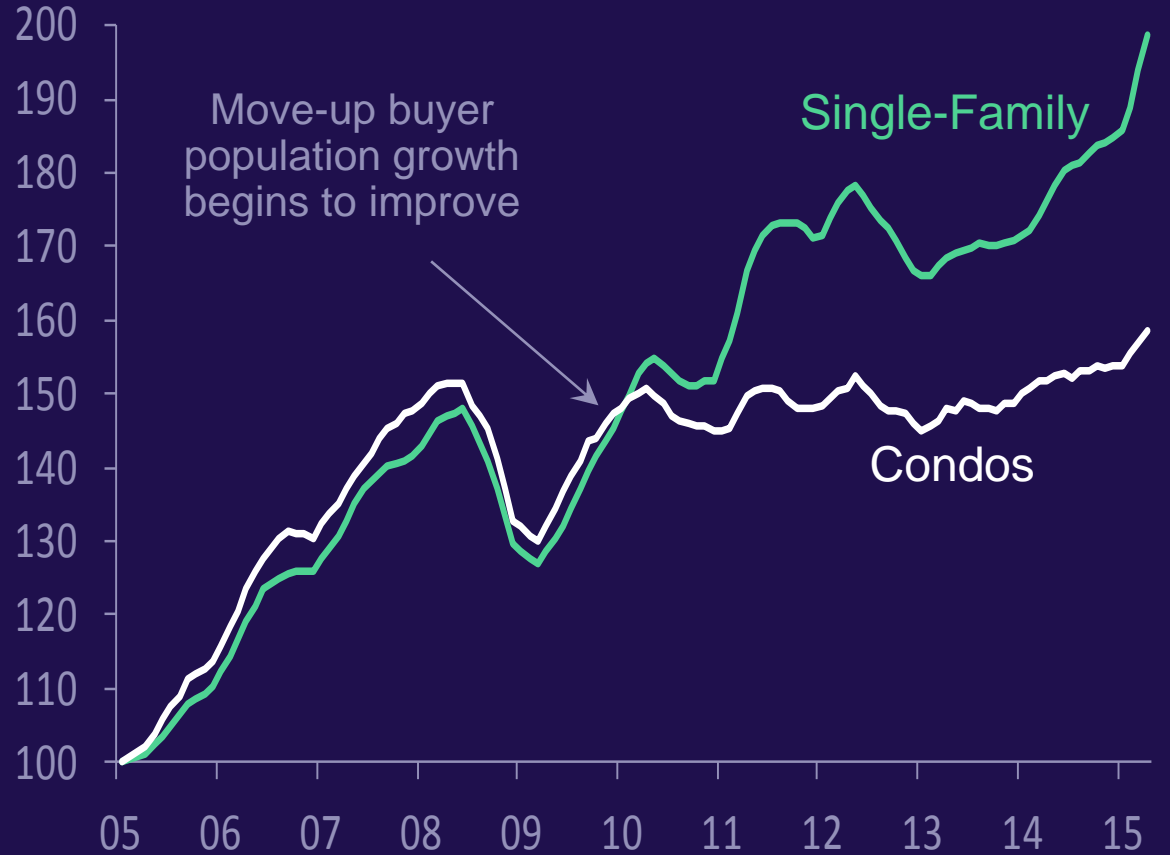
# Prices Surge for Single-Family Homes

MLS House Price Index  
(index, 2005 = 100)

### Toronto



### Vancouver



# Loonie Recovers Some Losses



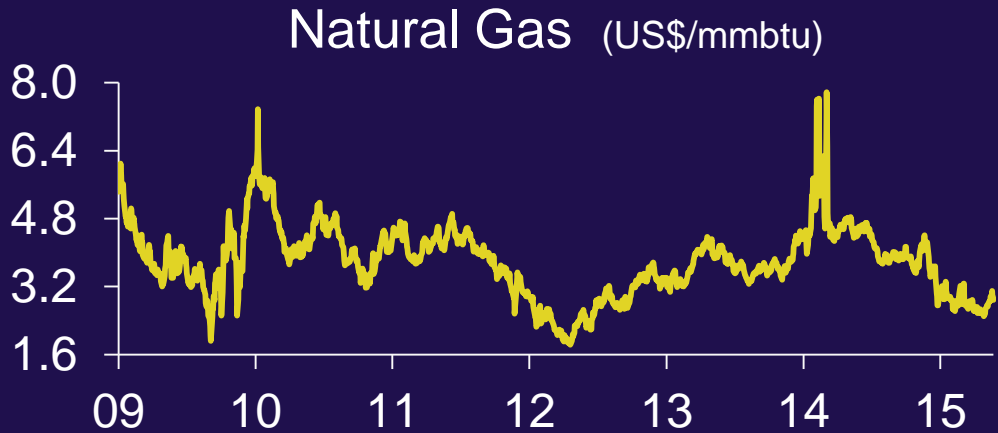
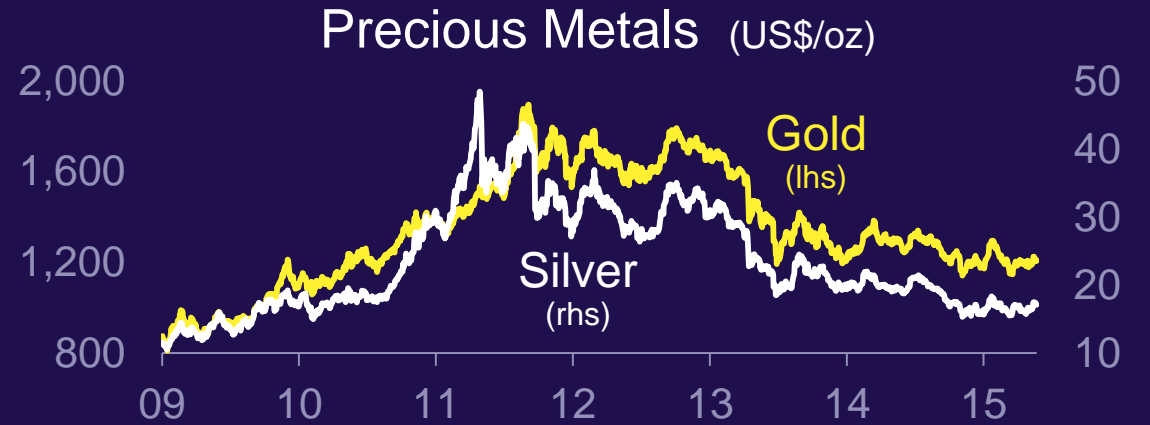
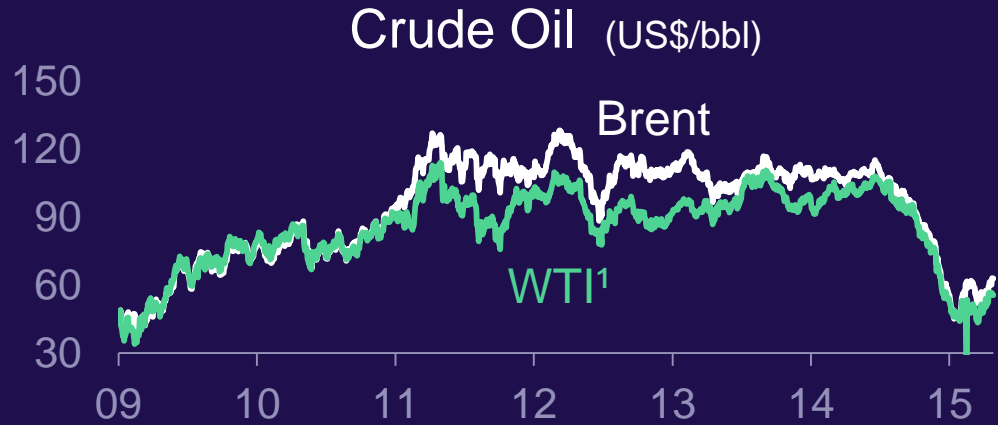
Oil Prices Up \$17

U.S. Dollar Softens

Dovish Bank of Canada

# Commodity Markets Down, But Oil Up a Bit

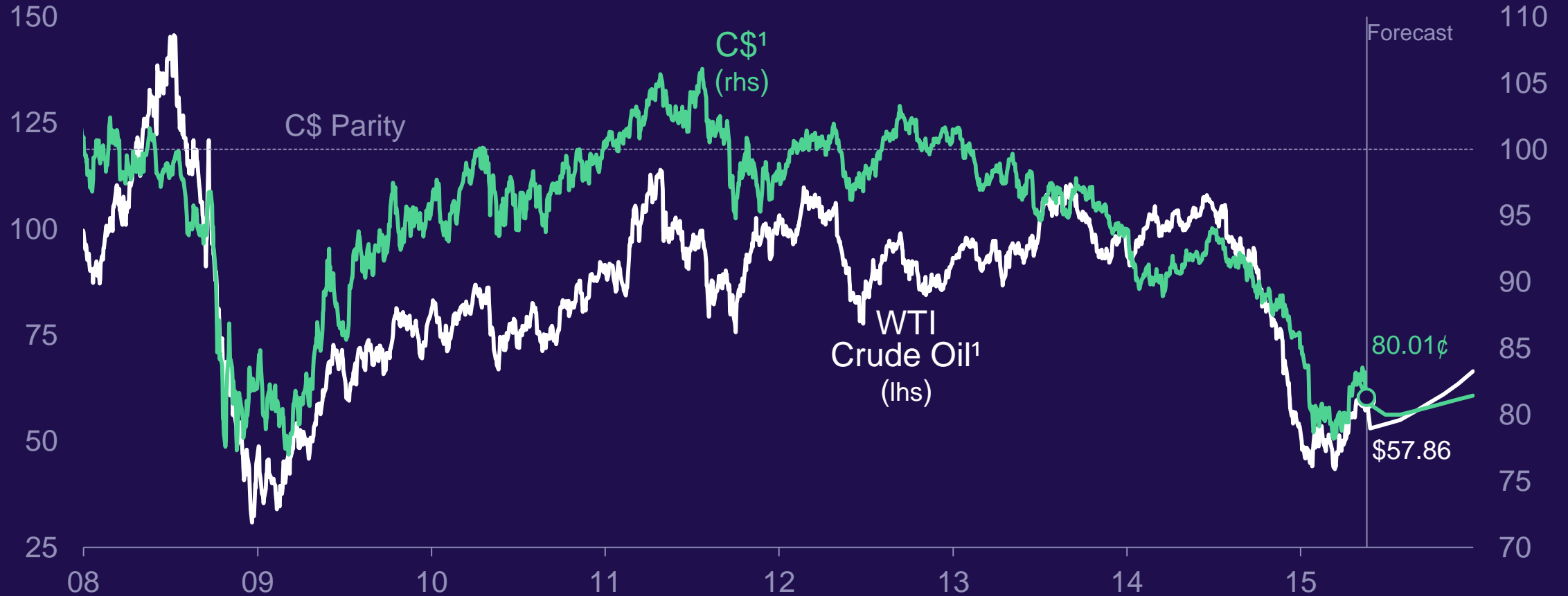
(as of May 22, 2015)



<sup>1</sup> West Texas Intermediate

# Oil Price Decline Hits The Loonie

(as of May 22, 2015)



Forecast = BMO Capital Markets    <sup>1</sup> (US\$/bbl)    <sup>2</sup> (US¢/C\$)  
Source: Haver Analytics, Bank of Canada, Bloomberg, U.S. Energy Information Administration

# Financial Markets



Fed Rate Hike in September

Bank of Canada On Hold

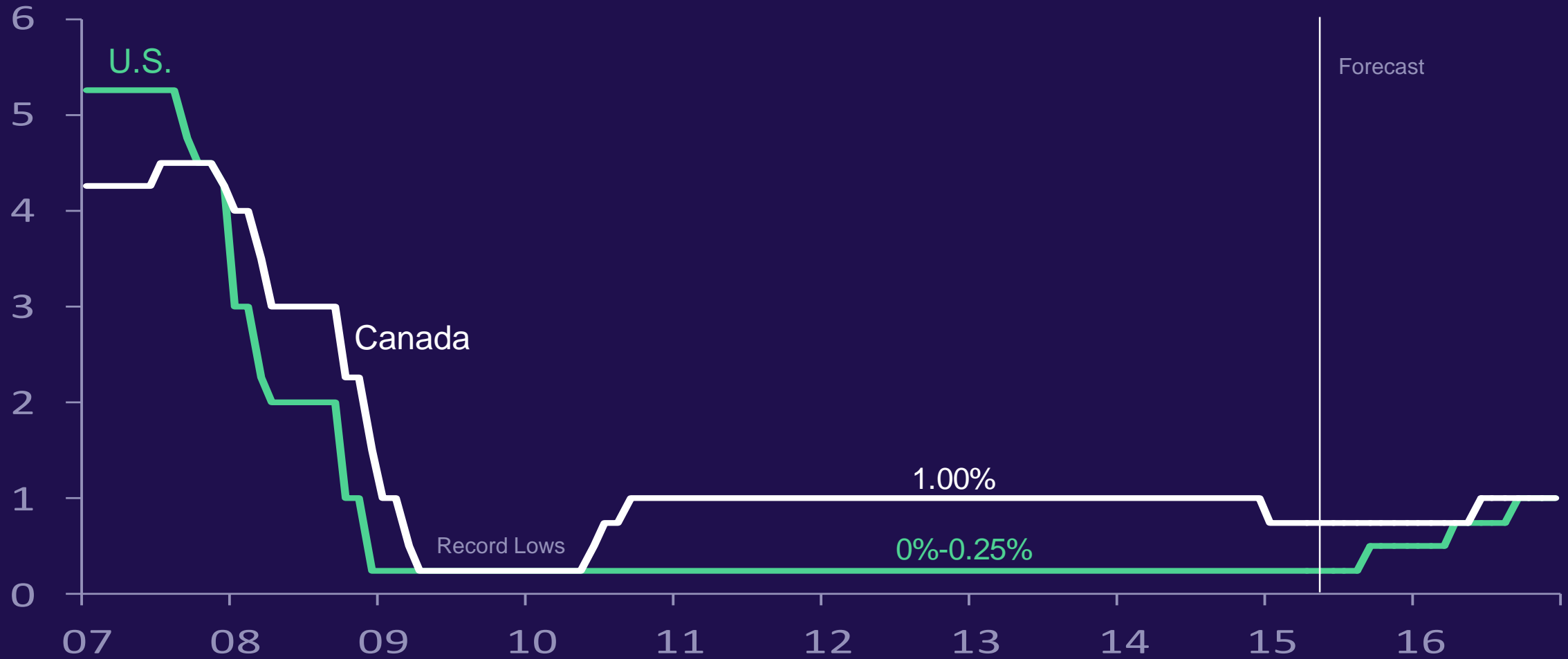
Bond Sell Off

Stocks Volatile



# BoC On Hold... Fed Rate Hike Coming

Overnight Rate

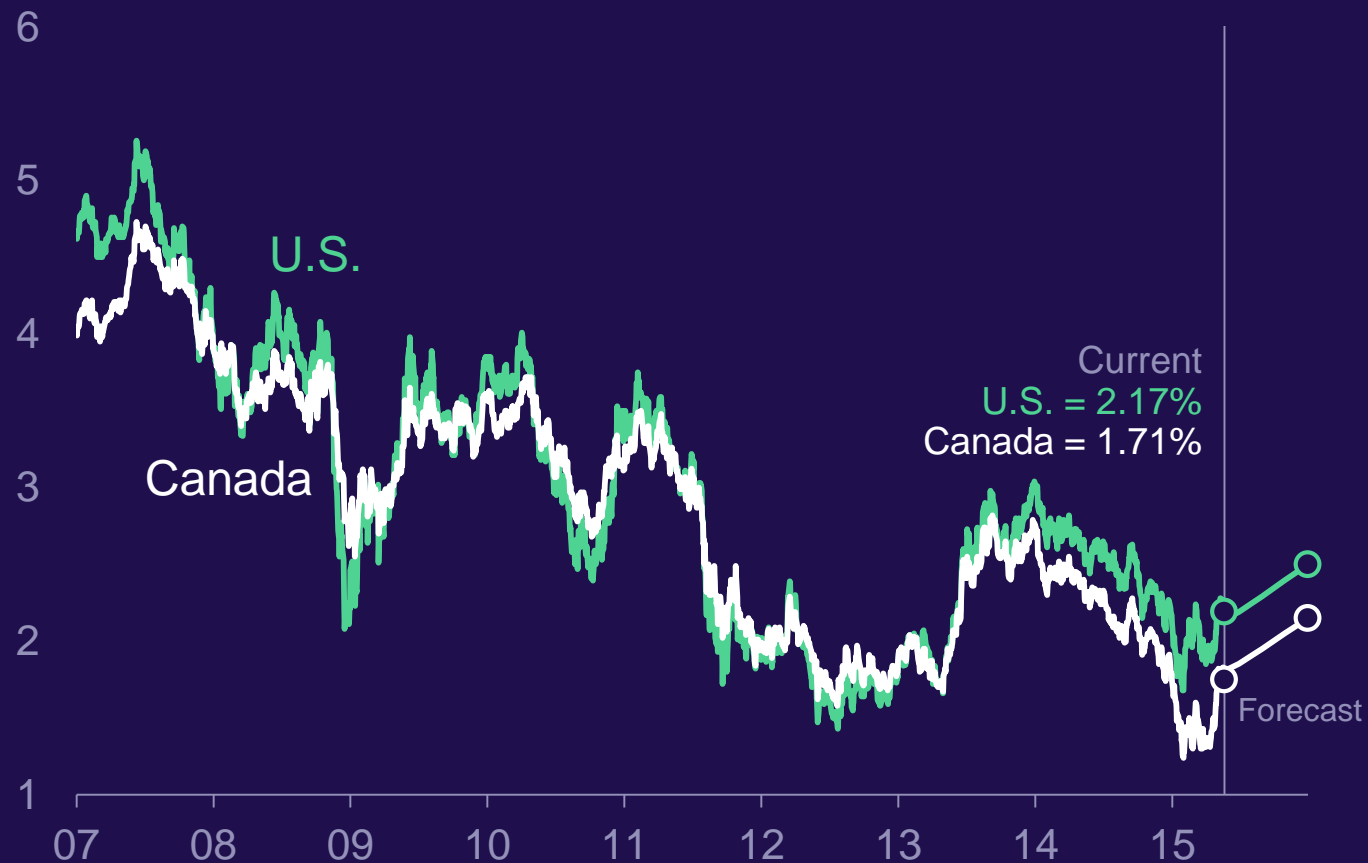


Forecast = Sherry Cooper Assoc.

Source: Haver Analytics, Bank of Canada, Federal Reserve Board

# Long Yields Edge Upward As Oil Recovers

10-year Bond Yields  
(as of May 11, 2015)



Oil Prices Hover at \$60

Growth Prospects Improve

Bond Markets Were  
Overbought

# Stocks Hit By Oil Slide

Financial Market Returns – Local Currency  
(% change : as of May 22, 2015)



	YTD	2014	2013
<b>Stocks</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
DJIA	3.3	8	26
Nasdaq	8.1	13	38
S&P 500	4.1	11	30
<b>TSX</b>	<b>5.0</b>	<b>7</b>	<b>10</b>
<b>Bonds*</b>			
GoCs	2.3	9	-3
U.S. Treasuries	1.7	8	-5
<b>Commodities</b>			
CRB Index	-1.9	-18	-5
Gold	1.5	0	-27
Oil (Brent Crude)	12.1	-49	-1
<b>Dividend Yield (%)</b>			
TSX	3.1	2.9	3.2
S&P 500	1.9	1.9	2.3

\*As of April 27

# Don't Try To Time Markets



Up moves can be quick and sharp

Invest regularly

Diversify portfolio

Asset allocation

Dividends matter

Keep at Least Half in Stocks