

**Sherry  
Cooper  
Assoc.**

Dr. Sherry Cooper  
Chief Economist  
Dominion Lending Centres

*The Water Club*  
Longboat Key  
January 19, 2020

# 2020 Outlook



# Global Economy Hit By Trade War



U.S. and Canada Slow—Still Top  
Developed World

Europe and Japan Weak

Negative Interest Rates Abound

Brexit Fallout

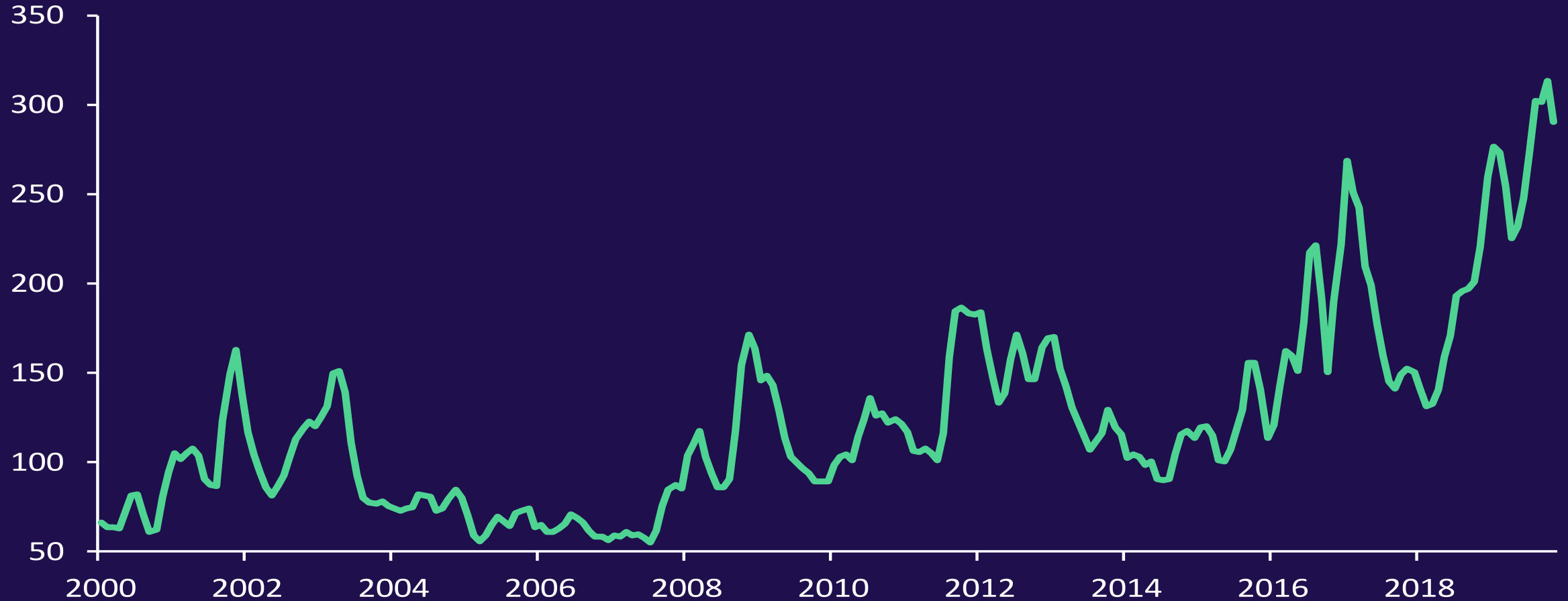
China's Growth Slowest in 30 Years

Most Central Banks Cut Rates

# Global Economic Policy Uncertainly Surges

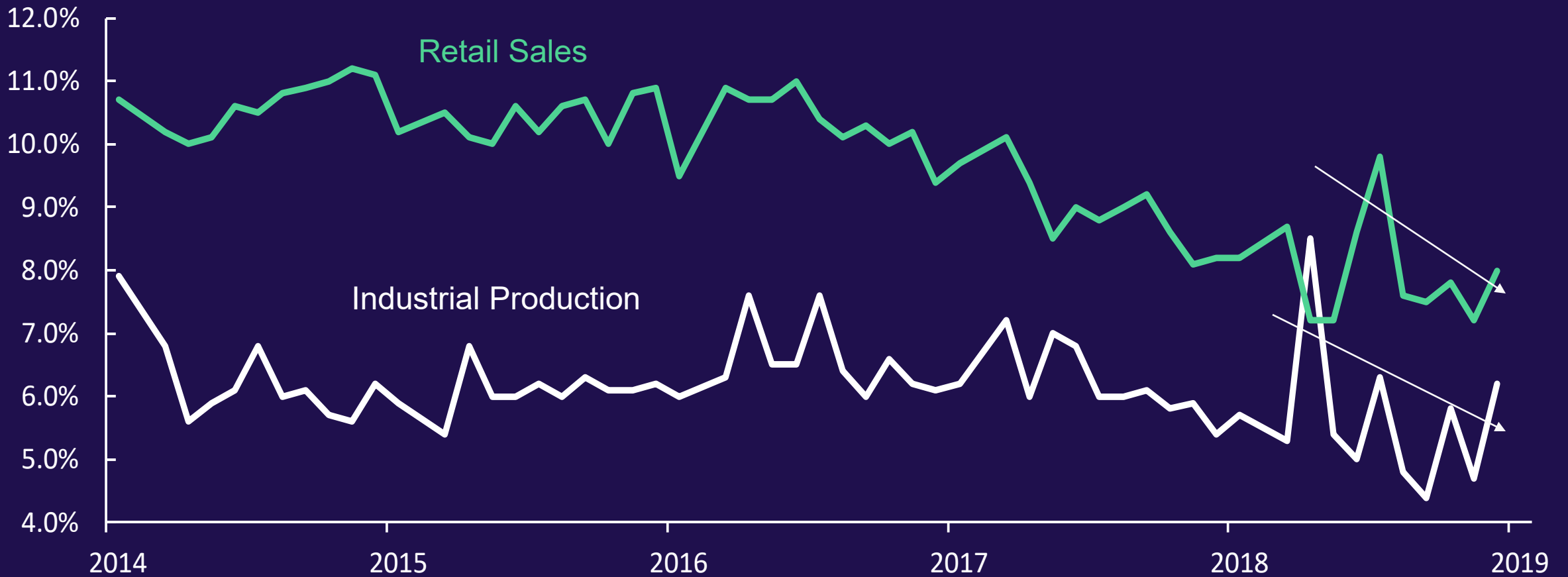
Global Economic Policy Uncertainty Index

(current price GDP weighted, 3-month moving average, mean = 100)



# China's Slowdown Continues

(year/year % change)

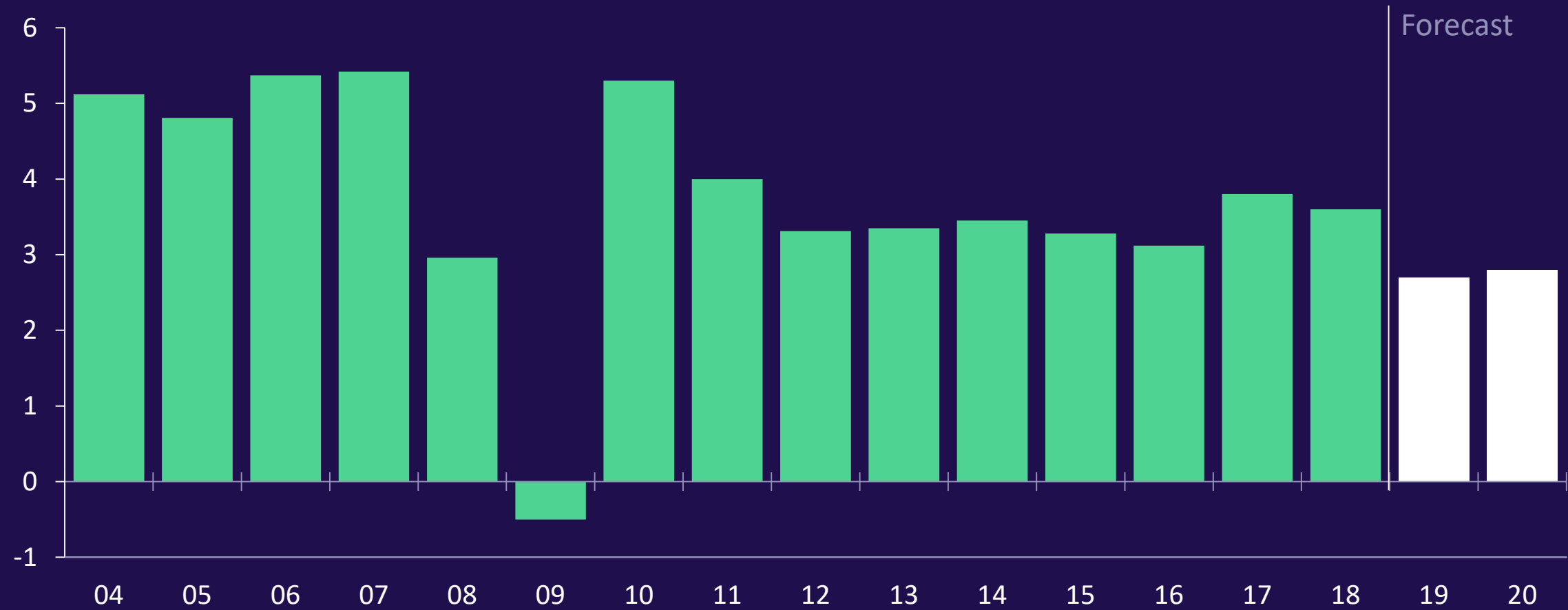


# Global Growth Slows As Tensions Build

Real GDP  
(year/year % change)

	2018	2019	2020
World	3.6	2.7	2.8

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

# U.S. Growth Slows



Second Half '19 Stalls Under 2.0%

Consumers Drives Growth

Rest of the Economy Sags:

- Tariffs and Waning Effect of Tax Cut

Business Spending Weakens

Manufacturing Recession

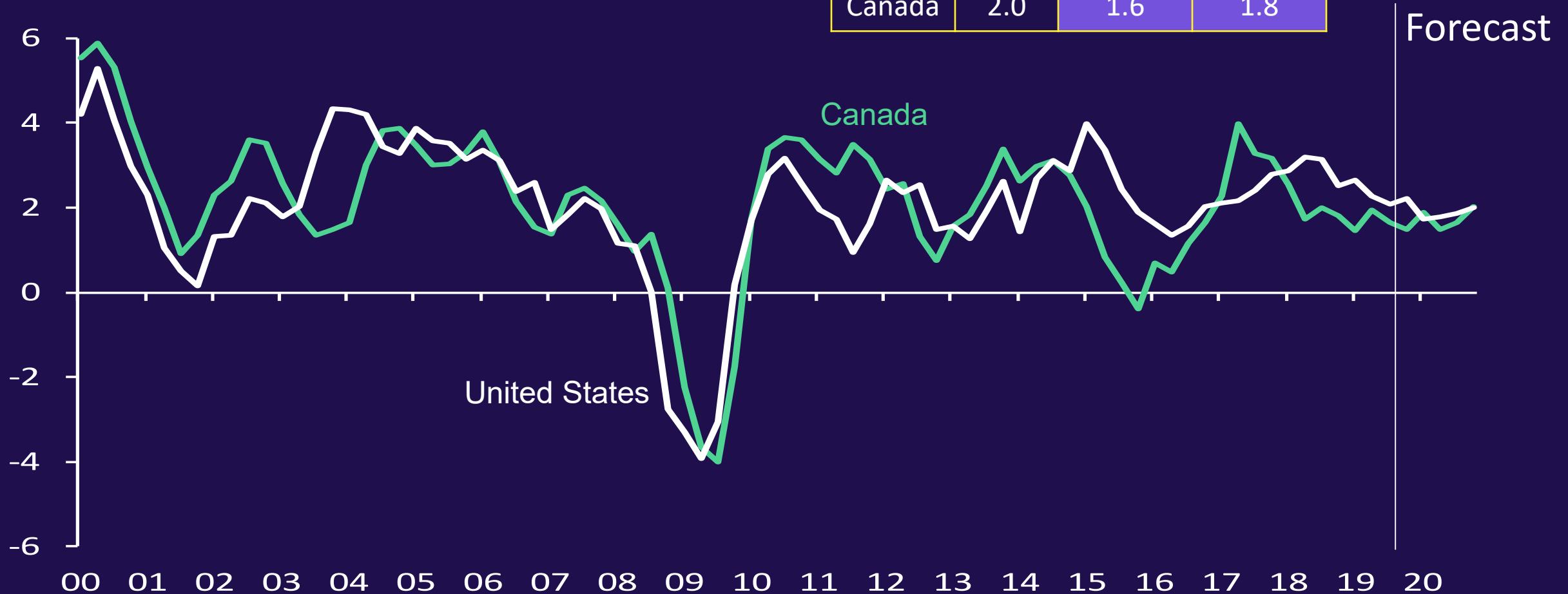
Farmers Hit

Exports Plunge

# U.S. and Canada Slow

Real GDP  
(year/year % percent)

	2018	2019	2020
U.S.	2.9	2.3	1.8
Canada	2.0	1.6	1.8



# Longest Expansion In U.S. History, But Not the Strongest

Periods of U.S. Economic Expansion  
(months)





# Canadian Growth Slows Last Year



Job Growth Strong

Household Income Rises

Housing Rebounds

But Consumers Burdened By Debt

Business Investment Dismal

Net Exports Slow

Sideswiped By Trade Uncertainty

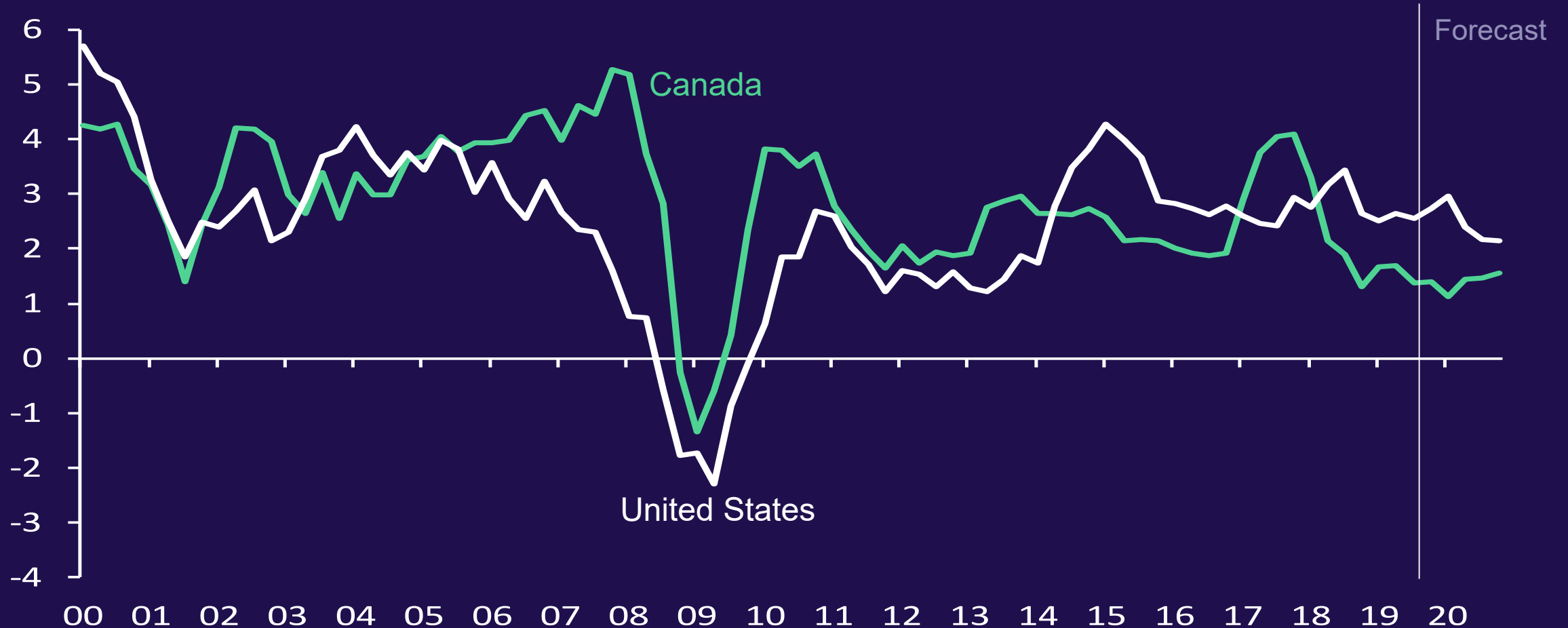
China Boycotts Canola and Pork

# Consumers Have Bolstered U.S. Economy

Real Personal Consumption Expenditure  
(year/year % percent)



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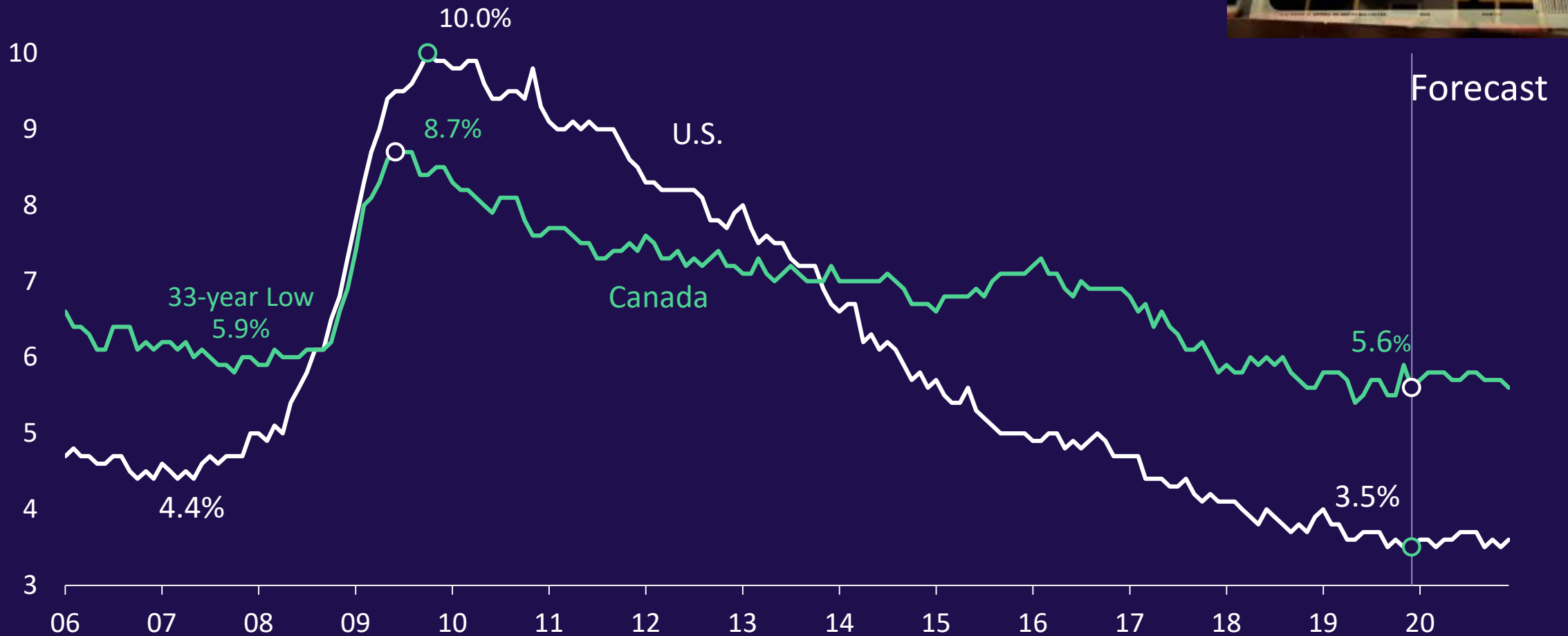


Forecast= BMO Capital Markets

Source: Haver Analytics, Statistics Canada, Bureau of Economic Analysis

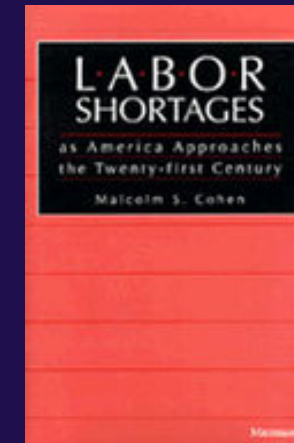
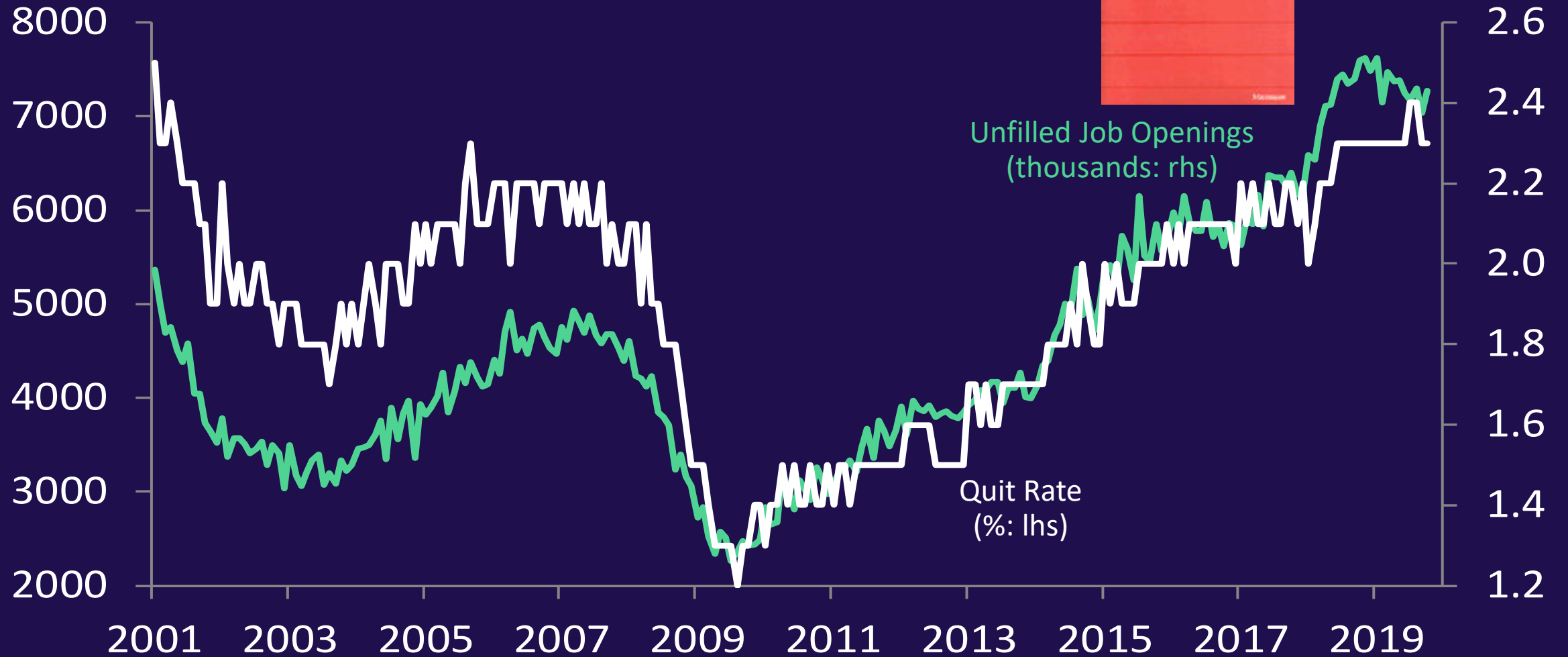
# Jobless Rate At Historical Lows Boosting Incomes

(percent)



# U.S. Labor Market Very Tight

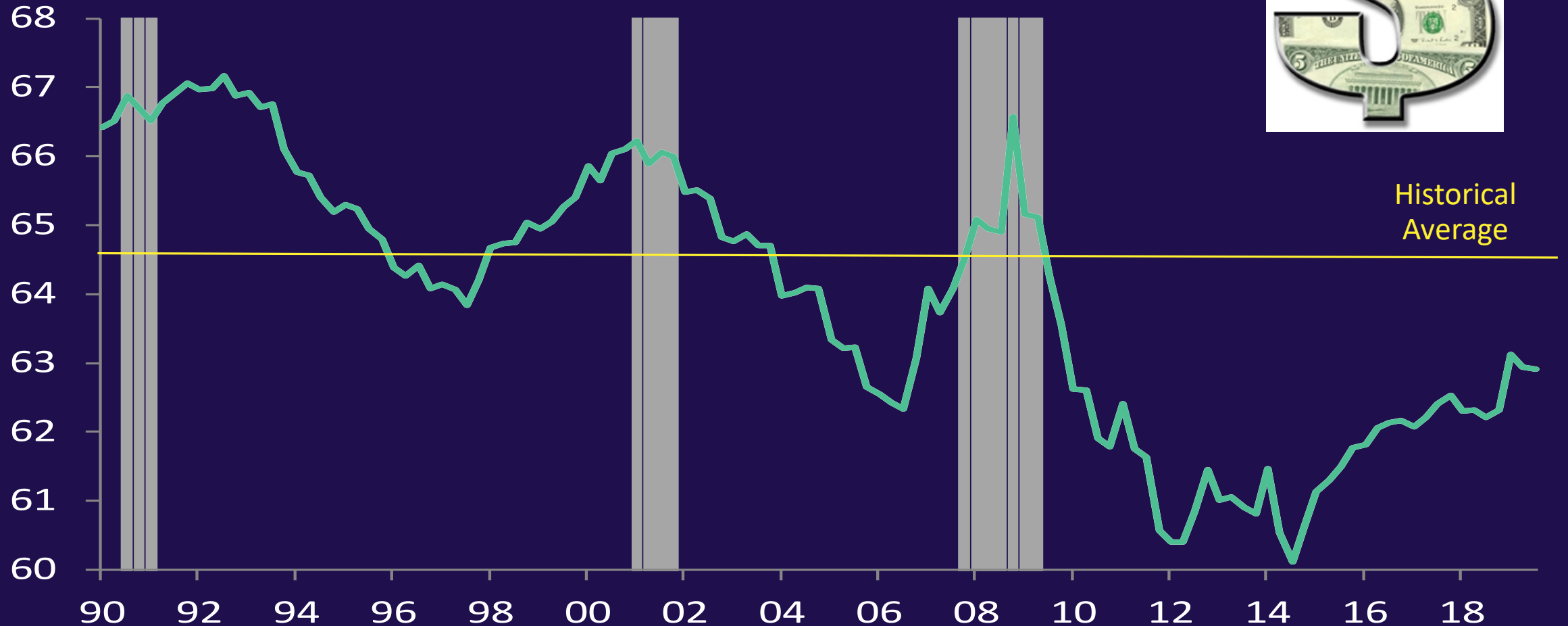
Job Openings and Labor Market Survey (JOLTS)



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# U.S. Worker Compensation Finally On The Rise

Total U.S. Compensation as a percentage of National Income  
(percent)



Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Sherry Cooper Associates



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# Real Household Income Growth Slows

U.S. Real Median Household Income  
(annual percent)



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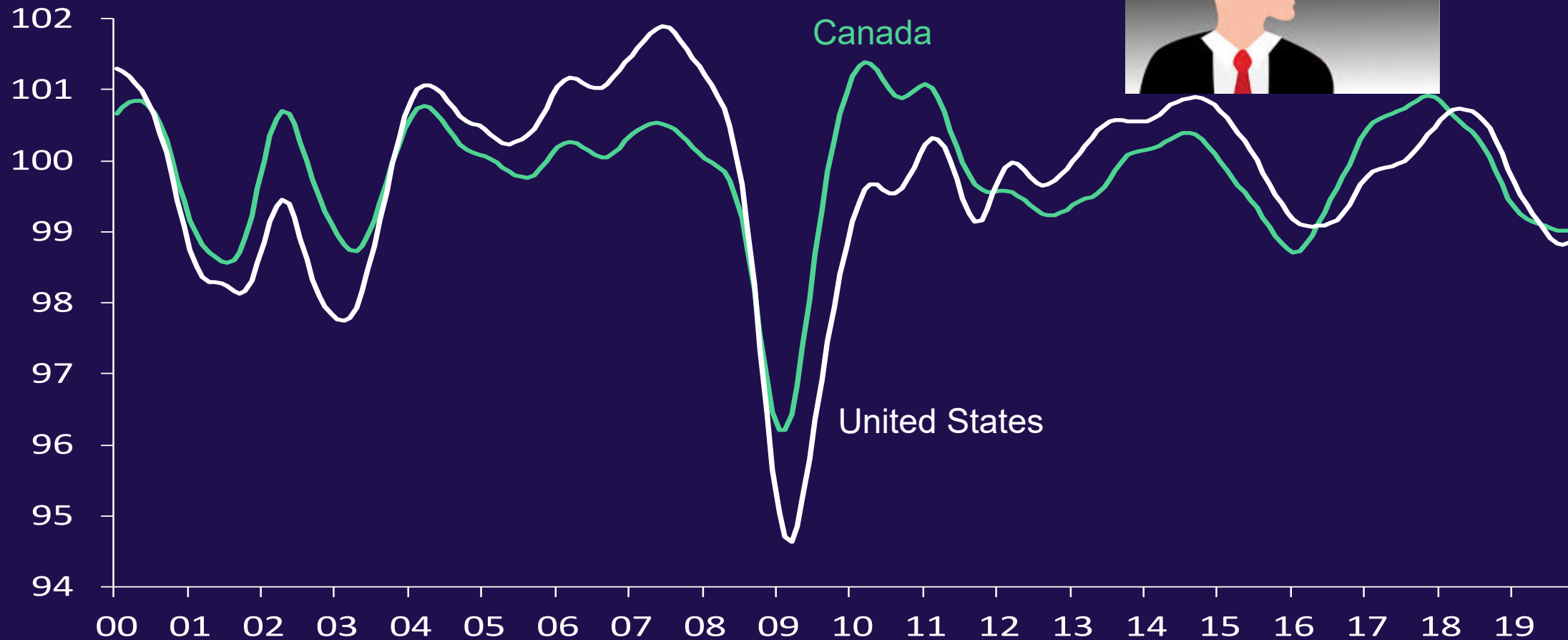


Source: U.S. Census Bureau, Haver Analytics

# But, Consumer Confidence Is Falling

OECD Consumer Confidence Index  
(long-term average = 100)

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# Manufacturing Recession Continues

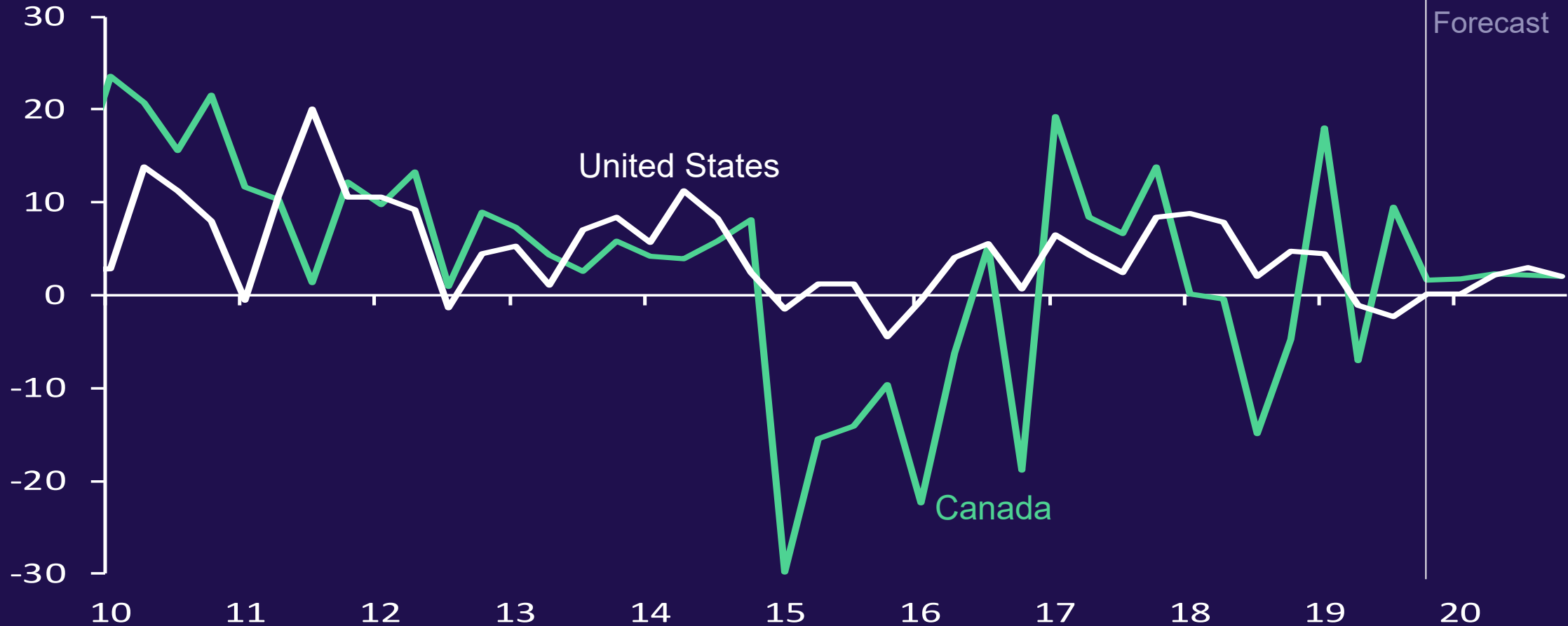
United States: ISM Manufacturing Index  
(seasonally adujusted, 50+ = Economic Expansion)





# Uncertainty Drags Down Business Investment

Real Non-Residential Business Investment  
(Qtr/Qtr, percent at annual rates)



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## Attracting Newcomers

Foreigners flock to Canada while U.S. posts decade-low immigration

Canada net international migration U.S. net international migration



Source: Statistics Canada, U.S. Census Bureau

\*2019 U.S. numbers are estimates

# Financial Markets



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Fed Eased Three Times in 2019

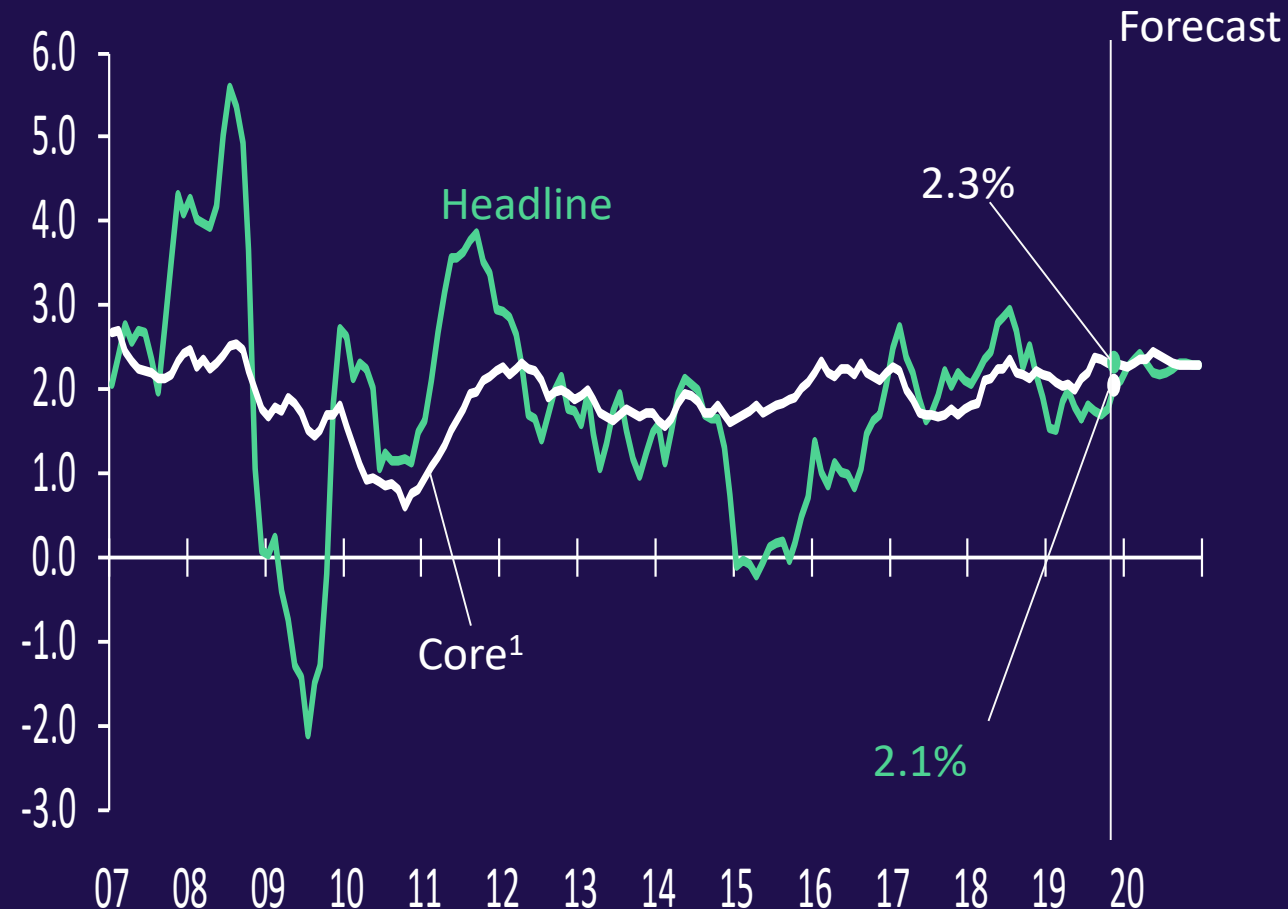
Bank of Canada Bucked the Tide

Inverted Yield Curves

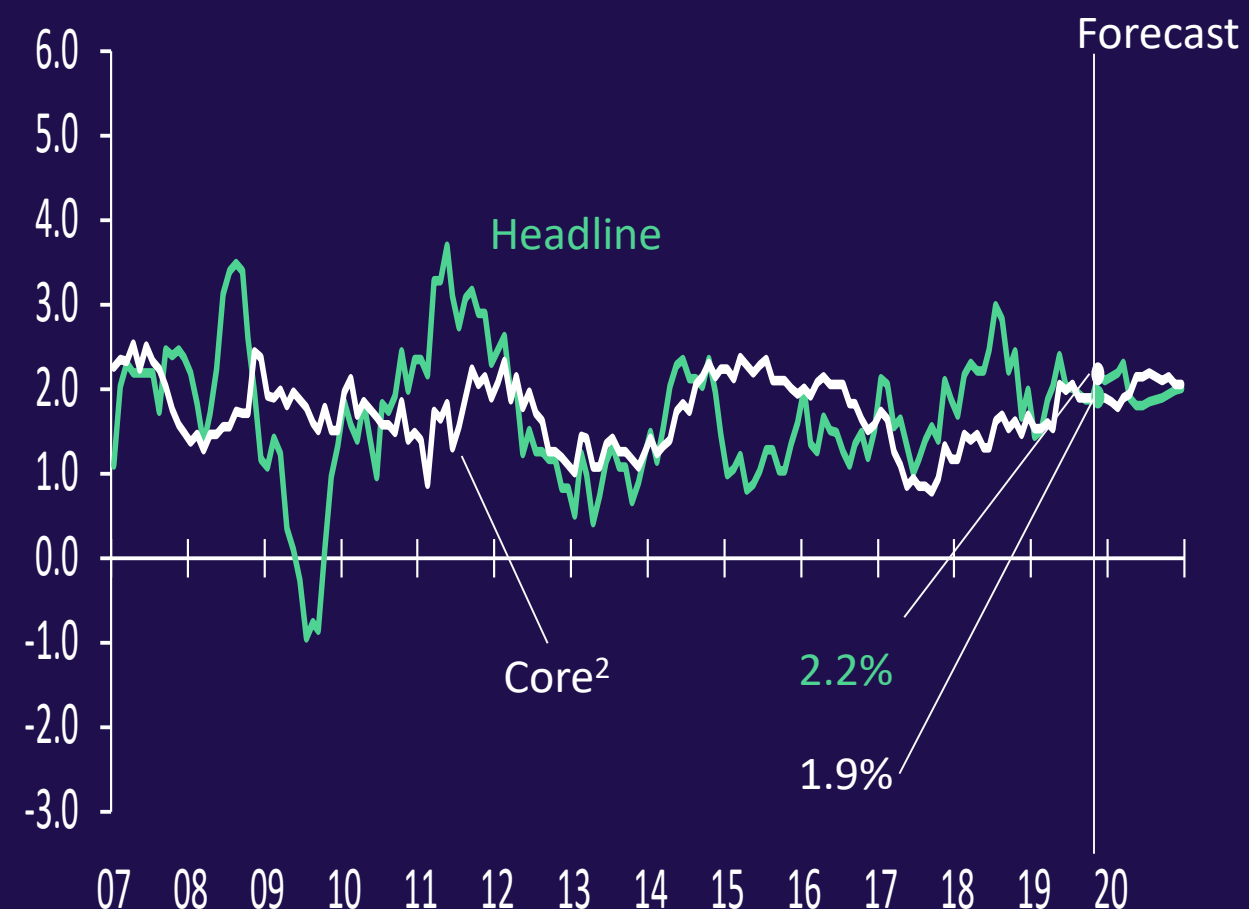
# Inflation Edges Remains Near Target 2%

Consumer Price Index (year/year % change)

U.S.



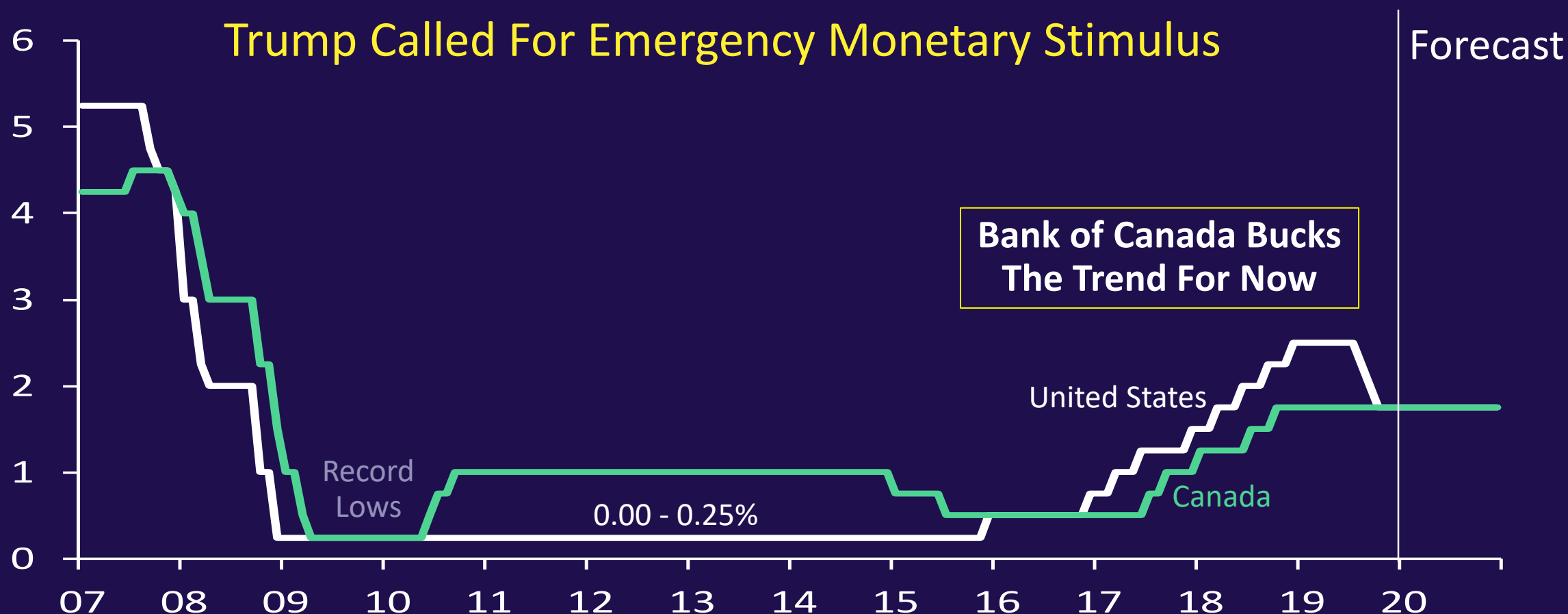
Canada



<sup>1</sup>Core = ex. Food & energy; <sup>2</sup>Core = ex. 8 most volatile components & indirect taxes; Forecast by BMO Nesbitt Burns  
Source: Statistics Canada, Bureau of Labor Statistics, BMO Nesbitt Burns Economics, Haver Analytics

# More Than 30 Central Banks Have Cut Rates in 2019

Overnight Rate  
(percent)

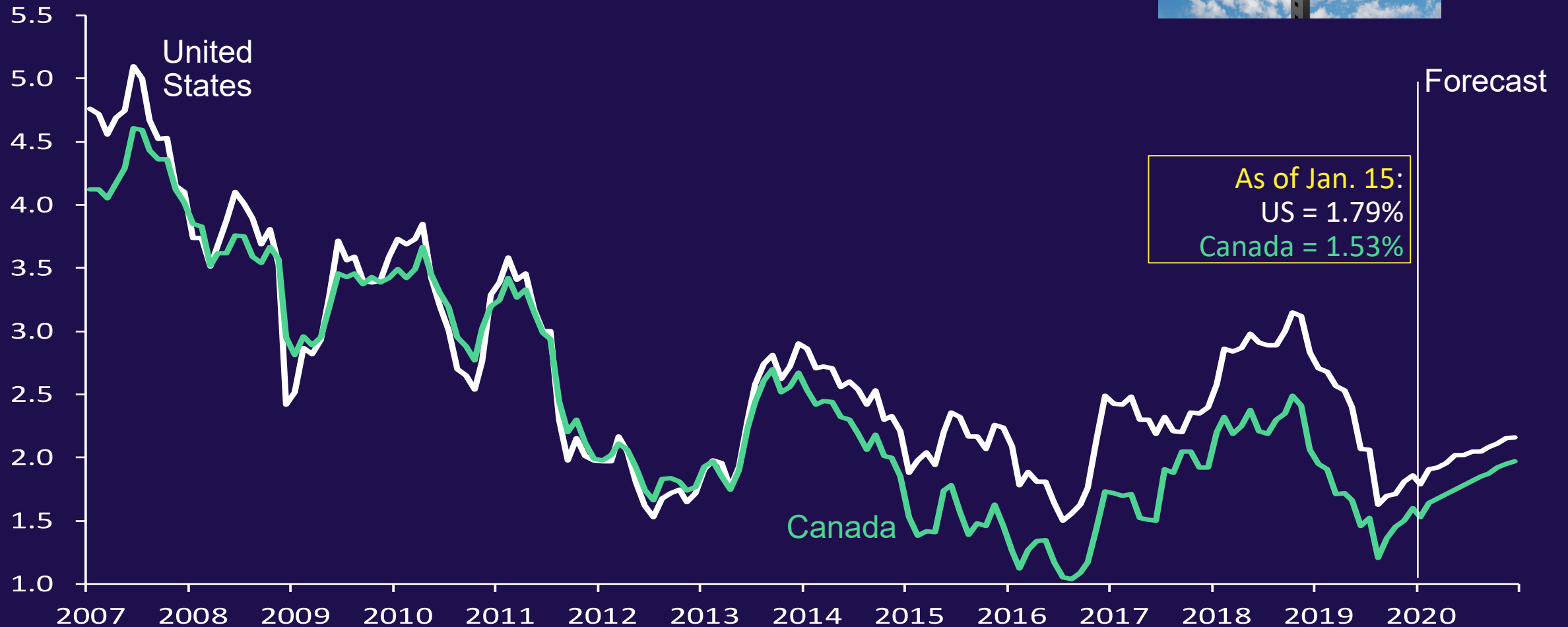


Forecast = Sherry Cooper Assoc.

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

# Long Yields Edge Higher

10-year Bond Yields  
(percent)



Source: Bank of Canada, Federal Reserve Board



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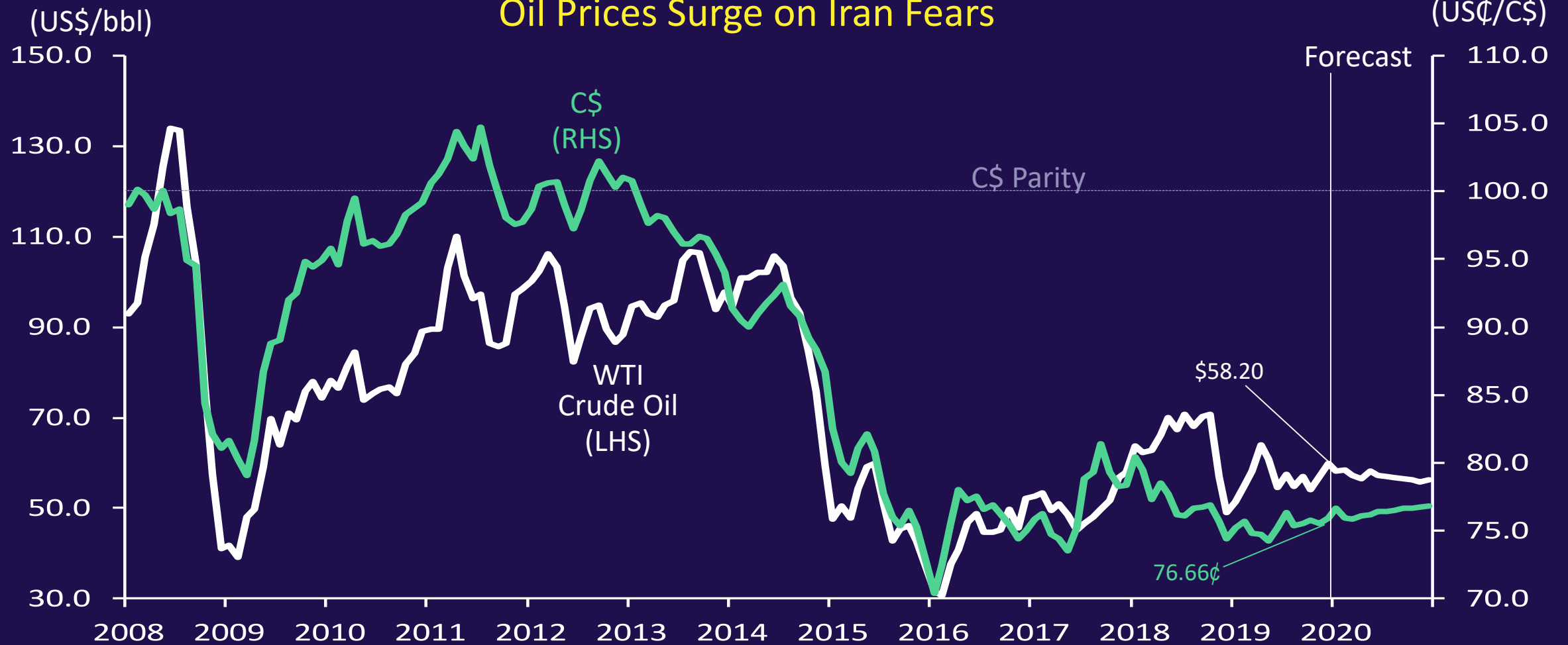
# Oil Price And The Loonie

(as of January 15, 2020)



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## Oil Prices Surge on Iran Fears



Forecast = BMO Capital Markets

Source: Haver Analytics, Bank of Canada, Bloomberg, U.S. Energy Information Administration

# Risk of US Recession In The Next Year Is 26%\*—Lower In Past Month



- Initial Jobless Claims
- Consumer Spending
- Credit Conditions
- Average Weekly Hours



- Housing Market
- Durable Goods Orders



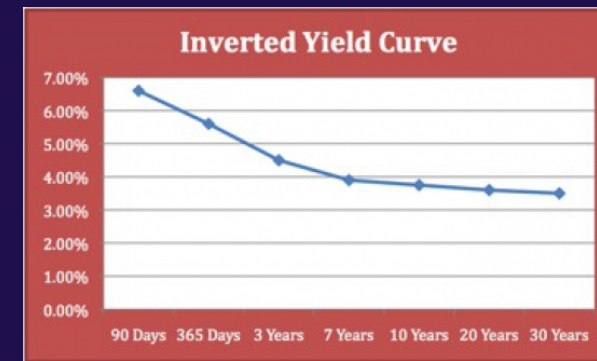
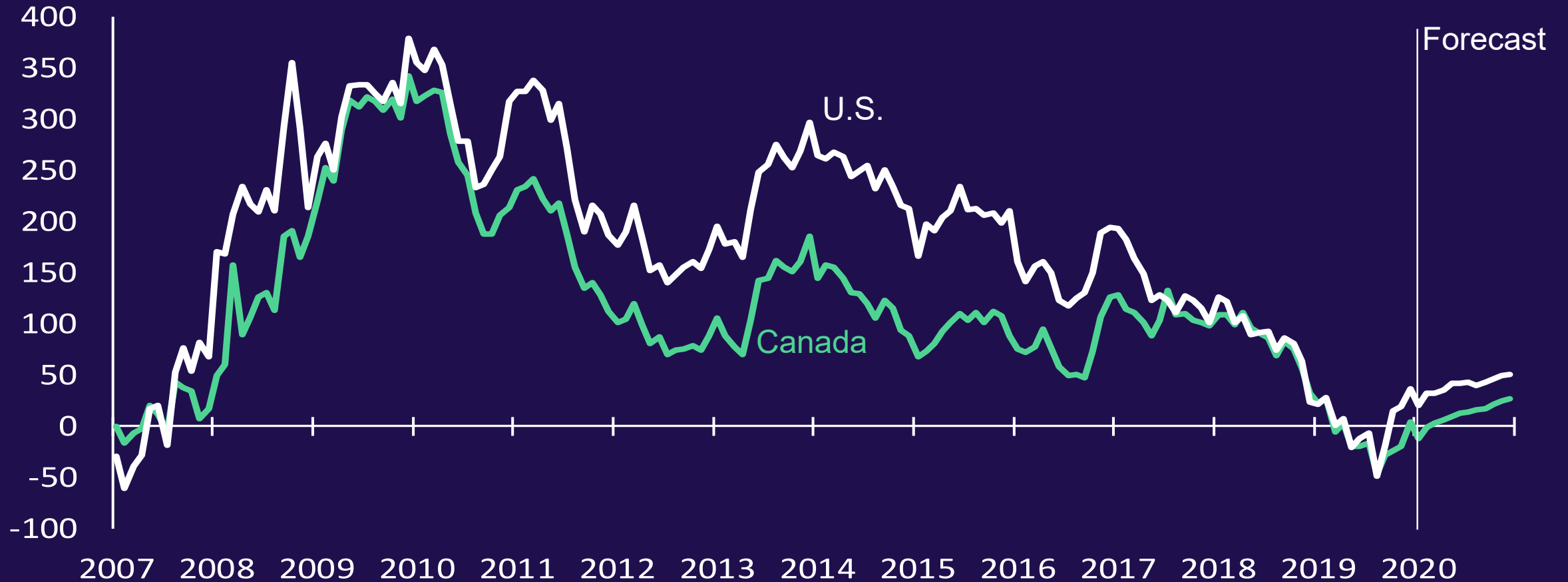
- Yield Curve
- Manufacturing
- Profit Margins
- Exports

**\*Based on Bloomberg median estimates of economists**



# Inverted Yield Curve Still in Canada

10-year Bond Yields minus 90-Day Bill Rates  
(percent)

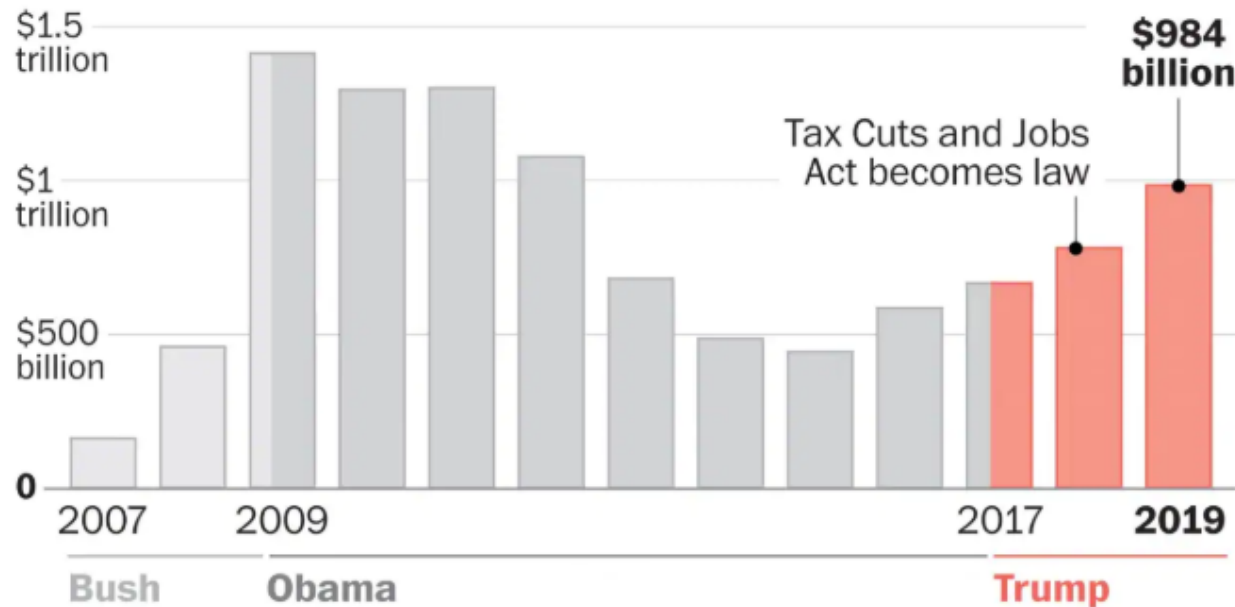


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# US Federal Budget Deficit Up 26% in 2019

## The U.S. budget deficit has more than doubled since 2015

Fiscal-year deficit (The federal fiscal year runs from Oct. 1 to Sept. 30).



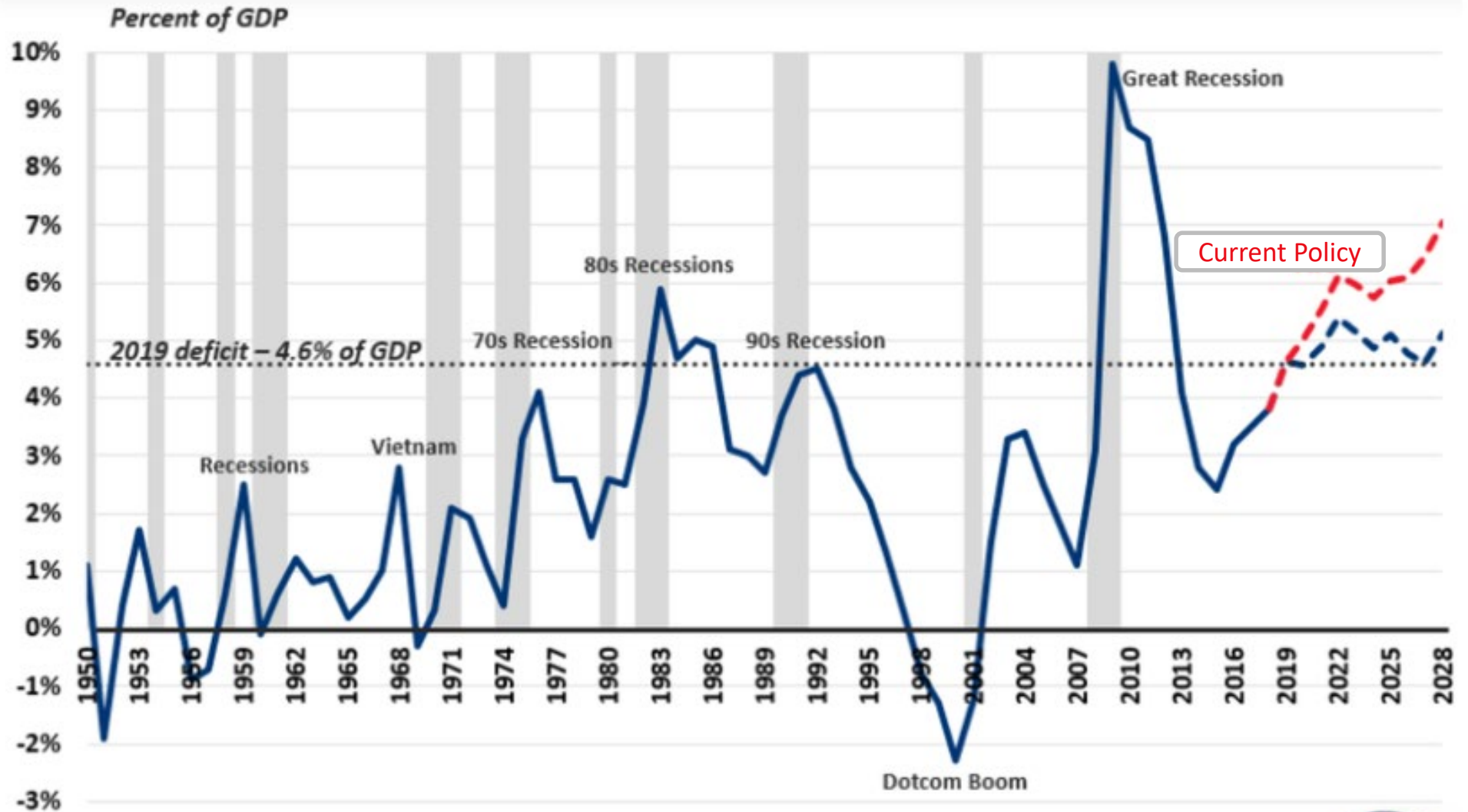
Sources: Treasury Department, Office of Management and Budget

THE WASHINGTON POST

Harder to Respond in  
Downturn

First Boom-Time Deficit Surge

# Deficits Have Only Been At These Levels In or After a Recession



Source: CBO, OMB, NBER. Shading denotes U.S. economic recession.

AFS: The Alternative Fiscal Scenario is CBO's estimate of what would occur if certain tax and spending policies are continued, most notably the 2017 tax cut and the increased discretionary caps agreed to in 2018.

# America's debt is hitting levels not seen since end of WWII

U.S debt as a percent of GDP

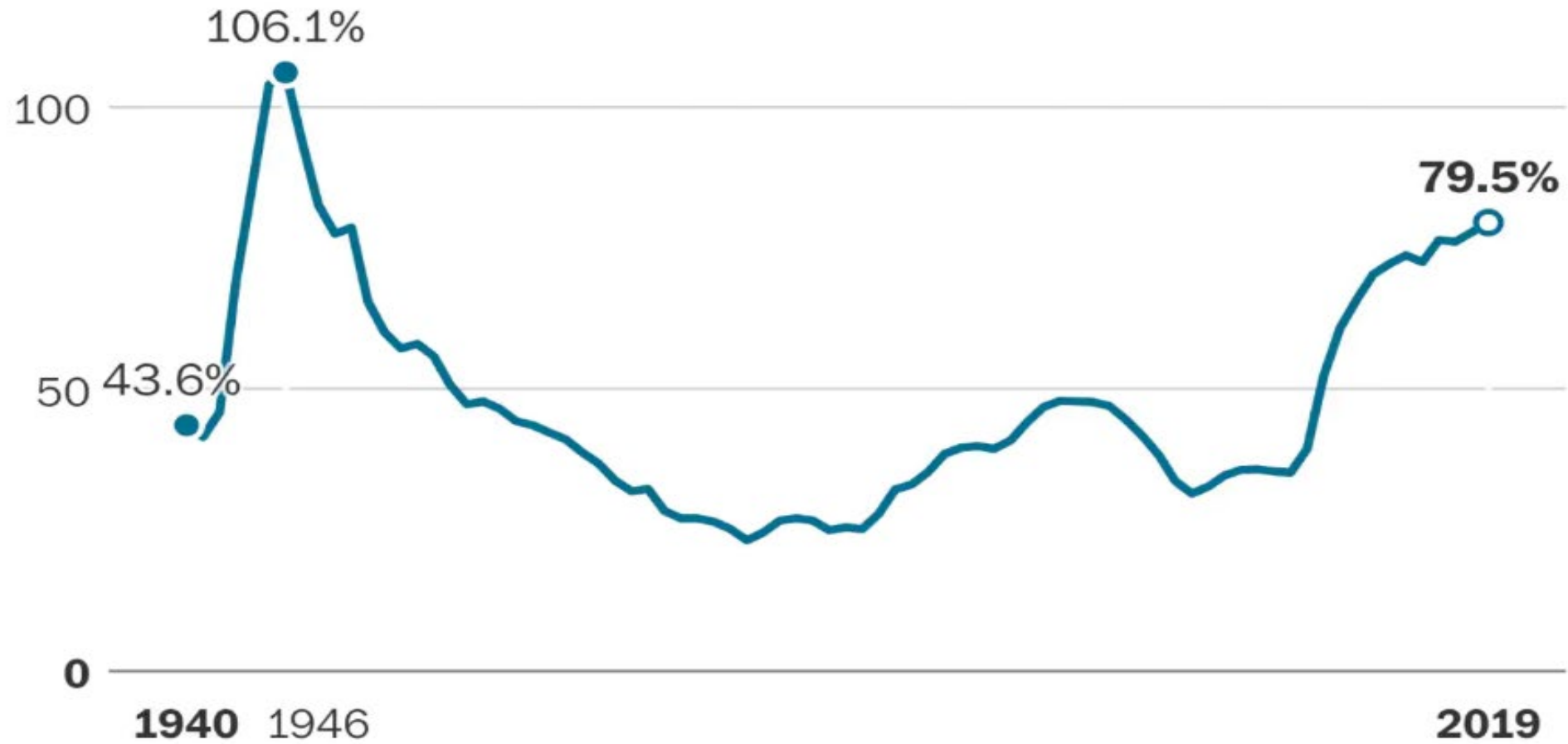


Chart shows debt held by the public.

Source: Office of Management and Budget

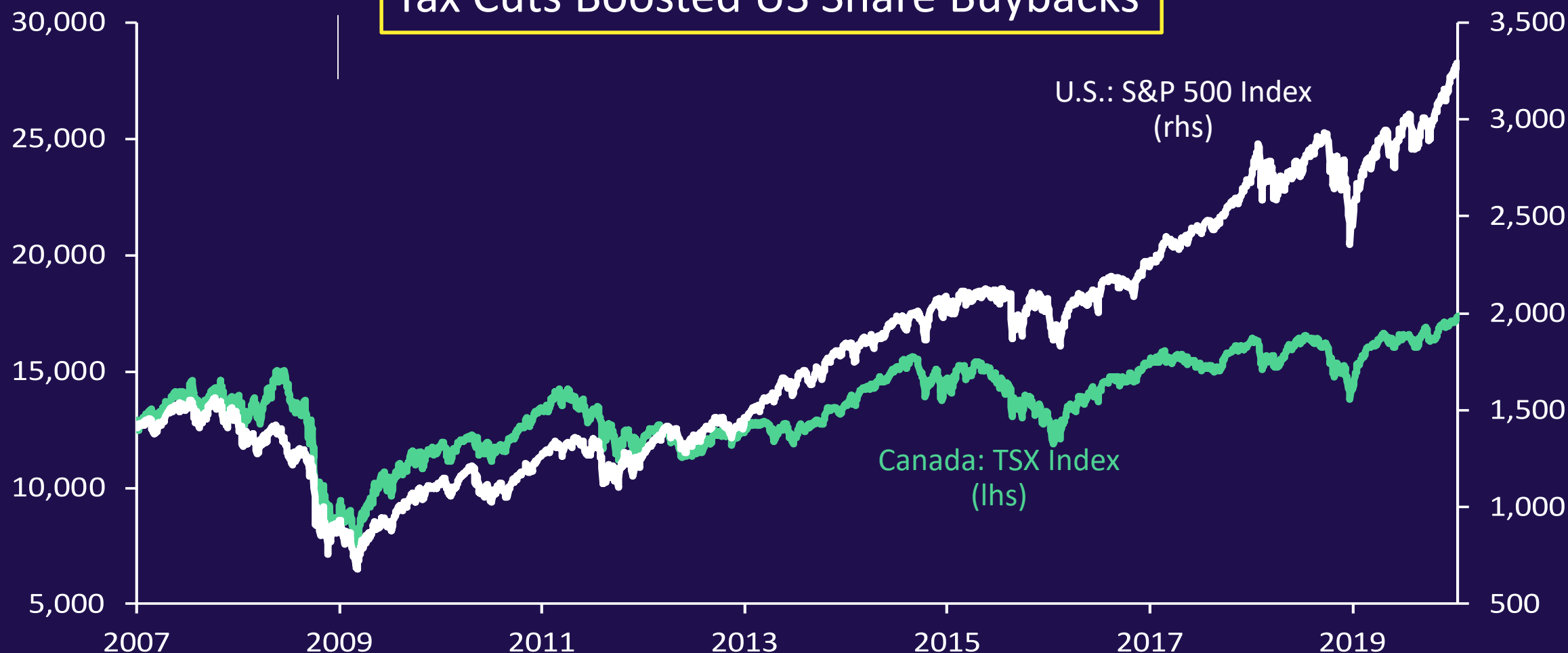
HEATHER LONG/THE WASHINGTON POST

# U.S. Equities Outperform

(daily, as of January 15, 2020)

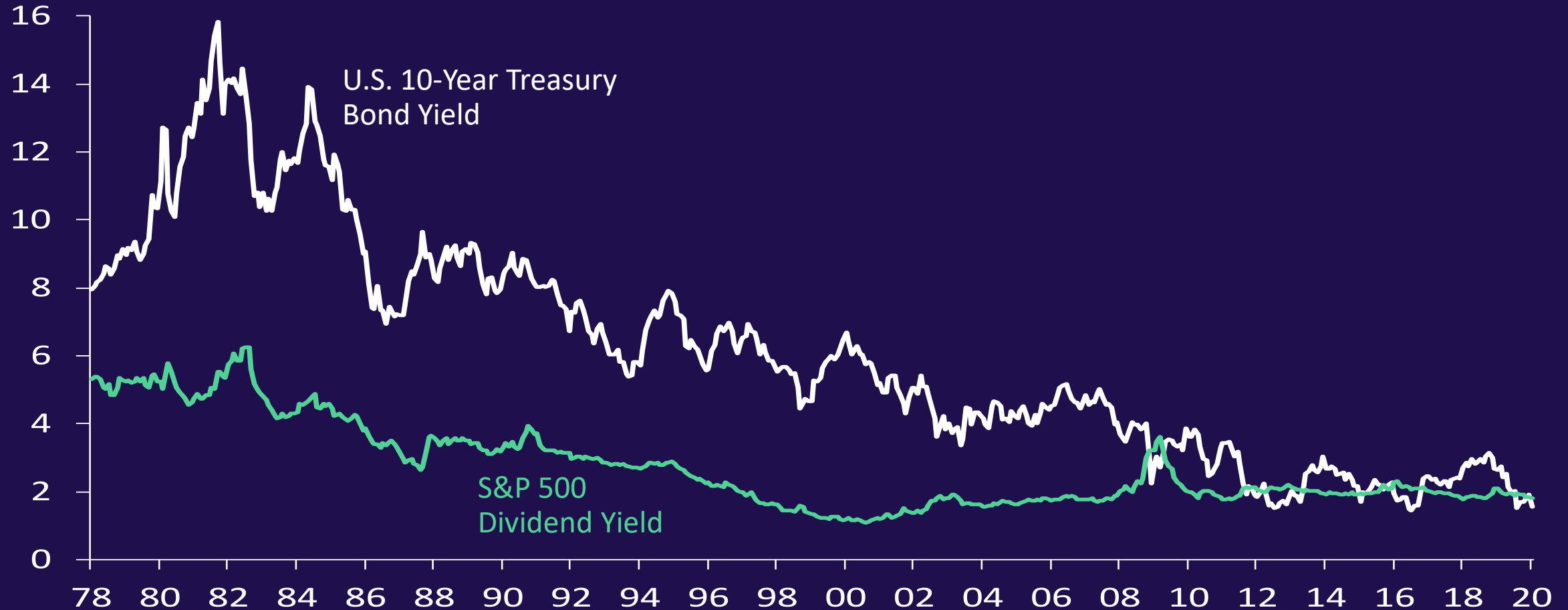
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Tax Cuts Boosted US Share Buybacks

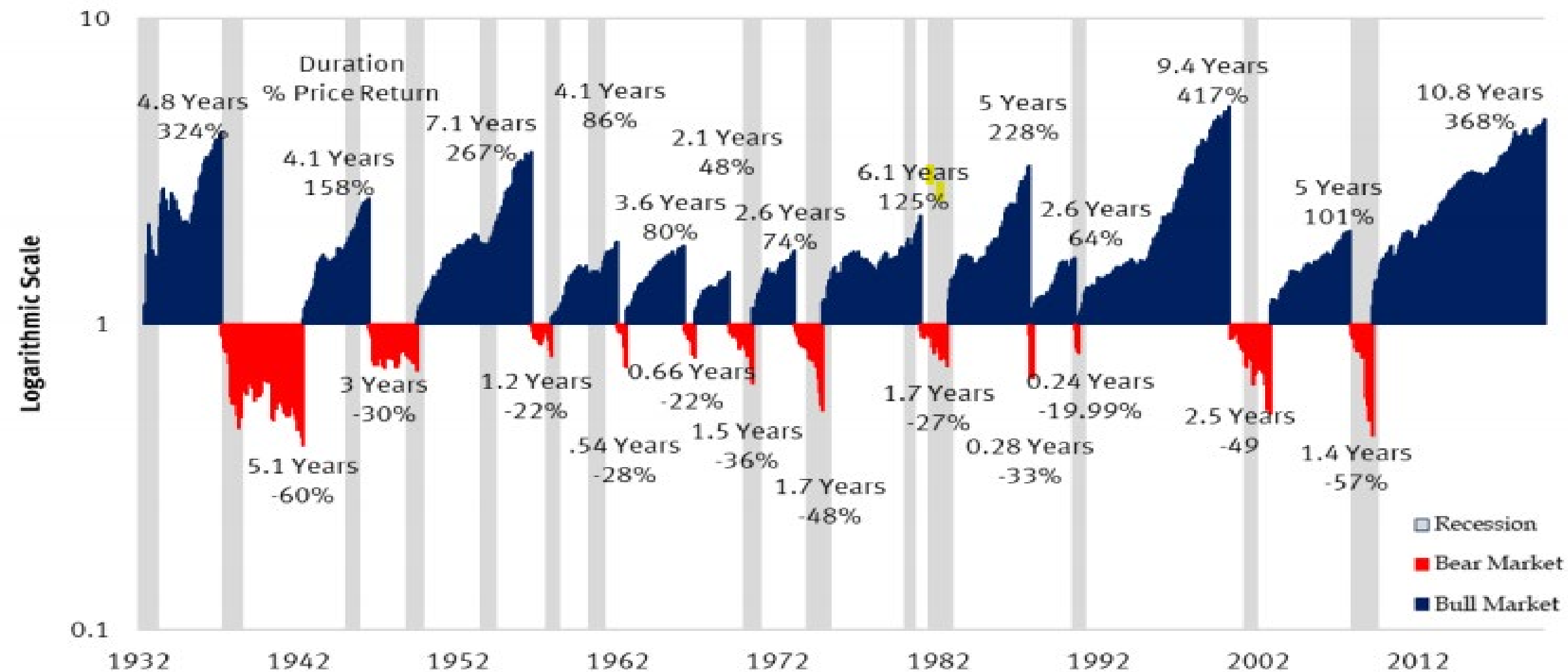


# A Case For Equities? S&P 500 Dividend Yield Exceeds 10-Year Treasury Bond Yield

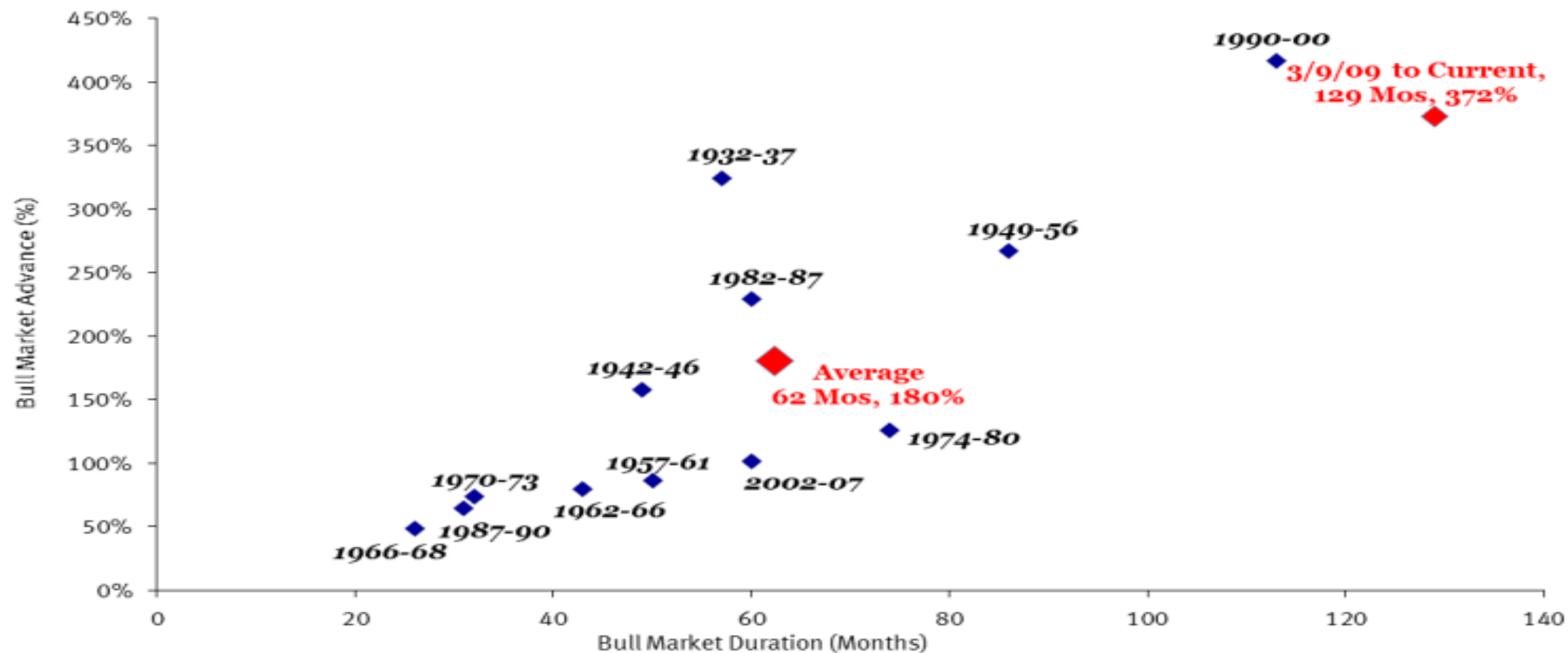
(percent)



# Bear and Bull Markets Since 1932



## S&P 500 Bull Market Magnitude and Duration





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