Economic Outlook: Trade Trauma & Election Drama

Douglas Porter, CFA
Chief Economist, BMO Financial Group
douglas.porter@bmo.com
416-359-4887
Important disclosures

General Disclosure
“BMO Capital Markets” is a trade name used by the BMO Financial Group for the wholesale banking businesses of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. This document is issued and distributed in Hong Kong by Bank of Montreal (“BMO”). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries (“BMO Financial Group”) has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such Information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor’s particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research
Our publications are disseminated via email and may also be available via our web site https://economics.bmo.com. Please contact your BMO Dissemination of Research sole on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Conflict Statement
A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST
BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A., BMO Ireland Plc, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC). BMO Nesbitt Burns Securities Limited (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

“Nesbitt Burns” is a registered trademark of BMO Nesbitt Burns Inc., used under license. “BMO Capital Markets” is a trademark of Bank of Montreal, used under license. “BMO (M-Bar roundel symbol)” is a registered trademark of Bank of Montreal, used under license.


© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP.
A member of BMO Financial Group
A tale of two markets

(as of November 4, 2019)

Stocks

[Graph showing stock market performance with notable events and records]

10-year government bond yields

[Graph showing bond yield trends with 7.5-year high]

Mixed messages

Source: BMO Economics

Global growth: Fading

2019:Q2 (y/y % chng)

[Graph showing global GDP growth with notable regions and countries]

Sorted by current - World GDP based on 74 of 75 countries that regularly report GDP growth, weighted by GDP shares (converted via IMF’s PPP estimates) • ¹ 2019:Q3

Sources: BMO Economics • [magazine cover] The Economist, January 26-February 1, 2019

© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP - https://economics.bmo.com
North American growth: Cooler

US fiscal stimulus dwindling, trade war cost mounting

Canada: [2019:Q3] BMO Economics estimate

Jobless rates: At 40-50 year lows

Widespread lack of workers

Unemployment rate (percent)

Greece 16.9
Spain 14.2
Italy 9.9
France 8.4
Portugal 6.6
Canada 5.5
Ireland 5.3
Australia 5.2
UK 3.9
US 3.6
Germany 3.1
Japan 2.4
Calgary 7.1
Edmonton 7.3
Alberta 6.6

Source: BMO Economics
© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP • https://economics.bmo.com
Wages rising only gradually... still

Inflation close to target again

Consumer price index (y/y % chng)

Total CPI (latest month)

Alberta: 1.3%

Source: BMO Economics
© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP - https://economics.bmo.com
Housing: A decade of policy changes

Canada

2008–2015:
- Shortening amortizations (40 yrs → 35 → 30 → 25)
- Raising down payments

2016–2018:
- Tax on nonresident buyers (British Columbia, Ontario)
- Vacancy tax (British Columbia)
- Stress tests

2019 Federal budget:
- CMHC First-Time Home Buyers Incentive introduced
- Home Buyers’ Plan boosted

Canadian house prices: East hot, West not

Canada  (y/y % chng : nsa : as of September 2019)

<table>
<thead>
<tr>
<th>Existing home prices¹</th>
<th>Average price (y-t-d avg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ottawa</td>
<td>$442,000</td>
</tr>
<tr>
<td>Montreal</td>
<td>$403,000</td>
</tr>
<tr>
<td>Hamilton-Burlington</td>
<td>$588,000</td>
</tr>
<tr>
<td>Toronto</td>
<td>$812,000</td>
</tr>
<tr>
<td>Canada</td>
<td>$494,000</td>
</tr>
<tr>
<td>Winnipeg²</td>
<td>$304,000</td>
</tr>
<tr>
<td>Edmonton</td>
<td>$366,000</td>
</tr>
<tr>
<td>Calgary</td>
<td>$445,000</td>
</tr>
<tr>
<td>Regina</td>
<td>$302,000</td>
</tr>
<tr>
<td>Vancouver</td>
<td>$983,000</td>
</tr>
</tbody>
</table>

Governments move to cool market: Working less well

¹ HPI composite benchmark where available
² Average price (y-t-d avg)
Household debt: Game of Loans

Households¹

Debt ratio
(ratio to personal disposable income)

Debt growth²
(y/y % chng)

Debt ratio stabilized, but could rise again

¹ Households, nonprofits and unincorporated businesses • ² Consumer credit and residential mortgages only

Regional outlook: Tight race

Canada

Real GDP (y/y % chng)

Sorted by 2020 • ¹ Oil producers: Alberta, Saskatchewan, Newfoundland and Labrador • ² estimate • ³ forecast
Provincial deficits: Some progress, some trouble

Canada – FY19/20 (% of GDP)

Budget balance

<table>
<thead>
<tr>
<th>Province</th>
<th>Federal Budget Balance</th>
<th>All provinces Budget Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>$0.3 bln</td>
<td>$0.1 bln</td>
</tr>
<tr>
<td>Alberta</td>
<td>-2.4</td>
<td>-2.7</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>$0.03 bln</td>
<td>$0.03</td>
</tr>
<tr>
<td>Manitoba</td>
<td>-1.2</td>
<td>-1.5</td>
</tr>
<tr>
<td>Ontario</td>
<td>-1.2</td>
<td>-1.5</td>
</tr>
<tr>
<td>Quebec</td>
<td>0.03</td>
<td>0.03</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td>Newfoundland and Labrador¹</td>
<td>-1.6</td>
<td>-1.9</td>
</tr>
<tr>
<td>All provinces</td>
<td>-$17.0 bln</td>
<td>-$19.8 bln</td>
</tr>
<tr>
<td>Federal</td>
<td>$2.5 bln</td>
<td>$0.00 bln</td>
</tr>
</tbody>
</table>

¹ Excludes $2.5 bln Atlantic Accord revenue

Sources: BMO Economics • Federal and provincial budgets/fiscal updates

Liberal minority government

Federal election – Canada

<table>
<thead>
<tr>
<th>Political party</th>
<th>2019¹</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Votes (%)</td>
<td>Seats</td>
</tr>
<tr>
<td>Liberals</td>
<td>33.1</td>
<td>157</td>
</tr>
<tr>
<td>Conservatives</td>
<td>34.4</td>
<td>121</td>
</tr>
<tr>
<td>Bloc Québécois</td>
<td>7.7</td>
<td>32</td>
</tr>
<tr>
<td>New Democrats</td>
<td>15.9</td>
<td>24</td>
</tr>
<tr>
<td>Green</td>
<td>6.5</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>2.4</td>
<td>1</td>
</tr>
</tbody>
</table>

¹ Preliminary results, as of October 22, 2019

170 needed for majority

Sources: BMO Economics • Elections Canada

© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP - https://economics.bmo.com
Ottawa’s deficits set to rise; debt too?

Canada

Federal government budget balance
(C$ blns)

2019 Federal budget: Spending on housing, social programs

Net debt
(% of GDP)

(e) = estimate

Canadian dollar: Where next?

Canada

Canadian dollar (US$ : as of November 4, 2019)

Poloz takes over at BoC
(June 1, 2013)

Bank of Canada Governor Stephen Poloz

[dot] daily closes • [forecasts] BMO Economics

Sources: BMO Economics • ¹ Federal and provincial budgets/fiscal updates
© COPYRIGHT 2019 BMO CAPITAL MARKETS CORP - https://economics.bmo.com
Interest rates: The tide turns

(% : as of November 4, 2019)

Fed will “assess”

Overnight rate

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>1.75</td>
<td>1.50-1.75</td>
</tr>
<tr>
<td>End-2019</td>
<td>1.75</td>
<td>1.50-1.75</td>
</tr>
<tr>
<td>End-2020</td>
<td>1.75</td>
<td>1.50-1.75</td>
</tr>
</tbody>
</table>

10-year bonds

<table>
<thead>
<tr>
<th></th>
<th>Canada</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>1.53</td>
<td>1.78</td>
</tr>
<tr>
<td>End-2019</td>
<td>1.35</td>
<td>1.65</td>
</tr>
<tr>
<td>End-2020</td>
<td>1.70</td>
<td>2.00</td>
</tr>
</tbody>
</table>

Inverted curve

Global stocks: Stormy 2018, Snapback 2019

Equity markets (% chng)

<table>
<thead>
<tr>
<th>Country</th>
<th>2018</th>
<th>2019 year-to-date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>15.0</td>
<td>36.5</td>
</tr>
<tr>
<td>India</td>
<td>-3.9</td>
<td>27.1</td>
</tr>
<tr>
<td>Nasdaq</td>
<td>-5.6</td>
<td>24.4</td>
</tr>
<tr>
<td>DJIA</td>
<td>-6.2</td>
<td>23.6</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-7.4</td>
<td>22.8</td>
</tr>
<tr>
<td>Australia</td>
<td>-7.6</td>
<td>19.1</td>
</tr>
<tr>
<td>Russia</td>
<td>-11.6</td>
<td>17.7</td>
</tr>
<tr>
<td>TSX</td>
<td>-12.1</td>
<td>16.4</td>
</tr>
<tr>
<td>Japan</td>
<td>-12.5</td>
<td>14.2</td>
</tr>
<tr>
<td>UK</td>
<td>-18.3</td>
<td>11.7</td>
</tr>
<tr>
<td>Germany</td>
<td>-25.3</td>
<td>9.5</td>
</tr>
<tr>
<td>China</td>
<td>-22.2</td>
<td>32.1</td>
</tr>
</tbody>
</table>

Sources: BMO Economics • [magazine covers] Bloomberg Businessweek, September 17, 2018 / Fortune Magazine, August 2018
Uncertainty persists

United States

NAFTA → CUSMA:
Must still get through Congress

Trade tensions:
Tariff battle with China disrupts some sectors
Auto tariffs: Six-month reprieve

Monetary policy:
President calls on Fed to cut aggressively

Other:
Brexit, Hong Kong, Iran, North Korea, Argentina... 2020 US election

Impeachment process?