



# 2015 outlook: Tidal shifts

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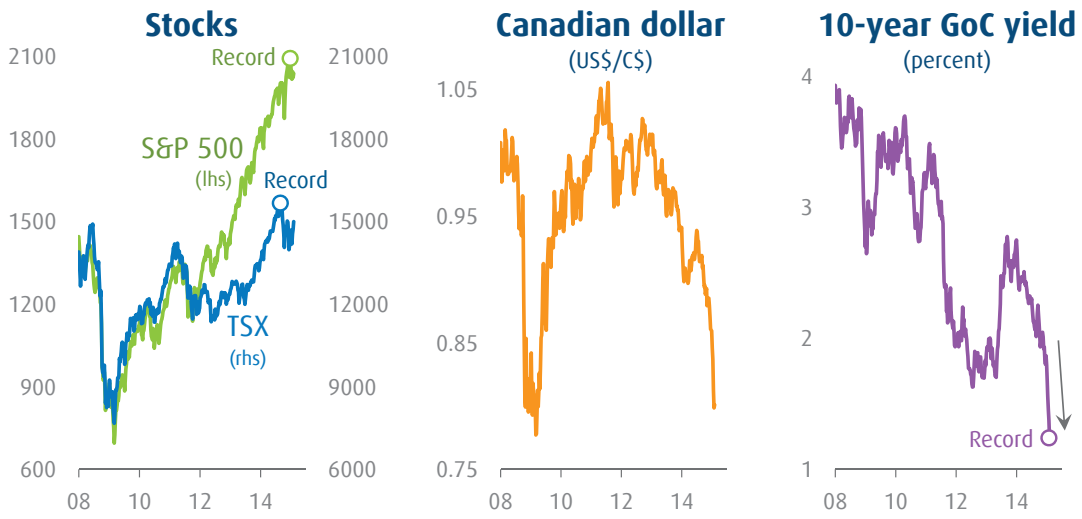
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# Market volatility

(as of February 3, 2015)



## Oil prices slide

lines: weekly averages    record dots: daily close

# Three big shifts



1. USA: Growth leader
2. Oil price plunge
3. Canadian dollar sinks

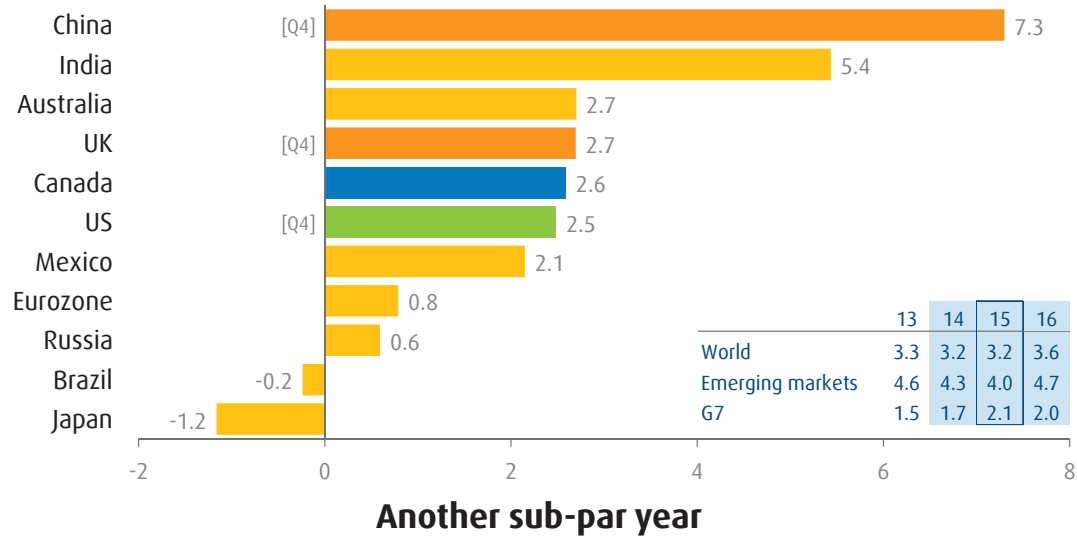
## Two half shifts

1. Housing boom ends... in some cities
2. Interest rates: Rise... in one country  
Fall... in another

# Global GDP: Some good, some bad, some ugly

2014:Q3 (y/y % chng)

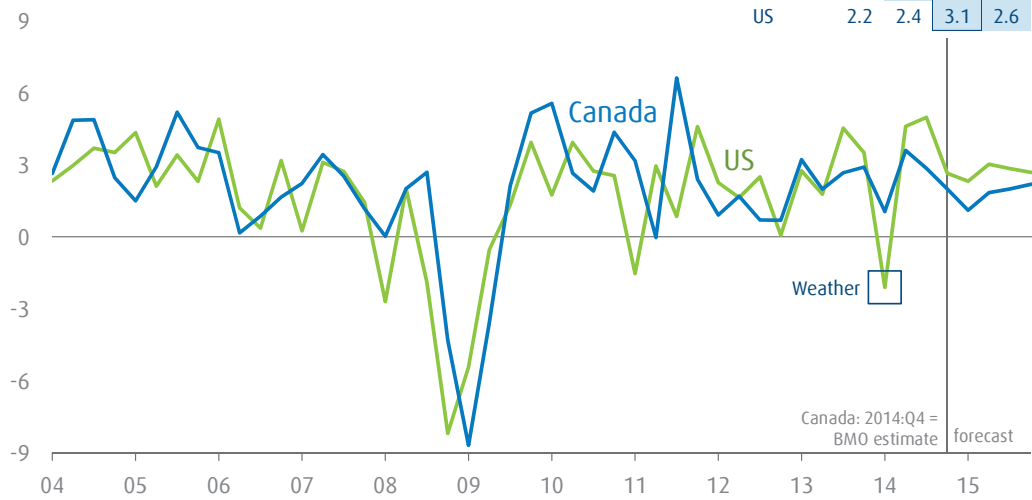
## Real GDP



# North American growth divergence in 2015

(q/q % chng : ar)

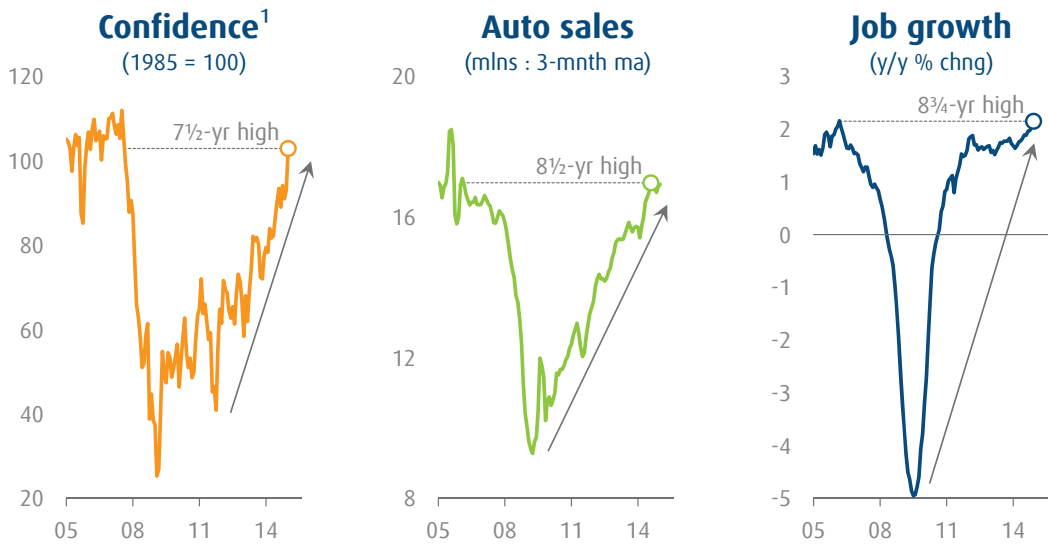
## Real GDP



## US to outpace Canada by most since 1996

# US consumer positives

## United States

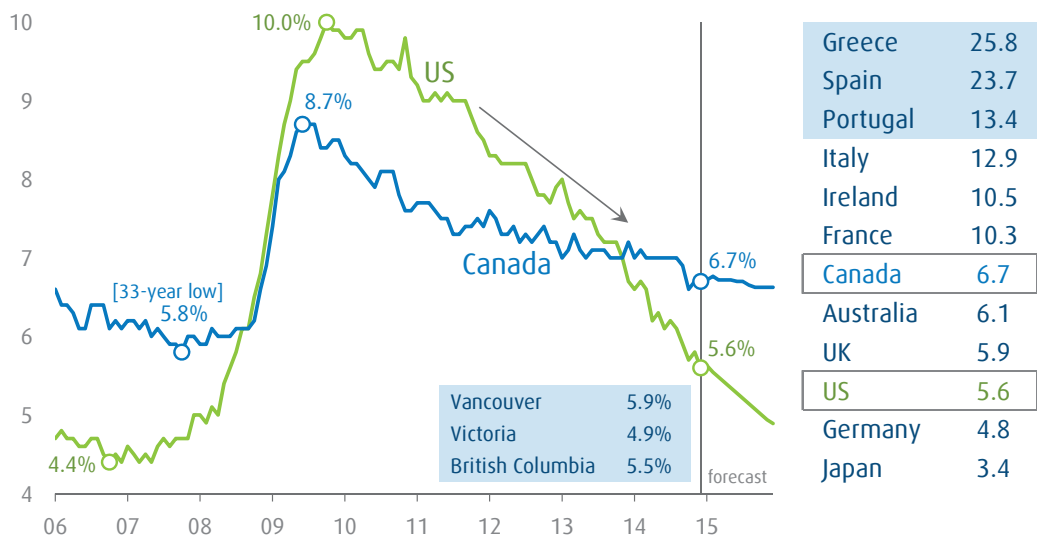


### Bonus: Gas prices, mortgage rates

<sup>1</sup> Source: Conference Board  
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# Jobless rates: US falling fast... Canada not so much

## Unemployment rate (percent)



### US participation rate: Lowest since 1978

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# Commodity outlook

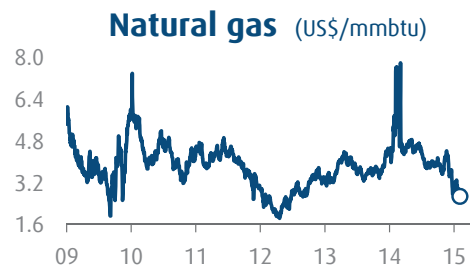
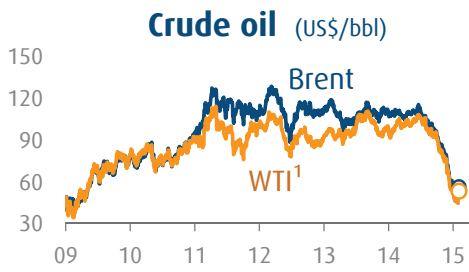


Oil price plunge  
 SuperCycle over...  
 ...But some sectors stay solid  
 Global growth should firm

## Impact on Western Canada

# Commodities: Oil spill

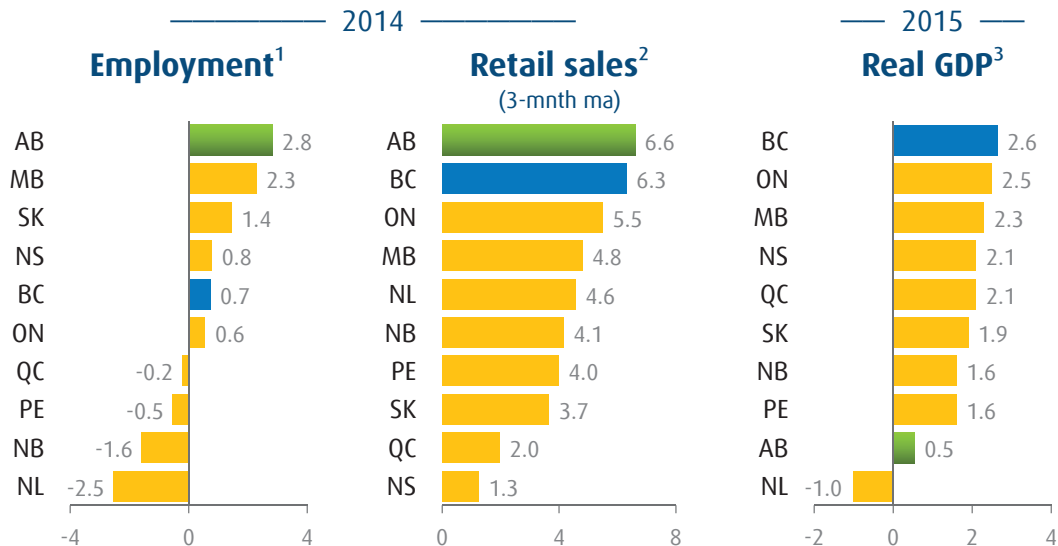
(as of February 3, 2015)



<sup>1</sup> West Texas Intermediate <sup>2</sup> 2x4 kiln-dried, Prince George

# Regional outlook: The changing of the guard

Canada (y/y % chng)



<sup>1</sup> December 2014    <sup>2</sup> November 2014    <sup>3</sup> 2015 BMO forecast

## What's ahead for British Columbia?



### Growth drivers:

- Increasing ties to Asia
- US expansion
- Natural gas exports?

### Challenges:

- Mining investment softening
- Slower population growth

### Less fiscal restraint needed

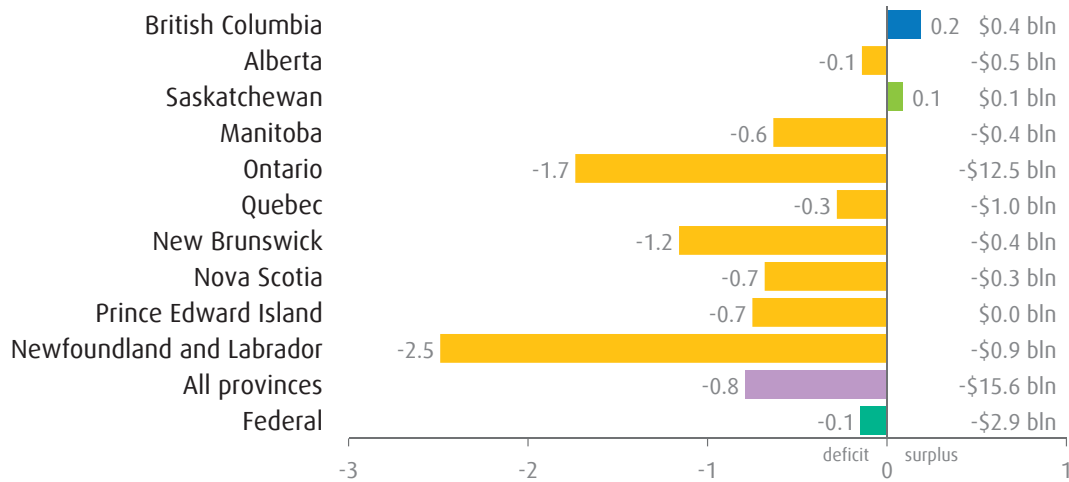
### Vancouver:

- Housing market balanced... again

# Provincial deficits: Some progress, some trouble

Canada - FY14/15 (% of GDP)

## Budget balance

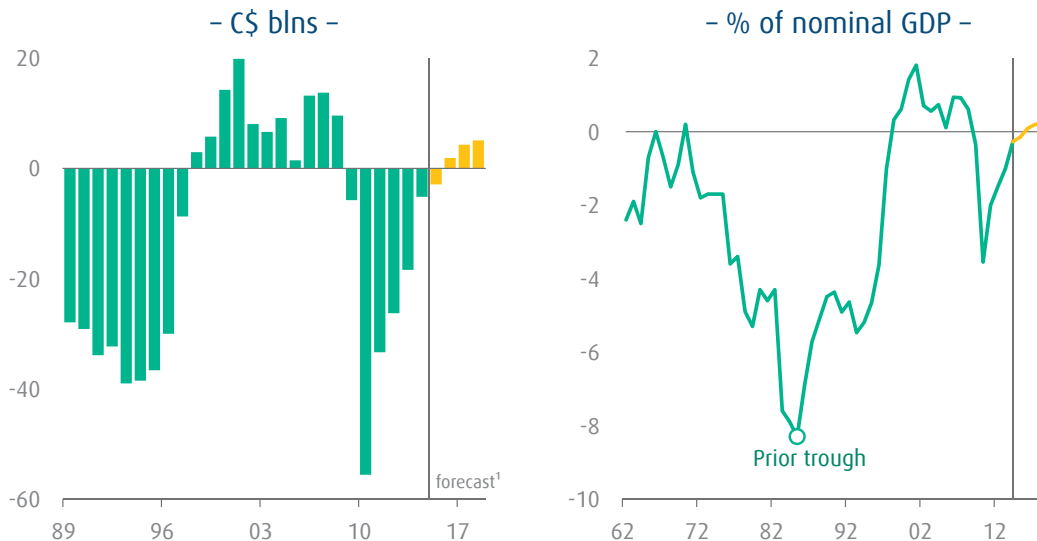


Quebec: Before GF transfers

Sources: Federal and provincial budgets/fiscal updates  
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# Ottawa's finances: Budget delayed to April

## Federal budget balance - Canada



## Budget balanced in 2015?

<sup>1</sup> Source: 2014 Economic and Fiscal Update  
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## Canadian political landscape 2015



Federal election	Latest polls <sup>1</sup>	2011	
	(%)	Votes (%)	Seats
Conservatives	32	39.6	166
NDP	21	30.6	103
Liberals	34	18.9	34
Bloc Québécois	5	6.0	4
Other	8	4.9	1

### At least 4 provincial elections this year

(Saskatchewan, Manitoba, Newfoundland and Labrador, Prince Edward Island)

<sup>1</sup> Weighted average poll, ThreeHundredEight.com

## Will Canadian housing calm, correct, crash?



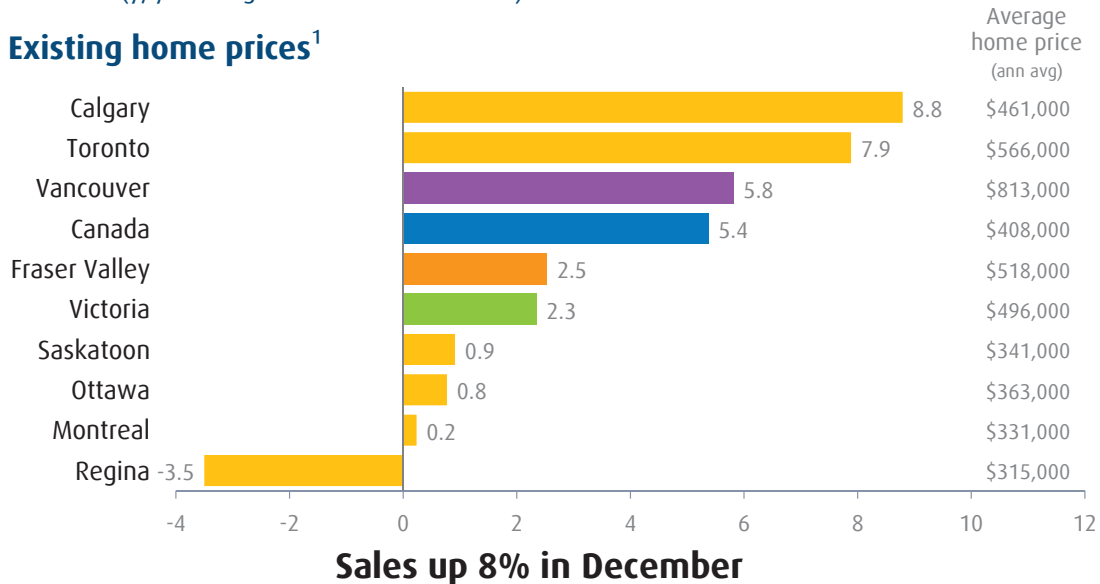
### Seven Year Glitch

- 2014:**  
"Why Canada isn't immune to a US-style housing crash"  
Maclean's
- 2013:**  
"Inside the great real estate crash of 2013"  
Maclean's
- 2012:**  
"Canada's housing crash begins"  
Canadian Business
- 2011:**  
"Canada's housing bubble deemed close to bursting"  
CBC News
- 2010:**  
"Canada's housing bubble: An accident waiting to happen"  
CCPA
- 2009:**  
"Why Canada's housing bubble will burst"  
The Tyee
- 2008:**  
"Canada's housing bubble could soon burst"  
US investment firm

# Canadian house prices: Regional divide

Canada (y/y % chng : as of December 2014)

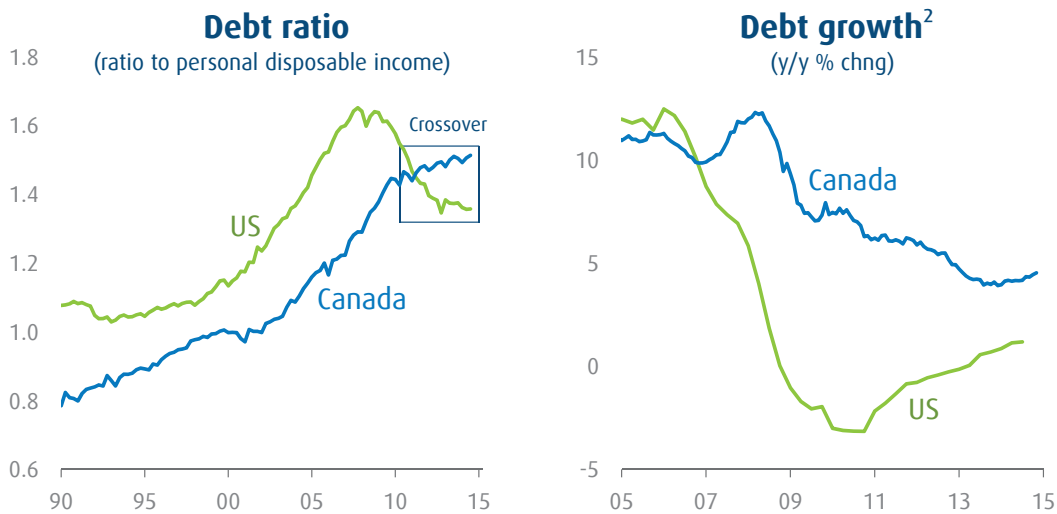
## Existing home prices<sup>1</sup>



<sup>1</sup> HPI composite benchmark

# Canadian consumers: Borrowing stabilizes...

## Households<sup>1</sup>



## ...But, debt ratio at record highs

<sup>1</sup> Households, nonprofits and unincorporated businesses <sup>2</sup> Consumer credit and residential mortgages only

# Canadian dollar: Leaking oil



- Loonie drops below 80¢
- Bank of Canada changes course
- Commodities retreat
- US\$ rebounds

**January: Down 9%, 2<sup>nd</sup> largest drop ever**

# C\$ prognosis: Further fall

**Canada** (as of February 3, 2015)



<sup>1</sup> (US¢) <sup>2</sup> (1972 = 100) actuals: weekly averages forecast: monthly averages

# Bank of Canada: A different tune

Canadian dollar (US¢ : as of February 3, 2015)



Bank of Canada Governor Stephen Poloz

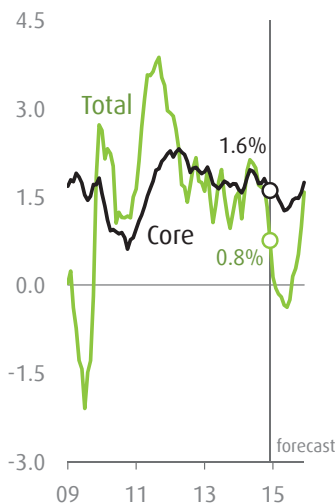


Shock rate cut

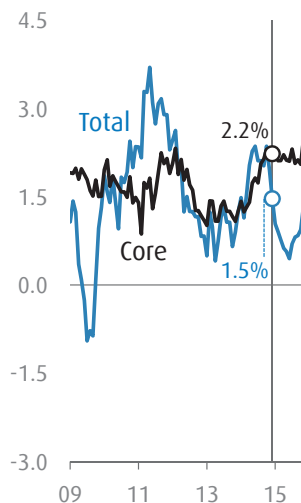
# Inflation poised to plunge

Consumer price index (y/y % chng)

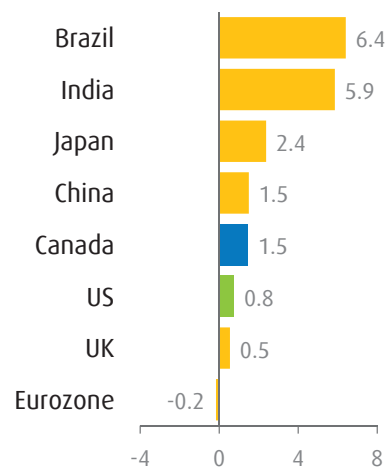
## United States



## Canada



## Total CPI (latest month)



Good news for consumers

British Columbia: 0.9%

# Inflation and deflation

**Consumer price index – Canada** (y/y % chng : as of December 2014)

## Deflationary

Gasoline	Down 23% in early February	-16.6
Camera equipment		-8.5
Sugar		-5.6
Home entertainment equipment		-5.5
Computer equipment		-3.3
Car rentals		-2.5
Household furniture		-1.5
Wine		-0.4
Prescription drugs		-0.2

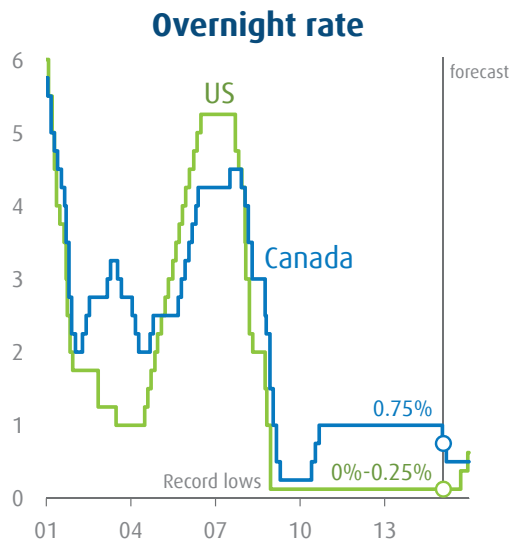
## Inflationary

Beef	22.5
Natural gas	16.5
Pork	15.6
Cigarettes	11.4
Books	9.5
Water charges	6.1
Electricity	4.3
Tuition fees	3.2
Clothing	2.5

**Core CPI 2.2%**  
**Overall CPI 1.5%**

# Interest rates: Divergence

(% : as of February 3, 2015)



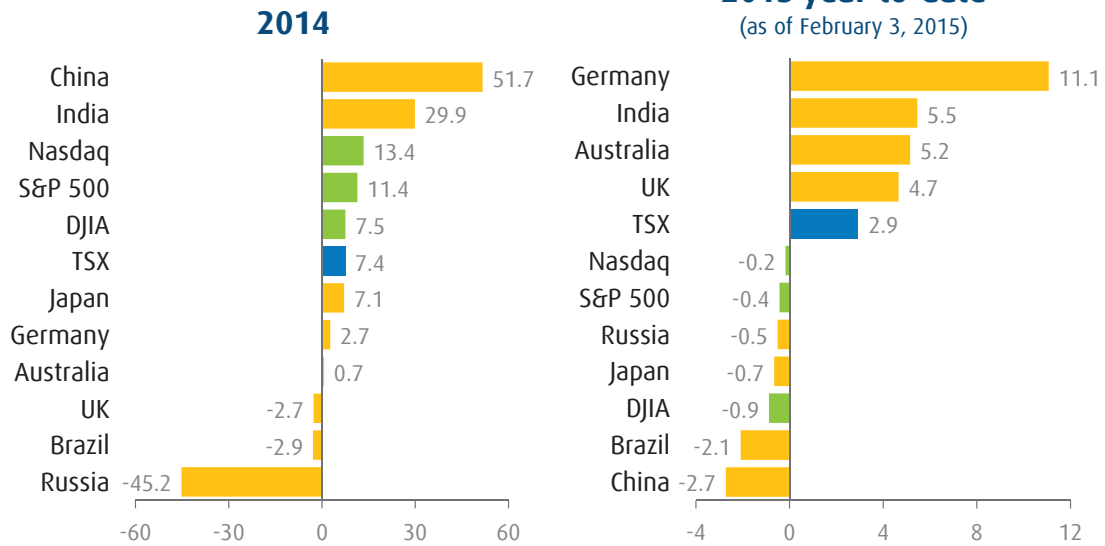
**Fed hike in September?**



**Yields slide despite QE end**

# Global diversity

## Equity markets (% chng)



### Tables turn for TSX

# Outlook in a nutshell



Global growth to hold steady despite risks

US recovery to strengthen

- Less fiscal drag, consumers thriving
- Housing recovery still key

Canada lags behind

- Exports finally benefit, but oil a big drag
- Housing slows, but no crash

**Interest rates:**

**Modest upward drift in the US**

**Exchange rates:**

**Improving economy drives US dollar higher**

**Stocks:**

**Bull market to continue, but pace to slow**