

26 SEPTEMBER 2019

GLOBAL AND CANADIAN ECONOMIC OUTLOOK

PRESENTED TO

KPMG MINING EXECUTIVE AND DIRECTOR FORUM

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OUTLINE

- Highlights
- Global economy
- Canadian economy
- Risks
- Conclusion

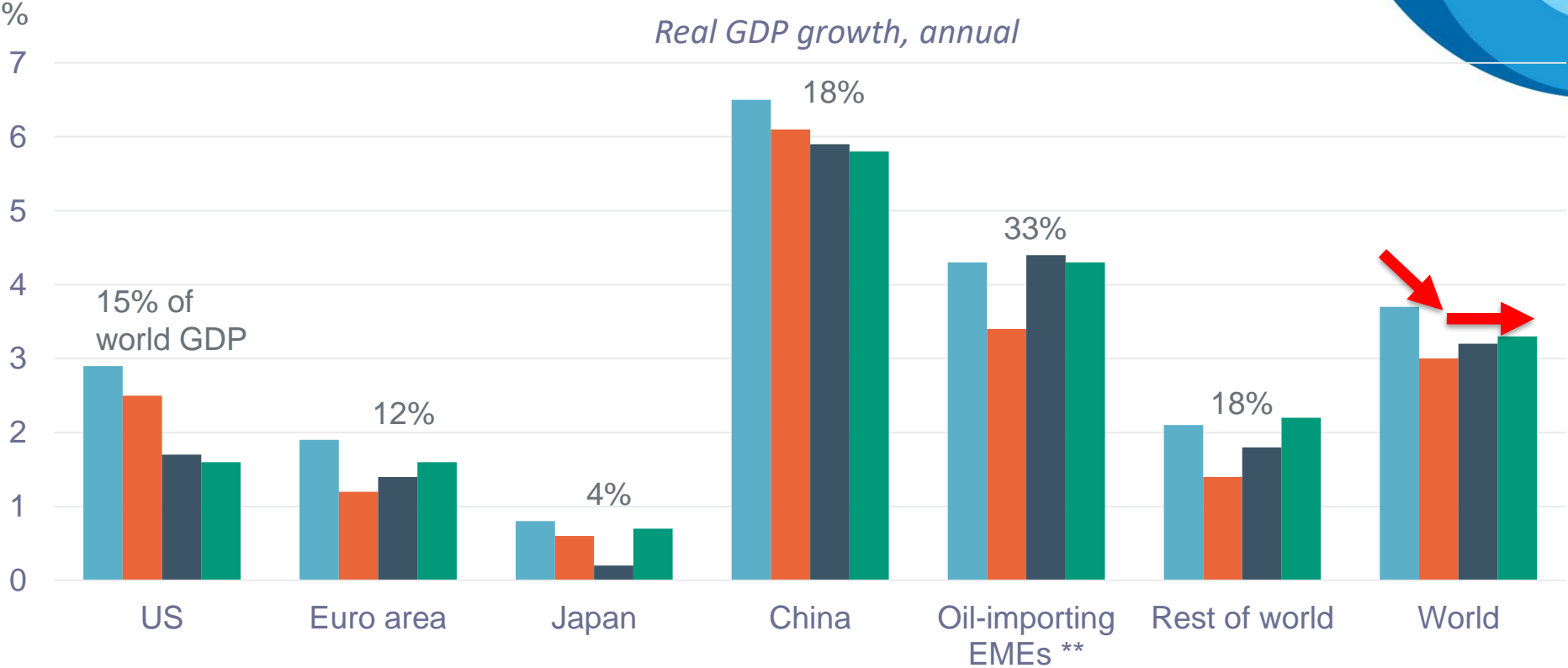
HIGHLIGHTS

- Tepid global GDP growth outlook
 - Low productivity growth
 - Trade disputes & uncertainty
- Canadian fundamentals look weak
 - 30-year high population growth lifts GDP, but...
 - Falling capital intensity
 - Low productivity growth
 - Low growth in GDP per capita (0.3% p.a. over past 2 years)
 - Record national debt (302% of GDP, 8th highest globally)

GLOBAL ECONOMIC OUTLOOK

TEPID GLOBAL GROWTH OUTLOOK

Real GDP growth, annual



* Projections

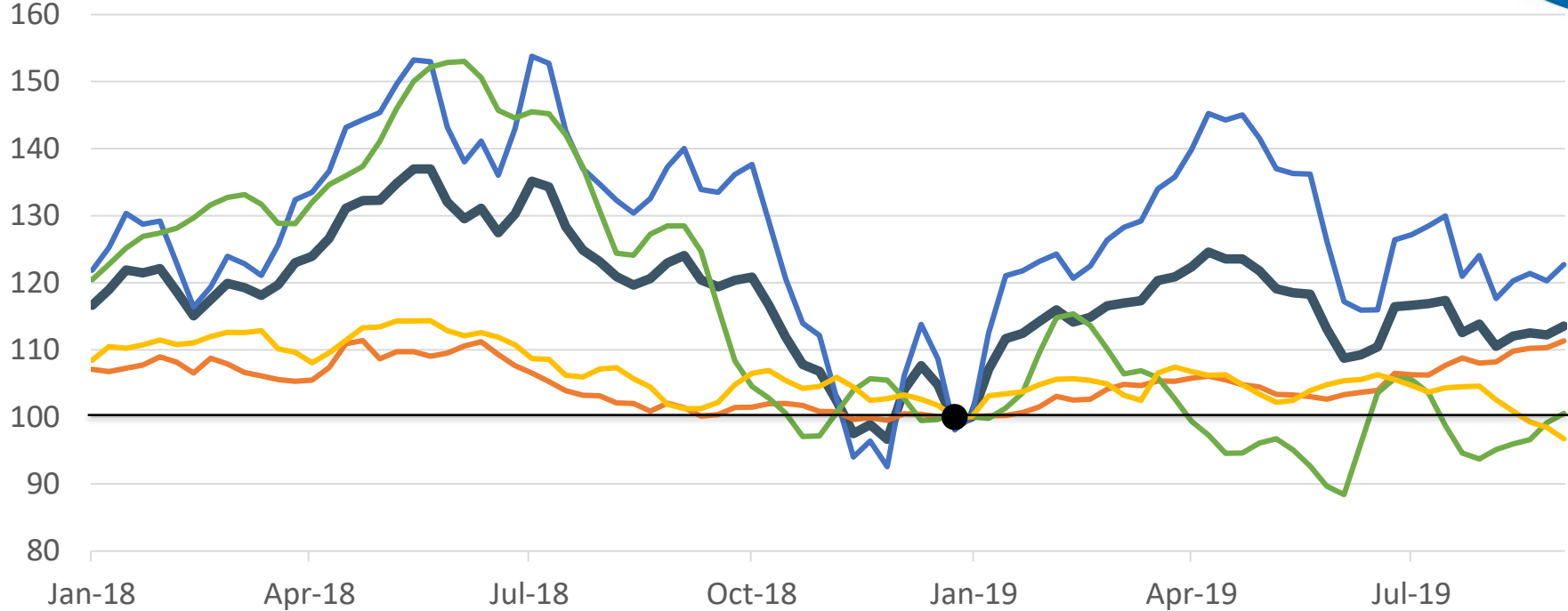
** Includes India, Brazil, South Africa, South Korea

■ 2018 ■ 2019* ■ 2020* ■ 2021*

COMMODITY PRICES HAVE IMPROVED SINCE JANUARY

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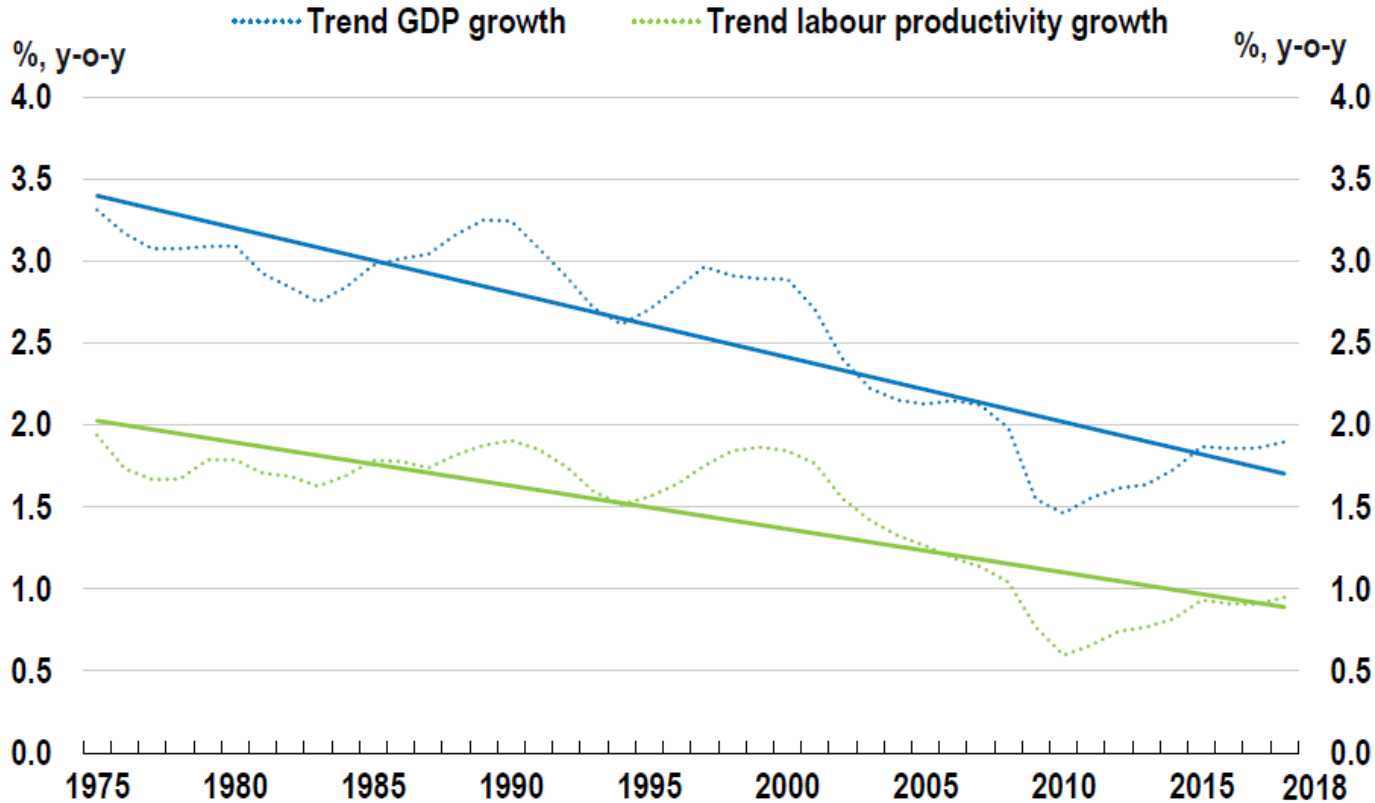
Commodity price indices, USD prices, weekly, 3 Jan 2019 = 100



— Total (BCPI) — Energy — Metals and minerals — Forestry — Agriculture

LONG-TERM DECLINE IN PRODUCTIVITY & GDP GROWTH

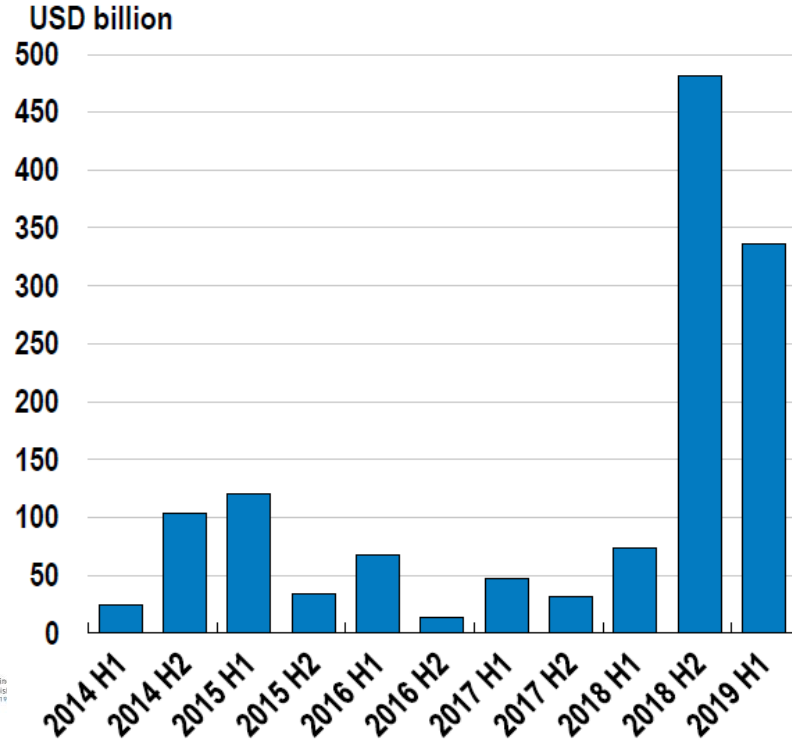
OECD economies



TRADE GROWTH HAS STALLED

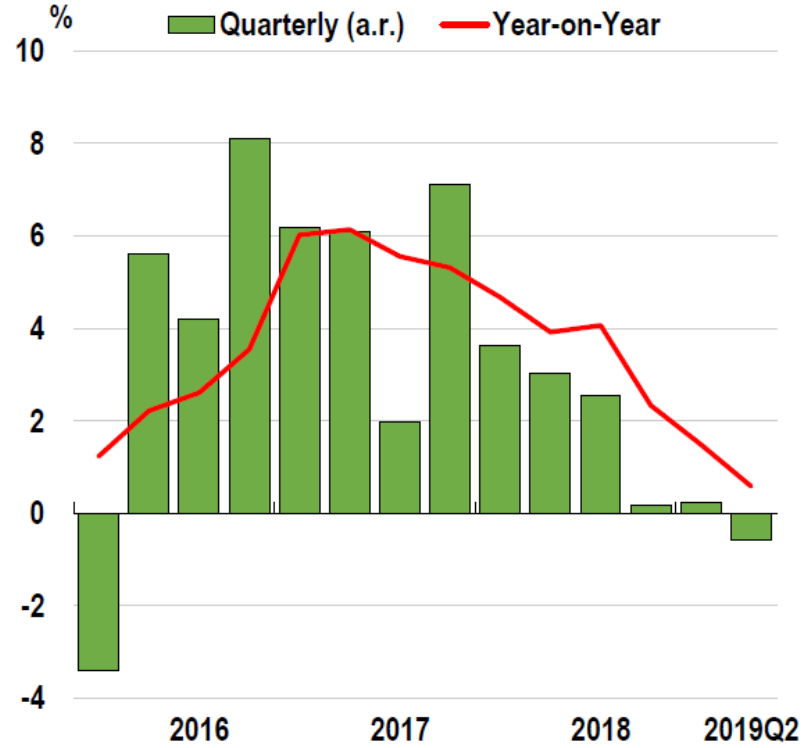
New trade restrictions in the G20

Trade coverage of measures introduced in each period

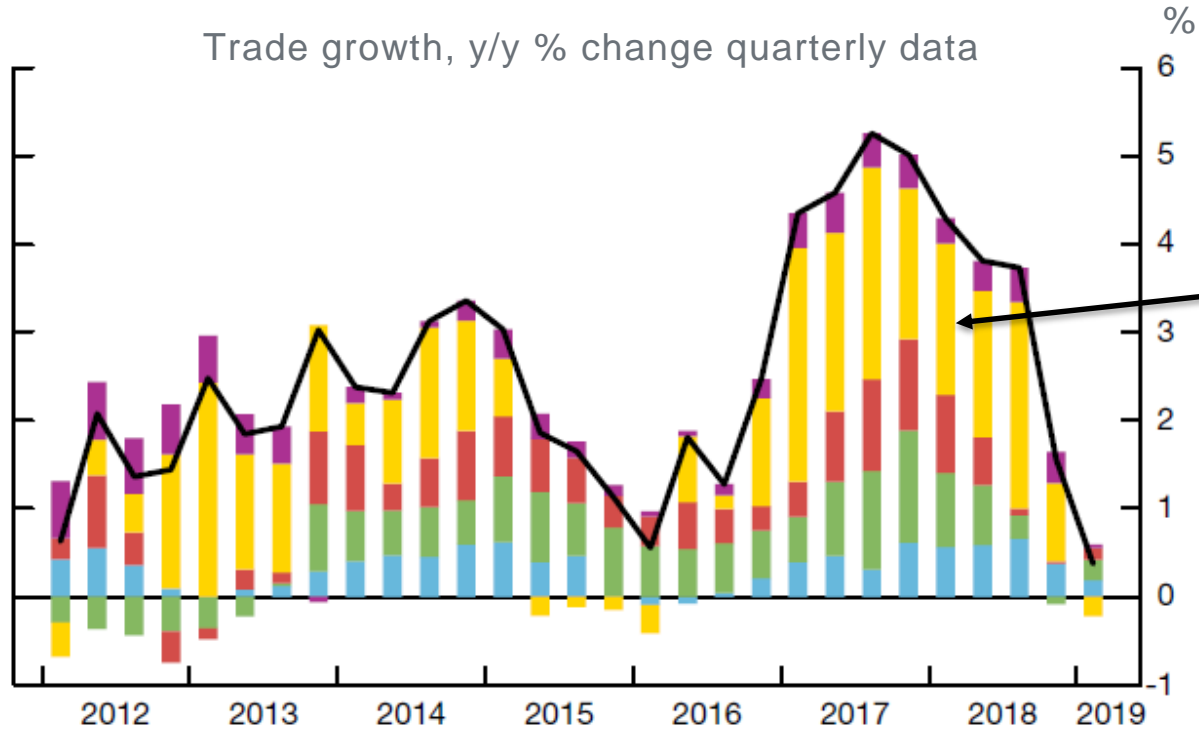


World trade growth

Goods and services, volumes



TRADE GROWTH HAS STALLED

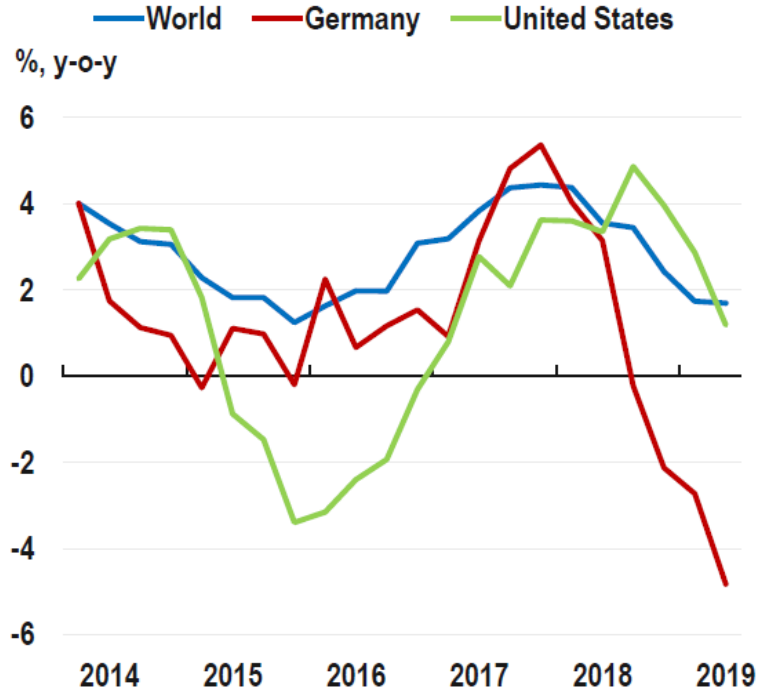


China provided most of the growth in global trade

- World
- United States
- Euro area
- China and emerging Asia
- Other advanced economies
- Other emerging markets

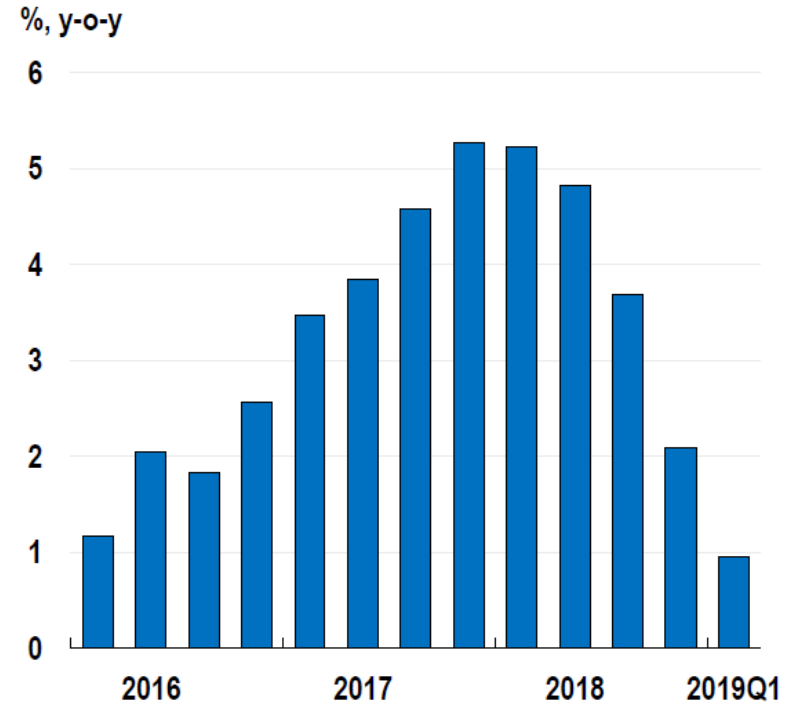
UNCERTAINTY DAMPENS MANUFACTURING & INVESTMENT

Industrial production



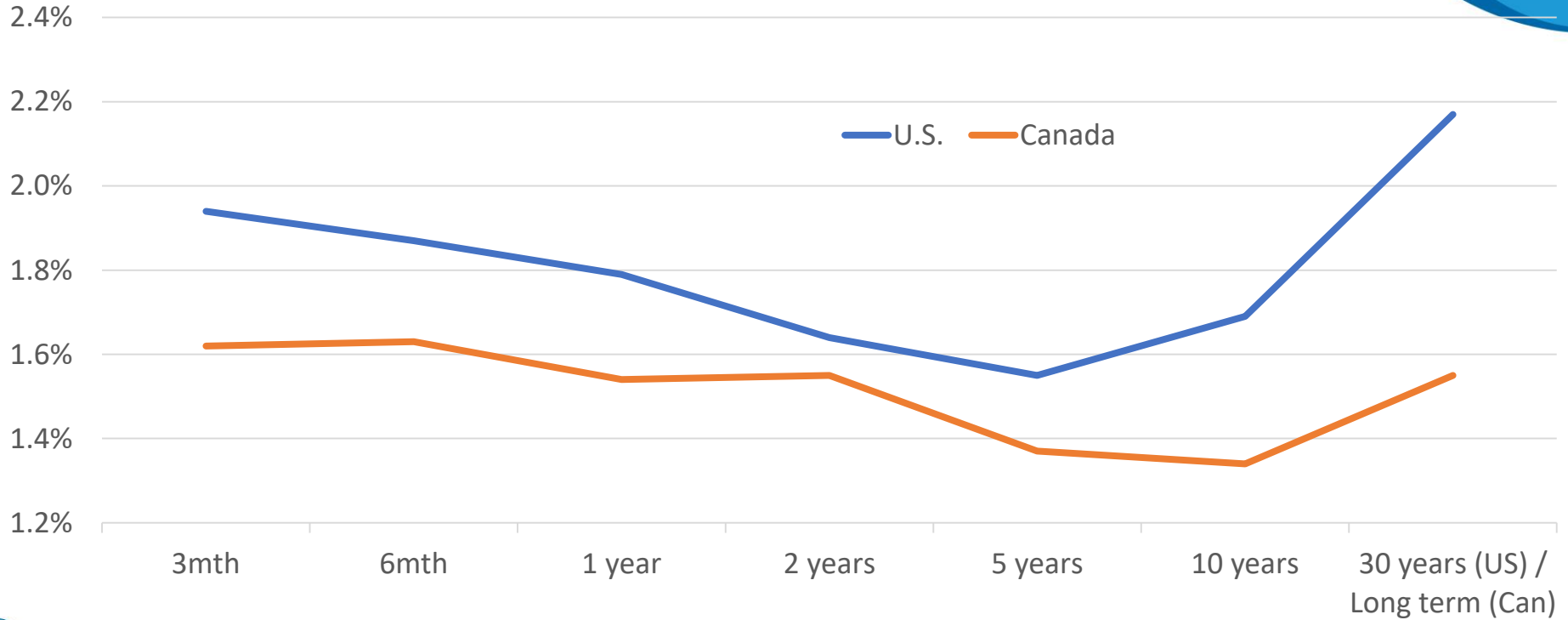
Investment growth

G20 fixed investment

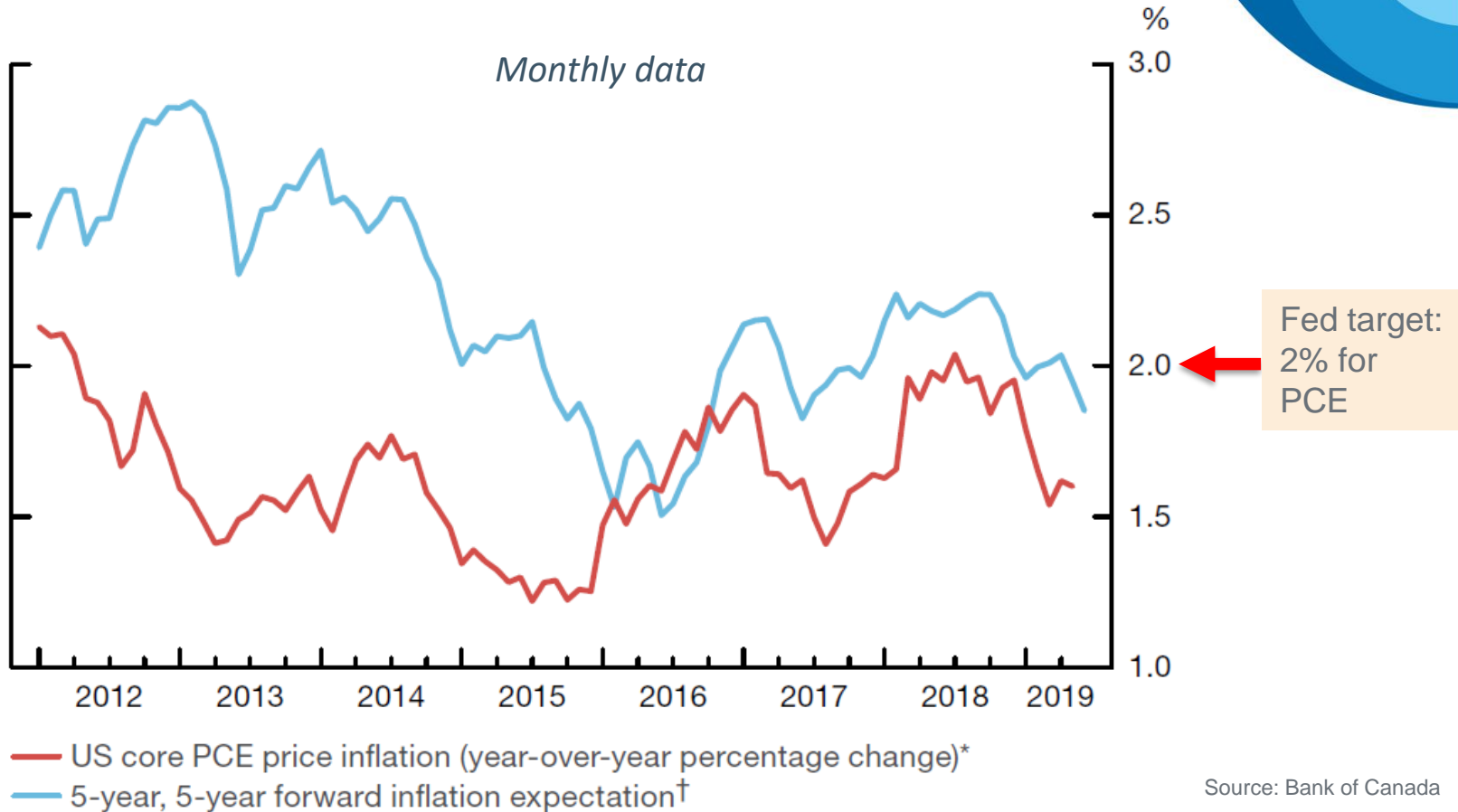


INVERTED YIELD CURVES

Yields on Treasury bills/bonds

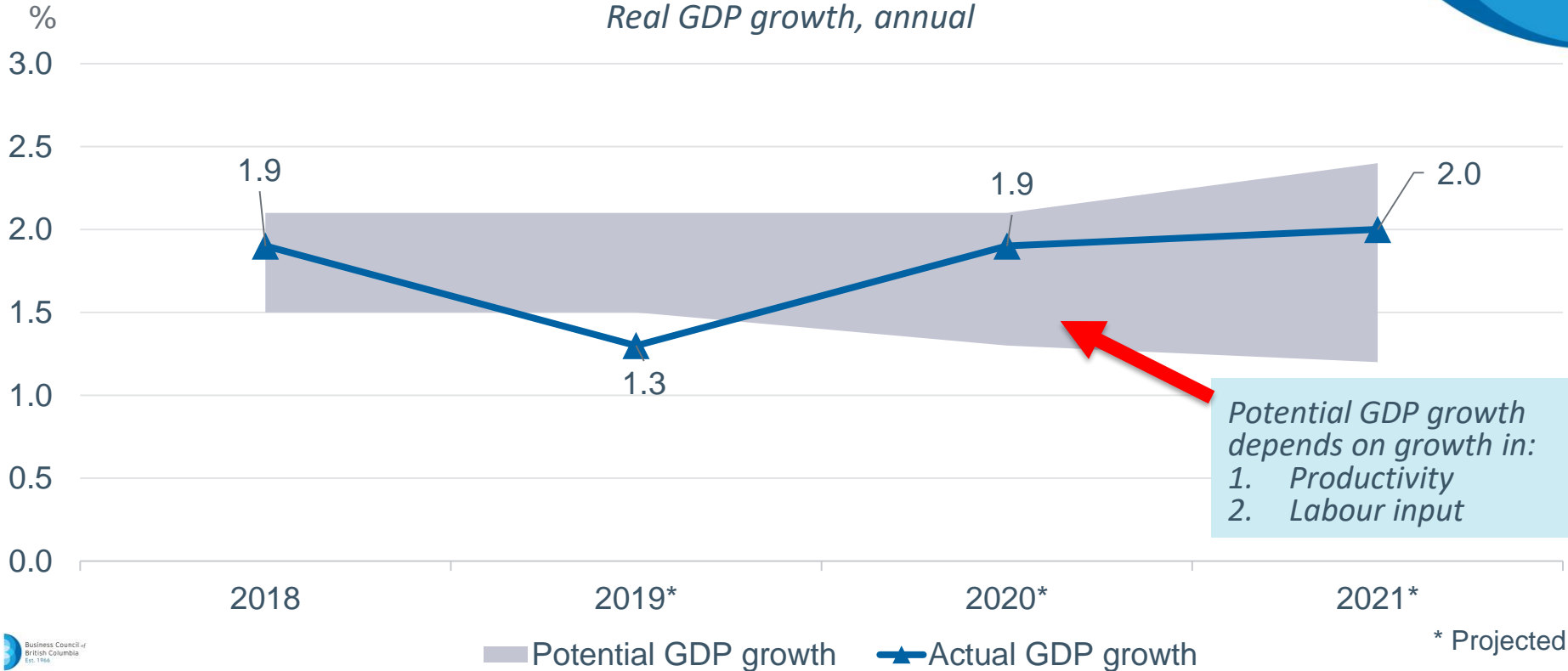


US INFLATION EXPECTATIONS HAVE DECLINED



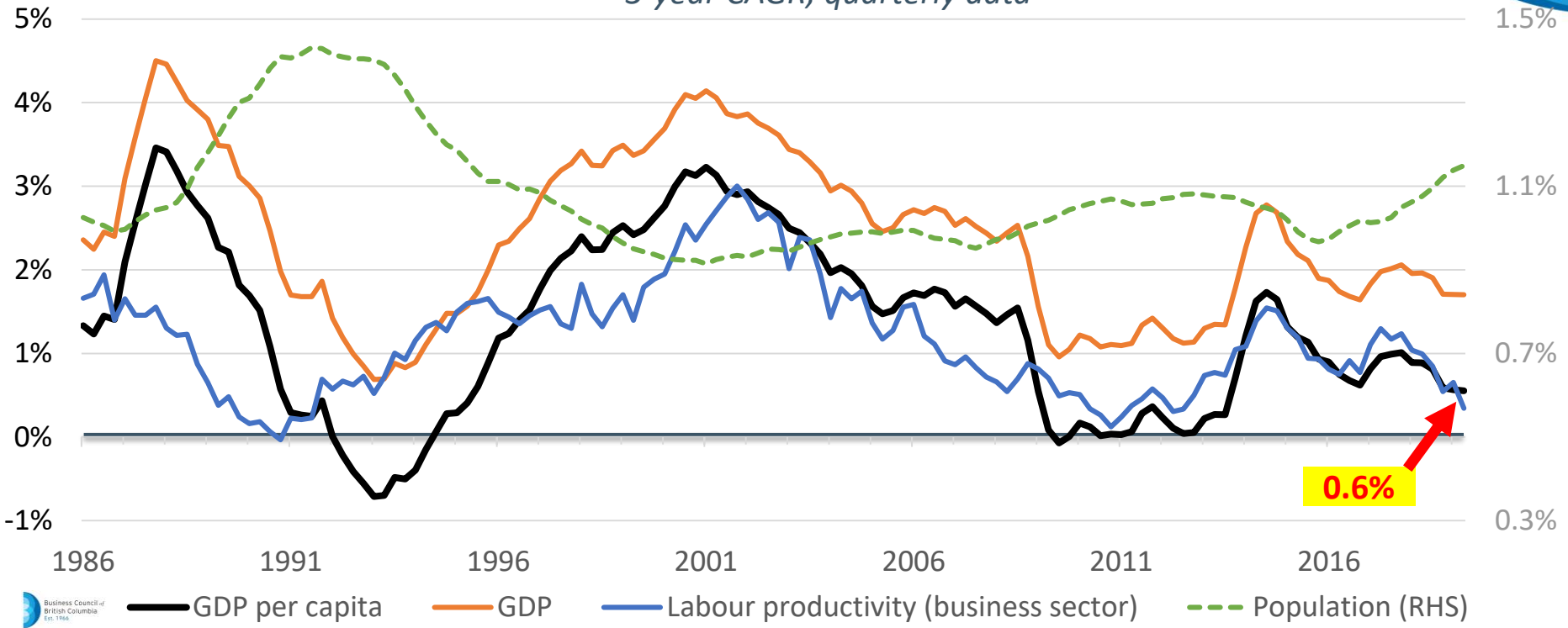
CANADIAN ECONOMIC OUTLOOK

CANADIAN ECONOMY IS RUNNING CLOSE TO ITS (MEAGRE) FULL SPEED



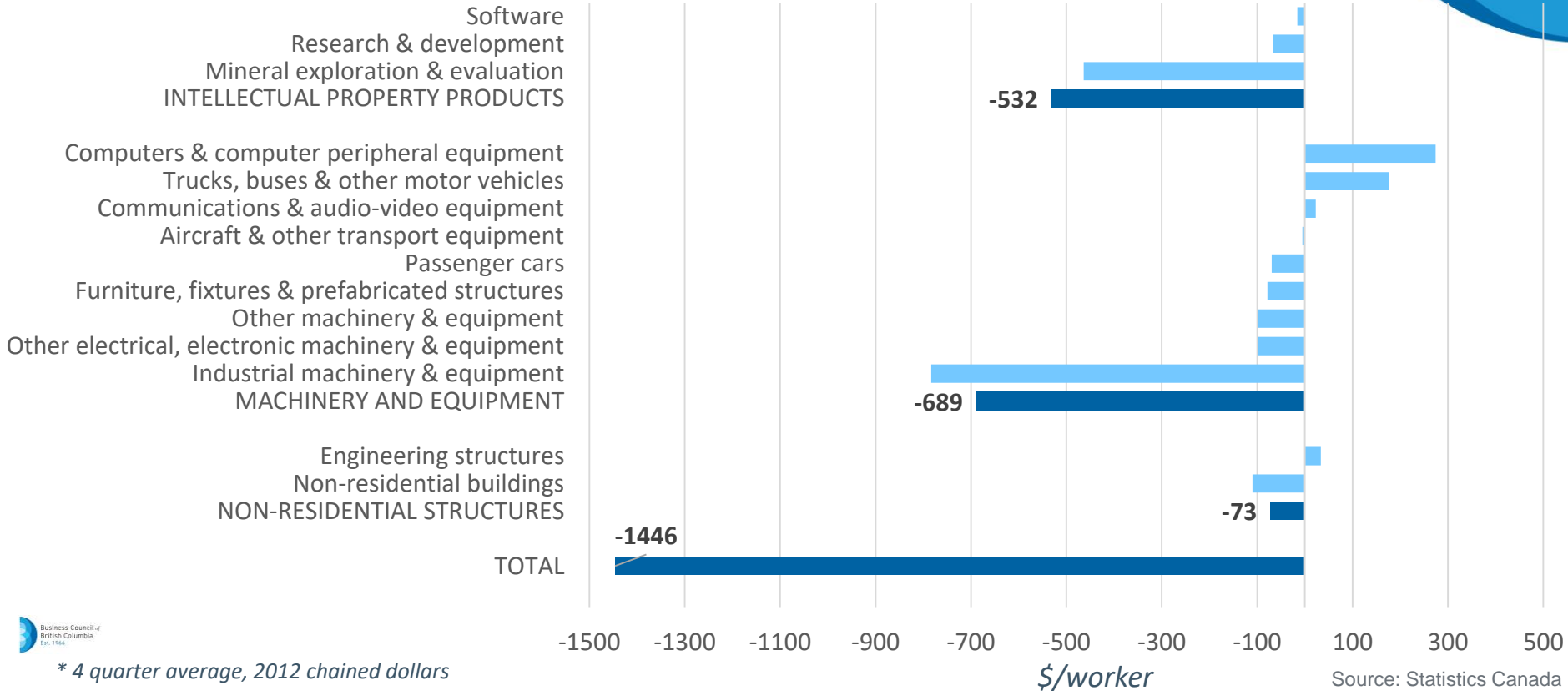
30-YR HIGH POPULATION GROWTH IS LIFTING GDP, BUT NOT PRODUCTIVITY & GDP PER CAPITA

3-year CAGR, quarterly data



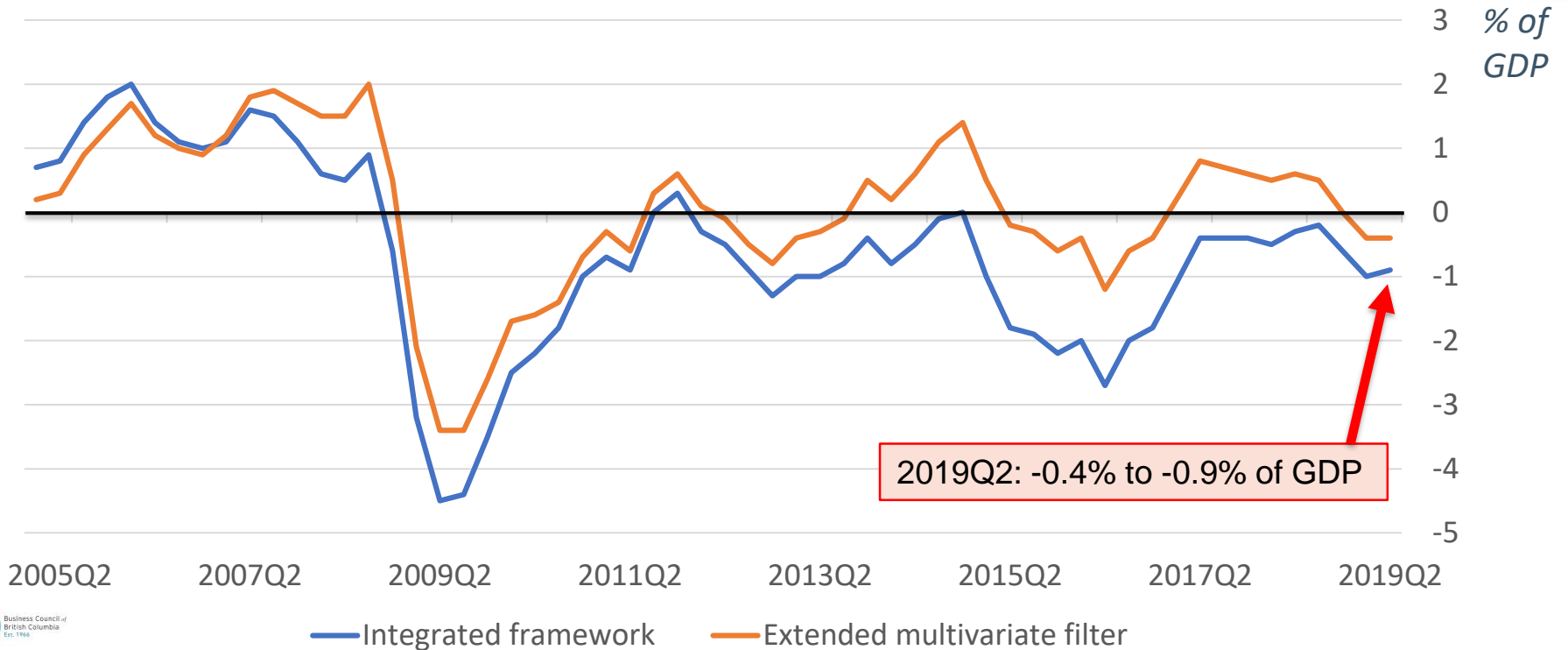
CAPITAL INTENSITY IS BELOW PRE-RECESSION LEVELS

Real business investment per worker (before depreciation), Canada, 2008Q1 to 2019Q2*



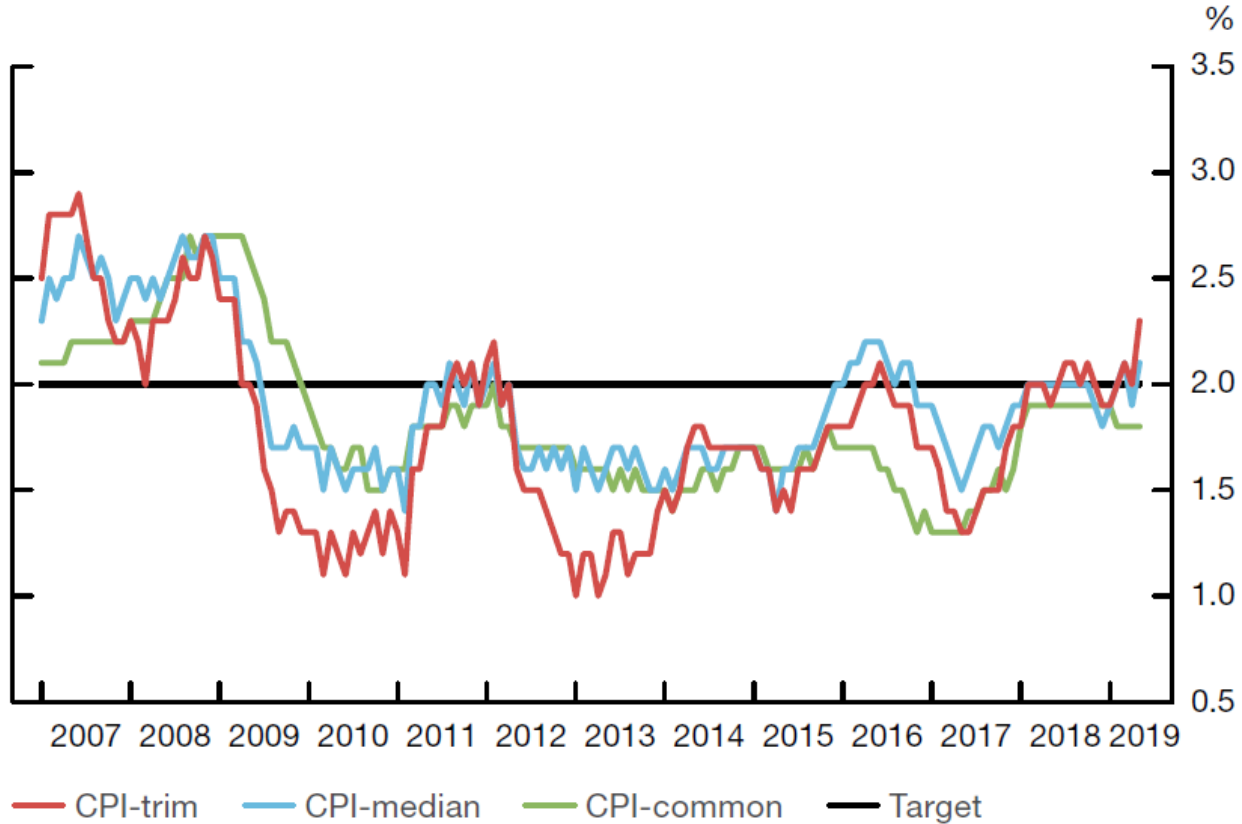
CANADA HAS LITTLE IDLE CAPACITY

Estimates of potential GDP less actual GDP (“output gap”), Canada, quarterly



CORE INFLATION MEASURES ARE CLOSE TO 2% TARGET

Year/year percentage change, monthly data



RISKS

RISKS TO THE CANADIAN OUTLOOK

- **Upside**

- Stronger U.S. growth (e.g. productivity acceleration; fiscal stimulus)
- Looser monetary policy by global central banks
- Credit boom accelerates again

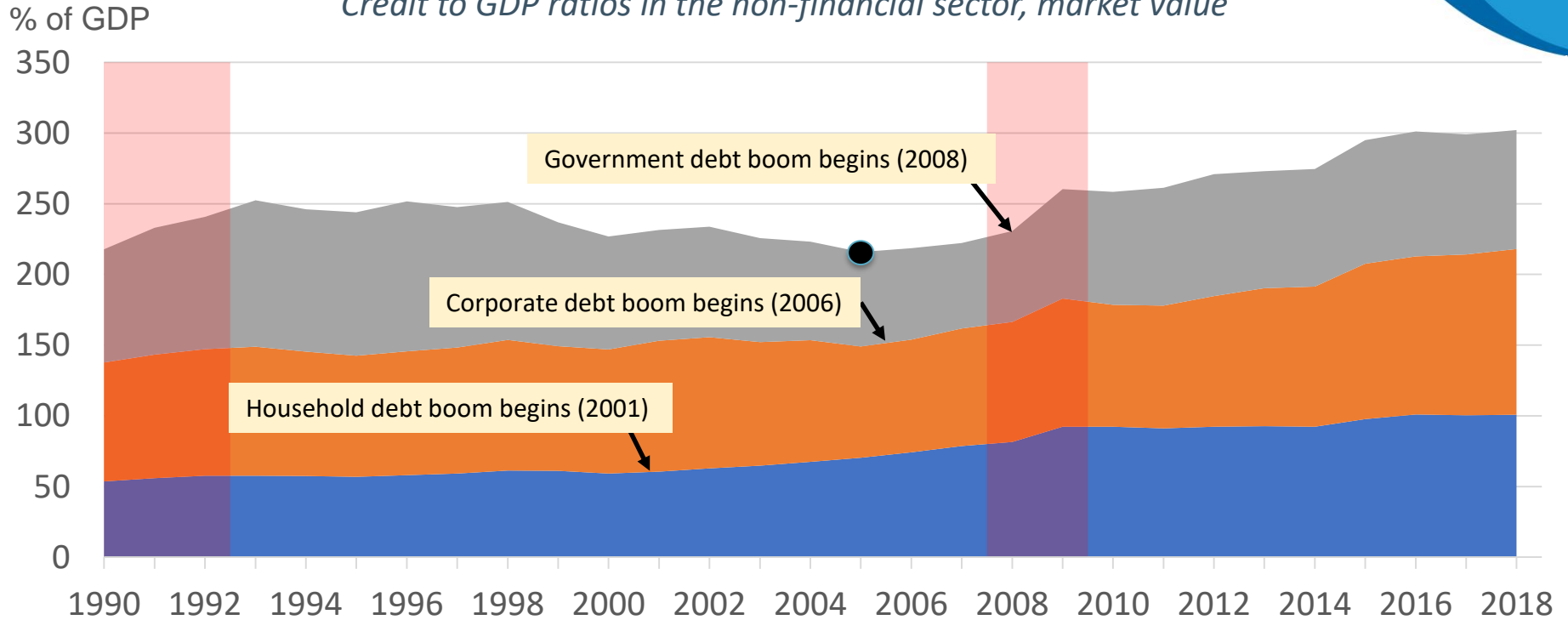
- **Downside**

- Tighter financial conditions
- Weaker growth in China and lower commodity prices
- Disorderly unwinding of high global indebtedness (esp. China, HK, Canada)

- *Risks are skewed to the downside*

CANADA'S POST-2005 CREDIT BOOM IS YET TO UNWIND

Credit to GDP ratios in the non-financial sector, market value

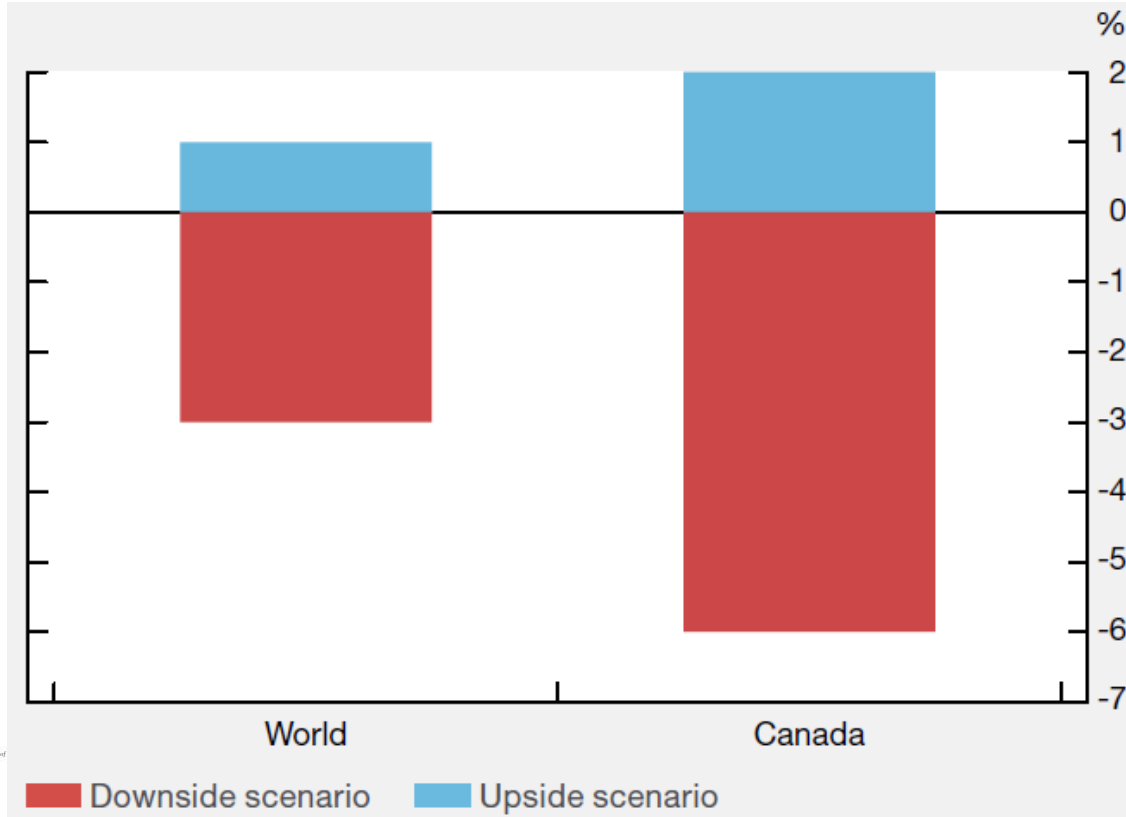


■ Households ■ Non-financial corporations ■ Government ■ Canadian recessions

Source: BIS, C.D. Howe Institute

BOC: TRADE RISKS ARE SKEWED TO THE DOWNSIDE

Percentage change in real GDP relative to BOC's base case projection in 2021Q4



Upside: tariff changes over past 2yrs are reversed and all trade-related uncertainty dissipates

Downside: U.S. imposes 25% tariffs on all imports and trading partners respond in-kind; trade-related uncertainty increases

GDP ↓3% (world) ↓6% (Canada)
Global commodity prices ↓30%
Terms of trade ↓, CAD ↓25%

CONCLUSION

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THANK YOU!

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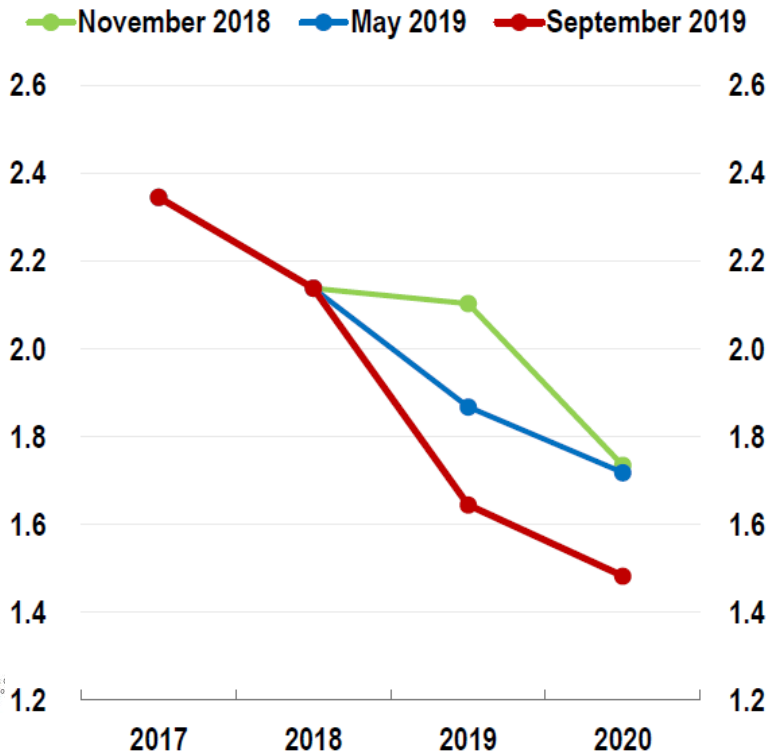
QUESTIONS

EXTRA CHARTS

NEAR-TERM GLOBAL OUTLOOK WEAKENS

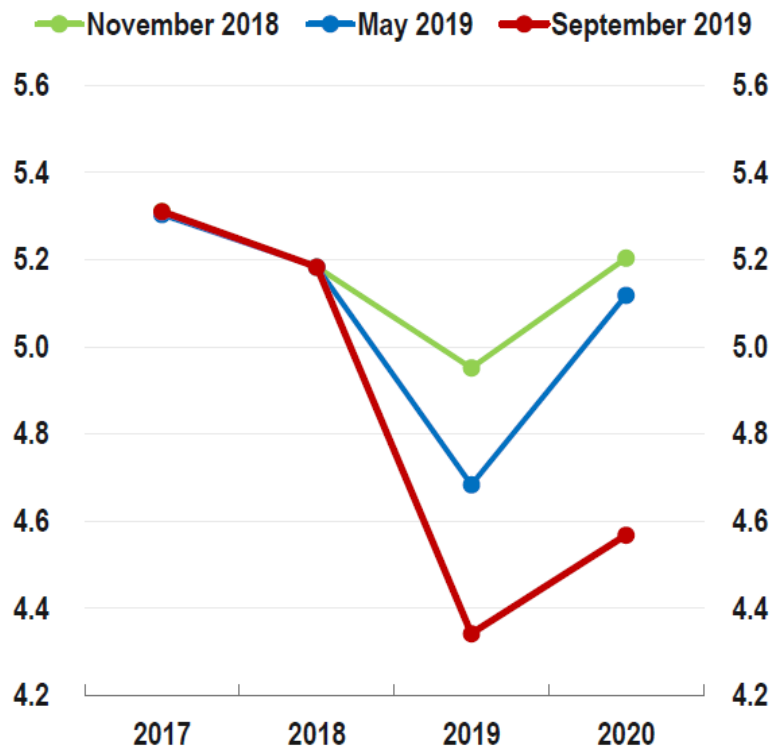
G20 Advanced

GDP projections, %, year-on-year



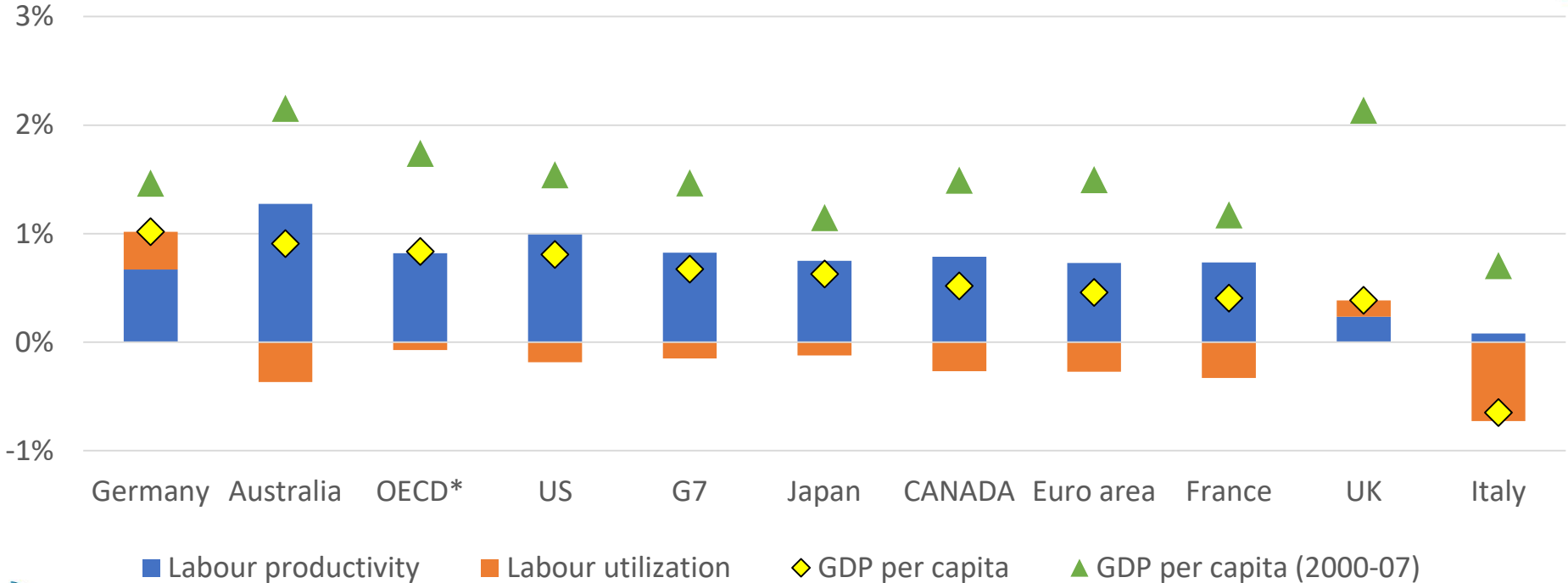
G20 Emerging

GDP projections, %, year-on-year



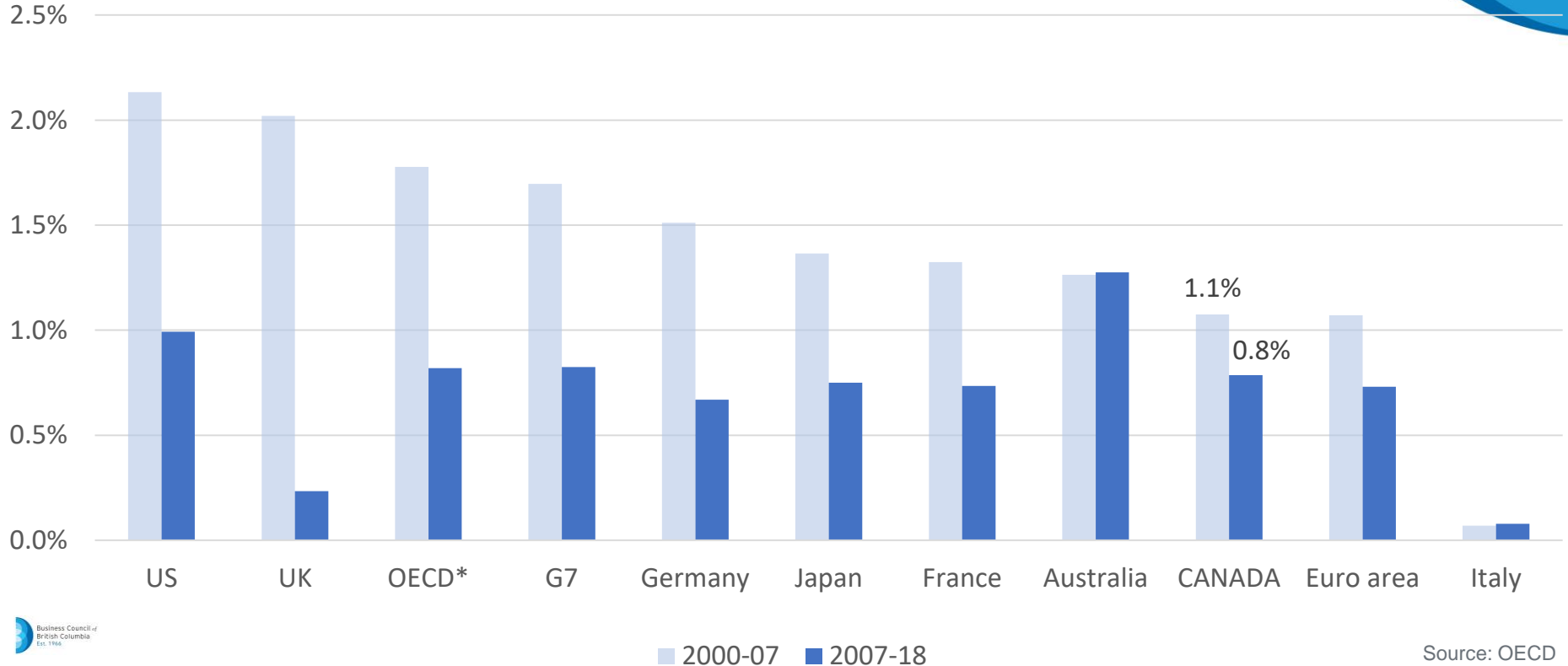
LIVING STANDARDS HAVE STAGNATED SINCE 2007

Real GDP per capita, compound annual growth rate, 2007-2018



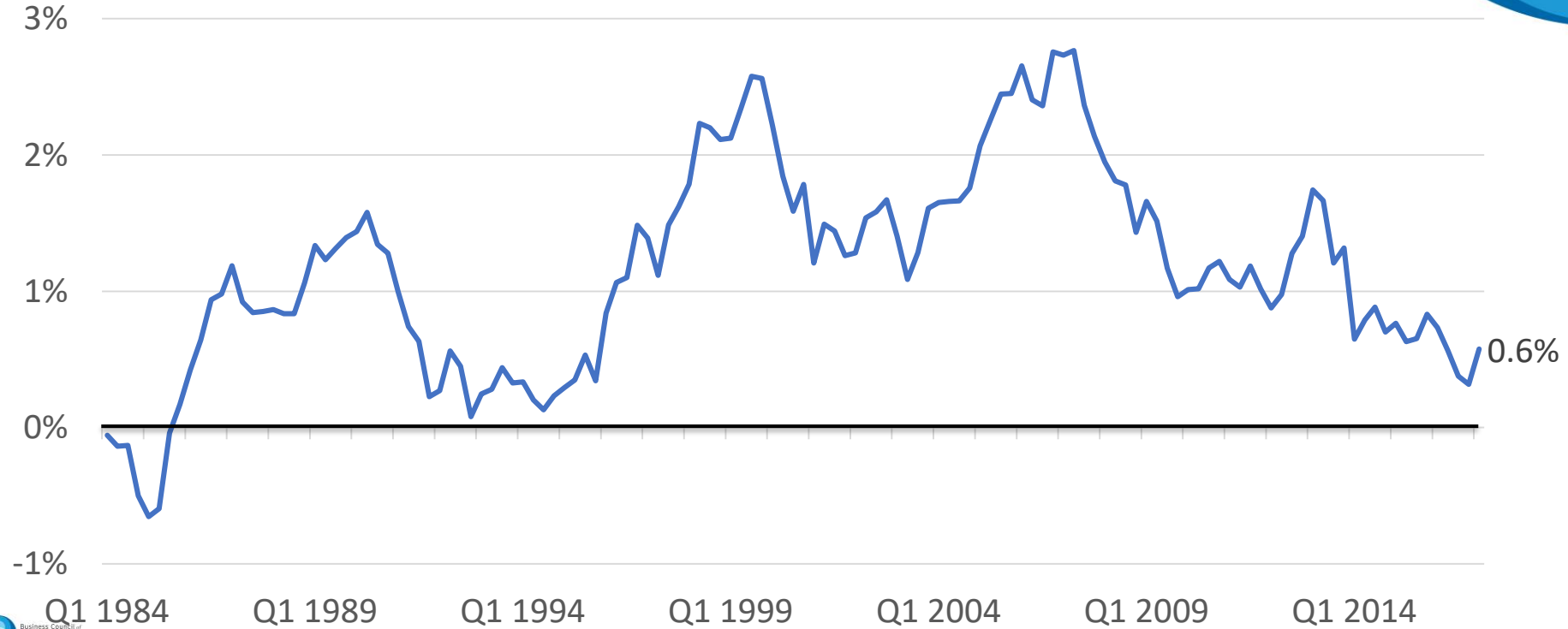
DISAPPOINTING PRODUCTIVITY GROWTH SINCE 2007

Growth in labour productivity (GDP per hour worked), CAGR



REAL WAGE GROWTH IS WEAK

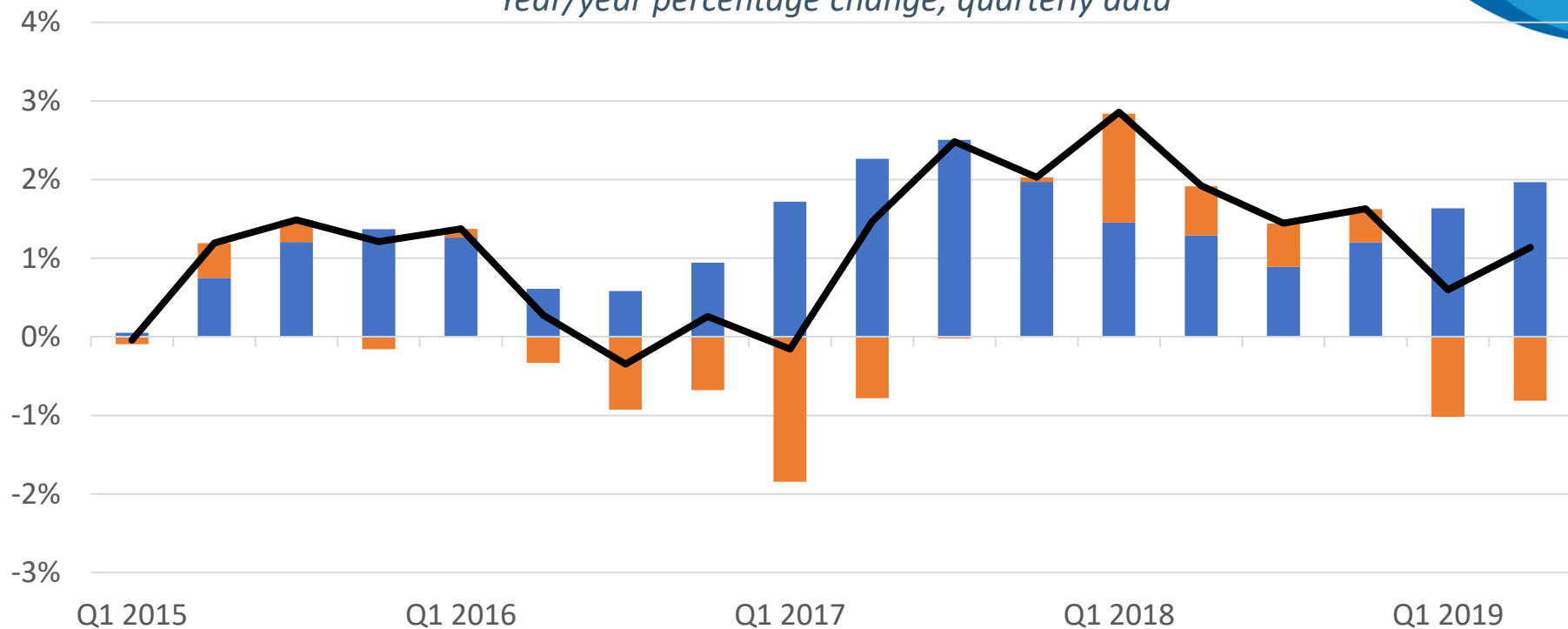
Real compensation per employee, 5-year CAGR, Canada*



* Nominal total compensation per employee deflated by household consumption deflator

EMPLOYMENT GROWTH IS RAISING TOTAL HOURS WORKED

Year/year percentage change, quarterly data



CAPITAL INTENSITY IS FALLING

Real business gross fixed capital formation per worker, Canada, y/y % change

