



**Desjardins**

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# Economic outlook

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# PRESENTATION OUTLINE

- Global economic context: A brief overview
- Theme: The protectionist threat
- U.S. economic context
- Canadian economic context
- Quebec and regional economic context

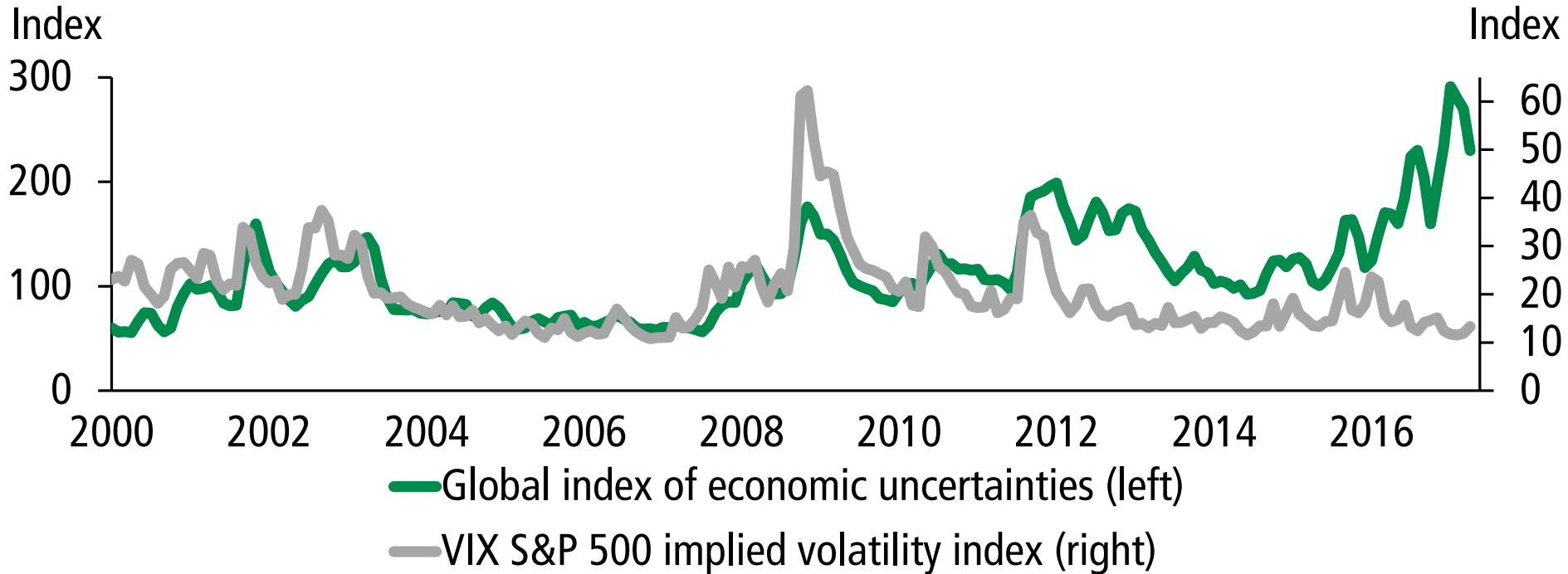
# GLOBAL ECONOMIC CONTEXT

The economy is getting back on track



# GLOBAL ECONOMIC CONTEXT

## Political uncertainty abounds, but markets are fairly calm

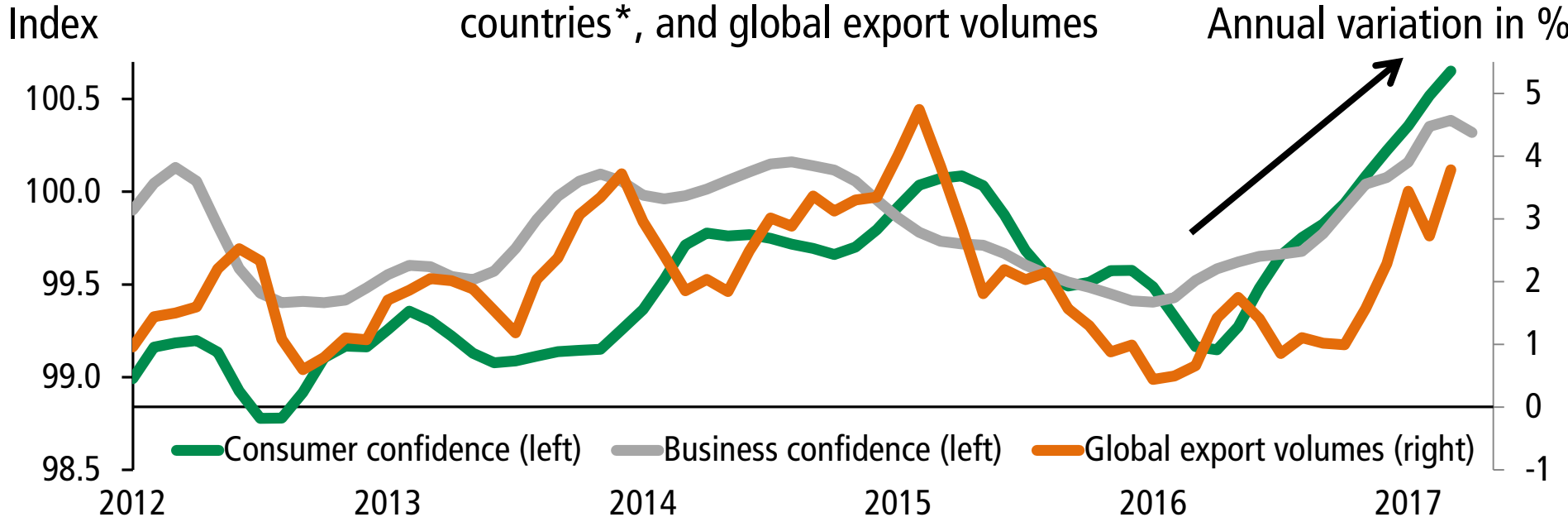


# GLOBAL ECONOMIC CONTEXT

## Household and business confidence have strengthened, the hard data is following suit

Confidence in OECD members and the six main emerging countries\*, and global export volumes

Annual variation in %



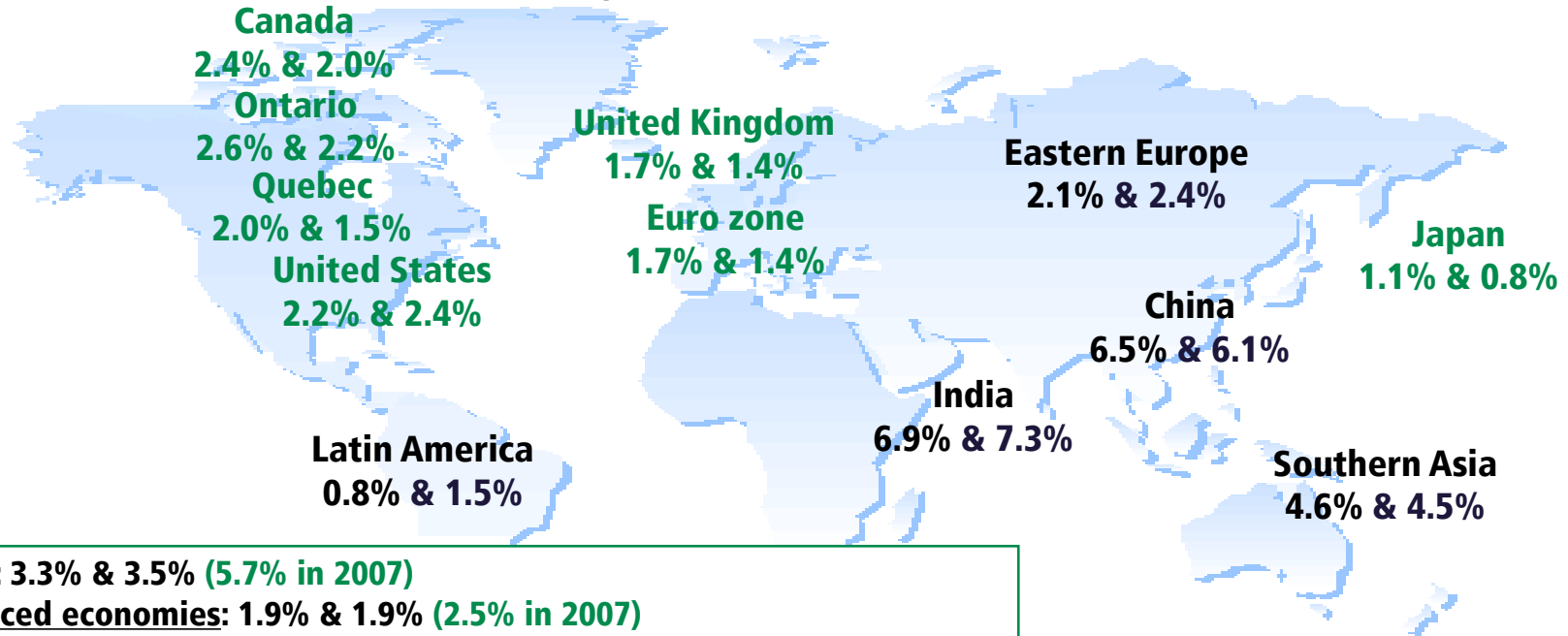
\* Brazil, China, India, Indonesia, Russia and South Africa.

Sources: OECD, CPB Netherlands and Desjardins, Economic Studies

# GLOBAL ECONOMIC CONTEXT

## 2017 and 2018 forecasts

Annual change in real GDP – 2017 and 2018



**World:** 3.3% & 3.5% (5.7% in 2007)

**Advanced economies:** 1.9% & 1.9% (2.5% in 2007)

**Emerging economies:** 4.2% & 4.4% (8.6% in 2007)

# PRESIDENT TRUMP'S PROTECTIONIST DOCTRINE

A major source of uncertainty



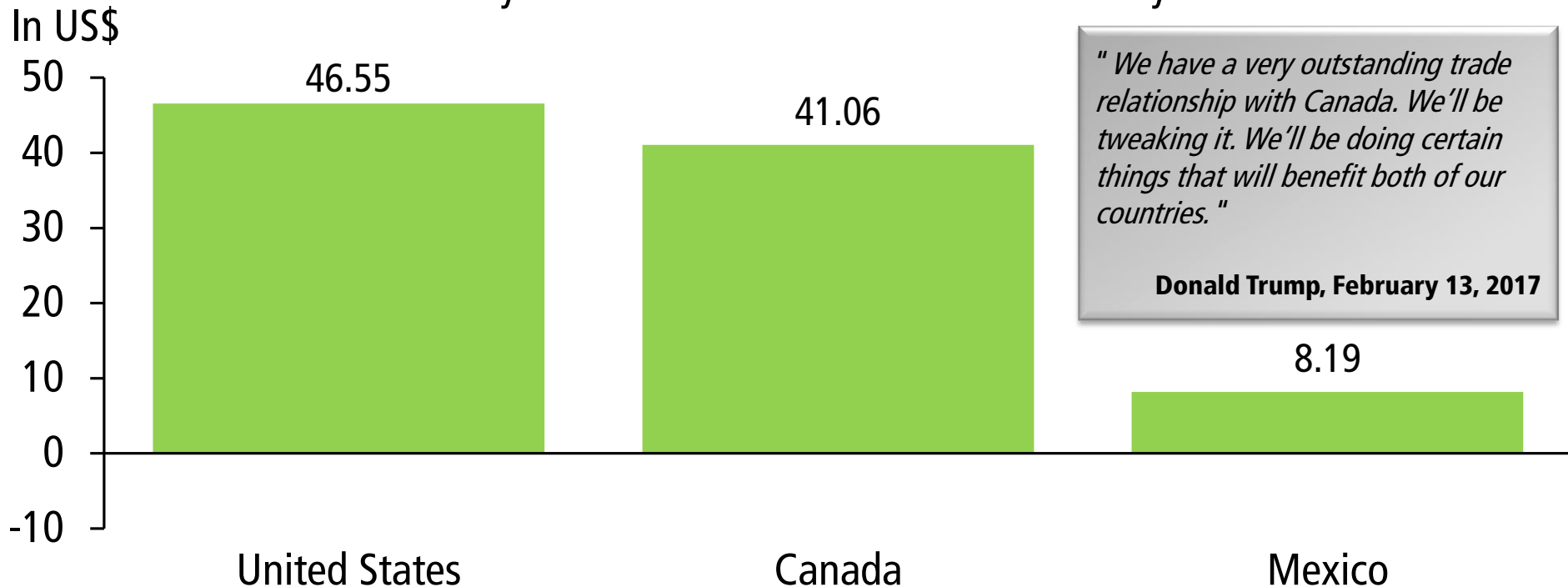
*"From this day forward, it is going to be only America first!"*

– Donald Trump

# PROTECTIONISM

## Up until April, Trump targeted mostly Mexico...

Hourly labour cost in the automobile industry





# PROTECTIONISM

## ... but the rhetoric has hardened towards Canada

### LIKELY AMERICAN REQUESTS IMPACTING CANADA

RULES OF ORIGIN

DISPUTE RESOLUTION  
SYSTEM

BUY AMERICAN

CANADIAN  
PROCUREMENT

FOREIGN OWNERSHIP  
RESTRICTIONS

SUPPLY MANAGEMENT  
IN AGRICULTURE

### CANADA ADVANTAGES AND DISADVANTAGES



- Pro-trade advisors within Trump's circles
- U.S. scandals could delay the renegotiation agenda
- Deeply integrated manufacturing industries



- Little bargaining power against the world's largest economy
- Canada's protectionism track record is not entirely immaculate

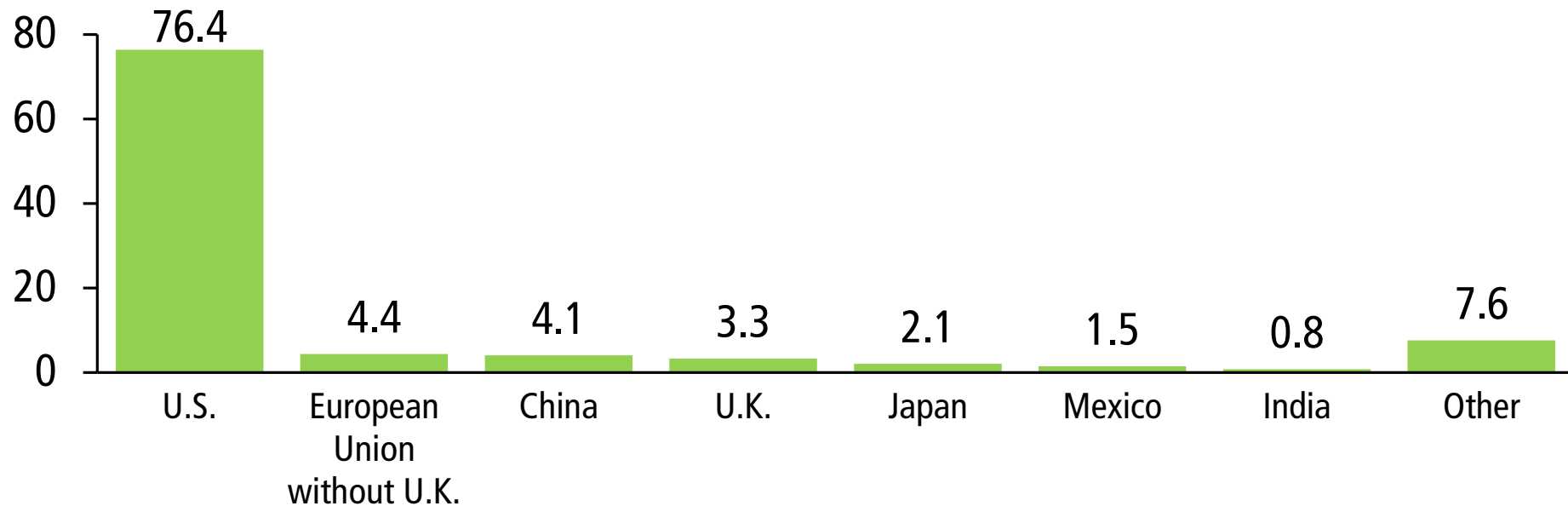
- Canada will likely need to make important concessions in some industries.
- Canada could extract some concessions elsewhere but still low clarity on the likely net outcome
- Depending on details, some U.S. requests, such as pertaining to rules of origin, could be beneficial to Canada.

# PROTECTIONISM

## The United States is Canada's biggest trading partner, by far

Relative size of Canadian goods exports in 2016

In %



# PROTECTIONISM

## The national cost of protectionism

- **Expectations of an improved trade balance push up currency values**
  - Hurt exports
  - Diminish the intended effect of tariffs or import limits
- **Tariffs drive prices higher for importers**
  - Higher input prices
  - Potential investment pullback, due to the cost of imported equipment
- **Higher consumer prices**
  - Reduce real disposable income
  - Reduce monetary policy flexibility
- **Reduced cost effectiveness**
  - Reduces productivity
  - Reduces potential economic growth
- **Possibility of recurrences and trade wars**

# PROTECTIONISM

## Impact of a Border Adjustment Tax (BAT) on Canada

### ➤ Competitive shock in various sectors

- Automotive
- Metals
- Machines
- Professional services
- Agriculture
- Commodities

### ➤ Depreciation of the Canadian dollar

- In principle, when markets are competitive and efficient, higher average prices for U.S. imports should favour the greenback and push down the loonie
- Could mitigate or even wipe out the shock of a BAT

### ➤ Upside pressures on consumer prices

- Less expensive imported goods (without currency adjustment)
- Drag on economic activity
- **Could potentially incite the Bank of Canada to lower its rates**

### ➤ Possibility of retaliation

- Even greater negative impact on Canada's economy

# U.S. ECONOMIC CONTEXT



# U.S. ECONOMIC CONTEXT

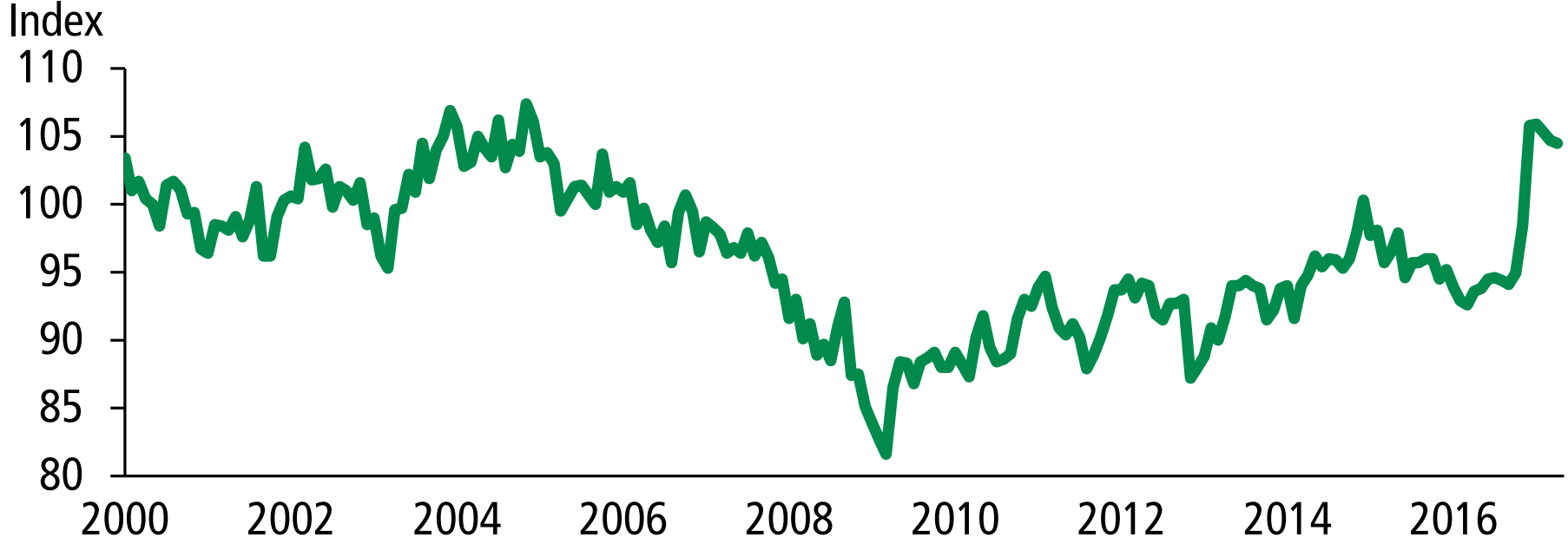
## The U.S. jobless rate reached the low point of the previous cycle



# U.S. ECONOMIC CONTEXT

## Small business confidence has soared

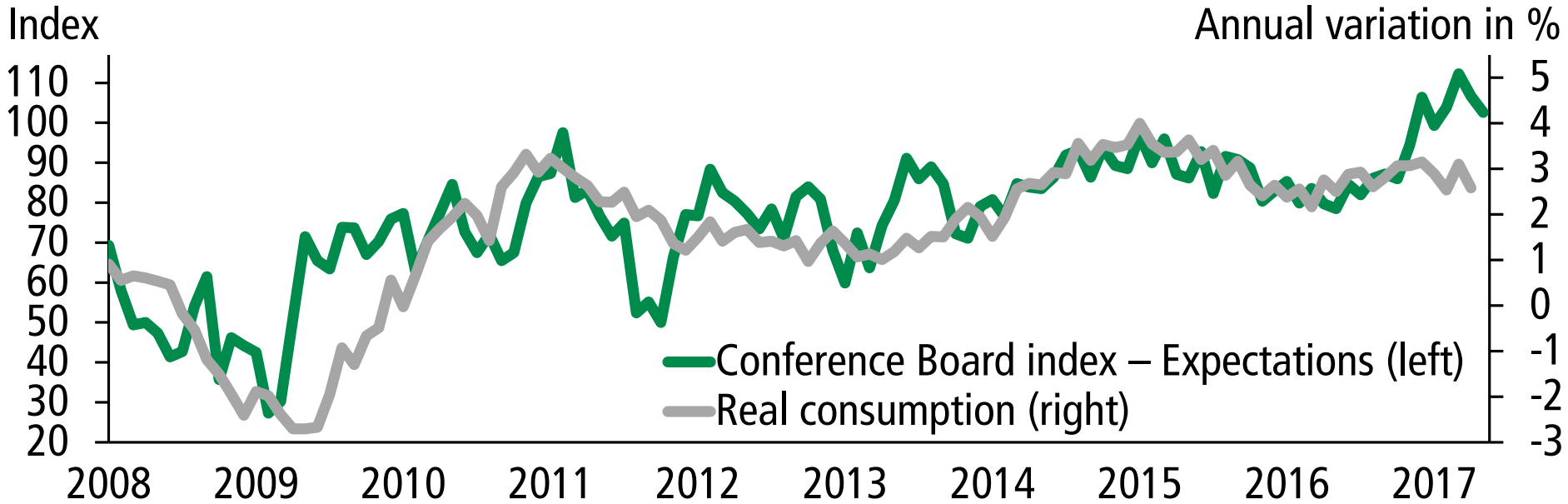
NFIB small business index



Sources: National Federation of Independent Business and Desjardins, Economic Studies

# U.S. ECONOMIC CONTEXT

## Firmer household confidence in the U.S. struggles to ignite consumer spending

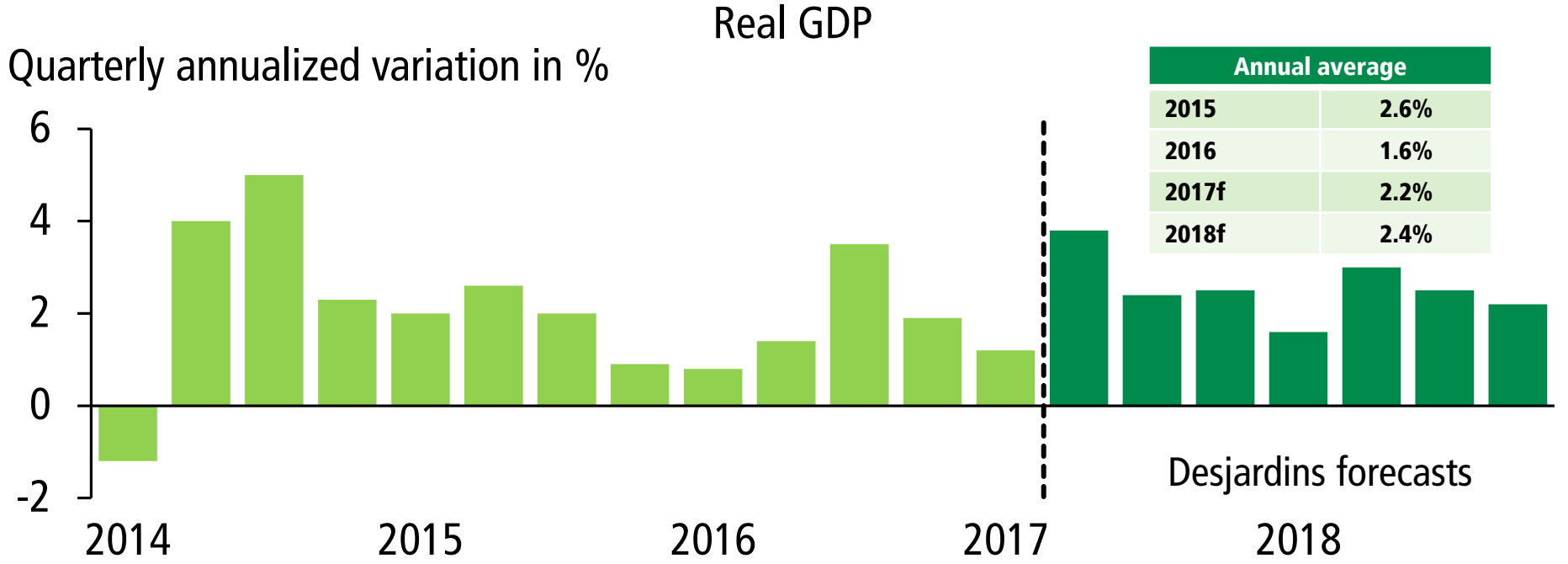


Sources: Conference Board, Bureau of Economic Analysis and Desjardins, Economic Studies



# U.S. ECONOMIC CONTEXT

## Improvements in 2017, but far from the Trump government's 3% target

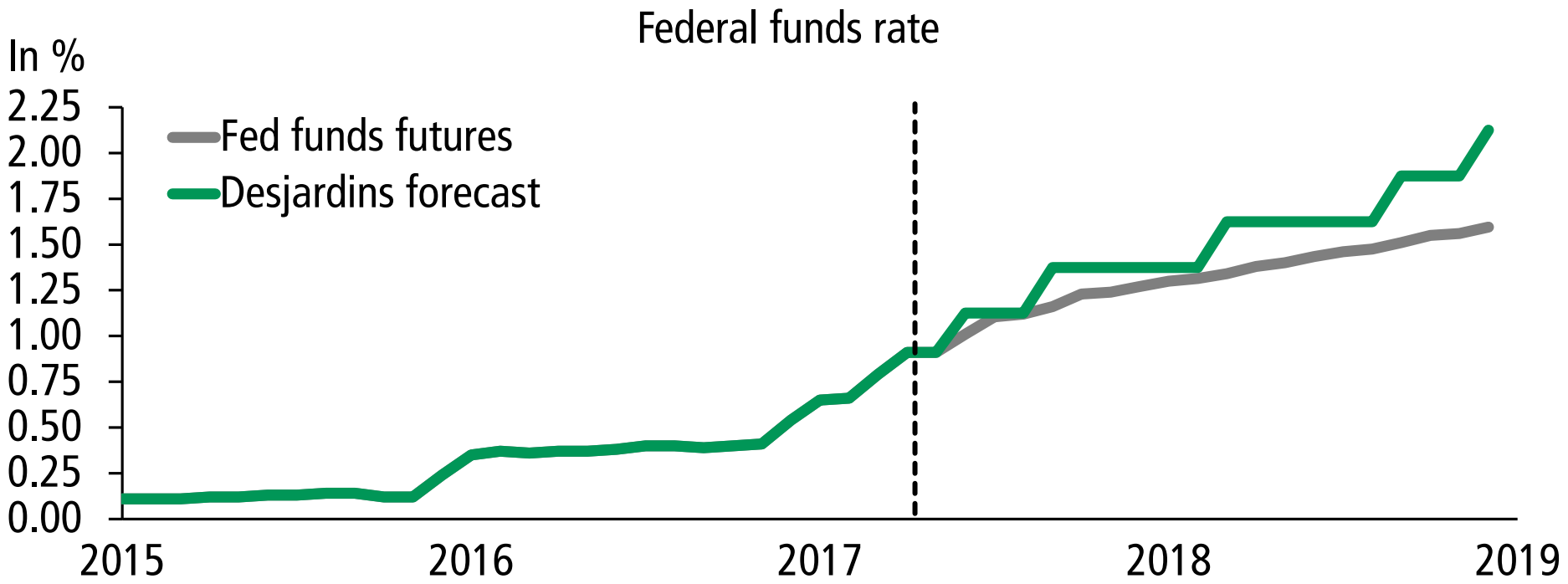


f: forecasts

Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

# U.S. ECONOMIC CONTEXT

## The Federal Reserve executes its normalization plan less hesitantly but some market skepticism remains



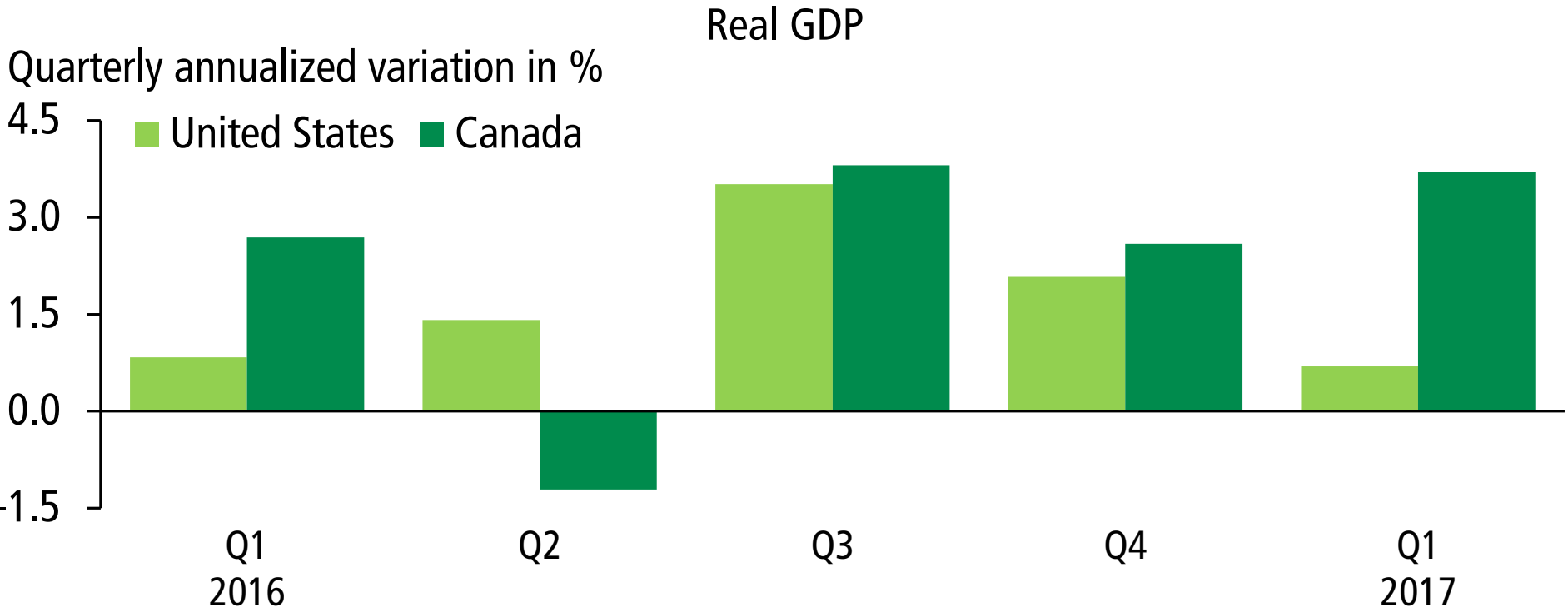
Sources: Bloomberg and Desjardins, Economic Studies



**CANADA 150**

# CANADIAN ECONOMIC CONTEXT

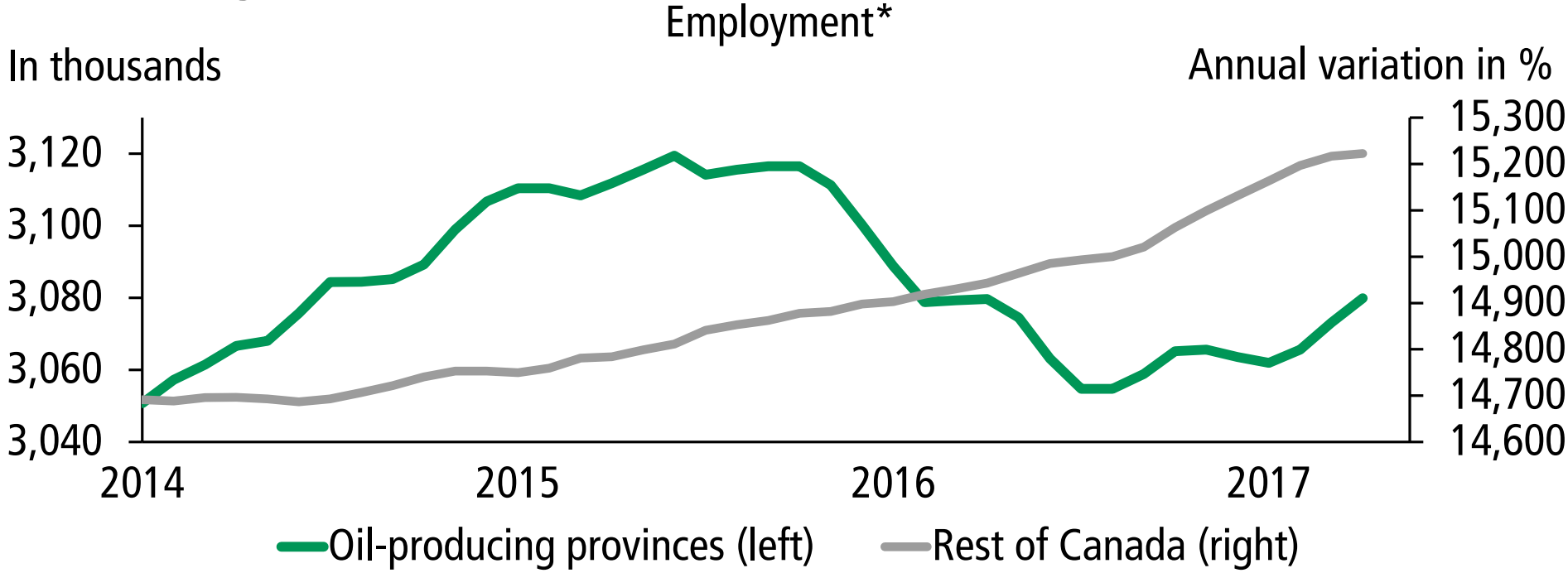
## Canadian economic growth was very solid in the first quarter



Sources: Statistics Canada and Desjardins, Economic Studies

# CANADIAN ECONOMIC CONTEXT

## Job markets in provinces hard hit by the oil shock are now recovering



\* 3-month moving average.

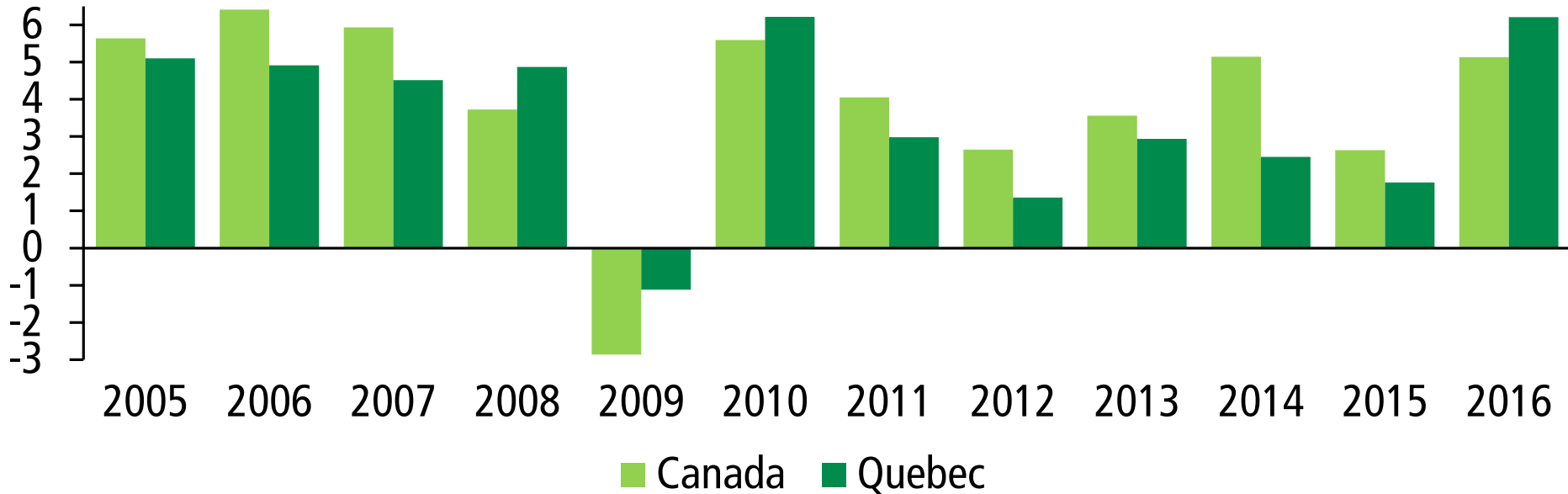
Sources: Datastream and Desjardins, Economic Studies

# CANADIAN ECONOMIC CONTEXT

## Consumers pick up the pace

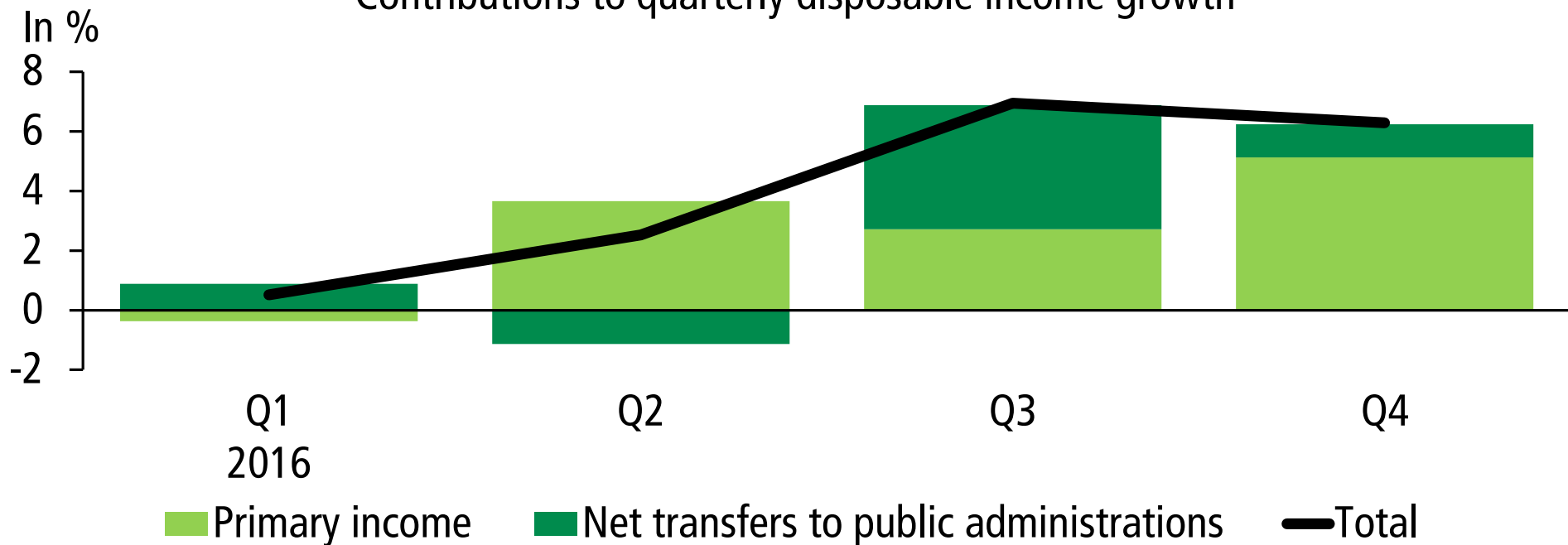
### Value of retail sales

Annual variation in %



## Fiscal relief has played an important part in boosting disposable income

Contributions to quarterly disposable income growth



# CANADIAN ECONOMIC CONTEXT

## No shortage of government attempts at safeguarding the housing market (1)

### ➤ **October 2008**

- Reduce the maximum amortization period for new insured mortgages to 35 years (from 40 years)
- Require a minimum down payment of 5% for new insured mortgages (no previous minimum)

### ➤ **April 2010**

- All borrowers required to meet the standards for a 5-year fixed-rate mortgage, even if they choose one with a lower interest rate and shorter term

### ➤ **March 2011**

- Reduce the maximum amortization period to 30 years (from 35 years) for insured mortgages with LTV ratio >80%

### ➤ **July 2012**

- Reduce the maximum amortization period to 25 years (from 30 years) for insured mortgages with LTV ratio >80%
- Limit availability of mortgage insurance to homes with a value

### ➤ **February 2016**

- Increase the minimum down payment for insured mortgages to 10% (from 5%) for the portion of a house price >C\$500,000



# CANADIAN ECONOMIC CONTEXT

## No shortage of government attempts at safeguarding the housing market (2)

### ➤ July 2016 (B.C.)

- Apply a 15% tax on foreign buyers
- Apply a tax on empty homes (effective Jan 1, 2017)

### ➤ October 2016

- Apply a mortgage stress test that all insured borrowers must qualify for mortgage insurance at an interest rate that is the greater of the Bank of Canada's conventional 5-year posted rate or the rate on the mortgage contract
- Foreign buyers no longer exempted from capital gains taxation upon the sale of a principal residence

### ➤ April 2017 (Ont.)

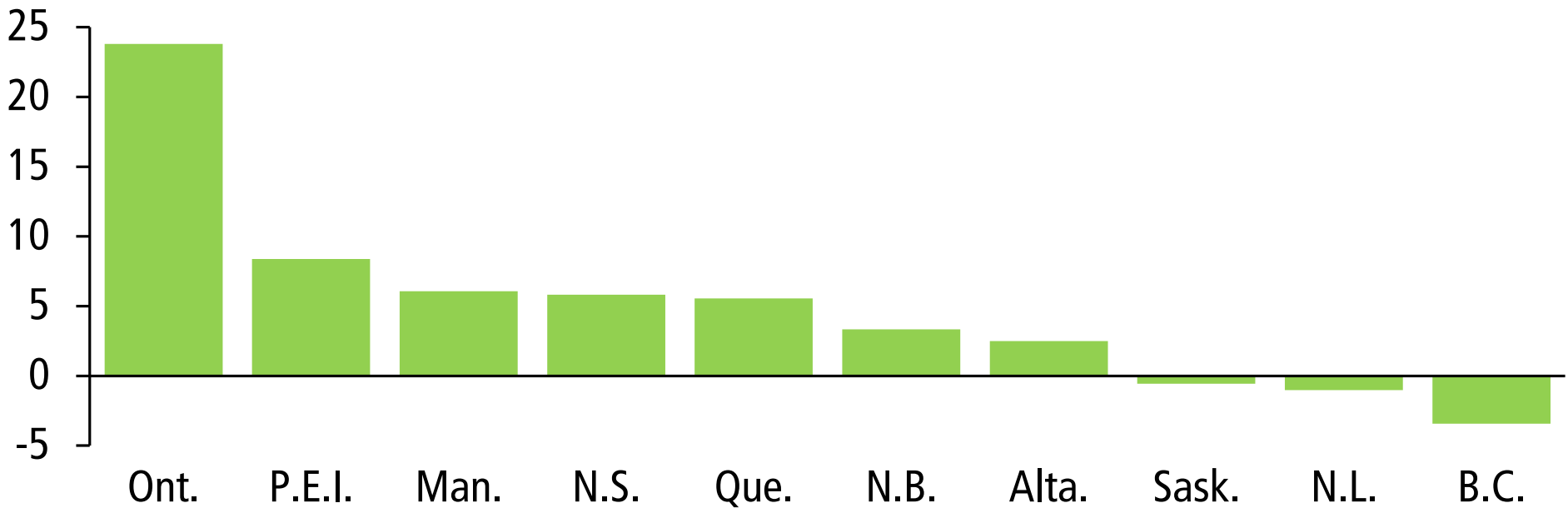
- Apply a 15% non-resident speculation tax on property prices in the Greater Golden Horseshoe region
- Legislative measures allowing the city of Toronto and other municipalities to impose a tax on vacant properties

# CANADIAN ECONOMIC CONTEXT

## Canada's housing market excesses are limited to Ontario

Average house price

Annual variation in % \*

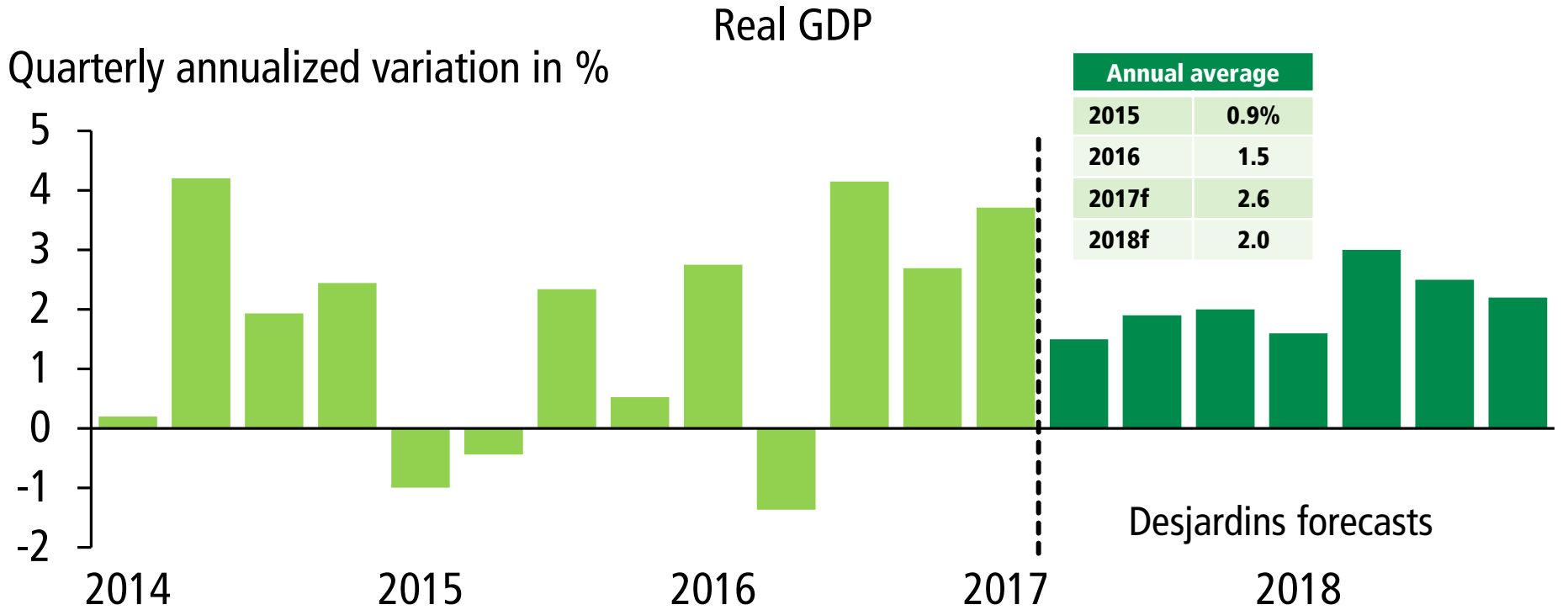


\* As of April 2017.

Sources: Statistics Canada and Desjardins, Economic Studies

# CANADIAN ECONOMIC CONTEXT

## The overall backdrop is solid

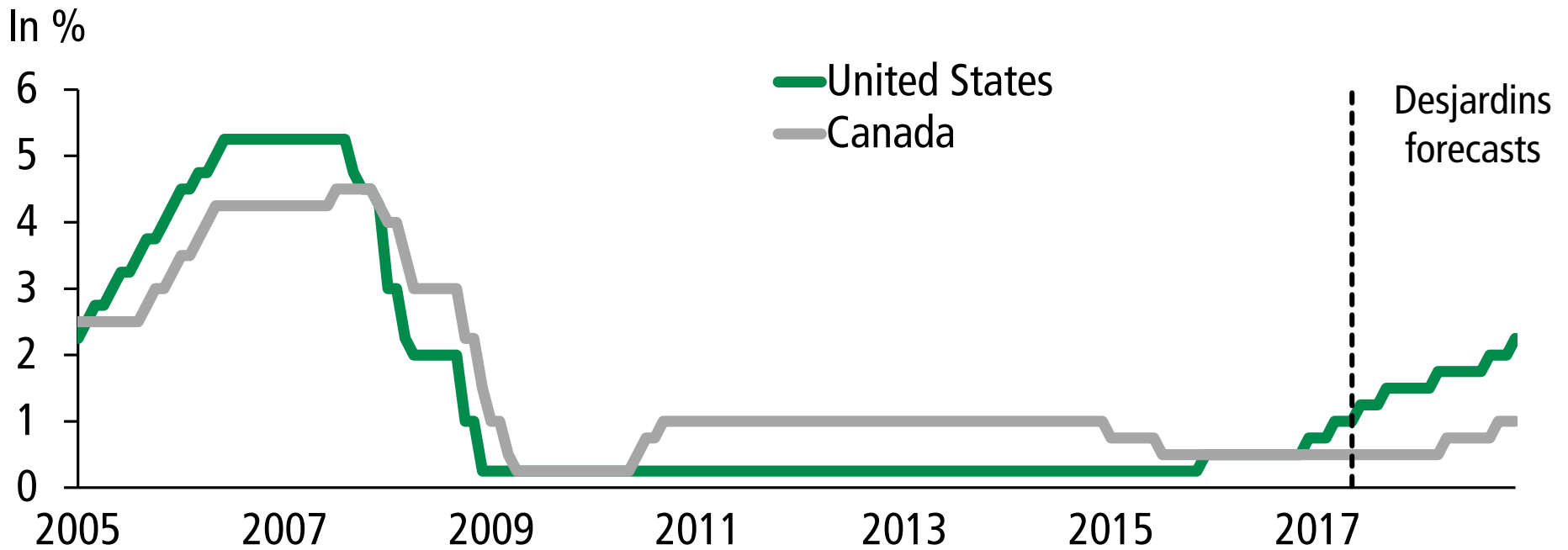


f: forecasts

Sources: Statistics Canada and Desjardins, Economic Studies

# CANADIAN ECONOMIC CONTEXT

## The Bank of Canada will exert more patience than the Federal Reserve

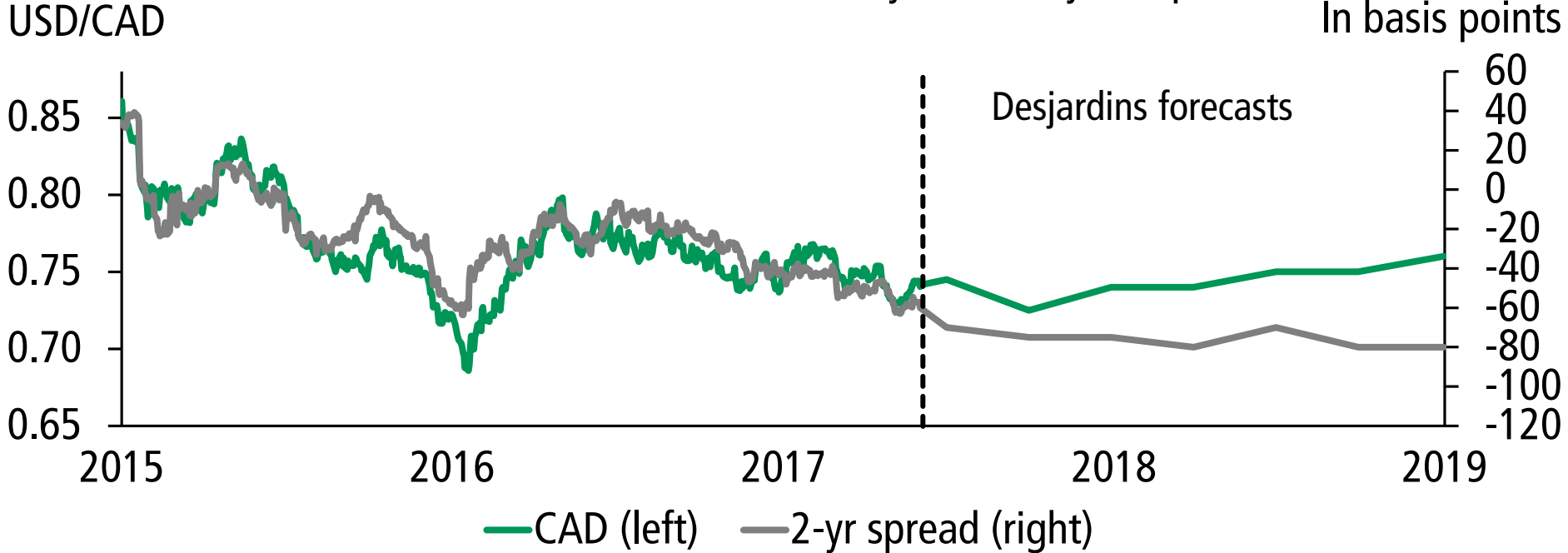


Sources: Datastream and Desjardins, Economic Studies

# CANADIAN ECONOMIC CONTEXT

## The loonie will stop depreciating but remain weak nonetheless

Canadian dollar and Canada–U.S. 2-year bond yield spread\*



\* Canada minus U.S. yield.

# QUEBEC AND REGIONAL ECONOMIC CONTEXT

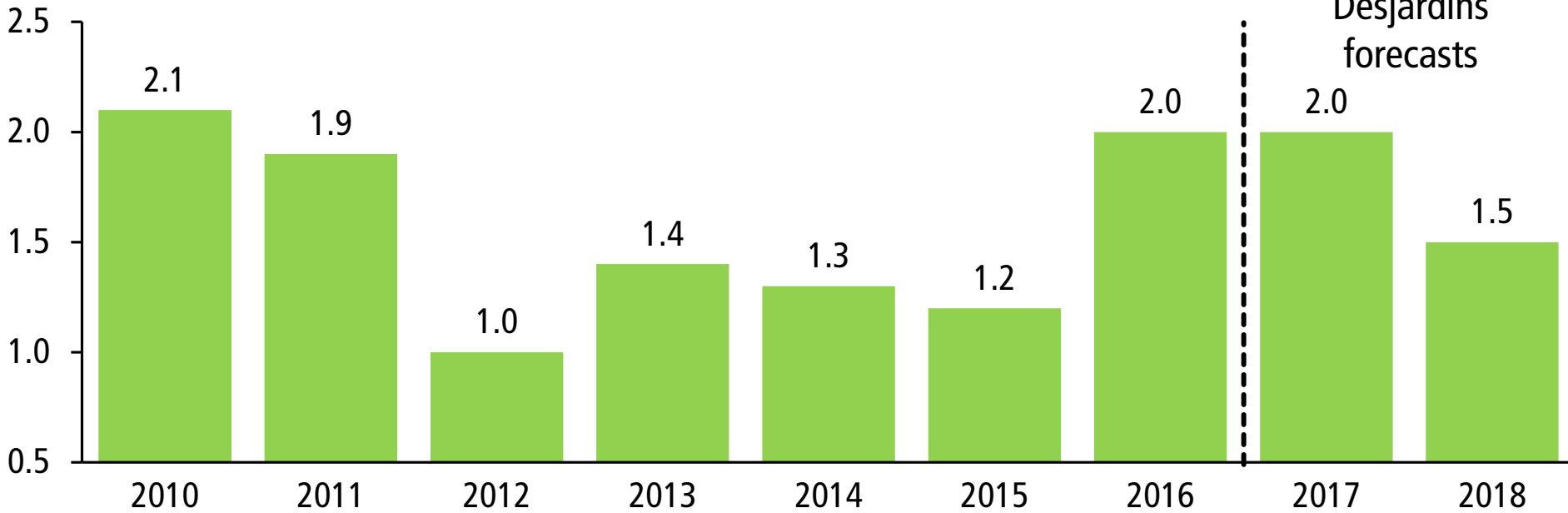


# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Quebec posts best growth in six years

Real GDP

Annual variation in %



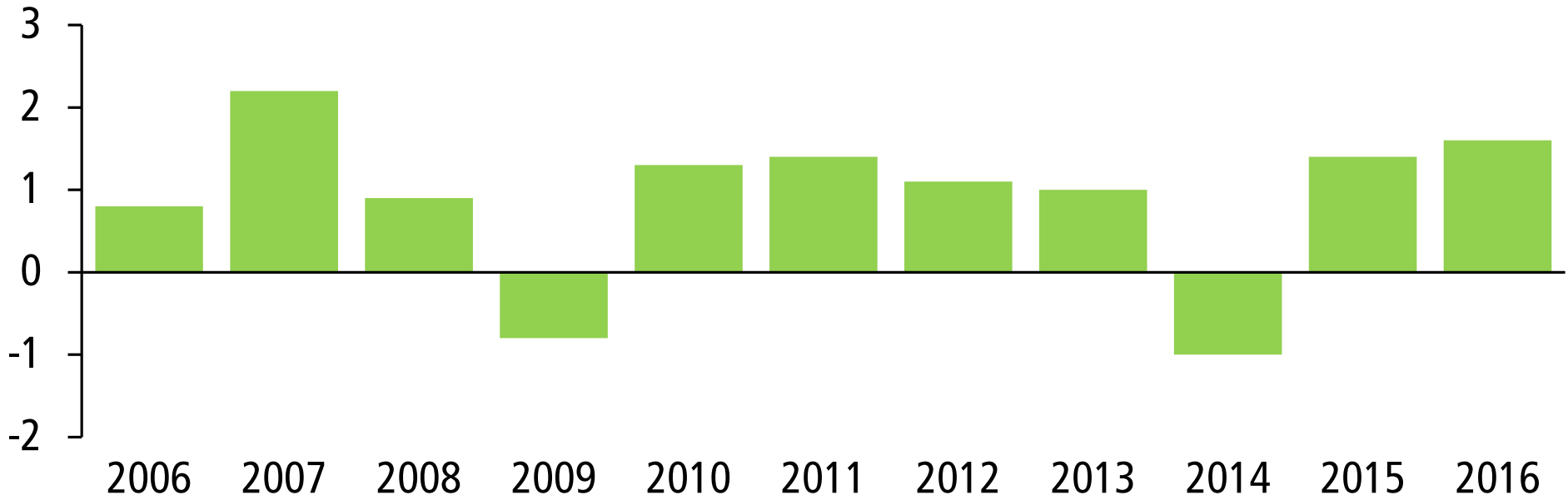
Sources: Institut de la Statistique du Québec and Desjardins, Economic Studies

# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Full-time job creation has accelerated recently

Full-time employment

Annual variation in %

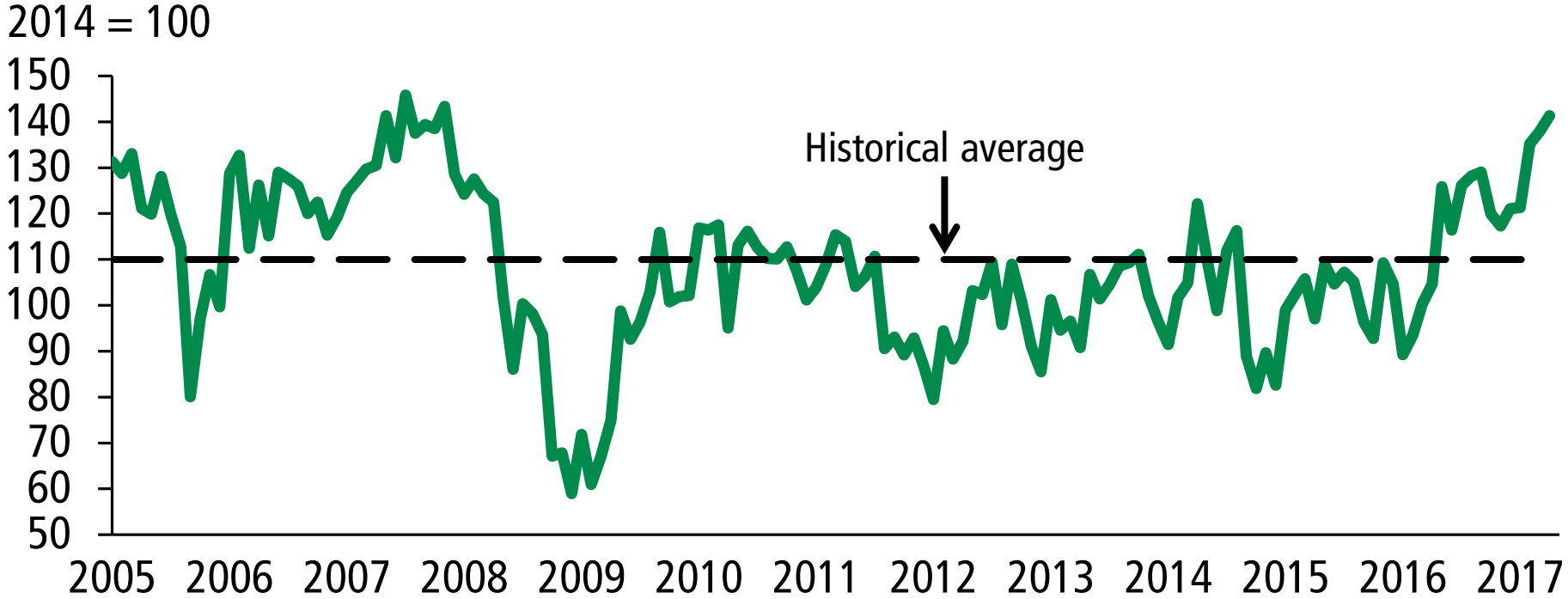


Sources: Statistics Canada and Desjardins, Economic Studies



# QUEBEC AND REGIONAL ECONOMIC CONTEXT

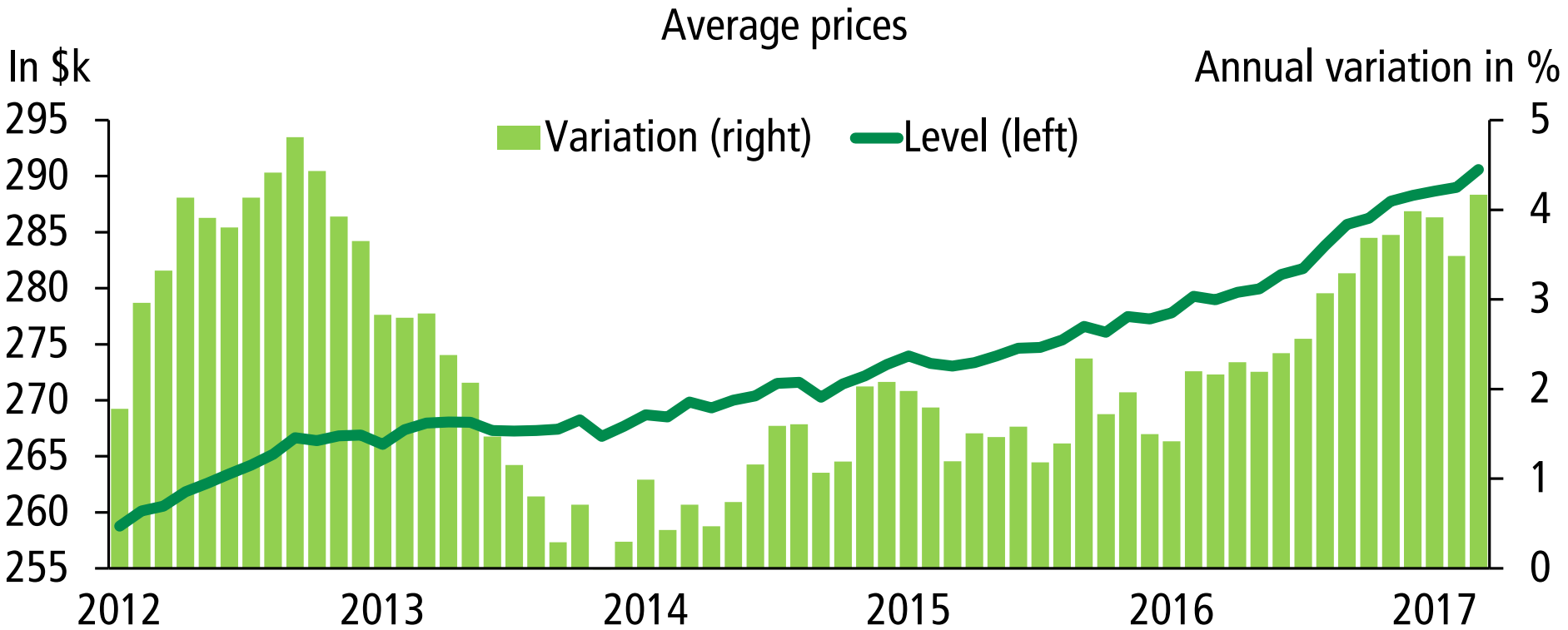
## Consumer confidence has solidified measurably



Sources: Conference Board of Canada and Desjardins, Economic Studies

# QUEBEC AND REGIONAL ECONOMIC CONTEXT

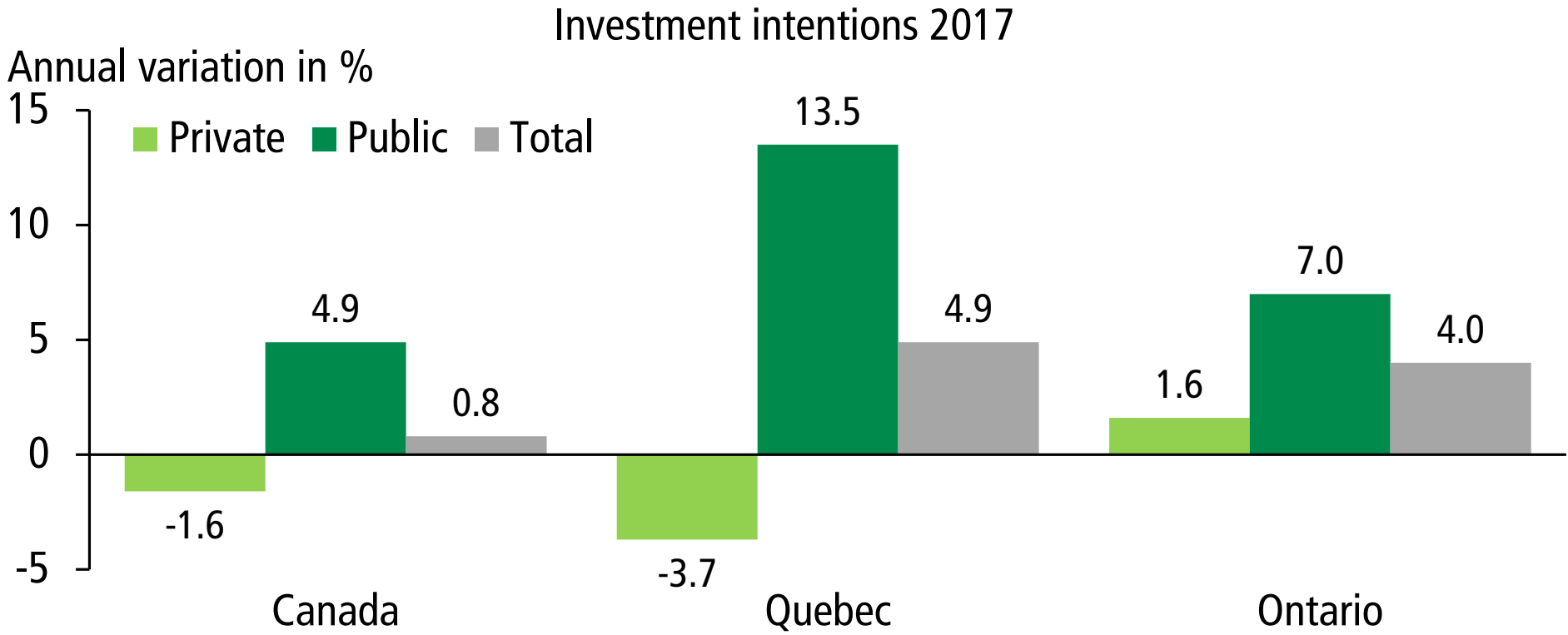
## Housing market showing signs of life



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Capital spending relies heavily on the public sector



Sources: Statistics Canada and Desjardins, Economic Studies

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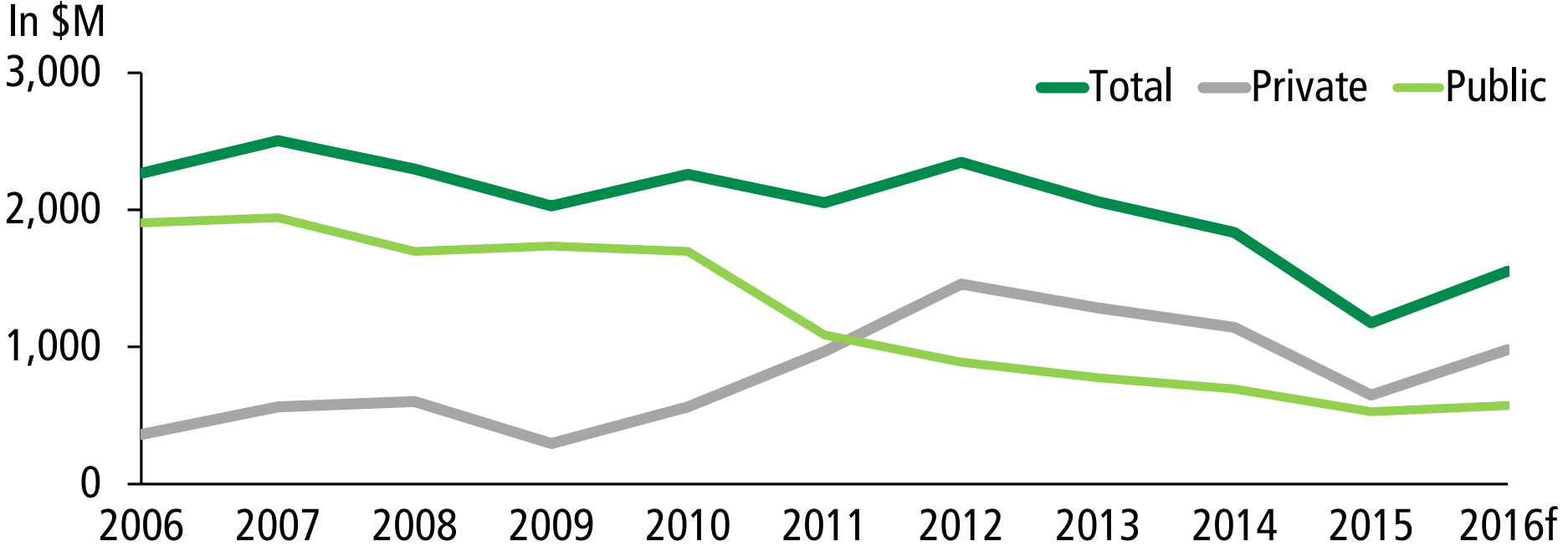
# Nord-du-Québec

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# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Investment should reach \$1.6B in 2016

### Nord-du-Québec – Investments



f: Institut de la statistique du Québec forecast

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies



# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Current projects in Nord-du-Québec

### ➤ **Nemaska Lithium**

- Whabouchi Project lithium mine
  - ✓ \$200.0M from 2016 to 2018

### ➤ **Ministère des Transports**

- Airport and roadwork in Nord-du-Québec
  - ✓ \$100.8M from 2017 to 2019

### ➤ **Hydro-Québec**

- Renovation of a transformer substation in Radisson
  - ✓ \$50.0M from 2016 to 2018
- Rehabilitation of the Robert-Bourassa generating station in Baie-James
  - ✓ \$20.0M from 2016 to 2017

# QUEBEC AND REGIONAL ECONOMIC CONTEXT

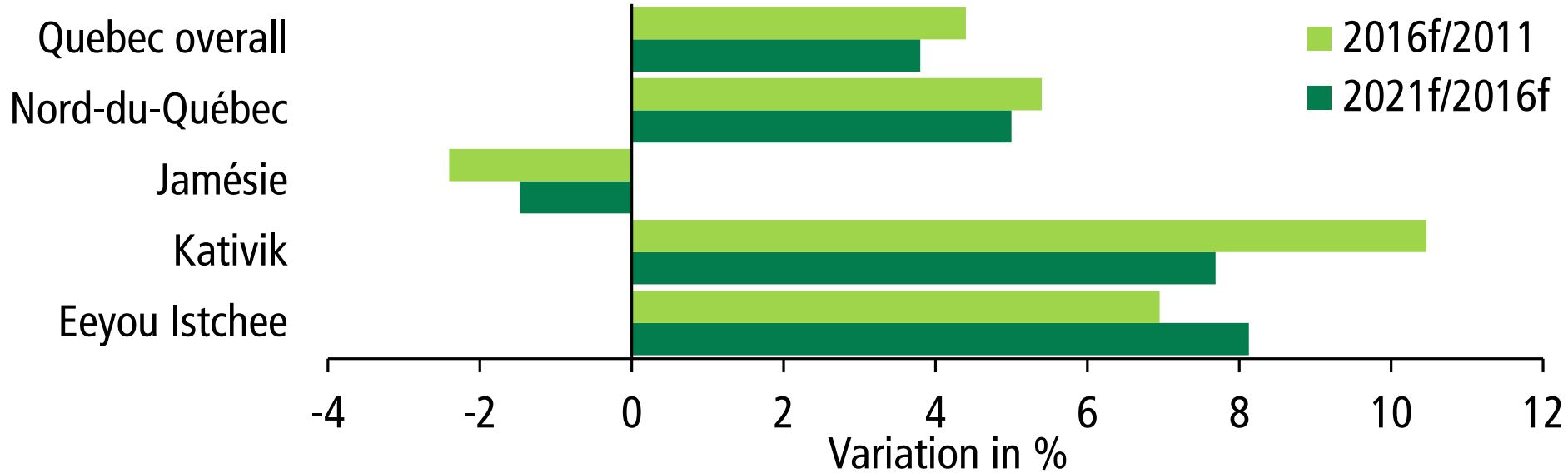
## 2017 economic outlook for Nord-du-Québec

### ➤ **The economy in Nord-du-Québec will expand in 2017**

- Base metal prices could rise slightly in 2017, but they'll still be lower than 2014 prices
  - ✓ Development projects in the pipeline: Osisko's Lac Windfall gold mine east of Lebel-sur-Quévillon, Critical Elements Corporation's Rose lithium-tantalum mine in Baie-James and Nemaska Lithium's Whabouchi Project
- The tourism industry will continue its development
  - ✓ Baie-James and Eeyou Istchee tourism: new 2016-2018 marketing plan
  - ✓ Cree Outfitting and Tourism Association: exploration project to analyze the potential for developing tourism products

# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Demographic growth in the region should be faster than in Quebec between 2016 and 2021



f: Institut de la statistique du Québec projections based on the 2014 benchmark scenario

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies



# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Personal disposable income in Nord-du-Québec increasing at a brisk pace

REGION	PERSONAL DISPOSABLE INCOME	ANNUAL AVERAGE GROWTH RATE 2010–2015
Nord-du-Québec	\$24,085	3.1%
Eeyou Istchee	\$23,256	2.8%
Kativik	\$19,734	3.1%
Jamésie	\$29,189	3.9%
Quebec overall	<b>\$26,857</b>	<b>2.5%</b>

# QUEBEC AND REGIONAL ECONOMIC CONTEXT

## Key development issues for Nord-du-Québec

- Keeping a close eye on developments in the forestry industry as concerns linger, including negotiations on lumber, high wood fibre costs, and supply issues
- Kick-starting and expanding searches for mining projects, given that prospecting expenses have fallen sharply since 2012
- Striving to improve the region's economic diversification
- Retaining, attracting and training the next generation of workers, with retirements set to rise in the next few years