

# ECONOMIC OUTLOOK: STILL HAZY AFTER ALL THESE YEARS

September 26, 2013

**Douglas Porter, CFA**

Chief Economist & Managing Director, BMO Capital Markets

BMO  Capital Markets™

1-800-613-0205 ■ [www.bmocm.com/economics](http://www.bmocm.com/economics)

Your ambition achieved.™



# Global Outlook: Clouds Parting?



- US fiscal policy and Fed uncertainty
- Euro Area sovereign debt crisis and recession
- China's "soft landing"
- Japan's economic shock therapy
- Geopolitics... Syria

## Emerging markets face new challenges

# Global GDP: The Big Chill, Still

2013:Q2 (y/y % chng)

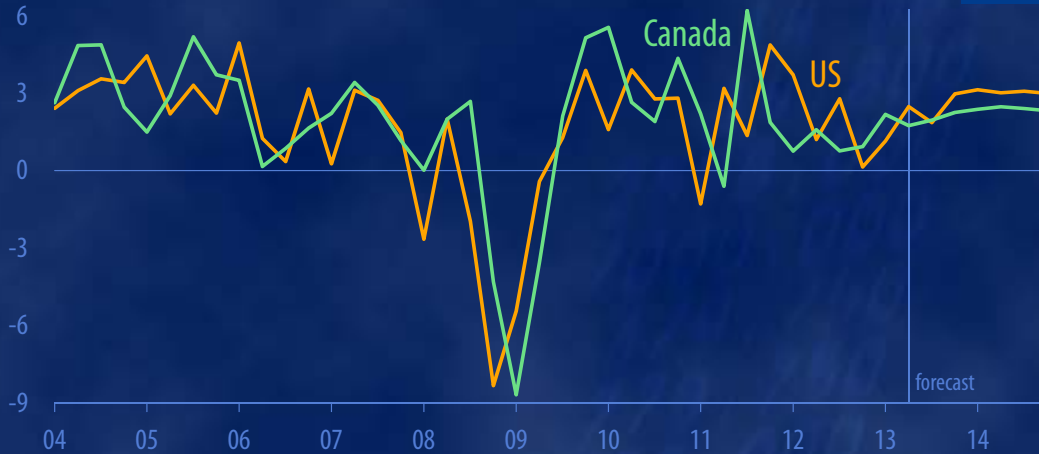
## Real GDP



# Modest Growth in 2013, Stronger 2014

(q/q % chng : ar)

Real GDP



**US to outpace Canada... After tie in 2013**

# US Faces Turbulent Fall



## Debt ceiling looms

More spending cuts?  
Obamacare debate lingers

## Fed questions

Tapering QE3: timing?  
Replacing Bernanke

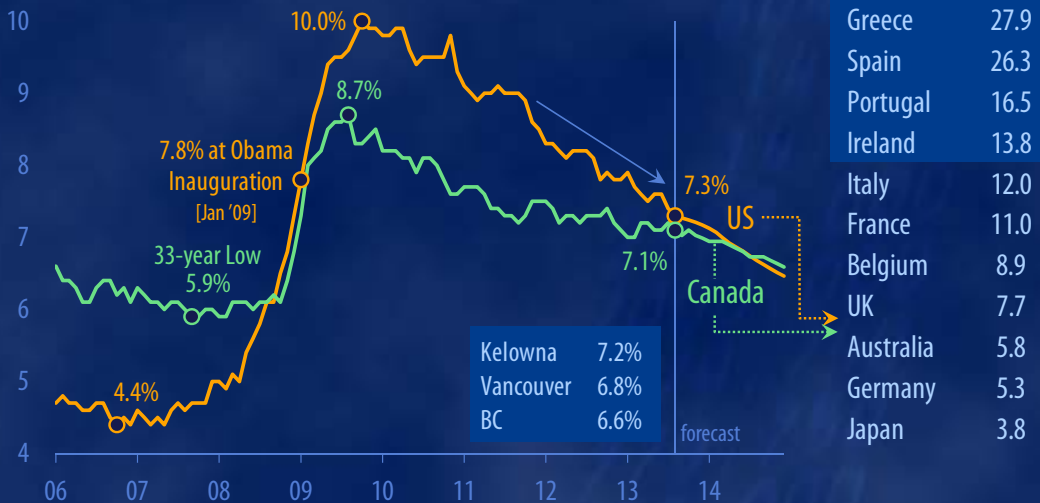
Bond yields rising

Positive: Energy output surge

## Job growth slows

# Jobless Rates: Improvement, But...

Unemployment Rate (percent)



**US participation rate: Lowest since 1978**

# Will Canadian Housing Crash?



Prices double in 10 years

Toronto condo boom

**But...**

Affordability normal

Markets balanced

# Canadian Housing Stabilizes...



**...US market still recovering**

House Prices = Canada: Teranet Composite 11 US: FHFA House Price Index

# Canadian House Prices: Soft Landing

Canada (y/y % chng : y-t-d as of August 2013)

## Existing Home Prices



**Sales +11% y/y in August**

# The Great Divide

(\$000s : local currency : nsa)

## Average Home Price



US = single-family homes

# C\$ Prognosis: Parity Past

Canada (as of September 26, 2013)



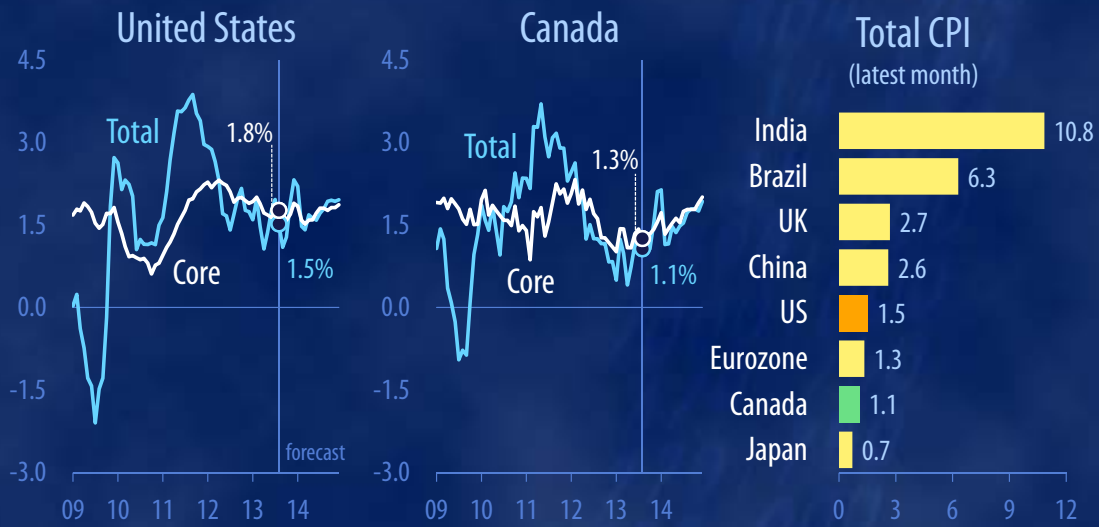
## Drivers:

- Commodity prices  
*Neutral*
- Bank of Canada policy  
*Neutral ⇒ positive*
- Balance of payments  
*Negative (current account)*  
*Positive (capital account)*
- Productivity  
*Negative*

BoC Commodity Price Index = (1972 = 100) C\$ = (US\$) Actuals = daily closes forecast = monthly averages

# Inflation Low... But Bottoming

Consumer Price Index (y/y % chng)



**British Columbia: -0.1% y/y**

# What Does this Mean for Financial Markets?



Bank of Canada: On hold

Fed "tapering" timing still a question

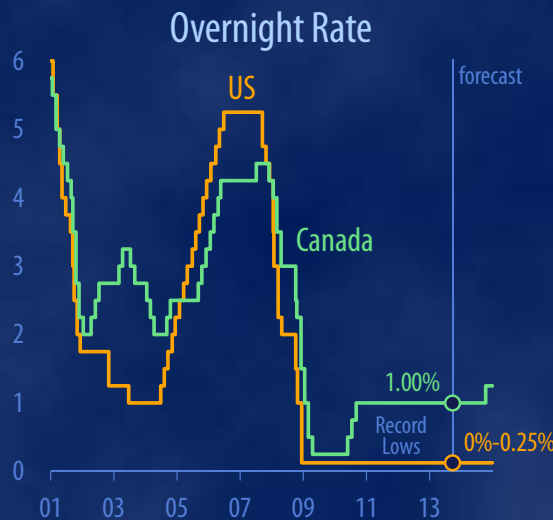
Loonie stays close to par

Stocks: US/Canada turnabout



# Interest Rates: Tide Finally Turning

(% : as of September 26, 2013)



**US at zero for 7 years?**



**QE tapering: December?**

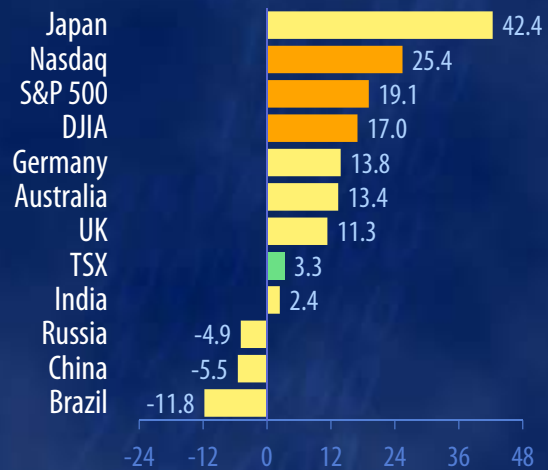
# Global Diversity

Equity Markets (% chng)



2013 Year-to-Date

(as of September 26, 2013)



**TSX lagging**

## What's Ahead for British Columbia?



### Growth Drivers:

- Increasing ties to Asia
- US housing rebound
- Natural gas exports?

### Challenges:

- Mining investment softening
- Slower population growth/out-migration
- Spending restraint/tax hikes

## Vancouver: Soft landing for housing market

## Outlook in a Nutshell



- US recovery strengthens
- Europe stabilizing
- Japan improving, China steadying
- Canada cools
  - Manufacturing restrained
  - Spending constrained
  - Housing resilient

## BC: Average growth, for now

## Some improvement in 2014

# Important Disclosure Statements

## General Disclosure

"BMO Capital Markets" is a trade name used by the BMO Investment Banking Group, which includes the wholesale arm of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Ltd. and BMO Capital Markets Corp are affiliates. 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 material is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. 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 <http://www.bmonesbittburns.com/economics>. Please contact your BMO Financial Group Representative for more information.

## 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](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) and BMO Capital Markets GKST Inc. (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 Corporation Limited, 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.

® Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

TM Trademark Bank of Montreal

© COPYRIGHT 2013 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group