

Normalizing the Abnormal

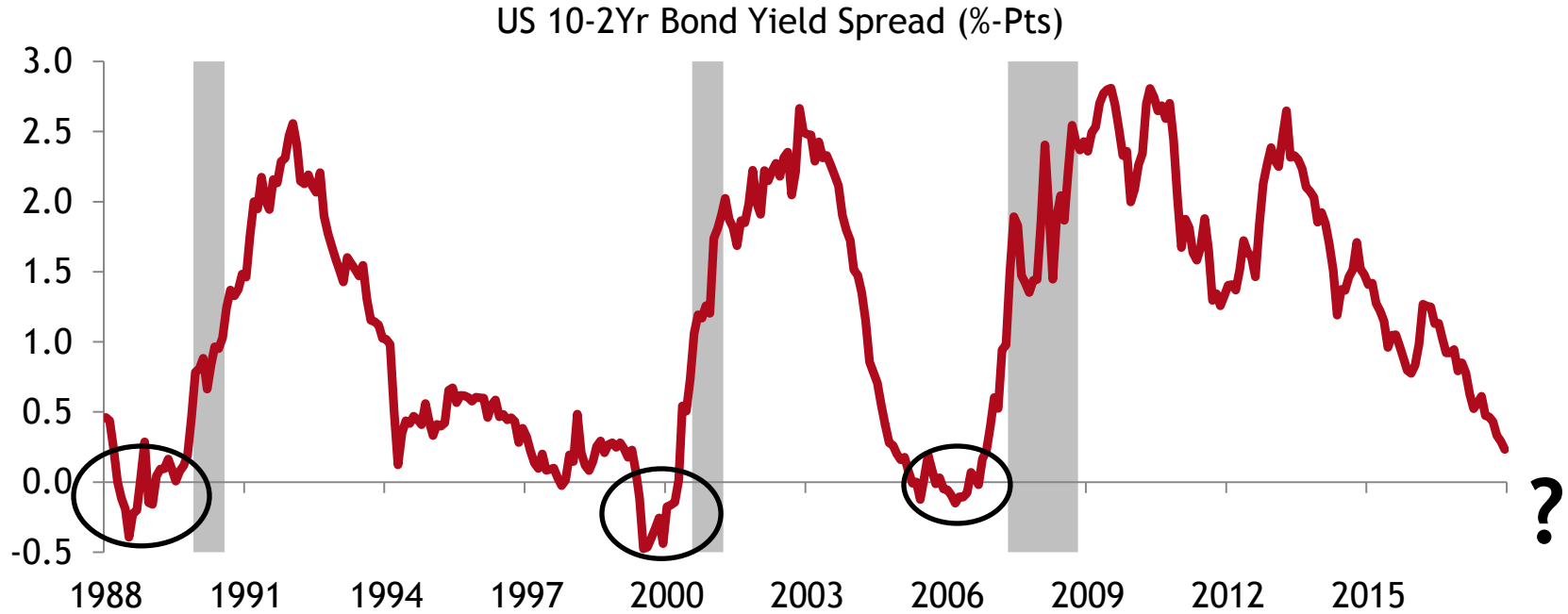


Benjamin Tal

October 2018



Should We Fear Yield Inversion?

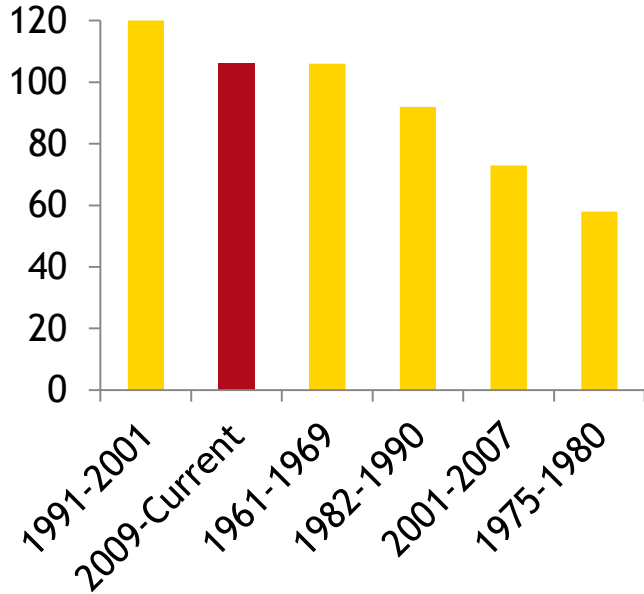


Source: Bloomberg, CIBC

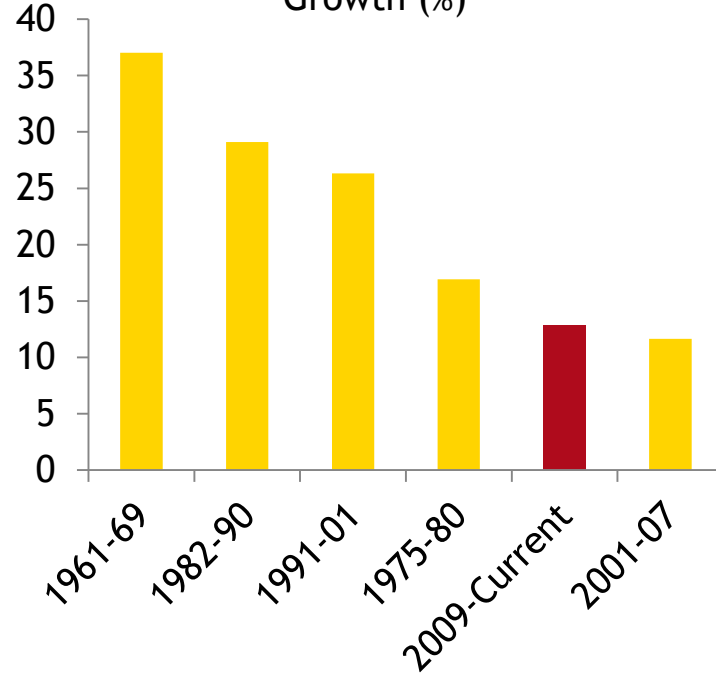


Expansion Has Been Long (L), But Not Strong (R)

US Economic Expansions (Months)

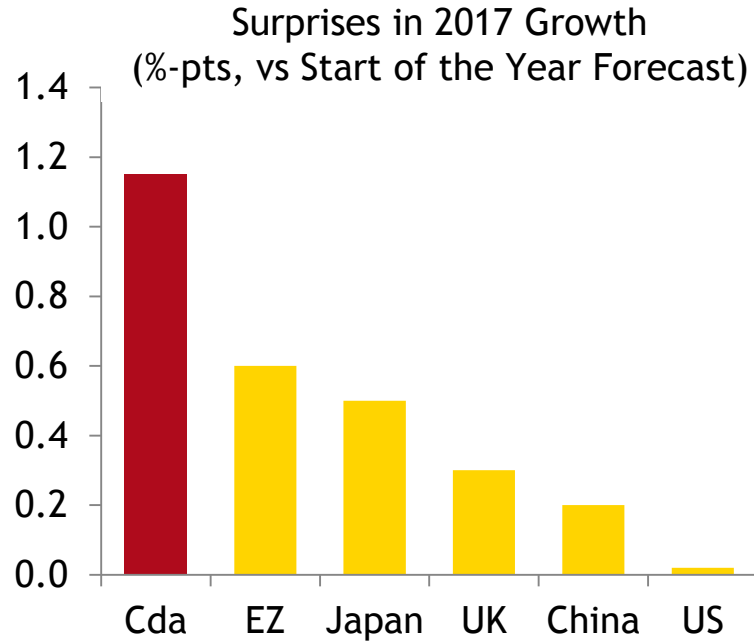


Cumulative Real GDP Per Capita Growth (%)



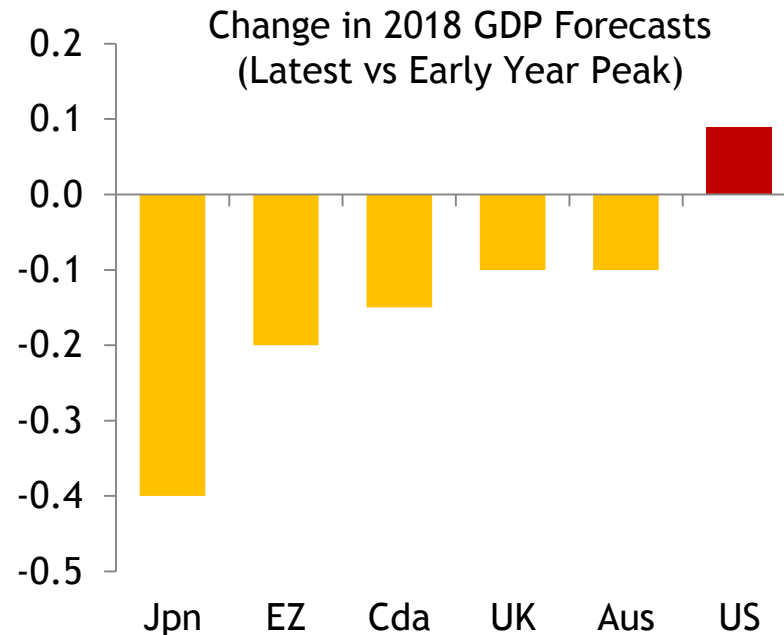
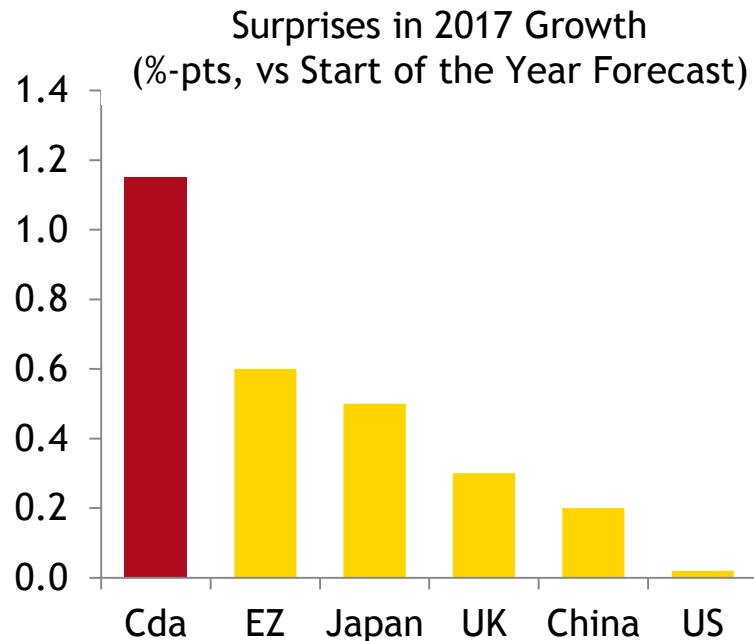
Source: BEA, CIBC





Source: Bloomberg, CPB, CIBC

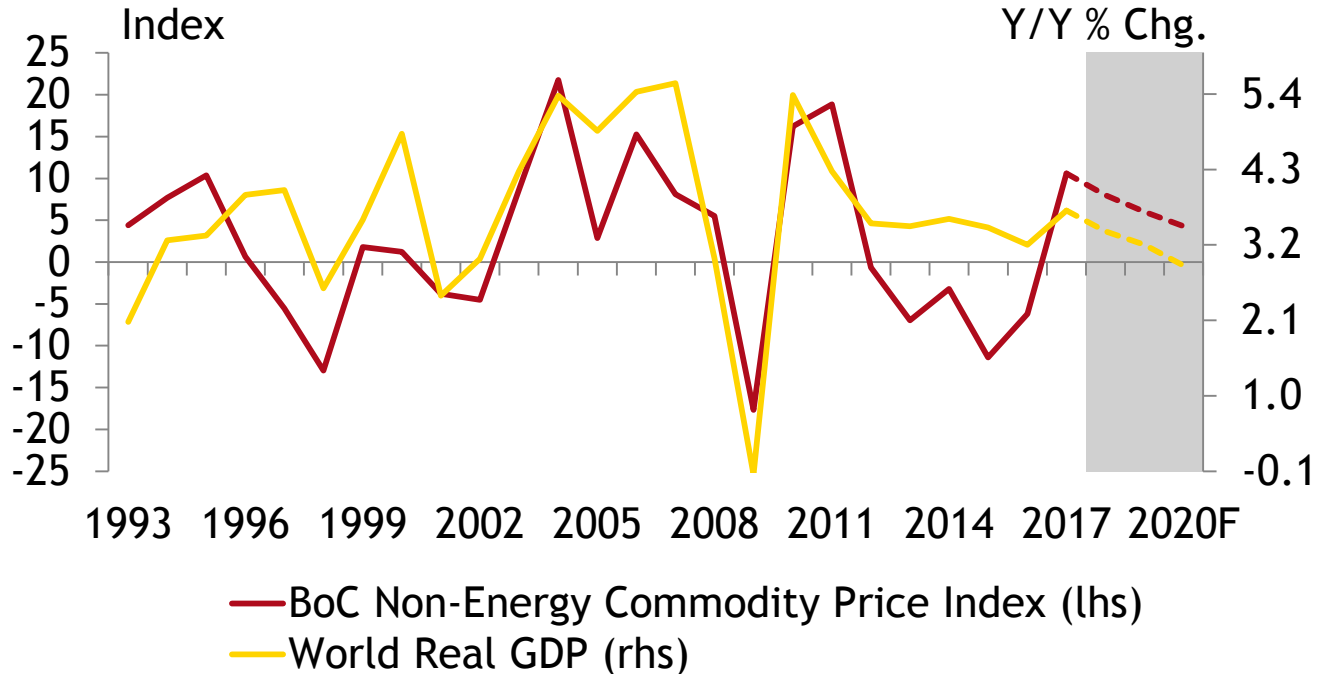




Source: Bloomberg, CPB, CIBC

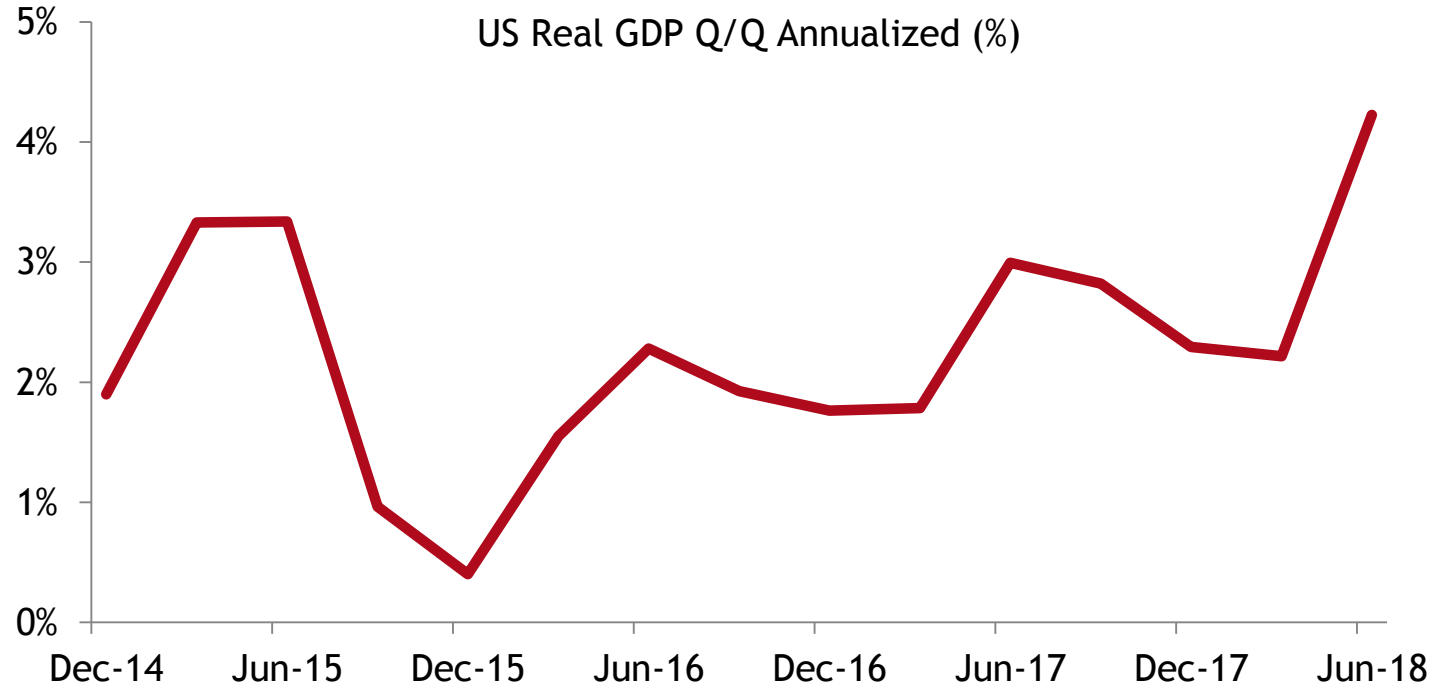


Yes, Commodities Are Cyclical



Source: Bloomberg, Bank of Canada, CIBC





Source: BEA, CIBC

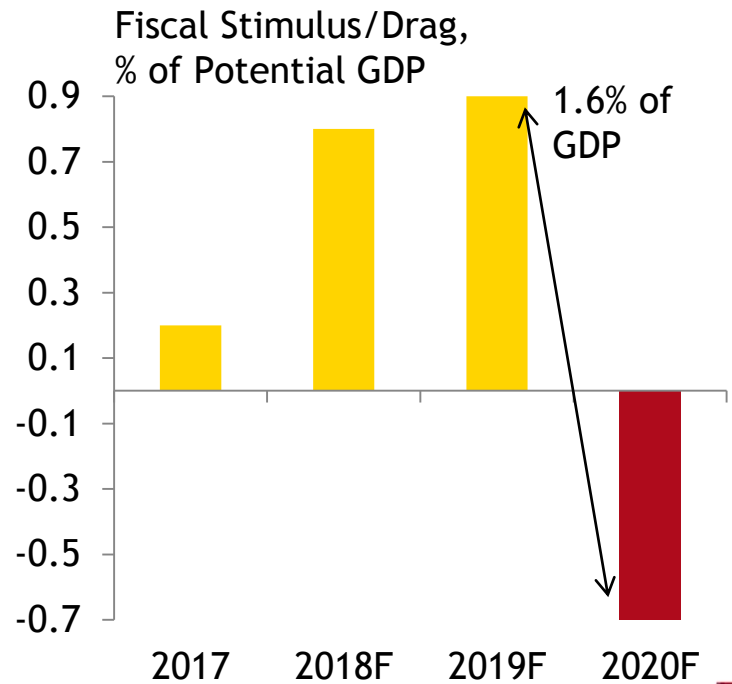
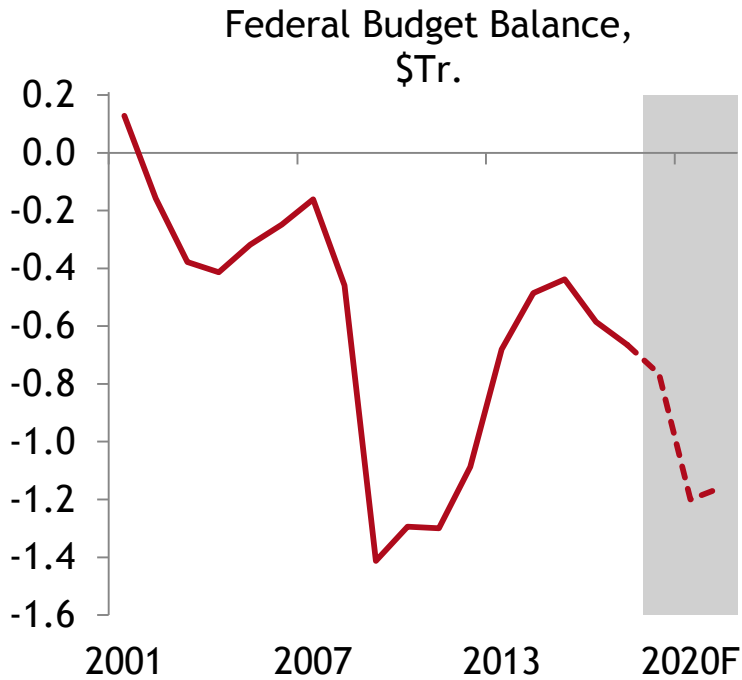


Which Way are Deficits Going?

7



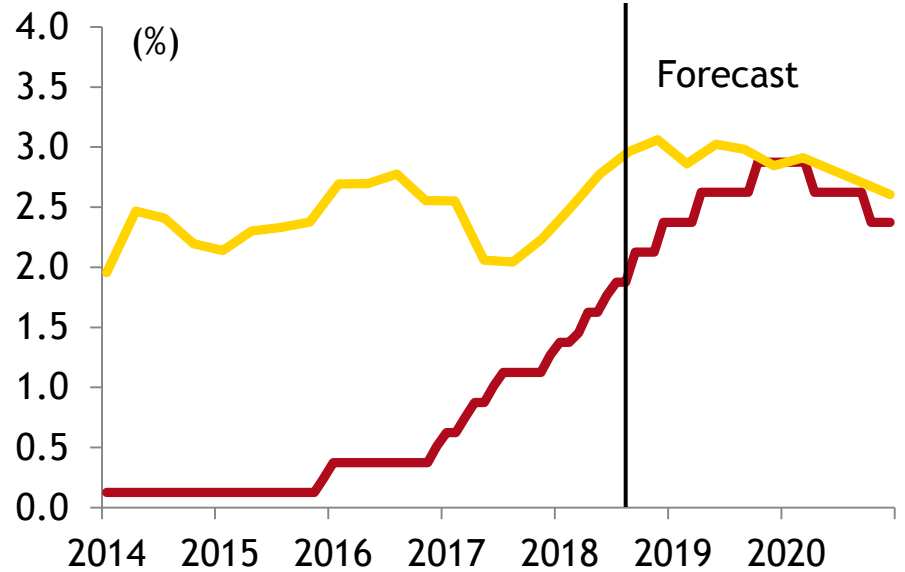
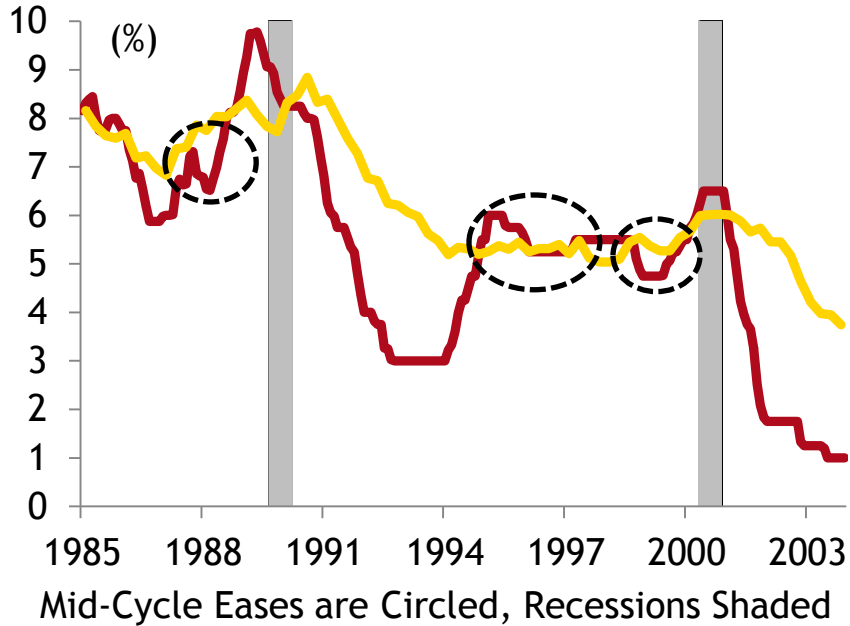
A \$1.2 Trillion Fiscal Hole (L) Fiscal Policy to Subtract from Growth by 2020 (R)



Source: IMF, CBO, CIBC



A Mid-cycle Night's Dream: A 2020 Fed Ease Would Not Be Unusual vs. Past History

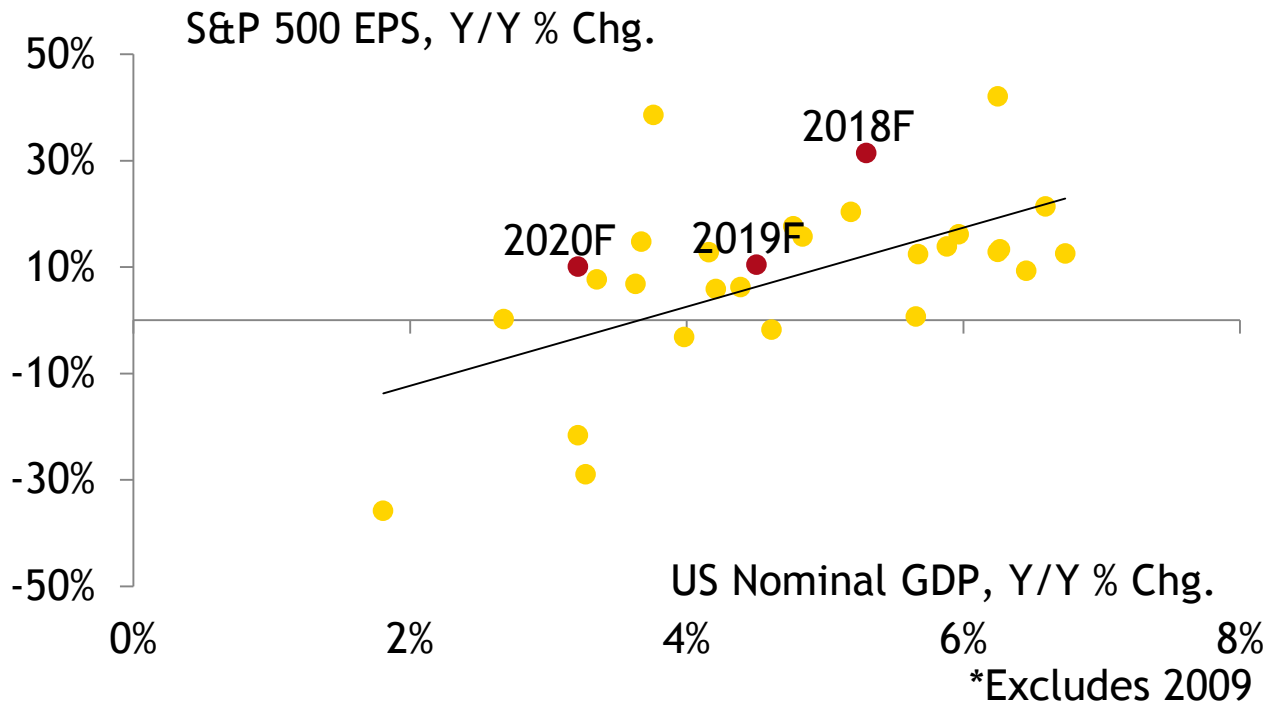


- Fed Funds Rate
- Est. Nominal Neutral Rate

Source: Bloomberg, CIBC



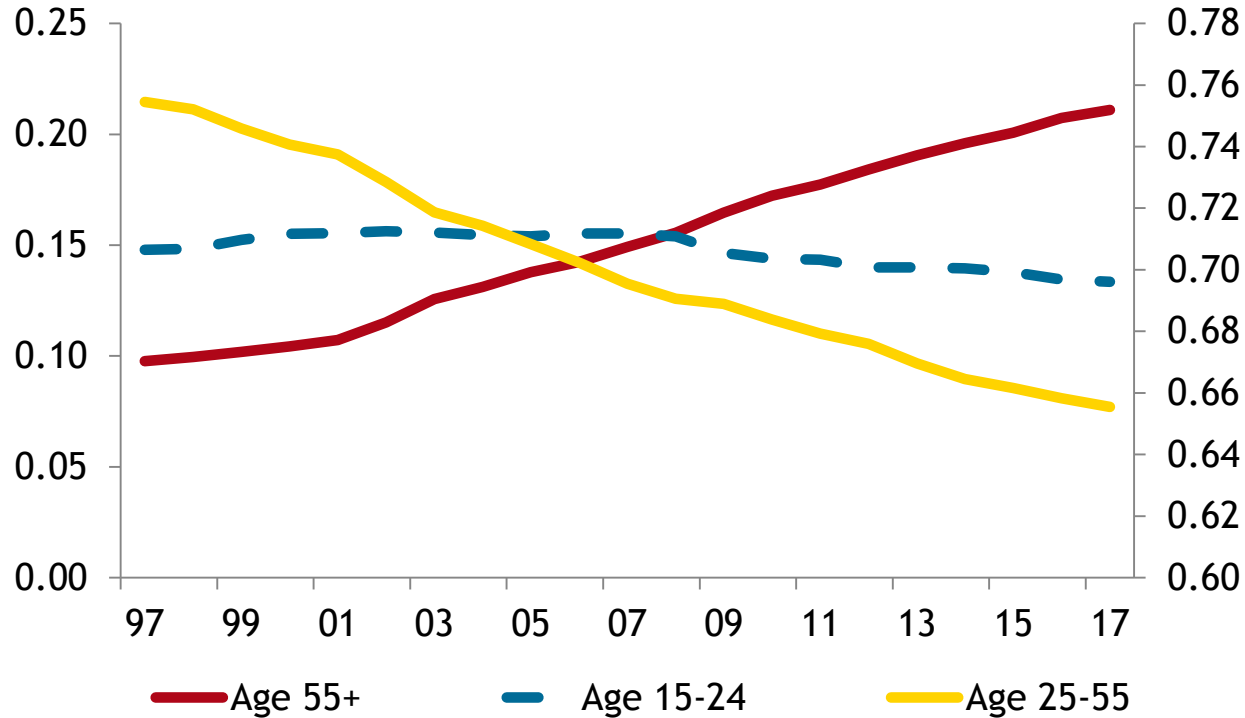
2020 Earnings Expectations a Bit Stretched vs Nominal GDP Pace



Source: Bloomberg, BEA, CIBC



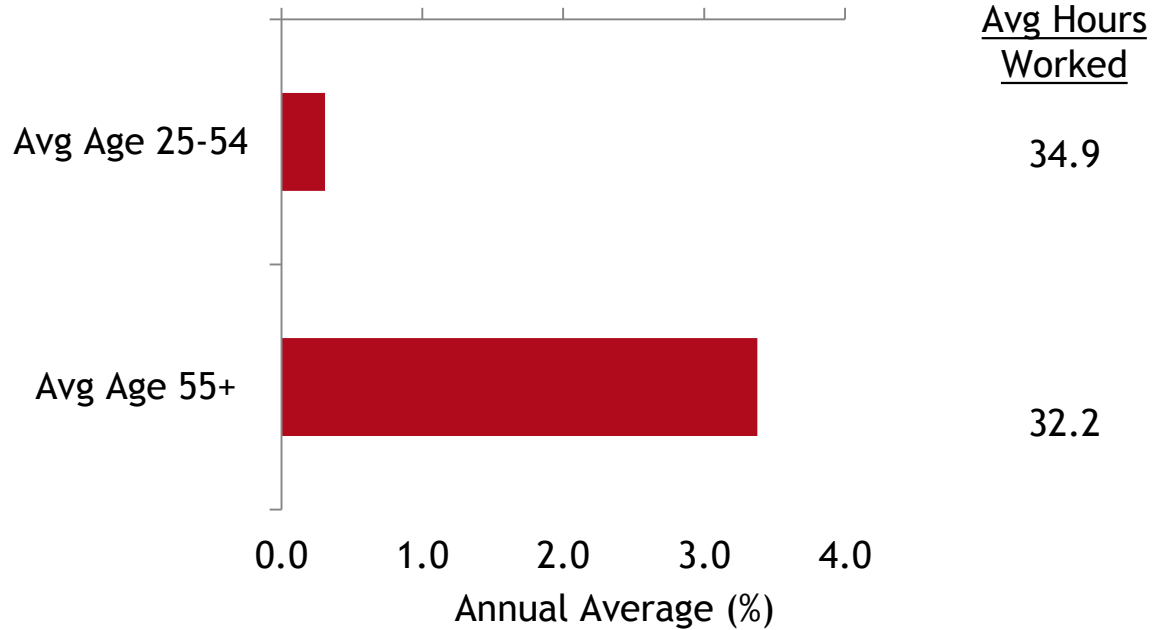
Share in Employment



Source: Statistics Canada, CIBC



Job Growth : 2009-2017



Source: Statistics Canada, CIBC



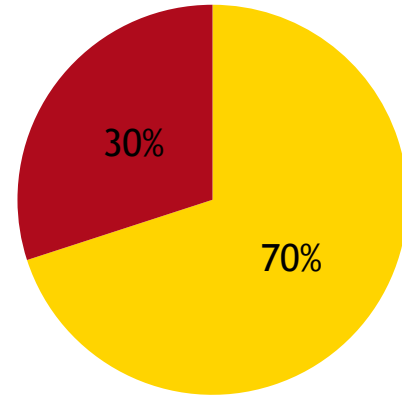
Friendly Conversation



Made in China 2025

- 1 Next-generation information technology (IT)
- 2 High-end numerical control tools and robotics
- 3 Aerospace equipment
- 4 Ocean engineering equipment and high-tech ships
- 5 Advanced railway equipment
- 6 Energy saving and new energy vehicles
- 7 Power equipment
- 8 Agricultural machinery
- 9 New materials
- 10 Biomedicine and high-performance medical devices

Source: USTR, CIBC



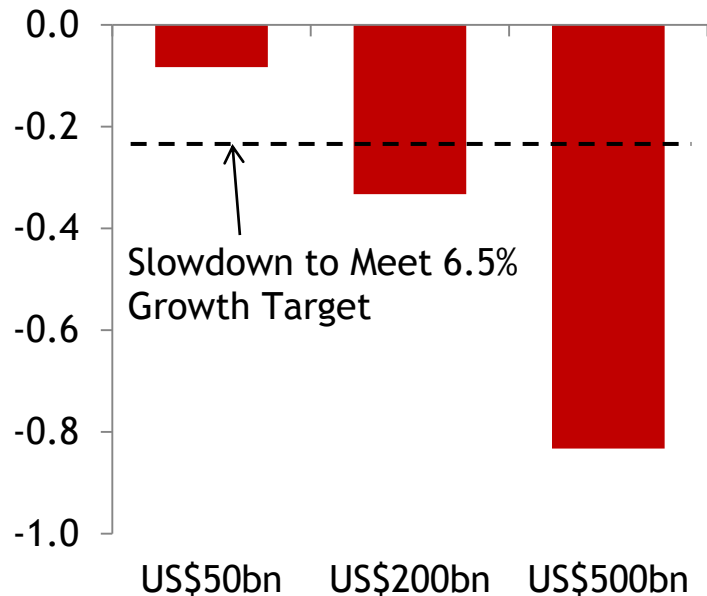
■ Share of "Made in China 2025" covered by US targeted products

■ The rest

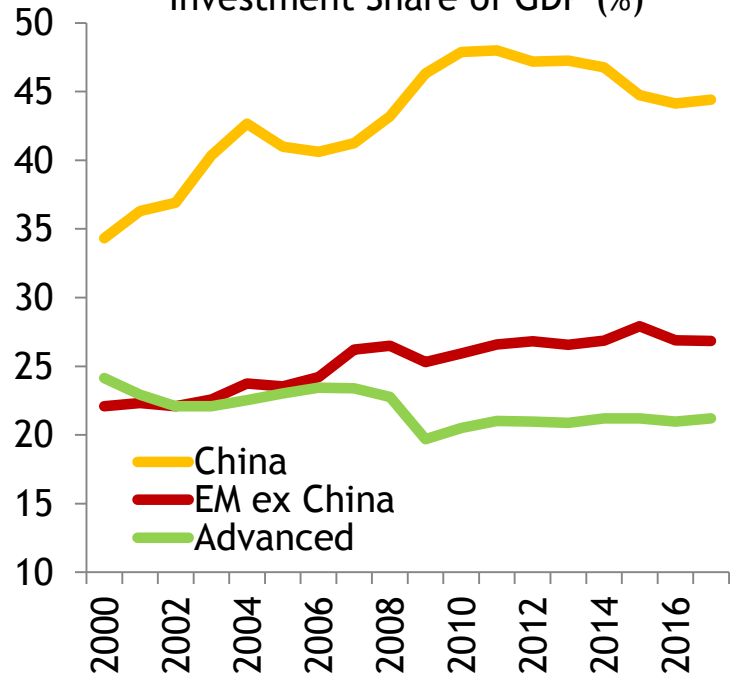


US Tariffs Could Slow China Below Target for Growth (L), Limited Room to Boost Investment as an Offset (R)

Direct GDP Impact on China of US Tariffs on Different Values of Goods (%-pts)



Investment Share of GDP (%)

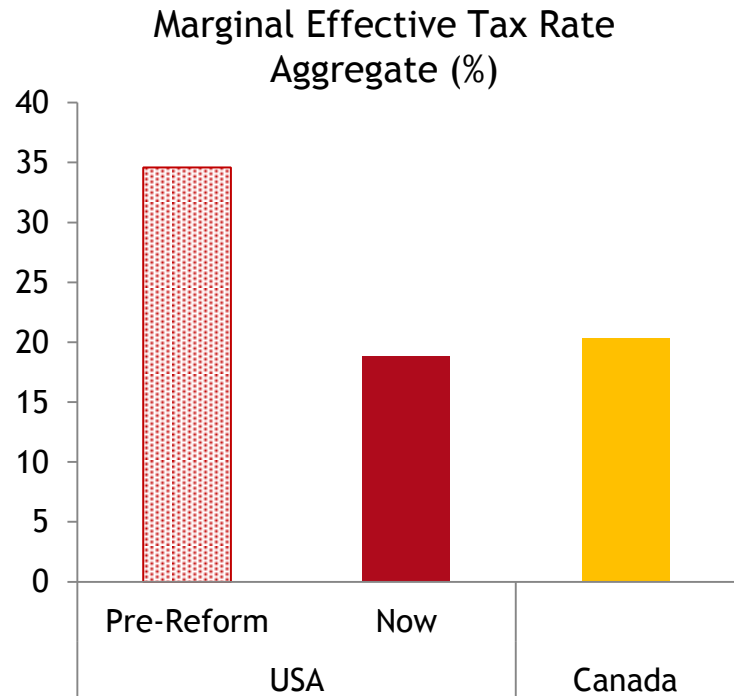
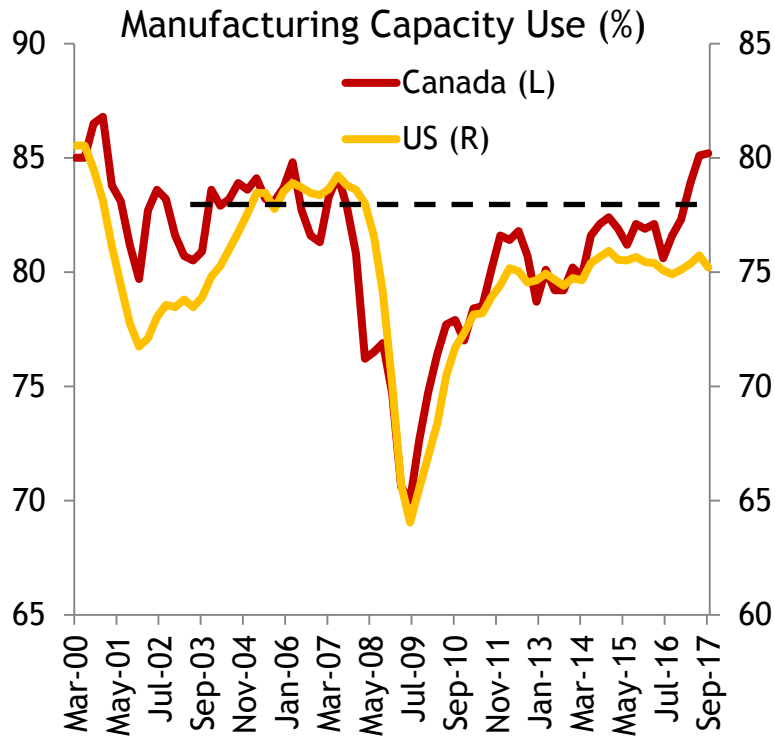


Source: IMF, CIBC





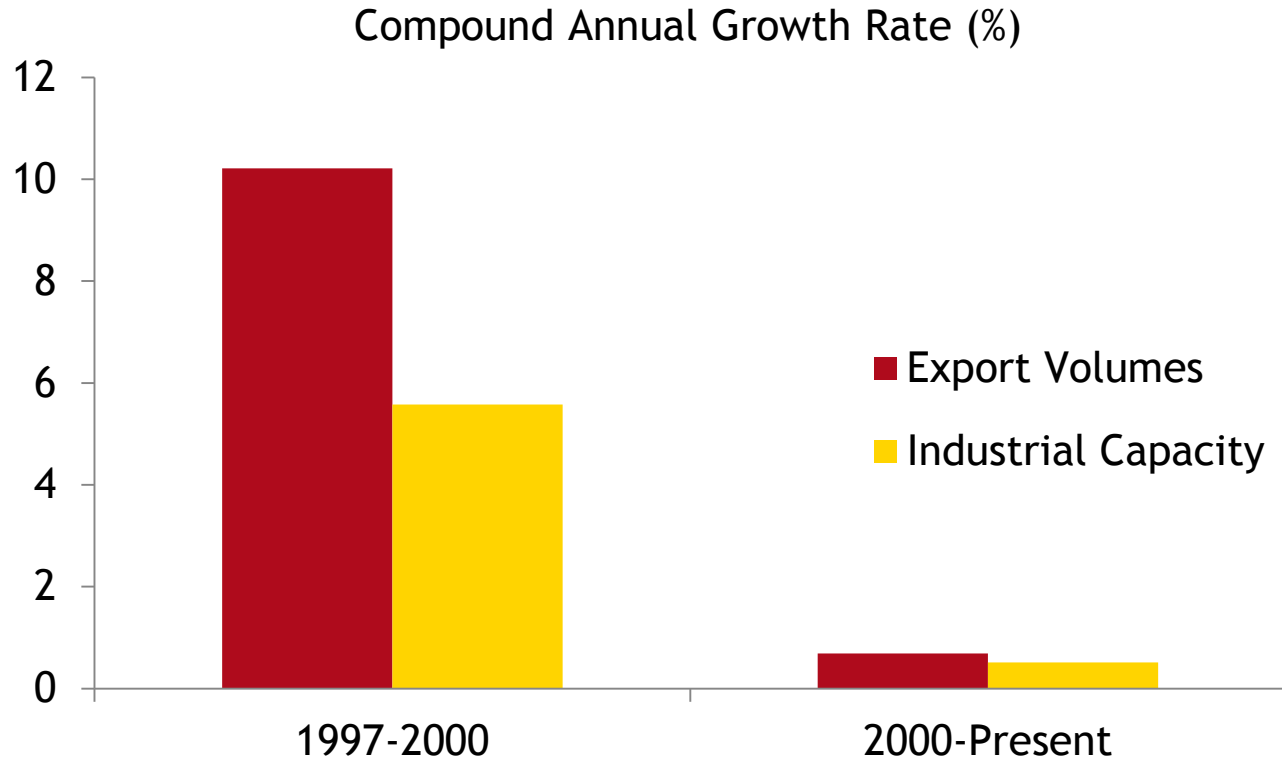
Canada Needs Investment More Than The US (L) But Corporate Tax Advantage Has Vanished (R)



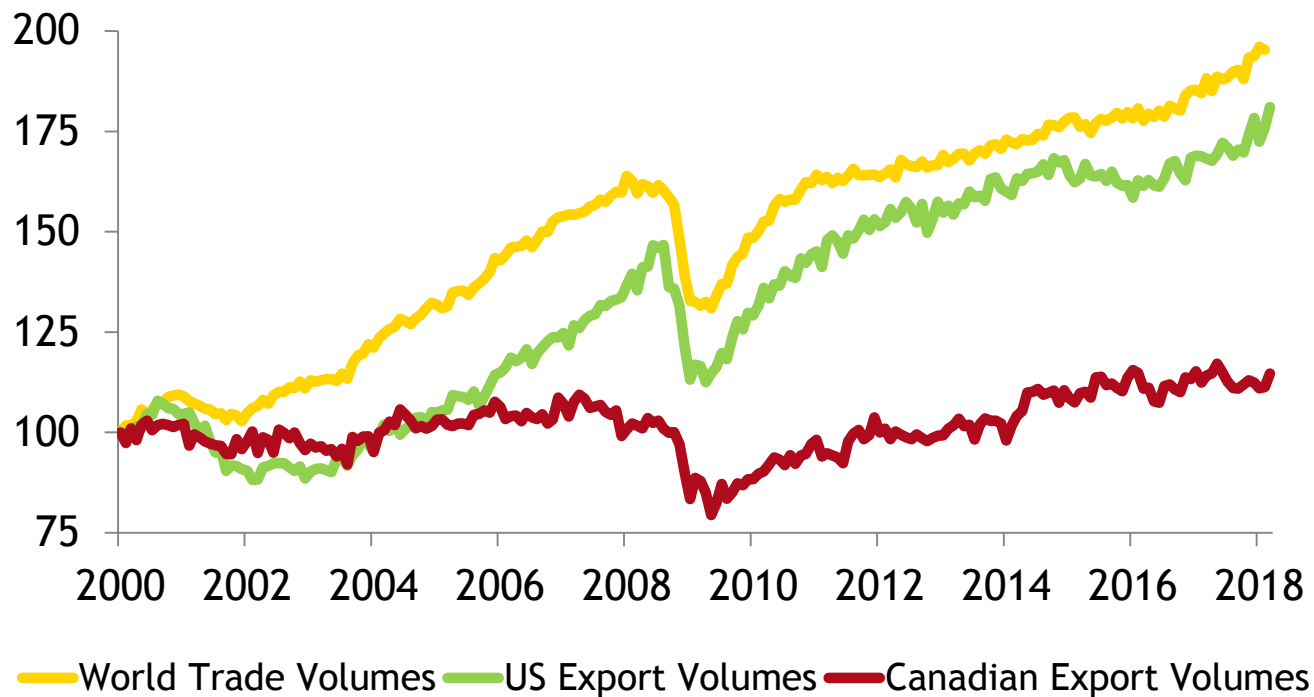
Source: Statistics Canada, BEA, CIBC



Stagnant Industrial Capacity Limiting Export Growth



New Millennium Has Seen Listless Trend in Canadian Exports 19



Source: CPB, Haver Analytics, CIBC



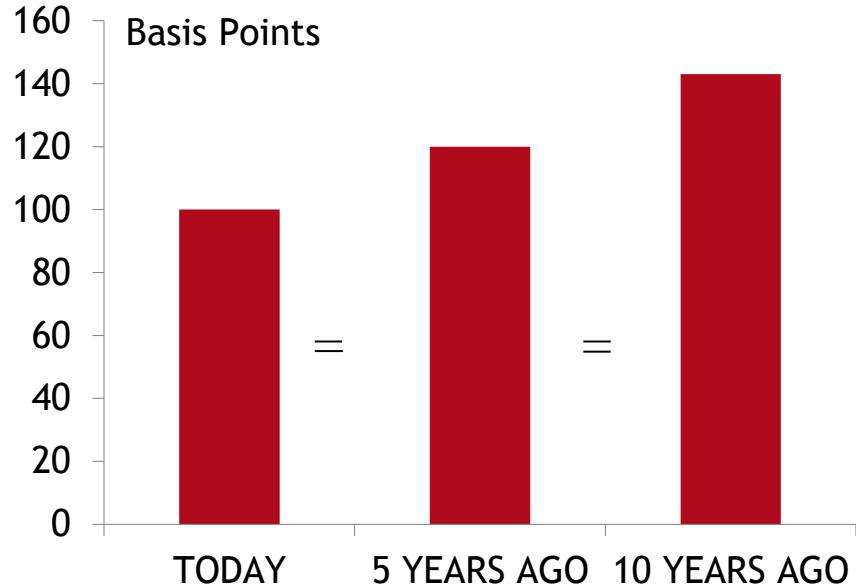
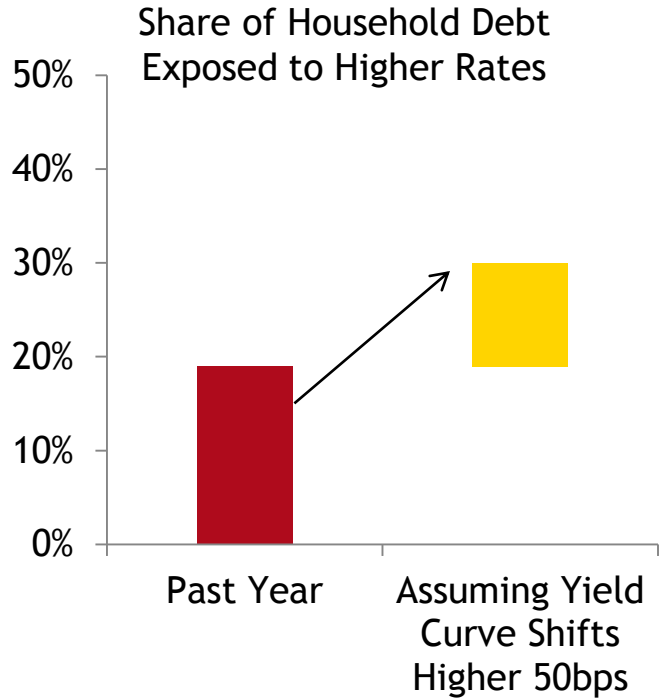
Great That Trudeau and Trump Get Along So Well...

20



Debt Exposed to Higher Rates Rising (L)

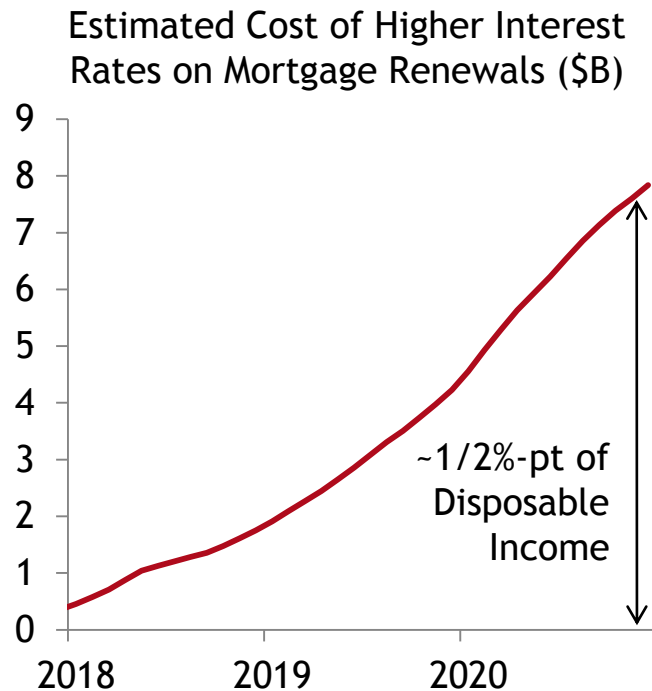
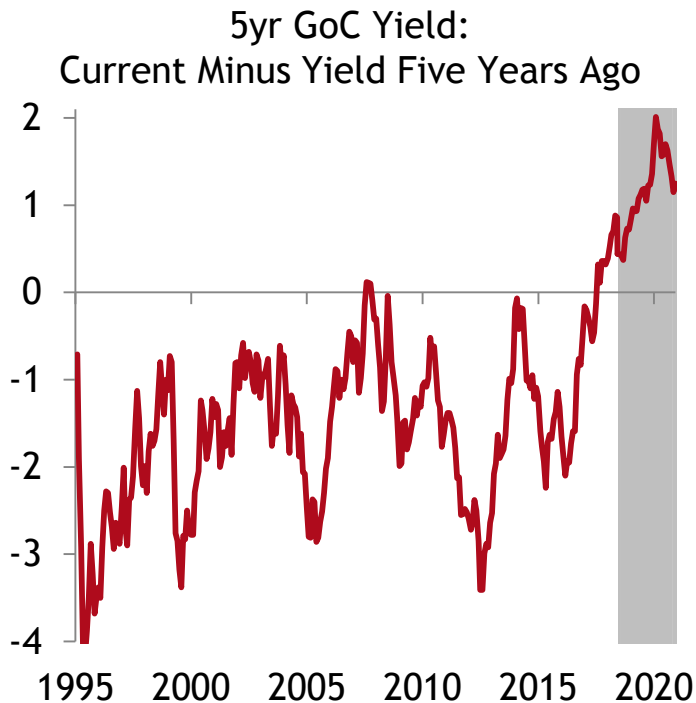
1% Rate Hike Equivalent to Nearly 1.5% Decade Ago on Higher Debt (R)



100 Basis Point Increase in Effective Rate



5-Year Yields Now Higher Than Five Years Ago (L), Many Canadians to Feel Pinch by 2020 (R)



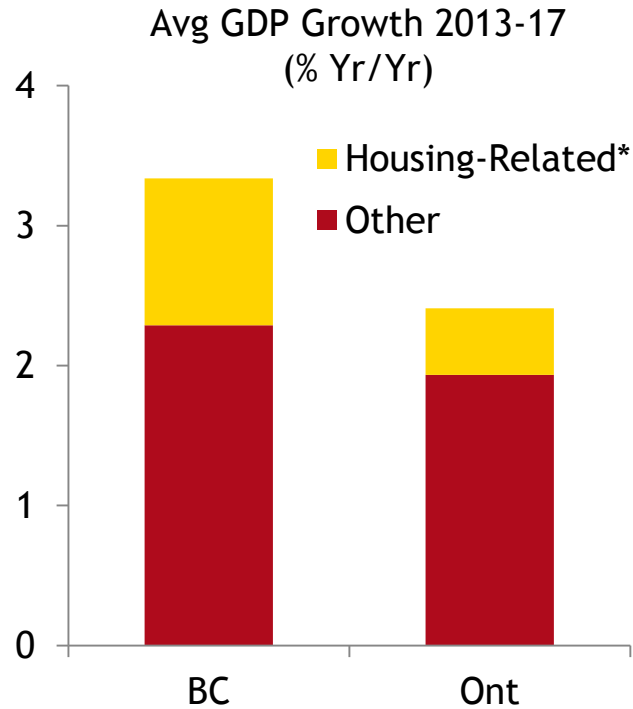
Source: Haver Analytics, CIBC



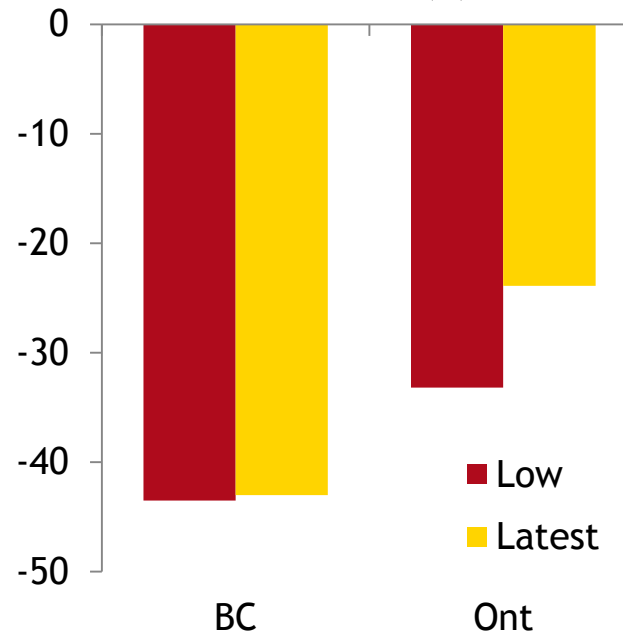
Household Credit Growth Slower Than in Recession



BC Was Always More Reliant on Housing (L), Sales Volumes Haven't Started to Recover (R)



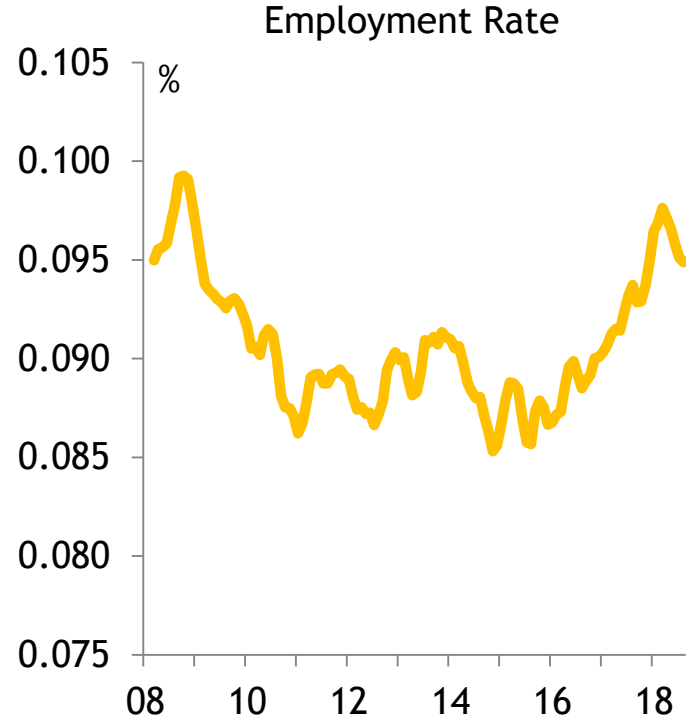
Change in Residential Sales Units vs 2016/17 Peaks (%)



* Residential Construction, Housing-Related Retail, Real Estate
Source: Statistics Canada, CREA, CIBC



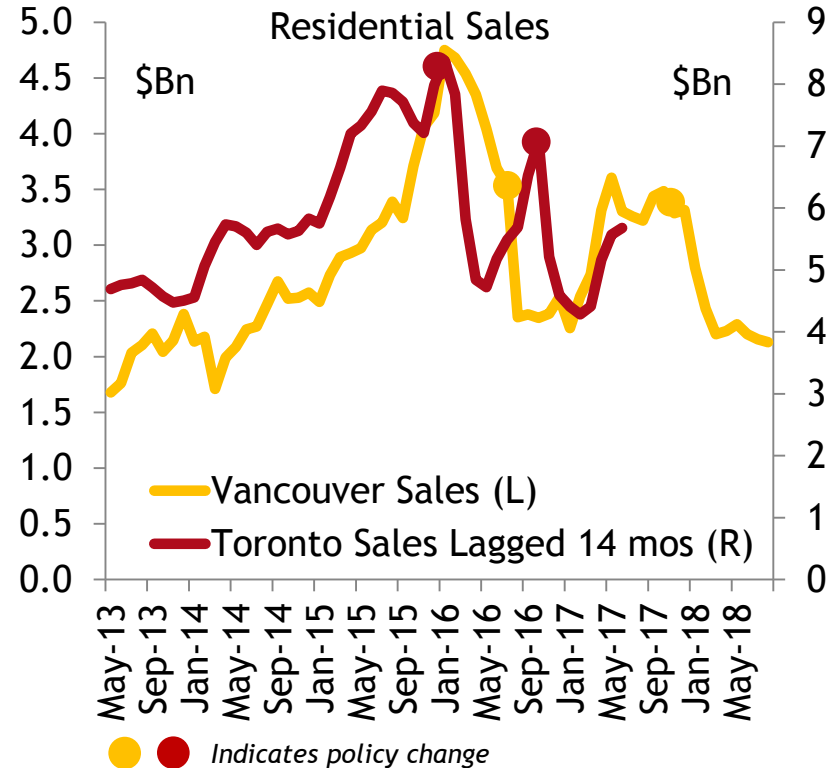
BC: Good Luck Finding 10,000 Construction Workers



Source: Statistics Canada, CIBC



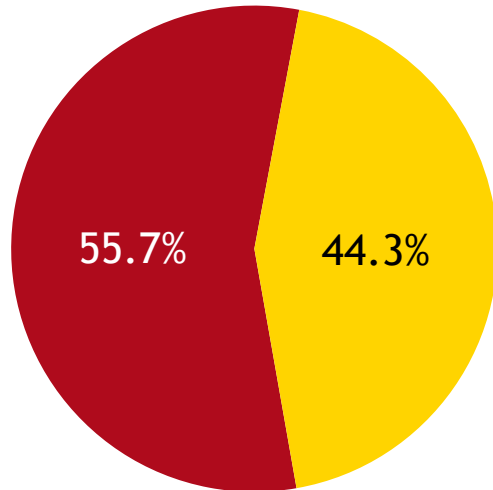
The Best View of the Toronto Real Estate Horizon is from the Vancouver Harbour



Source: CREA, CIBC



For Possession in 2017

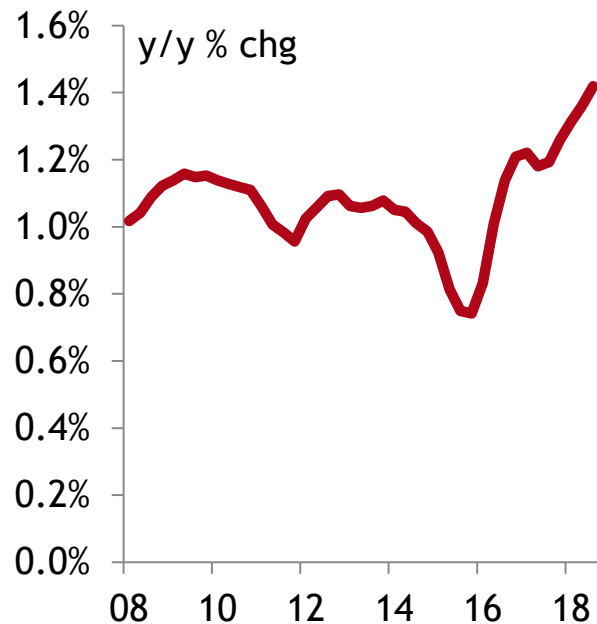


■ Positive ■ Negative

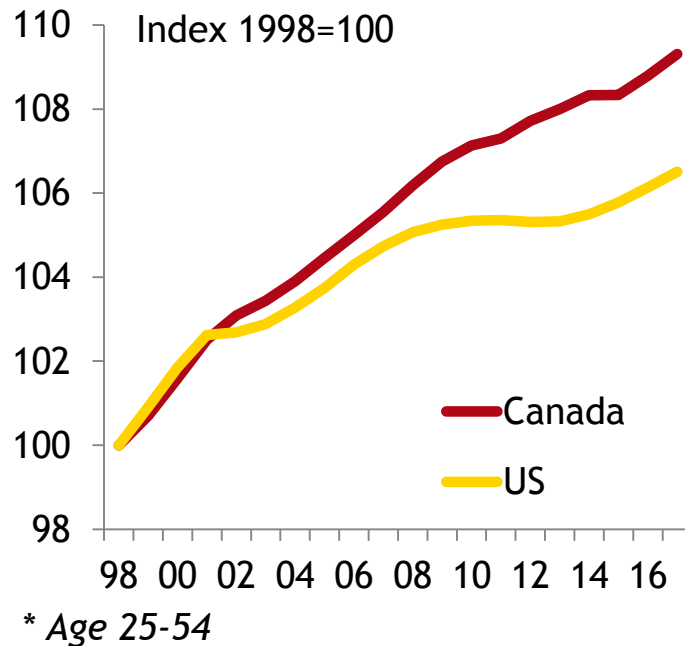
	<u>Positive</u>	<u>Negative</u>
\$0.00 - \$500	78.4%	45.4%
\$500.01 - \$1000	16.3%	20.1%
>\$1000.01	5.3%	34.5%
	<hr/> 100.0%	<hr/> 100.0%

Population Growth UP (L), With Prime Working Age Leading US (R)

Population Growth: Canada



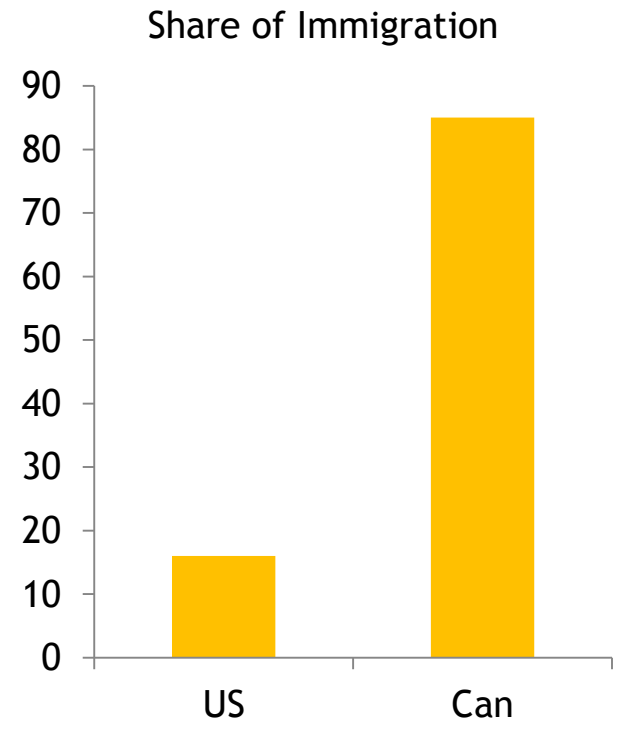
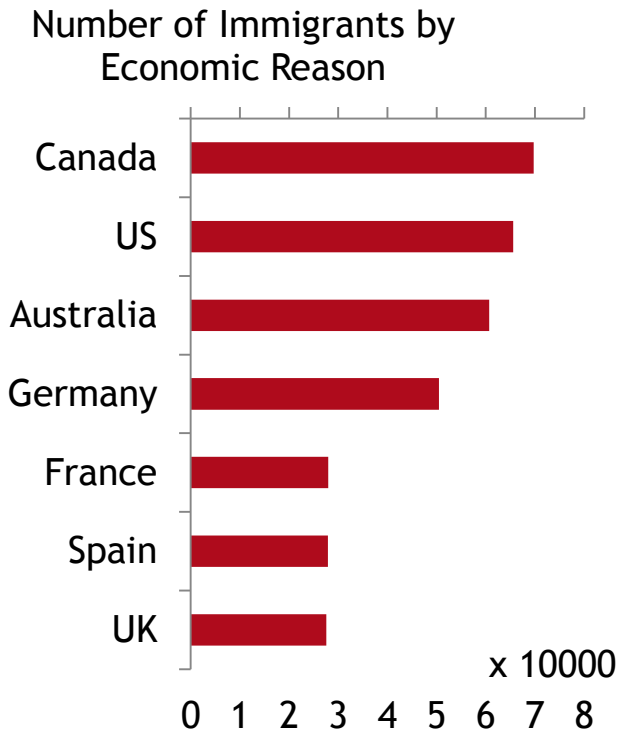
Pop. Growth: Prime Age*



Source: Statistics Canada, Census, CIBC



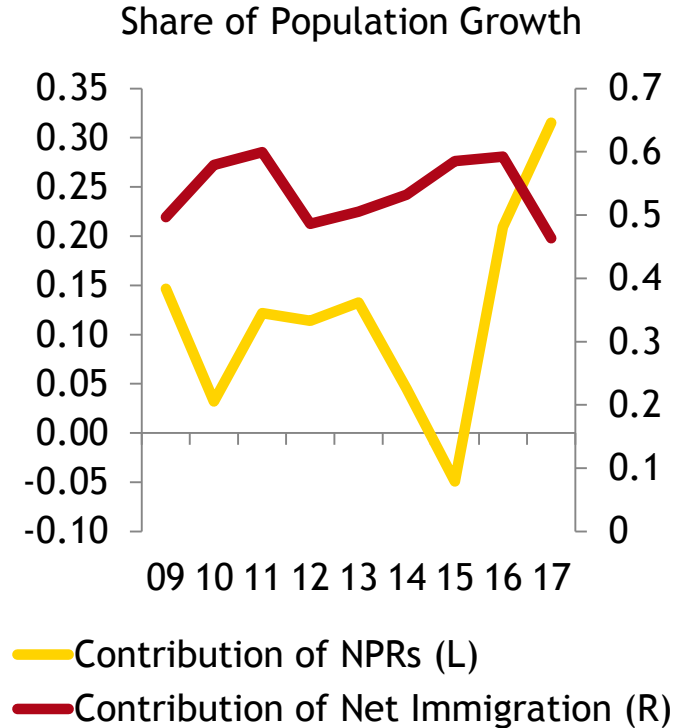
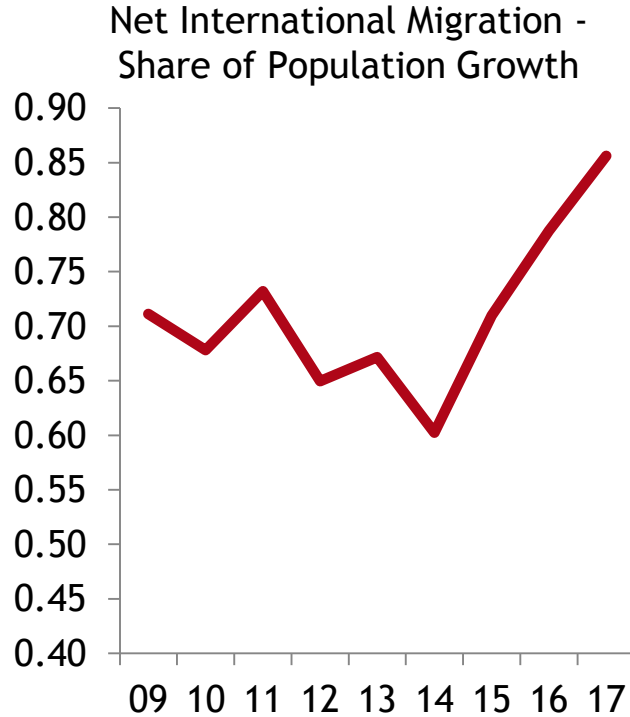
Canada Getting a Lot of Economic Immigrants



Source: OECD, CIBC



Non-Permanent Residents Have Become Increasingly Important



Source: Statistics Canada, CIBC



5.4 million legal users
1.7 million Illegal users
Roughly \$5 billion in sales

Impact on GDP - 2018Q4

