



**NATIONAL
BANK**

FINANCIAL MARKETS

Economic & Financial Outlook

GRI

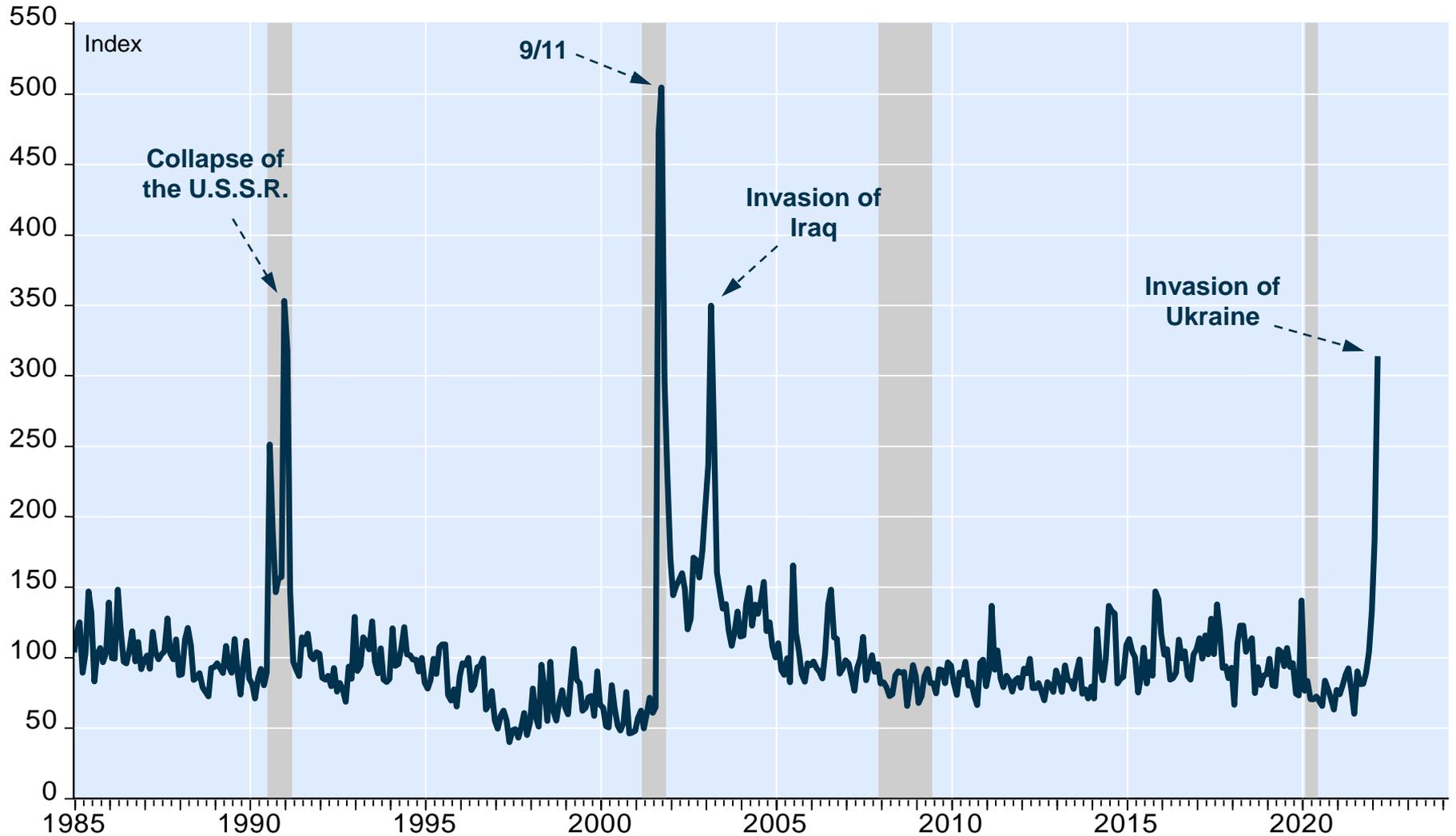
Stéfane Marion
Chief Economist & Strategist

April 14, 2022

Challenging backdrop

World: Geopolitical uncertainty the highest since the invasion of Iraq

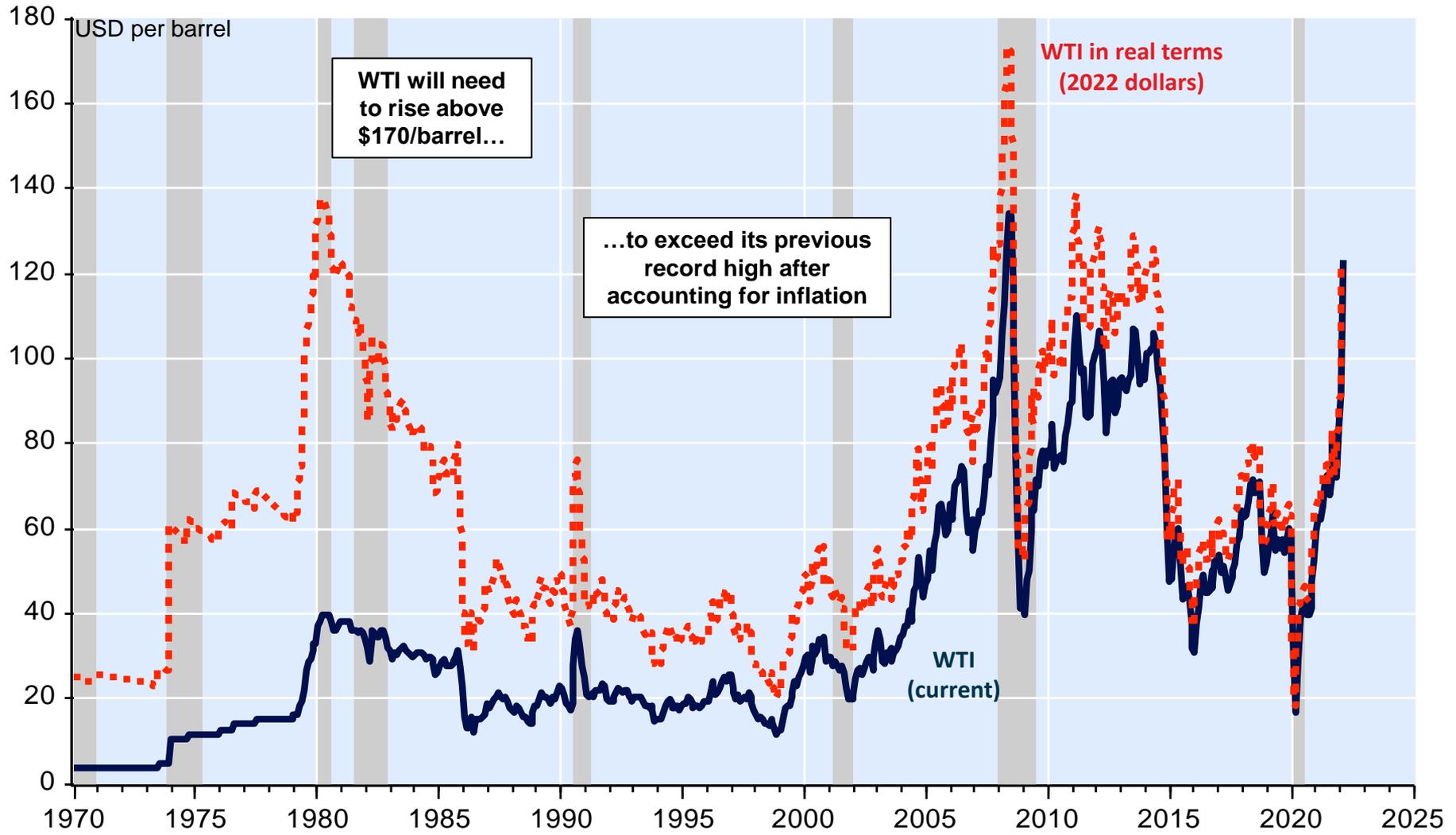
Geopolitical Risk Index (Dario Caldara and Matteo Iacoviello)



NBF Economics and Strategy (data via <https://www.matteoiacoviello.com/gpr.htm>)

World: Will oil derail the global economy?

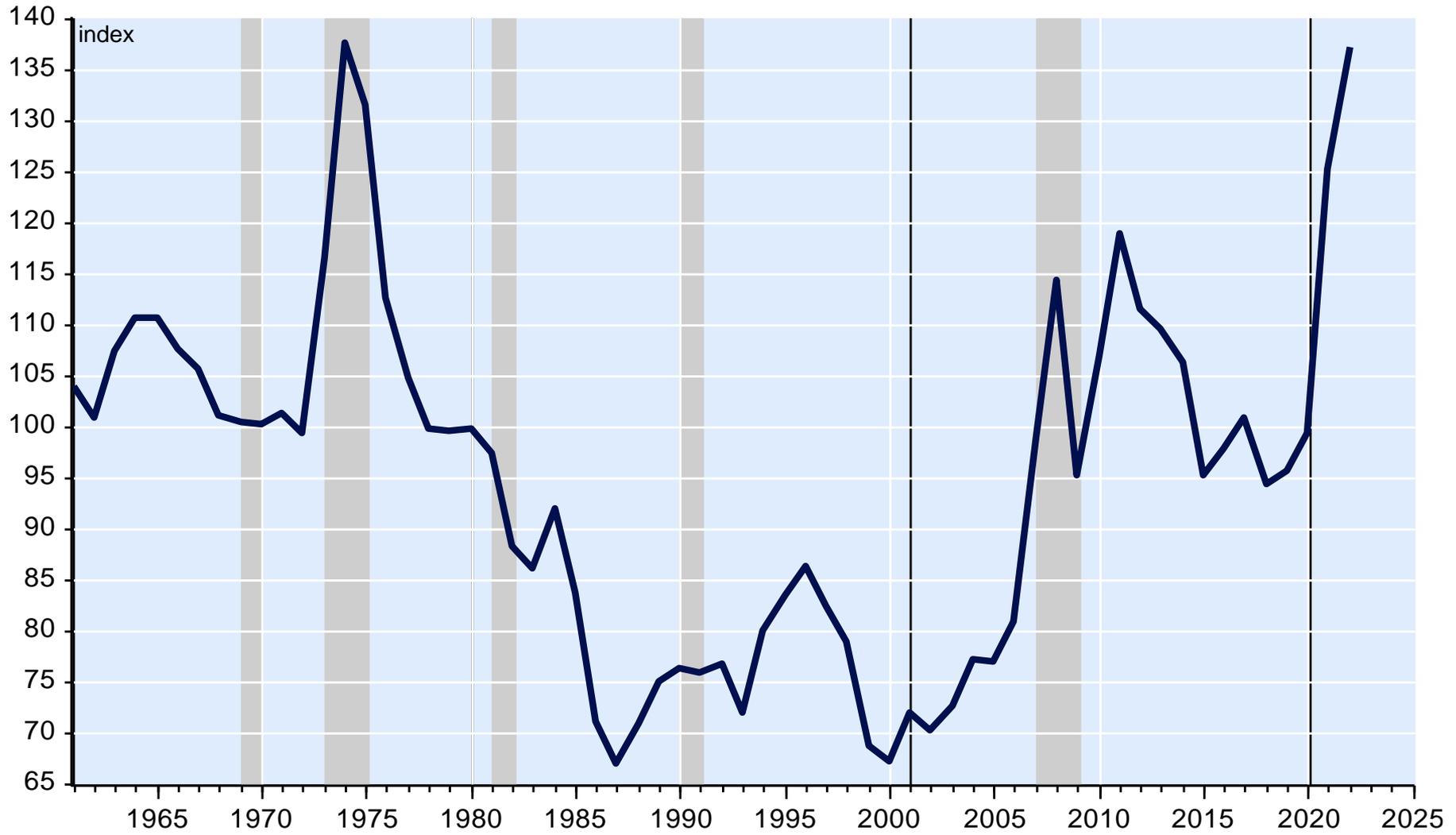
Price of WTI: nominal vs. real (2022 dollars*)



* Deflated using U.S. CPI for all urban consumers
NBF Economics and Strategy (data retrieved from FRED)

World: Food prices are at a record high

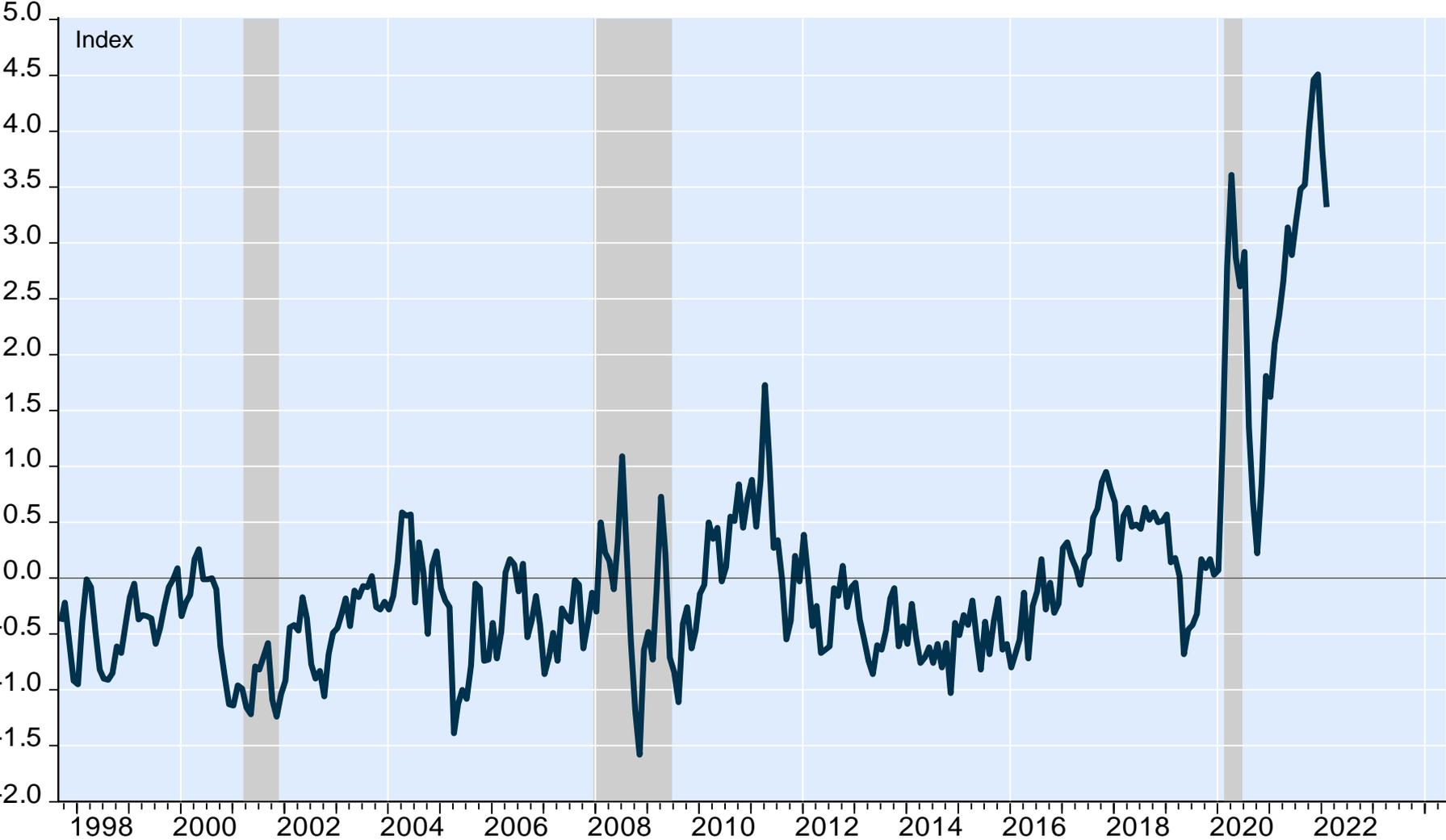
International price index for a basket of food commodities (in real terms)



NBF Economics and Strategy (data retrieved from [U.N.](#))

World: Supply problems still persist

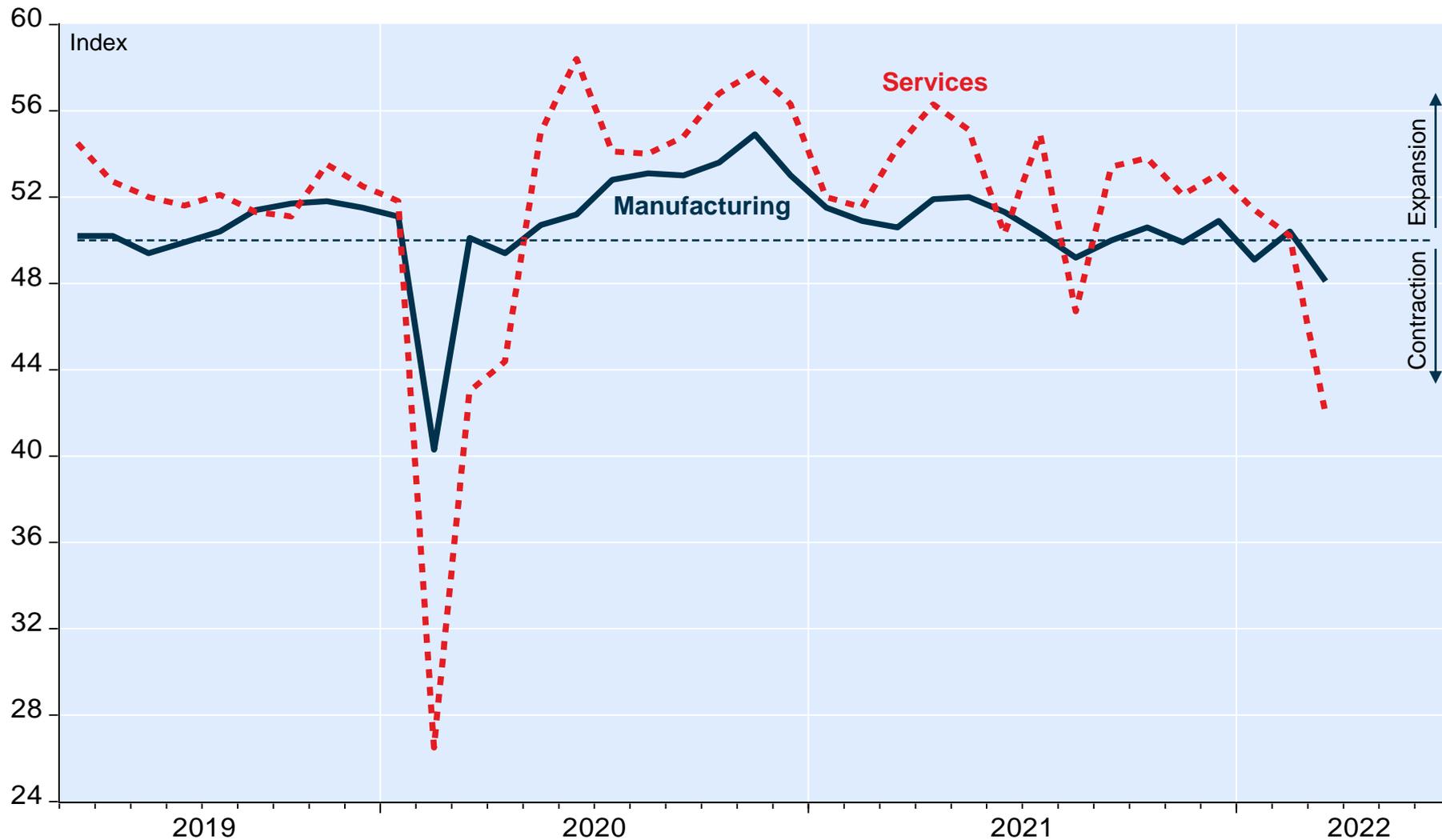
New York Fed Global Supply Chain Pressure Index



NBF Economics and Strategy (Bloomberg data)

China: The private sector contracted in March

PMI Caixin/Markit indices

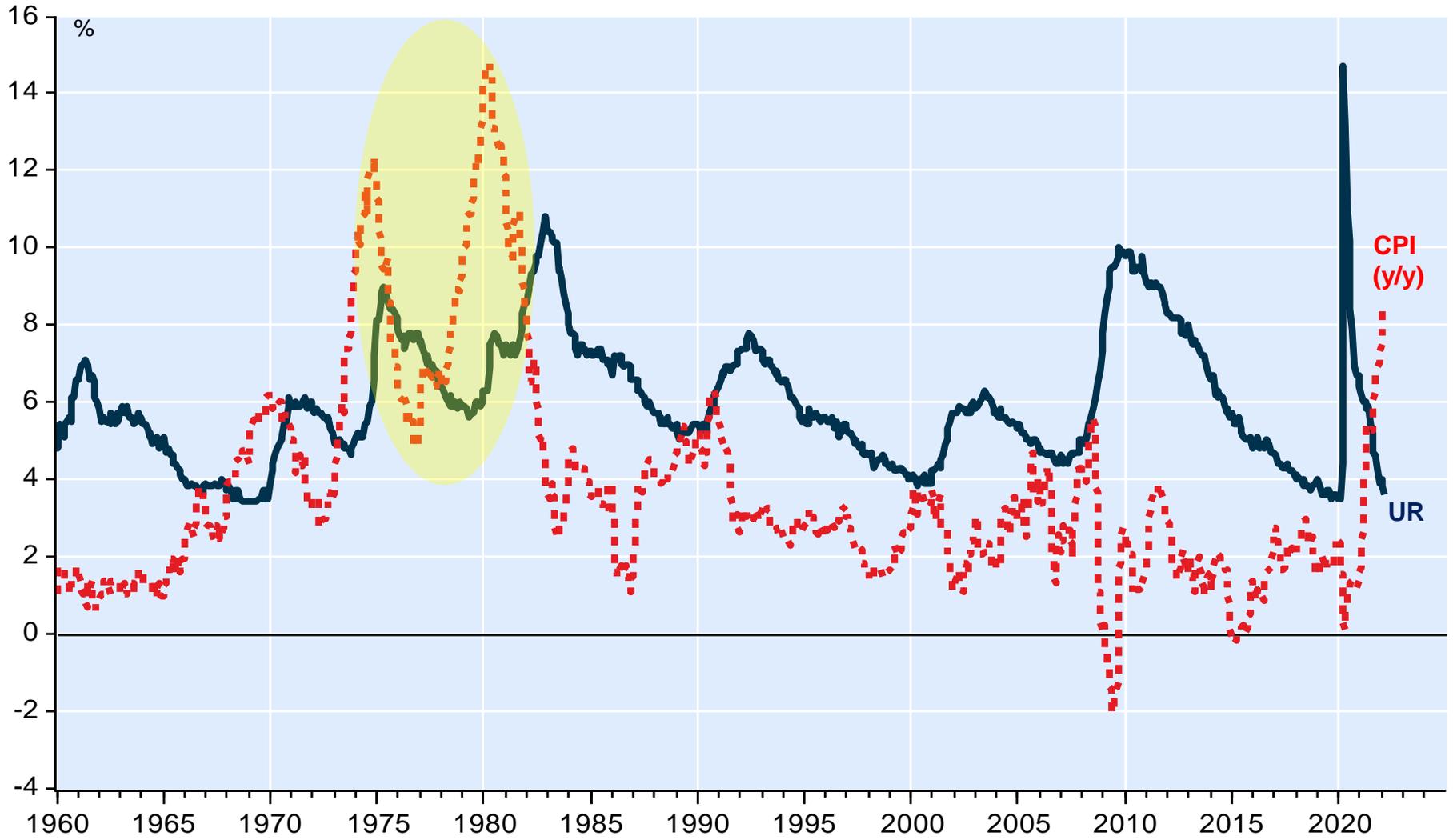


NBF Economics and Strategy (data via Refinitiv)

Stagflation?

U.S.: That '70s show

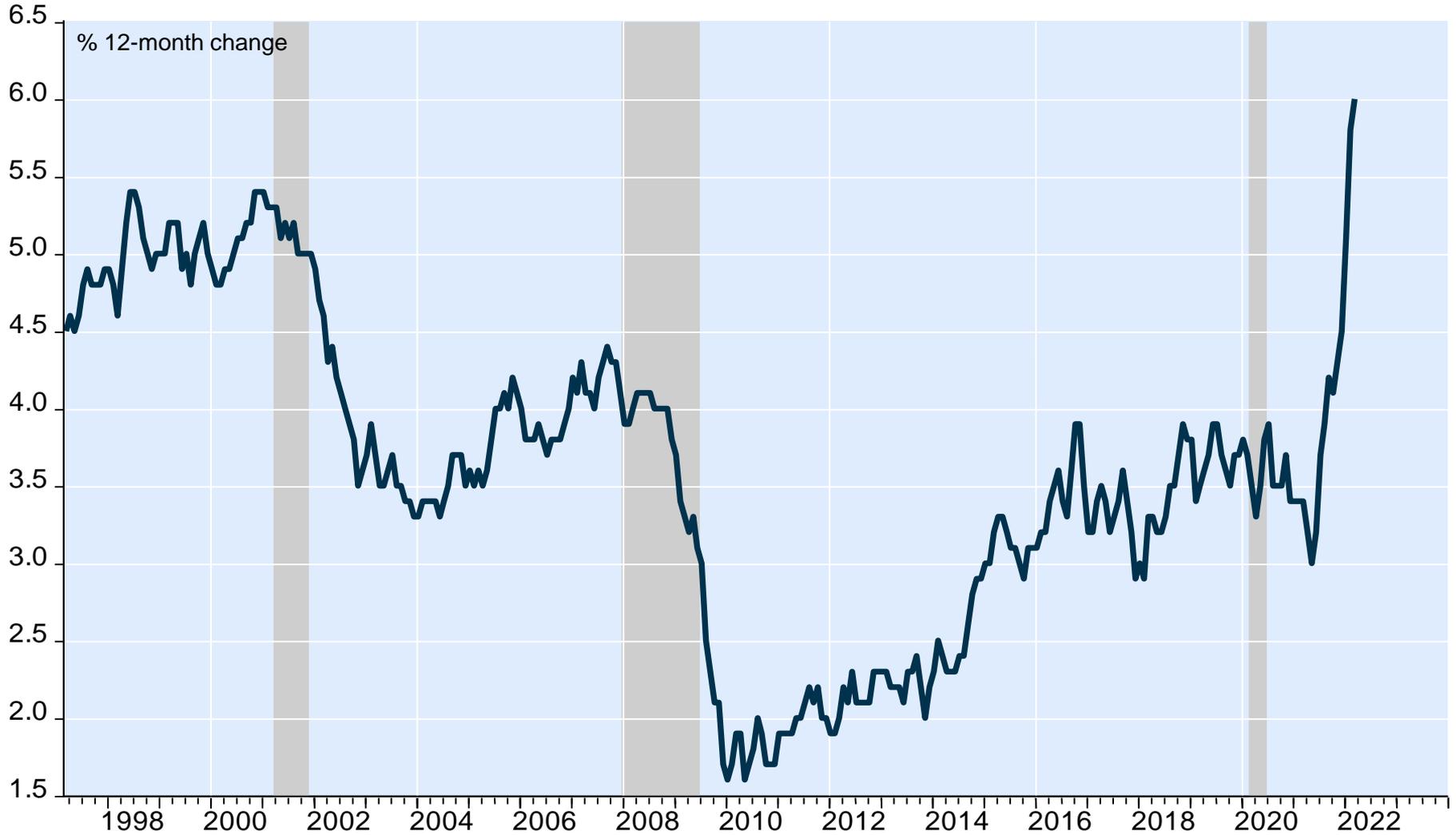
Unemployment rate (UR) and CPI inflation – yellow area delimits period of stagflation



NBF Economics and Strategy (BLS data via Refinitiv)

U.S.: Rising wages under conditions of labour scarcity

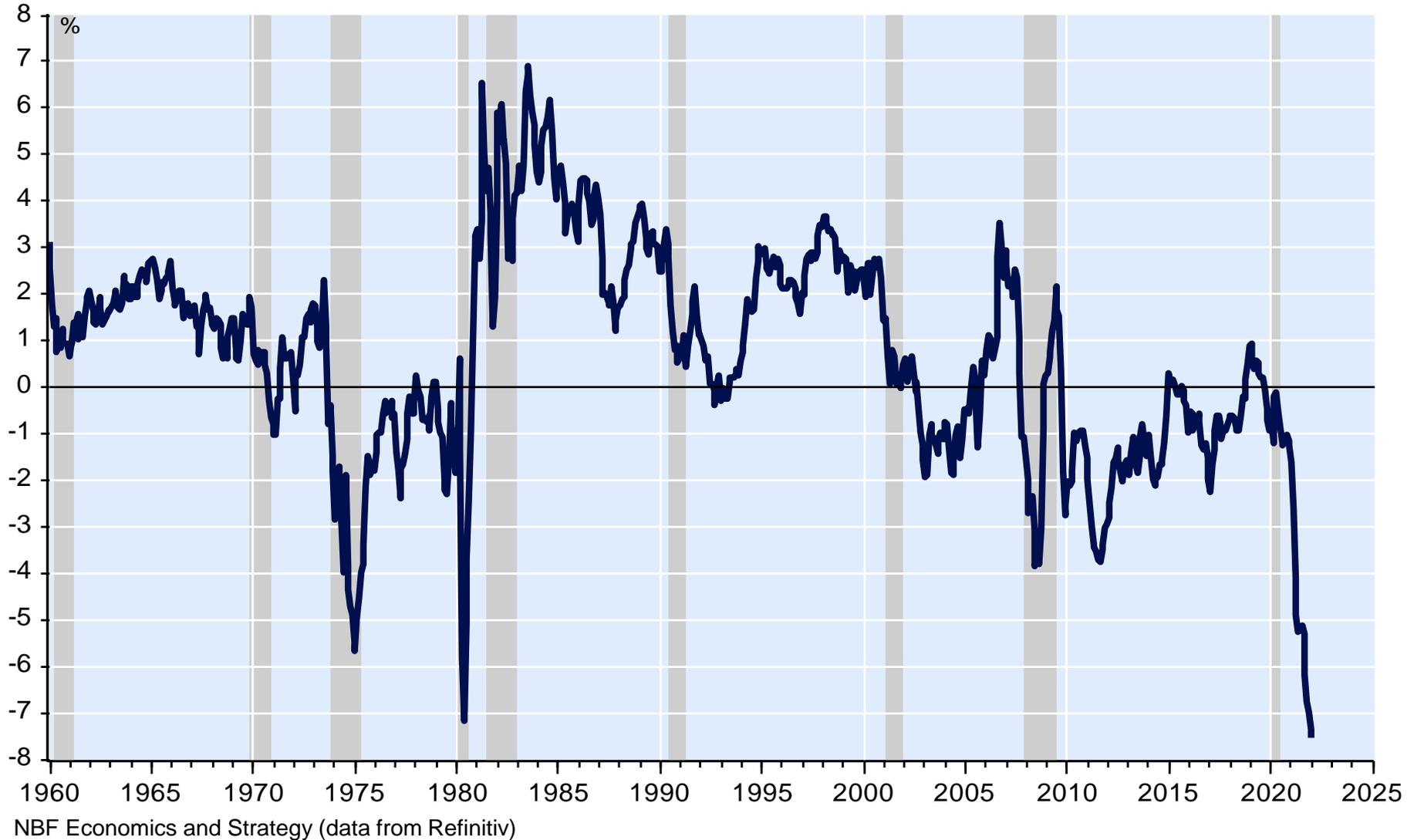
12-month change in median wage



NBF Economics and Strategy (data from Atlanta Fed)

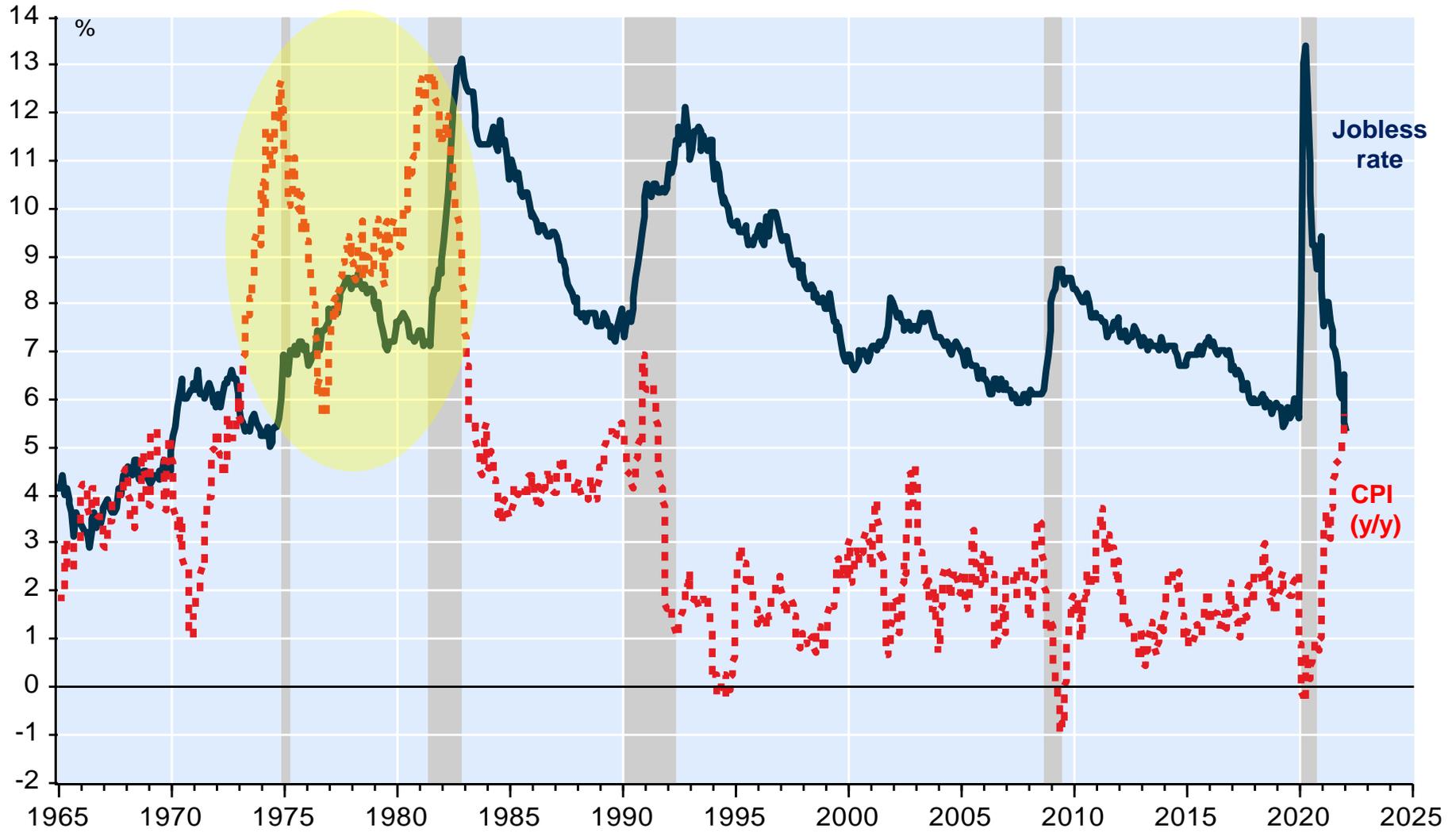
U.S. : Monetary policy is still highly stimulative

3-month T-Bill les 12-month CPI inflation



Canada: Back to the Bouey years!

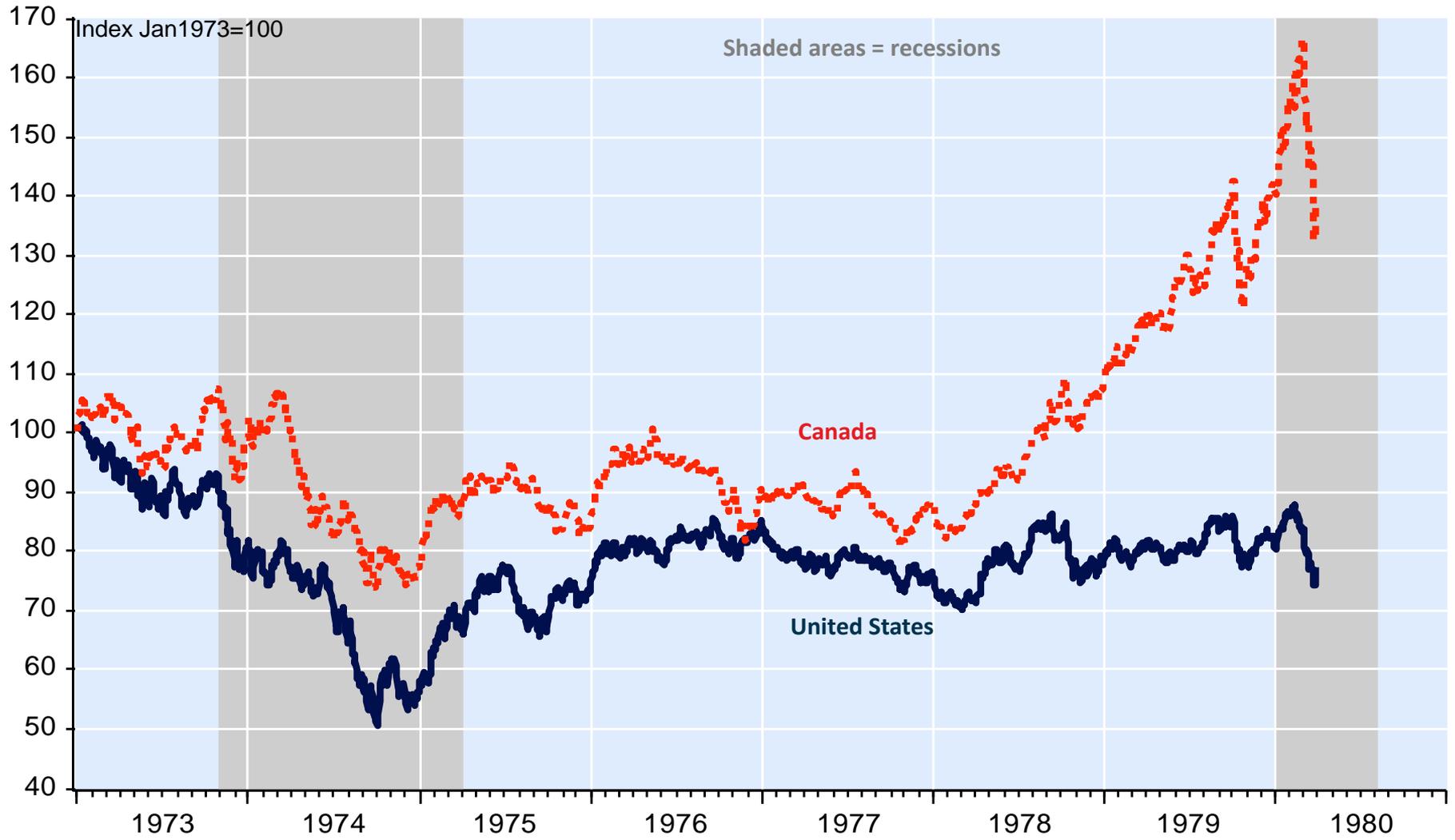
Unemployment rate (UR) and CPI inflation – yellow area delimits period of stagflation



NBF Economics and Strategy (BLS data via Refinitiv)

North America: Stock market performance during stagflation

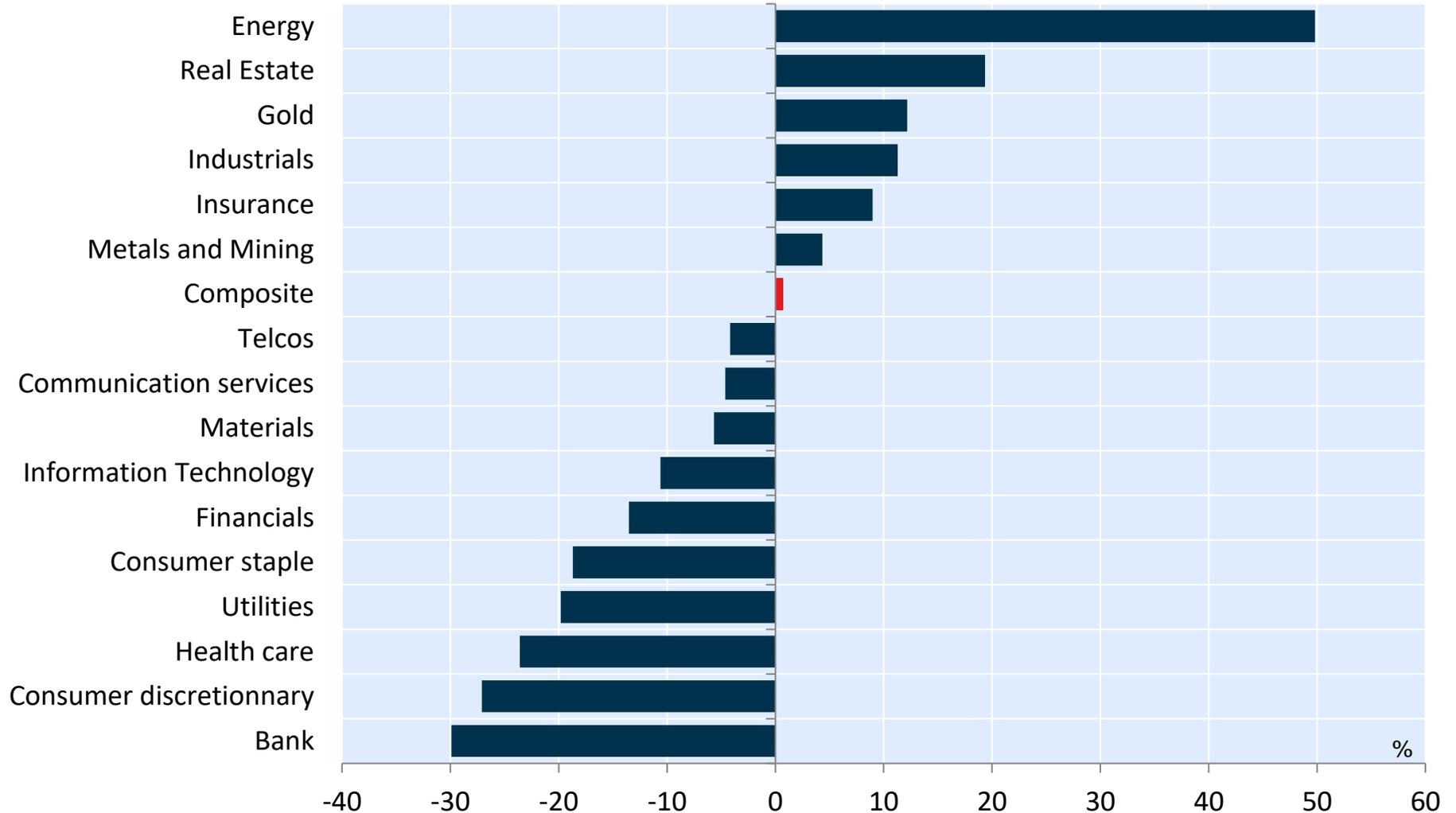
U.S. and Canadian equity indices between 1973 and 1980



NBF Economics and Strategy (data from Refinitiv)

U.S.: Equities performance in stagflationary environment

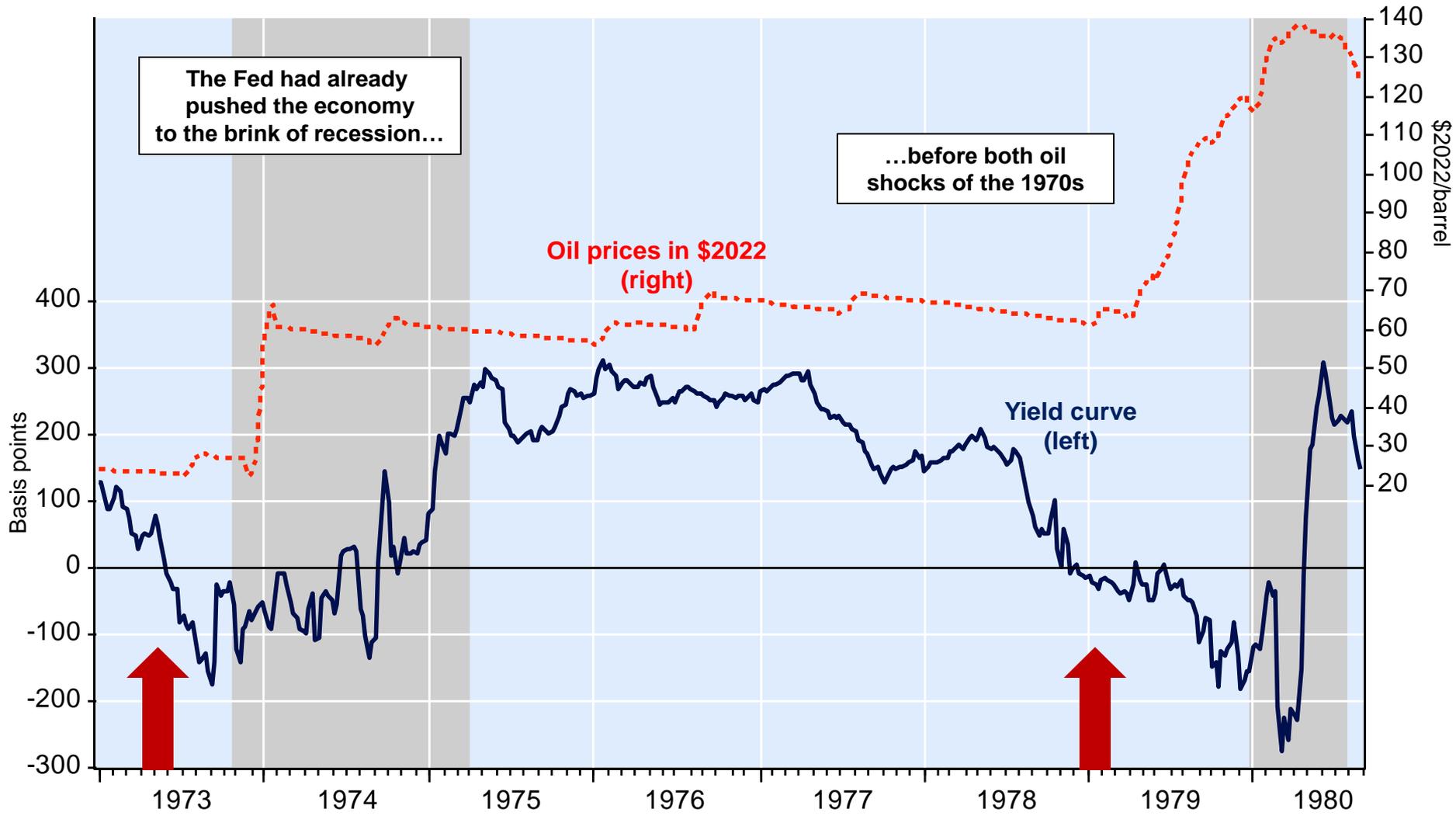
U.S. equities from December 1973 to March 1980



NBF Economics and Strategy (data from Refinitiv)

U.S.: Yield curve was inverted before the two oil shocks of the 1970s

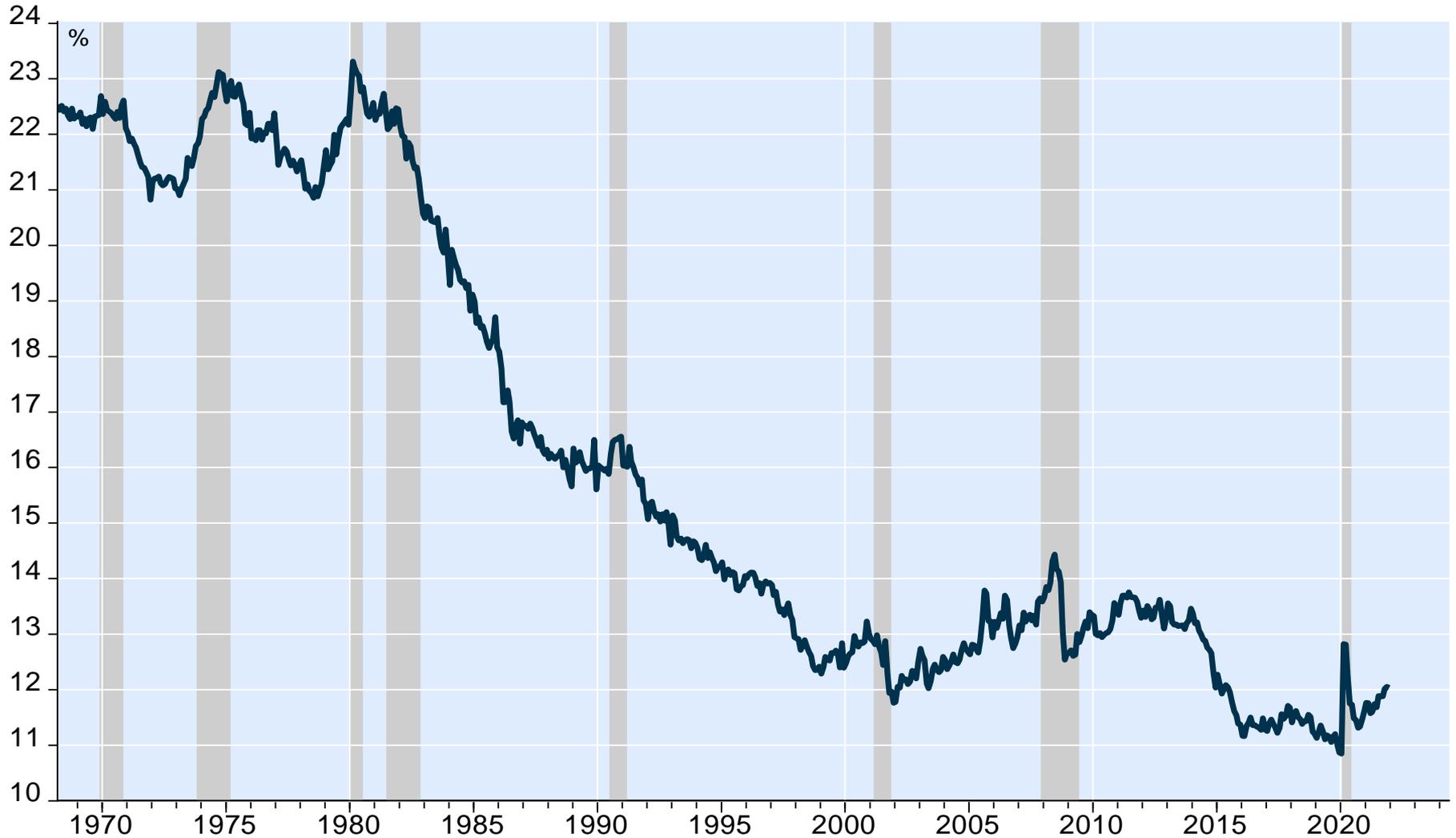
Yield curve (yield on 10-yr note less 3-month T-bill) vs. price of WTI in constant 2022 dollars – weekly data



NBF Economics and Strategy (data via Fred St-Louis)

U.S.: Share of food & energy in consumption basket

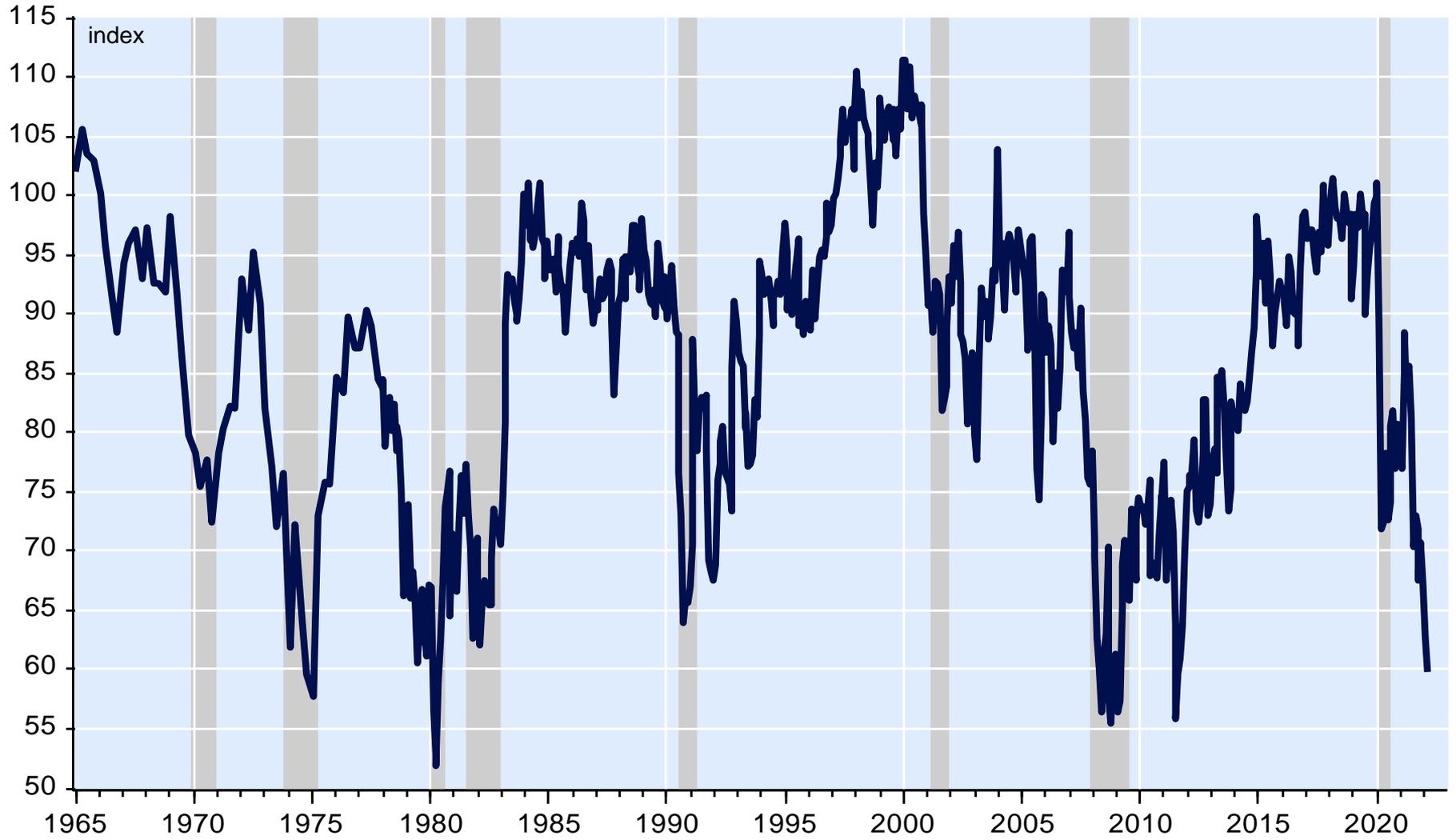
Spending on food and energy expressed as a percentage of total personal consumption expenditures



NBF Economics and Strategy (data via Bloomberg)

U.S.: Consumer sentiment takes a hit

Index of consumer sentiment (university of Michigan)



NBF Economics and Strategy (data via Refinitiv)

U.S.: Rising borrowing costs a risk for housing sector

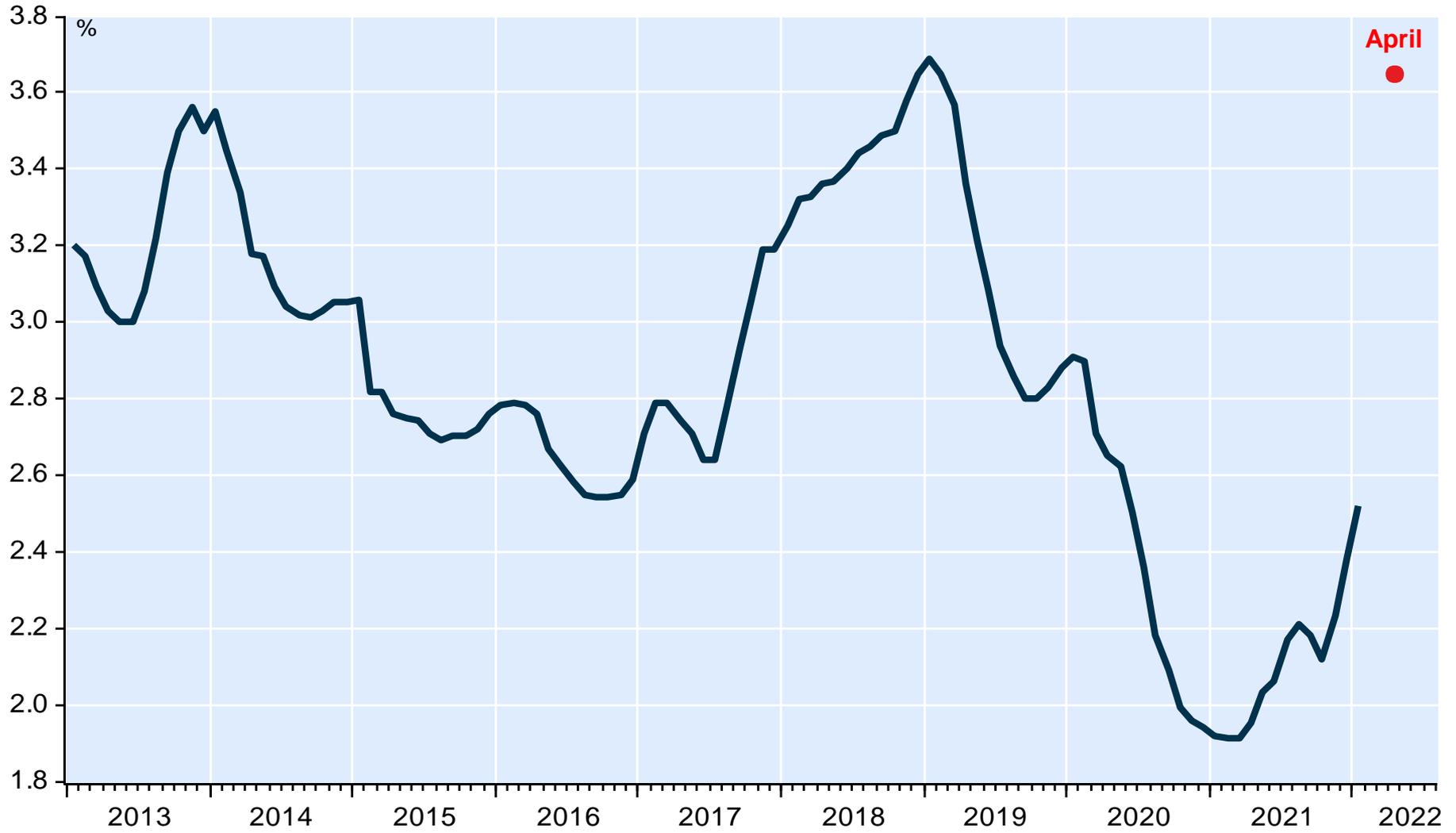
Average rate on 30-year fixed mortgages



NBF Economics and Strategy (Fred of St-Louis)

Canada: Mortgage rates already above pre-pandemic level

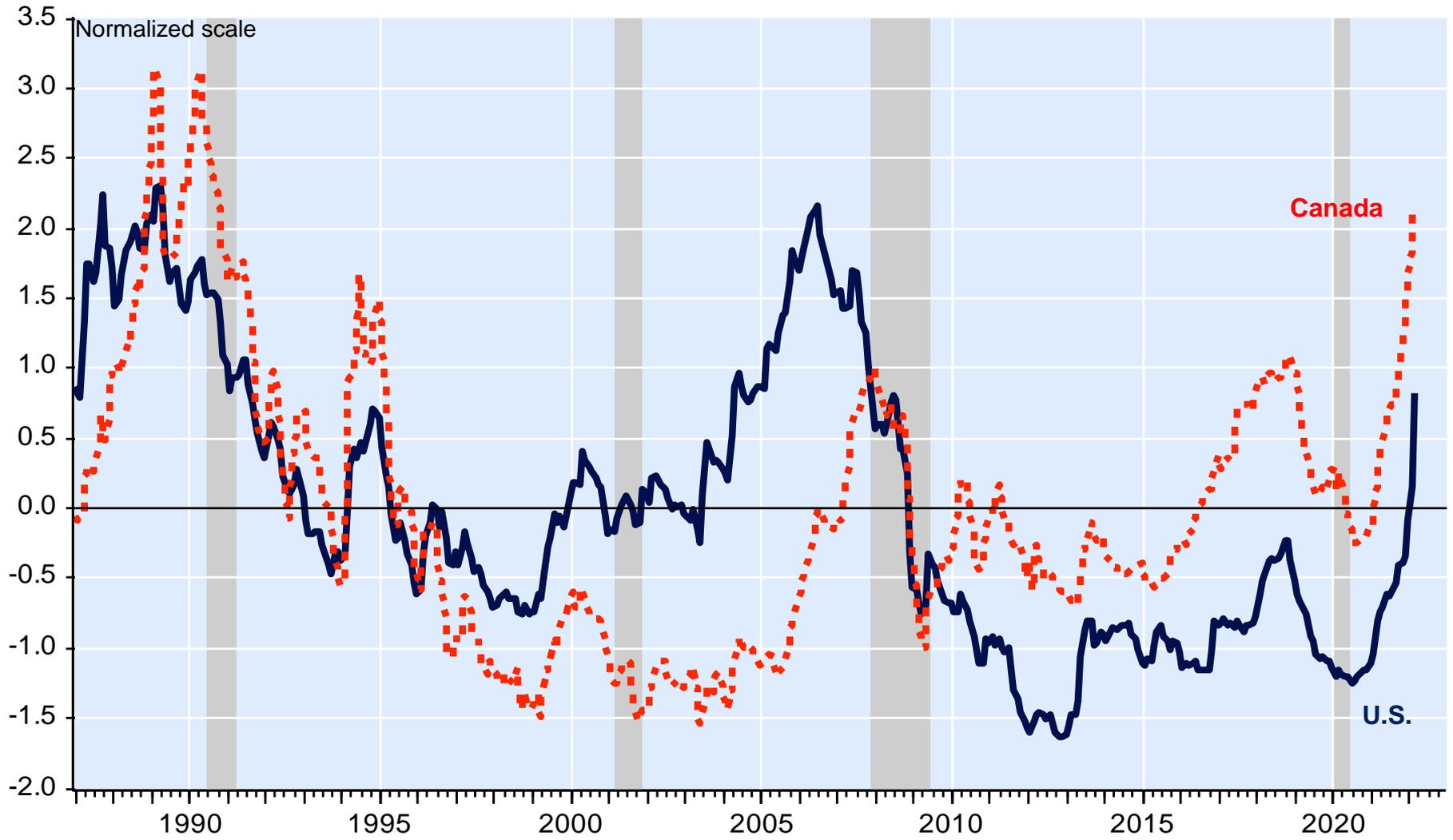
5-year fixed rate for insured mortgages



NBF Economics and Strategy (data via Statcan)

The recent surge in interest rates is impacting affordability

Canada and U.S. housing affordability index* on a normalized scale

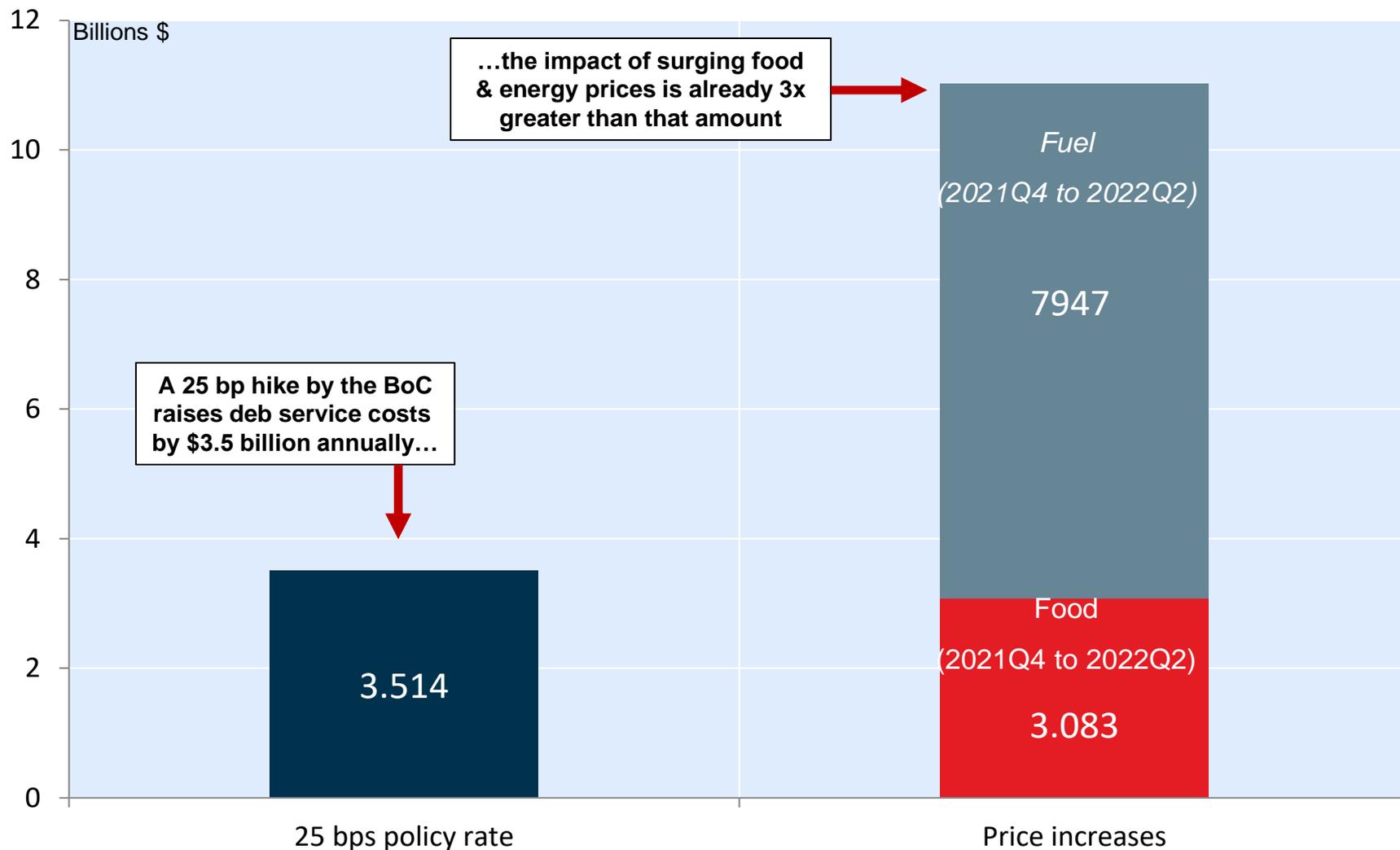


*Calculated using median household income, market interest rate, market term and representative home price

NBF Economics and Strategy (data via Teranet-National Bank, FRED)

Canada: Surging food and energy prices already equal to 3 rate hikes!

Basis points equivalent of rising fuel and food prices on debt service costs (annualized)

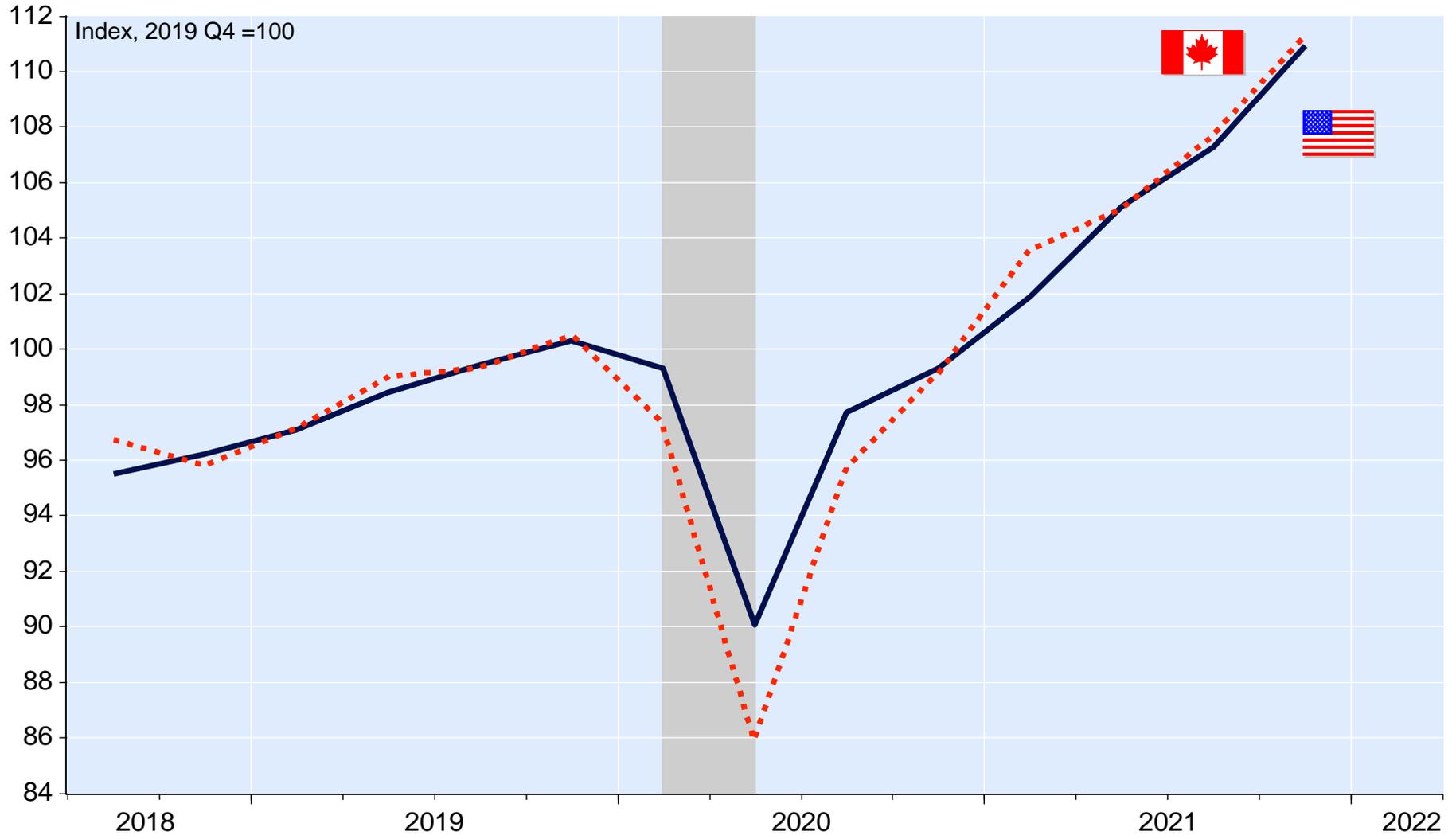


NBF Economics and Strategy (data via Statistics Canada)

Canada:
Who stands on guard for thee?

Canada: Nominal GDP expansion matches that in the U.S.

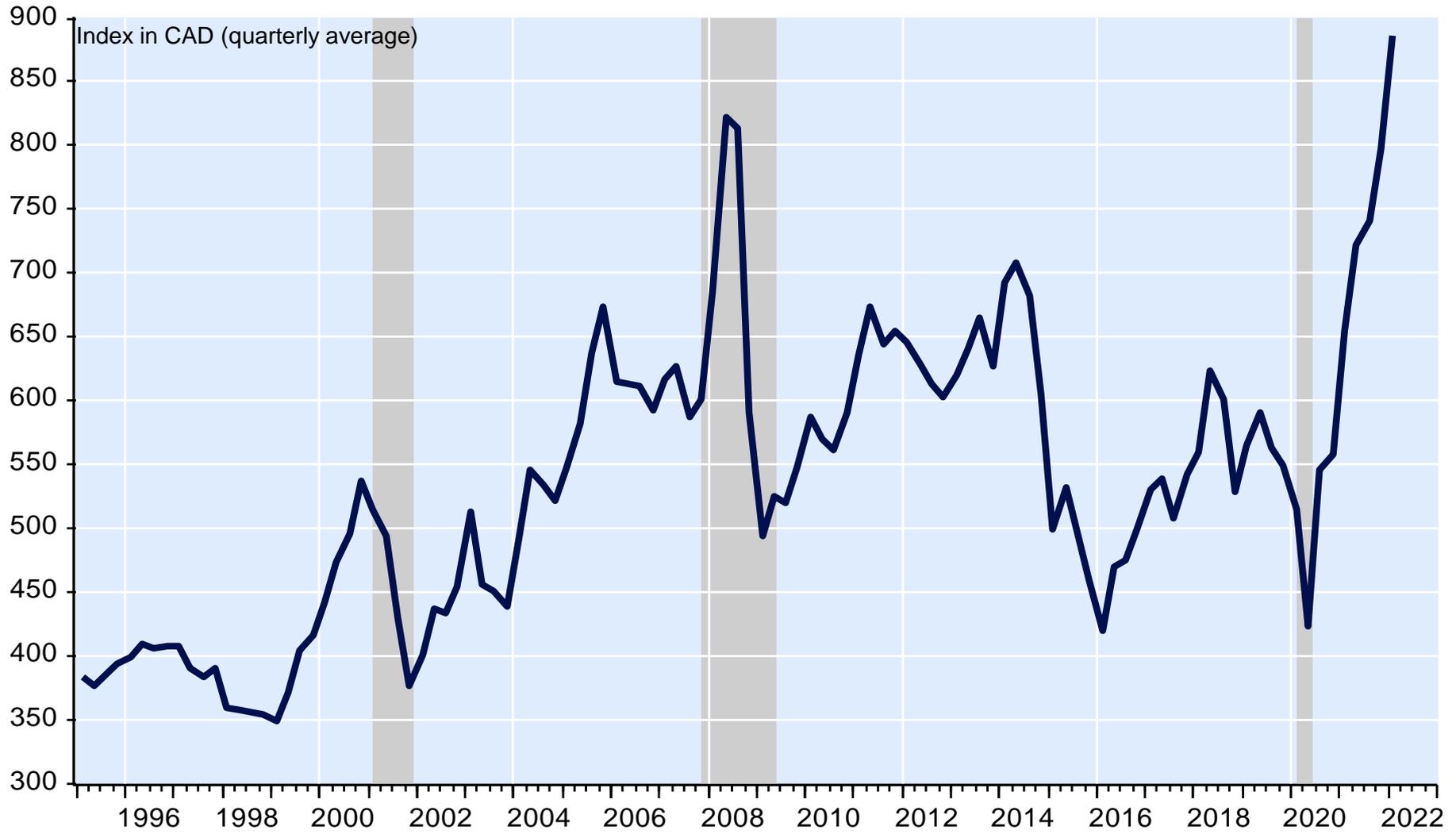
Nominal GDP: Canada vs. the U.S.



NBF Economics and Strategy (data via Refinitiv)

Canada: Commodity prices at a record high

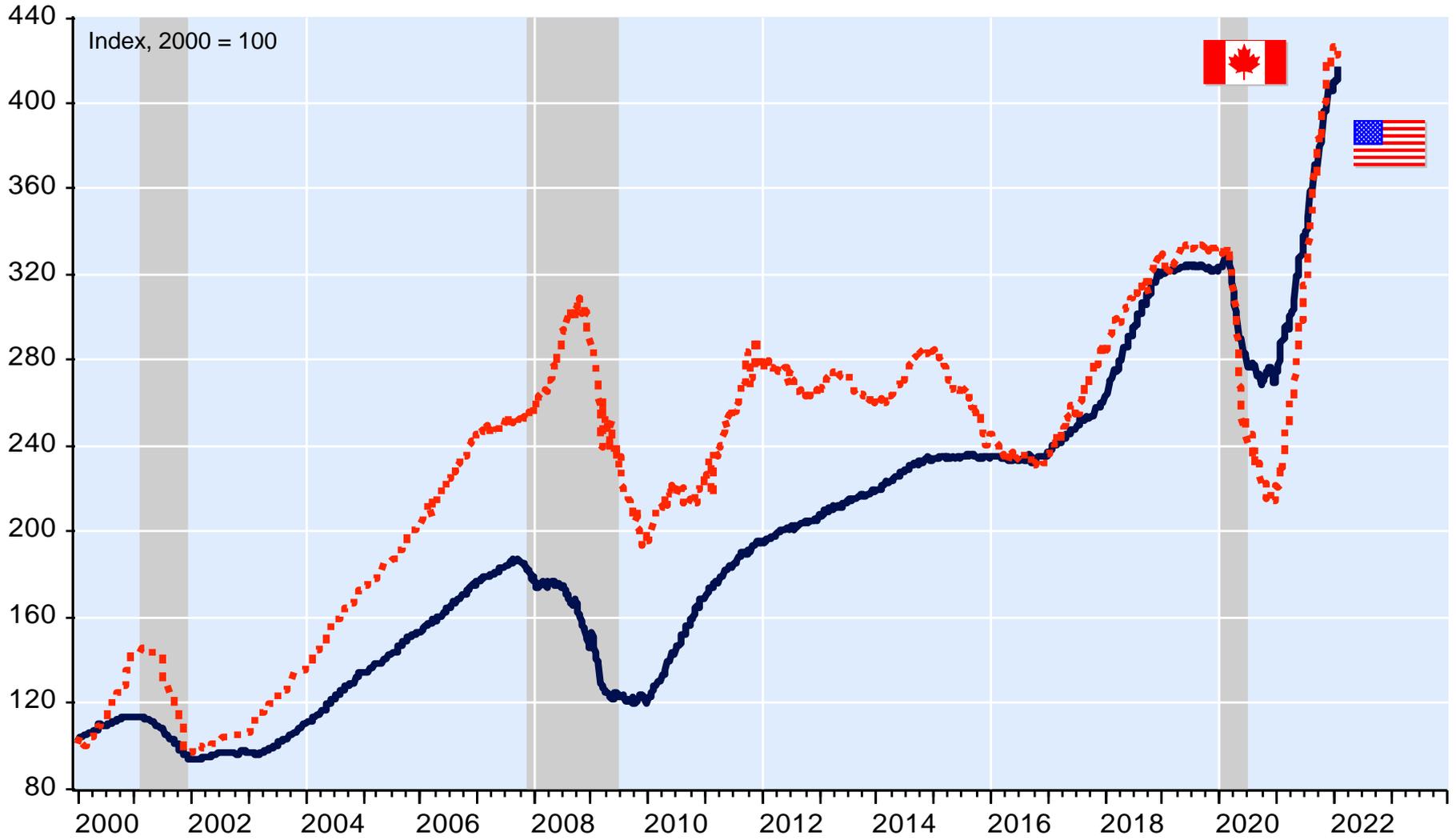
Bank of Canada commodity price index for commodities produced in Canada expressed in CAD



NBF Economics and Strategy (data via Refinitiv)

Canada: You need profits to deploy investment

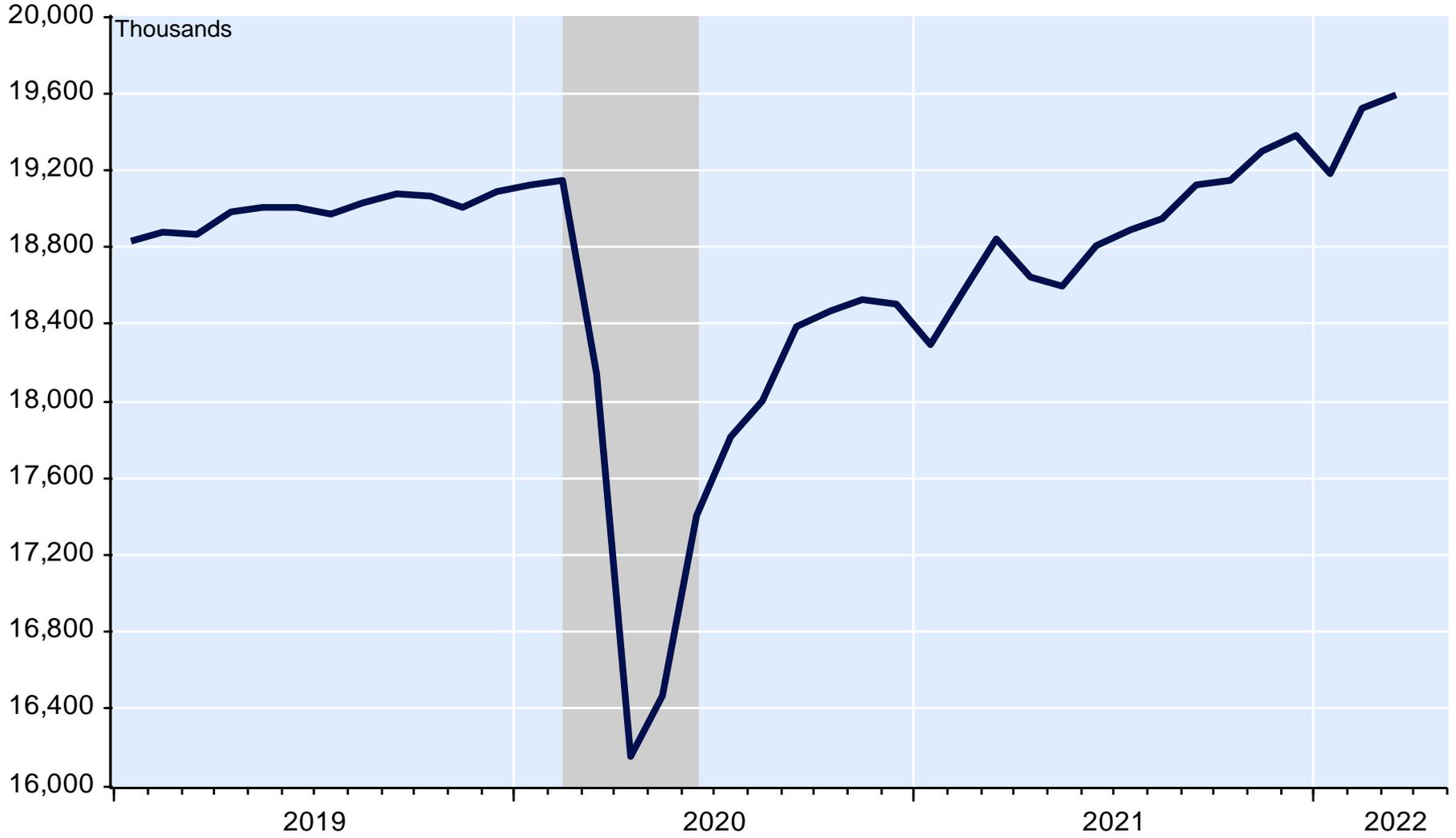
Trailing earnings per share: S&P/TSX and S&P 500



NBF Economics and Strategy (data via Statistics Canada and BEA)

Canada: Record employment

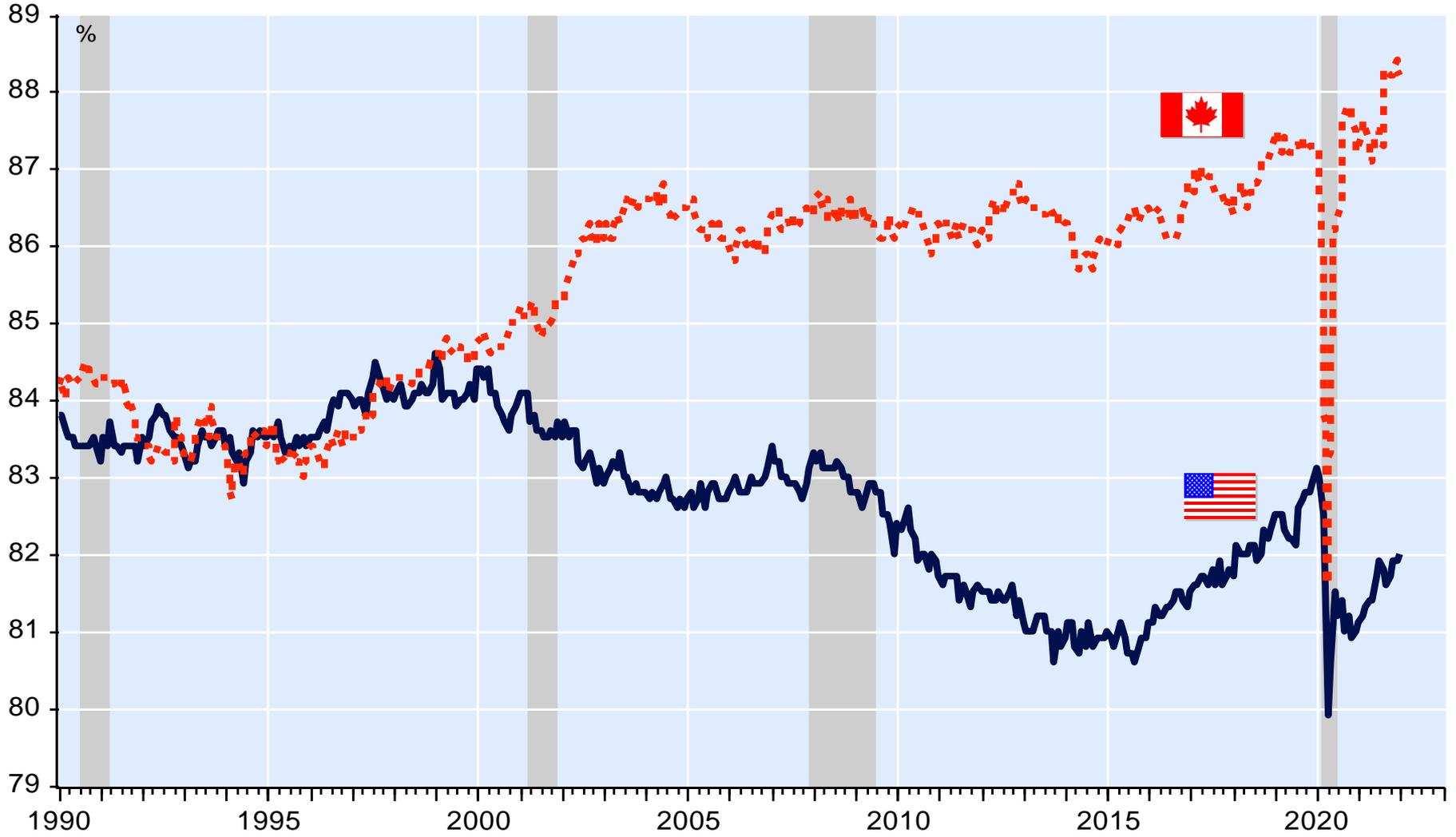
Total employment



NBF Economics and Strategy (data via Statistics Canada)

Canada: Participation rate is at a record high

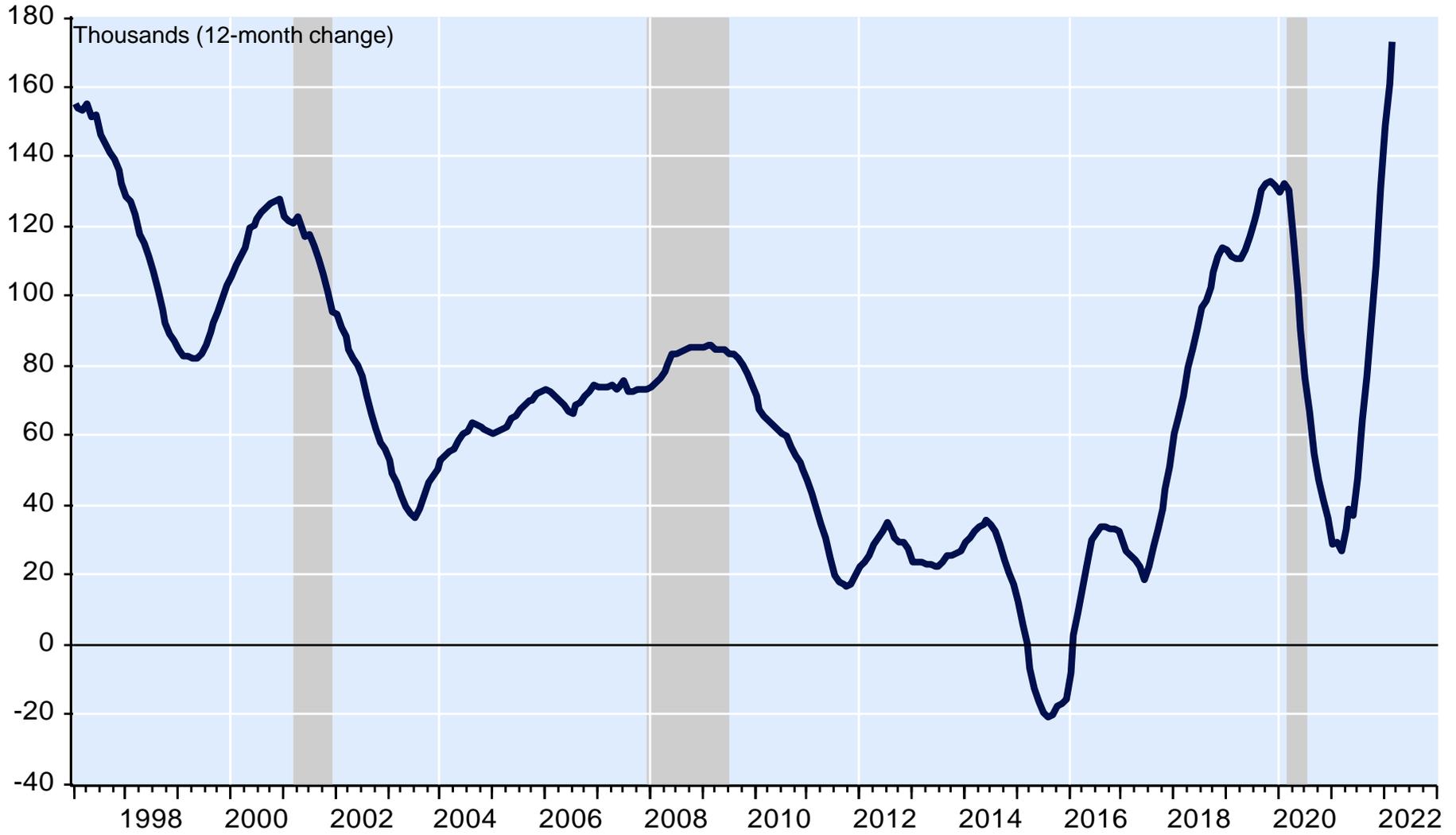
Labour force participation rate of people aged 25-54 (as of October 2021): Canada and the U.S.



NBF Economics and Strategy (data from Statistics Canada, Bureau of Labour Statistics)

Canada: Prime-age population is surging

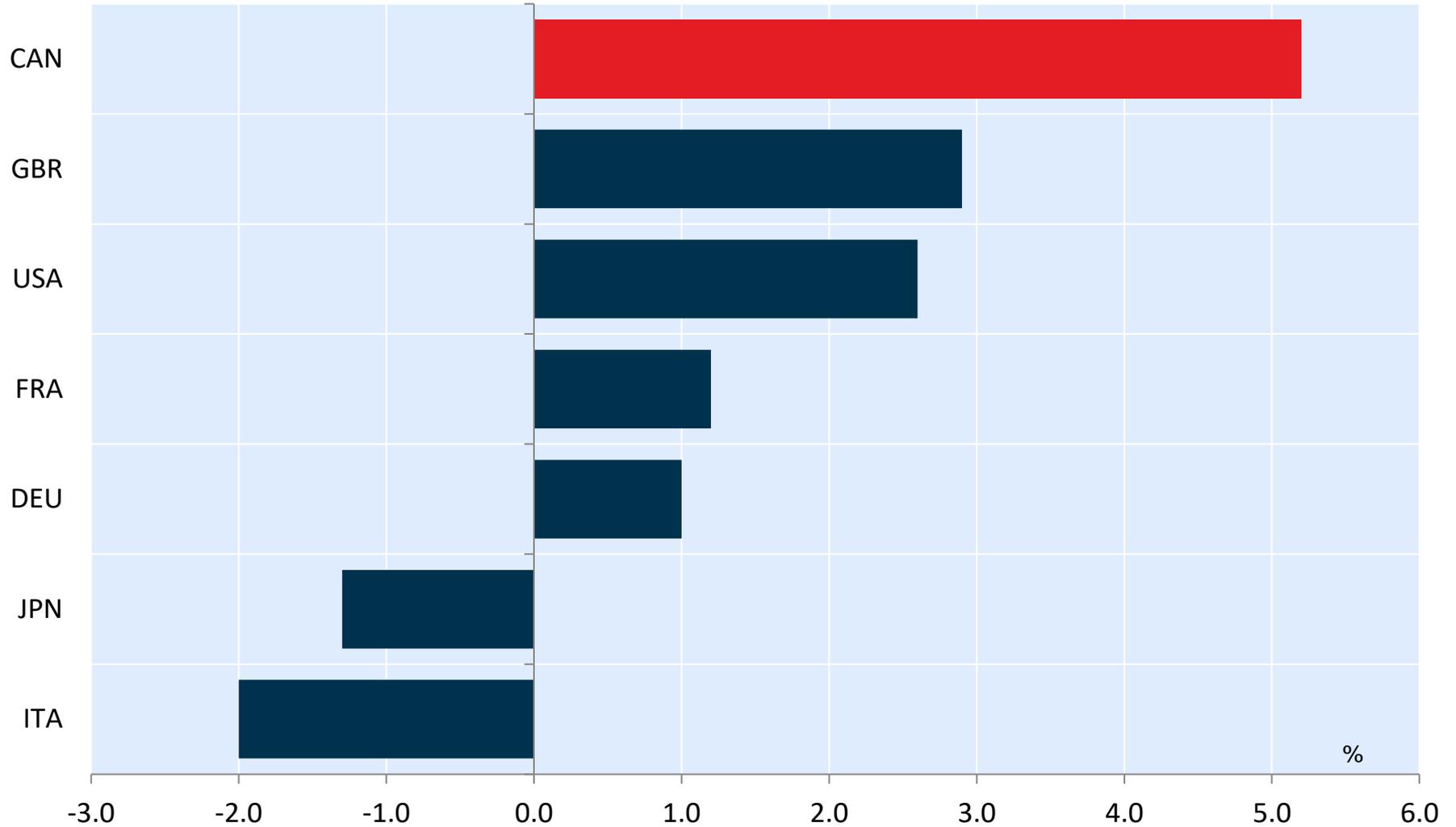
Population aged 25-54



NBF Economics and Strategy (data via Statistics Canada)

Canada: Fastest population growth in the G7

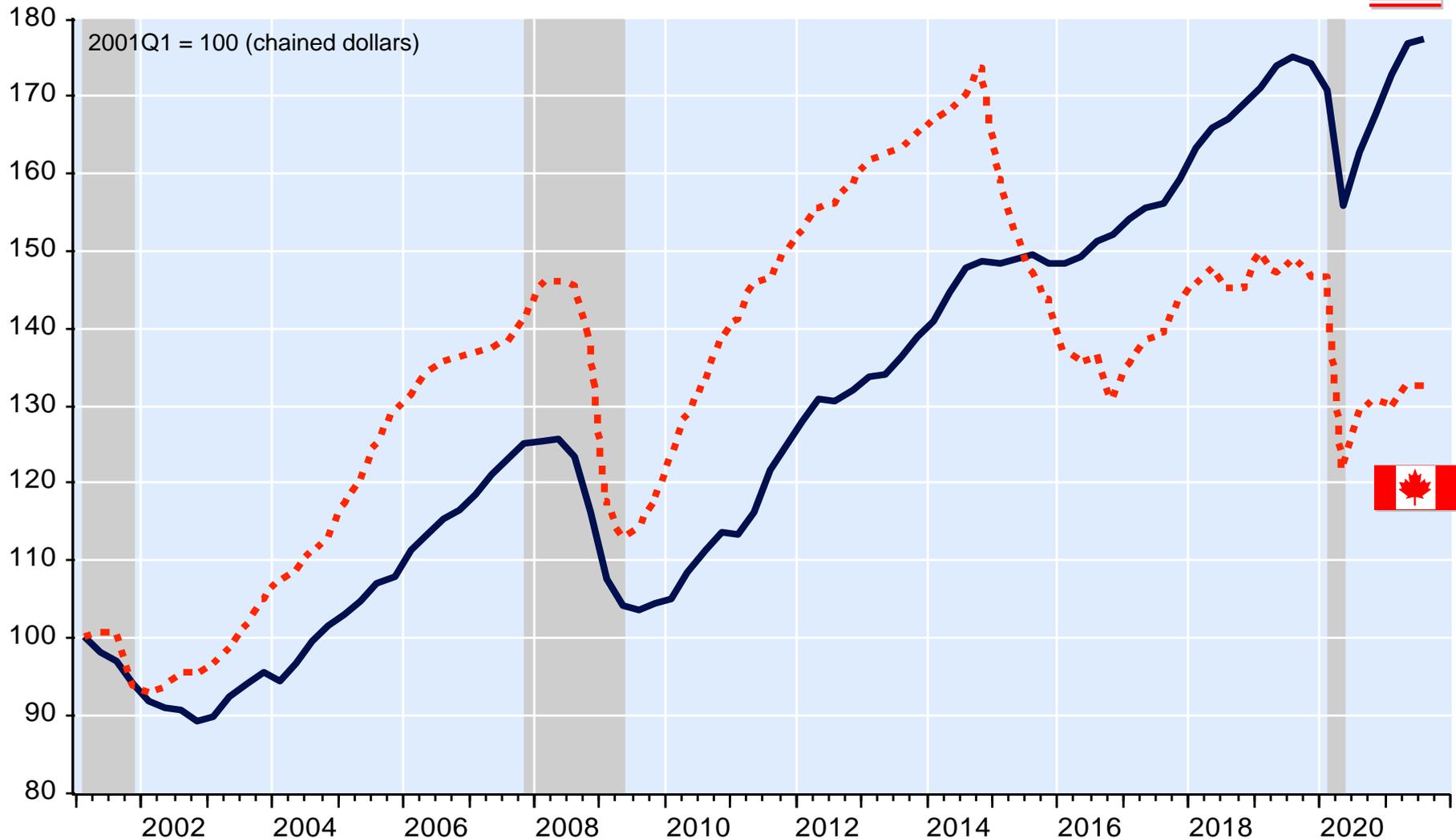
Population growth rate from 2016 to 2021 (%)



NBF Economics and Strategy (data via Statistics Canada)

Canada: Nonresidential investment still in the doldrums

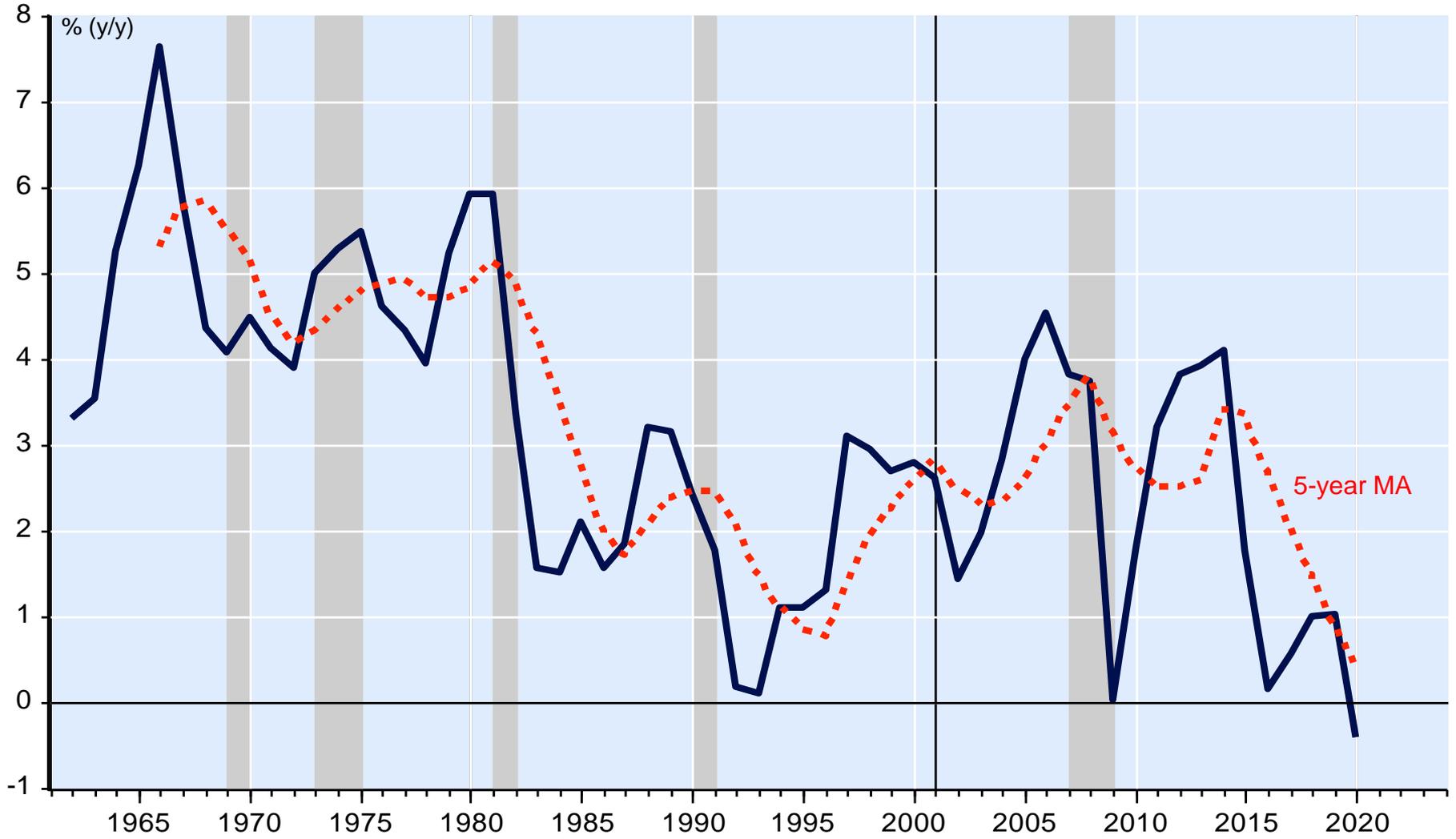
Nonresidential fixed investment (structures, equipment, intellectual property)



NBF Economics and Strategy (data via Statistics Canada and BEA)

Canada: Private non-residential capital stock is declining

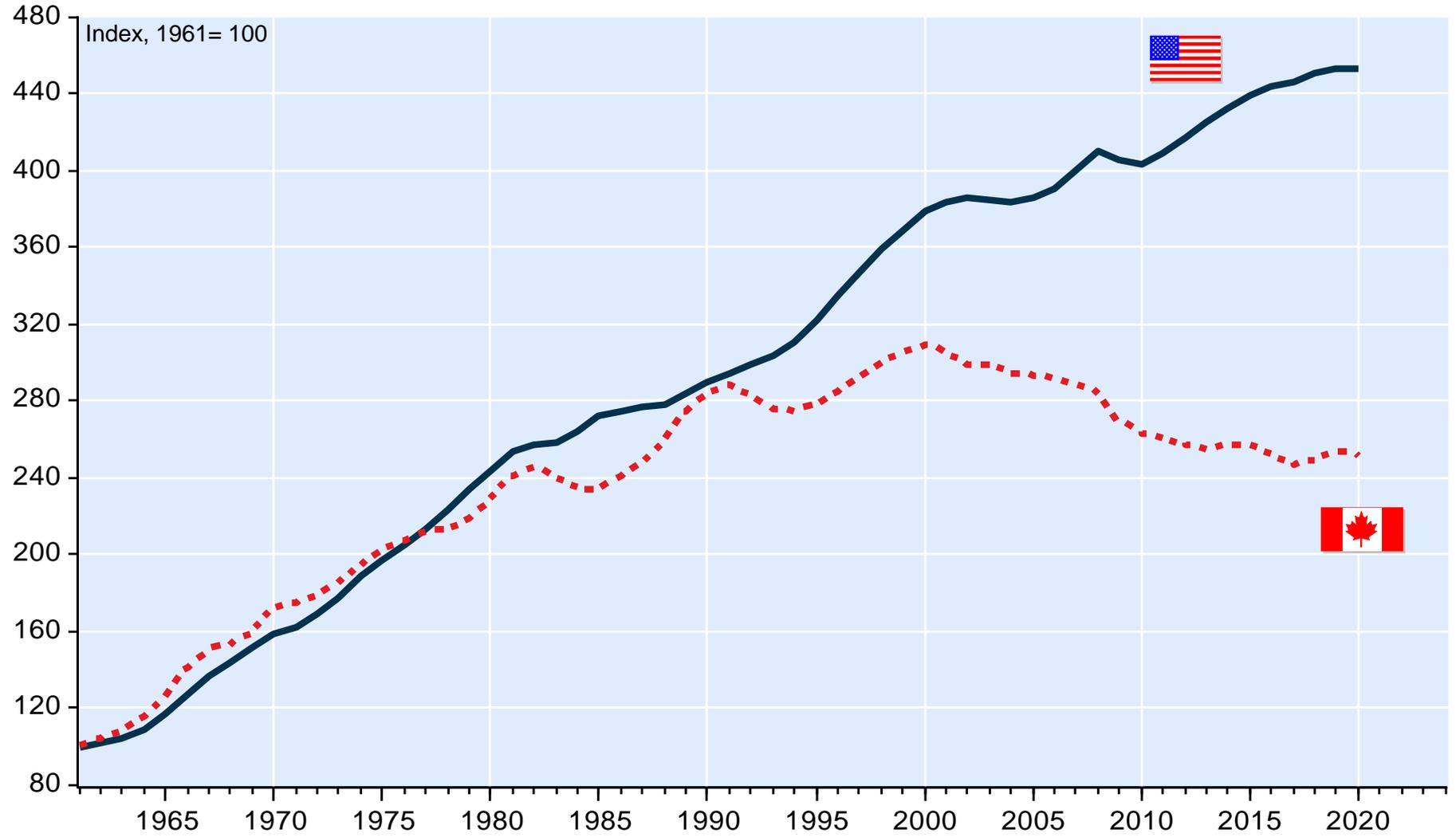
Net stock of fixed private non-residential capital (end-year constant dollars)



NBF Economics and Strategy (data via Statcan, table [36-10-0096-01](#))

Canada: Capital stock in manufacturing is at a 35-year low

End-year net stock of capital in manufacturing, Canada and the U.S. (chained 2012 dollars)



NBF Economics and Strategy (data via Statcan, table [36-10-0096-01](#))

ESG



ENVIRONMENTAL

Climate change strategy,
Biodiversity,
Water efficiency,
Energy efficiency,
Carbon intensity,
Environmental
management system



SOCIAL

Equal opportunities,
Freedom of association,
Health and safety,
Human rights,
Customer &
products responsibility,
Child labour



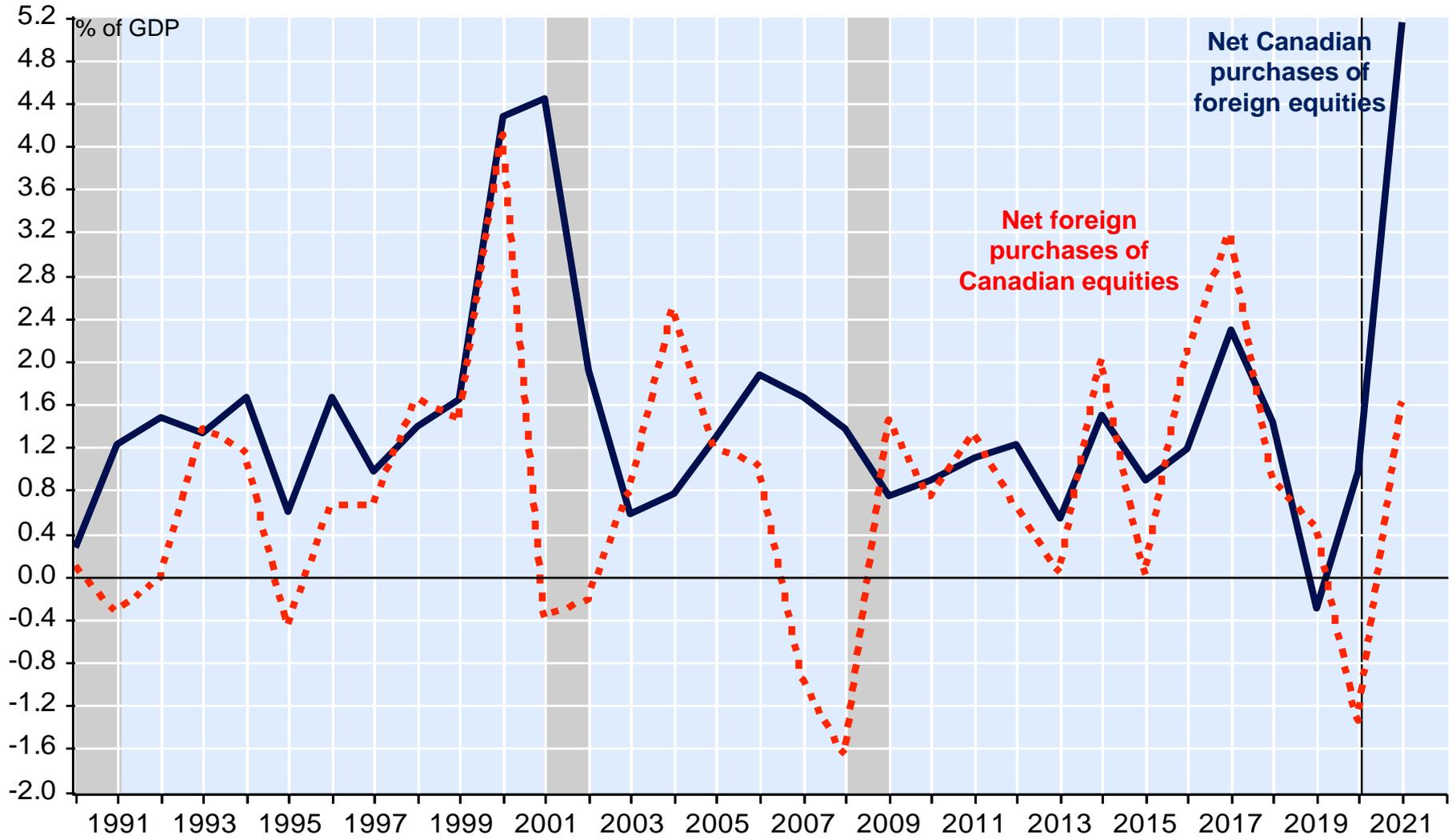
GOVERNANCE

Business ethics,
Compliance,
Board independence,
Executive compensation,
Shareholder democracy

Nice concept, but let's be honest
about how it is applied

Canada: Record investment in foreign equities

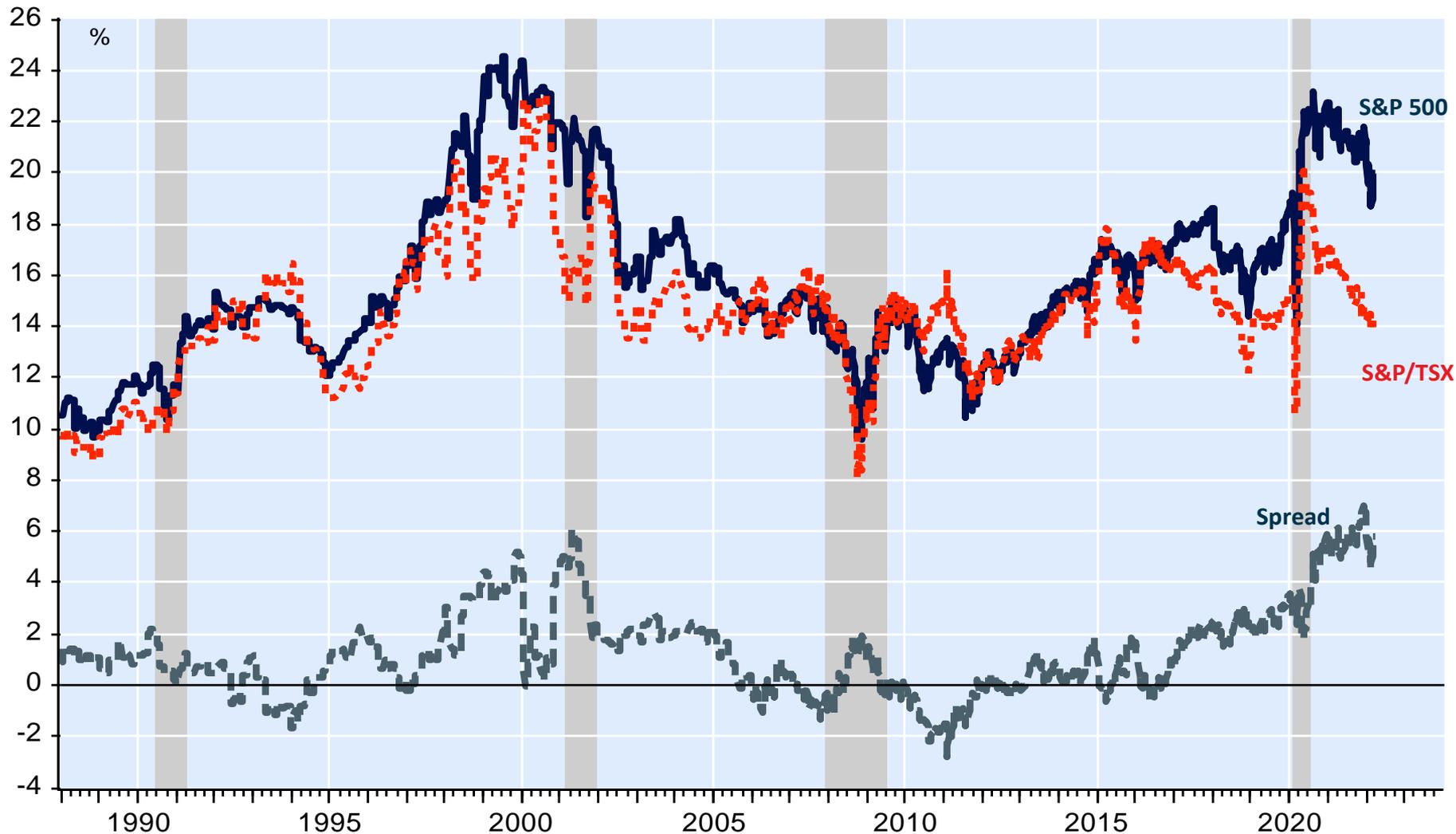
Net purchases of equity and investment fund shares (12-month rolling sum as of September of every year)



NBF Economics and Strategy (data via Statistics Canada)

S&P/TSX: Still trading at a significant discount to the S&P 500

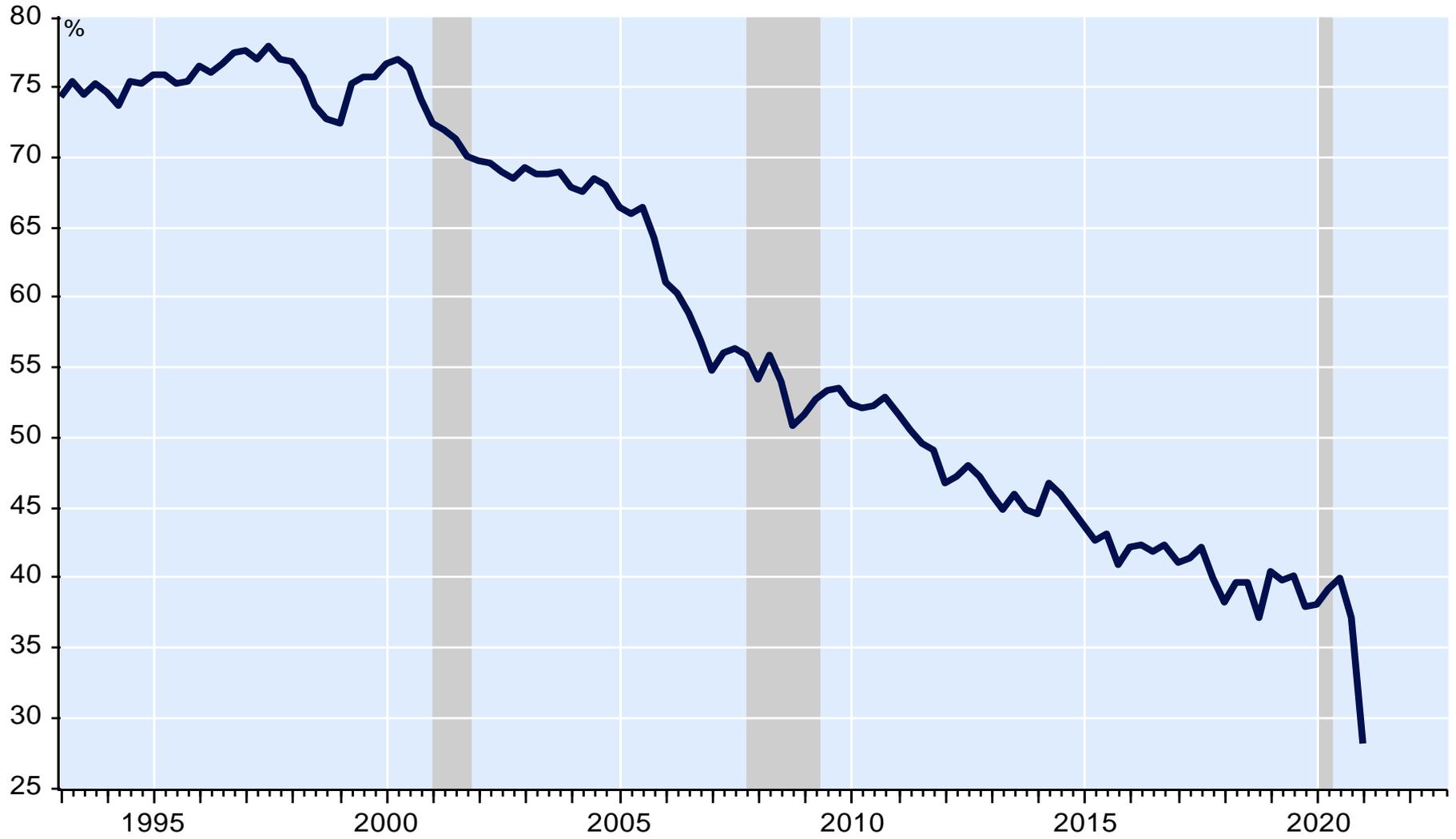
Forward PE ratios for the S&P 500 and and



NBF Economics and Strategy (data via Refinitiv)

Canada: Pension funds flee domestic stocks

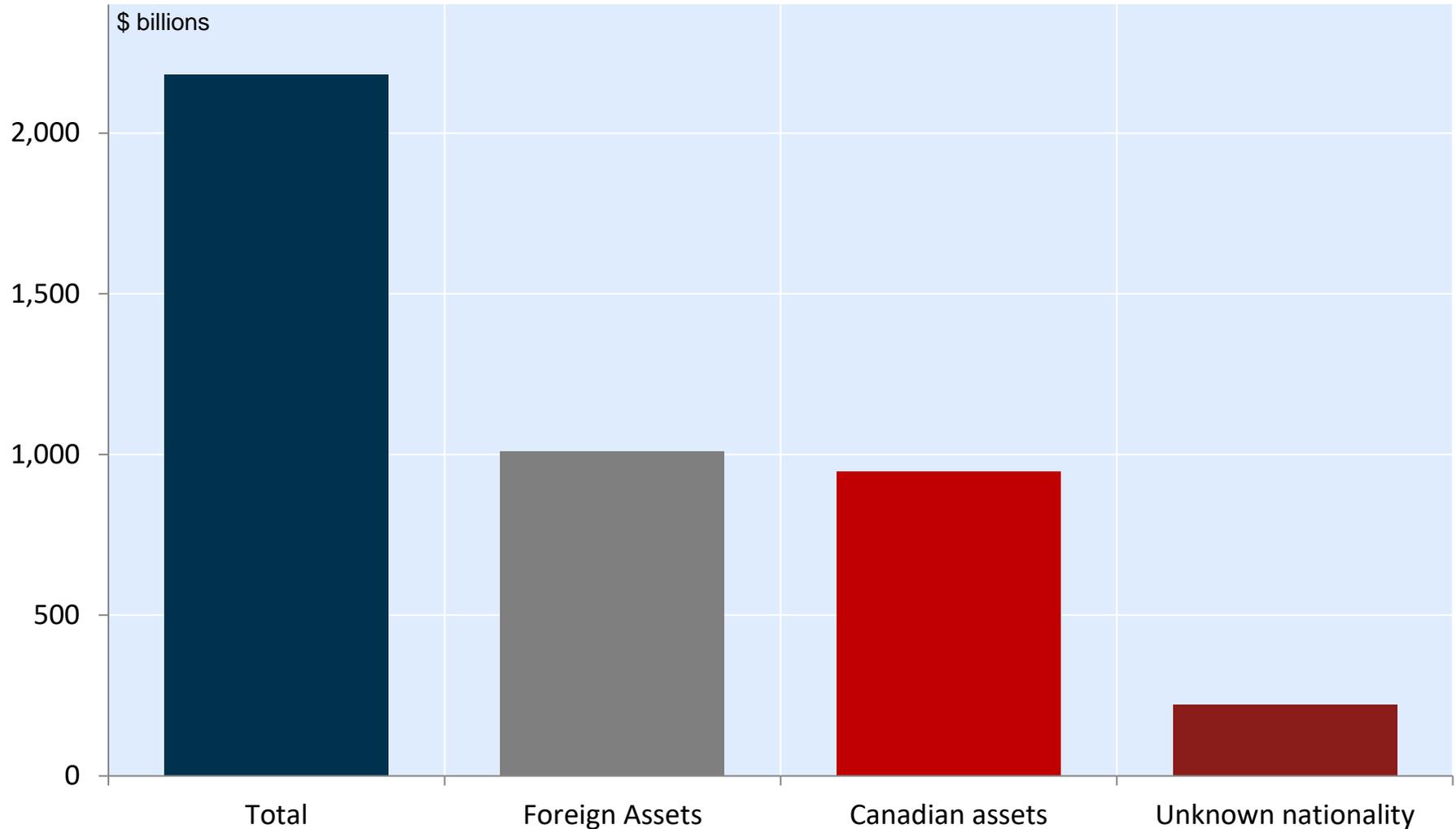
Share of Canadian equities in total equity assets held by trustee pension funds



NBF Economics and Strategy (data via Statcan, tables [11-10-0077-01](#) and [11-10-0085-01](#))

Canada: Pension funds own more foreign than domestic assets

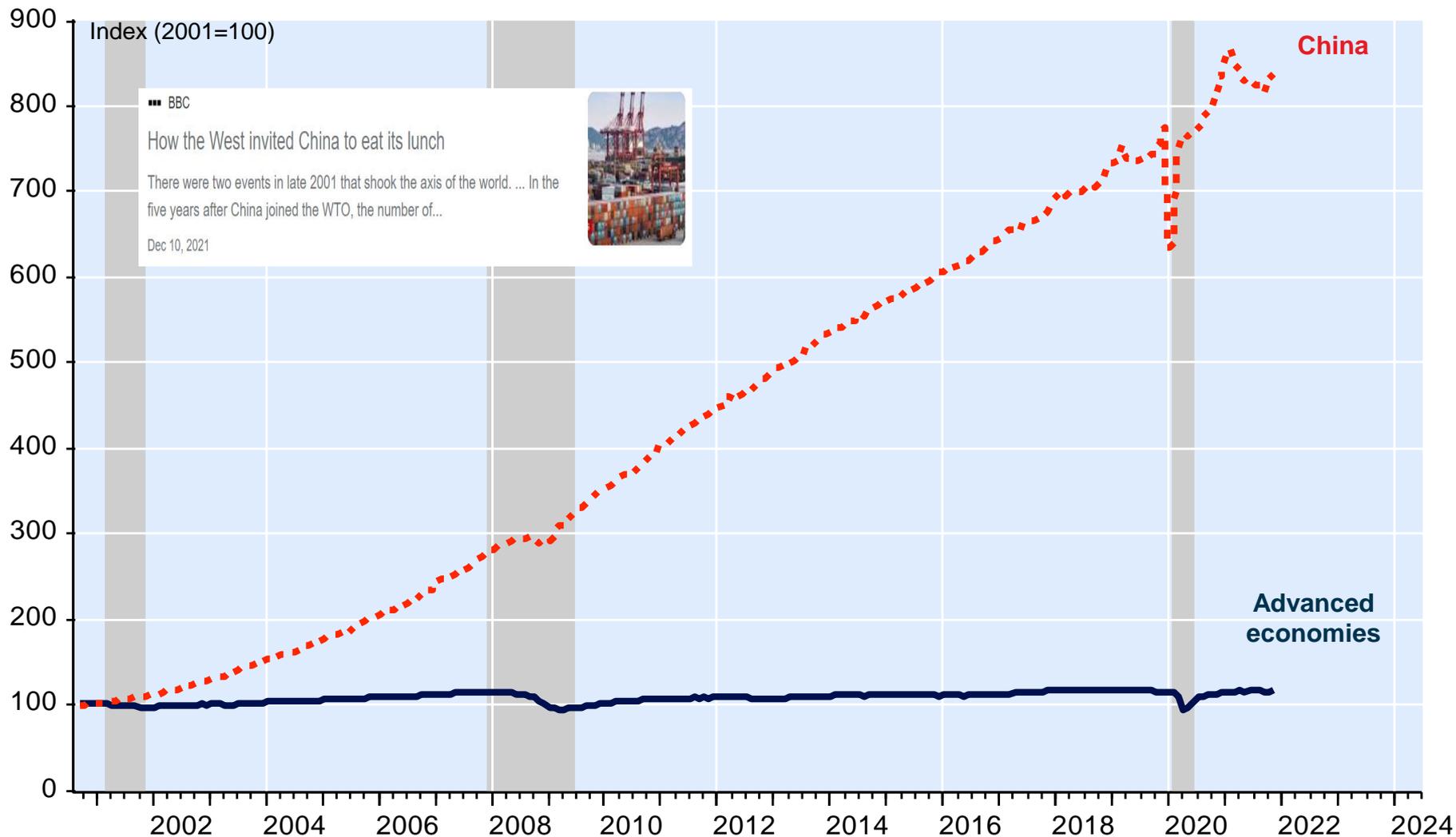
Market value of assets by foreign and domestic holdings held by trustee pension funds (as of Q2 2021)



NBF Economics and Strategy (data via Statistics Canada, table [11-10-0085-01](#))

World: Outsourcing on an unprecedented scale major scale

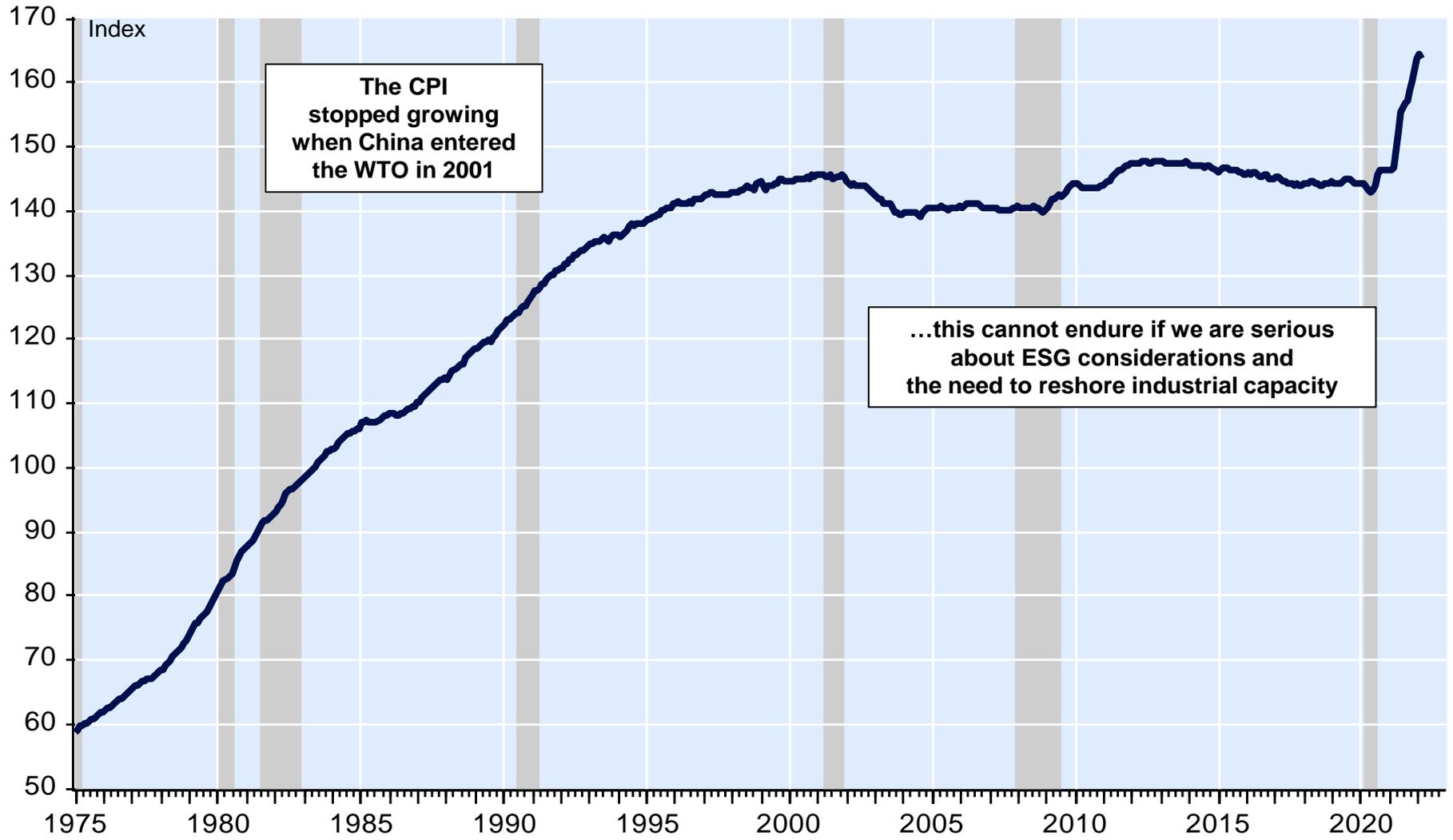
Industrial production (volume output): China vs. OECD economies



NBF Economics and Strategy (data via CPB)

World: What is the new normal for the CPI goods?

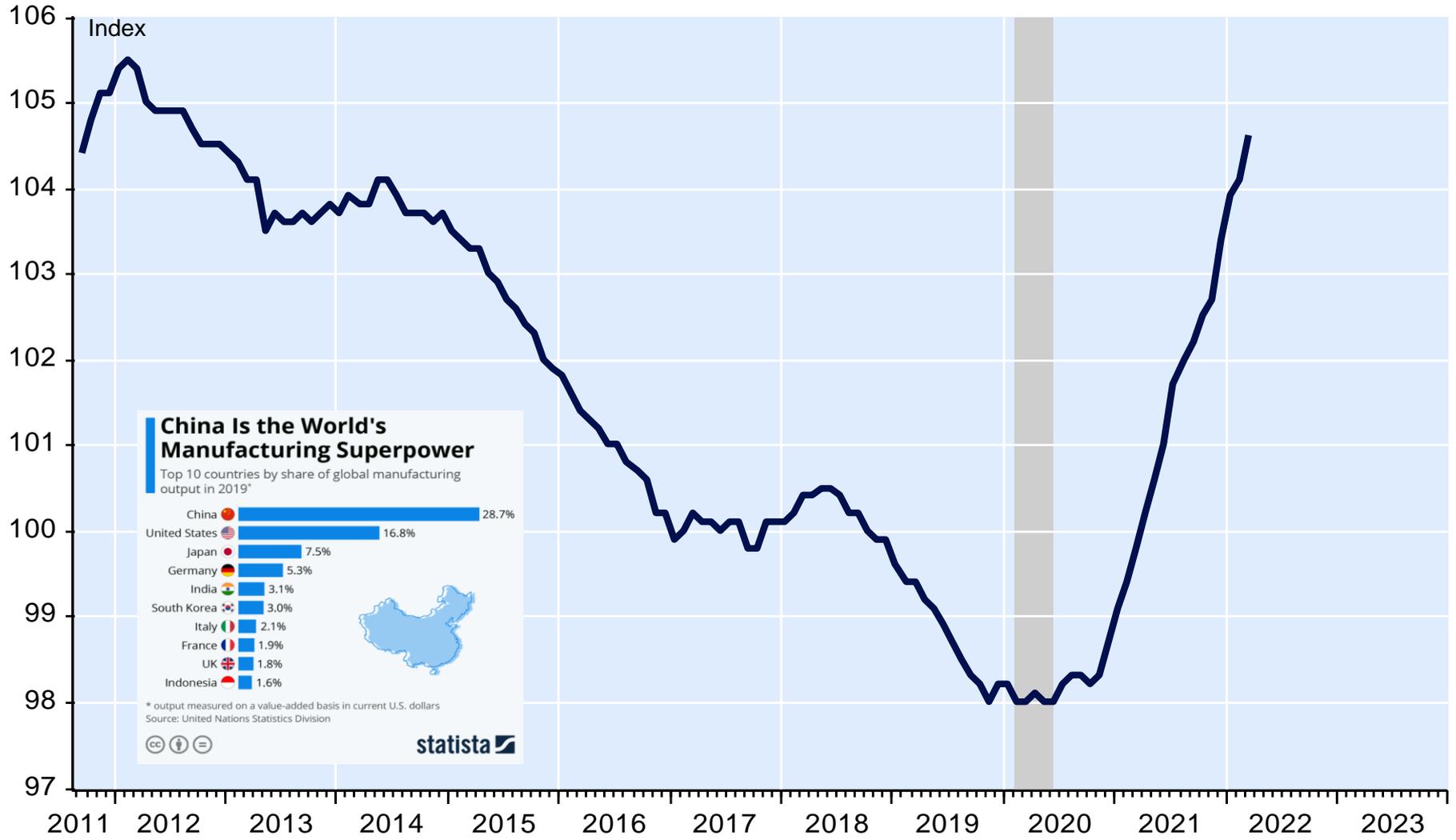
U.S. CPI for core consumer goods



NBF Economics and Strategy (data via [Fred](#))

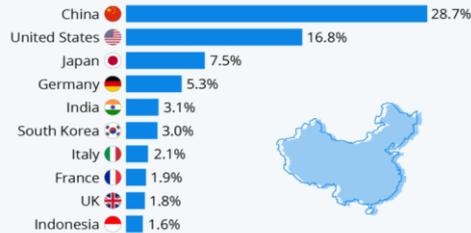
U.S.: Import prices from China are on the rise

Import prices



China Is the World's Manufacturing Superpower

Top 10 countries by share of global manufacturing output in 2019*



* output measured on a value-added basis in current U.S. dollars
Source: United Nations Statistics Division

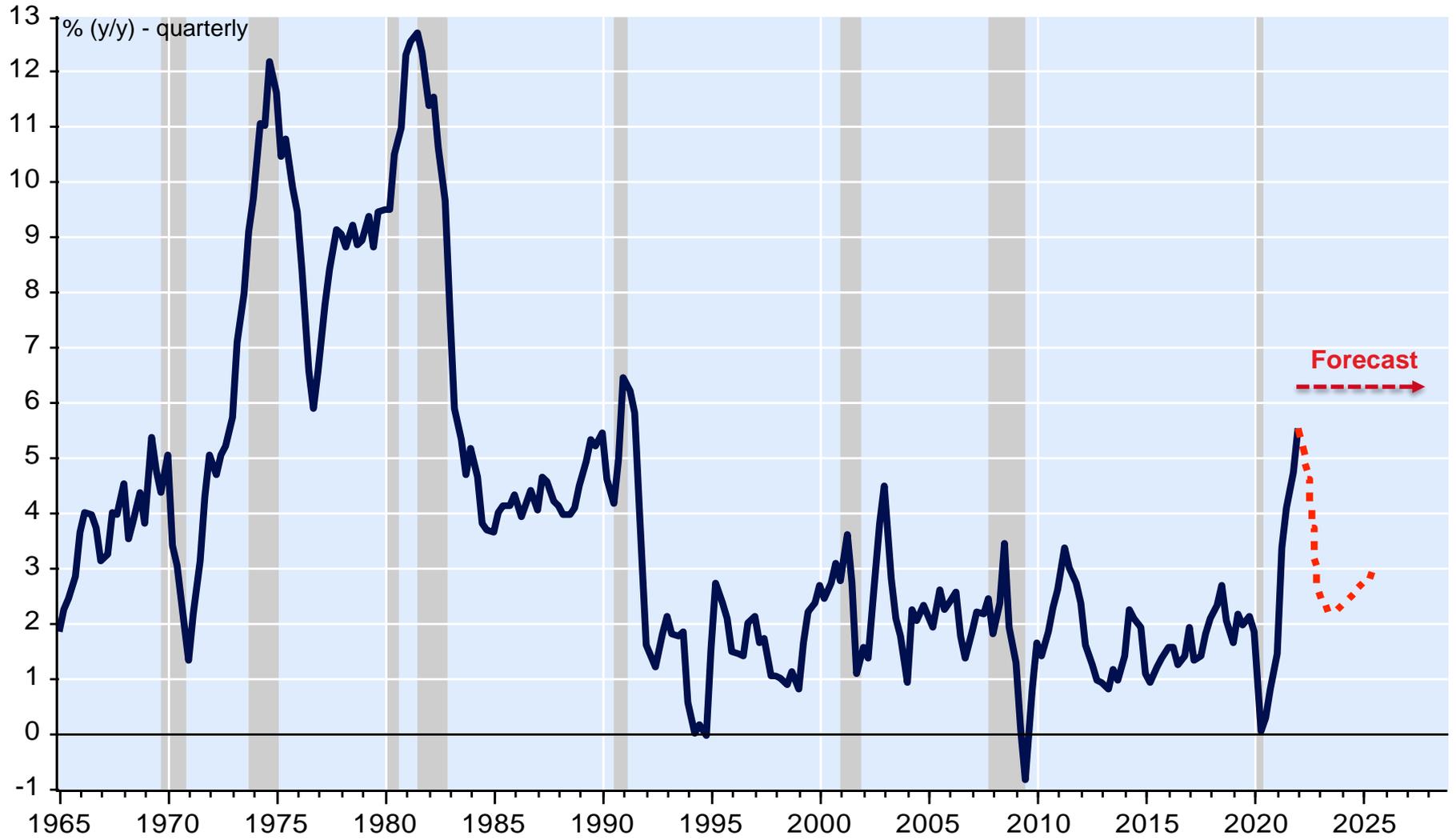


statista

NBF Economics and Strategy (data via [Fred](#))

Canada: Realized inflation and our forecast

CPI inflation



NBF Economics and Strategy

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