

RBC Global Asset Management

# Economic Outlook



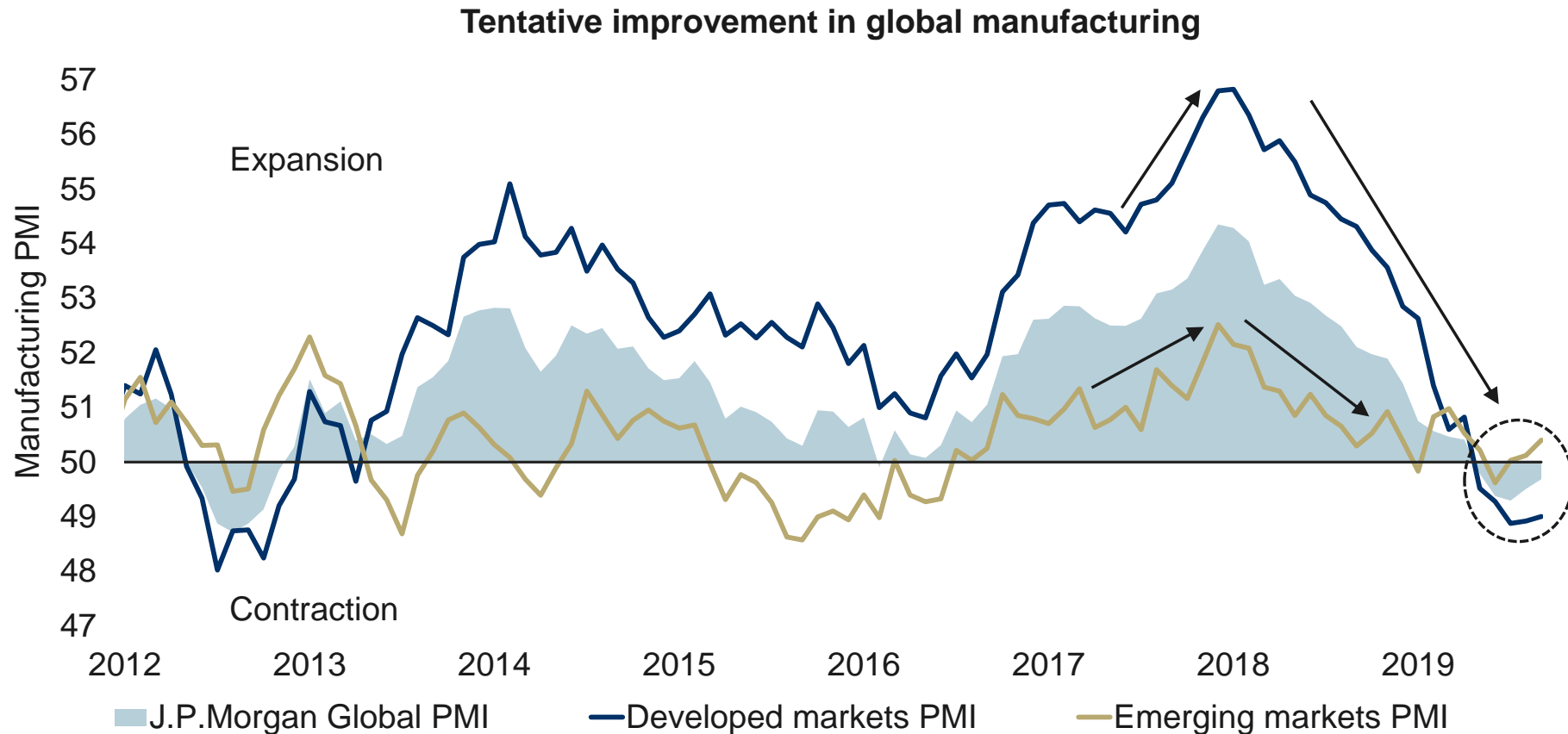
Rick Mackenzie, VP, RBC Global Asset Management

October 2019





# Cyclical economic trends: Economic deceleration



Note: As of Sep 2019. PMI refers to Purchasing Managers Index for manufacturing sector, a measure for economic activity.  
Source: Haver Analytics, RBC GAM

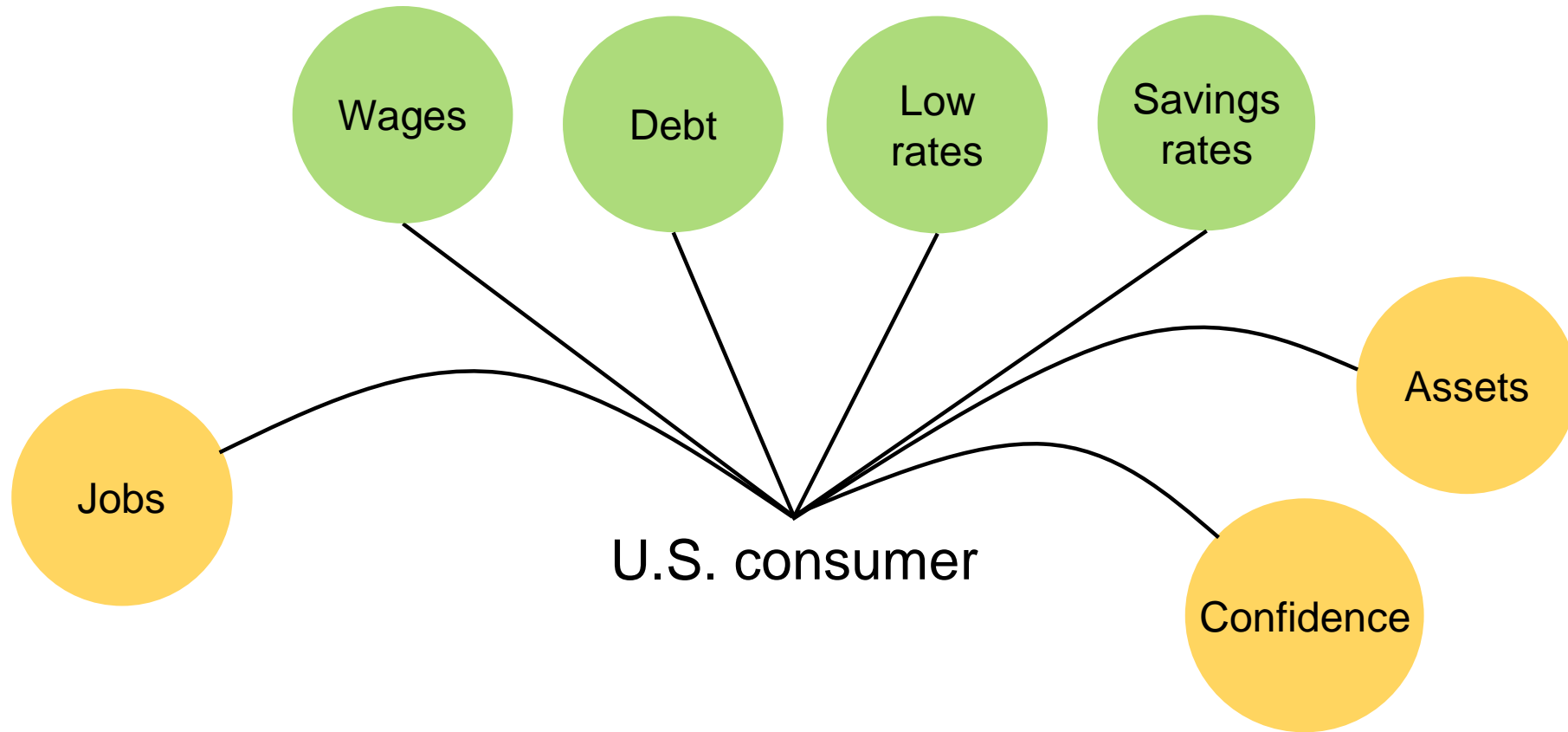
# U.S. is “Late cycle”, with broadening “end of cycle” claims

U.S. business cycle scorecard

	Start of cycle	Early cycle	Mid cycle	Late cycle	End of cycle	Recession
Consumer						
Leverage						
Business investment						
Employment						
Corporate profitability						
Credit						
Inventories						
Prices						
Housing						
Economic trend						
Volatility						
Sentiment						
Economic slack						
Equities						
Cycle age						
Monetary policy						
Bonds						
<b>Scores for each stage of business cycle</b>	<b>0</b>	<b>0</b>	<b>5.5</b>	<b>13</b>	<b>8.5</b>	<b>1.5</b>

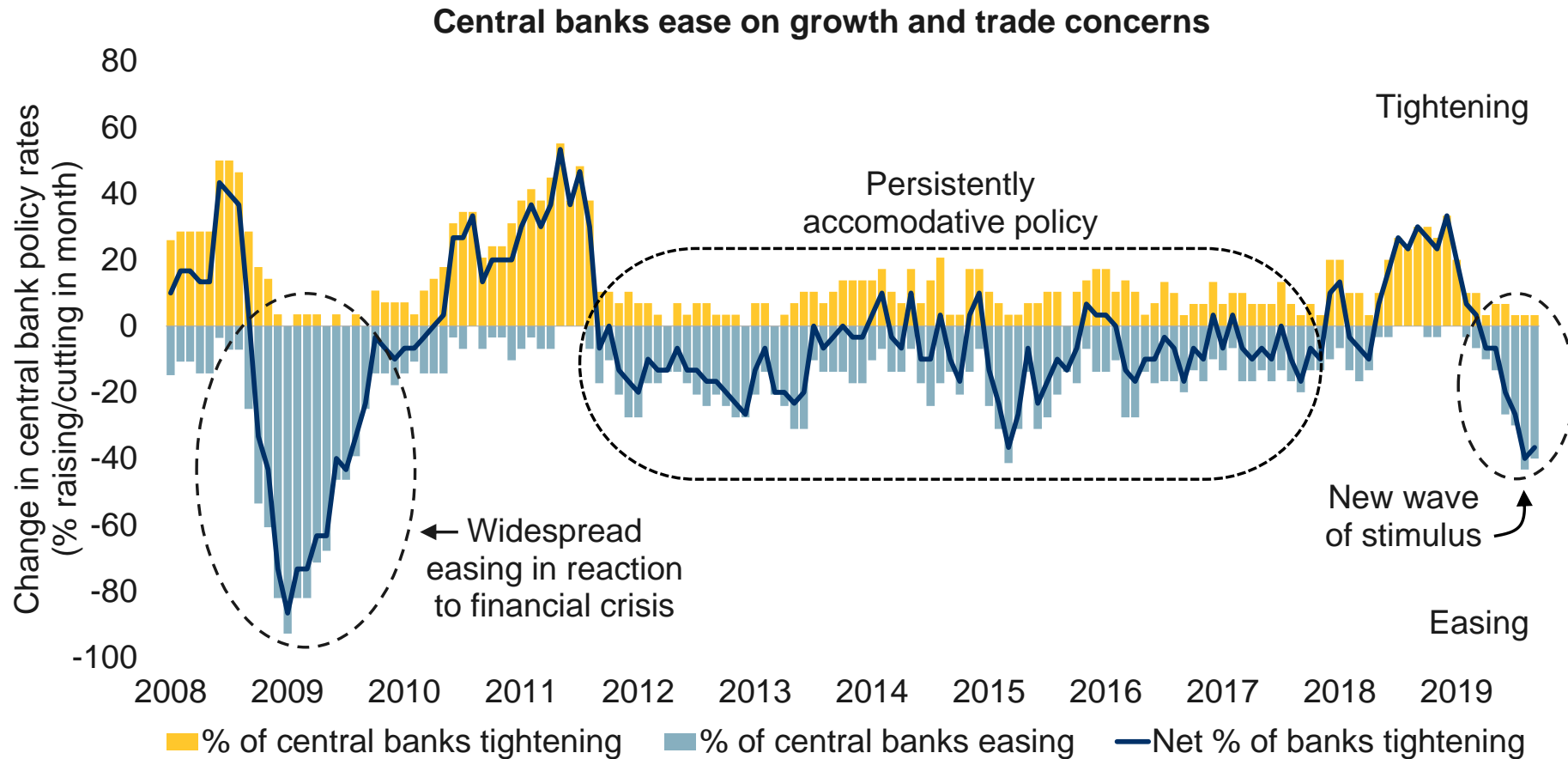
Note: As at 8/8/2019. Dark shading indicates the most likely stage of business cycle (full weight); light shading indicates alternative interpretation (0.5 weight).  
Source: RBC GAM

# U.S. consumers are still fairly healthy



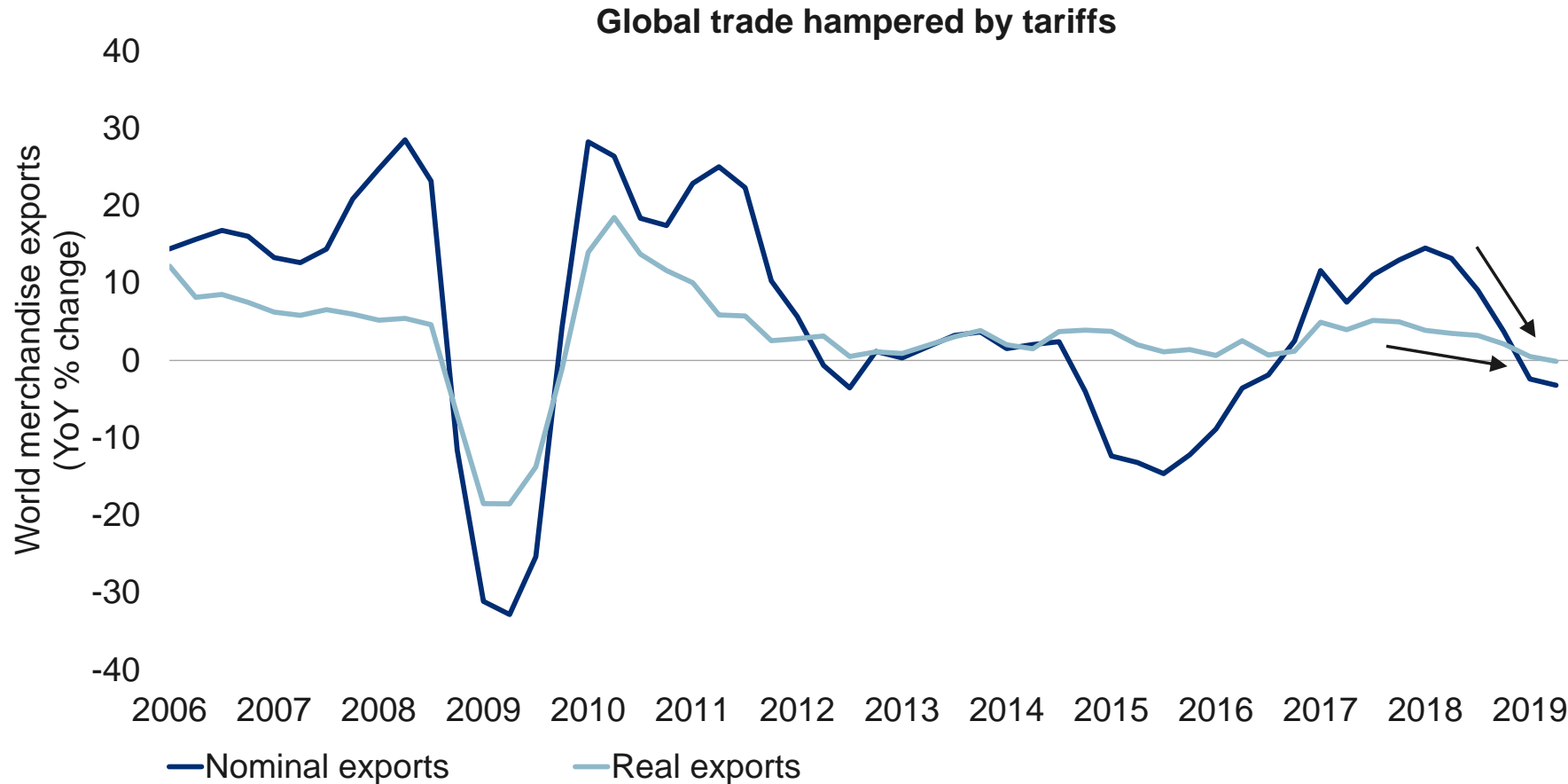
Source: RBC GAM

# Central banks starting to ease around the world



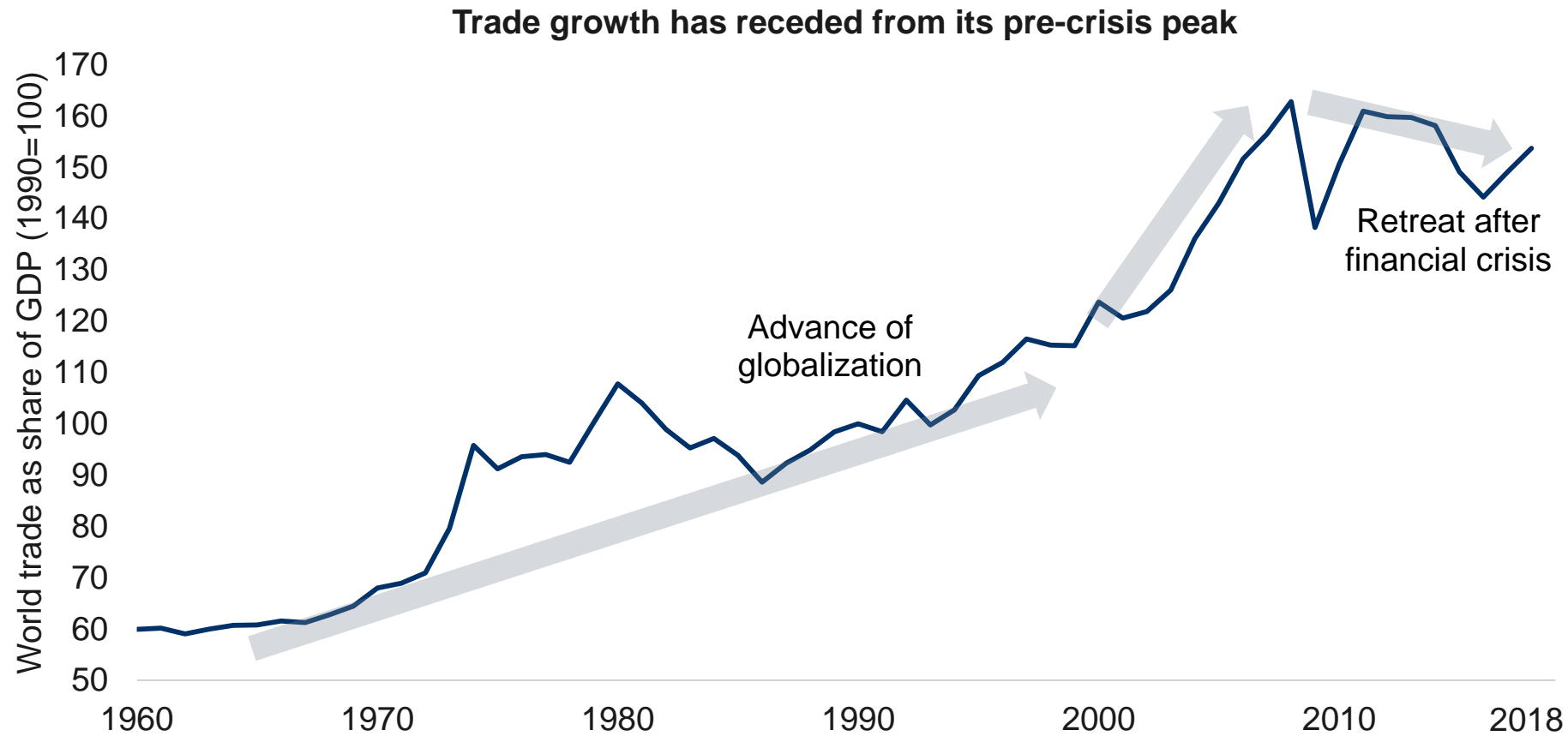
Note: As of Sep 2019. Based on policy rate for 30 countries. Source: Haver Analytics, RBC GAM

# Global trade growth deteriorates further amid intensifying trade war



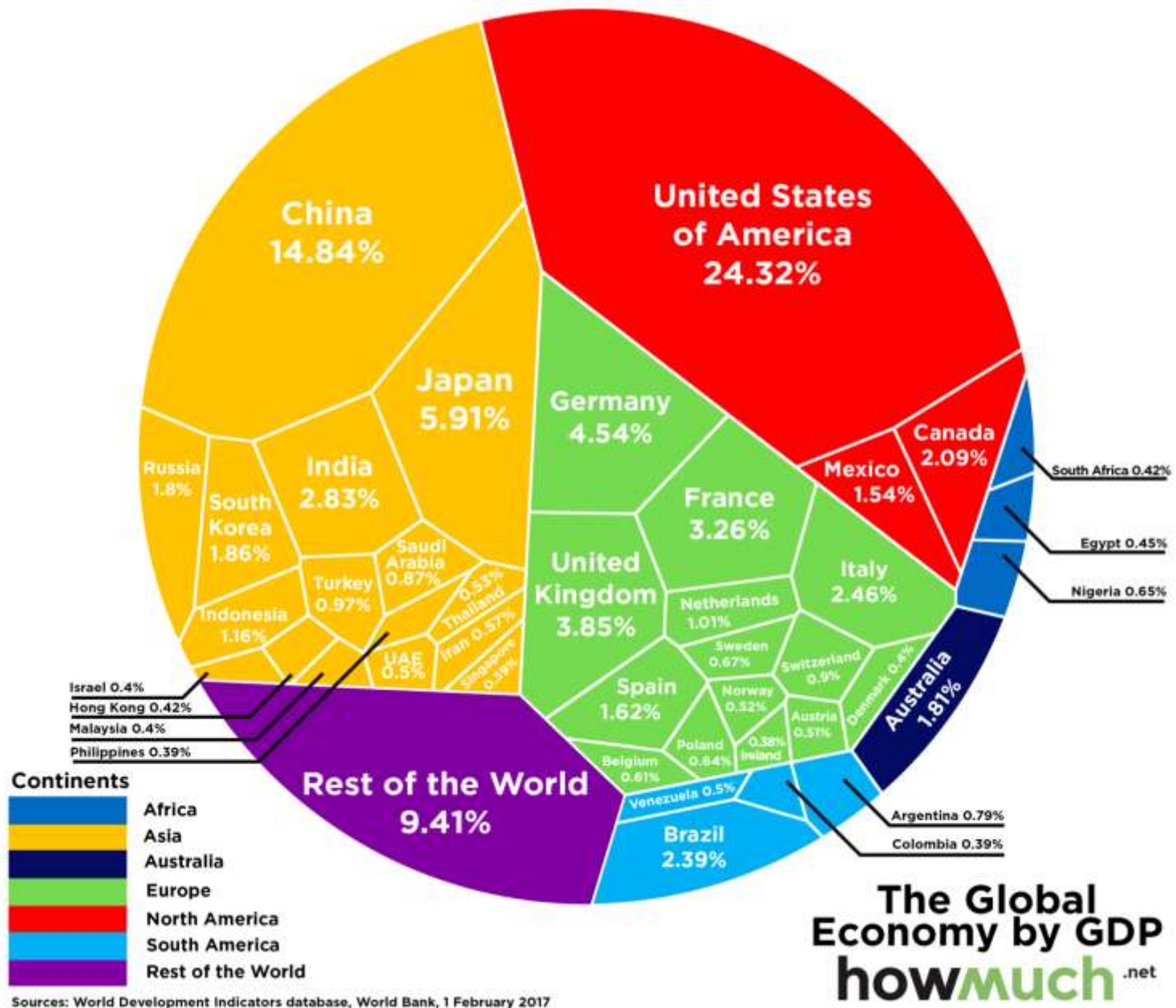
Note: As of Q2 2019. Nominal exports in U.S. dollars. Source: WTO, RBC GAM

# Globalization soared for decades, but is now wavering

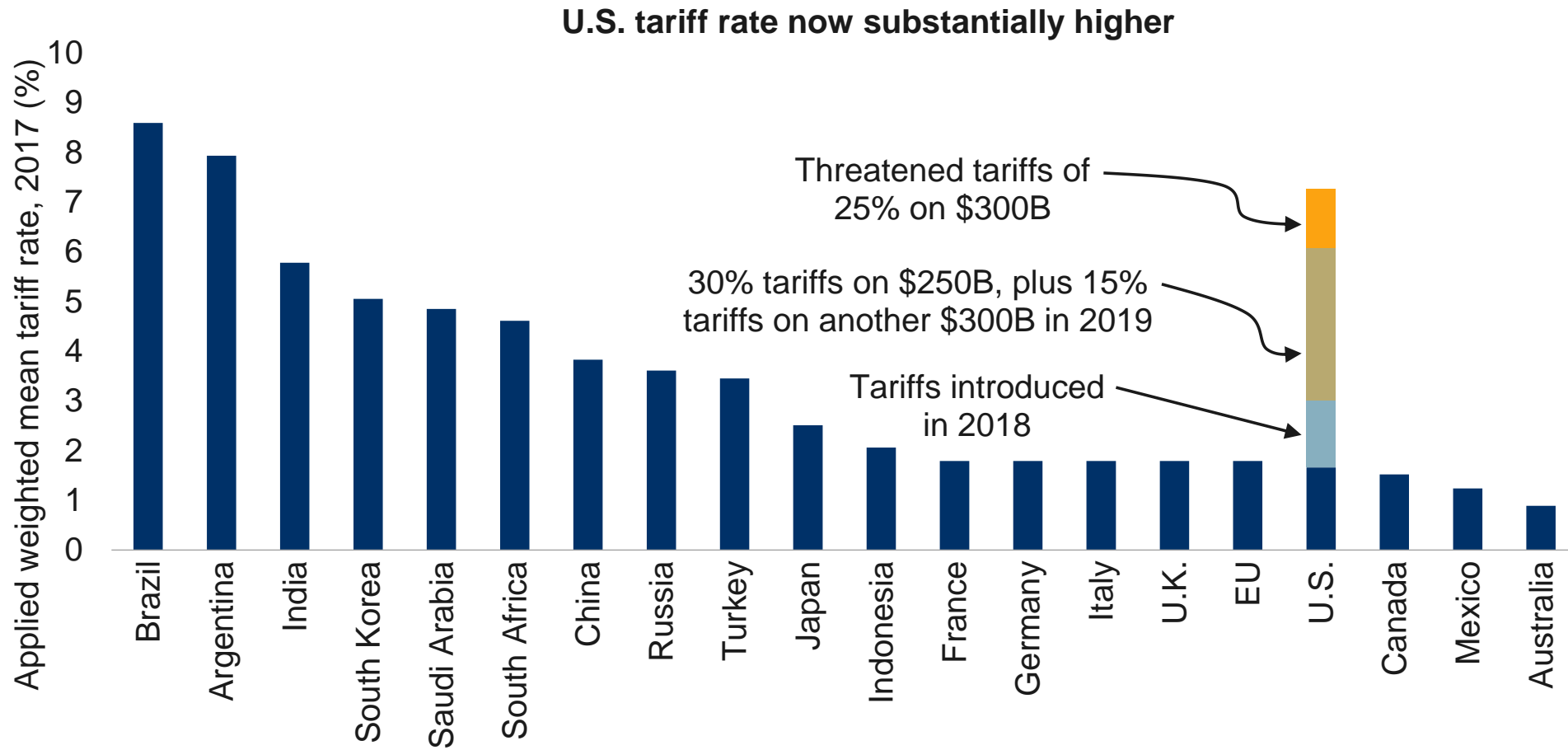


Note: As of 2018. World trade measured as exports of goods and services.  
Source: World Bank, Haver Analytics, RBC GAM





# U.S. tariffs in context



Note: Applied weighted mean tariff rates for all products. Estimates of U.S. tariffs introduced in 2018 and after based on additional tariffs announced up to end of August 2019. Source: Deutsche Bank, World Bank, Haver Analytics, RBC GAM

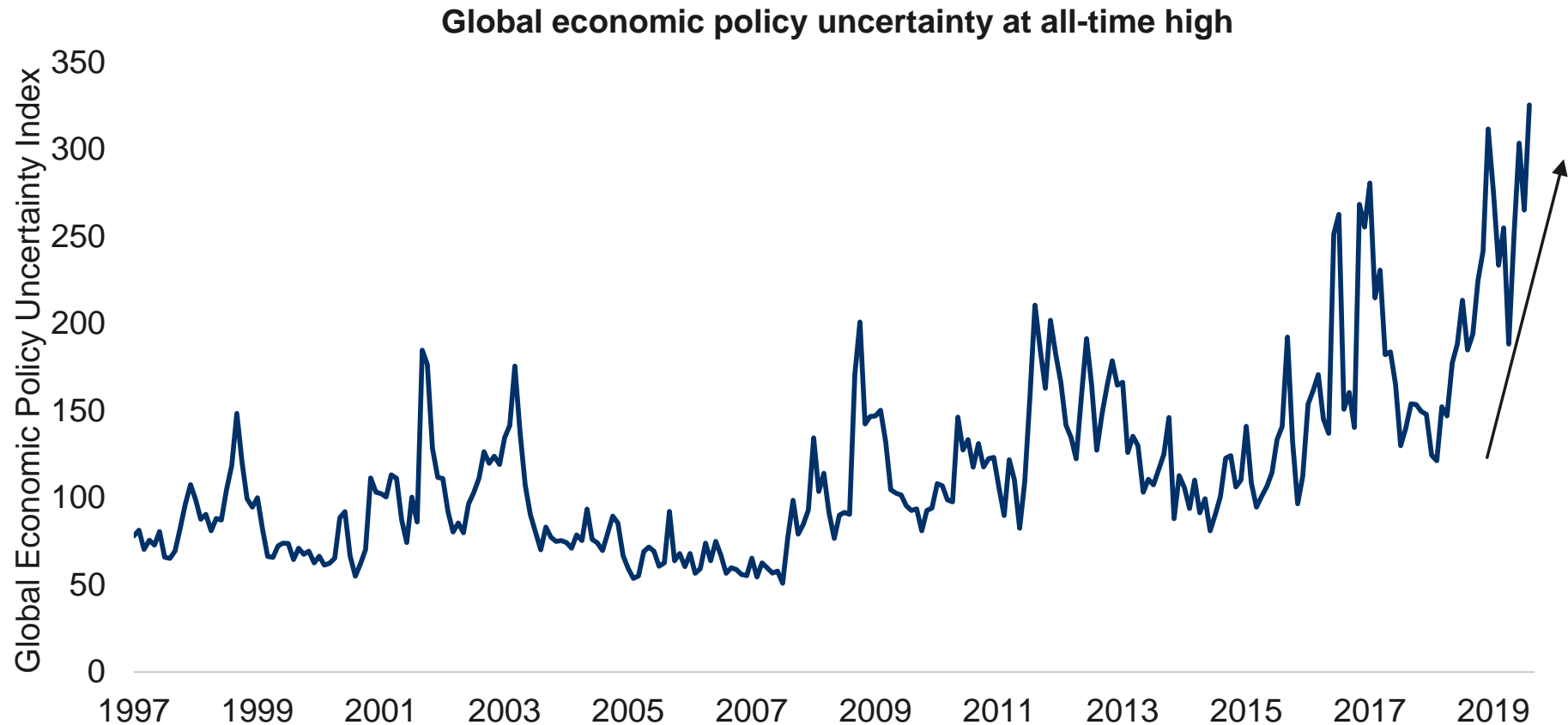
# U.S. trade scenarios: negative



Scenario	Likelihood	Detail	Economic effect
<b>Worst case</b>	<b>15%</b>	Trade war	US: -2.1% CN: -2.5% CA: -2.0%
<b>Negative</b>	<b>55%</b>	Substantial tariffs	US: -0.6 to -0.8% CN: -0.75 to -0.95% CA: -0.4 to -0.6%
<b>Slightly negative</b>	<b>20%</b>	Small tariffs	US: -0.1 to -0.2% CN: -0.2 to -0.5% CA: -0.1%
<b>Neutral</b>	<b>5%</b>	Trump tariffs unwind	US: 0.0% CN: 0.0% CA: 0.0%
<b>Best case</b>	<b>5%</b>	Foreign barriers fall to pressure	US: positive CN: ? CA: ?

Source: RBC GAM, Oxford, Bloomberg, OECD, Nomura, Goldman Sachs, UBS, Barclays, Fajgelbaum et al

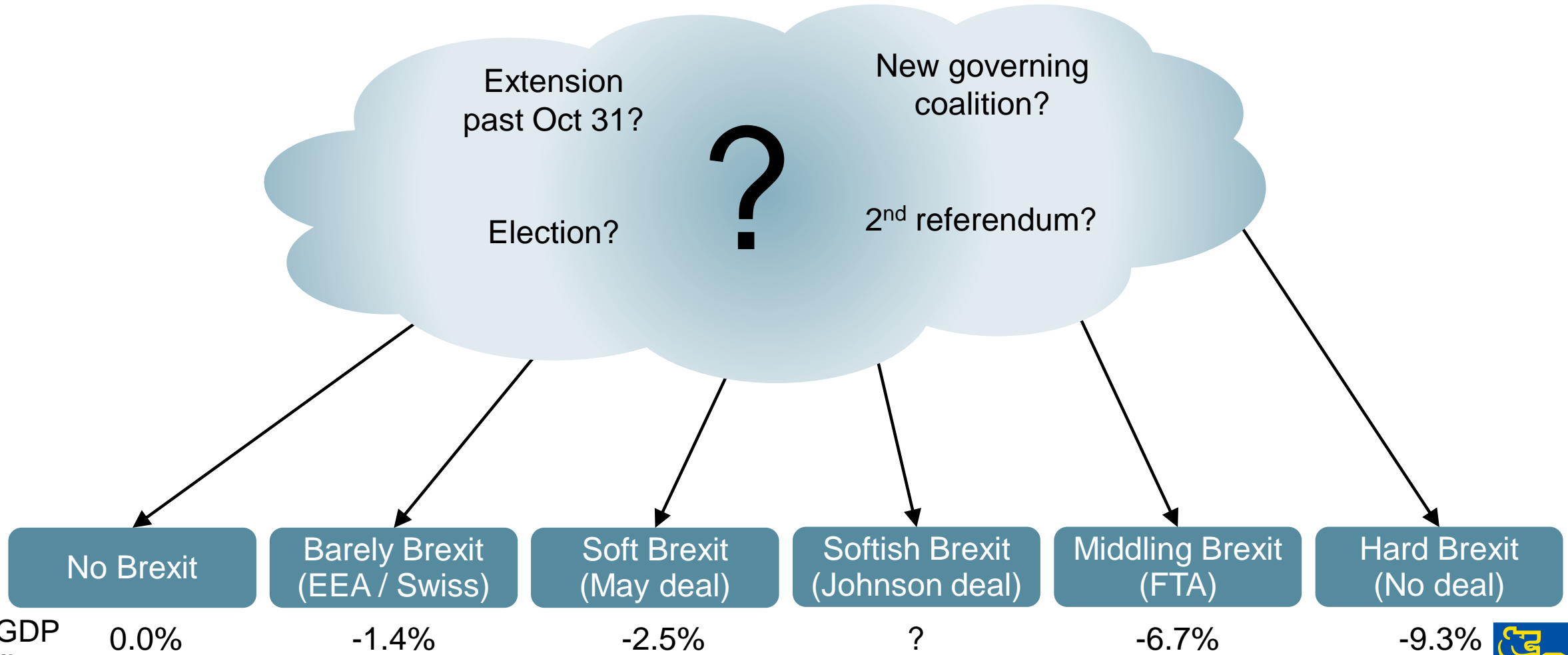
# Global economic policy uncertainty elevated



Note: As of Aug 2019. Mean of current price GDP-weighted index from 1997 to 2015 = 100.

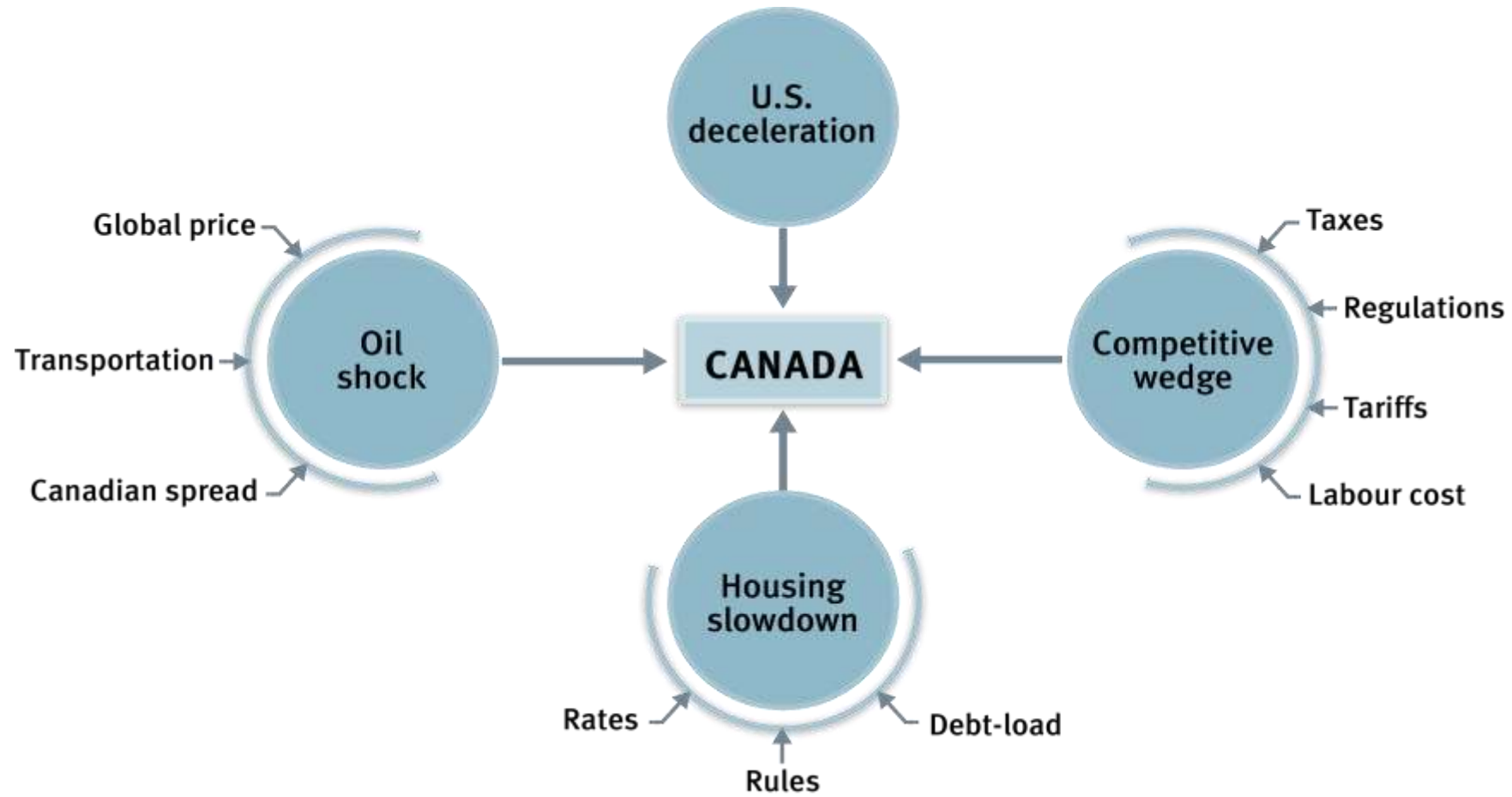
Source: [www.policyuncertainty.com](http://www.policyuncertainty.com), Macrobond, RBC GAM

# Three years later and Brexit prospects no less foggy



U.K. GDP shock:

# Canadian macro challenges



Source: RBC GAM

# Some key macro themes



**Risk assets** evaluate  
Slowing growth / protectionism / late cycle  
vs monetary stimulus



**Global growth** has slowed  
Manufacturers hit worst  
Consumers mostly ok



**Headwinds:** Protectionism, cycle, fading  
U.S. fiscal, policy/political uncertainty



**Tailwinds:** Central banks  
Fiscal stimulus? U.S. speed limit rising?



**Tight economy** =  
inflation shouldn't be low



**Late in business cycle** and advancing



**Recession risk** substantial, but not  
happening yet



**China has slowed;** but government  
support starting to appear



**Brexit** uncertainty very high



**Canada** limited by U.S., oil,  
competitiveness; but housing stabilizes;  
election looms

Source: RBC GAM

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