RBC Global Asset Management

Economic update

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September 2024

Key themes

Normalization theme:

- Inflation is falling nicely, no longer especially high
- Growth has slowed
- Central banks can therefore cut rates with confidence (at consecutive meetings! By 50bps!)
- In turn, soft landing odds upgraded to 70%

Canadian economic underperformance:

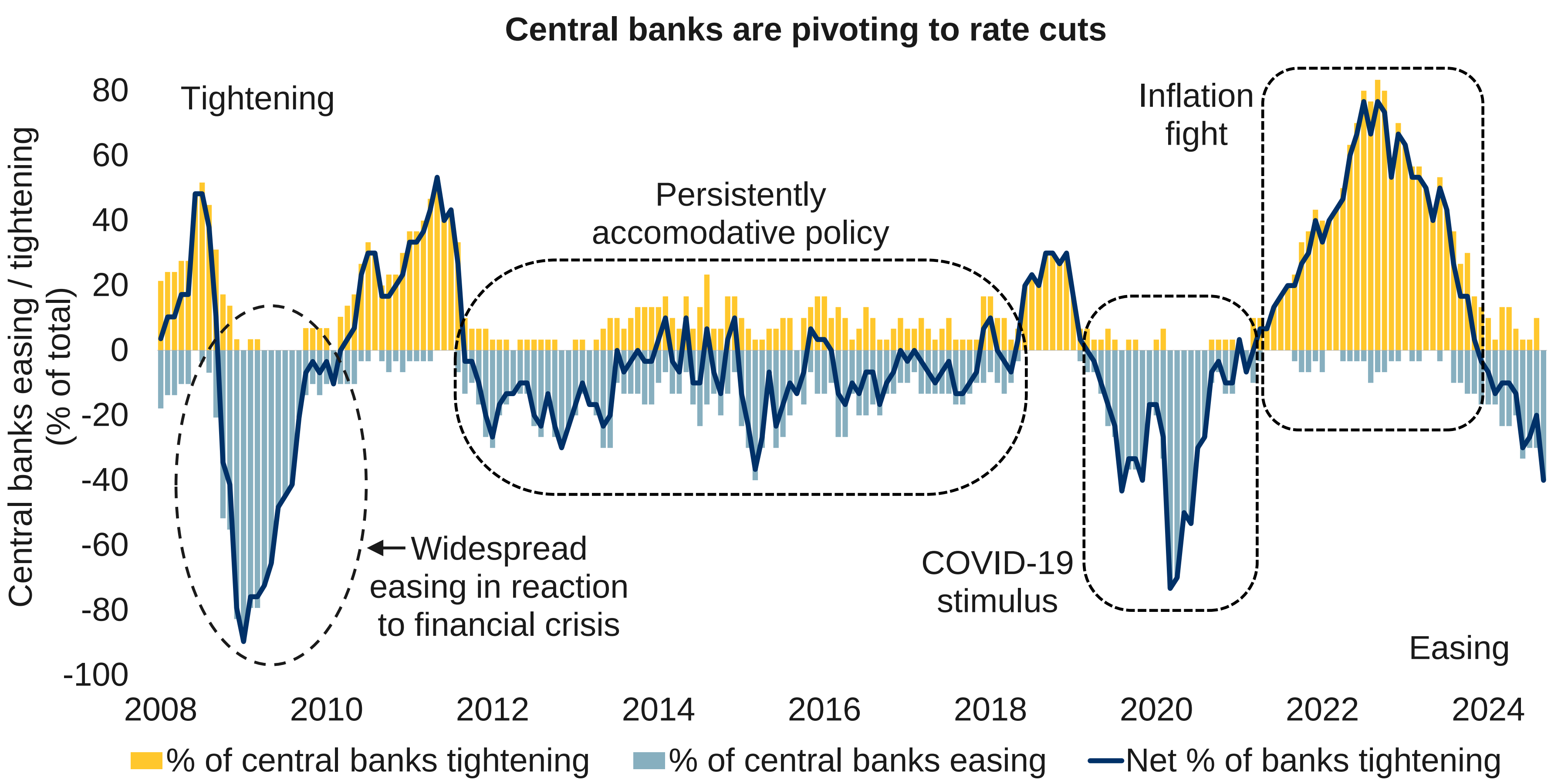
- Concealed by rapid population growth, but this is set to slow
- Housing to remain soft
- Rate cuts should start to help; productivity to (hopefully!) pick up; Cdn election upcoming

Other:

- U.S. election is closely contested and consequential
- Elevated geopolitical risks – watch price of oil
- Medium-term fiscal challenges – econ drag for late 2020s?

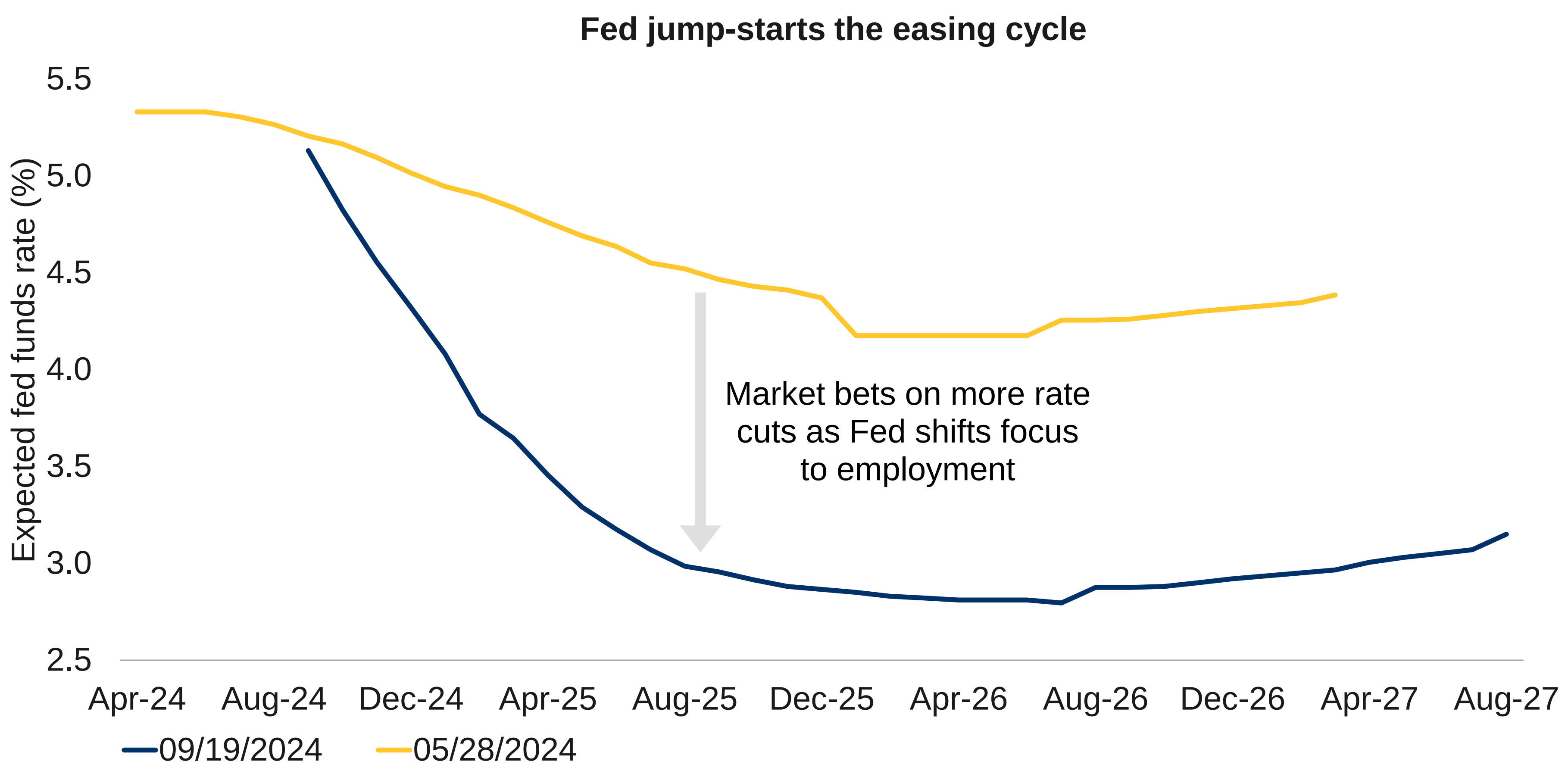
Note: As at 09/20/2024. Source: RBC GAM

The world’s central banks are pivoting from hikes to cuts



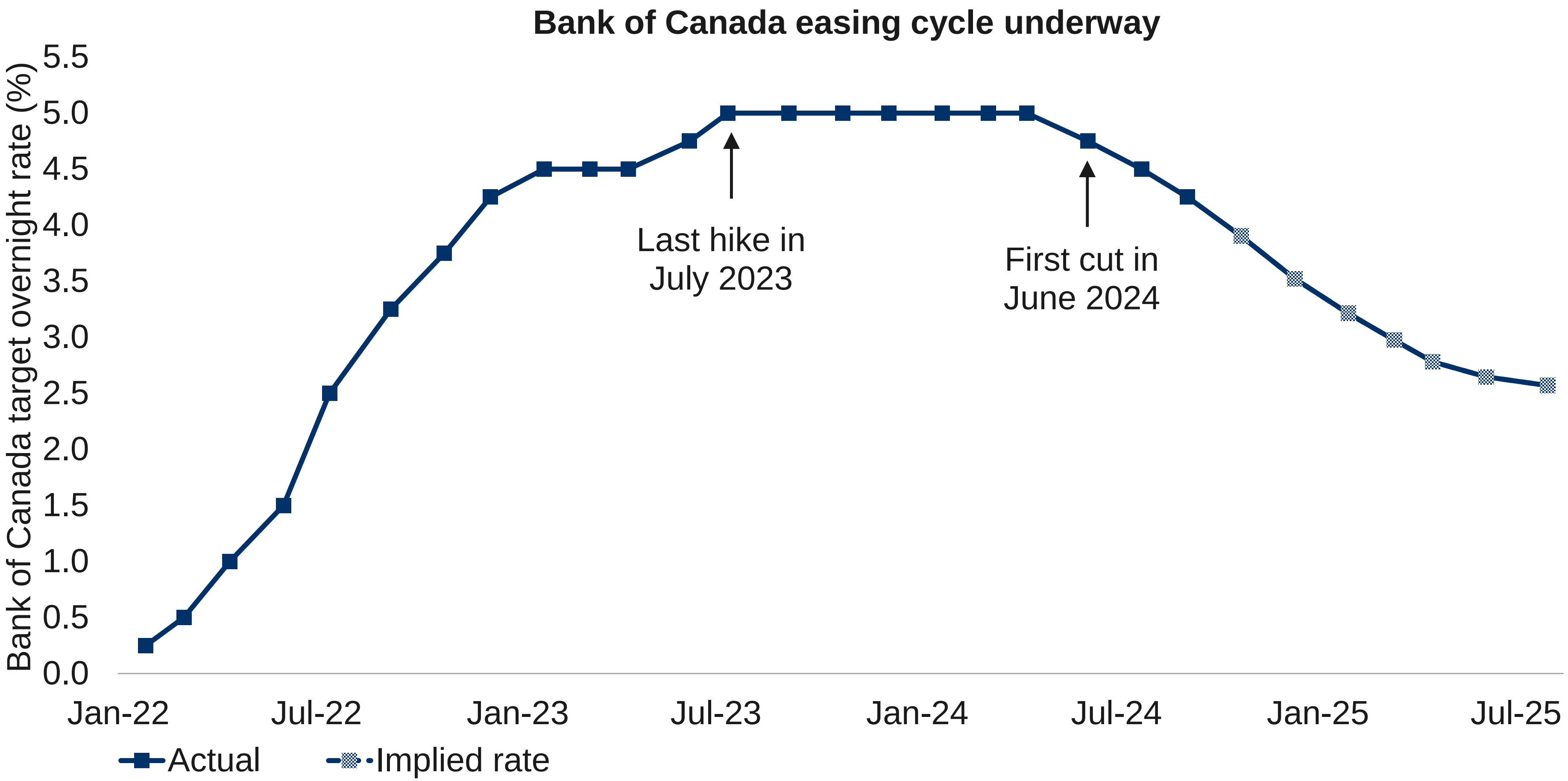
Note: As of 09/19/2024. Based on policy rates for 30 countries. Source: Haver Analytics, RBC GAM

Fed expectations have swung hard from hawkish to dovish – slight overshoot?



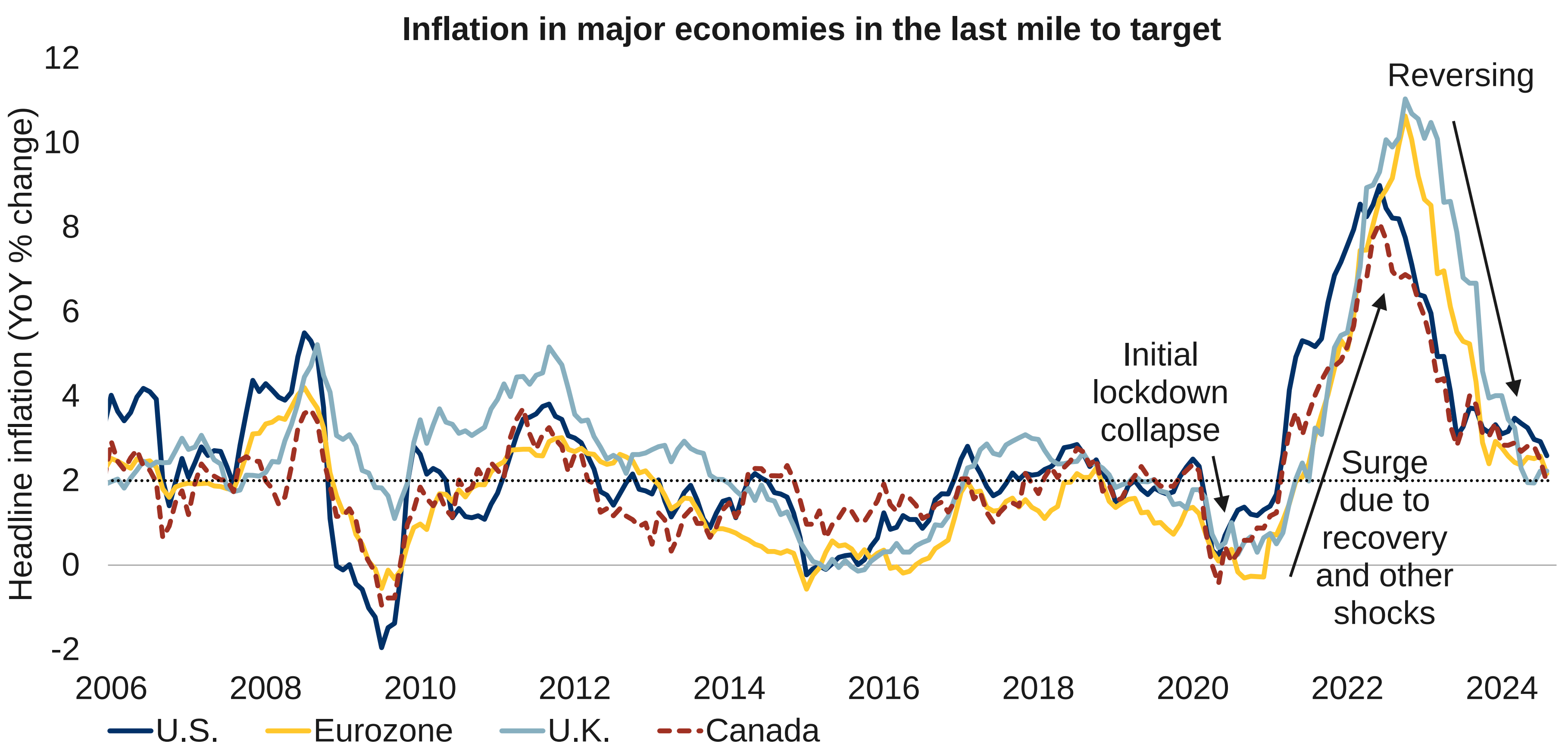
Note: As of 09/19/2024. Source: Bloomberg, RBC GAM

Markets expect more rate cuts ahead in Canada, 50bps plausibly in play



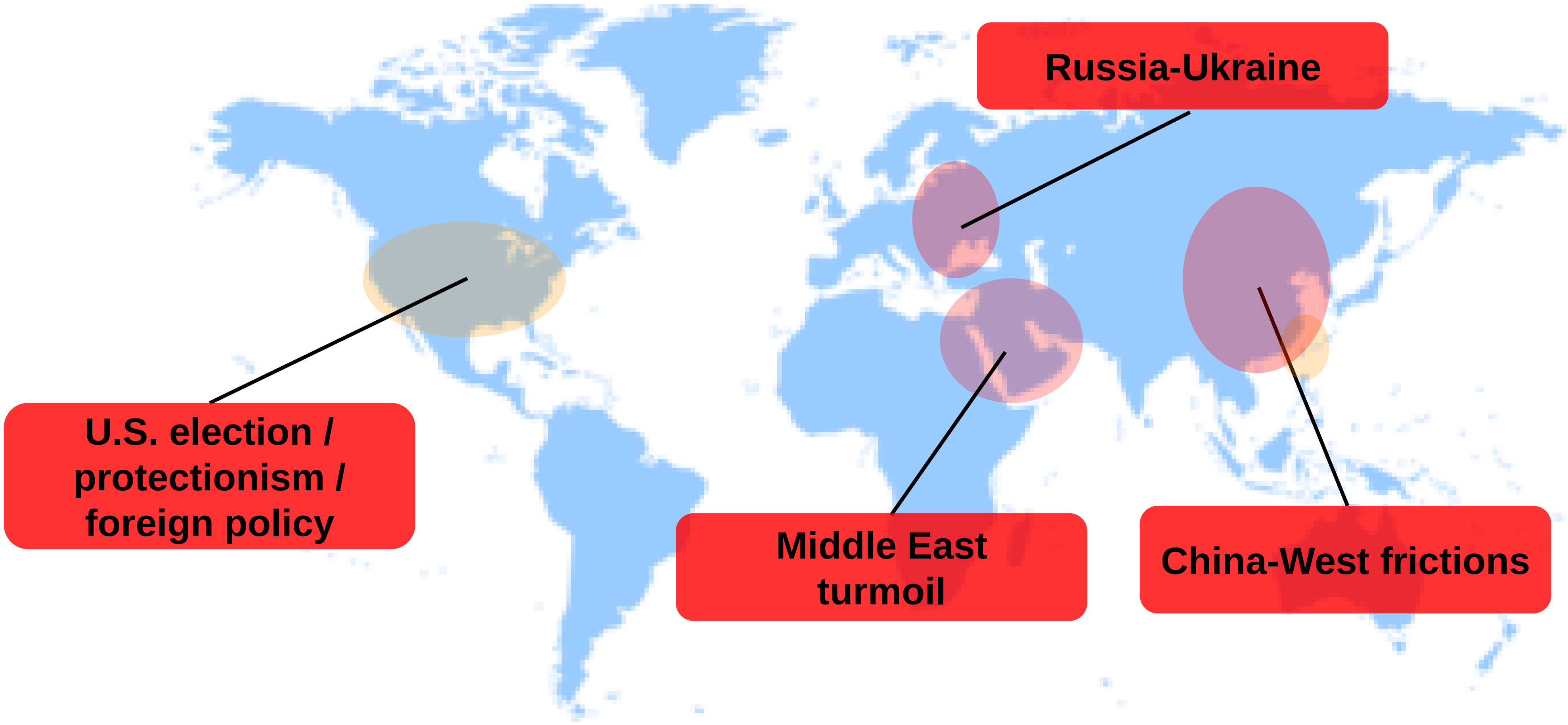
Note: As of 09/20/2024. Source: Bloomberg, RBC GAM

International inflation closing in on 2% target, though progress slowing; Canadian rent inflation remains a question mark



Note: As of Aug 2024. Source: Bureau of Labor Statistics, Office for National Statistics, Statistics Canada, Statistical Office of the European Communities, Haver Analytics, RBC GAM

Geopolitical inflation risks abound – watch oil, supply chains and tariffs



Note: As at 09/11/2024. Source: RBC GAM

Soft landing odds are good and rising, though not guaranteed

Scenarios		
	Soft landing 70% (+10ppt)	• Economy still growing • Room for further deceleration without recession • Developed world growth ex-U.S. survives despite higher rate sensitivity (so why would U.S. succumb?) • Moving past historical period of maximum risk • Central banks are removing rate headwind briskly • Some recession signals have reversed
	Hard landing 30% (-10ppt)	• Monetary tightening hits with a lag • Economic growth is slowing • Mounting debt distress • Some recession signals remain intact, and another one recently triggered

…but would likely be short and shallow

Source: As at 09/19/2024. Source: RBC GAM

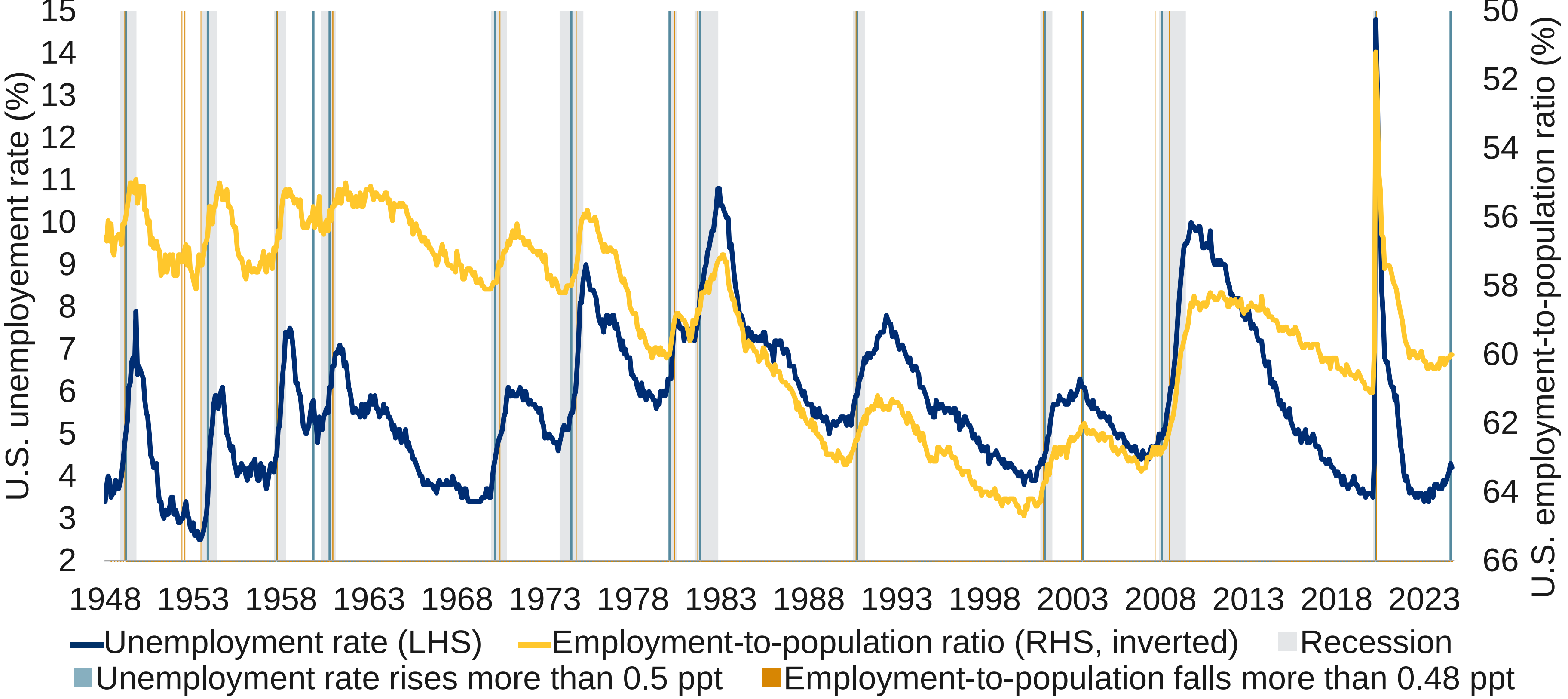
Recession risk shrinking but remains higher than normal

Signal	Predicting U.S. recession?
2yr-10yr curve inverted / bull rallies out of inversion	Yes
3m-10yr curve inverted / bull rallies out of inversion	Yes
Fed short-term curve inverted / bull rallies out of inversion	Yes
Conference Board leading indicator falling	Yes
Unemployment increase	Yes
Monetary tightening cycle	Likely
RBC GAM recession model	Likely
Google “recession” news trend	Maybe
Jobless claims jump	Maybe
Inflation spike	Maybe
Duncan leading indicator falls	No
Volume of global trade falls	No
S&P 500 profit margins fall	No
Lending standards tighten	No
Oil price spike	No

Note: As at 09/03/2024. Analysis for U.S. economy. Source: RBC GAM

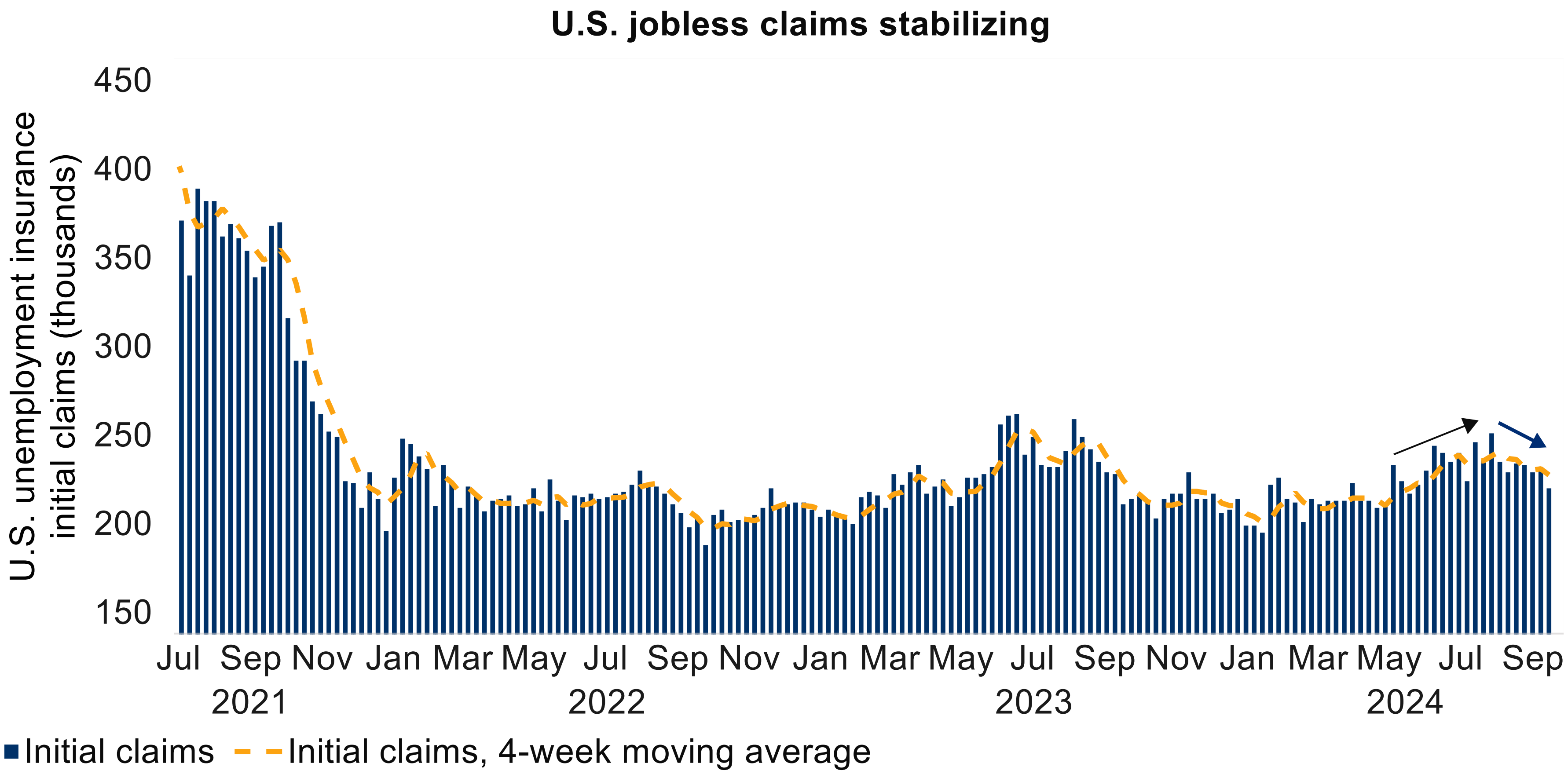
Alternative Sahm Rule (that better captures hiring dynamics) has not issued recession signal

U.S. employment-to-population ratio is not yet signaling a recession



Note: As of Aug 2024. 3-month moving average of unemployment rate and employment-to-population ratio. Source: BLS, UBS, Macrobond, RBC GAM

Jobless claims argue U.S. labour market isn't in too much trouble

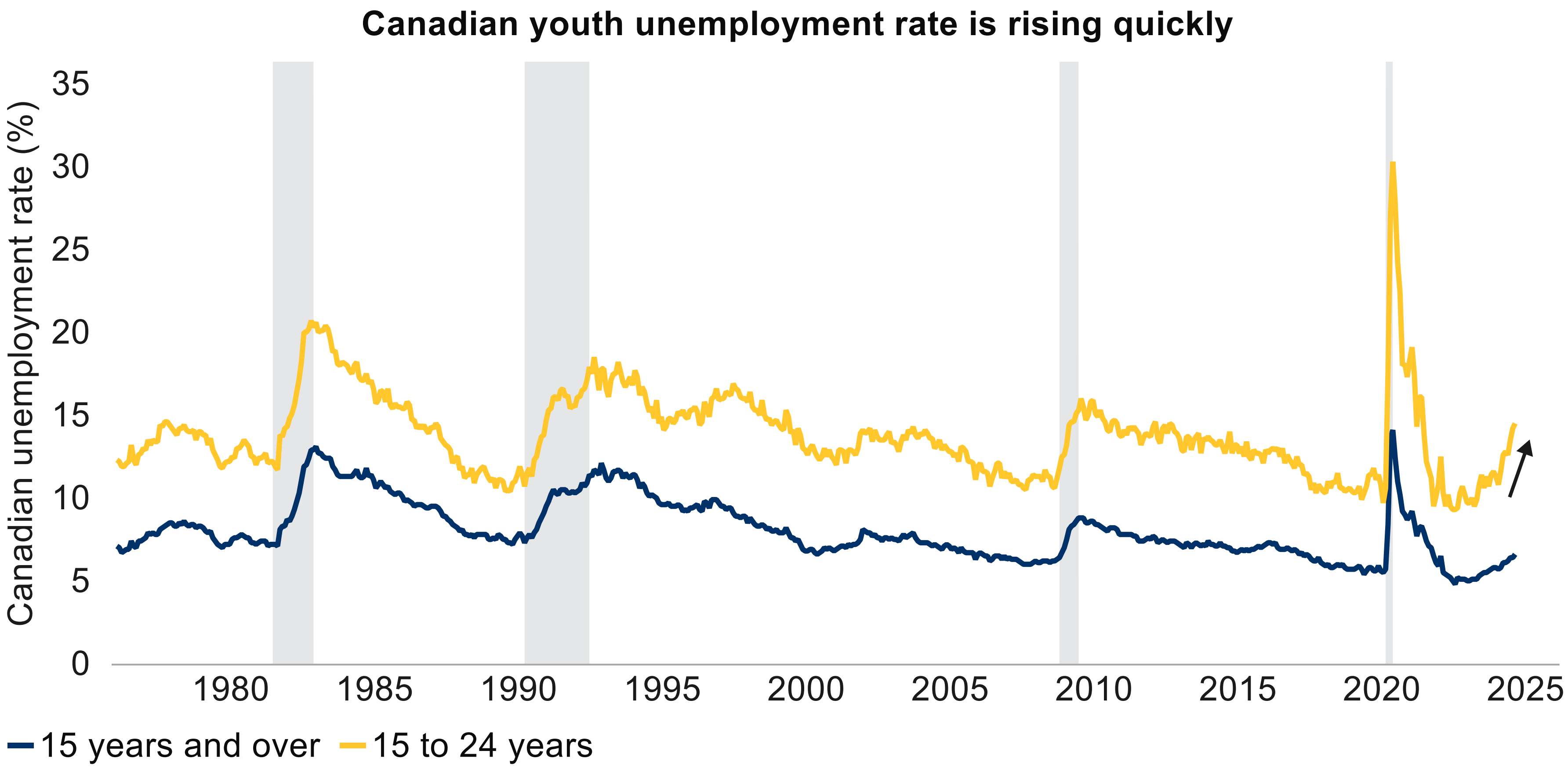


Note: As of the week ending 09/14/2024. Source: DOL, Macrobond, RBC GAM

Canadian economy is growing, but at a truly modest rate; shrinking substantially on a per capita basis!

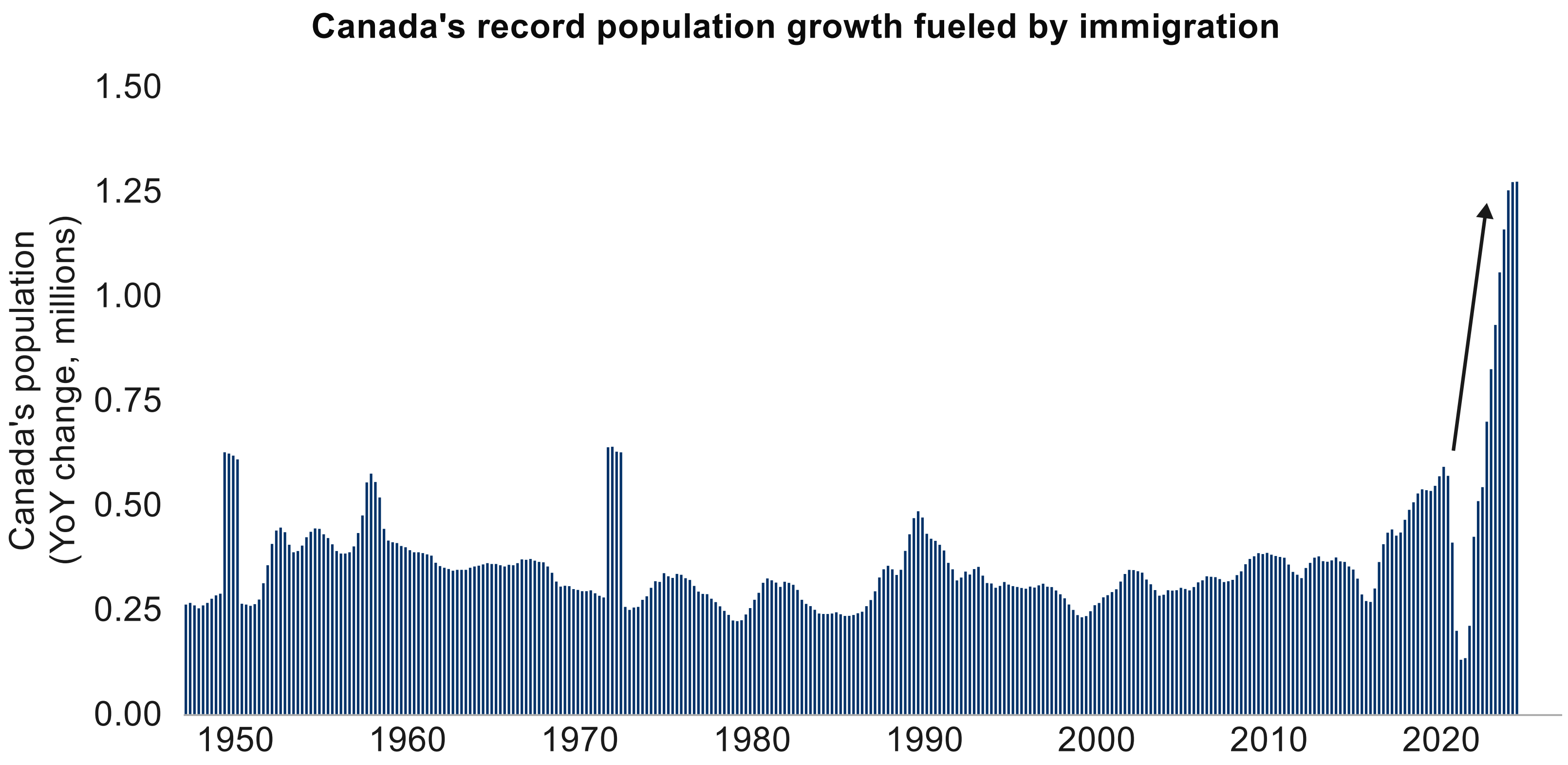
Note: As of Q2 2024. Source: Statistics Canada, Macrobond, RBC GAM

Rising Canadian unemployment removes inflation pressure, highlights economic weakness; youth unemployment especially hit by low-skill immigration surge



Note: As of August 2024. Shaded area represents recession. Source: Statistics Canada, Haver Analytics, Macrobond, RBC GAM

Massive Canadian immigration; rule changes should start to reduce the pace, but it takes time



Note: As of 04/01/2024. Source: Statistics Canada, Macrobond, RBC GAM

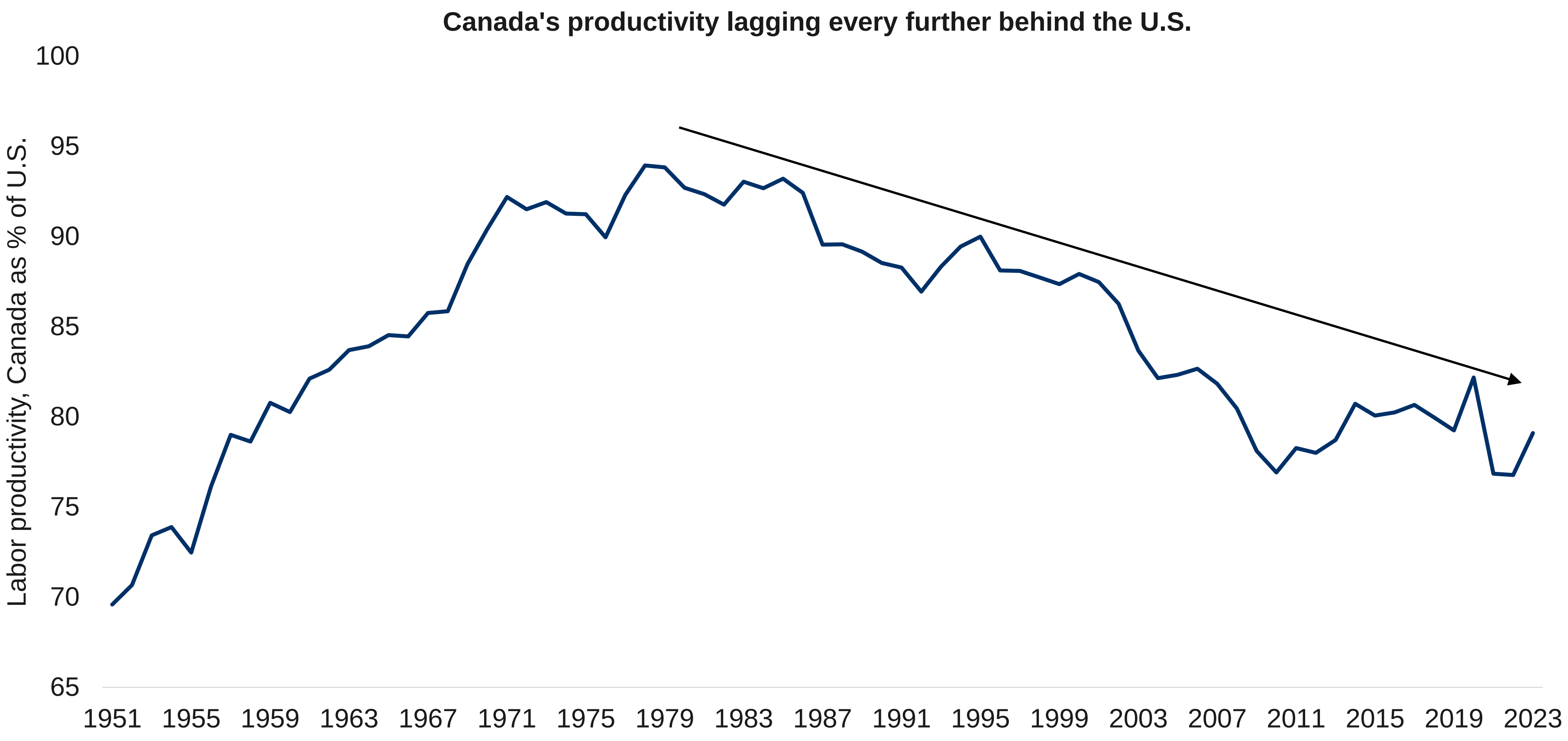
Positive implications of fast pop. growth:

- Faster raw GDP growth
- Corporate revenues grow more quickly
- Better short-term fiscal position

Negative implications:

- Average Canadian no more prosperous
- Short-run hit to productivity and unemp.
- Exacerbates housing shortage
- Immigration becoming less popular

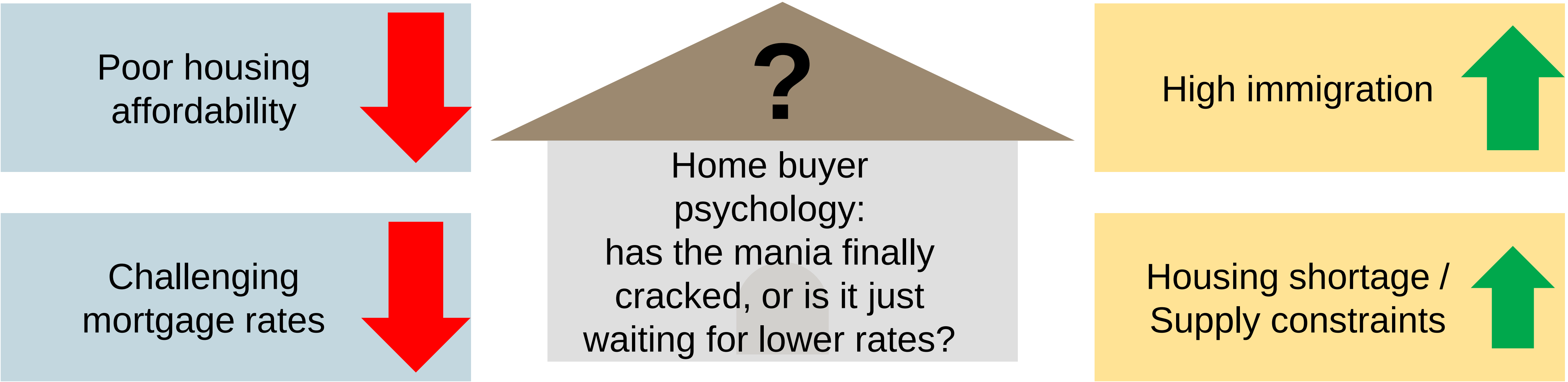
Underperforming Canadian productivity endorses CAD below PPP



Note: 2022 data are estimates, 2023 data are forecasts from The Conference Board. Source: The Conference Board Total Economy Database™, April 2023, RBC GAM

Powerful forces push and pull on Canadian home prices – prices should go roughly sideways but with high uncertainty

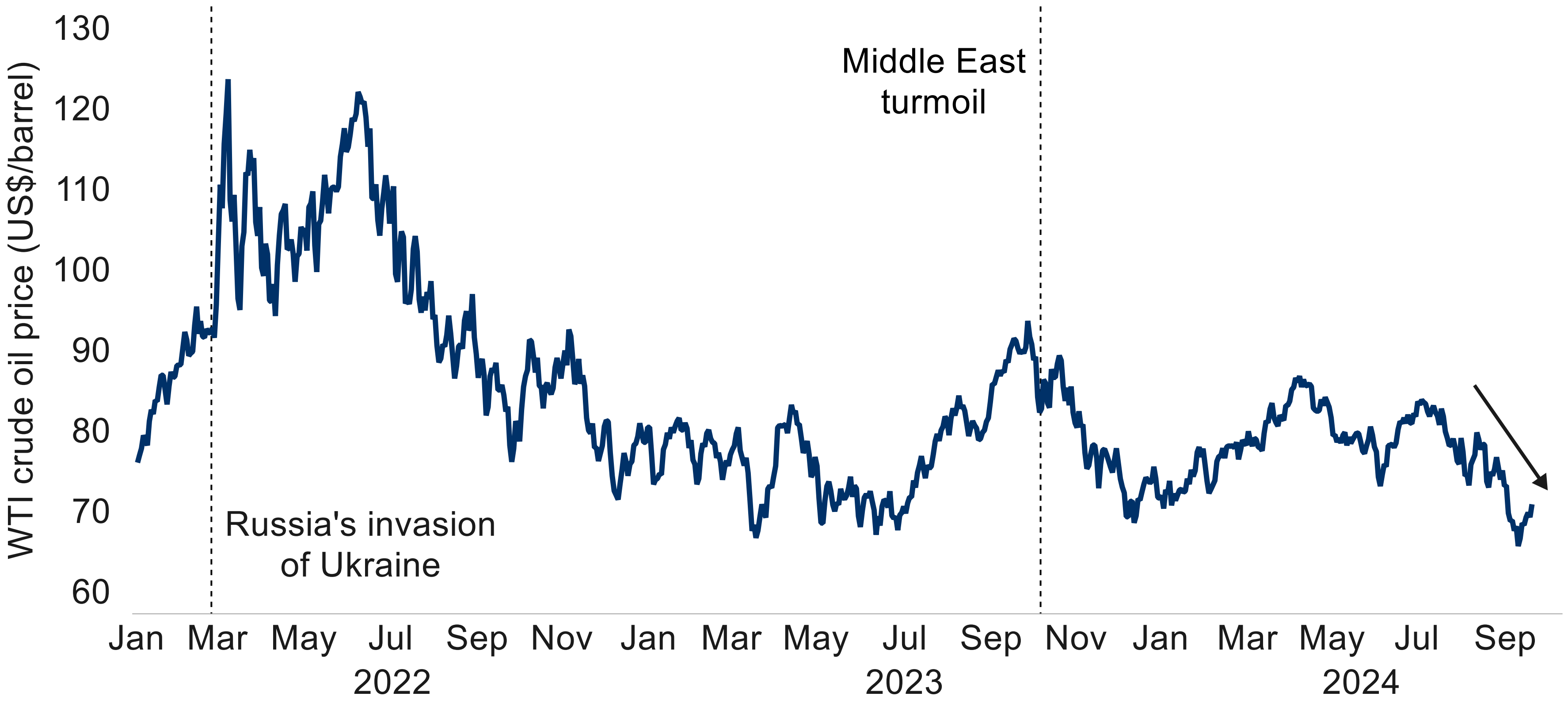
Canadian housing drivers



Note: As at 09/03/2024. Source: RBC GAM

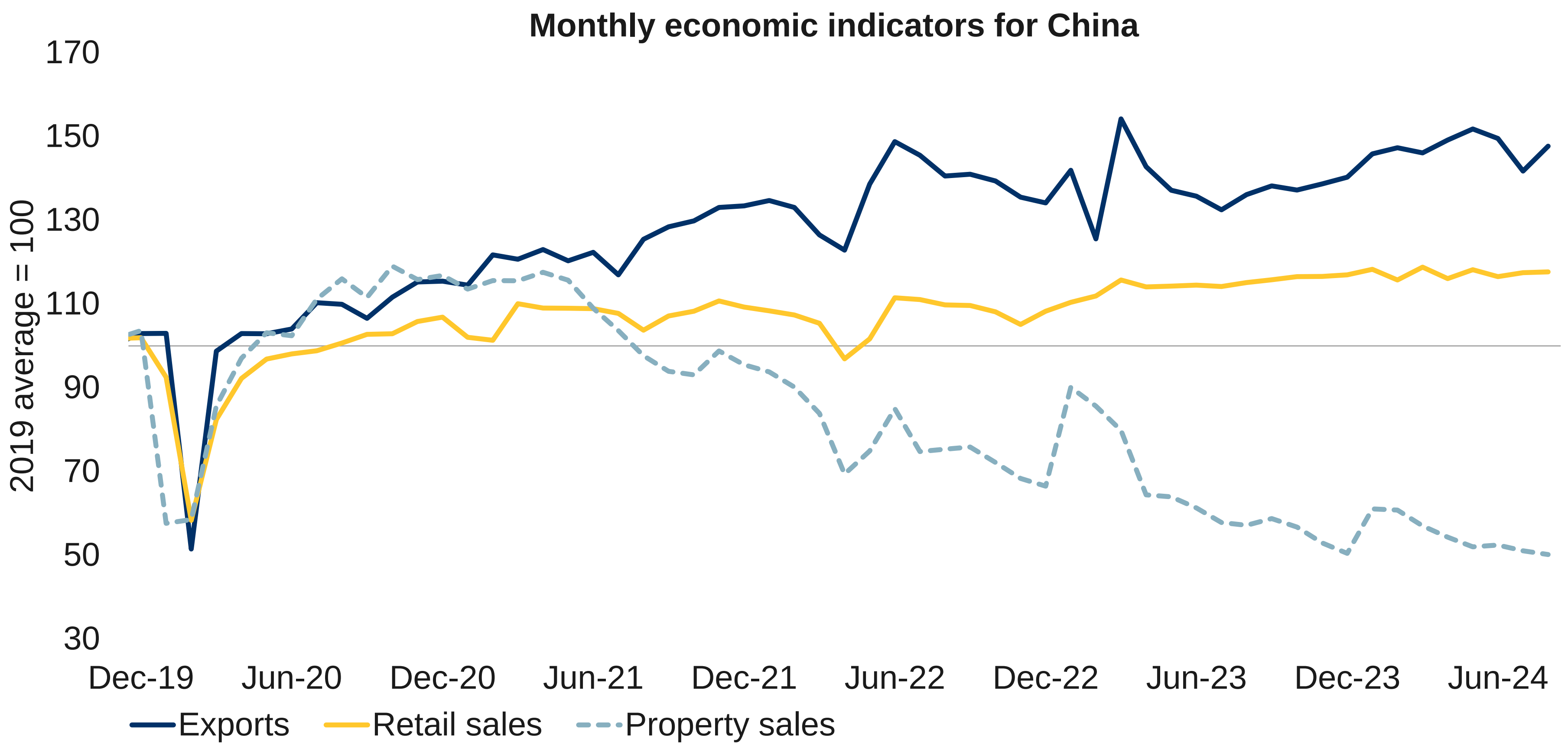
Low oil prices may be overblown?
Econ growth picks up in H2 2024 / Geopolitical risks / Structural factors

Crude oil prices fall on demand concerns despite geopolitical tensions



Note: As of 09/19/2024. Source: Macrobond, RBC GAM

China's economy is growing at about 5% in 2024, but with extreme variability by sector; don't underestimate Chinese policymakers' desire to sustain growth



Note: As of Aug 2024. Average of 2019 levels indexed to 100. Source: Haver Analytics, RBC GAM

U.S. election macro and market thoughts

2024 U.S. election	 Trump	 Harris
Short-term growth	• **More economically supportive in short run** • Platform is more expensive = more fiscal stimulus • More business-friendly (tax cuts, dereg., oil) • Animal spirits / business confidence rise? • Versus tariffs, less immigration, shrink IRA • But specifics not yet clear and must pass Congress	• **Less economically supportive in short run** • Platform less expensive = less fiscal support • Less business-friendly (tax hikes, reg., price caps) • Versus more spending: housing, tax credits, health • But specifics not yet clear and must pass Congress
Med.-term growth	• **Mild economic drag?** • Tariffs, lower immig. may do lasting damage • Bigger public debt has to be serviced • (Vs. dereg helping) • Autocratic worries?	• **Roughly neutral for economy** • More regulations hurt economy • But public debt not as big?
Market implications	• **+ for equities / + for yields / + for dollar?** • Negative for rest of world (tariffs, geopolitical)	• More status-quo given continuity for Democrats
Single-party control?	• Underlying economic question is whether money will be pumped into or out of economy • Both candidates would do more fiscal stimulus with single-party control • **So watch congressional outcomes as closely as presidential election**	

Note: As at 09/19/2024. Source: RBC GAM. For information purpose only.

Economic simulations can quantify tariff damage – significant but not massive

Trump tariff economic implications

	Real GDP		CPI	
	Full tariffs	**Partial tariffs**	**Full tariffs**	**Partial tariffs**
U.S.	-1.5	-0.2	0.8	0.2
China	-1.6	-0.3	0.0	-0.1
Canada	-2.5	-0.3	0.8	-0.1
Mexico	-2.3	-0.3	-0.4	-0.1
Eurozone	-1.0	-0.2	-0.4	0.0
U.K.	-0.7	-0.1	-0.4	0.0
Japan	-0.7	-0.1	-0.6	-0.1
India	-0.3	0.0	-0.9	-0.2
South Korea	-1.6	-0.2	-0.7	-0.2
World	-1.1	-0.2	-0.3	-0.1

Note: As at 08/05/2024. Deviation (in percentage) in level of GDP and CPI from normal trend after two years.
Source: Oxford Economics, RBC GAM

Our fiscal health scorecard identifies vulnerable countries; potential for fiscal austerity over latter half of 2020s = slower economic growth

Country	Fiscal Health Index (1 - 5)	Debt (% of GDP)	Deficit (% of GDP)	Fiscal adjustment (ppt)	Interest payments (% of GDP)	GDP growth (%)	Current Account (% of GDP)	Foreign-held debt (% share)	Currency control
Italy	4.3	137	7.5	4.6	4.4	0.8	0.2	25	No
U.S.	3.8	122	8.6	4.5	2.9	2.1	-3.0	26	Yes
U.K.	3.8	101	6.1	2.5	4.0	1.4	-2.2	24	Yes
Japan	3.6	252	5.8	3.4	1.4	0.4	3.4	12	Yes
Brazil	3.6	85	8.2	2.7	8.1	2.0	-1.3	10	Yes
France	3.4	111	4.9	1.9	1.9	1.3	-0.8	45	No
Belgium	3.4	104	5.0	1.8	1.5	1.3	-0.1	49	No
Greece	3.1	169	1.6	-1.6	2.4	1.3	-6.9	n.a.	No
Spain	3.0	107	3.7	0.3	2.3	1.6	2.6	38	No
South Africa	2.9	74	6.4	0.4	4.6	1.4	-1.6	25	Yes
China	2.9	116	6.6	1.2	0.9	3.3	1.5	3	Yes
India	2.8	83	8.7	-2.1	5.2	6.5	-1.2	5	Yes
Norway	2.8	42	9.6	6.8	0.4	1.4	17.7	54	Yes
Canada	2.5	107	0.6	-3.1	2.8	1.7	-0.6	20	Yes
Mexico	2.5	53	4.5	-0.7	5.4	2.1	-0.3	22	Yes
Finland	2.4	77	1.5	-2.1	0.5	1.5	-1.0	44	No
Portugal	2.2	99	-0.1	-4.0	2.0	1.9	1.4	44	No
Turkey	2.2	29	6.4	-14.0	2.1	3.5	-4.1	n.a.	Yes
Germany	2.0	64	1.9	-0.8	0.7	0.7	6.8	41	No
Indonesia	1.6	40	1.6	-6.1	2.0	5.1	-0.1	34	Yes
South Korea	1.6	55	0.9	-3.1	0.9	2.0	2.1	n.a.	Yes
Netherlands	1.6	47	1.4	-2.3	0.5	1.6	10.2	36	No
Australia	1.5	49	1.1	-3.6	1.3	2.3	1.2	30	Yes
Russia	1.5	20	2.5	-1.4	0.8	1.3	2.5	8	Yes
Ireland	1.4	43	-1.4	-6.0	0.6	2.5	9.9	53	No
Sweden	1.3	36	0.0	-4.1	0.5	2.1	6.2	11	Yes
Denmark	1.3	30	-2.0	-5.5	0.7	1.4	10.9	24	Yes

Legend
Extremely poor
Very poor
Poor
Fair
Good

Note: 2023 data for all indicators except interest payments (2022) and GDP growth (IMF forecast for 2029 used as proxy for "normal"). Fiscal adjustment refers to the necessary reduction in fiscal deficit to stabilize debt-to-GDP ratio. Source: IMF, Macrobond, RBC GAM

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