



Monthly economic webcast: Political complications heat up

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**Global Asset
Management**

Report card

NEGATIVE DEVELOPMENTS



- Italian political mess hits global markets
- U.S. protectionism: China, NAFTA, metals, autos
- U.S. public debt profile deteriorating
- Canadian mortgage crunch
- Macro signals waning slightly

POSITIVE DEVELOPMENTS



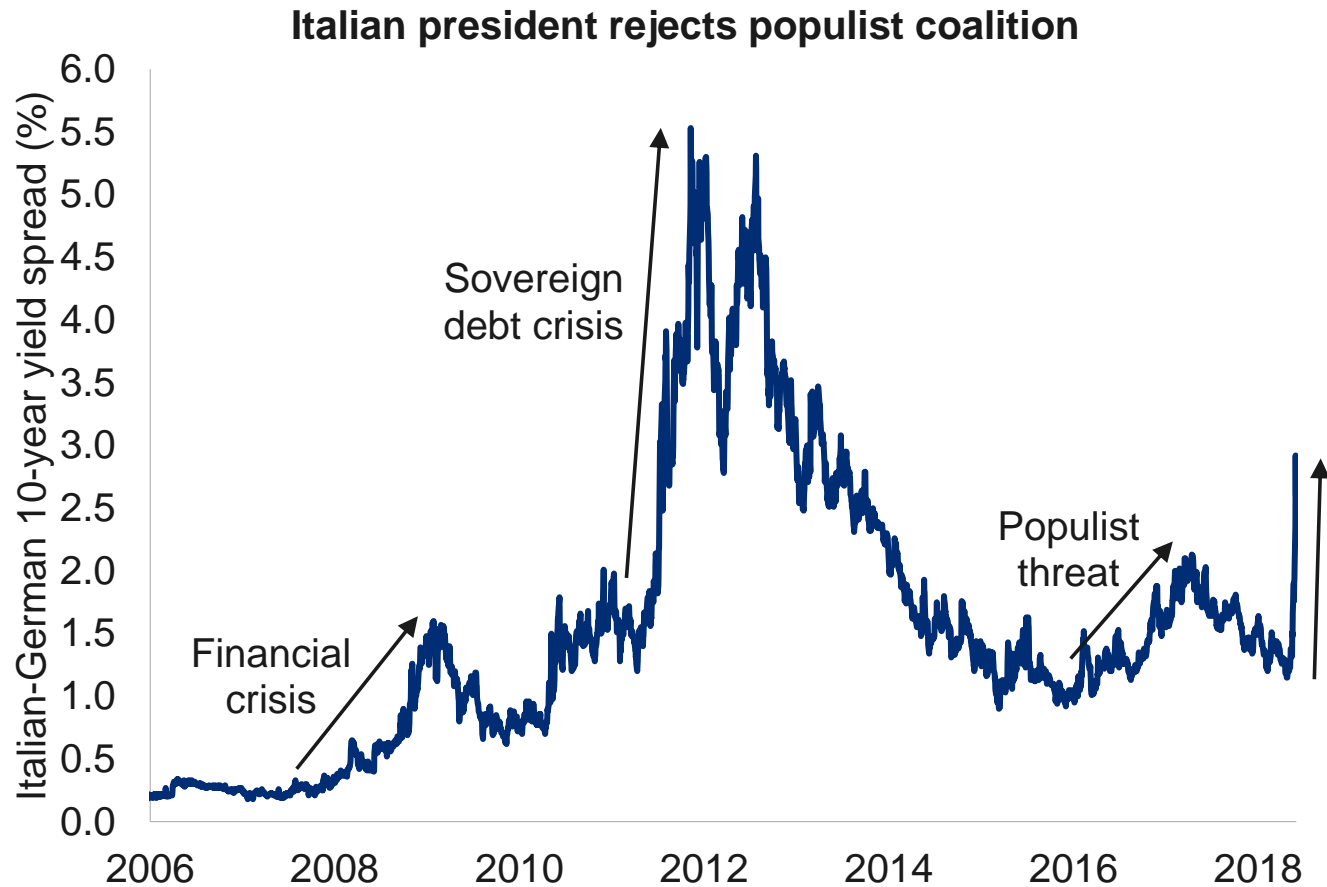
- Global economy still moving fairly well
- Evidence that economic speed limit is rising
- Interest rates give back some of prior gains
- Chinese consumer on the ascent
- U.S. oil sector booms
- Europeans more positive on EU and euro

INTERESTING



- EM-DM growth gap widening
- U.S. pulled out of Iran nuclear deal
- Geopolitics affect oil
- U.S.-North Korea summit off then on
- Canada nationalized Trans Mountain Pipeline
- BoC hints at July hike

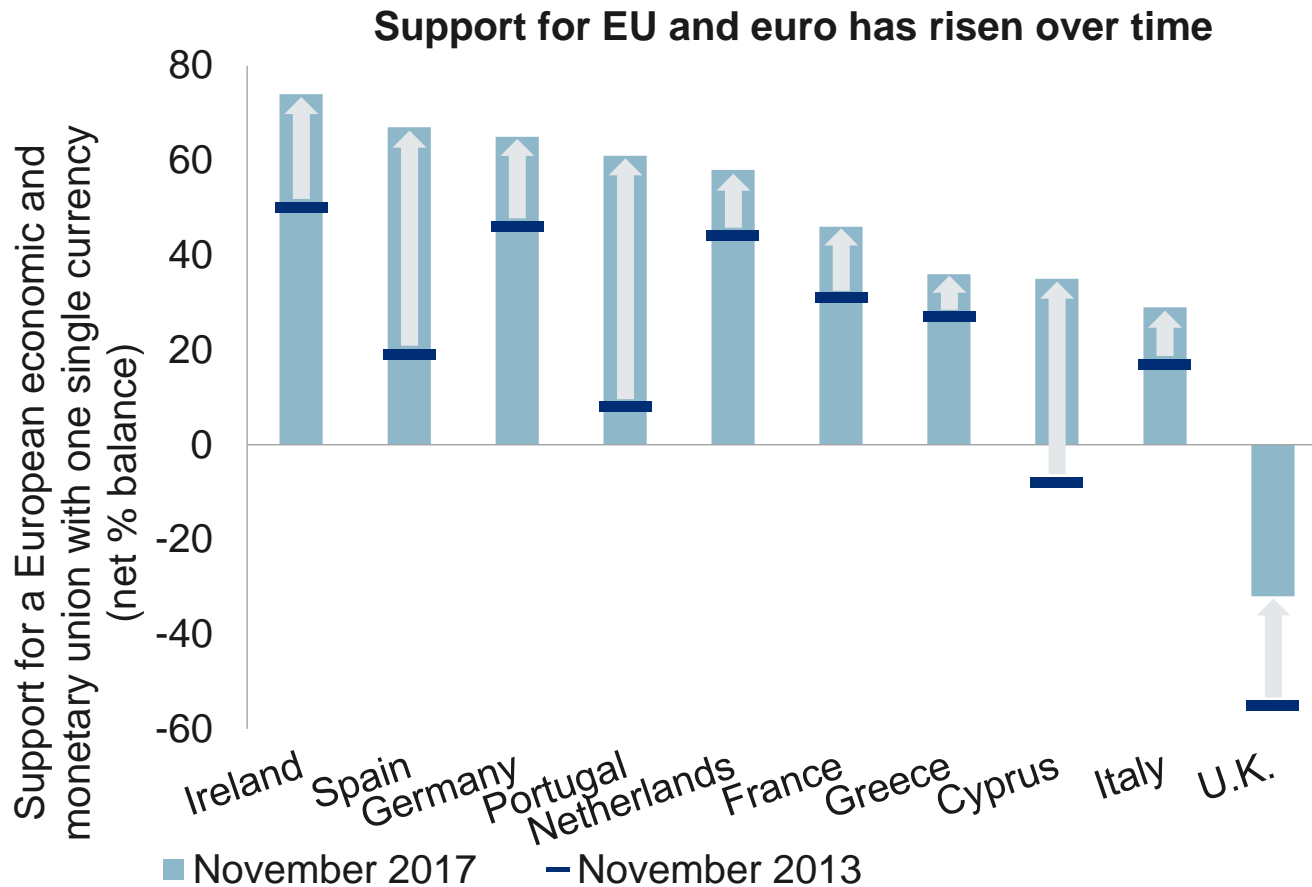
Italy's populist wave hits the markets hard



Note: Spread of Italian and German 10-year government bond yields.

Source: Reuters, Haver Analytics, RBC GAM

Feelings about EU and euro have become more positive



Note: Net percent balance calculated as % of survey respondents who support a European economic and monetary union and euro minus % of survey respondents who are against.

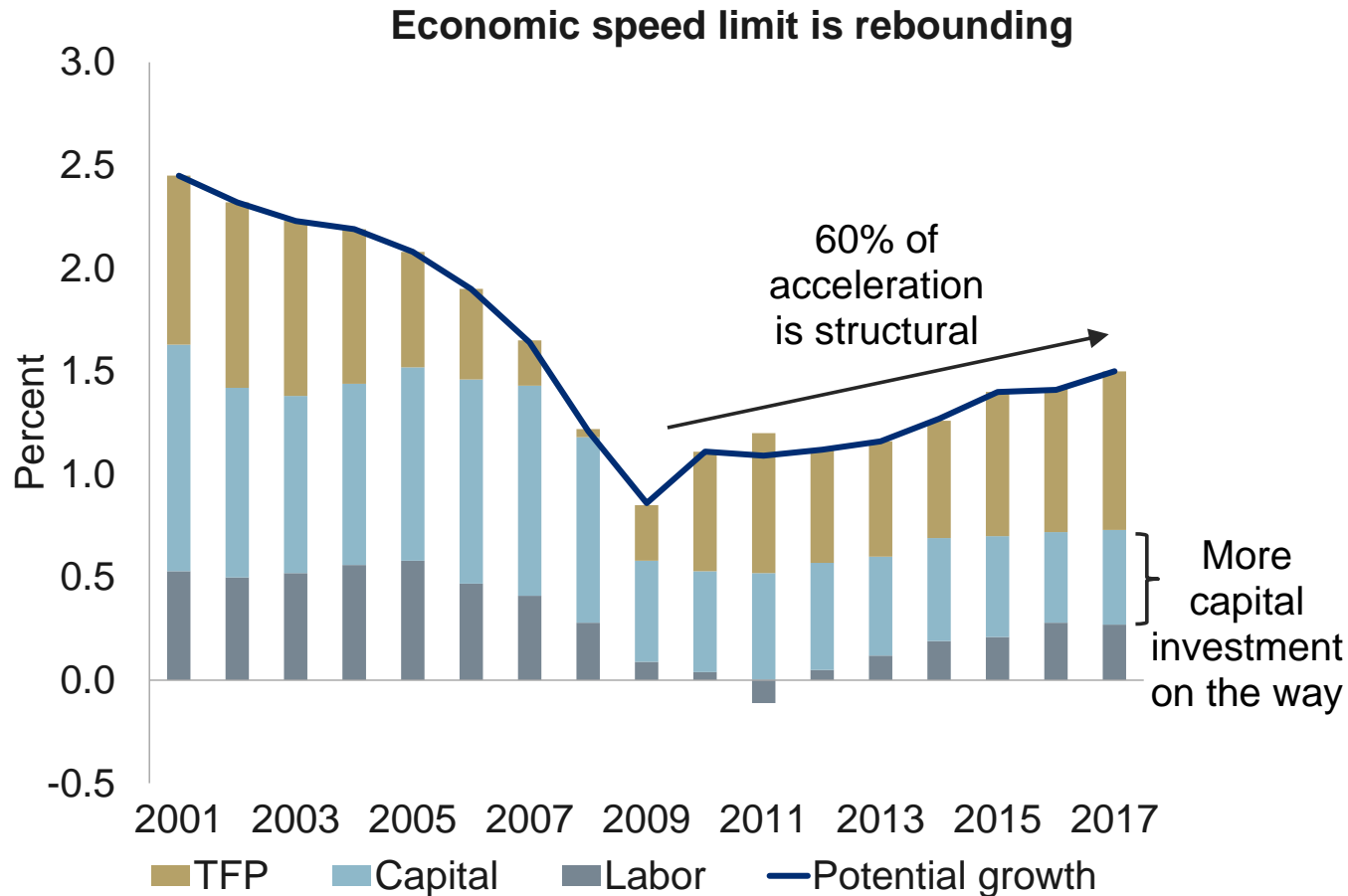
Source: European Commission Standard Eurobarometer 88 and 80, RBC GAM

Companies have big plans for the future



Note: U.S. expected capex (% balance) is an average of the results from manufacturing outlook surveys conducted by Federal Reserve Banks - Dallas, Kansas, New York, Philadelphia, and Richmond. Source: Haver Analytics, RBC GAM

Global growth pickup is more structural than cyclical (good!)



Note: IMF calculations for composition of growth in advanced economies. TFP is total factor productivity, the more efficient interplay of capital and labor. Source: IMF, RBC GAM

Key protectionist risks



NAFTA

*Narrow deal
focused on
autos?*



**U.S. &
China**

*Asymmetric
access to China
is key issue*



**Blanket
tariffs**

*Steel, aluminum &
auto tariffs meant
to extract trade
concessions*




Trade war? 10% chance

Source: RBC GAM

U.S. trade scenarios

Scenario	Worst case	Negative	Slightly negative	Neutral	Best case
Likelihood	10%	25%	35%	15%	15%
Detail	Trade war w/ blanket tariffs	Substantial increase in tariffs	Small Trump tariffs persist	Reverse Trump tariffs	Foreign barriers fall to pressure
Economic effect	US: -1.0% China: -1.6%	US: -0.3% China: -0.3%	US: -0.1% China: -0.1%	US: 0.0% China: 0.0%	US: positive China: ?

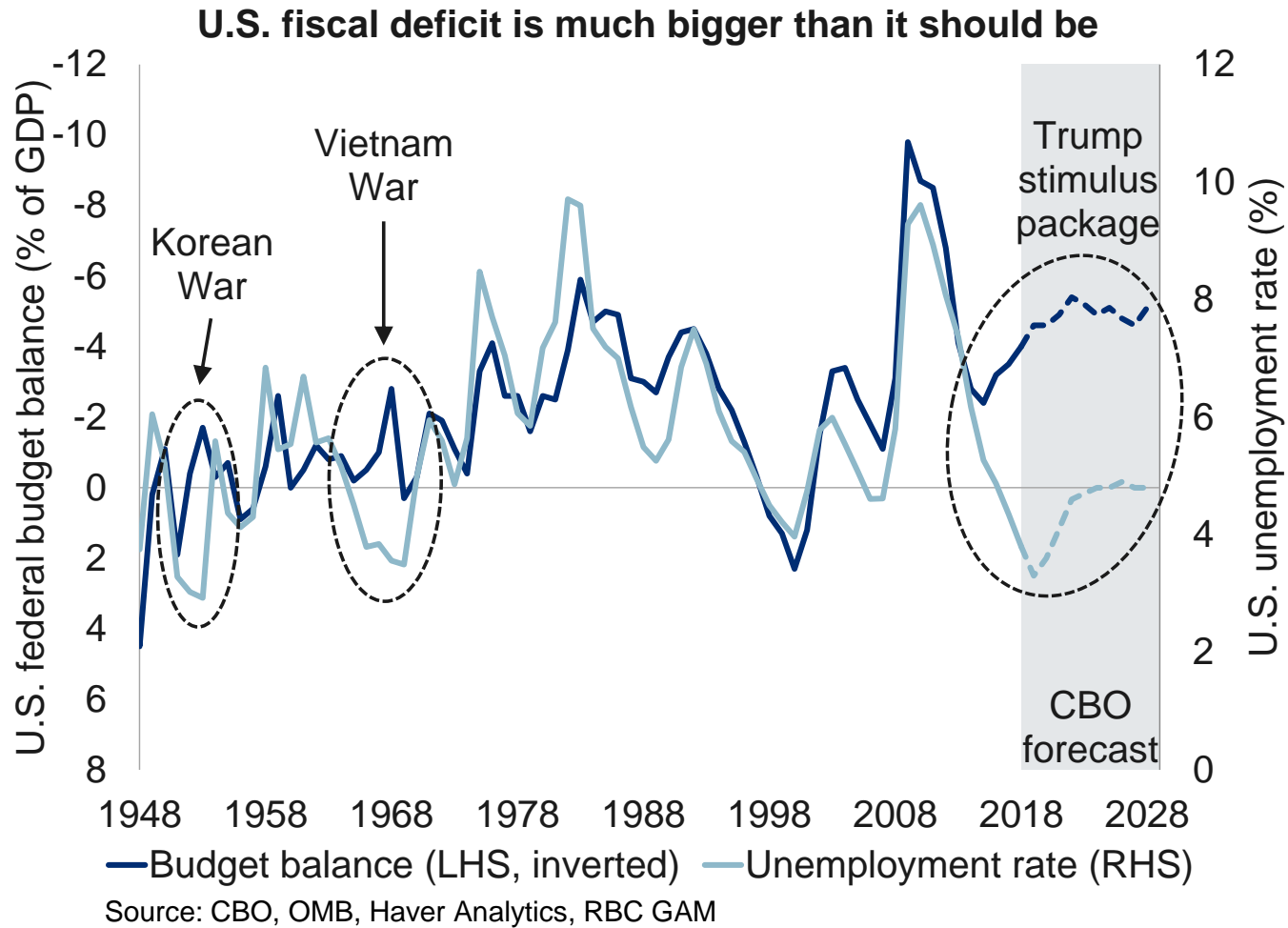

U.S. could be hit a bit worse than China

Complications:

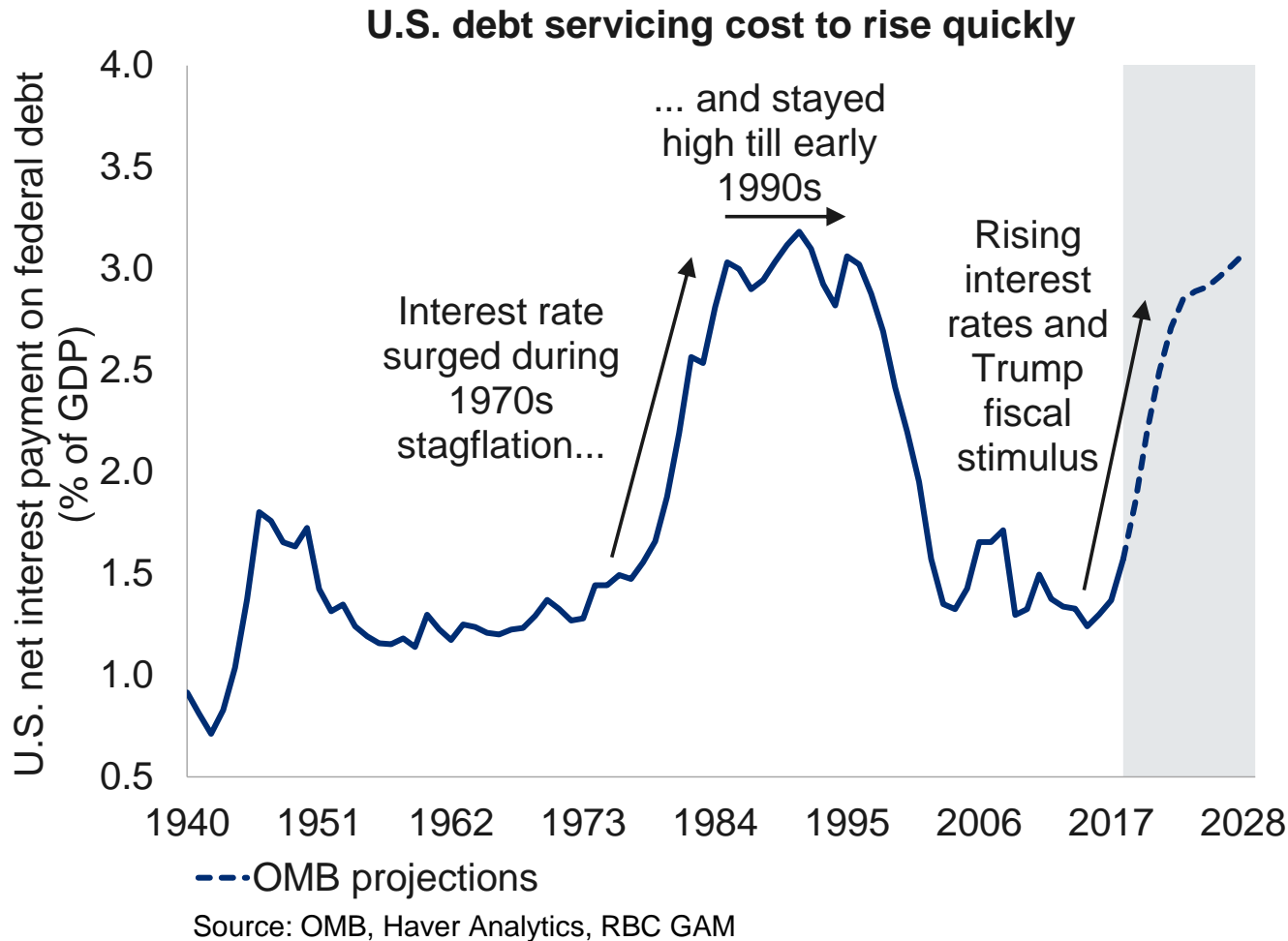
- Most trade models say protectionism damage is fairly small (see above).
- Ossa (2015) argues standard models understate gains to trade by factor of 2-3
- Trade uncertainty likely exerting economic drag in meantime.
- Integrated U.S.-China and North American supply chains could reduce economic damage in short run but increase it in long run.

Source: RBC GAM

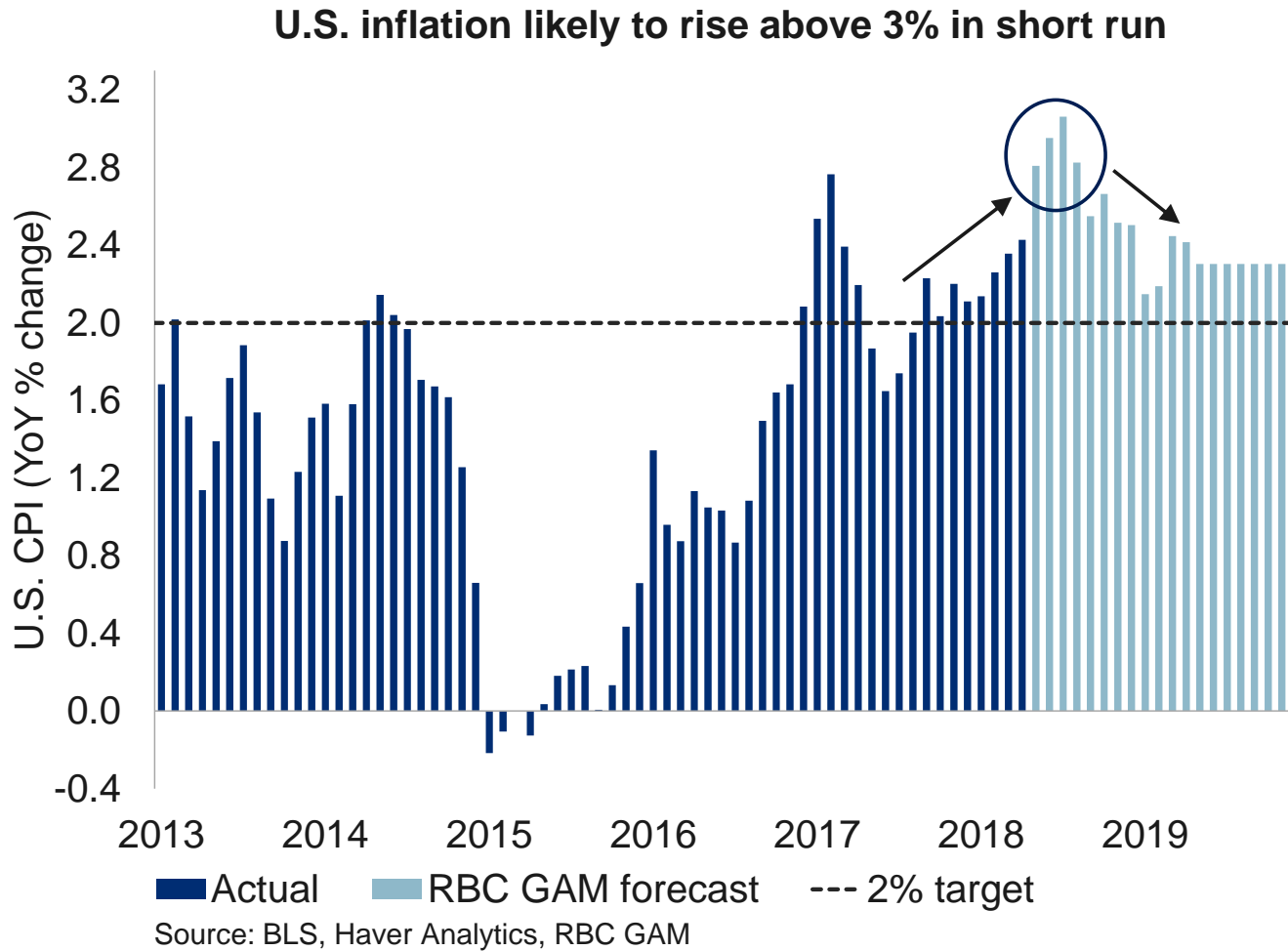
Bad fiscal position for so late in cycle



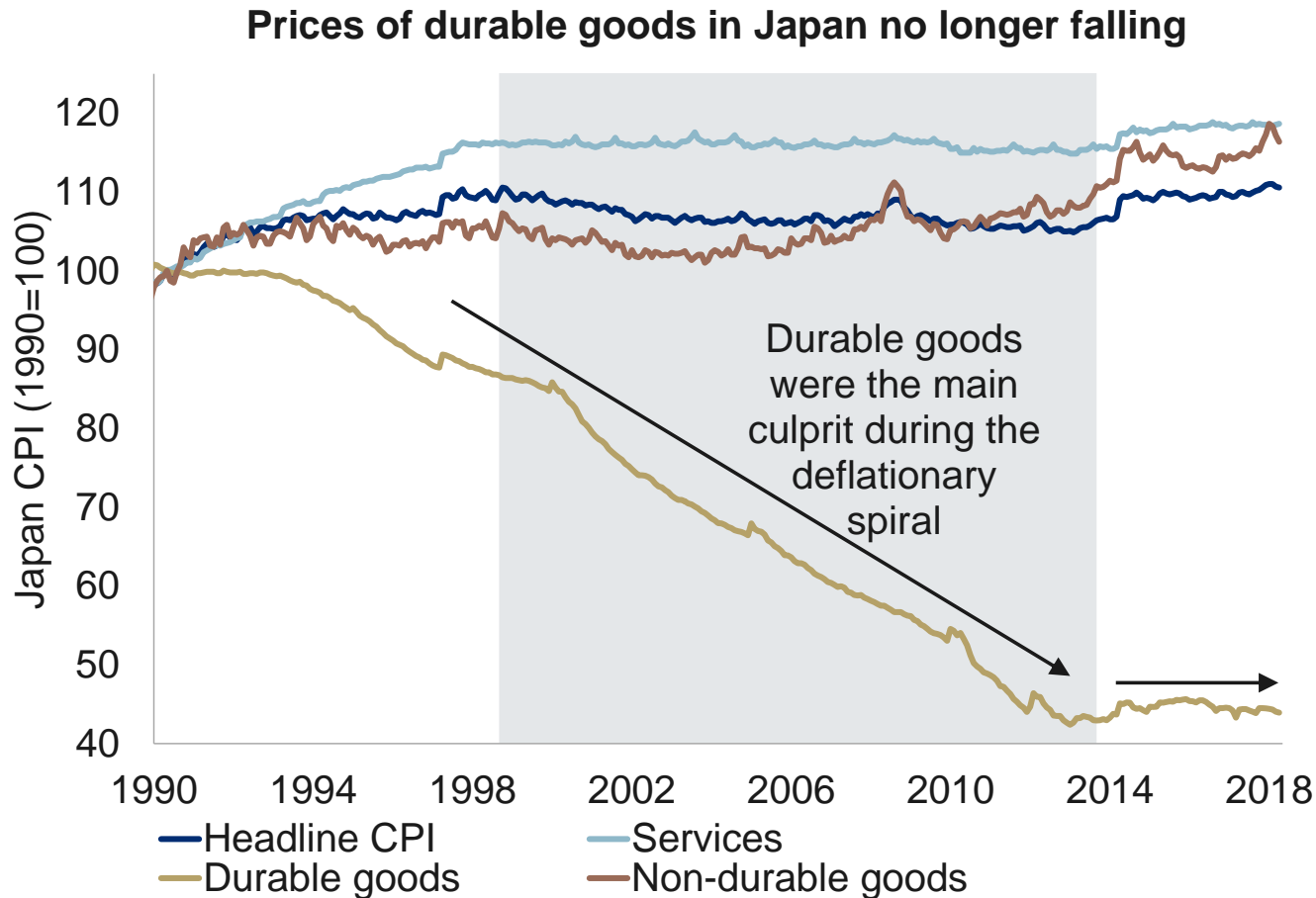
U.S. net interest payments set to become expensive



U.S. inflation to rise, then fall back to slightly above target



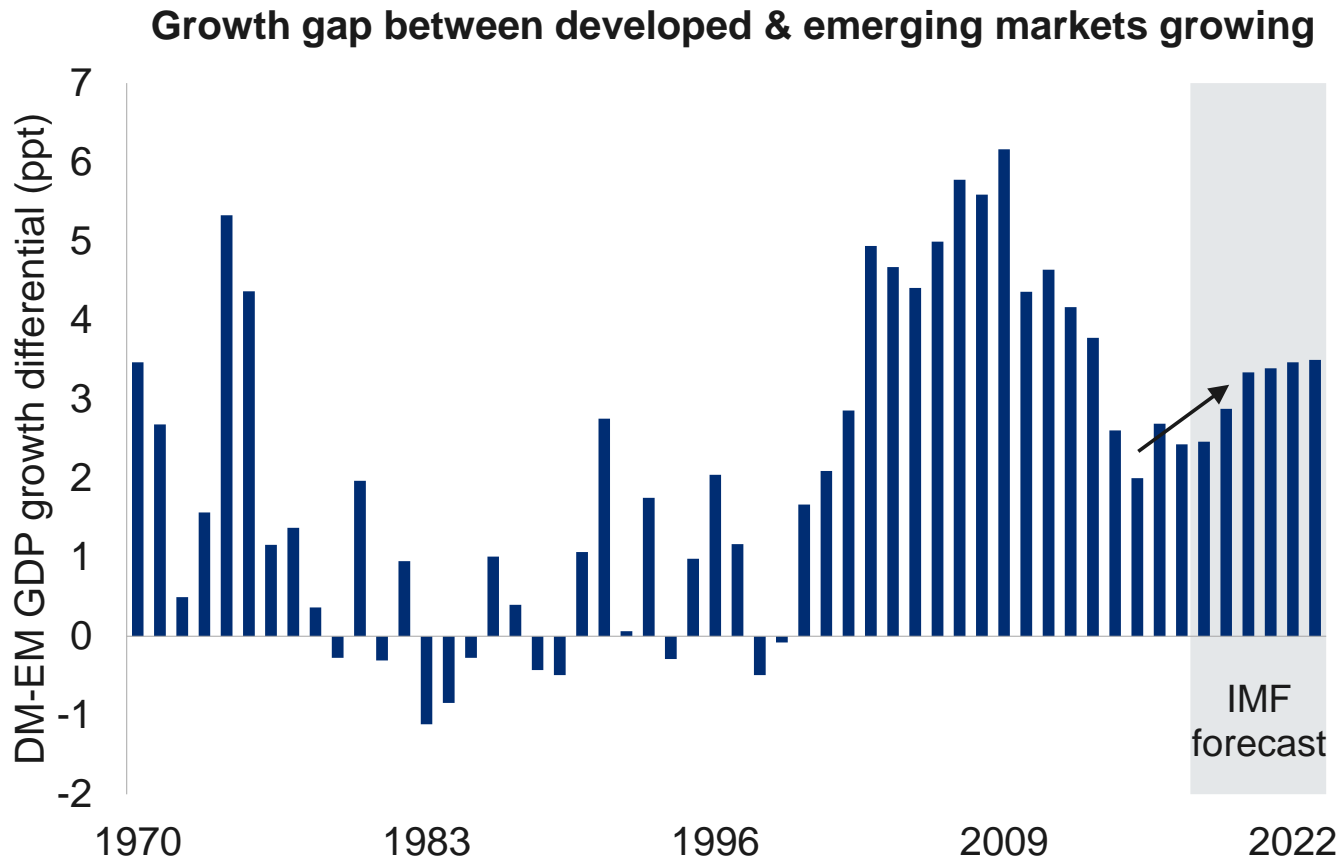
A new chapter in Japan's inflation



Note: Shaded area represents Japan's deflationary spiral.

Source: Ministry of Internal Affairs and Communication, Haver Analytics, RBC GAM

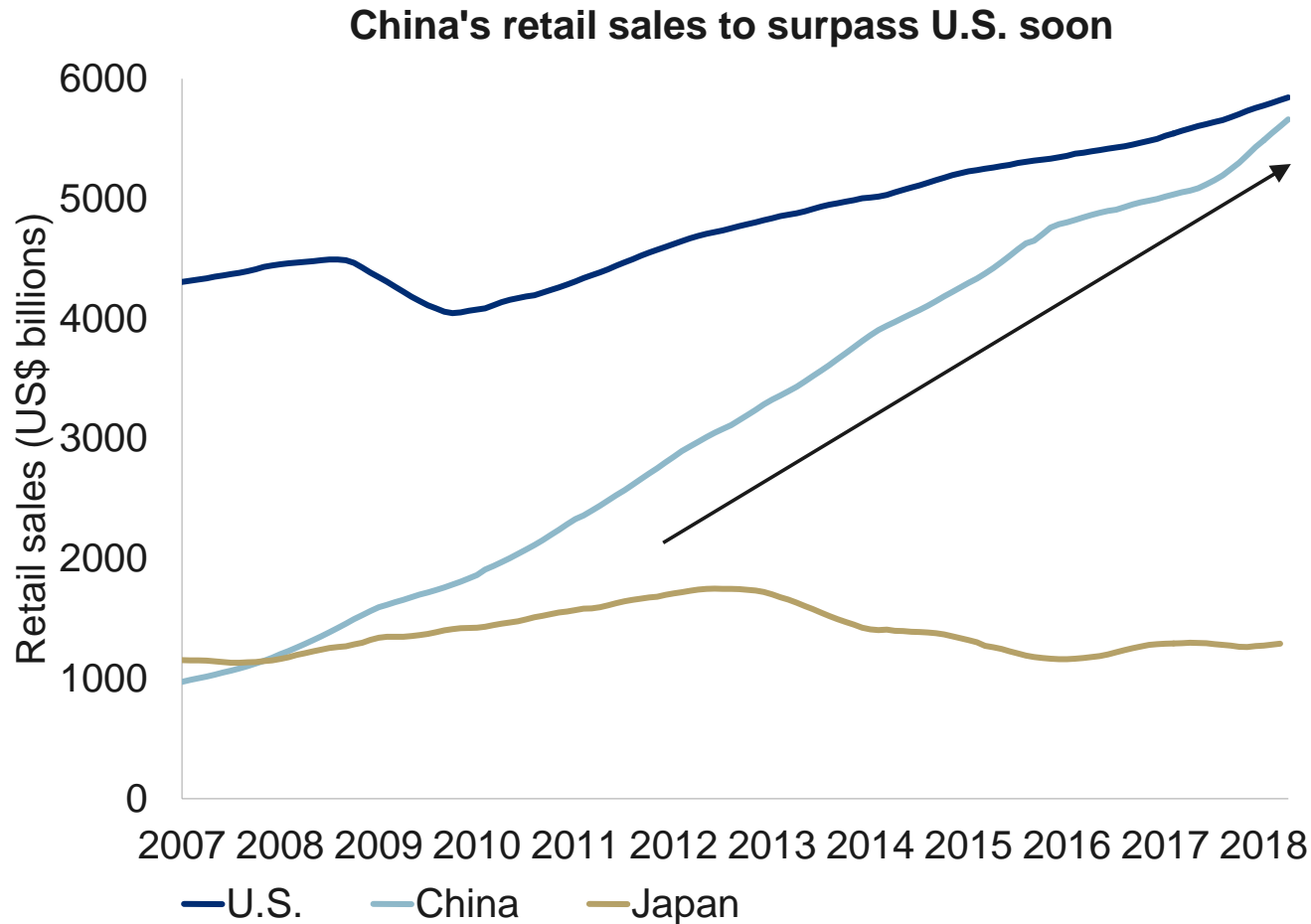
EM-DM growth gap to widen



Note: Real GDP growth differential measured as the difference between annual real GDP growth of developed and emerging countries.

Source: IMF, Haver Analytics, RBC GAM

China nearing U.S. global clout



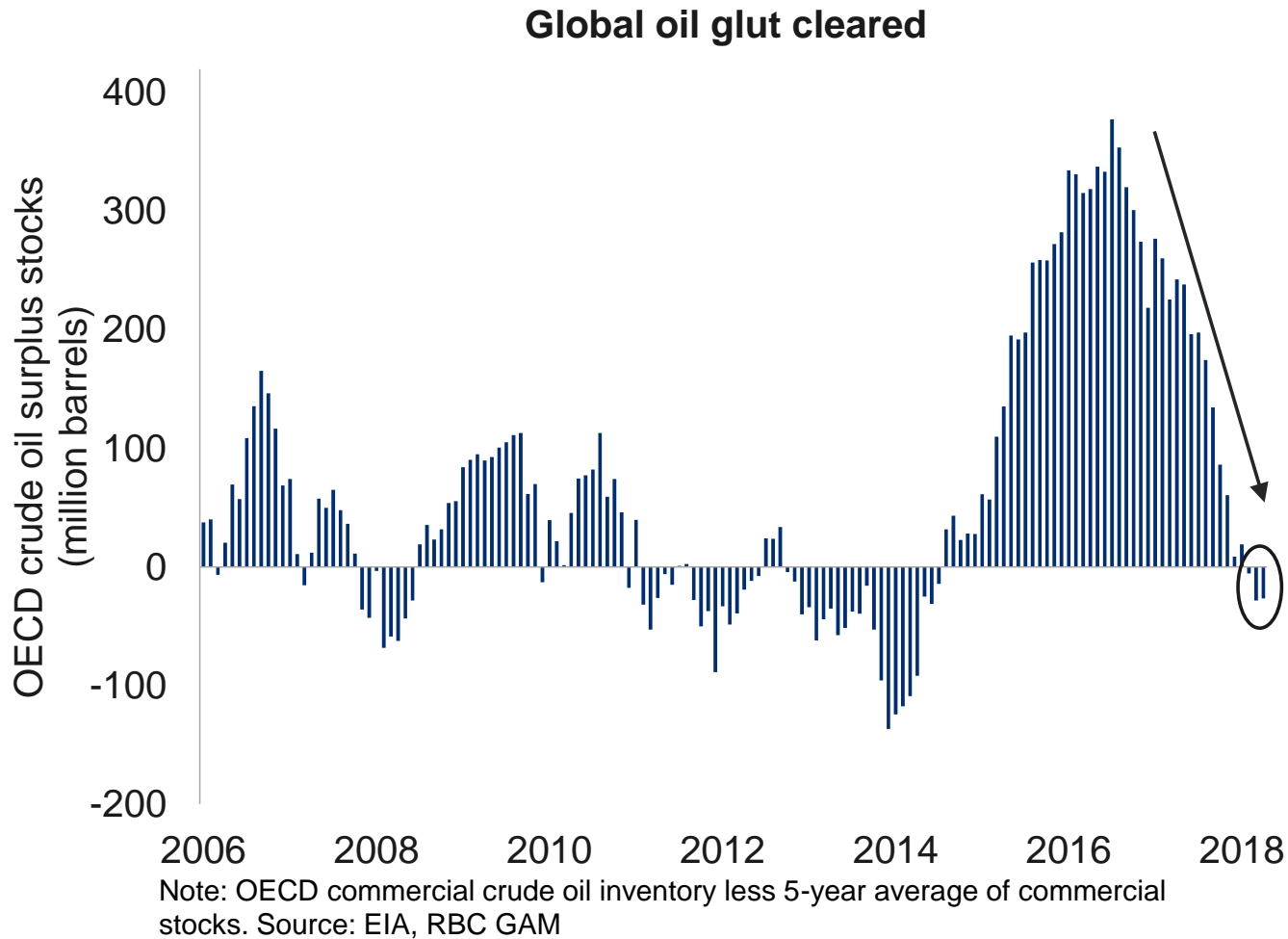
Note: 12-month moving total of retail sales. Source: Haver Analytics, RBC GAM

A Chinese drag: the downside of gigantic cities...

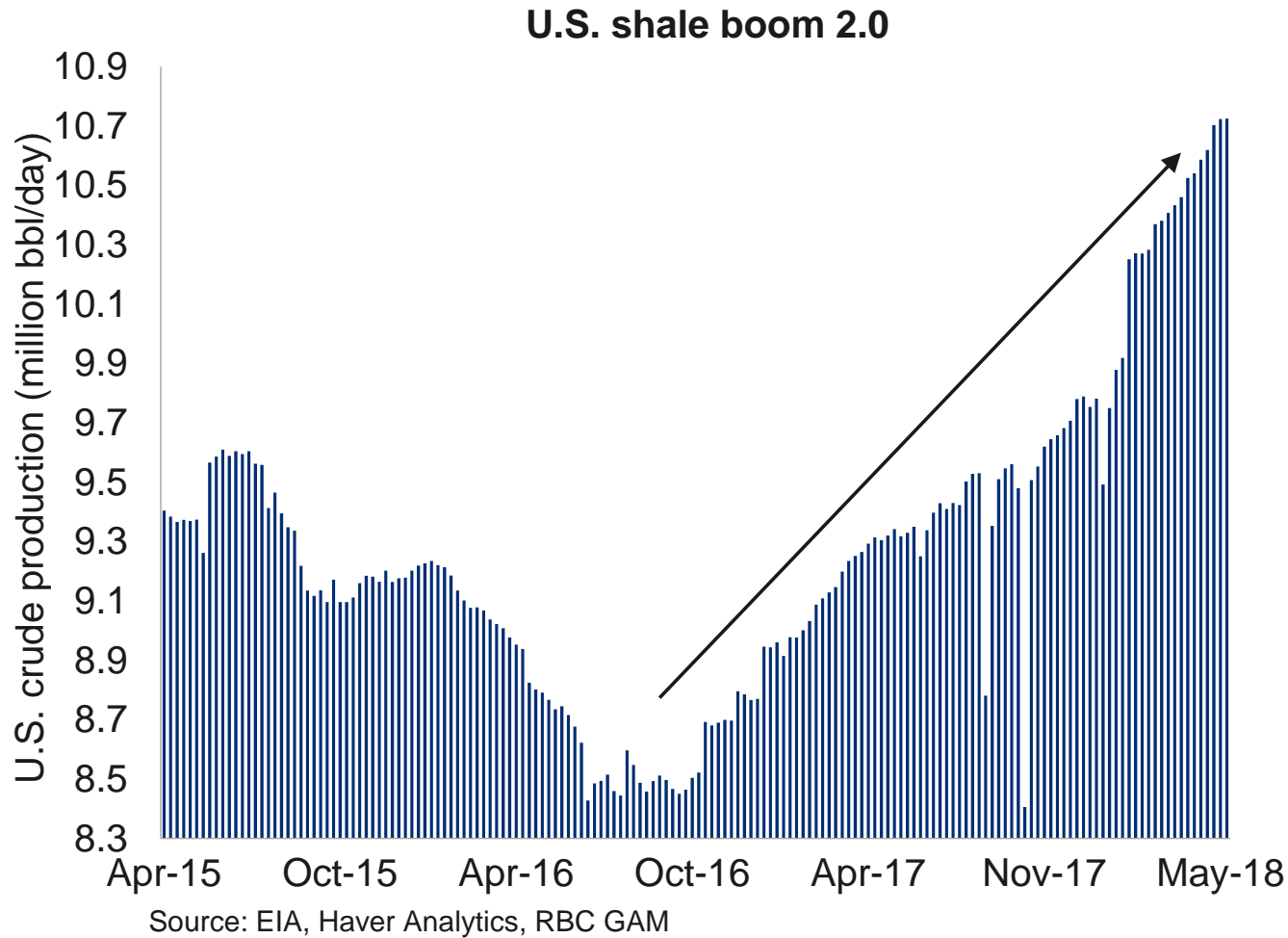


Source: Beijing Passenger Car Index Regulatory Office, RBC GAM

Global oil glut dries up and geopolitical supply shocks loom

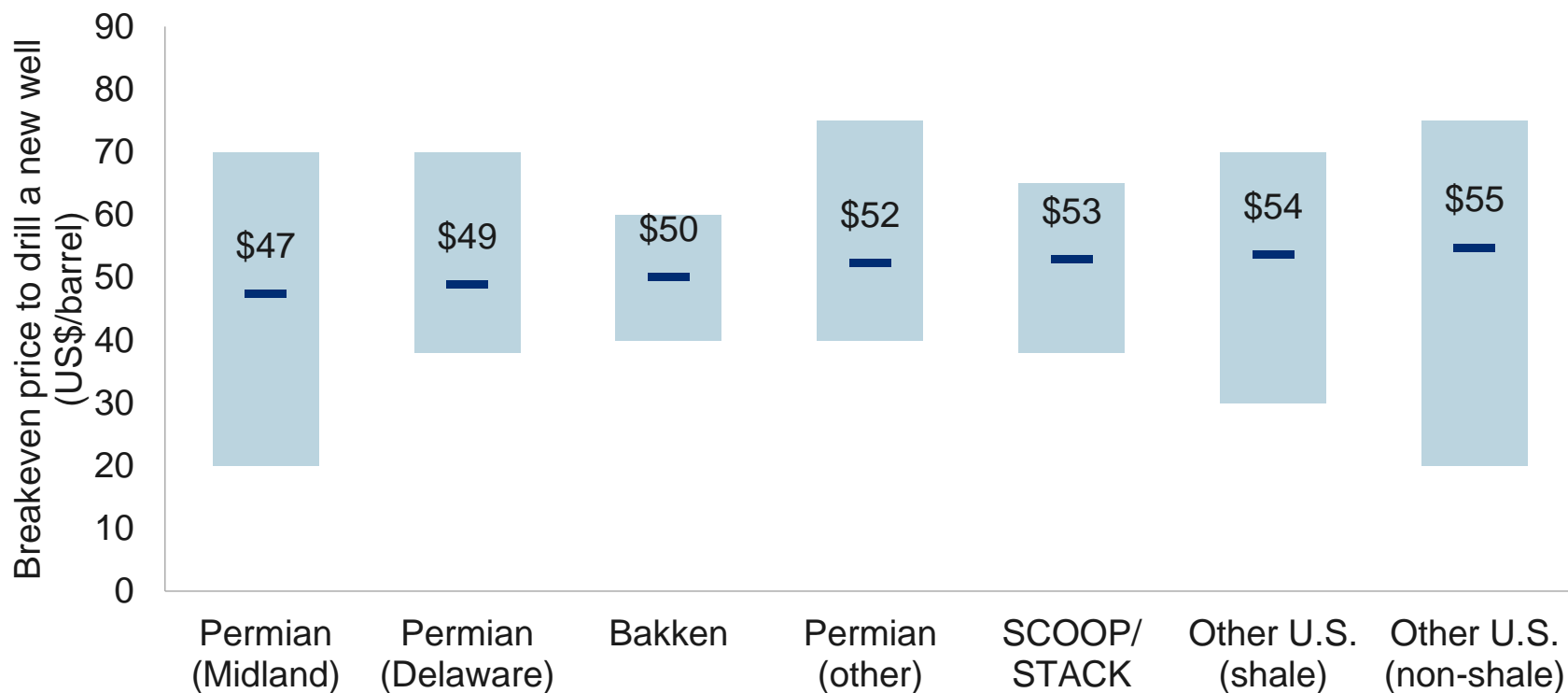


U.S. shale oil is now the true swing producer



U.S. oil can expand at \$50/barrel

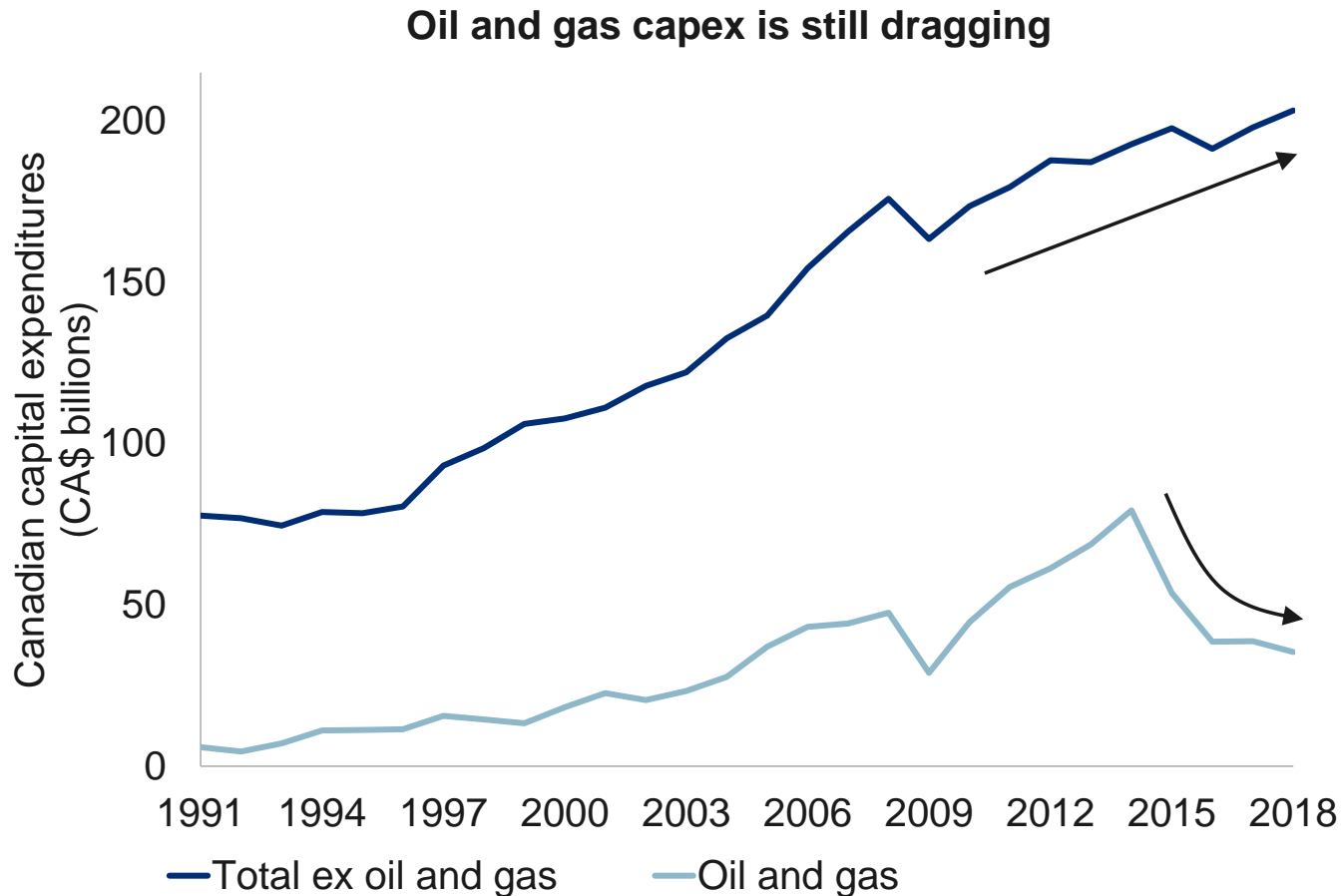
Profitability threshold for U.S. oil producers



— Average breakeven price

Note: Bars show the maximum and minimum breakeven prices (WTI price) in the top two areas in which the respondent firm is active. Source: Federal Reserve Bank of Dallas Energy Survey Q1 2018, RBC GAM

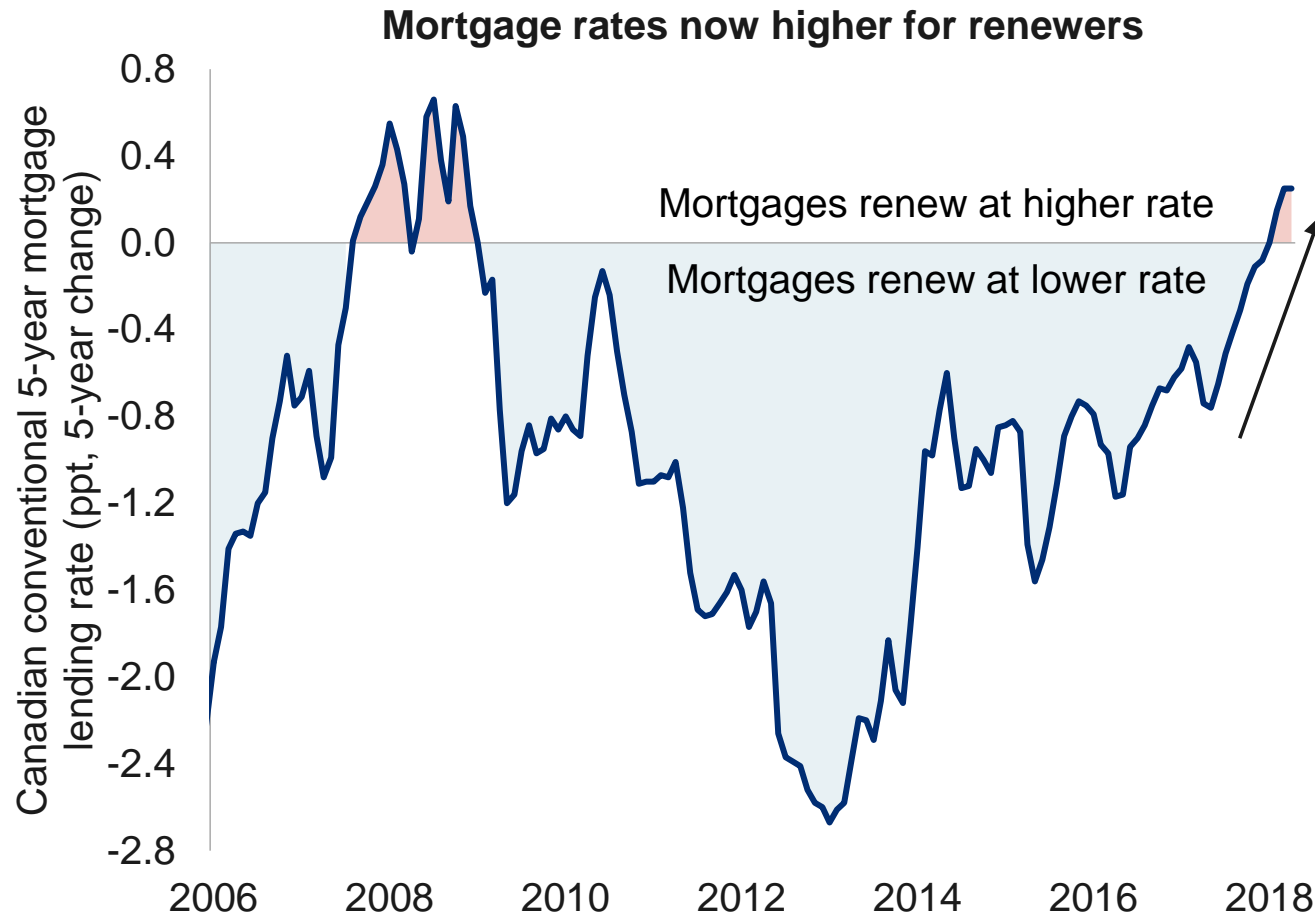
Canadian capital spending has yet to fully recover



Note: Capital expenditures for latest 2 years are preliminary actuals and intentions.

Source: Statistics Canada, Haver Analytics, RBC GAM

Higher rates to be a drag on Canadian housing market



Source: CMHC, Haver Analytics, RBC GAM

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