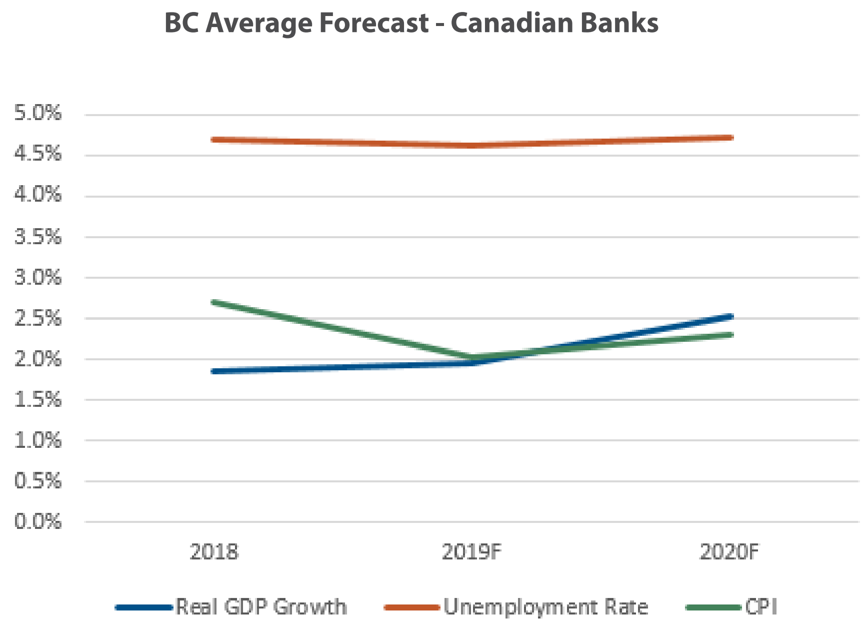
Economic Update

BRITISH COLUMBIA

After enjoying blockbuster growth for the last several years, the extended housing market correction and moderation in consumer spending is expected to fuel the economic downshift in 2019.



British Columbia's (BC) housing market slowdown, coupled with tighter mortgage rules and a higher interest rate compared to 2018, is anticipated to place a damper on BC's growth. According to TD Bank, resale activity declined 25% in 2018 with the housing market shifting into buyer's territory. It is expected that housing demand will stabilize at the end of 2019 at lower levels. Scotiabank has noted Vancouver MLS unit sales plunged in each of the first three months of 2019, noting especially that March sales has reached the lowest levels since 1986 for that month.

Countering the weakening housing market are non-residential investments such as the $40 billion LNG Canada terminal project and the Coastal GasLink pipeline. These boosts to the economy are expected to be realized in 2020 and 2021. Given the substantial projected investments, BC is anticipated to be ahead of the other provinces in Canada in terms of GDP growth with projected real growth rates of 1.4% in 2019 and 2.0% in 2020, according to TD Bank. The average forecast of Canada's top five banks[1] calls for British Columbia's real GDP to grow by 2.0% in 2019 (2018 Q4: 2.4%) and 2.5% in 2020 (2018 Q4: 2.7%). British Columbia's consumer price index ("CPI") was 2.7% in 2018 compared to the national average of 1.9%. Inflation is forecast to decline to 2.0% in 2019 (2018 Q4: 2.1%) before adjusting to 2.3% in 2020.

BC's unemployment rate has averaged around 4.7% in 2018, the lowest among the provinces according to TD Bank. The lack of labour supply has been a major constraint for most employers in 2018 and this trend is expected to continue into 2019 and 2020. The average forecast BC unemployment rate by Canada's top five banks was 4.6% for 2019 and 4.7% for 2020.

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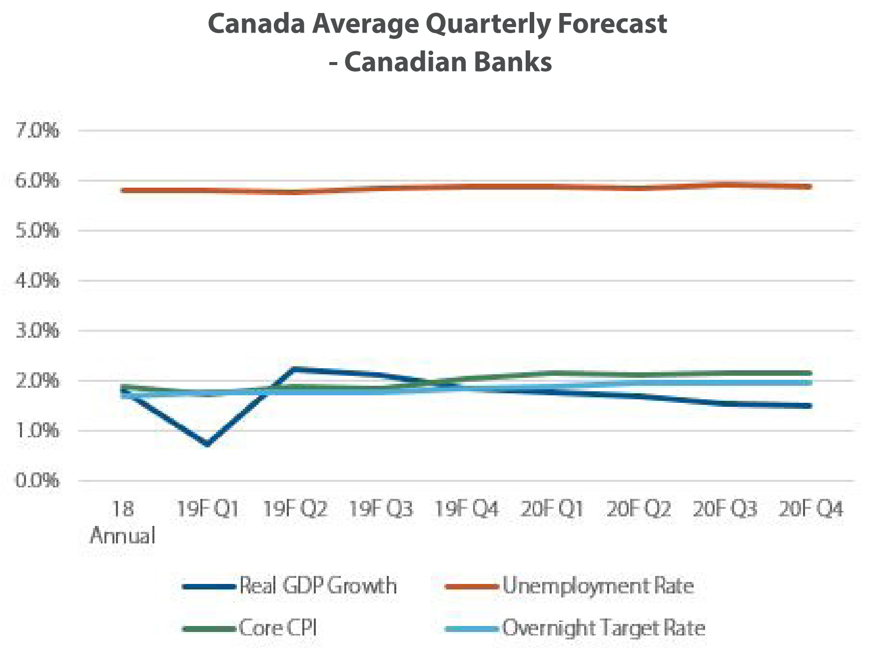
[1] TD Bank, RBC, Bank of Nova Scotia, BMO and CIBC.

CANADA

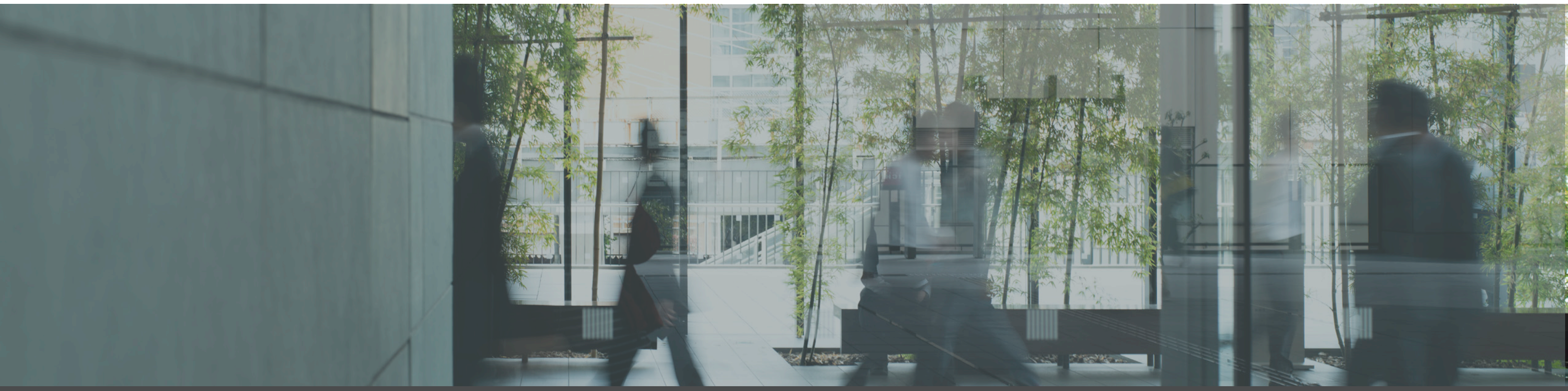


Canada's economy stumbled in the final quarter of 2018 due to slumping oil prices and higher interest rates. While real estate had played a significant role previously, regulatory Canada' s top five banks noted real GDP in the last quarter of 2018 was 0.4%.

The slowed economy at the end of 2018 appears to have set the pace of a sluggish start in 2019 as GDP growth is expected to be below 1.0% for the second consecutive quarter; the average forecast of Canada's top five banks calls for real GDP growth of 0.7% for the first quarter of 2019. While some of the weakness observed in the first quarter of 2019 arose from the mandated production cuts in the oil patch, data from recent job markets and manufacturing shipments suggests the economy may be improving again. Real GDP growth is forecast to increase from an average of 0.7% in Q1 2019 to 2.2% in Q2 2019; the average GDP growth for the year is expected to be around 1.5%, sufficient to keep the unemployment rate near 5.8%.

Of concern to the big banks is the resiliency of Canadian household spending. It has been observed consumers are more cautious of their spending habits in 2019 when compared to 2017 and early 2018. TD Bank notes the constrained household spending may have arose from the observed higher borrowing costs and tighter mortgage qualification rules in recent quarters. Adding onto Canada's softened economy are the global risks involving Brexit and the US-China-EU trade tensions. As a result, the major banks do not anticipate any further rate hikes by the central bank for 2019.

The overnight target rate at the end of 2018 was 1.75%. The forecast of Canada's top five banks call for an overnight target rate range of 1.75% to 2.00% by the end of 2019 and 1.75% to 2.25% by the end of 2020 (2018 Q4: 2.0% to 2.25% by the end of 2019, 2.00% to 2.75% by the end of 2020).



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