



# Top Economic Trends to Monitor in 2018

J.P. Gervais

VP & Chief Economist



@JPGervais



**Farm Credit Canada**  
Advancing the business of agriculture

Canada

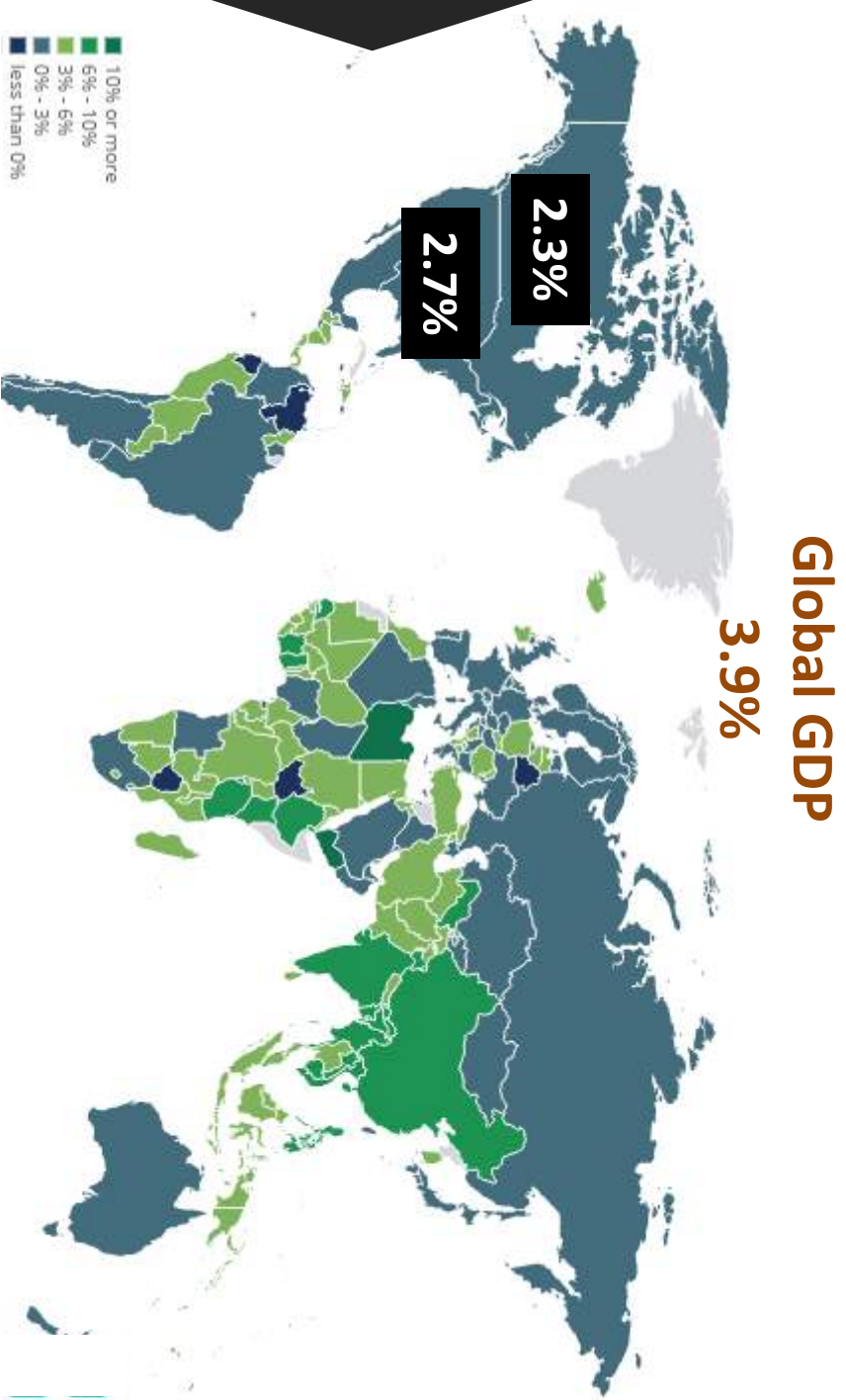
# Agenda

**Macroeconomic  
environment**

**Sector snapshots**



# Optimistic forecasts for 2018



2.2%



7.4%



6.6%

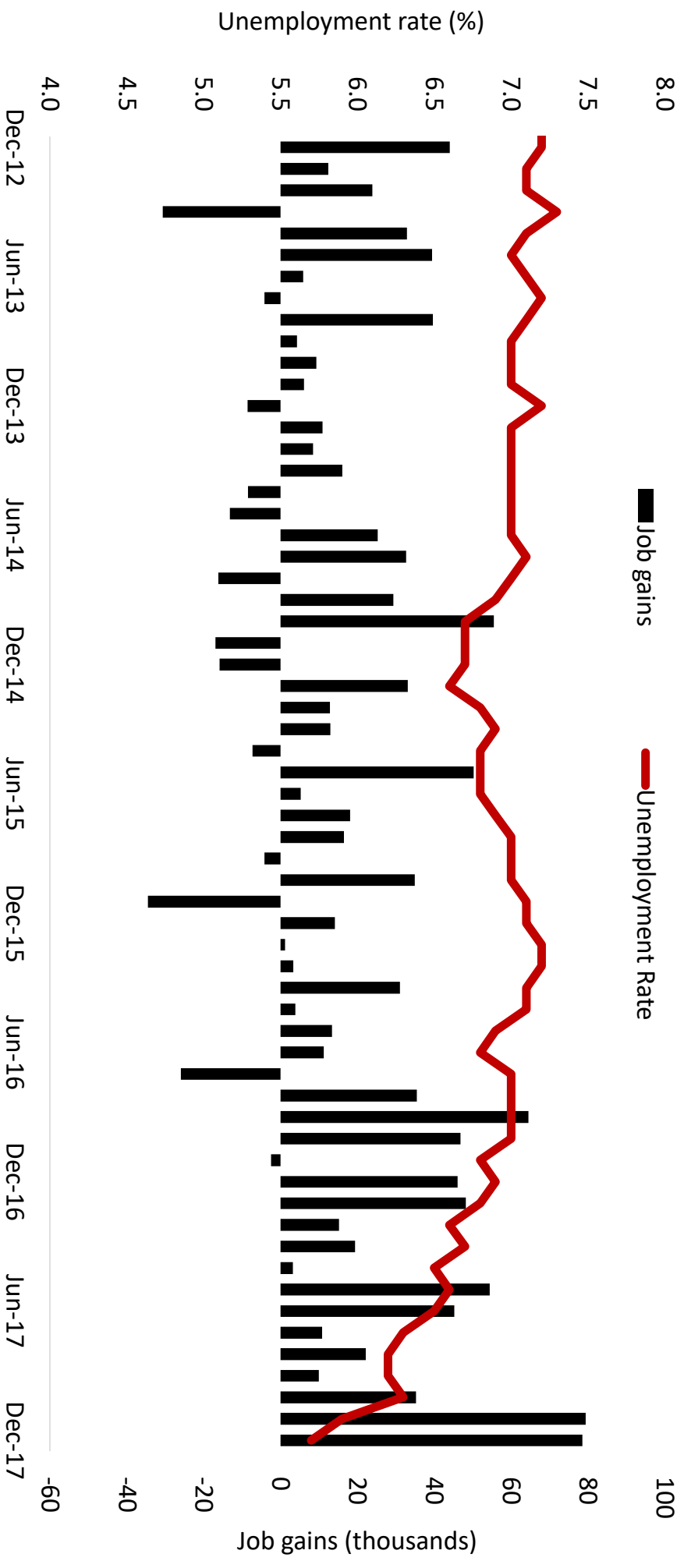
# How sustainable is Canada's GDP growth?

## GDP:

1.7% in Q3  
4.5% in Q2  
3.7% in Q1



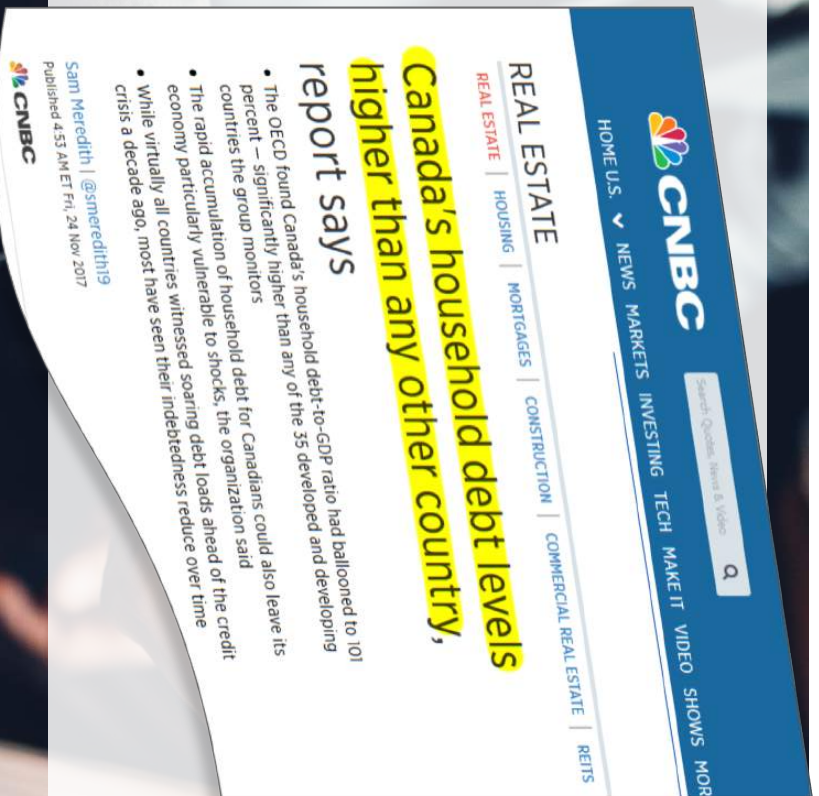
# Labour market is on fire!



Source: Bank of Canada



# Household debt ratio concerns ... **overblown?**



The screenshot shows a CNBC news article. The top navigation bar includes links for HOME U.S., NEWS, MARKETS, INVESTING, TECH, MAKE IT, VIDEO, SHOWS, and MORE. Below this is a search bar. The article is categorized under REAL ESTATE, with sub-links for REAL ESTATE, HOUSING, MORTGAGES, CONSTRUCTION, COMMERCIAL REAL ESTATE, and REITS. The headline reads: "Canada's household debt levels higher than any other country, report says". The article text states: "The OECD found Canada's household debt-to-GDP ratio had ballooned to 101 percent — significantly higher than any of the 35 developed and developing countries the group monitors. The rapid accumulation of household debt for Canadians could also leave its economy particularly vulnerable to shocks, the organization said. While virtually all countries witnessed soaring debt loads ahead of the credit crisis a decade ago, most have seen their indebtedness reduce over time". The author is Sam Meredith (@smredith19) and the article was published on 4:53 AM ET Fri, 24 Nov 2017.

HOME U.S. ▾ NEWS MARKETS INVESTING TECH MAKE IT VIDEO SHOWS MOR

Search Quotes News & Video 🔍

REAL ESTATE | HOUSING | MORTGAGES | CONSTRUCTION | COMMERCIAL REAL ESTATE | REITS

**Canada's household debt levels higher than any other country, report says**

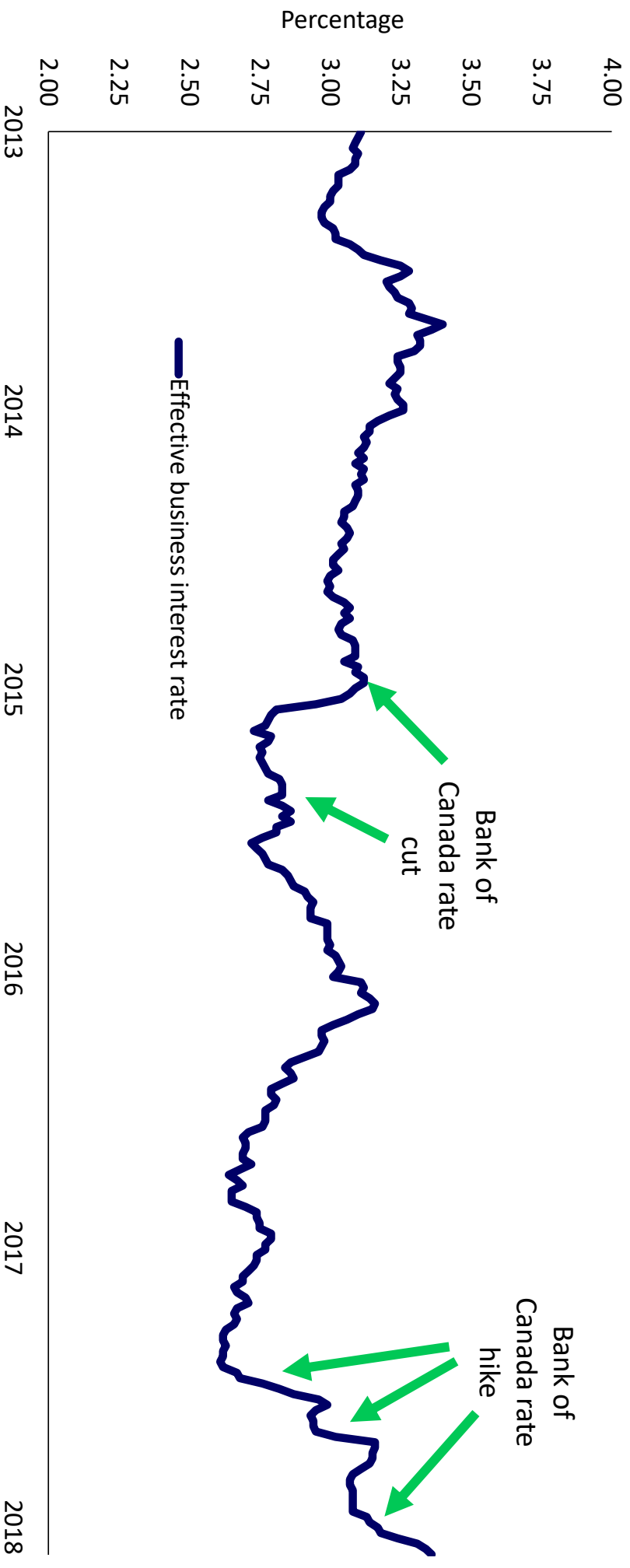
- The OECD found Canada's household debt-to-GDP ratio had ballooned to 101 percent — significantly higher than any of the 35 developed and developing countries the group monitors
- The rapid accumulation of household debt for Canadians could also leave its economy particularly vulnerable to shocks, the organization said
- While virtually all countries witnessed soaring debt loads ahead of the credit crisis a decade ago, most have seen their indebtedness reduce over time

Sam Meredith | @smredith19  
Published 4:53 AM ET Fri, 24 Nov 2017  
CNBC



171%

# Are recent rate hikes the beginning of a long-term trend?



Source: Bank of Canada



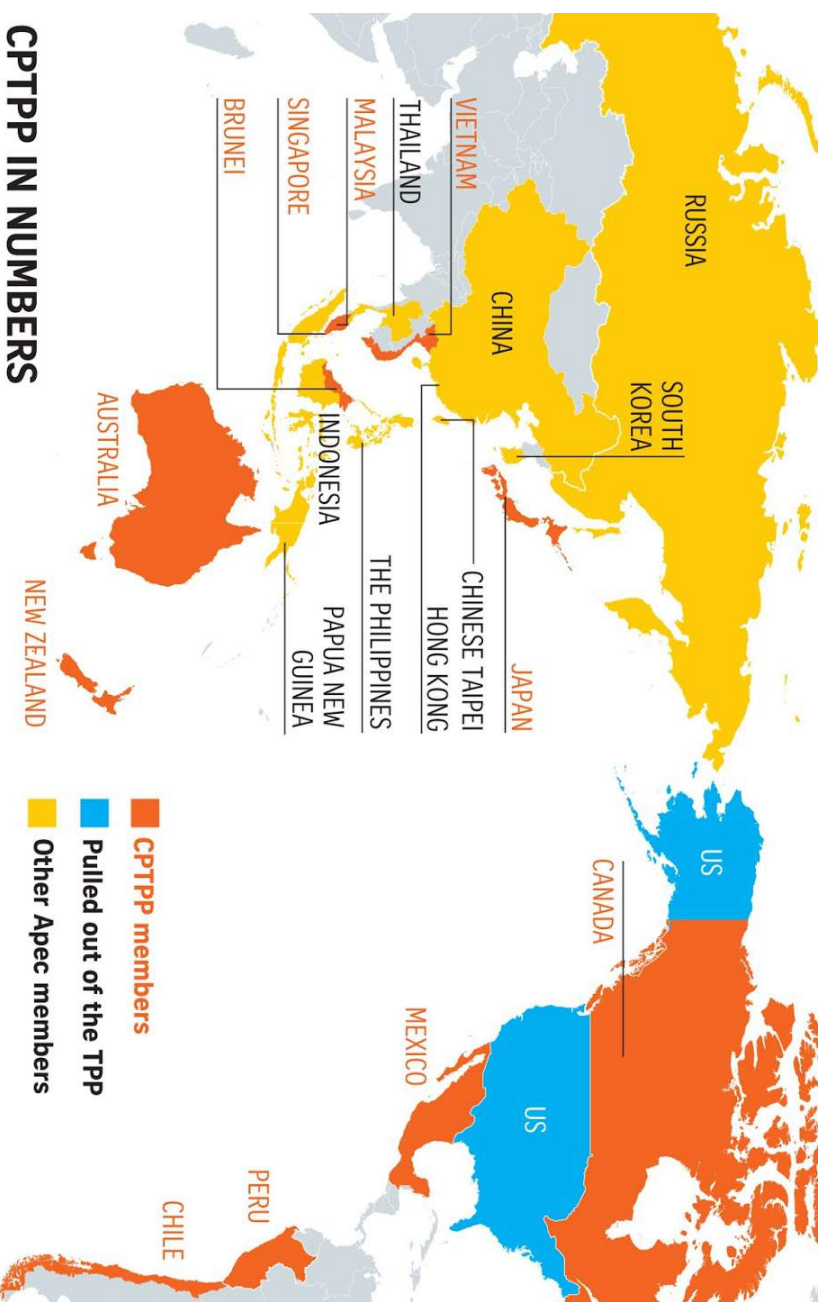


**Trade agreements offer opportunities ... & some risks**





# Comprehensive & Progressive TPP to be implemented in 2019?



## CPTPP IN NUMBERS

**6** No. of members needed to ratify it before it can enter into force

**60** days Time needed to enter into force after the ratification requirement is met

**20** Provisions from the original TPP that will be suspended, 11 of which dealt with intellectual property

**13.5%**

Share of global GDP, down from 40 per cent had the US stayed in the TPP

**\$13.6 trillion**

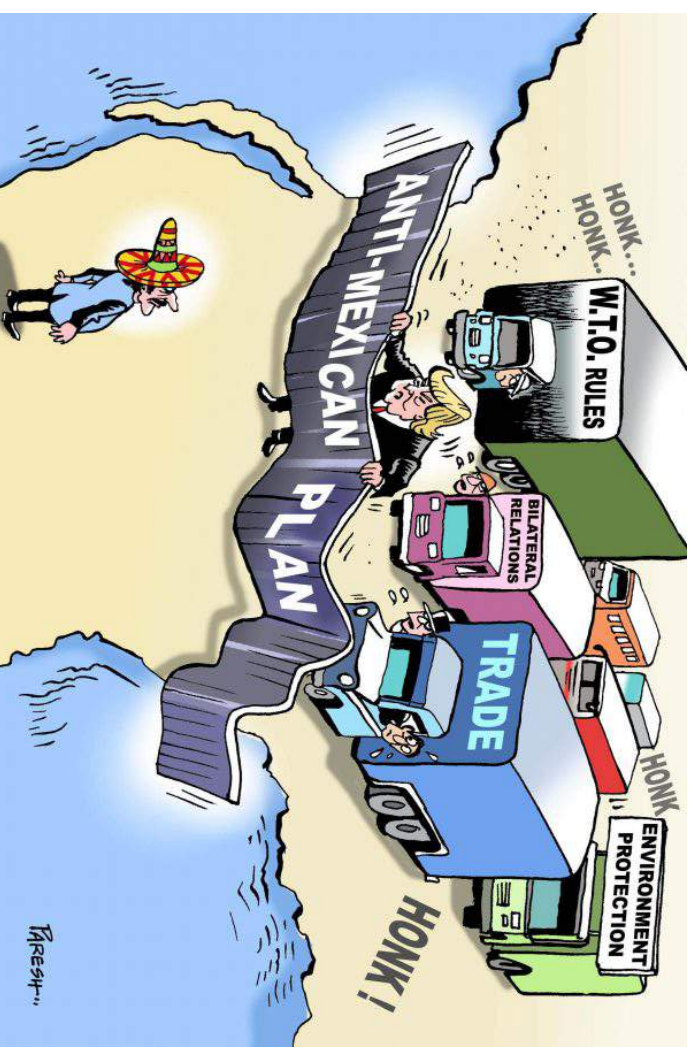
Economic output of members

# Modernizing NAFTA or withdrawal?



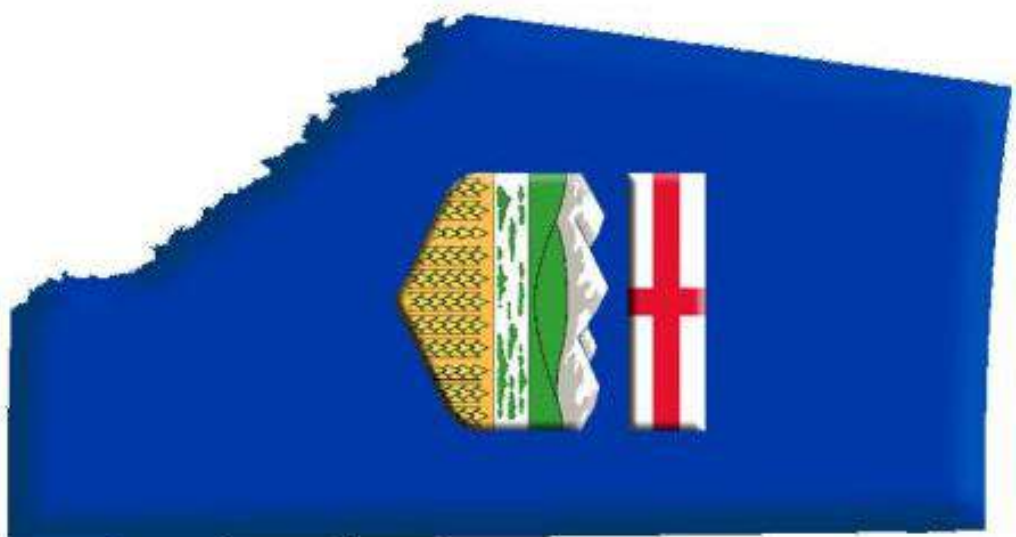
## If President Trump withdraws the U.S. from NAFTA...

- Will the U.S. Congress and/or Corporate America stand up?
- Do we go back to the US-CAN FTA ? WTO rules?
- What happens to the loonie?
- commodity prices?
- Etc.



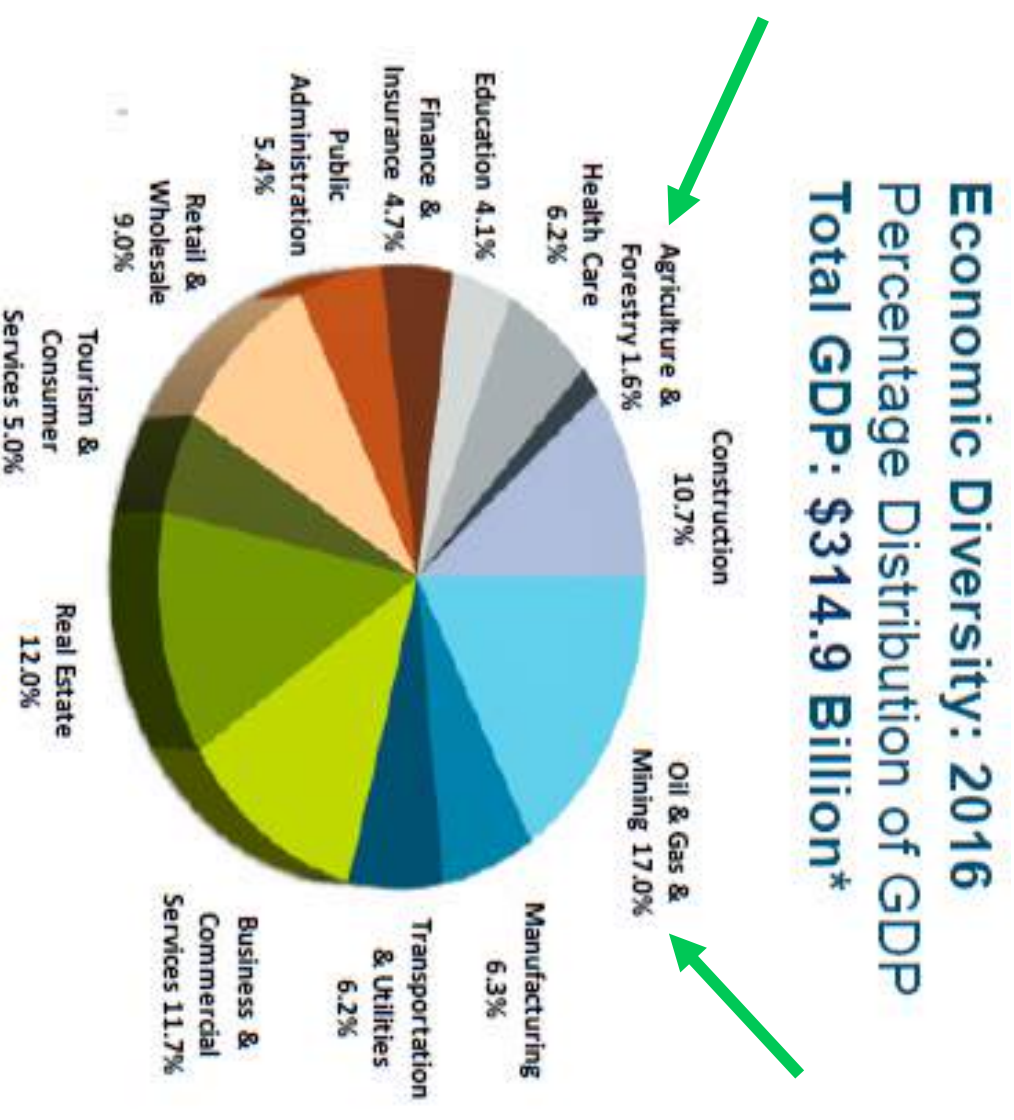
**Alberta GDP  
up more than  
6.5% in 2017...**

**to grow close  
to 3% in 2018?**



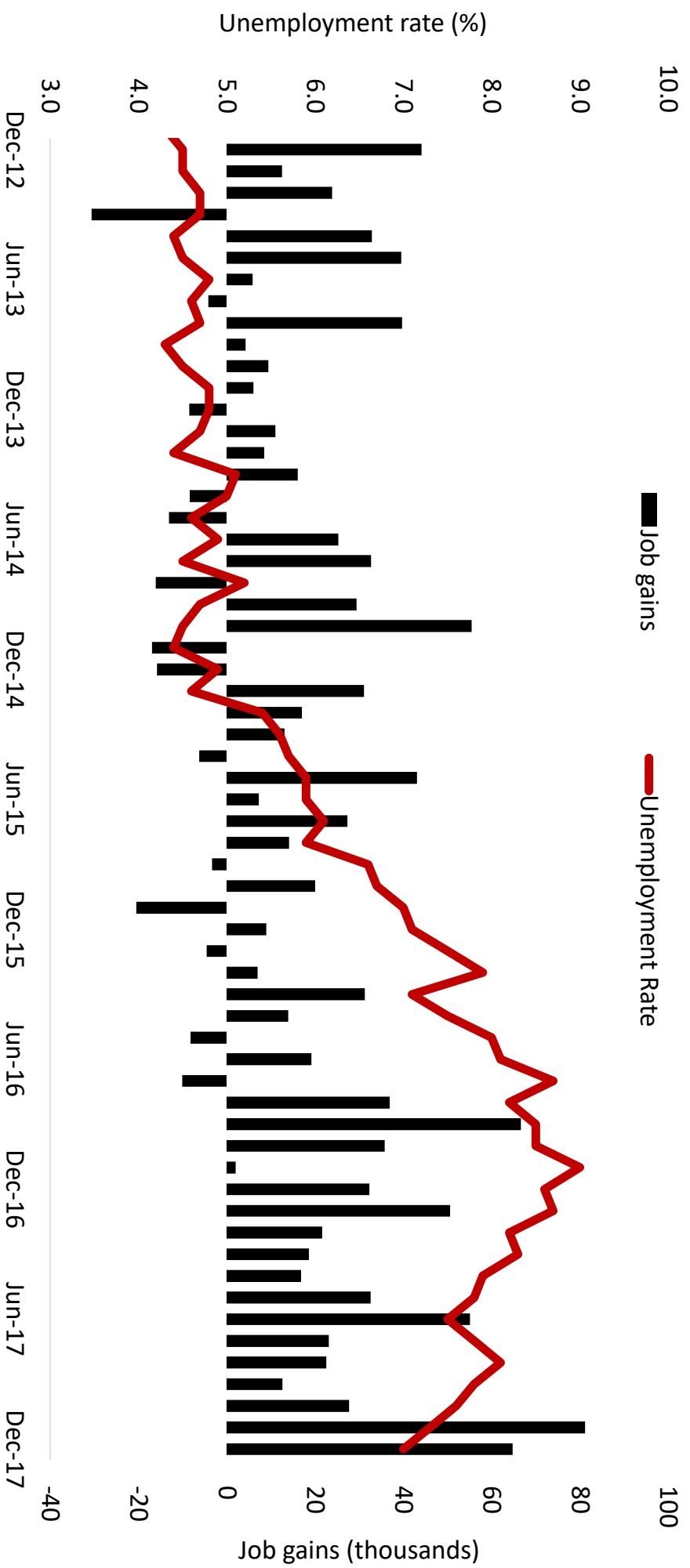


**GDP does not always tell  
the whole economic story**



Source: Alberta Government

# Alberta labour market is also doing very well

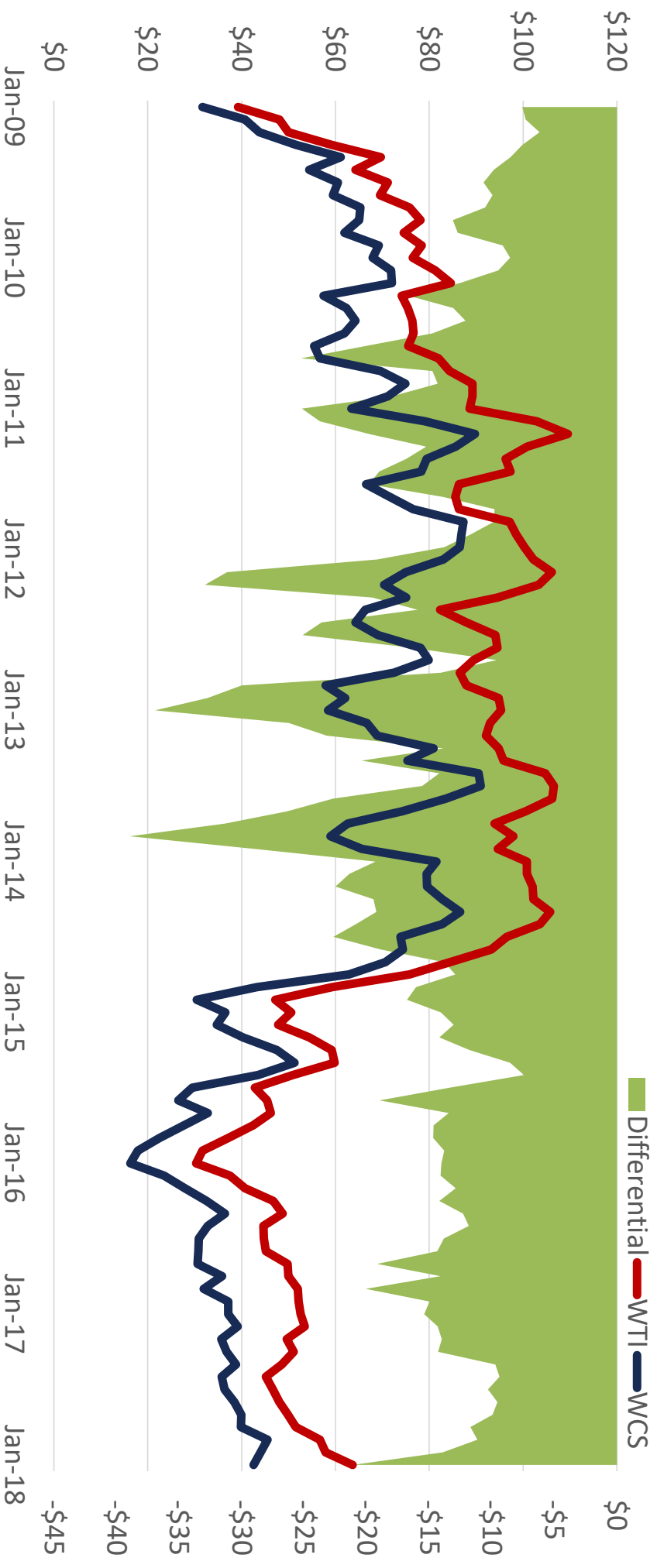


Source: Bank of Canada

**Oil and gas GDP is rising; despite a few headwinds**



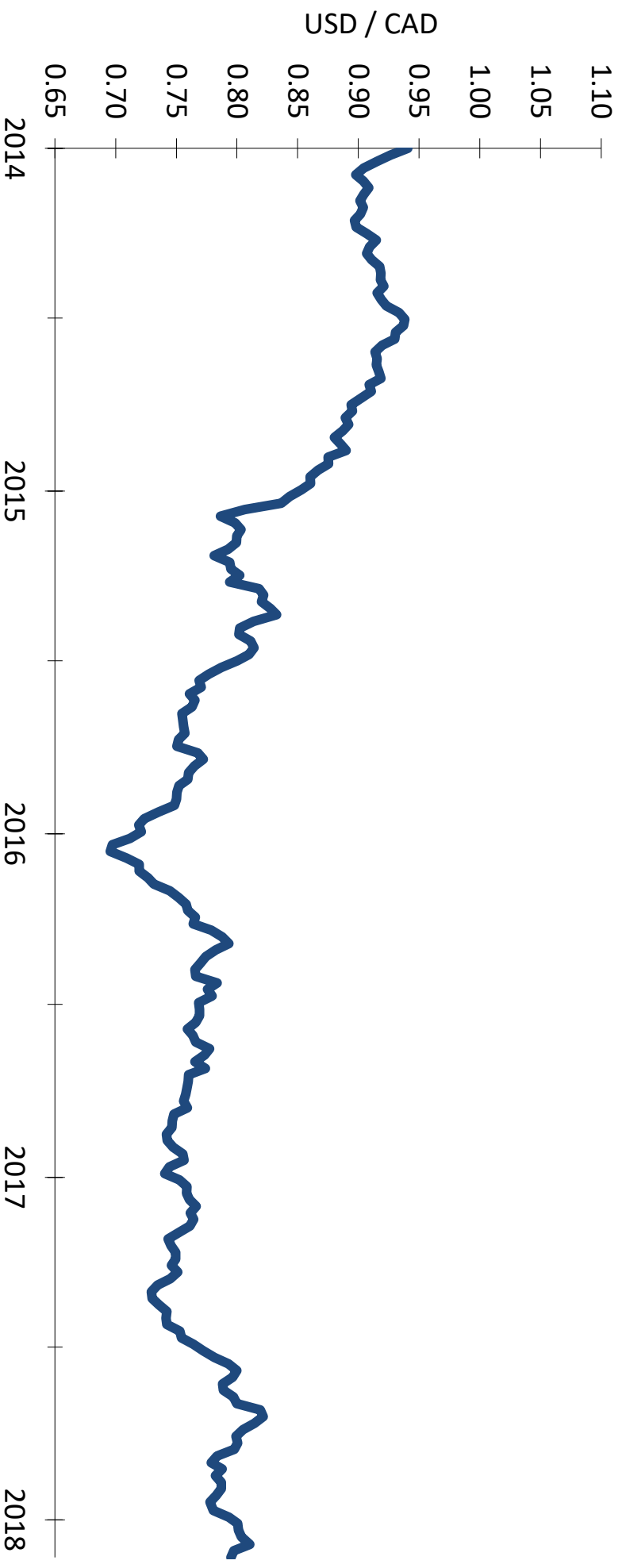
## WCS and WTI oil price differential widens – how likely is it that the WTI stays above \$60?



Source: Baytex Energy



## Oil steady(?) and rates in US/CAN moving together imply a loonie below US \$0.80



Source: Bank of Canada

**Lumber industry outlook is positive on the basis of strong U.S. demand, lower Canadian supplies and stronger import demand**





# The U.S. economy is expanding faster

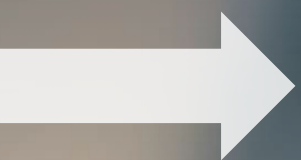
GDP:

2.9% in Q4

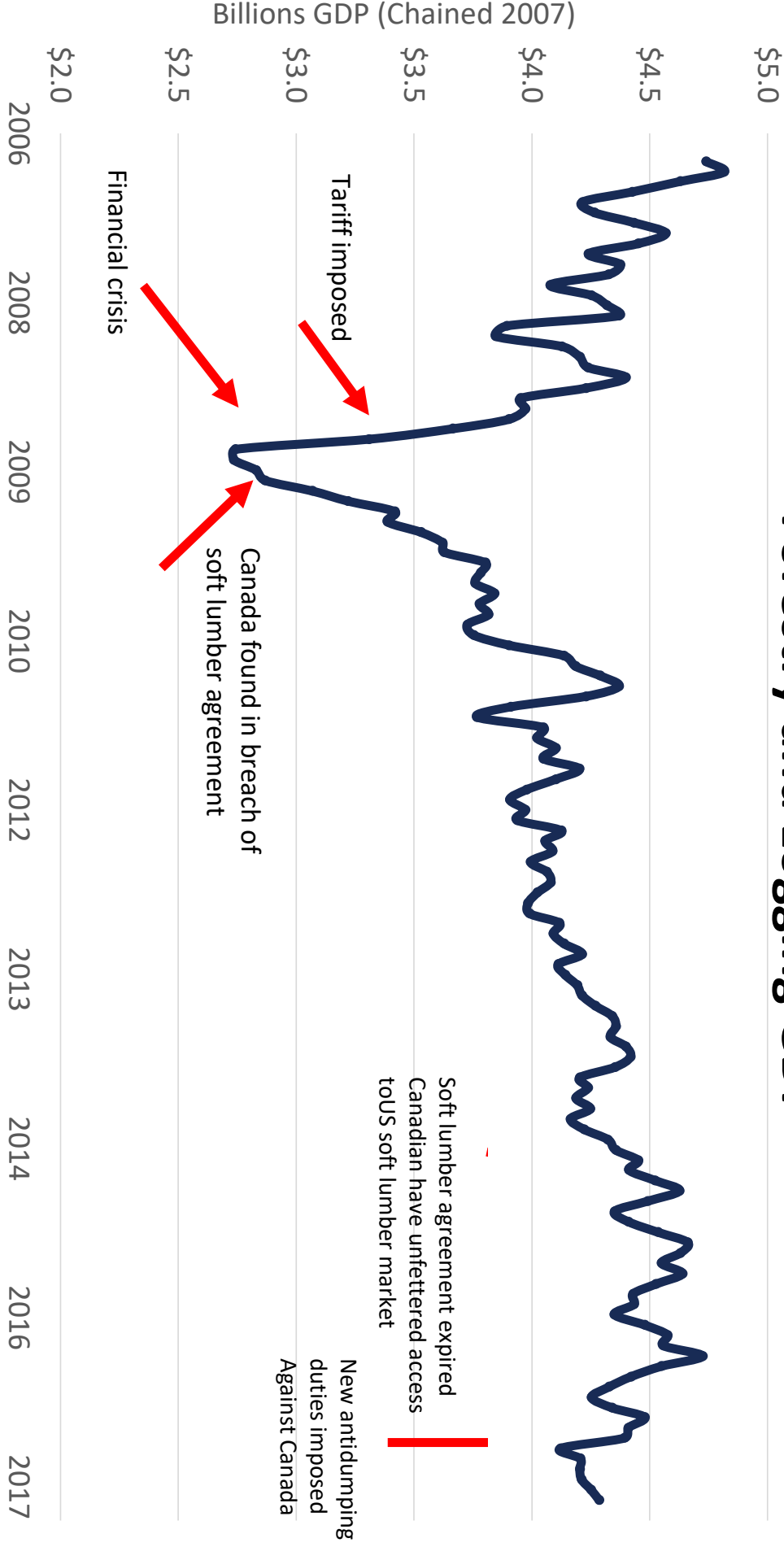
3.0% in Q3

3.1% in Q2

1.2% in Q1



# Forestry and Logging GDP



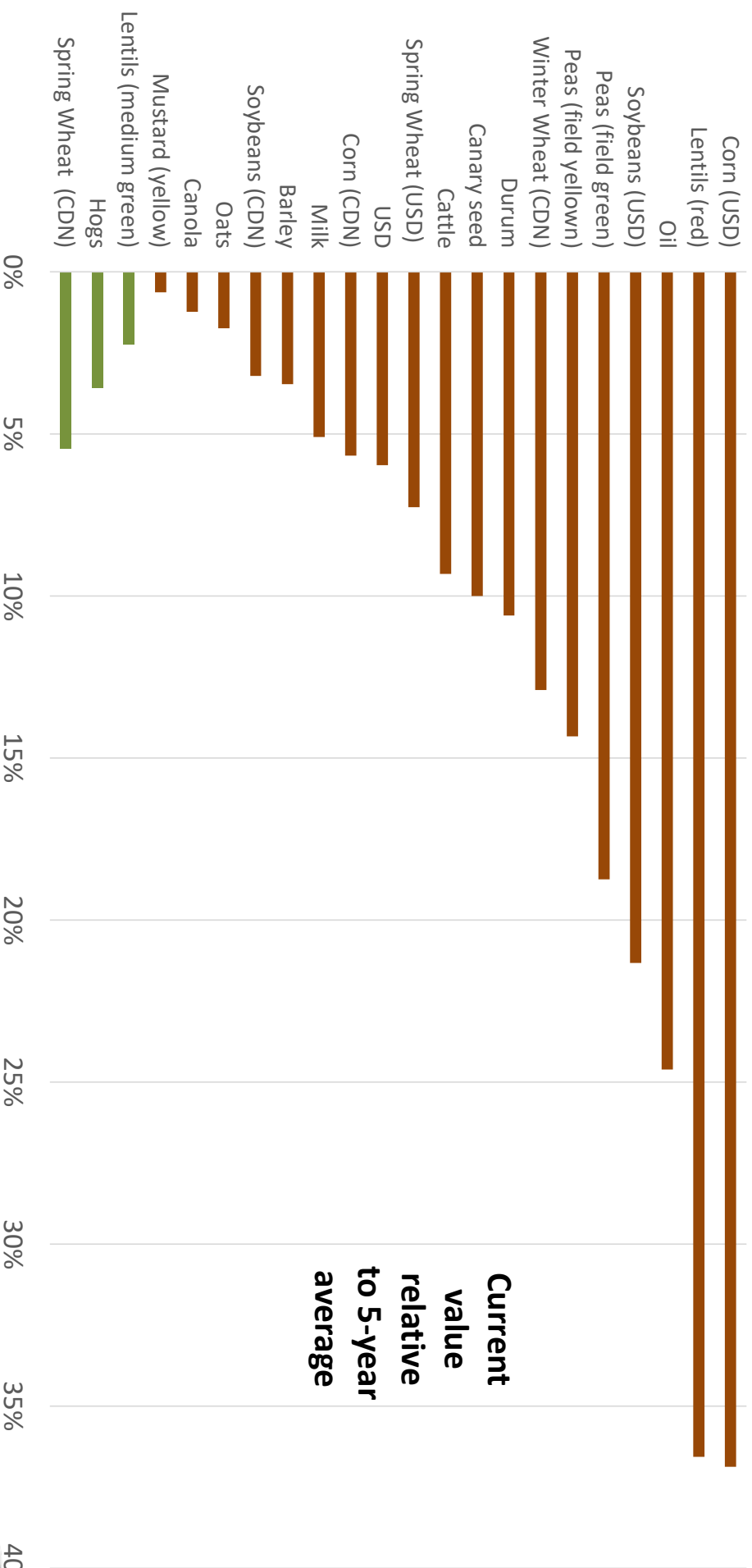
Source: Statistics Canada



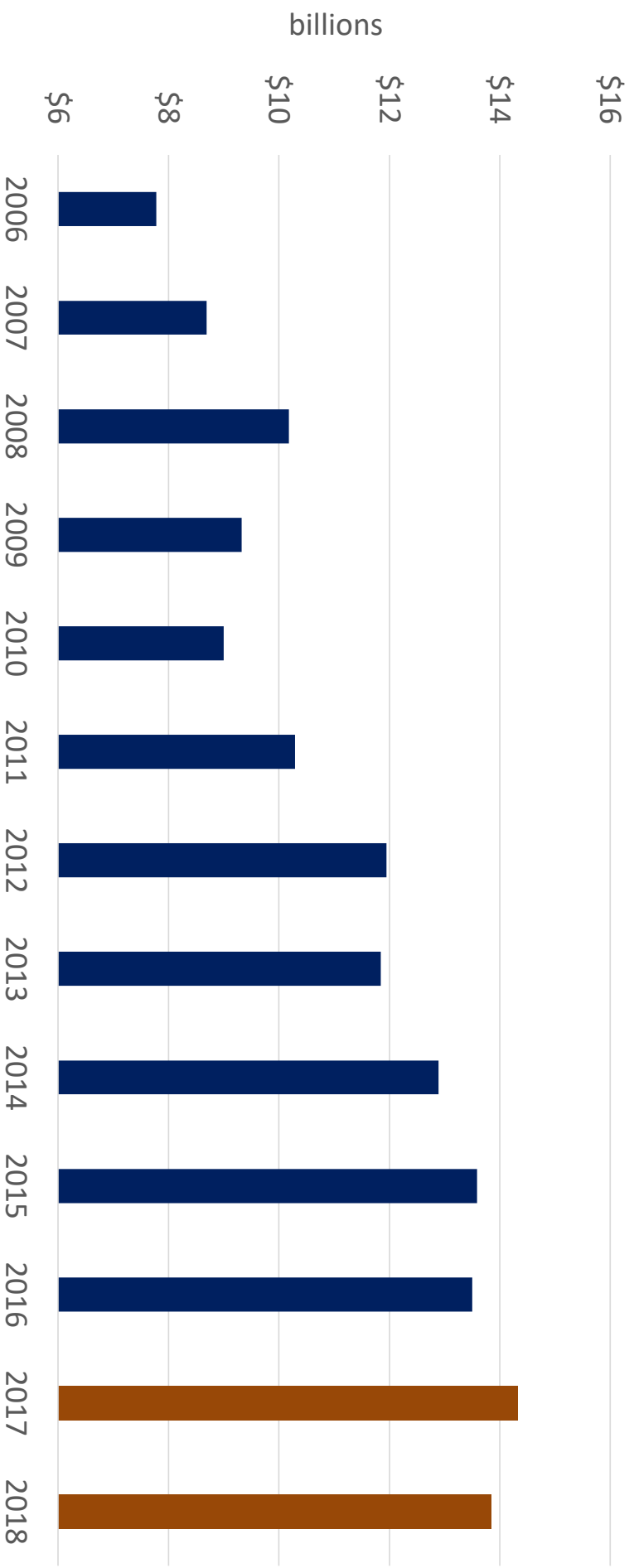
# Baseline for agriculture



# Where are we at in the ag cycle?



## AB farm cash receipts get a bounce in 2017 but projected to grow at a slower pace



Source: Statistics Canada, FCC computations





2016

## FCC Farmland Values Report

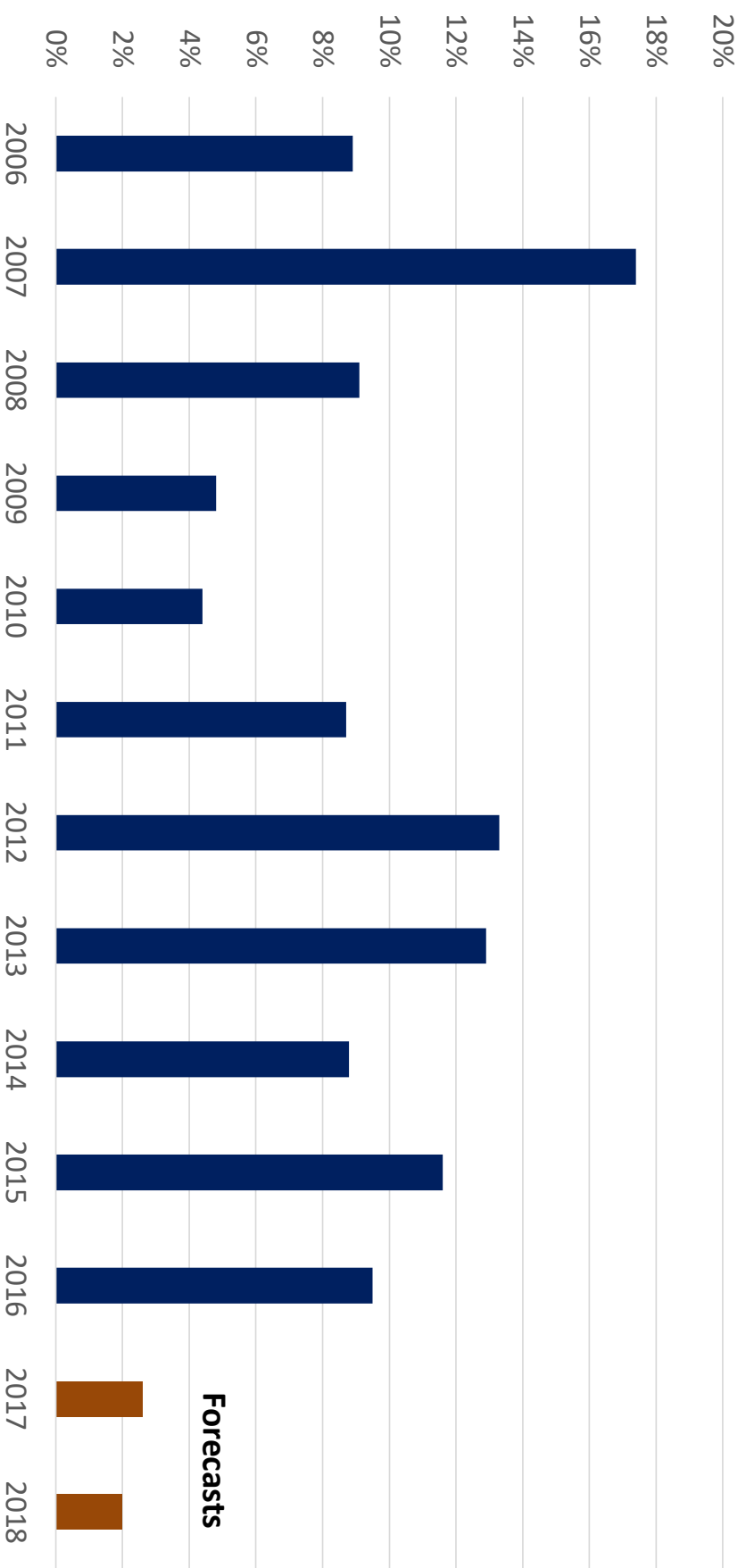
Change by province  
January 1 – December 31, 2016

\*There was an insufficient number of publicly reported transactions in 2016 to accurately assess farmland values in Newfoundland and Labrador.





# Growth in AB farmland values slowing



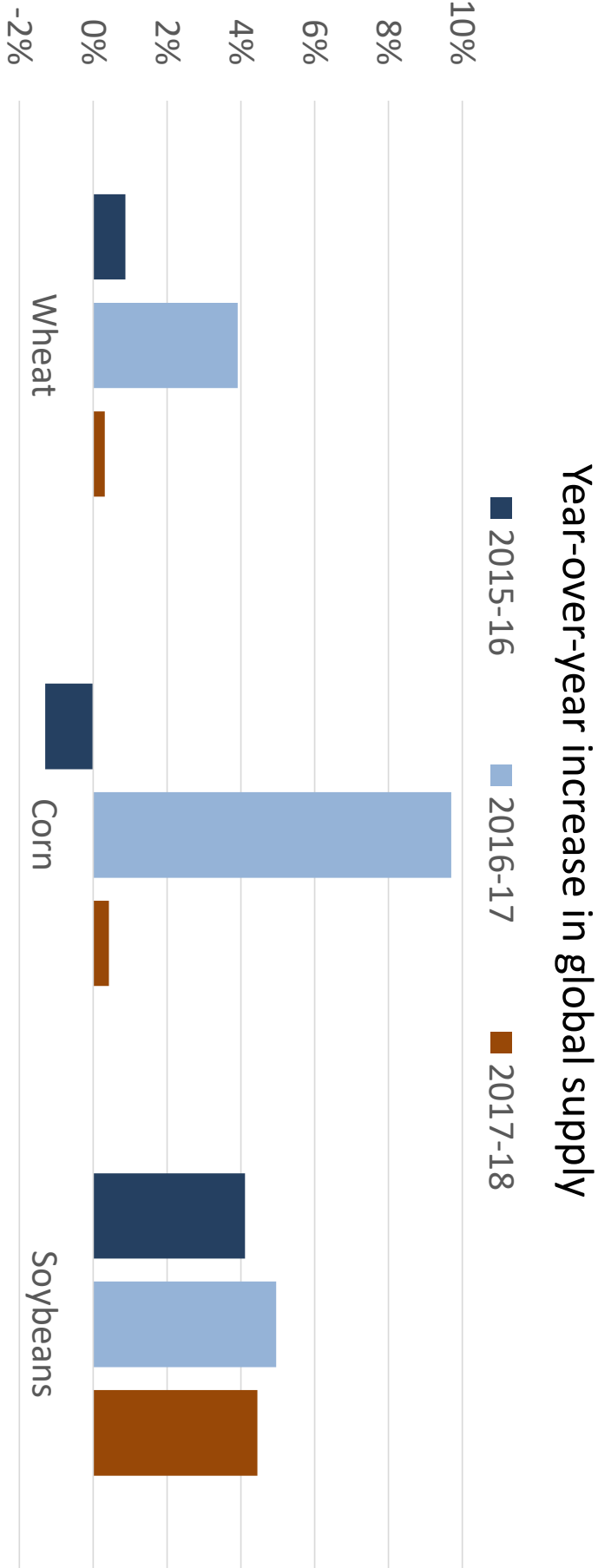
Source: FCC



# Global production of grains and oilseeds is **climbing** across the globe



# China absorbs more than 50% of the growth in oilseed production



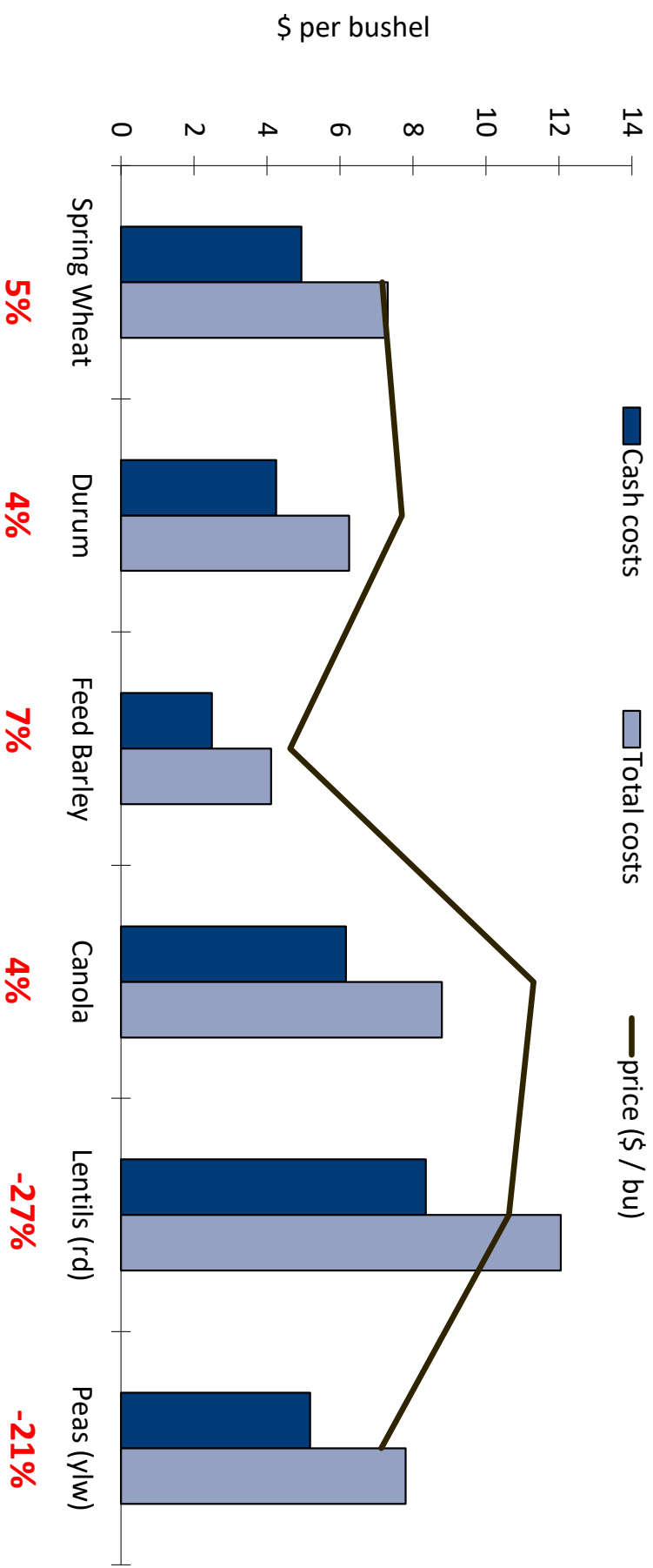
Source: USDA-WASDE

# Shift in paradigm

volume vs price  
value?



# Canola and wheat acres to increase on lower pulse prices



Source: AAFC, FCC computations

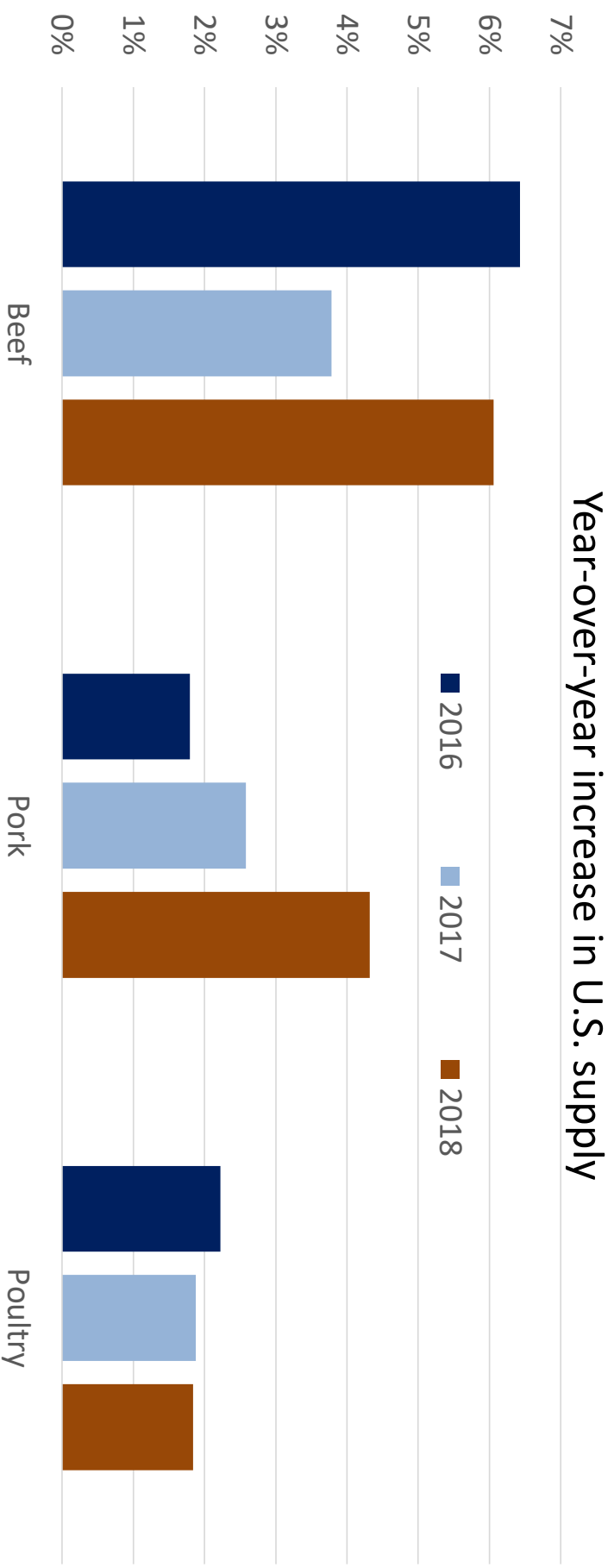


## Beef

- Expansion of cattle herd in the U.S.
- Cost of production
- Strength in demand



# Protein market driven by U.S. production numbers



Source: USDA-WASDE





**Profitability is positive in 2018 for cattle operations**



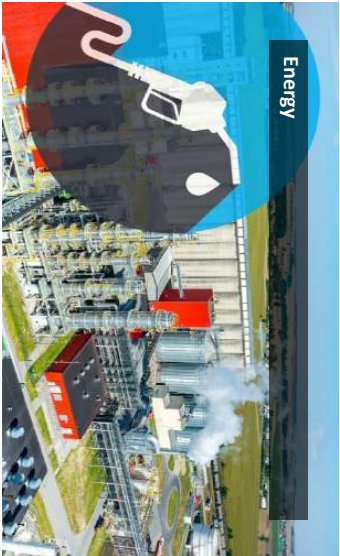




Global economic landscape



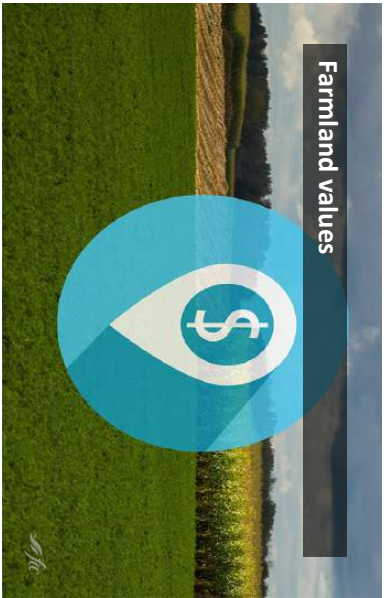
Investment



Energy



Retail



Farmland values

# Trends to monitor in 2018

**The economic outlook is positive after getting  
out of the worst recession in 50+ years**



