

Outlook 2024-2025: A power conundrum?

Petroleum Club
Calgary, AB

Stéfane Marion
Chief Economist & Strategist
April 29, 2024



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World:

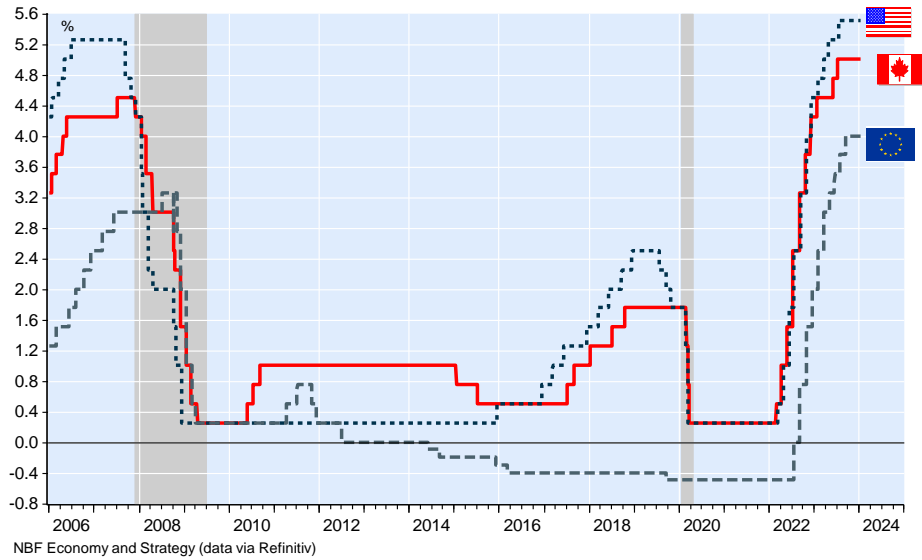
"American exceptionalism is the belief that the United States is either distinctive, unique, or exemplary compared to other nations"

Wikipedia

2

World: Despite aggressive tightening campaigns...

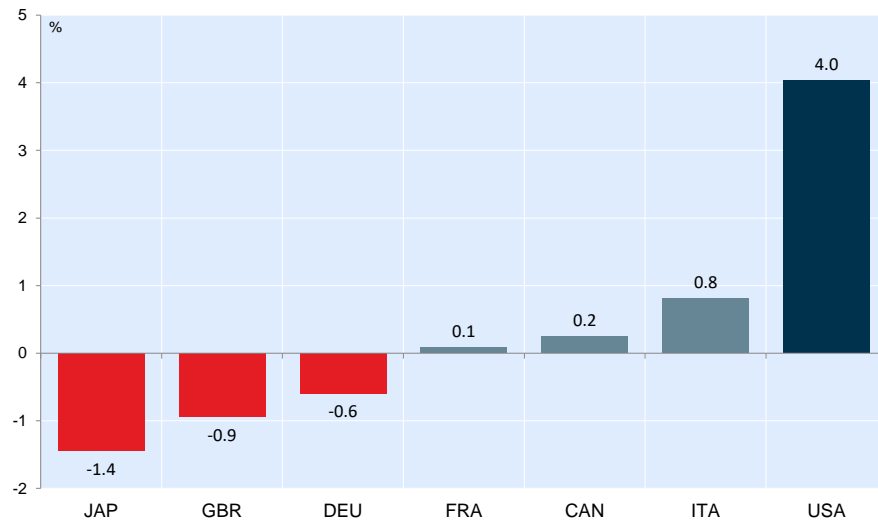
Policy rates: Federal Reserve, Bank of Canada, ECB



NBF Economy and Strategy (data via Refinitiv)

...US growth remains resilient

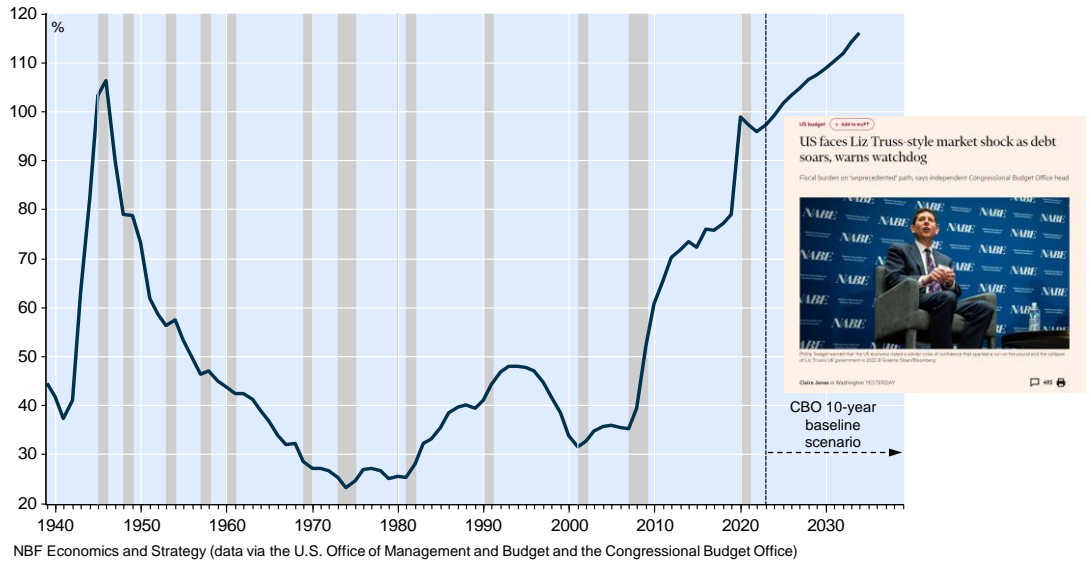
Real gross domestic product in G-7 countries, annualized change in H2 2023



NBF Economics and Strategy (data via Bloomberg)

World: The root of American exceptionalism?

Federal debt held by the public expressed as a percentage of GDP

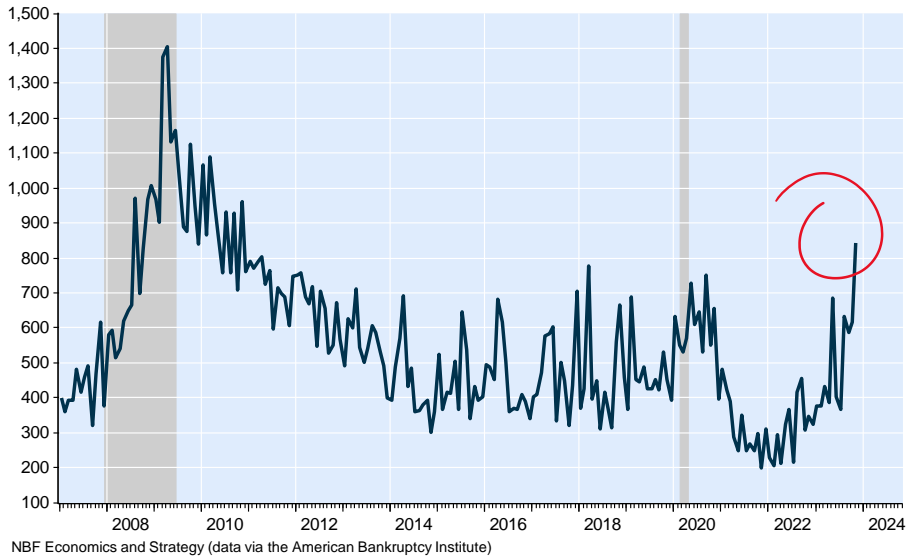


United States:

"Monetary policies operate with a long lag and with a lag that varies widely from time to time."

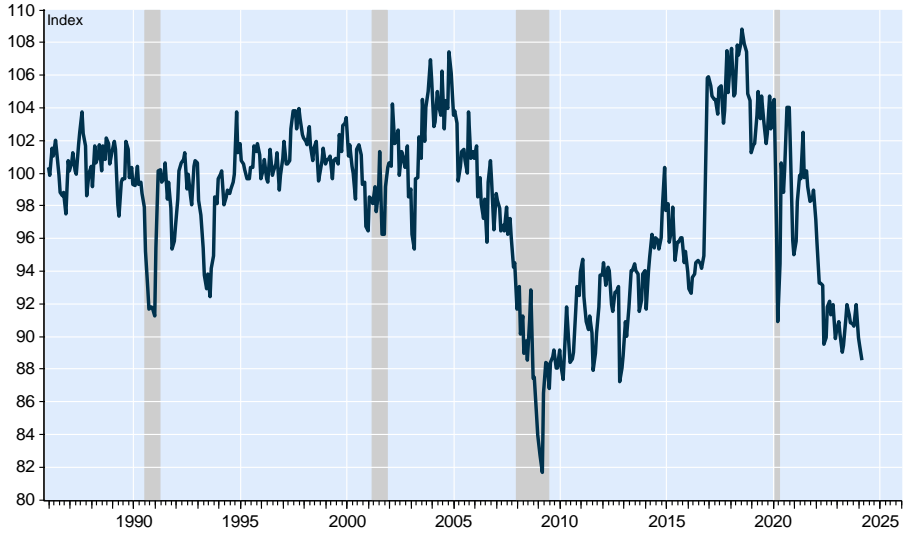
*Milton Friedman
(1976 Nobel Laureate)*

U.S.: Businesses are starting to feel the impacts of higher rates Chapter 11 bankruptcies filings



NBF Economics and Strategy (data via the American Bankruptcy Institute)

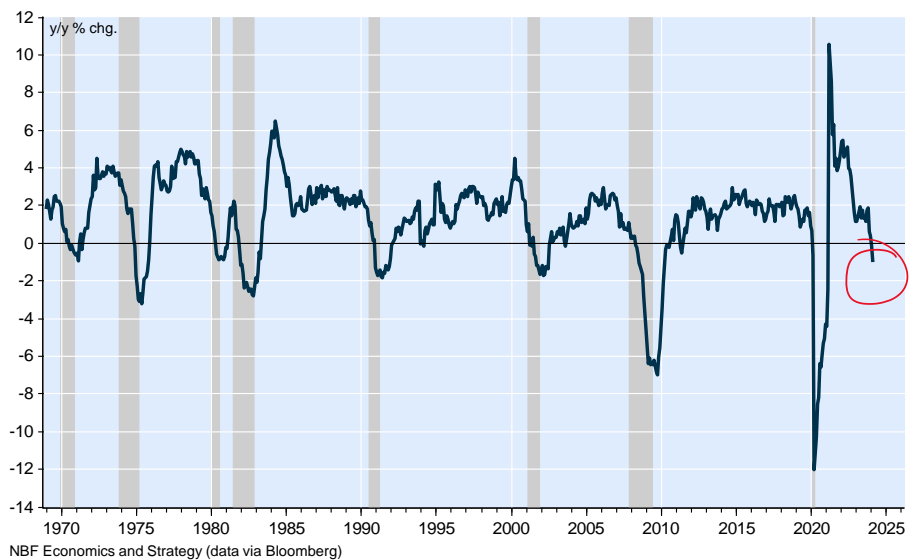
U.S.: Small business confidence at an 11-year low NFIB Small Business Optimism Index



NBF Economics and Strategy (data via Bloomberg)

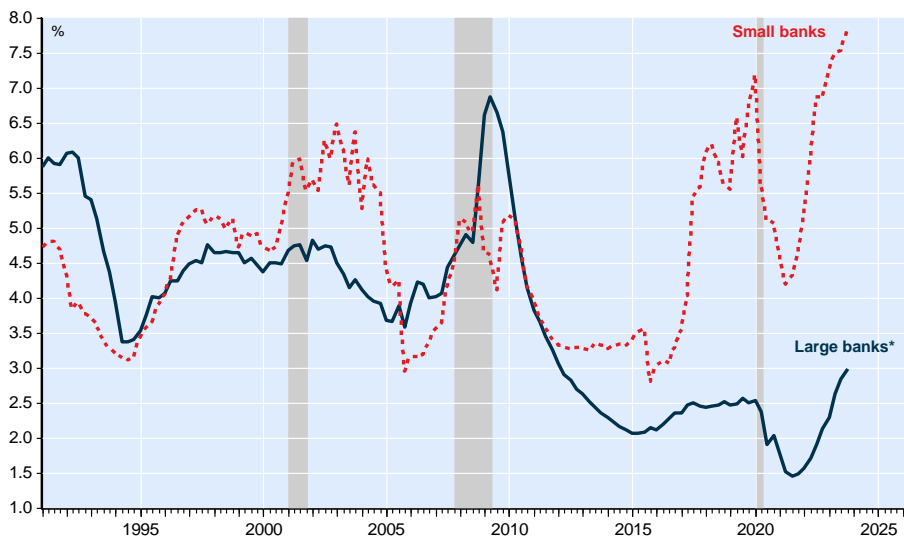
U.S.: Full-time employment in contraction

Full-time employment



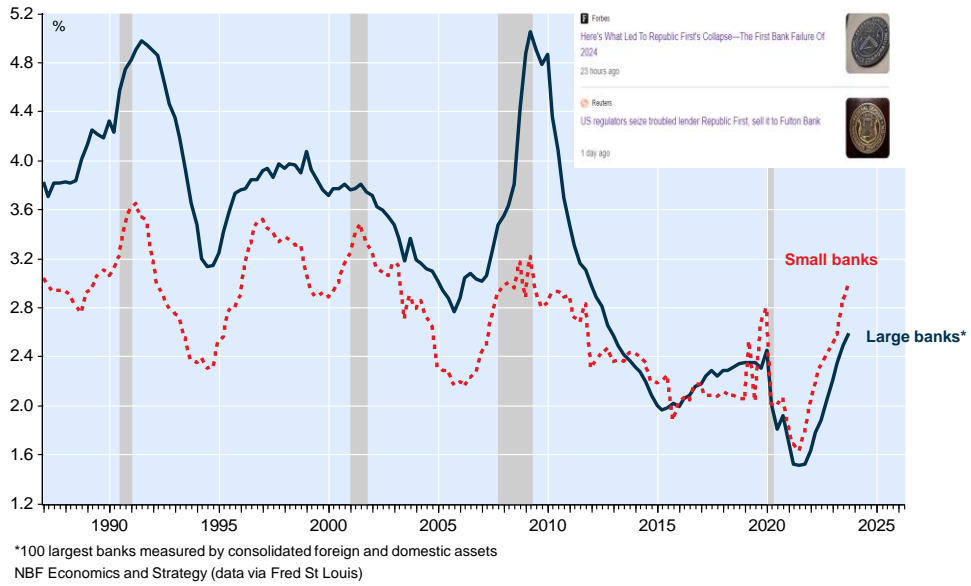
U.S.: Credit risk on the rise

Delinquency rate on credit card loans



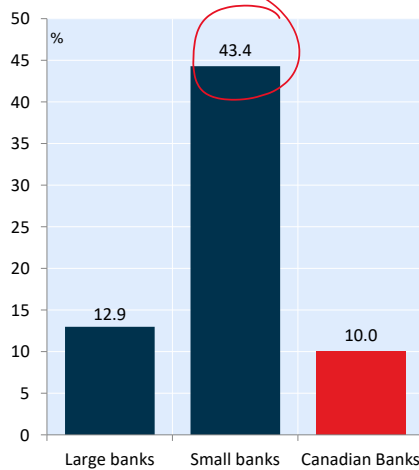
U.S.: Credit risk on the rise

Delinquency rate on consumer loans



U.S: Déjà vu all over again for Fed reassurance?

Commercial real estate loans as a percentage of total loans



NBF Economics and Strategy (data via Refinitiv, Bank of Canada, Fred)

Commercial real estate risk (February 2024)



"I don't think a banking crisis due to commercial real estate is likely"

Residential real estate risk (May 2007)



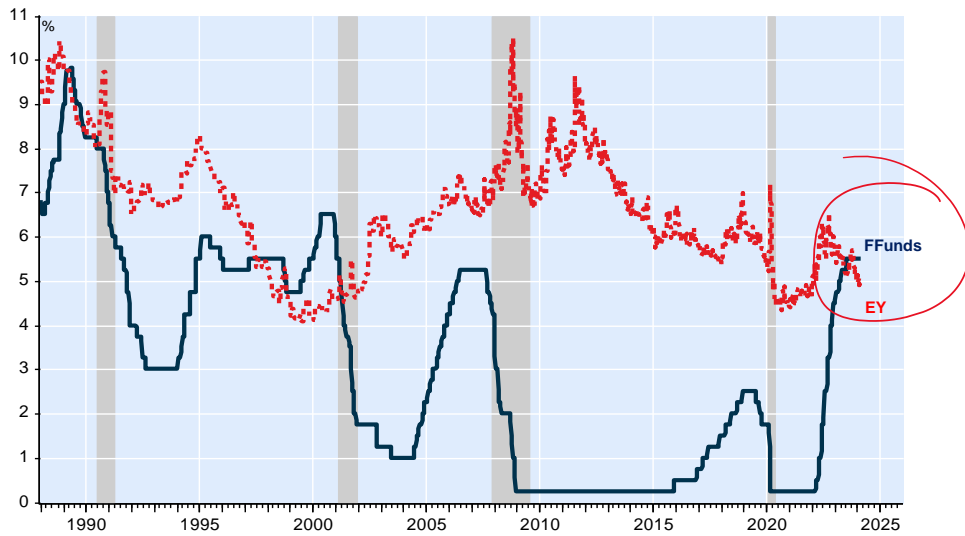
"Subprime mortgage woes won't seriously harm the economy"

World: Despite recent decline, equity markets are still near a record high...
MSCI ACWI



NBF Economics and Strategy (data via Refinitiv)

...with earnings yield below the fed funds
S&P 500 earnings yield vs. fed funds rate



NBF Economics and Strategy (data via Refinitiv)

MSCI composite index: EPS Performance

	2023	2024	2025	2026	12 months forward
MSCI ACWI	-0.2	9.1	13.2	10.7	10.8
MSCI World	1.0	7.5	12.8	10.6	9.6
MSCI USA	2.7	9.4	14.6	11.9	11.6
MSCI Canada	-8.7	3.9	12.0	7.9	7.0
MSCI Europe	-3.7	3.5	10.4	9.0	5.9
MSCI Pacific ex Jp	-5.8	4.4	5.2	4.9	5.3
MSCI Japan	4.5	13.9	9.1	9.0	8.8
MSCI EM	-7.5	19.9	15.5	11.0	18.5
MSCI EM EMEA	0.5	6.0	14.2	8.1	10.8
MSCI EM Latin America	-24.3	7.5	7.4	6.6	7.4
MSCI EM Asia	-5.2	25.3	17.1	12.2	22.1

4/26/2024

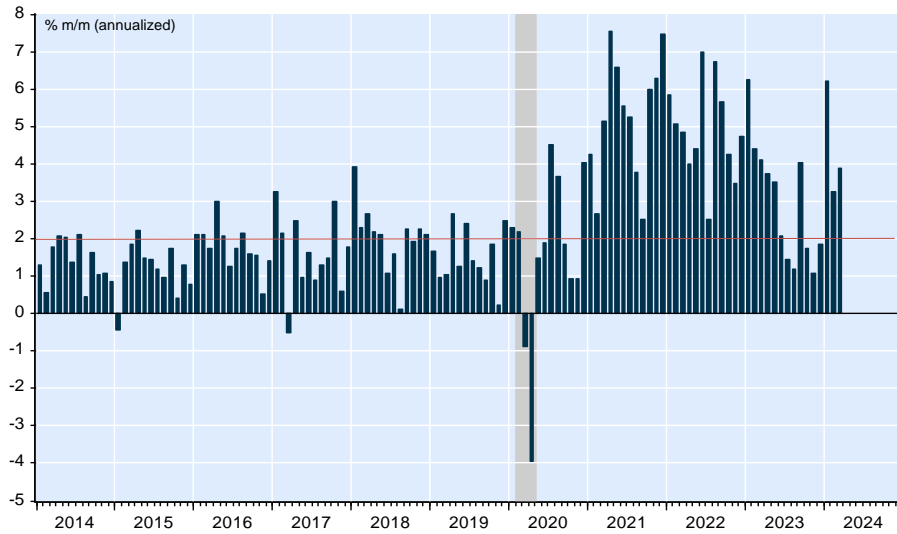
NBF Economics and Strategy (data via Refinitiv)

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U.S.: Inflation refuses to stay down

Core PCE deflator



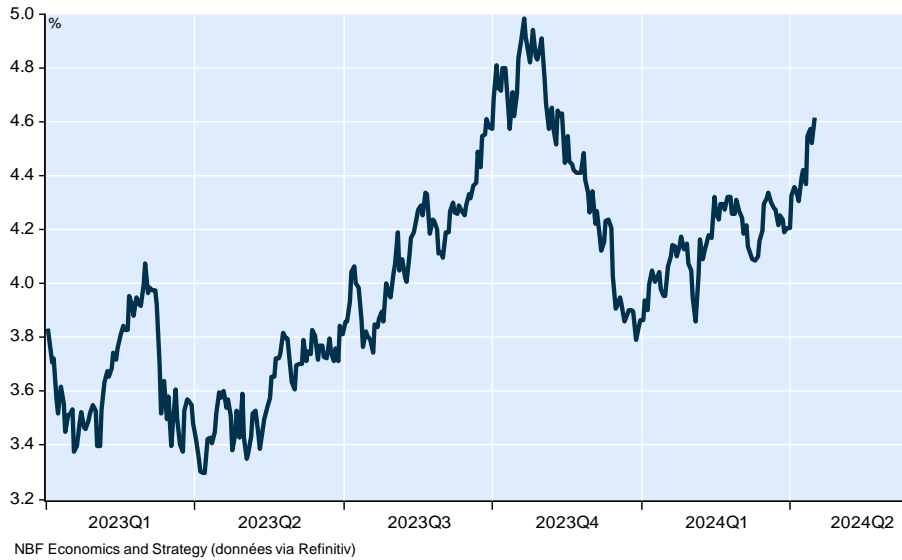
NBF Economics and Strategy (data via Fred)

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U.S.: Back to square one for the Fed?

U.S. Treasuries (10-year yield)



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"To believe only in geopolitics is lowering and cynical, but to advance policy solutions with no regard to geopolitics is arrogant and naïve."

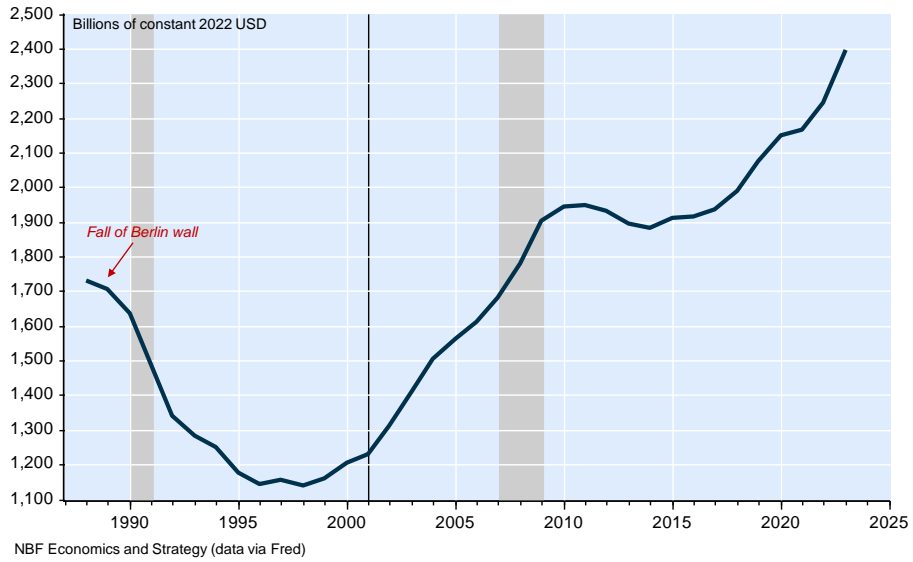
*Robert D. Kaplan
The Tragic Mind (2023)*

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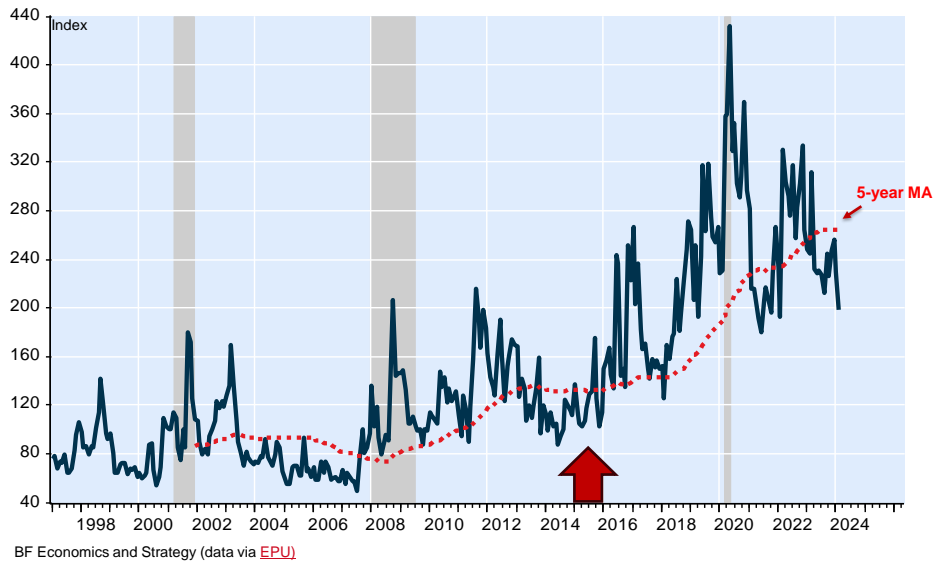
World: We are no longer all friends

Volume of expenditure on military goods and services



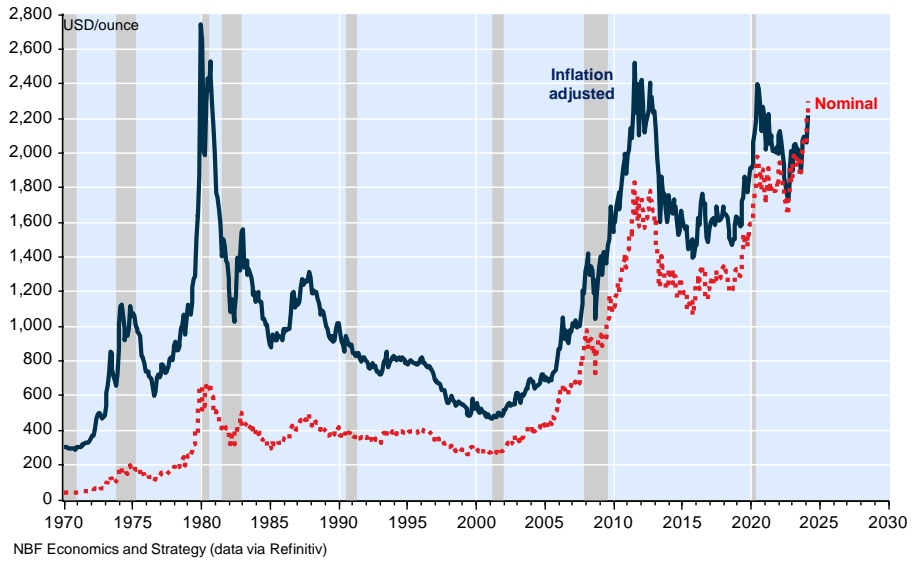
World: Investors must now also deal with uncertainty

Economic Policy Uncertainty Index



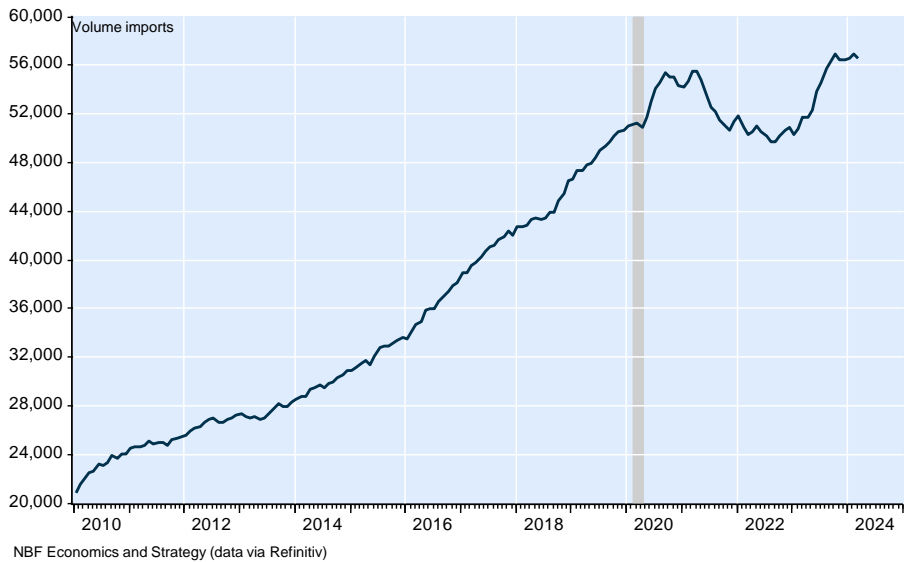
Bullion: Investors are not drinking the policymakers' Koolaid

Price of gold: Nominal and real (2024 dollars)



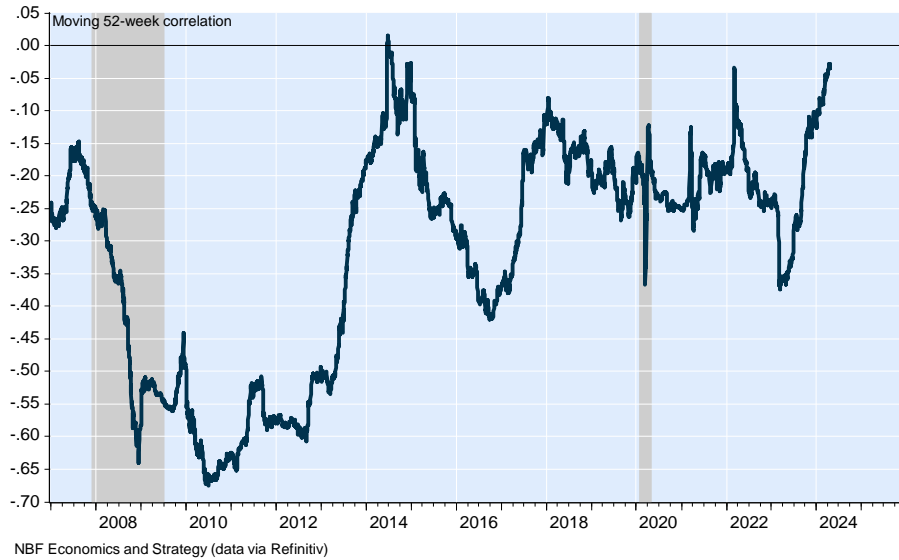
World: China's crude oil imports are at a record high

Volume imports of crude oil by China



U.S.: Dollar and oil correlation has become much weaker

Correlation between daily % change in the USD index and daily % change in the price of Brent oil



23

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Canada

"Demographics explains two-thirds of everything"

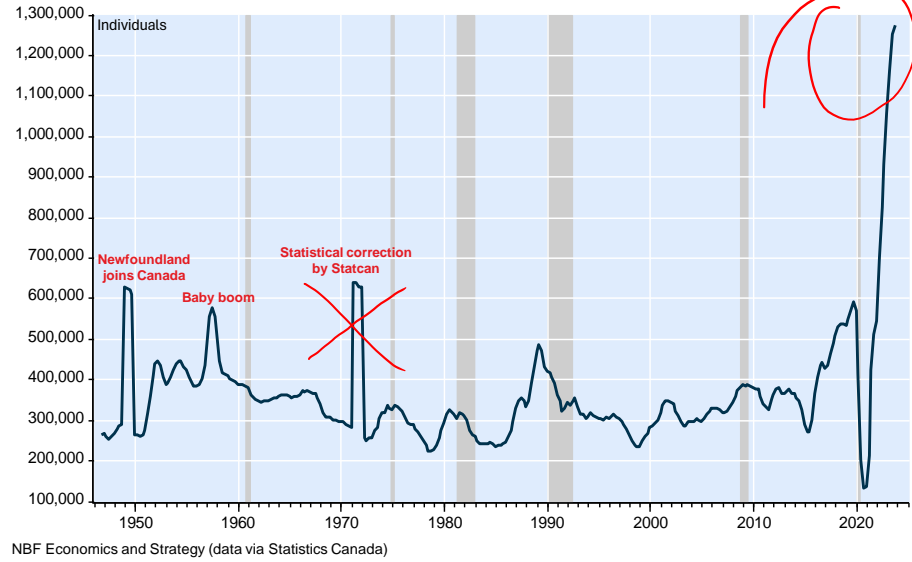
David Foot (famous Canadian demographer)

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Canada: Surging population growth

Annual growth in total population

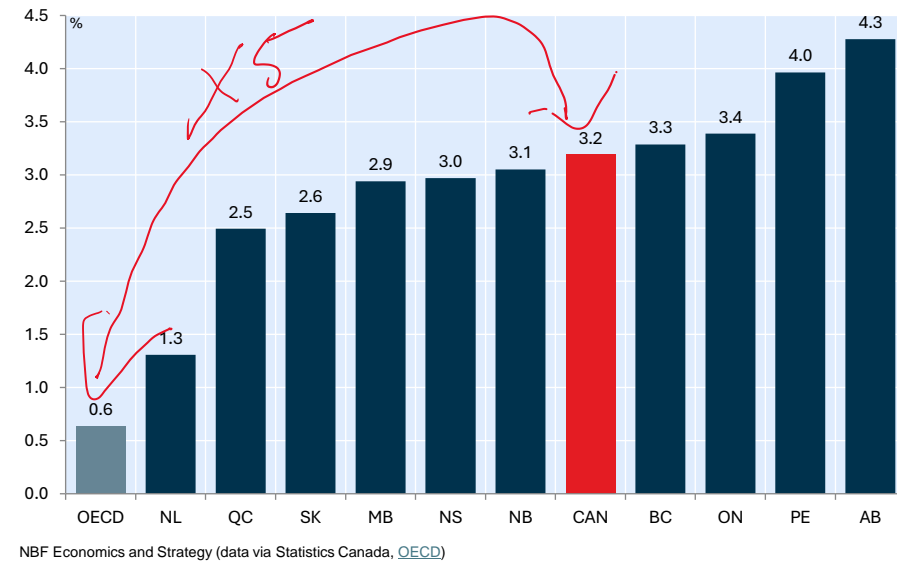


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Canada: All provinces grow at least twice as fast as OECD

Population change (2023Q4 vs 2022Q4)

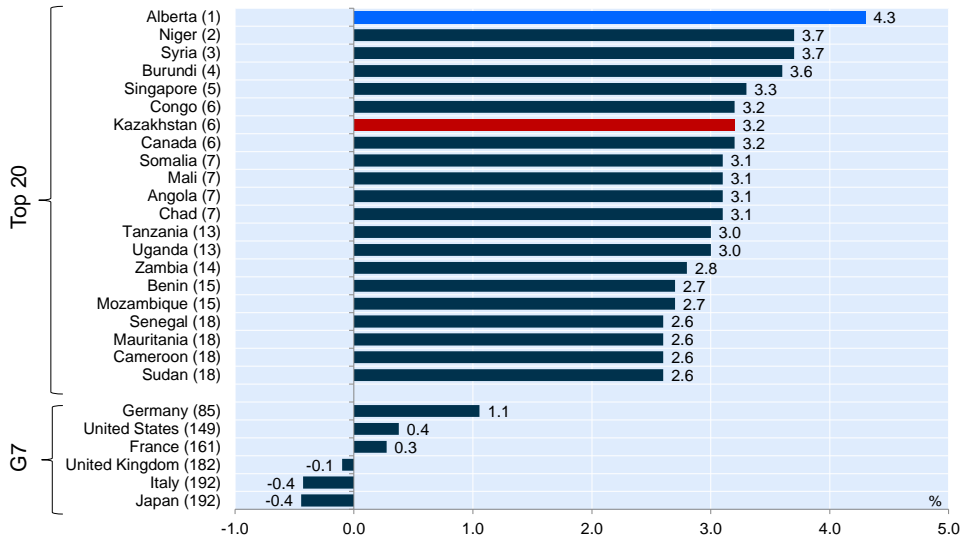


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Alberta: Population growth is the fastest in the World

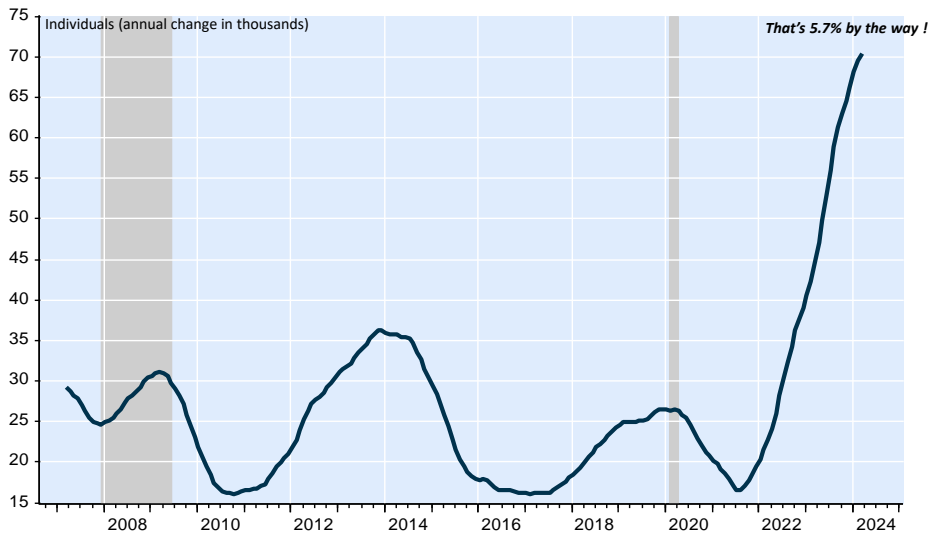
Population growth in 2022, top 20 countries + Alberta and G7 economies (2023 data for CA and AB)



NBF Economics and Strategy (data via [World Bank](#), [Statistics Canada](#))

Calgary: Unprecedented !

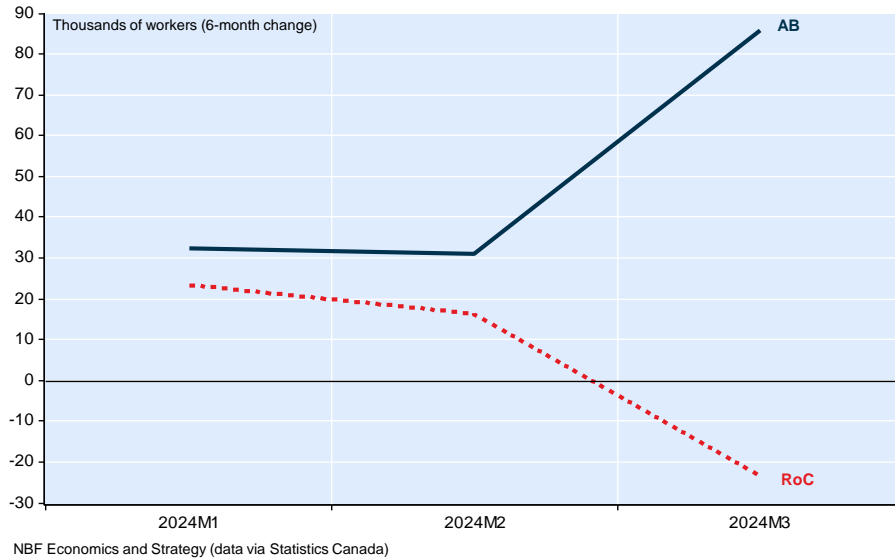
Annual growth in total population



NBF Economics and Strategy (data via Statistics Canada)

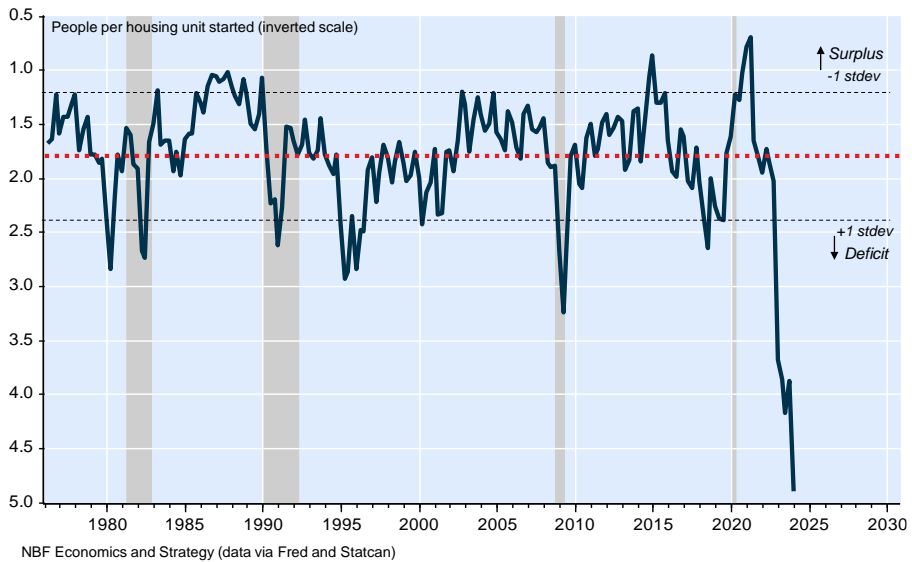
Alberta: Private-sector jobs are up, while RoC is down

Employment in the private sector: AB vs RoC



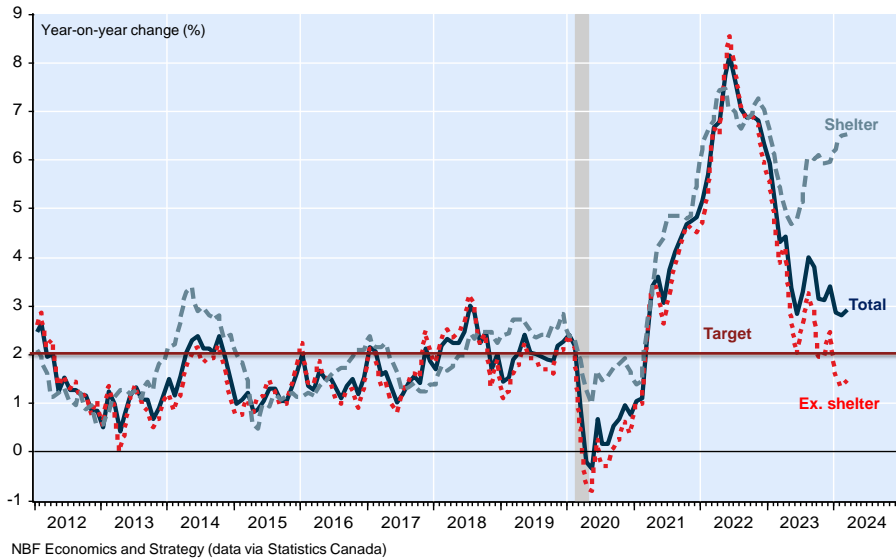
Canada: Housing supply deficit hit new record in 2024Q1

Ratio of growth in working-age population to housing starts (quarterly data)



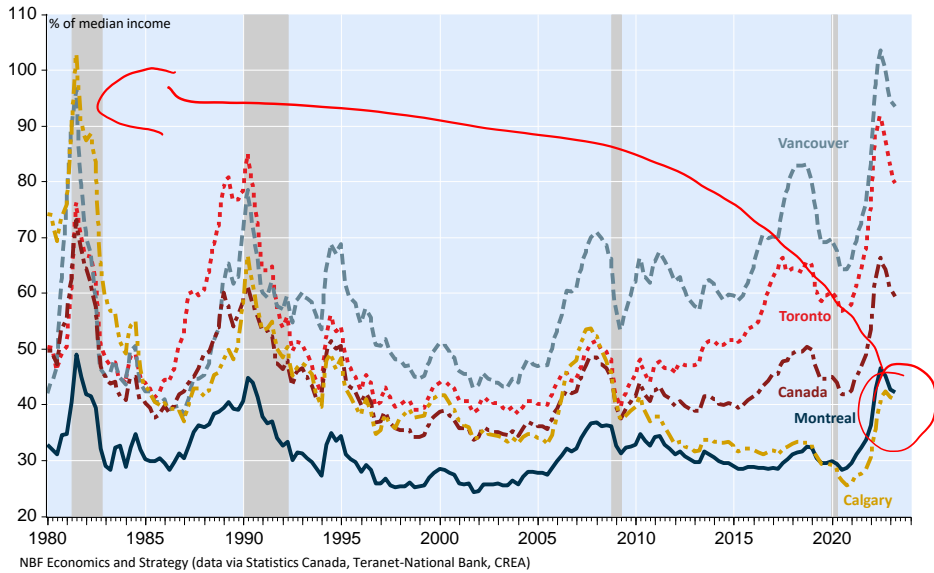
Canada: Outside shelter, inflation is well below 2%

CPI inflation: Total, shelter and ex-shelter



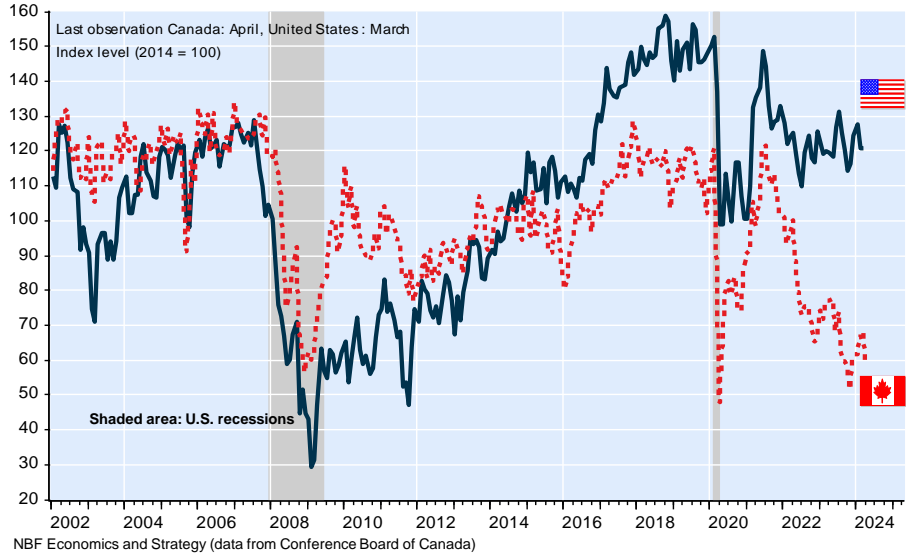
Canada : Worst home affordability since the 1980s except for YYC

Monthly mortgage payment on median home price, all types of dwellings (25 year amortization, 5-year term)



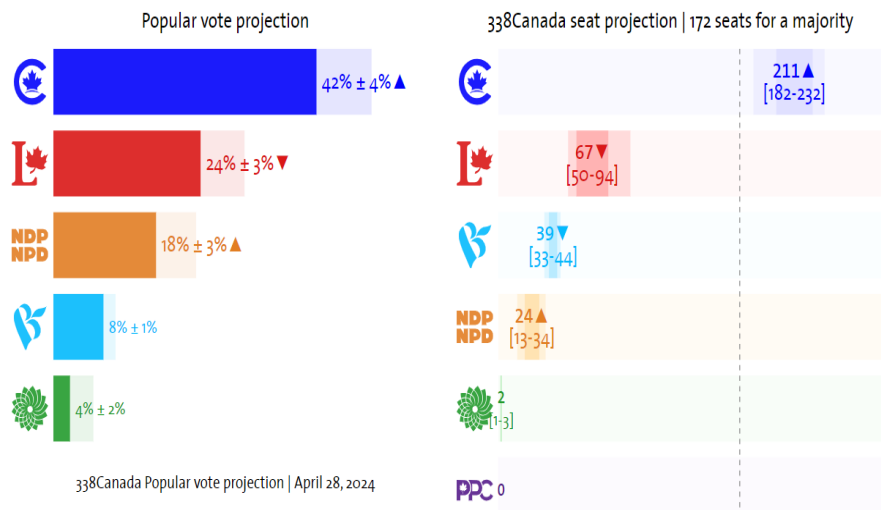
Canada – U.S.: Index of consumer confidence

Monthly



Is Trudeau Liberal government living on borrowed time?

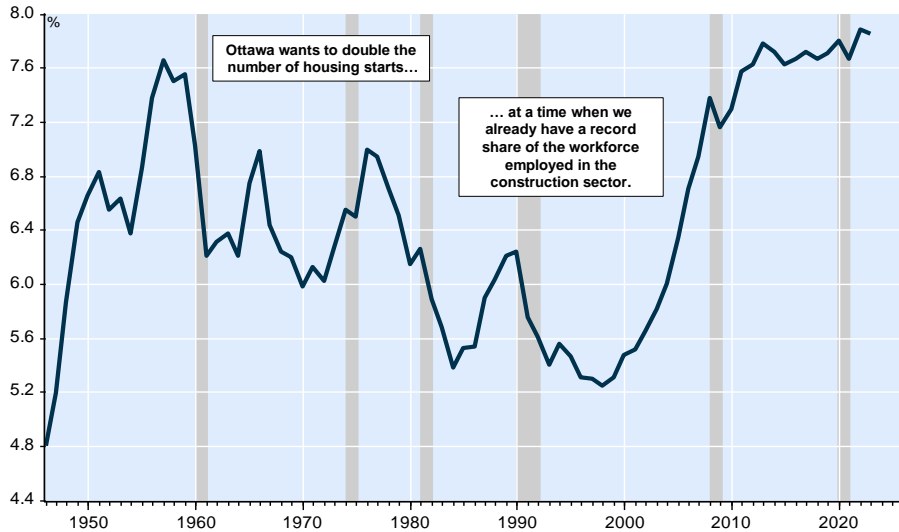
Take polls with a grain of salt, but current aggregations show Conservatives clearly in driver's seat



Source: 338Canada

Canada: The daunting task of building nearly 4 million homes

Employment in the construction industry as a percentage of total employment



NBF Economics and Strategy (data via Statistics Canada table 14-10-0023-01, [D266-289](#), D290-317)

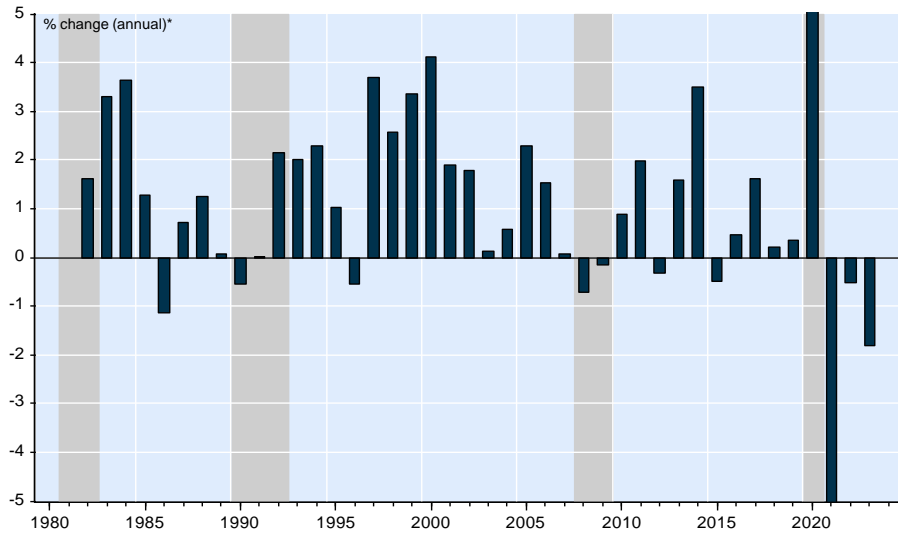
Canada

“You’ve seen those signs that say, “In emergency, break glass.” Well, it’s time to break the glass on Canadian productivity”

Caroline Rogers (March 26, 2024)

Canada: Down for three consecutive years

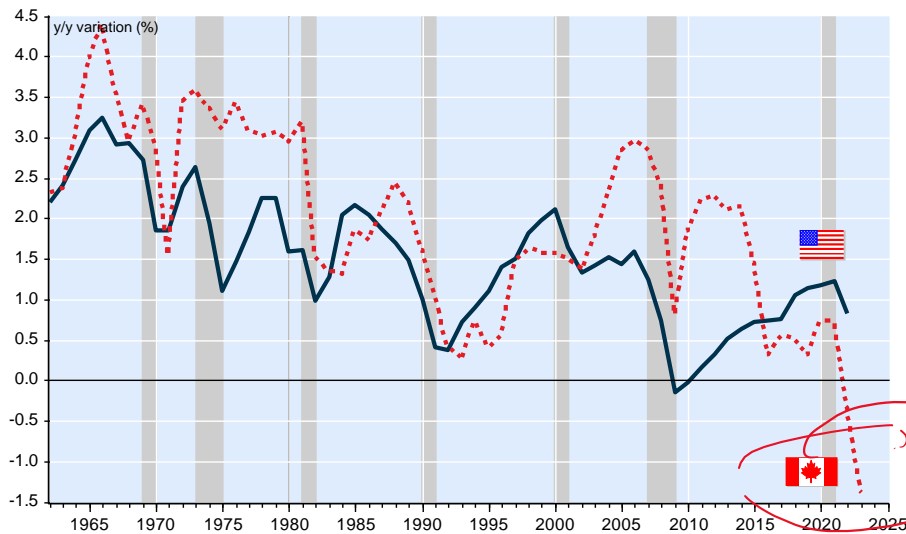
Labour productivity in Canada's business sector



* truncated scale because of COVID recession
NBF Economics and Strategy (data via [Statistics Canada](#))

Canada: Caught in a population trap

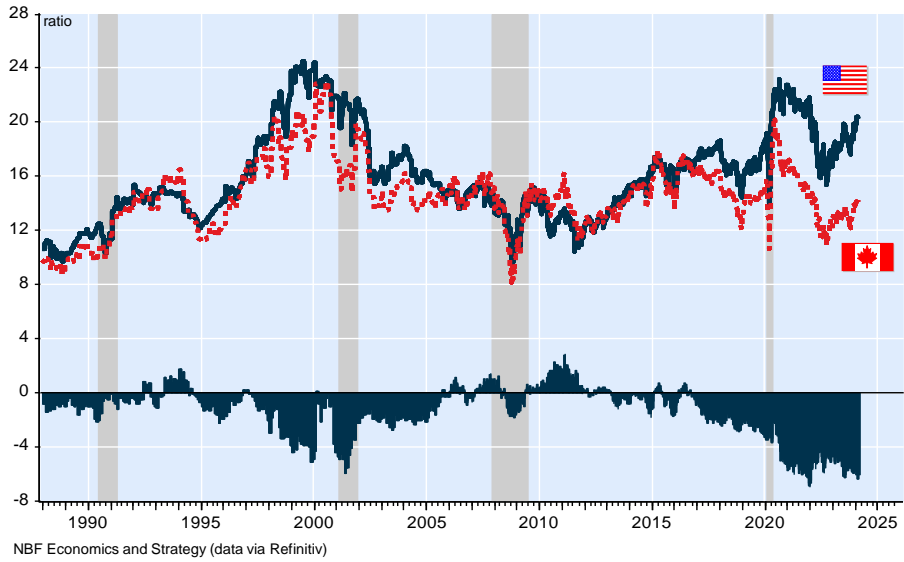
Net total real capital stock at year-end per person. Last obs.: CAN - NBF estimation for 2023; U.S. - 2022



NBF Economics and Strategy (data via Statistics Canada 34-10-0163-01, 36-10-0096-01, 17-10-0009-01, BEA table 1.2, Refinitiv)

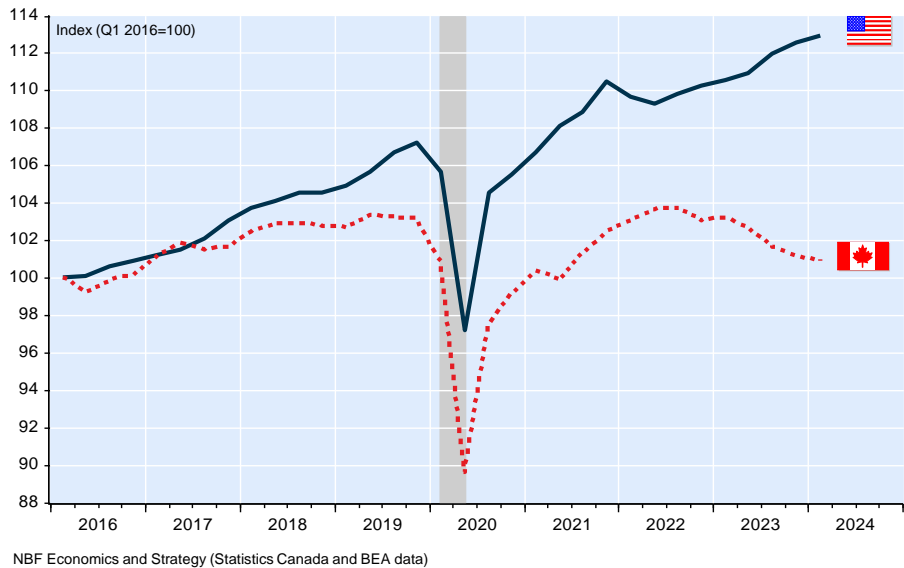
Canada: Stock market trading at near historic discount to U.S.

Forward PE ratio for the S&P 500 and the S&P/TSX



Canada: GDP per capita diverges from the United States

Real GDP per capita (15+ in Canada, 16+ in U.S.), forecast for Q1 2024



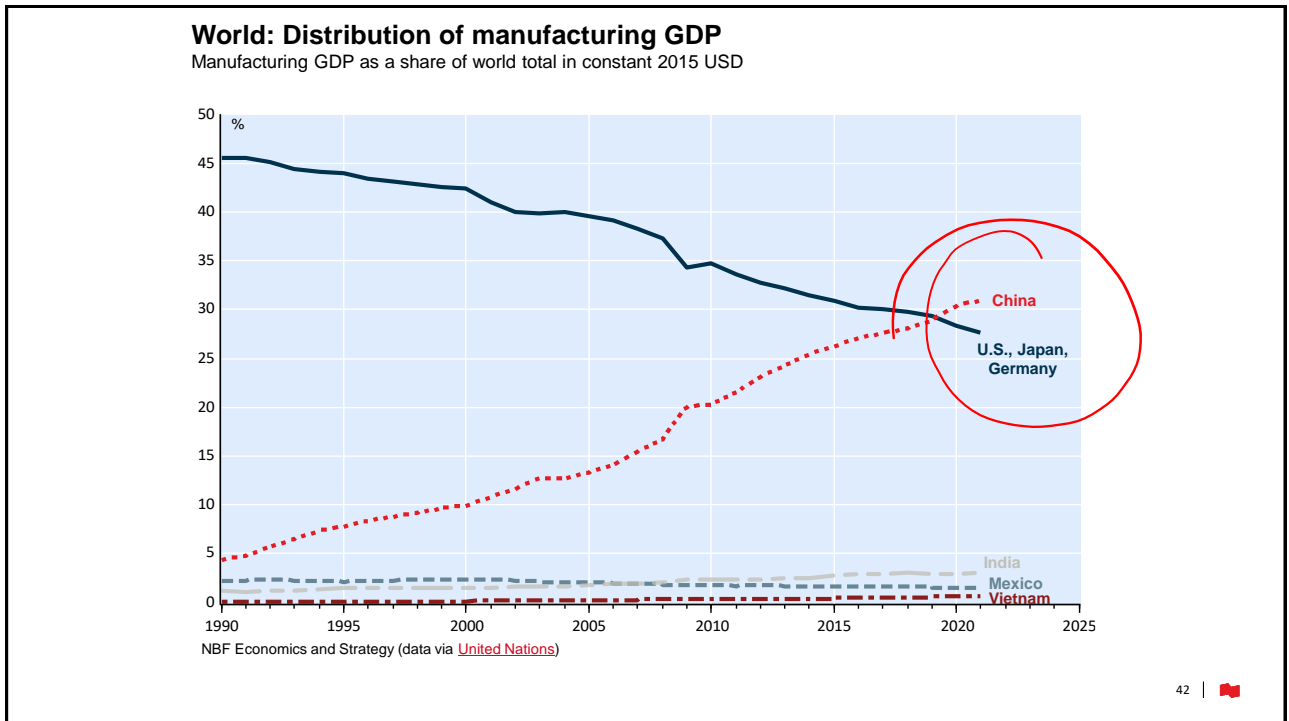
Canada

“The choice for Canada in a fast-changing global environment is either to adapt quickly and take advantage of the changes happening or watch from the sidelines.”

Brian Mulroney

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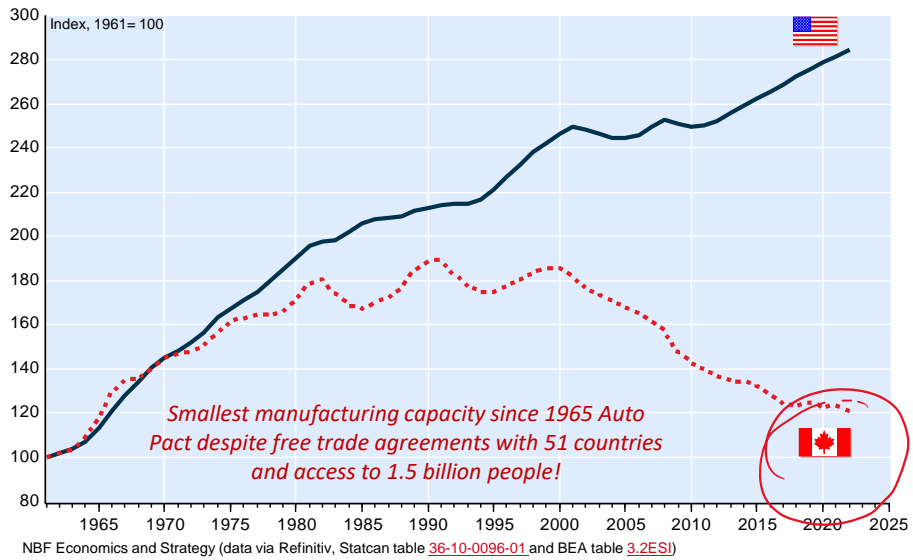
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Canada: Does anyone still care about our national security?

Net real capital stock in the manufacturing sector per population at year-end, CA and U.S.



World:

"The fact remains that, if the supply of energy failed, modern civilization would come to an end as abruptly as does the music of an organ deprived of wind."

*Frederick Soddy
1921 Nobel Laureate*

Alberta: In case you missed the Herald this weekend

Exhibit 1



Exhibit 2



About 12,700 results (0.50 seconds)

Popular Science

AI companies eye fossil fuels to meet booming energy demand

Recent reports suggest renewable energy sources alone won't be enough to meet data centers' increasingly intensive power needs.

1 day ago

CBC

AI is an energy hog

Bob McDonald's Blog: Artificial intelligence programs like ChatGPT enable computers to behave in what are perceived as more human-like ways.

Oct 13, 2023

Scientific American

The AI Boom Could Use a Shocking Amount of Electricity

Powering artificial intelligence models takes a lot of energy. A new analysis demonstrates just how big the problem could become.

Oct 13, 2023

The New York Times

A.I. Could Soon Need as Much Electricity as an Entire Country

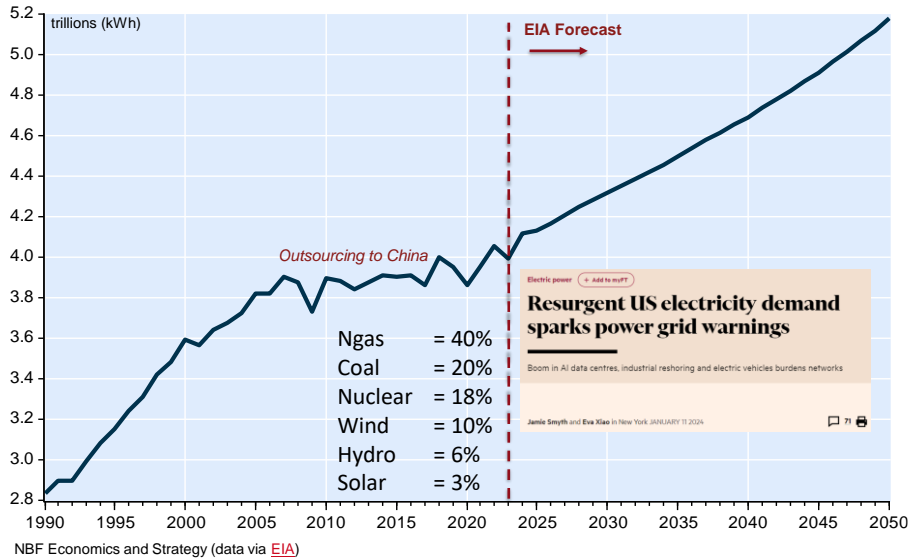
Behind the scenes, the technology relies on thousands of specialized computer chips.

Oct 10, 2023



U.S.: The demand for electricity is back on an upward trend

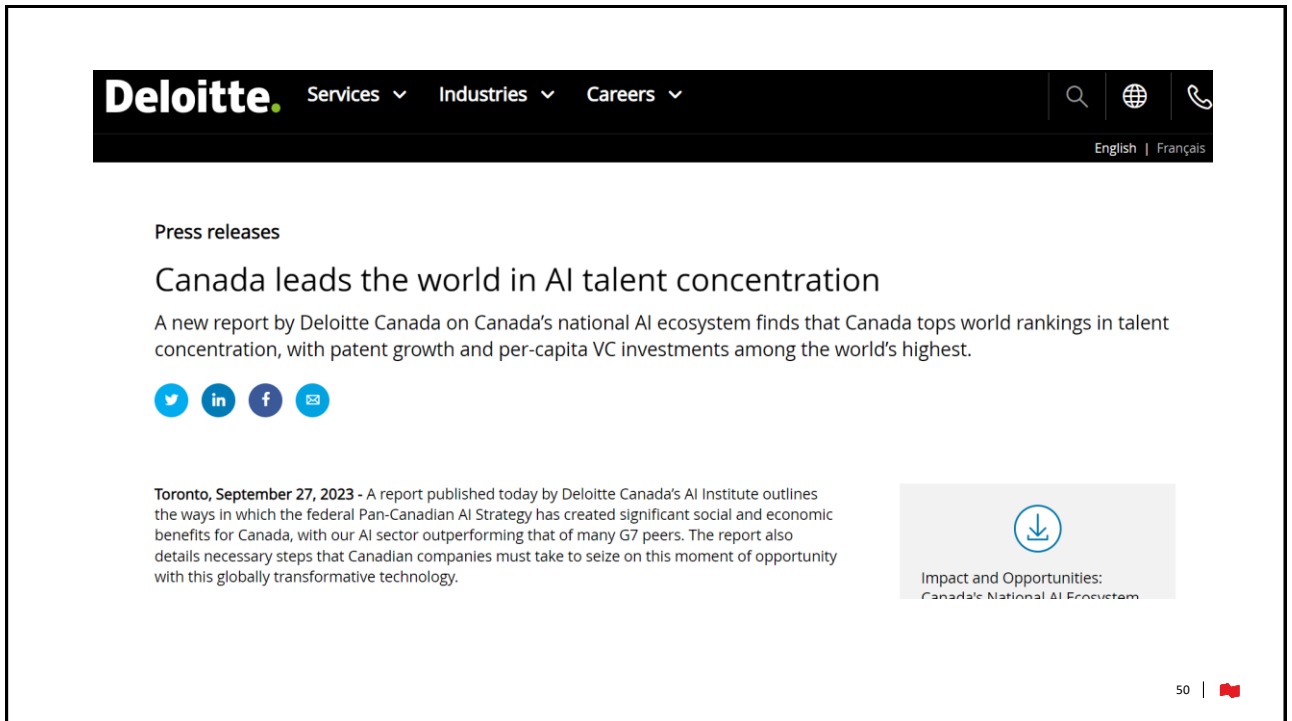
Electricity used by all sectors of the U.S. economy



World: More electricity + geopolitics = higher copper prices

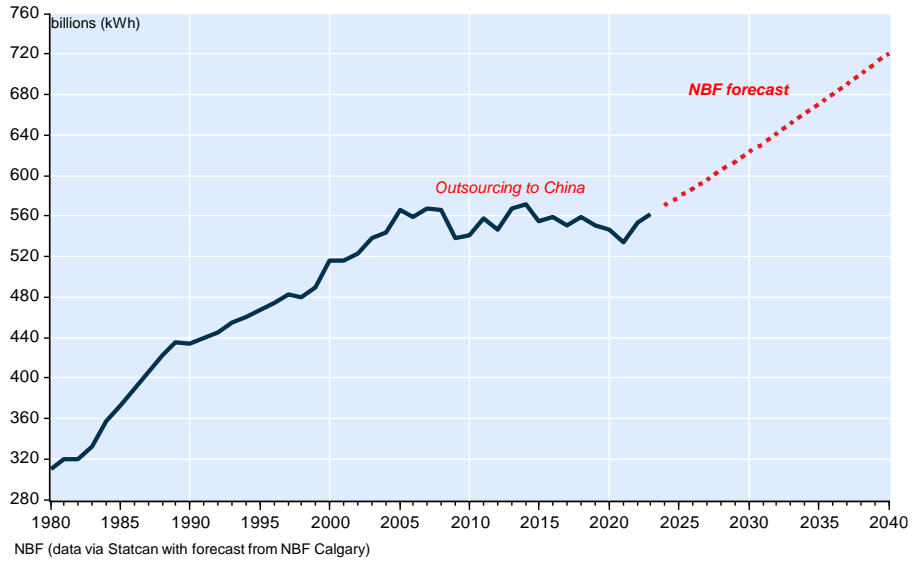
Price of copper





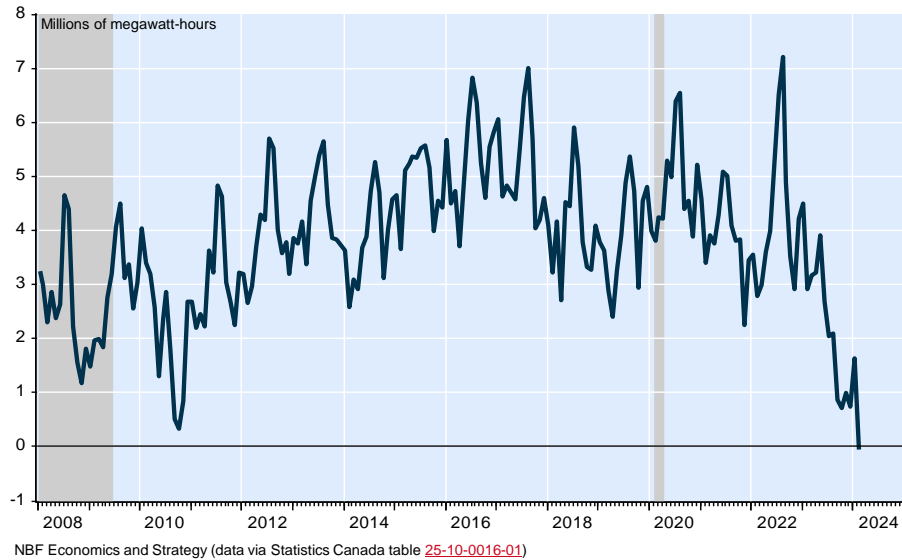
Canada: Is Ottawa ready for this trend?

Electricity used by all sectors of the Canadian economy



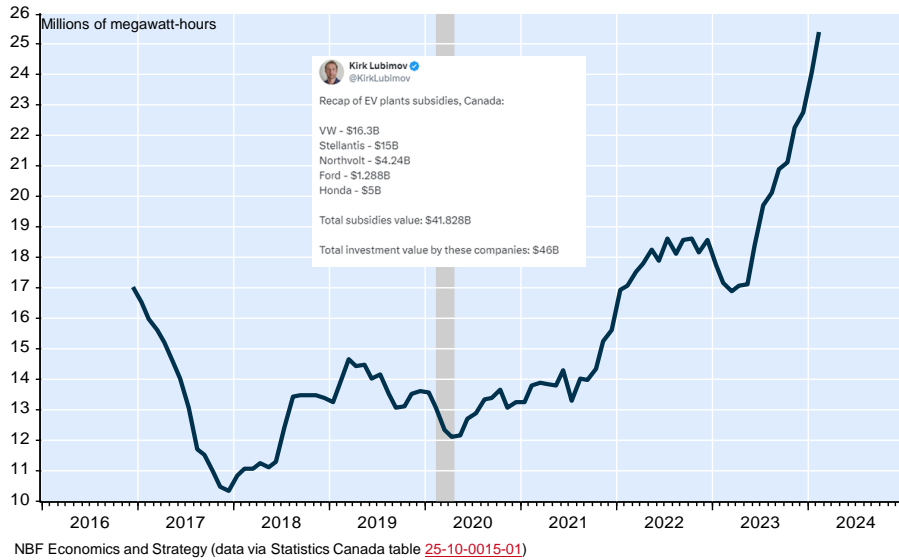
Canada: First electricity deficit on record

Net exports of electricity



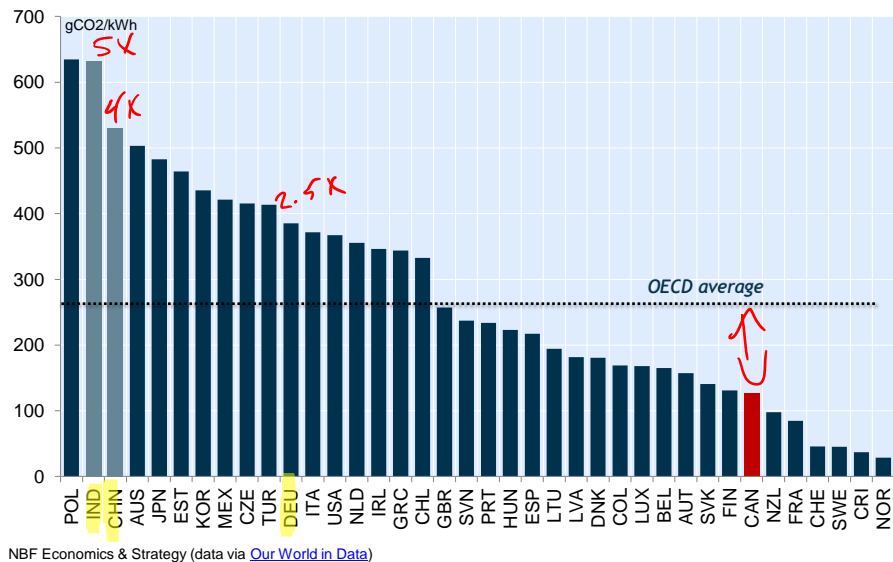
Canada: Let's face it, EVs won't be built in Ontario without Ngas

Ontario electricity generation from combustible fuels



World: Canada's electricity grid is already one of the cleanest

2022 carbon intensity of electricity (gCO2/kWh), OECD + China and India

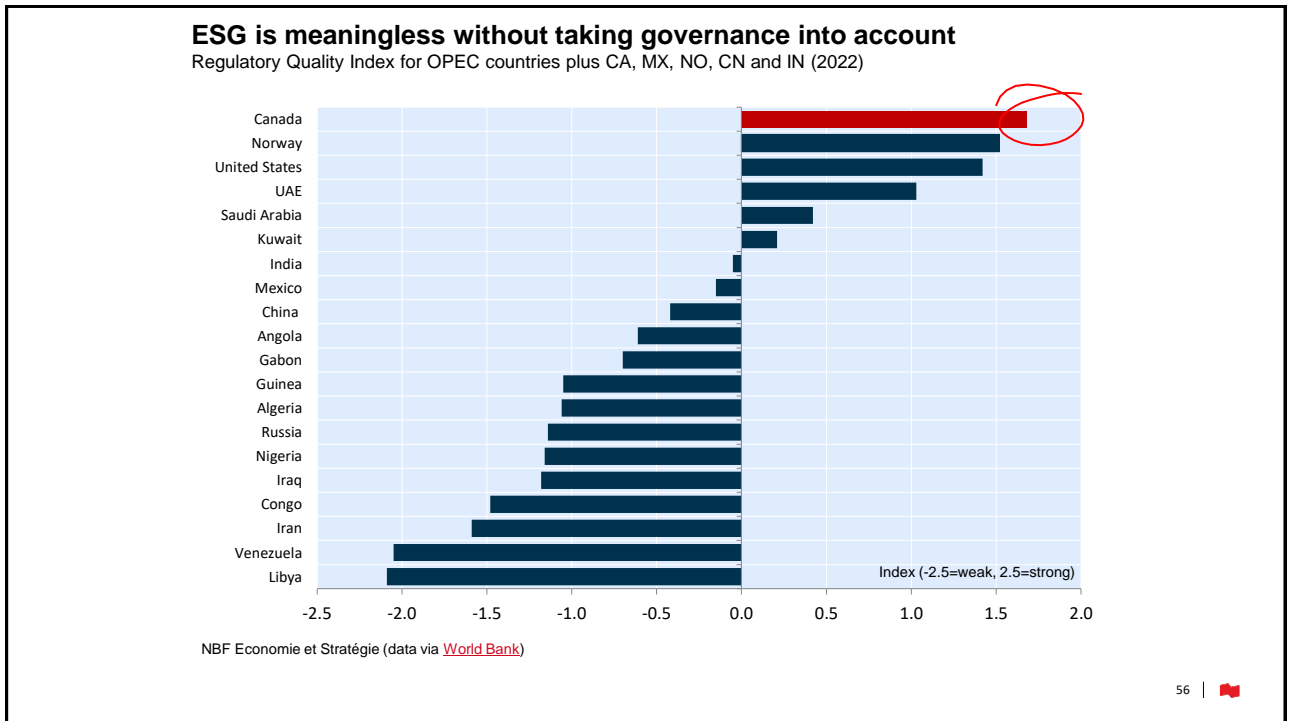


Canada:

“We do not want to invest in Alberta because of its dirty shale oil sands”

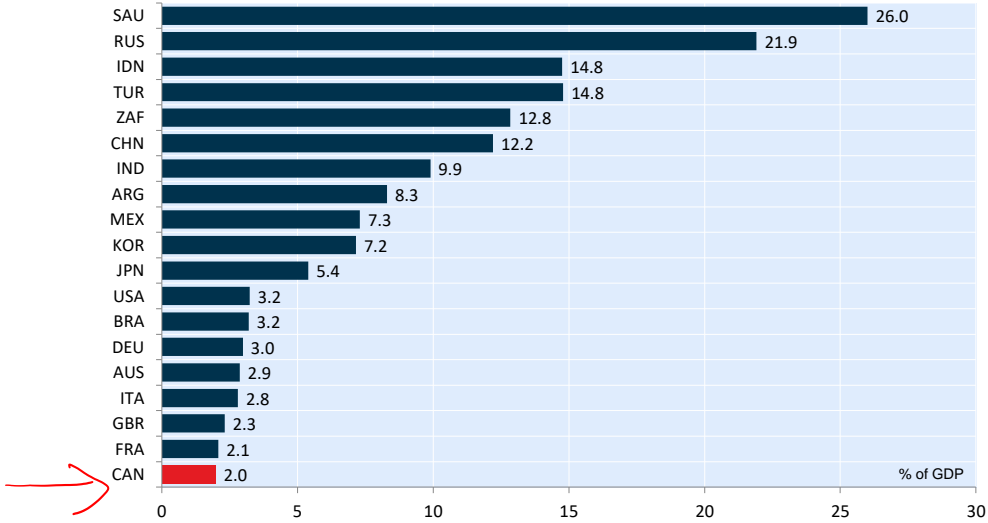
Some European Institutional Investors

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World: IMF says Canada has lowest energy subsidies in G20

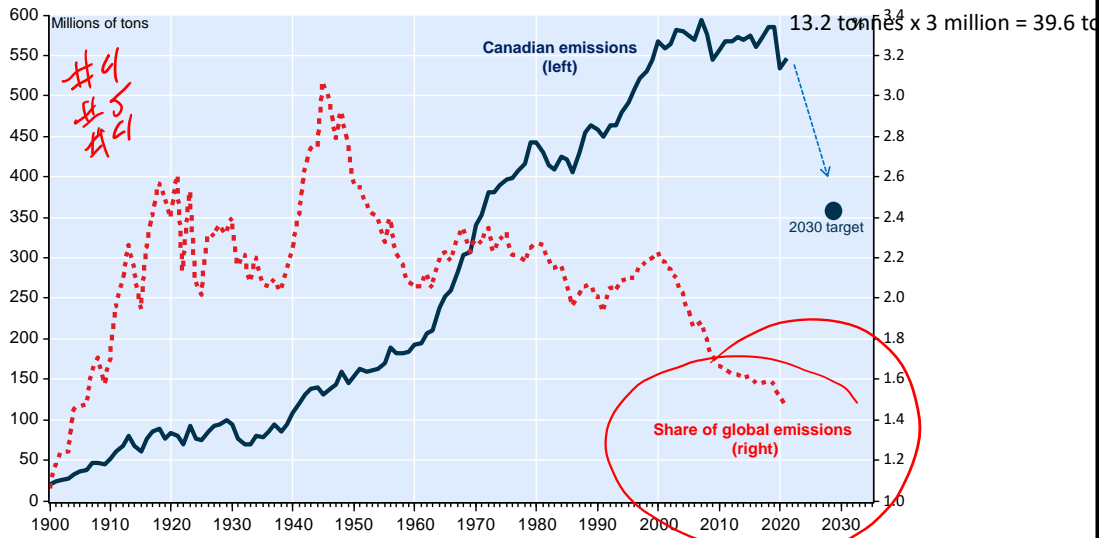
Oil, coal, and natural gas subsidies* as a share of GDP for the G20 countries, 2022



* Defined as the sum of implicit and explicit subsidies as per IMF calculations
 NBF Economics and Strategy (data via [IMF](#))

Canada: Share of global CO2 emissions at lowest level since 1906

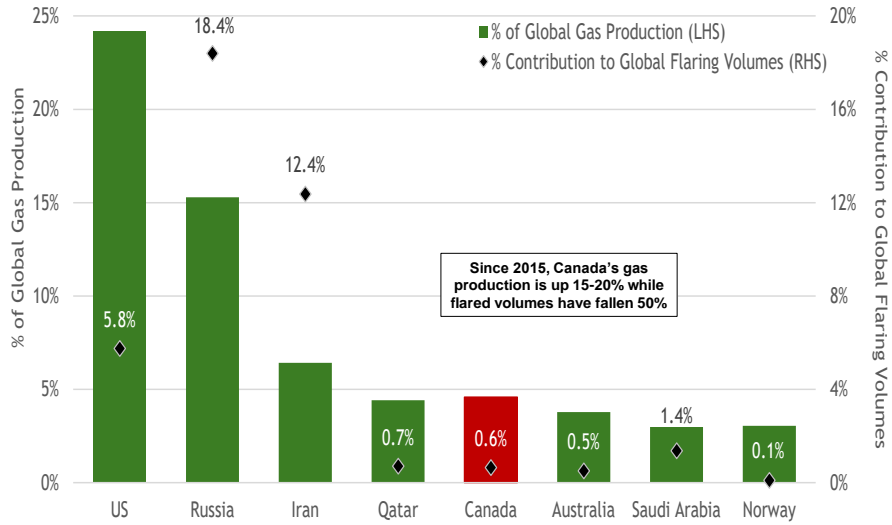
Canada's annual CO2 emissions and share of total world emissions



NBF Economics and Strategy (data via [our world in data](#))

World: Canada's methane emissions have plummeted

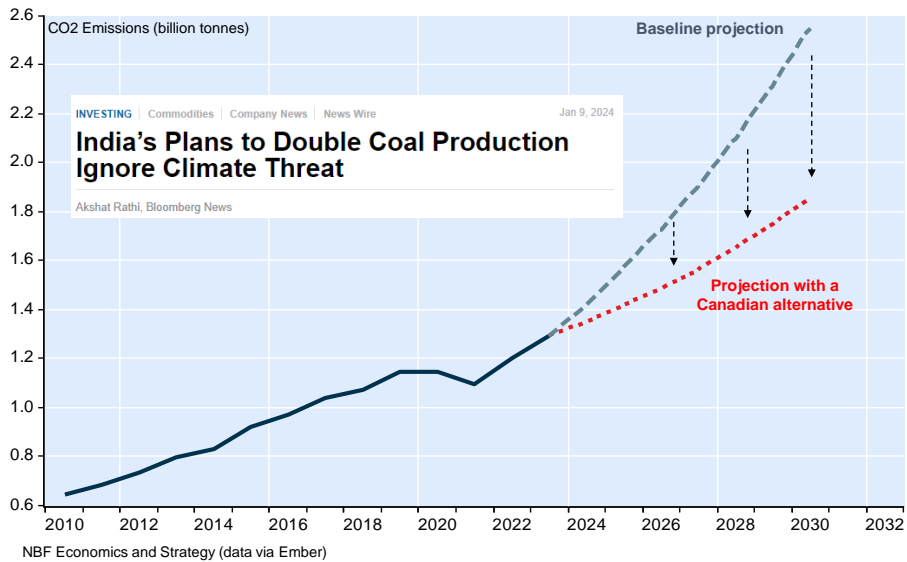
Regulatory Top Natural gas producers and contribution to global flaring volumes



NBF ESG Research Team

World: Canada has a compelling business case to help the planet

India's power sector emissions (coal + natural gas): 2010 to 2030



NBF Economics and Strategy (data via Ember)

THE MILLIONS OF TONS OF CARBON EMISSIONS THAT DON'T OFFICIALLY EXIST

How a blind spot in the Kyoto Protocol helped create the biomass industry.

By Sarah Miller
December 8, 2021

More than a decade of research has shown that wood pellets cause more carbon pollution than coal per unit of energy produced.



ENVIRONMENTAL NEWS SERVICE
ASIA SWAPS COAL FOR WOOD FUEL, BUT EMISSIONS STILL A THREAT
CITIES SEE BIOMASS-BURNING AS A SOURCE OF CARBON EMISSIONS AND AIR POLLUTION

The Drax power station, in the U.K., used to burn coal, but it has spent the last few years transitioning to "sustainably sourced biomass," more commonly known as wood pellets. Photograph by Bill Allsopp / Getty

ENVIRONMENT / ENERGY

Japan's thirst for biomass is having a harmful impact on Canada's forests

BY ANNELISE GISEBURT
CONTRIBUTING WRITER

SHARE Jan 14, 2024

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0:00 / 12:41 1x

The Japanese government plans to have biomass contribute 5% of Japan's power needs by 2030, putting it on par with wind. Hydrogen and ammonia, the government and industry's controversial long-term bet to decarbonize the power sector, are expected to only contribute 1% by that year.

"Burning wood is literally what our ancestors and Neanderthals did many hundred thousands of years ago," he says. "Surely we're better than that."

Politics Briefing: Conservatives calling for Mark Carney to answer questions on his policy positions



APRIL 26, 2024

OPINION

When will Mark Carney run?

APRIL 25, 2024



National Post

<https://nationalpost.com/news/conservatives-say-clea...>

'It's clear' Mark Carney wants Trudeau's job and should ...

3 days ago — Even though **Prime Minister Justin Trudeau** has repeatedly said he is staying on as **leader** of his party, the ongoing speculation about **Carney's** ...

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Forecast summary

- Subdued economic growth (stagnation) in the coming months
- Slow hiring = higher jobless rate
- The good news is that inflation is not the threat it once was
- Rate cuts are coming
- The stock market is vulnerable: Elevated PEs and resilient bond yields (GVT debt)
- Canadian currency likely to depreciate

Risk factors:

Complex geopolitical backdrop in the amid rapid structural change

Attracting PRIVATE capital is key as government funding dries up

Our policymakers MUST make Canada more business-friendly for domestic and foreign investors.

What is the terminal interest rate (3%-3.5% range) in post-Covid environment?

Need to manage both risk and uncertainty

Alberta needs to market itself better (domestically and internationally)

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Regulatory information

General

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