

CANADA ECONOMIC OUTLOOK

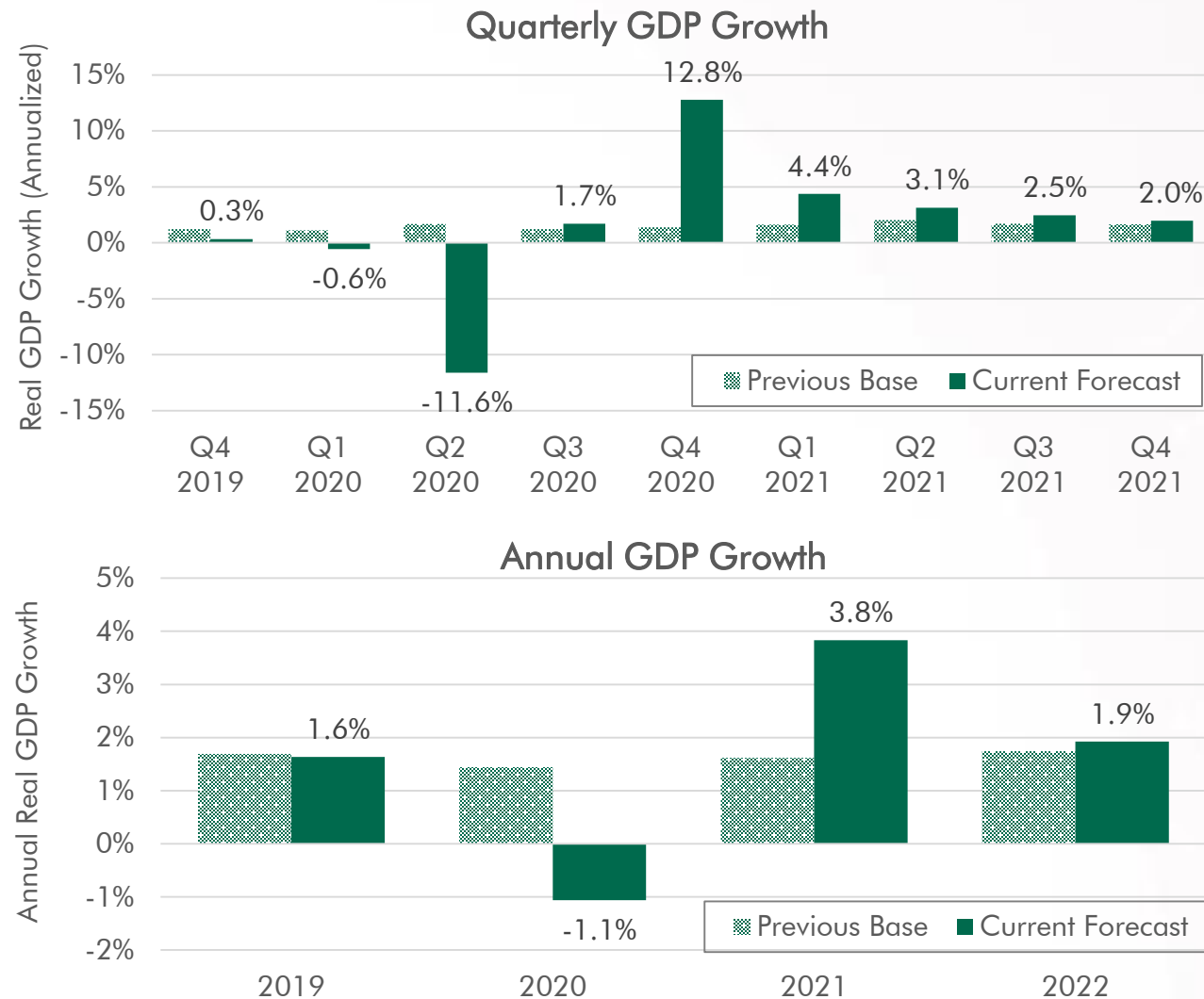
A RAPIDLY CHANGING LANDSCAPE

APR 7, 2020

CBRE Canada Research

GDP GROWTH REVISED DOWNWARDS IN 2020

Canadian GDP Forecast



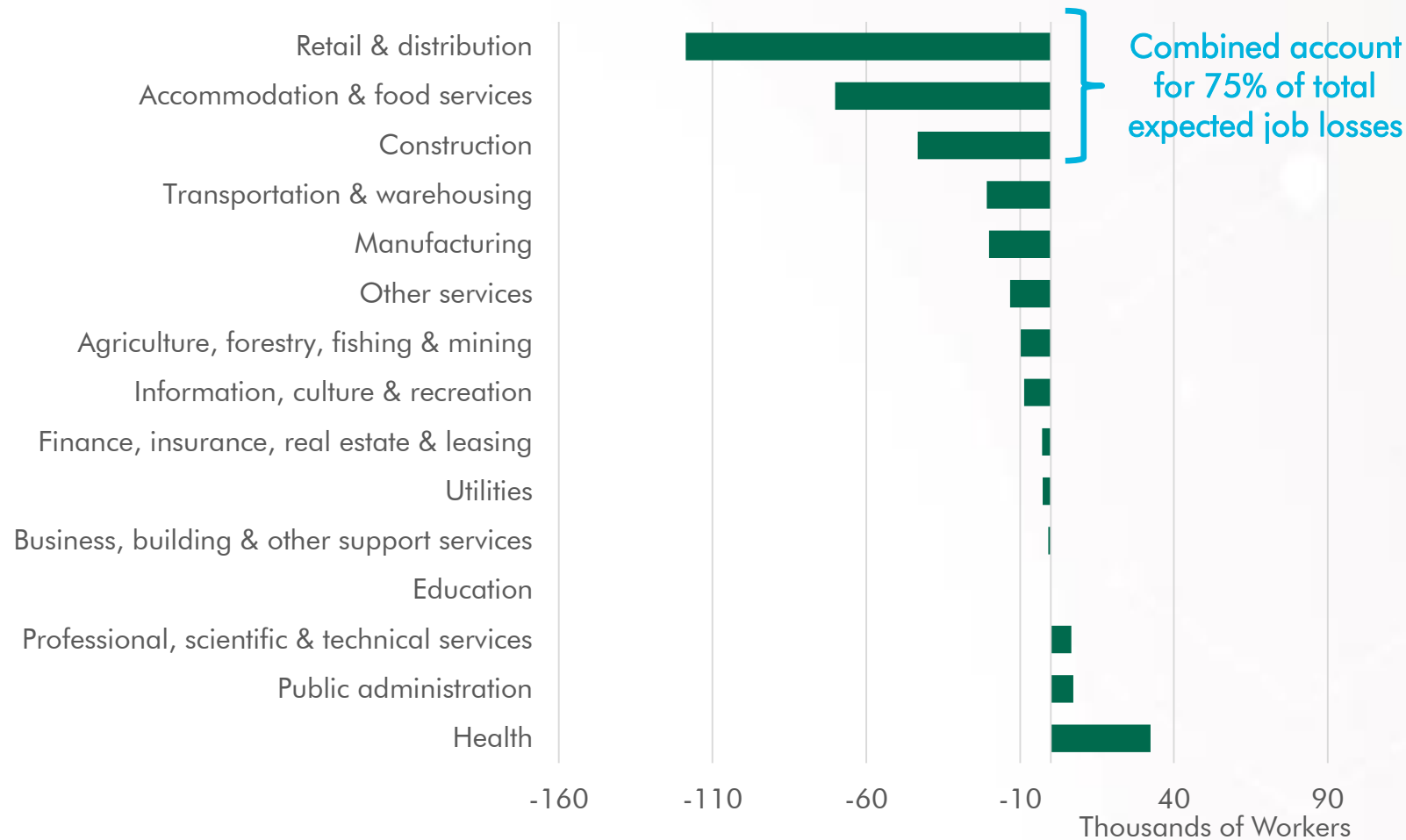
Source: Oxford Economics, CBRE Research, Apr 7 2020.

- **Revisions:** GDP forecasts prior to the COVID-19 outbreak have been significantly revised, in particular for the next few quarters.
- **Near-Term:** A recession is now expected in Canada with GDP forecast to decline by -0.6% in Q1 2020 before a sharp -11.6% drop in Q2 2020.
- **Mid-Term:** A strong rebound is projected to occur in Q4 2020, with GDP set to rise by 12.8%.
- **Next Year:** Full-year GDP growth expectations for 2020 have been revised down to -1.1%. Meanwhile, 2021 GDP growth was also significantly revised upwards to 3.8%.
- **Pace of Change:** Changes to the Canadian economic landscape are happening faster than economists can keep up with. Recent jobless claims suggest that downward revisions for 2020 are probable. However, 2021 is likely be revised upwards due to fiscal stimulus measures, moderate improvements in the outlook for the oil industry and the event-driven nature of this crisis.

SIGNIFICANT JOB LOSSES EXPECTED IN Q2 & Q3

Canadian Employment Forecast

Employment Change by Industry | Q2 & Q3 2020



- So far, 264,700 jobs are forecast to be lost over Q2 and Q3 2020.
 - The **retail sector** is expected to lose 118,700 jobs, or approximately 4% of its workforce.
 - The **accommodation & food services industry** is forecast to lose 70,100 jobs, or approximately 6% of its workforce.
 - The **construction industry** is forecast to lose 43,300 jobs, or approximately 3% of its workforce.
 - The combined job losses in these three industries account for 75% of the total expected employment decline.
- **Office-using employment** is expected to be relatively insulated, with FIRE, business & building support and professional services industries forecast to see employment rise by 3,000 jobs over the period.

Source: Oxford Economics, CBRE Research, Apr 7 2020.

UNEMPLOYMENT RATE TO SPIKE BUT RECEDE

Canadian Unemployment Forecast

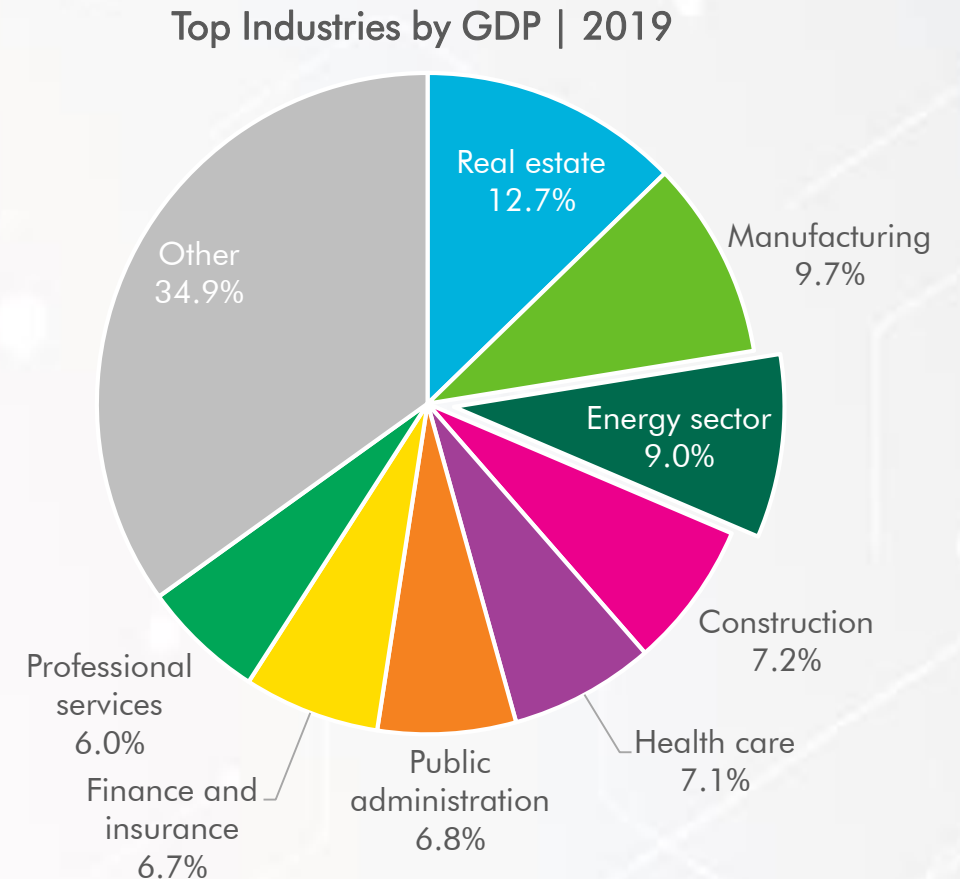
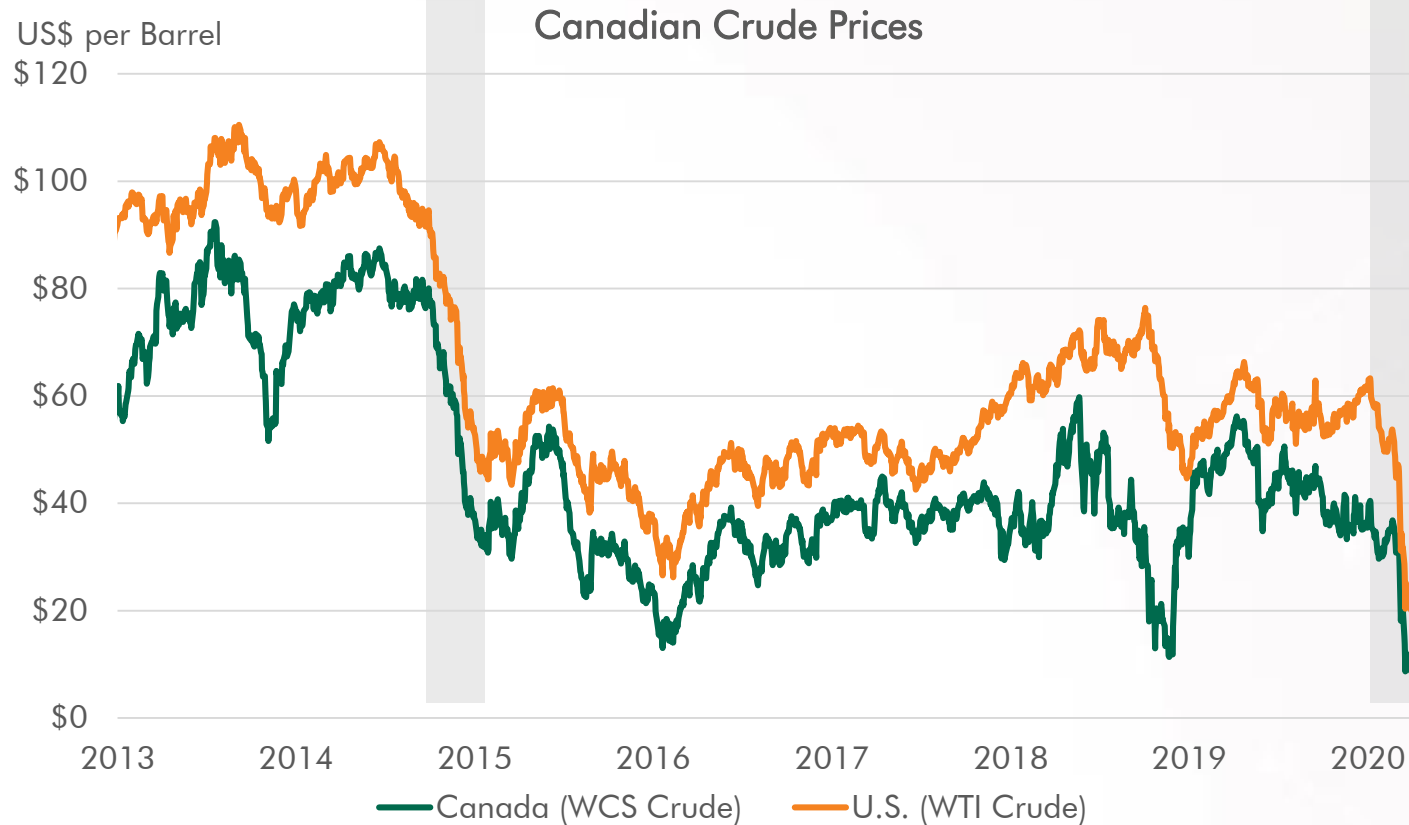


- The unemployment rate is forecast to spike over the next two quarters to reach 7.2% in Q3 2020 due to COVID-19.
- Recently published jobless claim figures now suggest that unemployment figures could reach double digits in 2020.
- However, the labour market is expected to rebound with the unemployment rate returning to 6.1% by the end of 2022.

Source: Oxford Economics, CBRE Research, Apr 7 2020.

CANADIAN WCS OIL AT \$14 PER BARREL, HALF OF US WTI PRICING

Canadian Oil Industry

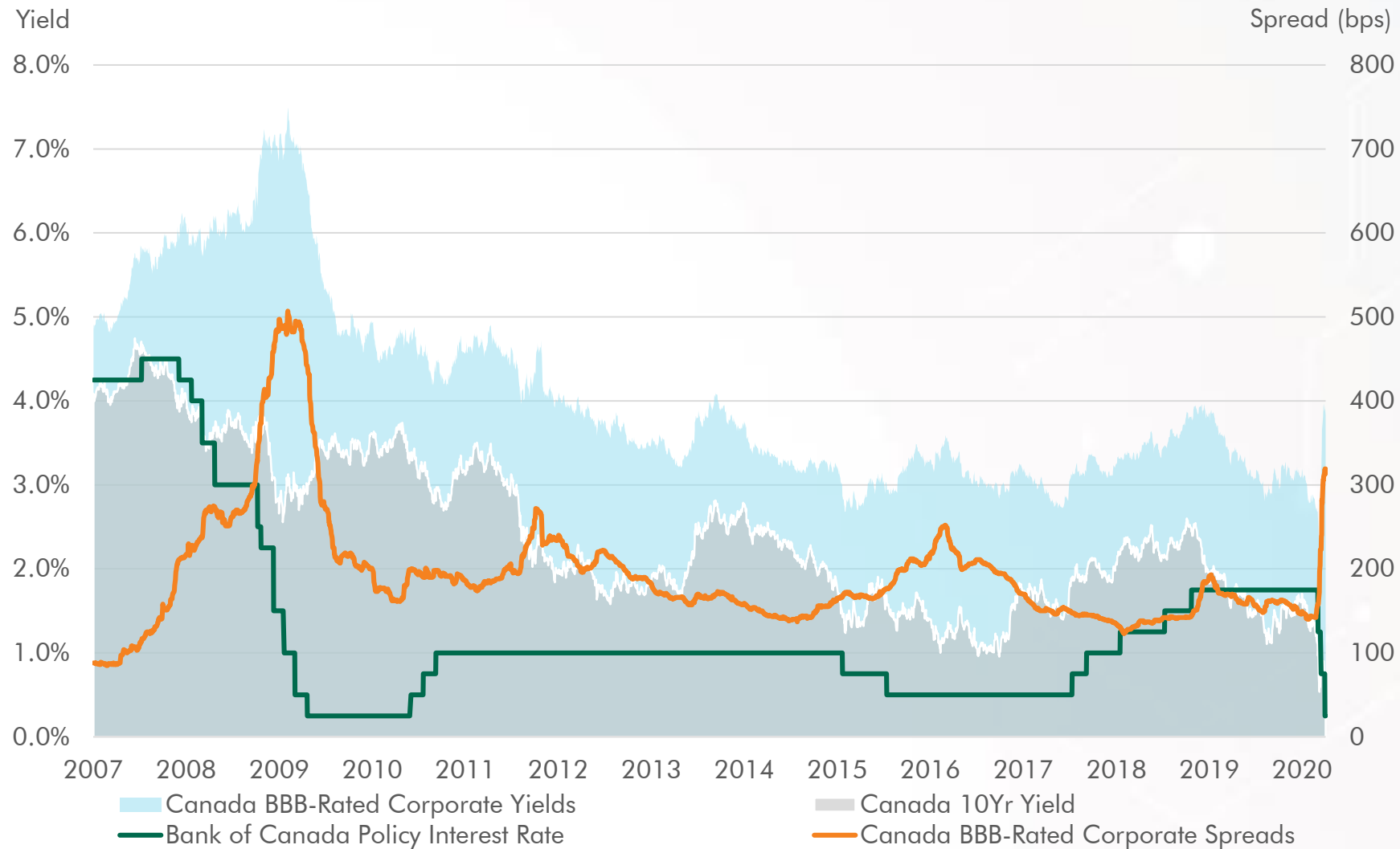


- The energy sector is a vital part of the Canadian economy as the third largest industry sector in terms of GDP.
- Oil prices have fallen dramatically in recent weeks as another price war gets underway.
- Low prices for Canadian crude continue to pressure oil producers' bottom lines.

Source: Thomson Reuters, CBRE Research, Apr 7 2020.

DEBT MARKETS RESPONDING TO A GLOBAL RESET IN PRICING

Canadian Debt Markets

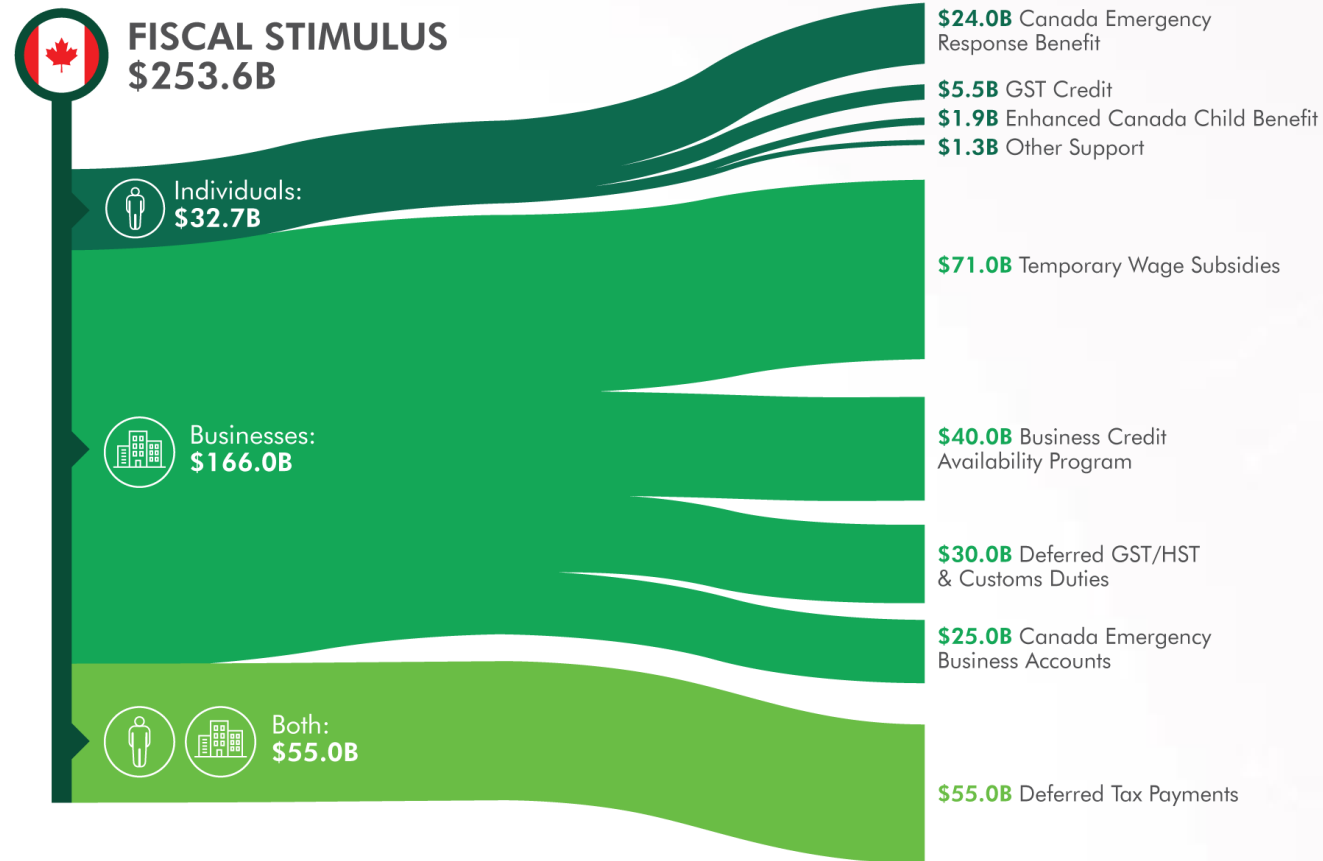


- The Bank of Canada has cut interest rates 150 bps to 0.25% in response to COVID-19.
- Canadian 10Yr bond yields have subsequently fallen 43 bps in March 2020.
- However, corporate credit spreads have also blown out over the same period, rising by 167 bps in March 2020.
- Credit has become more selective as lenders shift their focus to existing portfolios and NOI durability.

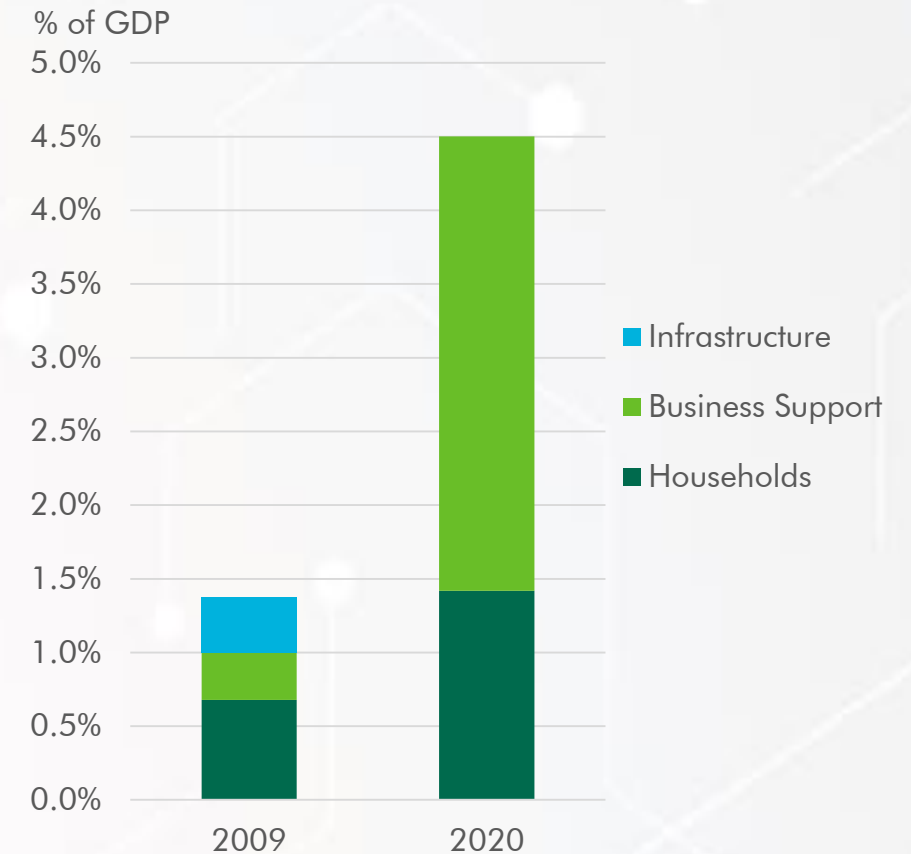
Source: Thomson Reuters, CBRE Research, Apr 7 2020.

CANADA'S MASSIVE FISCAL STIMULUS PROGRAM (& MORE EXPECTED)

Canadian Fiscal Stimulus Measures



Canada's Direct Fiscal Response: GFC vs. COVID-19



- Fiscal stimulus currently totals nearly \$254 billion, or approximately 11% of GDP, with nearly \$104 billion in the form of direct fiscal stimulus and \$150 billion in the form of liquidity or loan measures.
- The direct fiscal stimulus response to COVID-19 is over three times larger than the response to the 2009 financial crisis.

Source: Government of Canada, Department of Finance Canada, Scotiabank: 'Extraordinary Measures for Extraordinary Times', Oxford Economics, CBRE Research, Apr 7 2020.

RISKS, UNCERTAINTIES & SILVER LININGS

Canada's Economic Landscape

Risks to the Downsides

- **Debt & Consumer Spending:** Canadian households had the highest levels of debt in the G7 leading into this crisis. We have yet to see how this will impact consumer spending.
- **Canadian Energy Markets:** Canada's economy faces the dual stresses of COVID-19 as well as another oil price war. While recent OPEC developments are positive, the Canadian energy industry requires further social and policy support.

Present Day Uncertainties

- **COVID-19 Containment:** The current base-case scenario is for COVID-19 to peak sometime in the summer. However, data accuracy is still problematic and certain countries are seeing a double dip in cases. Economic recovery could be delayed if the virus containment measures persist into H2 2020.
- **Additional Fiscal Policy Measures:** Additional government stimulus is still expected to come, in particular to provide relief for the energy and airline sectors.

Canadian Silver Linings

- **Canada's Relative Performance:** Canada is expected to fare relatively well compared to G7 peers, with Canada currently forecast to rank second in terms of GDP growth over 2020-2021.
- **Current Enacted Measures:** The amounts of fiscal and monetary stimulus deployed by the Bank of Canada and Federal Government have been deployed swiftly and decisively, and are massive in size relative to historical recessions.

THANK YOU!

CBRE CANADA ECONOMIC OUTLOOK

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APPENDIX

THE PACE OF CHANGE:

Given the rapidly changing outlooks on COVID-19, the preliminary nature of available economic data and the unknown impact of government stimulus measures, the economic outlooks presented herein are constantly evolving. The Conference Board of Canada has typically been our primary source for economic forecasts however they have not yet updated their projections. The above economic forecasts utilized data from Oxford Economics that was published on March 27, 2020 and represents the most recently available full forecast.

Our view of Oxford Economics forecasts are that **they are optimistic for 2020 given the very decent datapoints on the pace of job claims**. We expect downward revisions in GDP growth for 2020 but an increase in the 2021 rebound. To help you understand the range of economist forecasts, we have included a brief comparison of forecast differences between Oxford Economics and the economic groups of the 'Big Six' Canadian Banks:

Source	As of	Real GDP Growth		+/- vs. Oxford Economics	
		2020	2021	2020	2021
Oxford Economics	Mar 27, 2020 (11 days old)	-1.1%	3.8%		
Royal Bank of Canada	Mar 24, 2020 (14 days old)	-2.5%	2.9%	-1.4%	-0.9%
Scotiabank	Mar 25, 2020 (13 days old)	-4.1%	5.1%	-3.0%	1.3%
TD	Mar 26, 2020 (12 days old)	-4.2%	3.6%	-3.1%	-0.2%
National Bank of Canada	Mar 26, 2020 (12 days old)	-4.8%	4.0%	-3.7%	0.2%
CIBC	Apr 3, 2020 (4 days old)	-3.9%	4.7%	-2.8%	0.9%
Bank of Montreal	Apr 3, 2020 (4 days old)	-3.0%	3.5%	-1.9%	-0.3%

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