



PineTree Macro

---

# Brave New World Canada Macro Outlook

Ritesh Jain

Co-Founder, Pine Tree Macro

Sep 27, 2022



# Today's Topics of Discussion

- Canadian Real Estate Outlook
- Corporate Profitability Outlook
- A “Soft Landing” is Not Likely
- Impact on Canadians
- Alberta Economic Outlook
- Key Takeaways



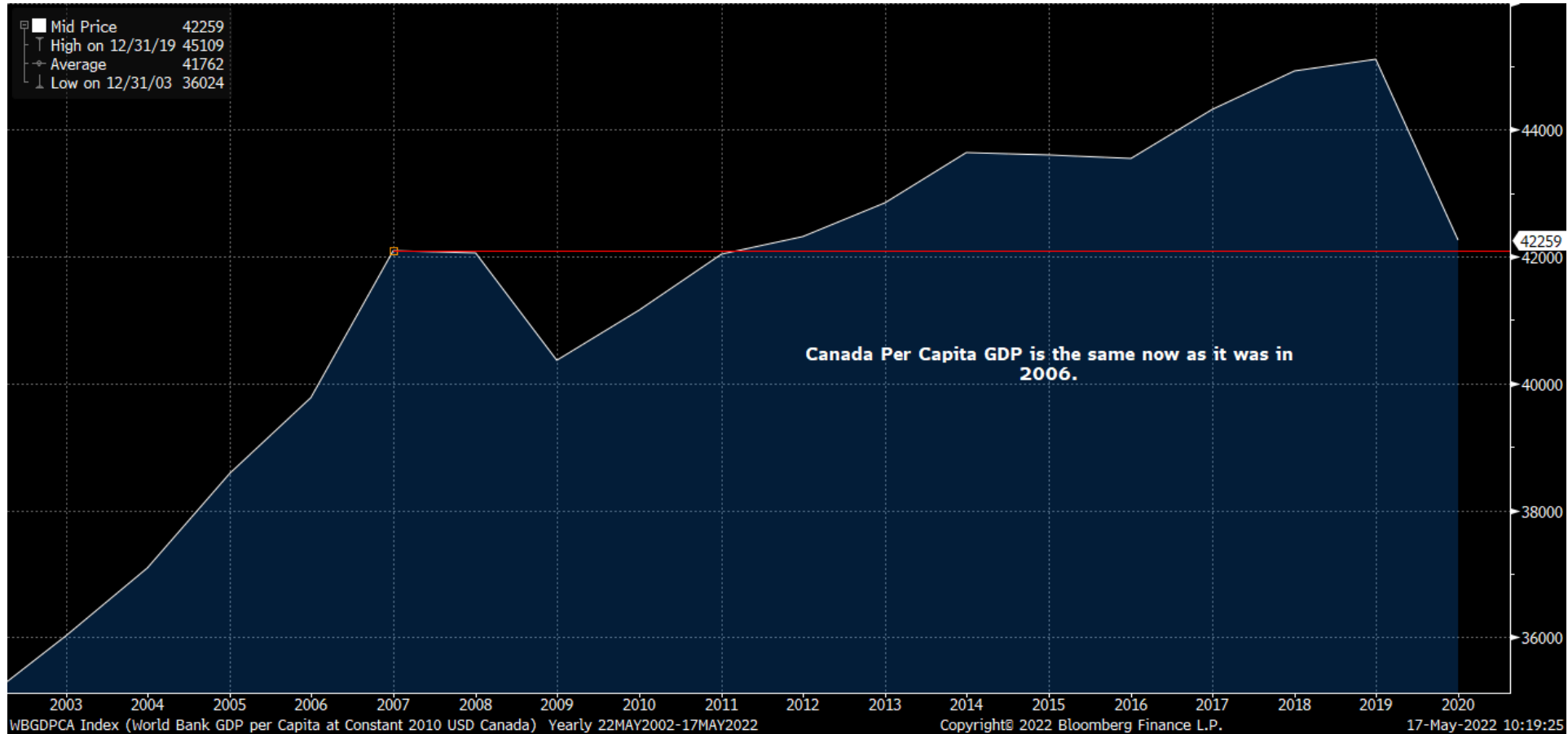
# Canadian Real Estate Outlook

---

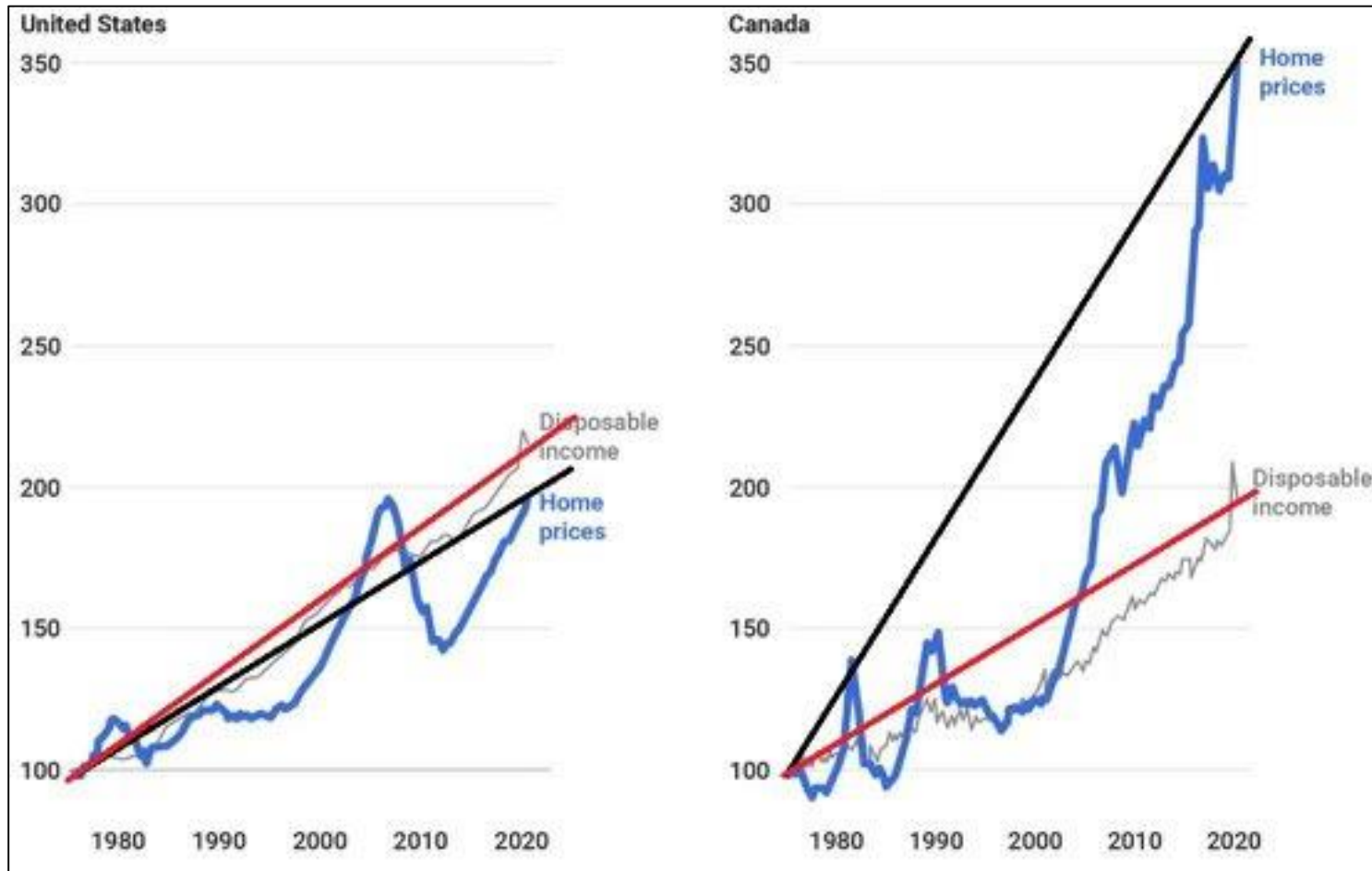


# Canadian Real Estate Outlook | Canadian Per Capita GDP

Stagnant for last 15 years...



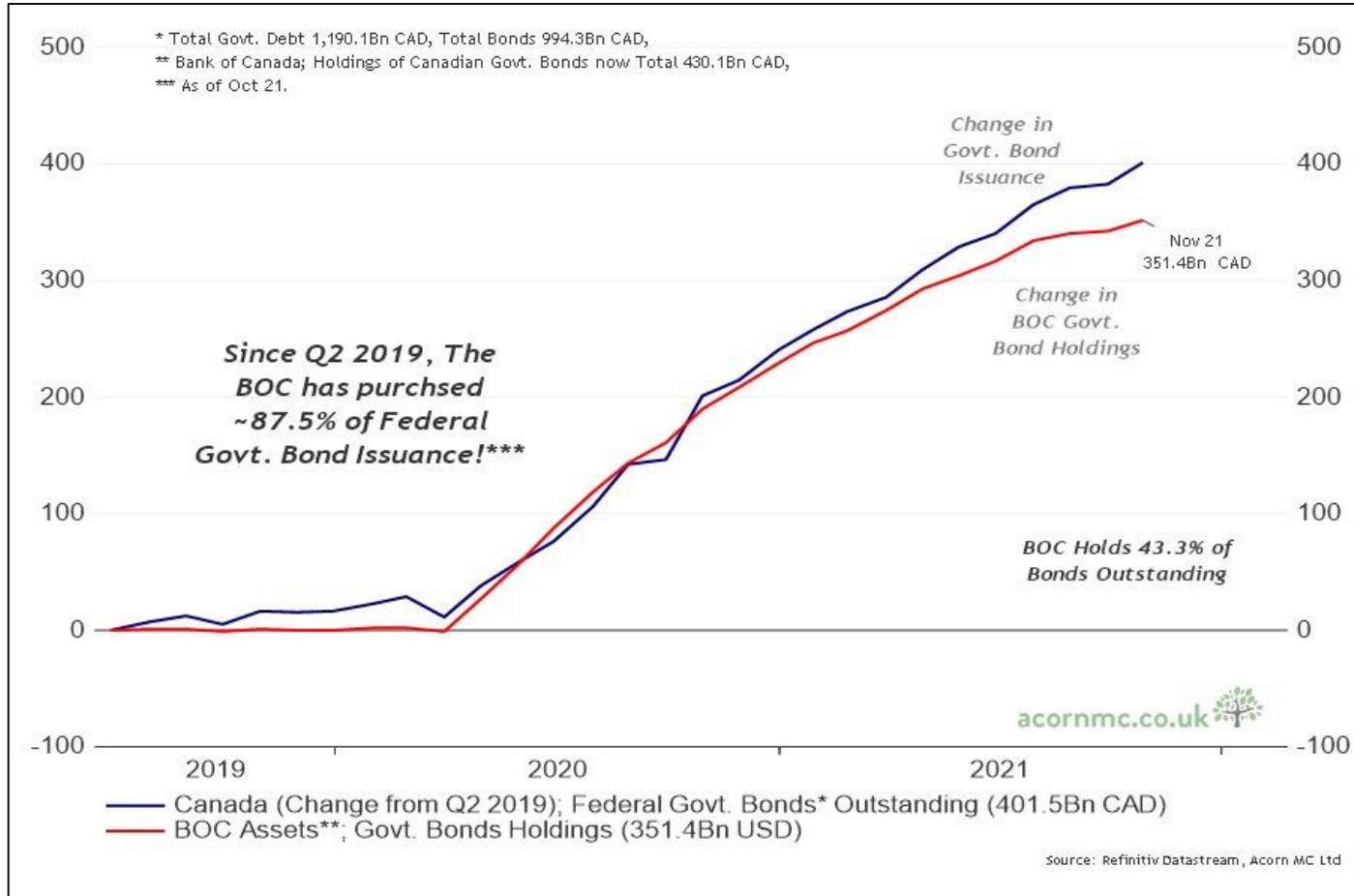
# Canadian Real Estate Outlook | Housing Prices



Why is there a disconnect between  
**Canadian Per Capita GDP**  
and  
**Real Estate Prices?**



# Canadian Real Estate Outlook | Bank of Canada's Artificial Impact



Since Q2 2019, nearly 90% of the Federal Govt. Bond issuance has been purchased by the Bank of Canada artificially depressing Interest rates.

The money spent by Federal Govt landed in real estate “Mostly”.





◆ WSJ NEWS EXCLUSIVE | CHINA

## China Insists Party Elites Shed Overseas Assets, Eyeing Western Sanctions on Russia

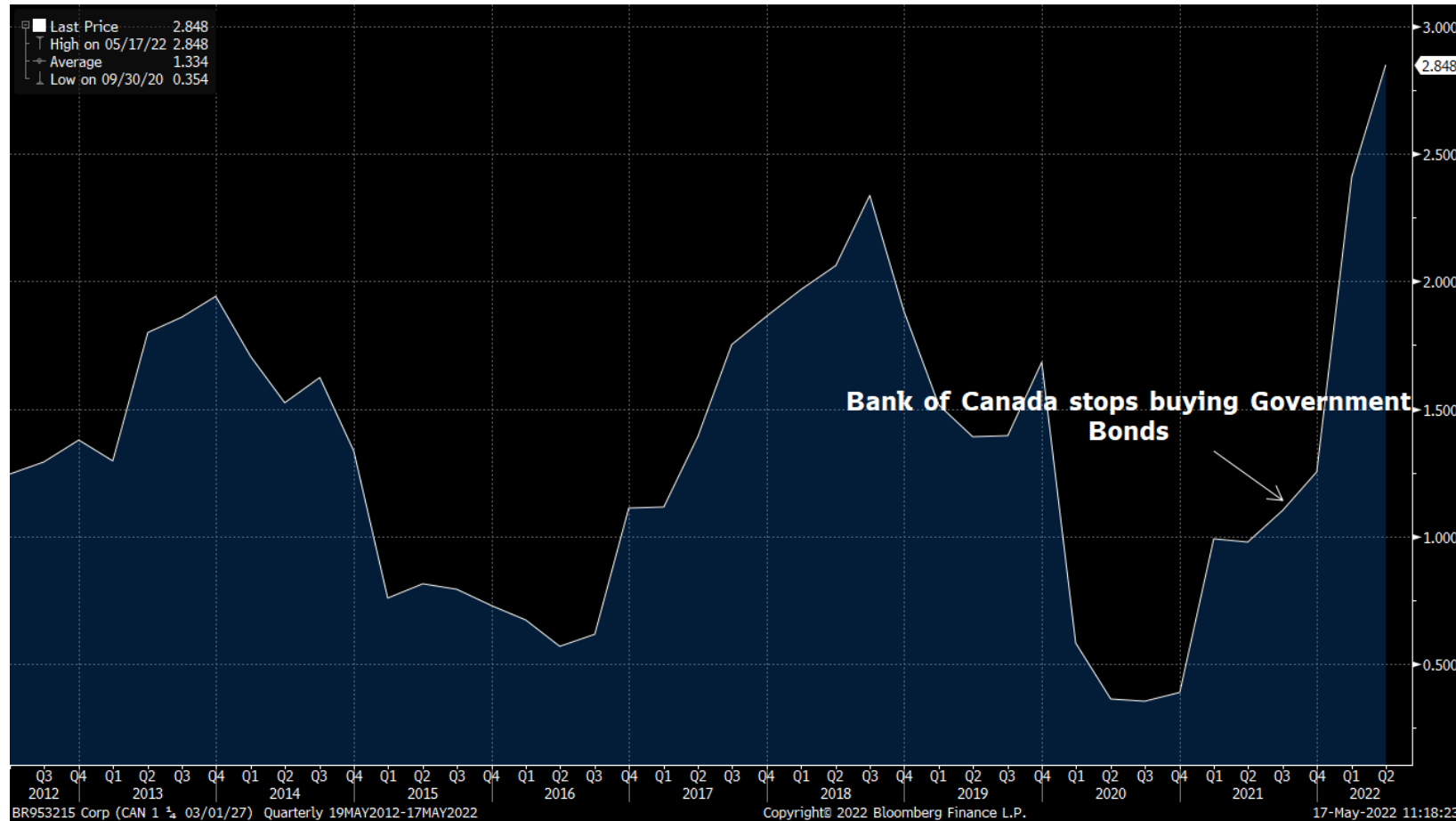
An internal Communist Party directive bars senior officials from owning property abroad or stakes in overseas entities, whether directly or through spouses and children

With a helping hand from offshore money, which is now drying up...

Also, Emergency Act declaration was a death knell for capital inflows into Canadian real estate.



# Canadian Real Estate Outlook | ...but this is ending




Bank of Canada buying bonds kept bonds yield low and allowed HH to add leverage.





# Canadian Real Estate Outlook | “Interest rates matter”



**Ron Butler** @ronmortgageguy · 17h

US Fed Suggests Pause After a 4.25% to 4.50% Funds Rate: What's That Mean for Canada?

Well thats a 4.25% BoC Rate =

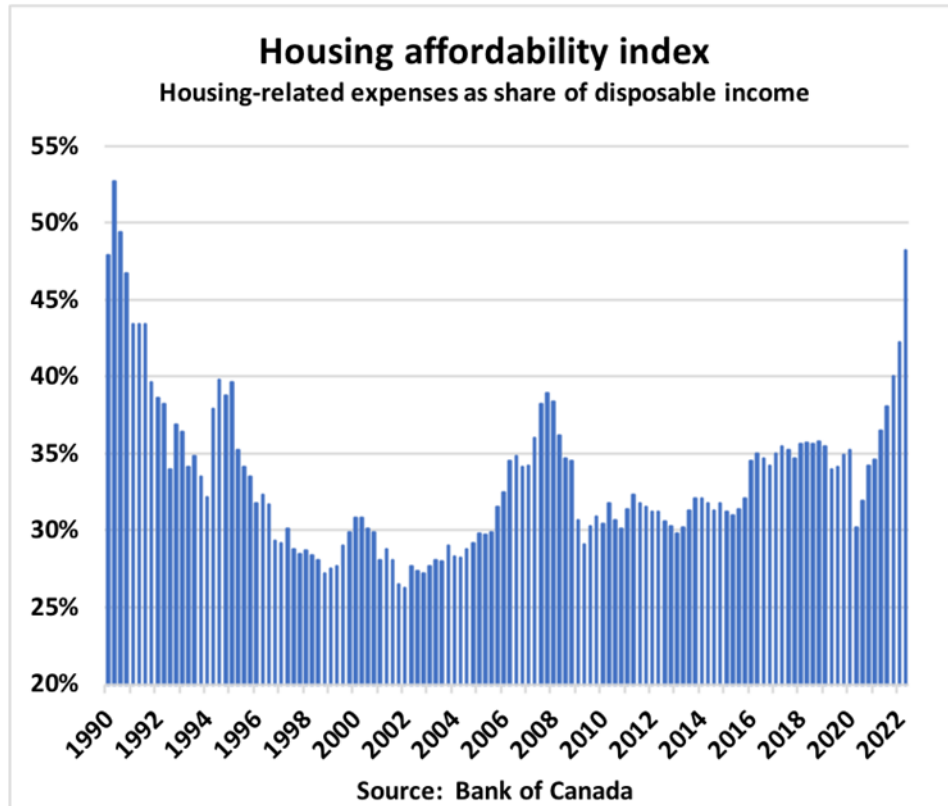
6.45% Bank Prime

6.95% HELOC (2.95% in March)

5.65% Variable Mortgage (1.45% in March)

All 1 to 5 Year Fixed Rates with a 5 in front of the number

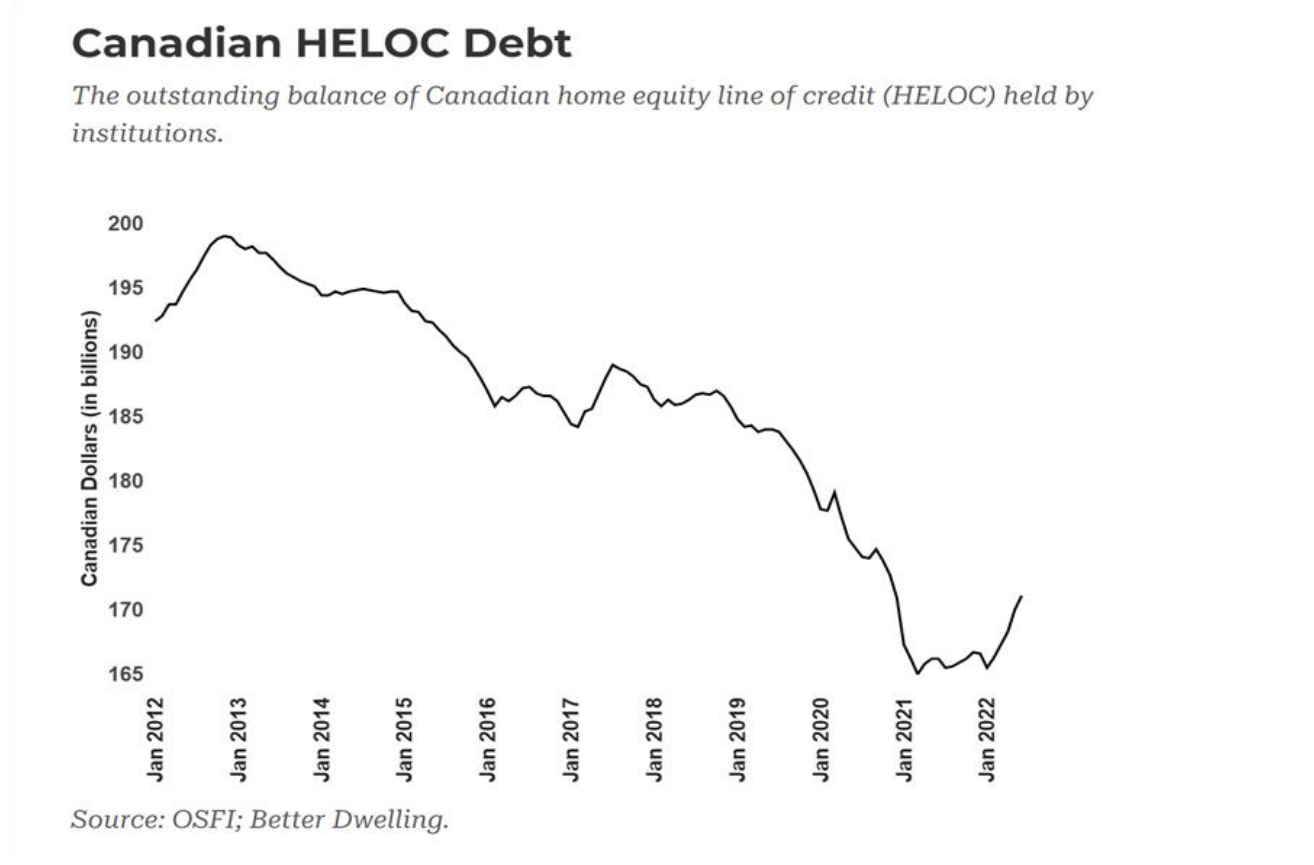
# Canadian Real Estate Outlook | “Why is it Different”



The major difference between 1990 and 2022 is that Household Debt to GDP ratio in 1990 was a mere 50%, however today it stands at 110% of GDP.



# Canadian Real Estate Outlook | “Equity Line of Credit expanding”

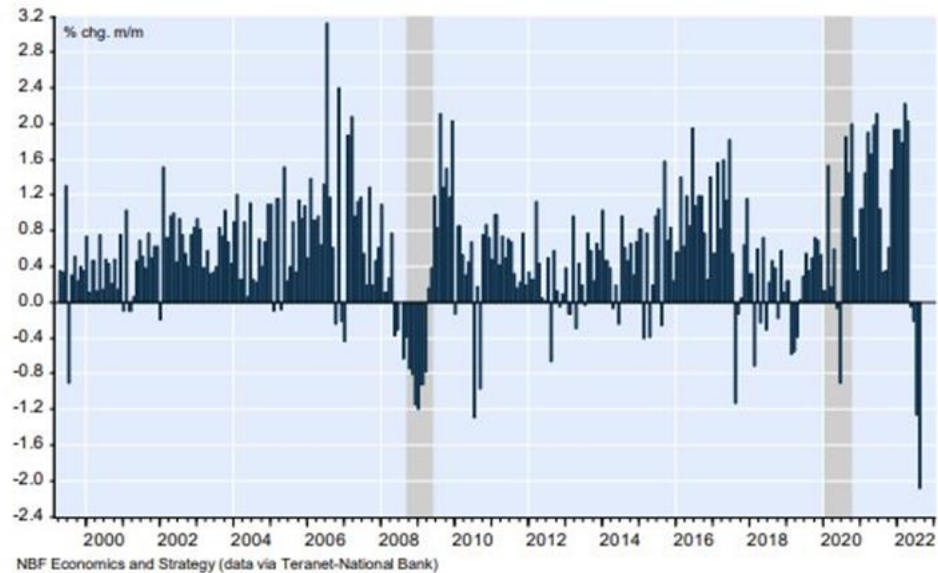


Canadian HELOC Debt is growing at the fastest rate since 2013.

# Canadian Real Estate Outlook | “The Bubble is popping”

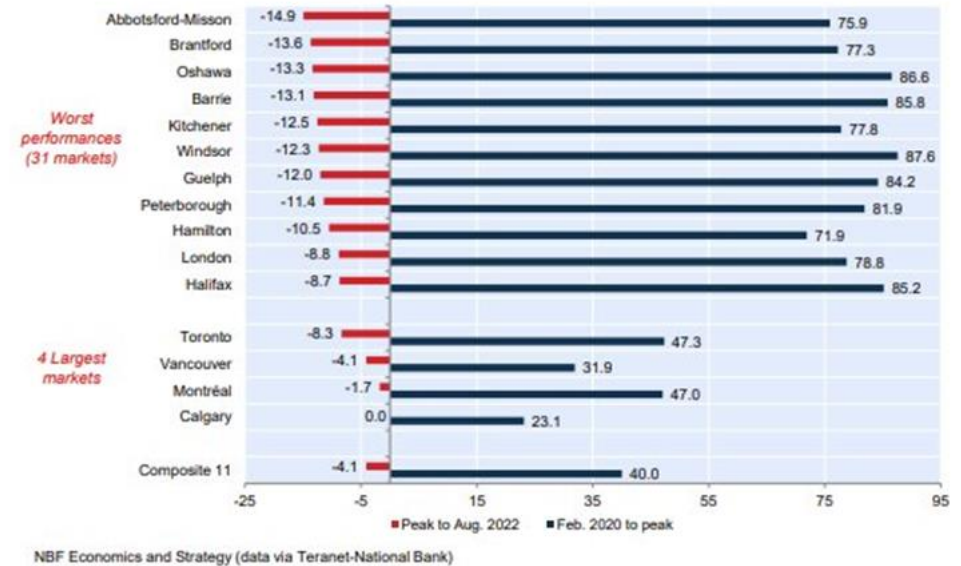
## Canada: Record price drop in August

Monthly change in Teranet-National Bank HPI, seasonally adjusted



## Canada: Rapid declines after soaring increases

Price change from February 2020 to peak and from peak to August 2022



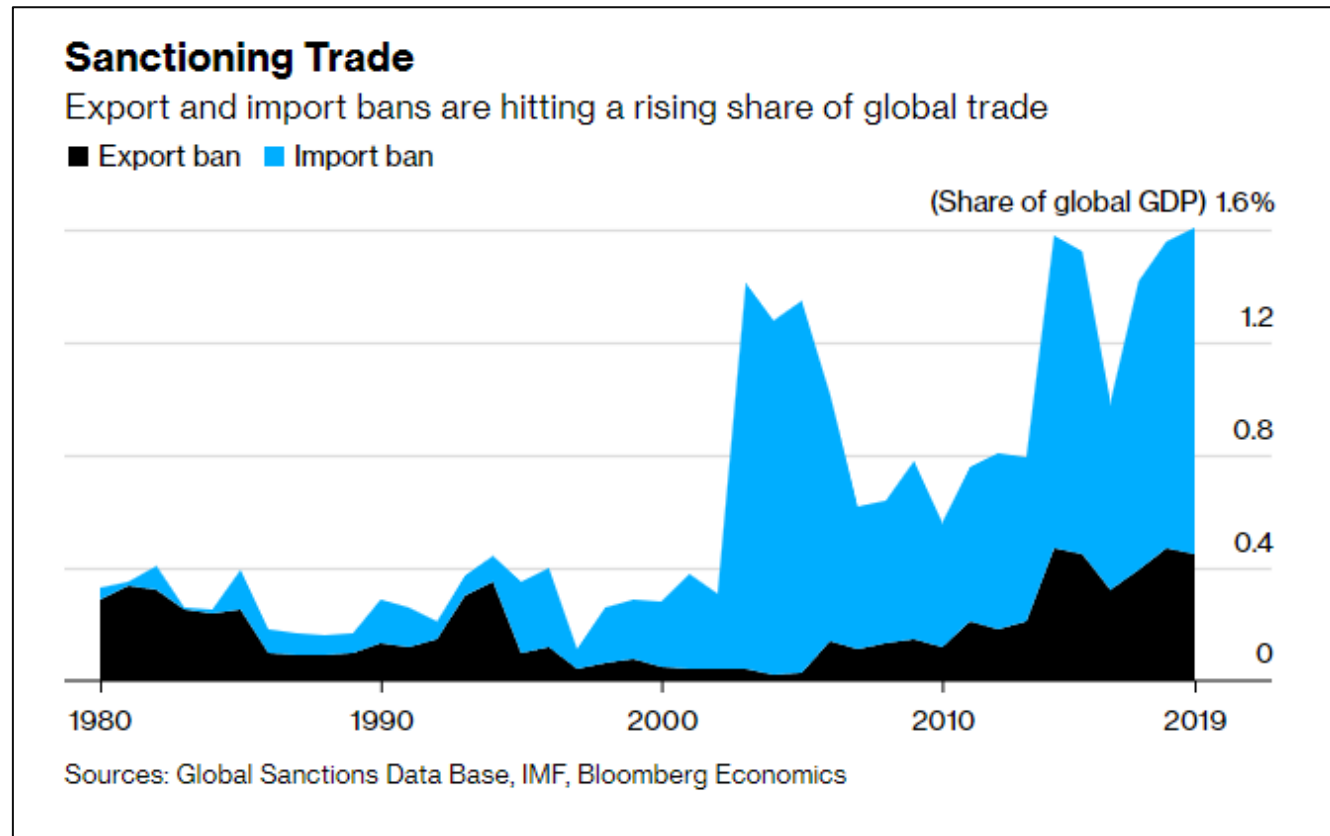
Canada housing bubble is popping....with record, rapid price declines in August

# Corporate Profitability Outlook

---



# Globalization used to be a **tailwind** for corporate profitability



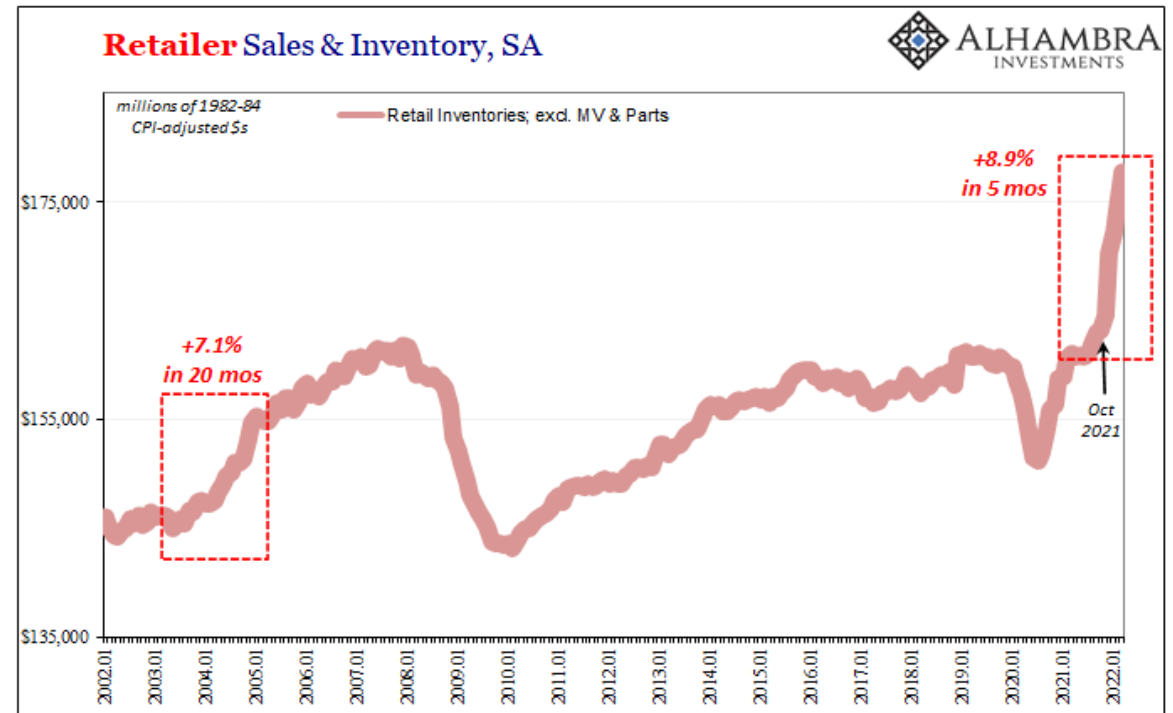
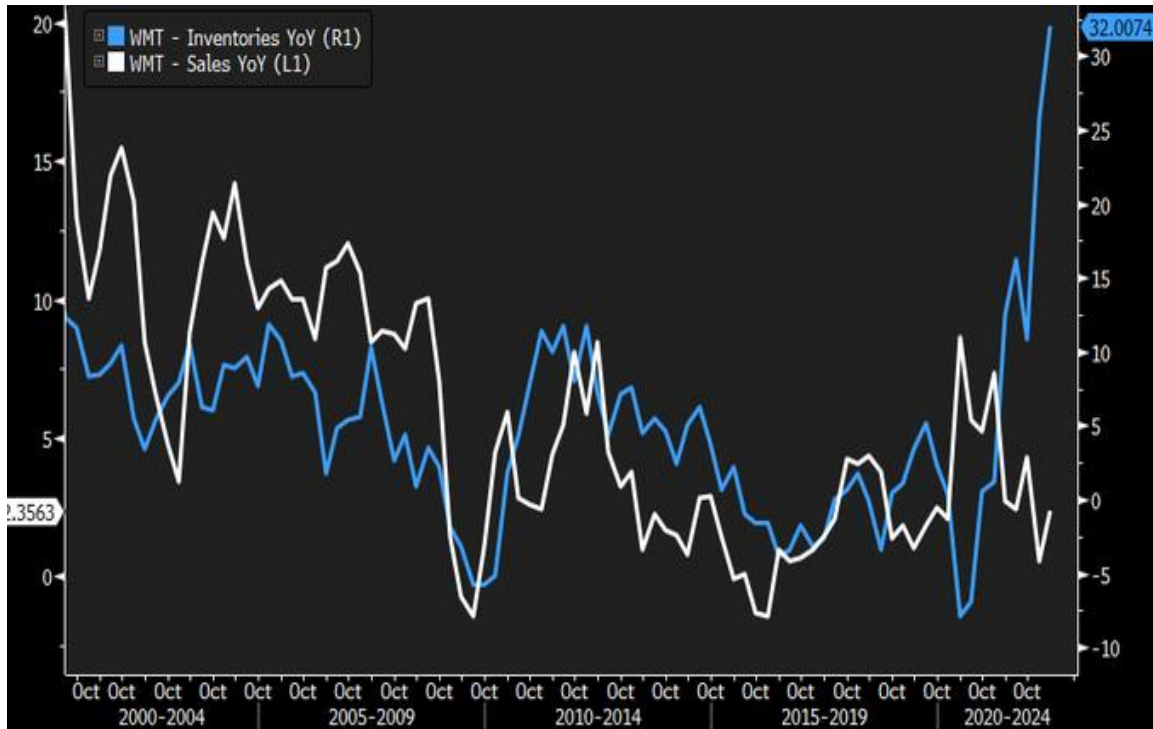
Localization/regionalization is here.

Bring your supply chains home.





# Moving from “Just in Time” to “Just in Case”



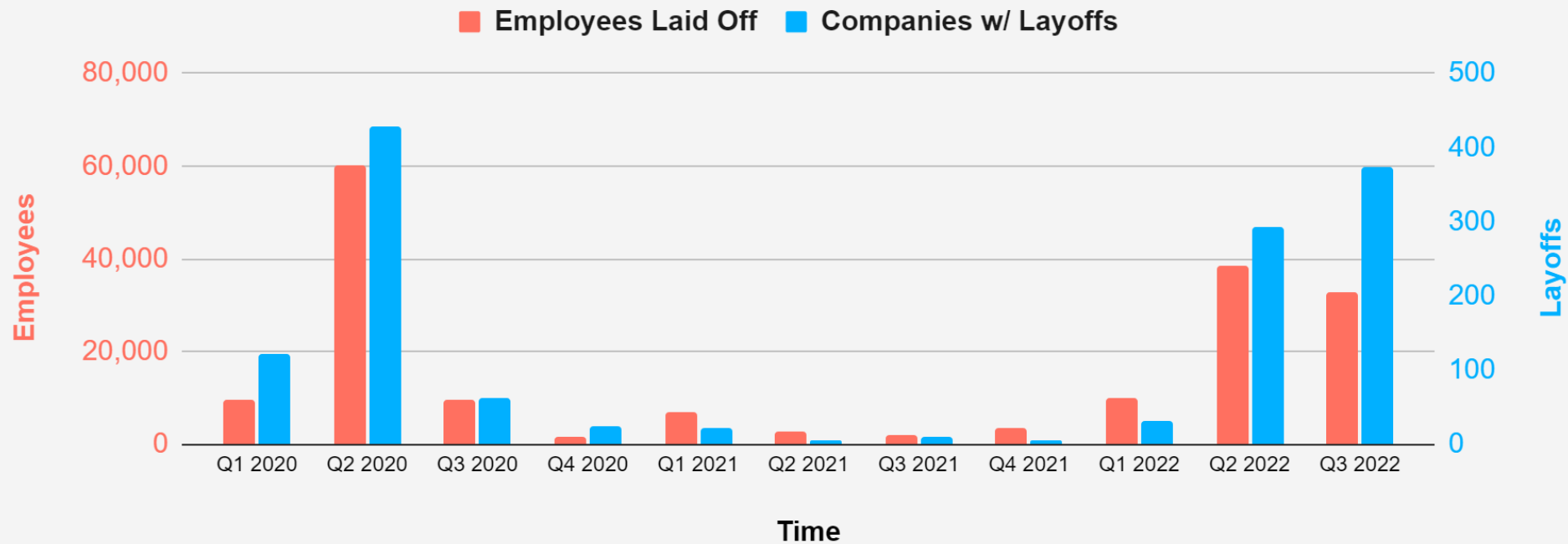
Now it is “Just too much”



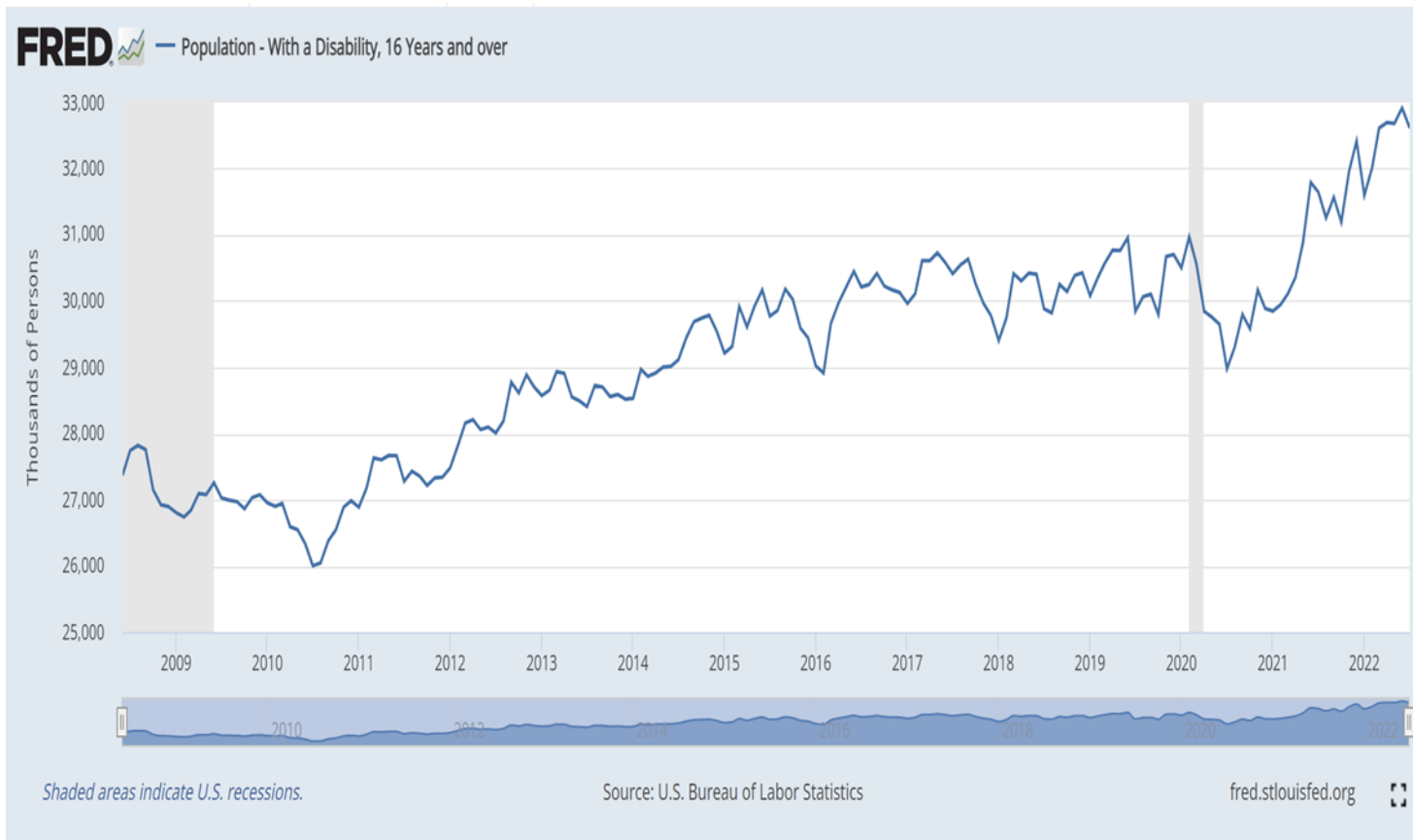
# Layoffs picking up in startups

## Startup layoffs since COVID-19

Source: <https://layoffs.fyi>



# Disability is Rising in the US



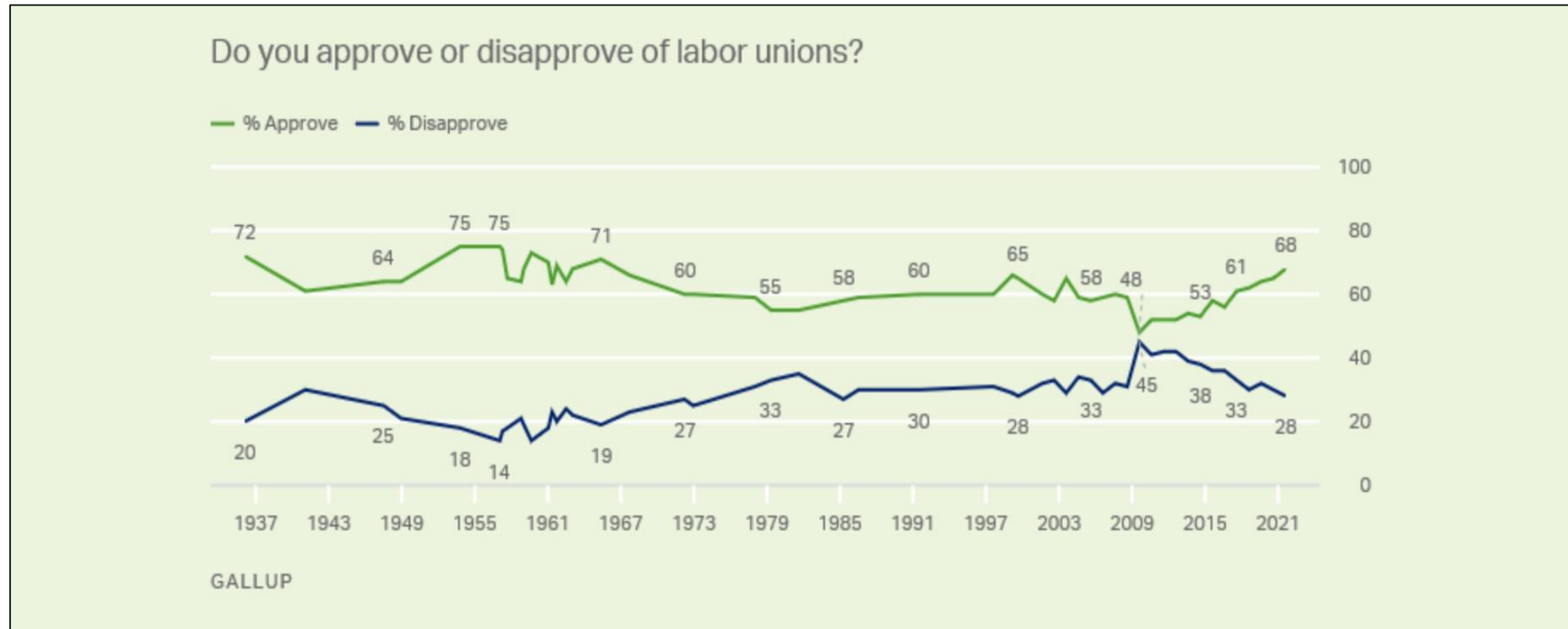
US population 16 years and over with a disability rises by 3 million people since January 2021.

The surprising (and tragic) chart shown above seems to be having a positive impact on the demand for robots, with US robot orders surging 40%, in part due to labor shortages and labor inflation.



# Unionization is back

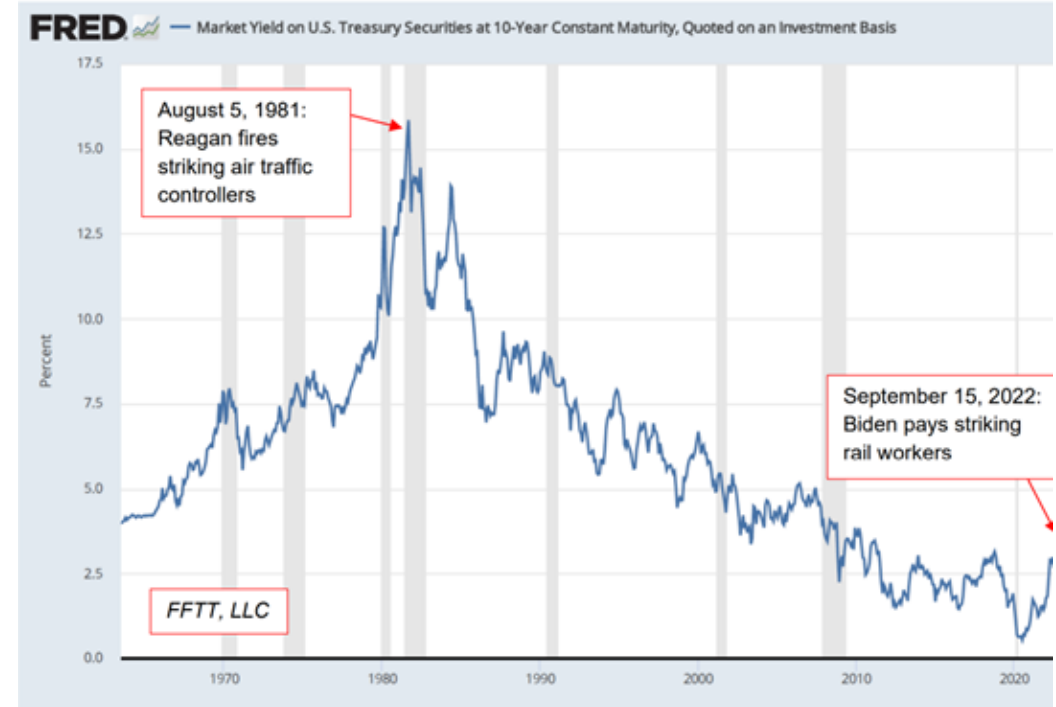
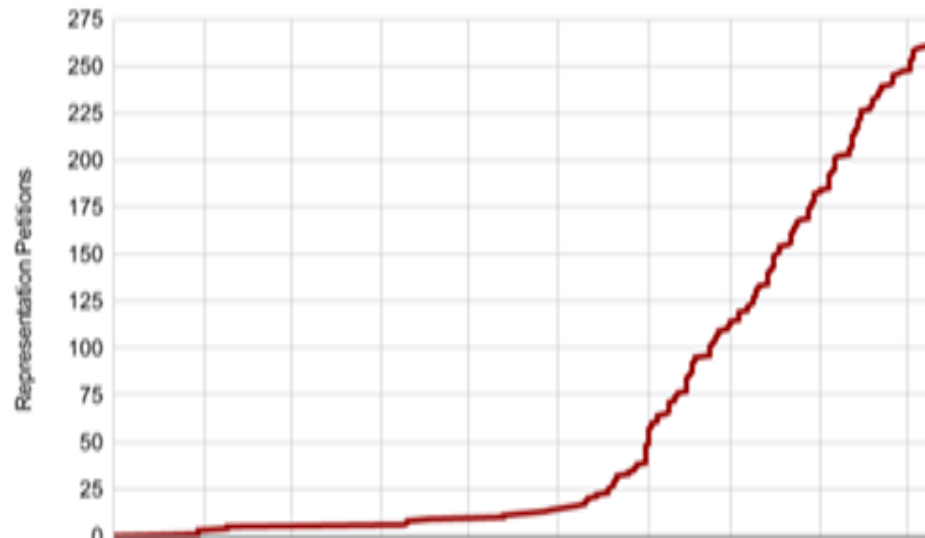
One more headwind for corporate profitability



# Unionization is **back**

It's the reversal of a major trend

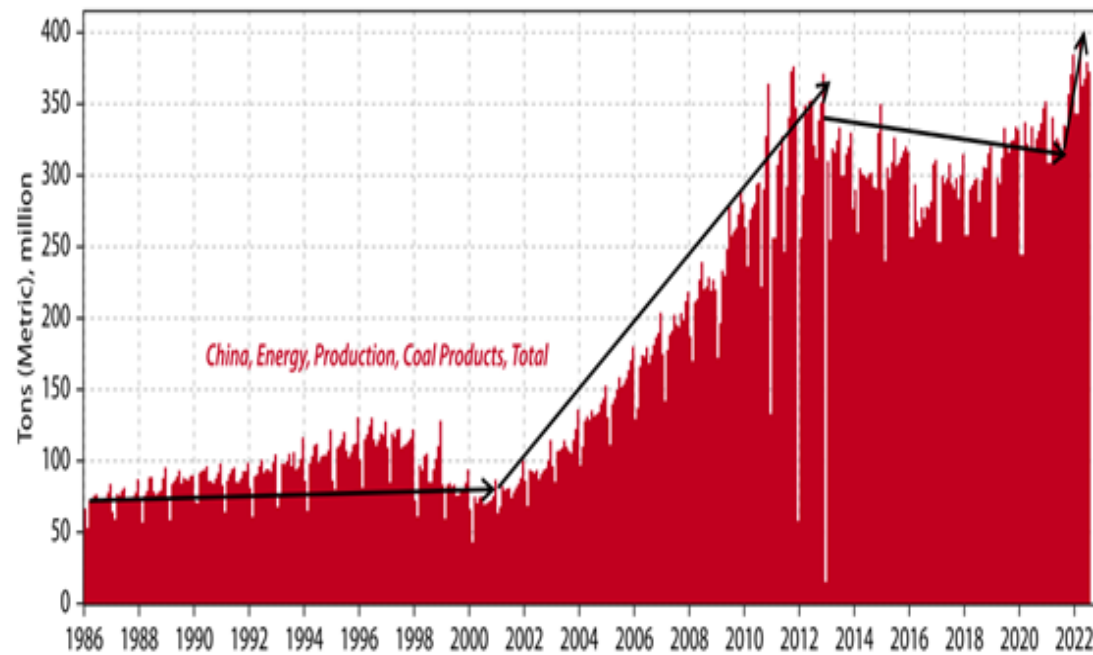
Cumulative Union Election Filings at Starbucks  
Since August 2021



# The Era of Cheap Energy is Over

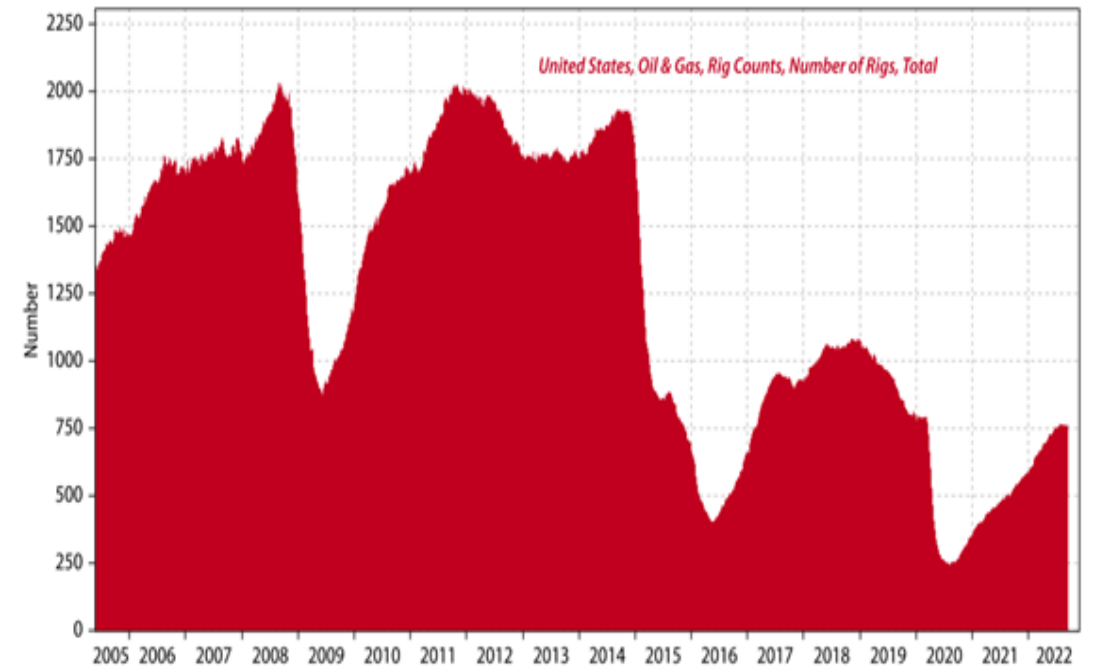
## China's economic miracle was a coal miracle

China, Energy, Production, Coal Products, Total



## But shale revolution (aka energy capex orgy) is now over

United States, Oil & Gas, Rig Counts, Number of Rigs, Total





# A CANADIAN “Soft Landing” is Not Likely



## GOVERNMENT DEBT BY COUNTRY

THE DEBT-TO-GDP RATIO 2021 (%) ●

 >250%  
  >200%  
  >100%  
  >77%  
  >50%



DISCLAIMER

SOURCE: World Economic Outlook Report (October 2021 Edition)



**COLLABORATORS** RESEARCH + WRITING Raul Amorós ART DIRECTION + DESIGN Harrison Scheil, Christina Kostant

*(Hirshmann capital)*

# The *Most inverted* yield curve in G-7.. Most inverted since 1990



Bond market is saying that BOC is driving economy to the ground.

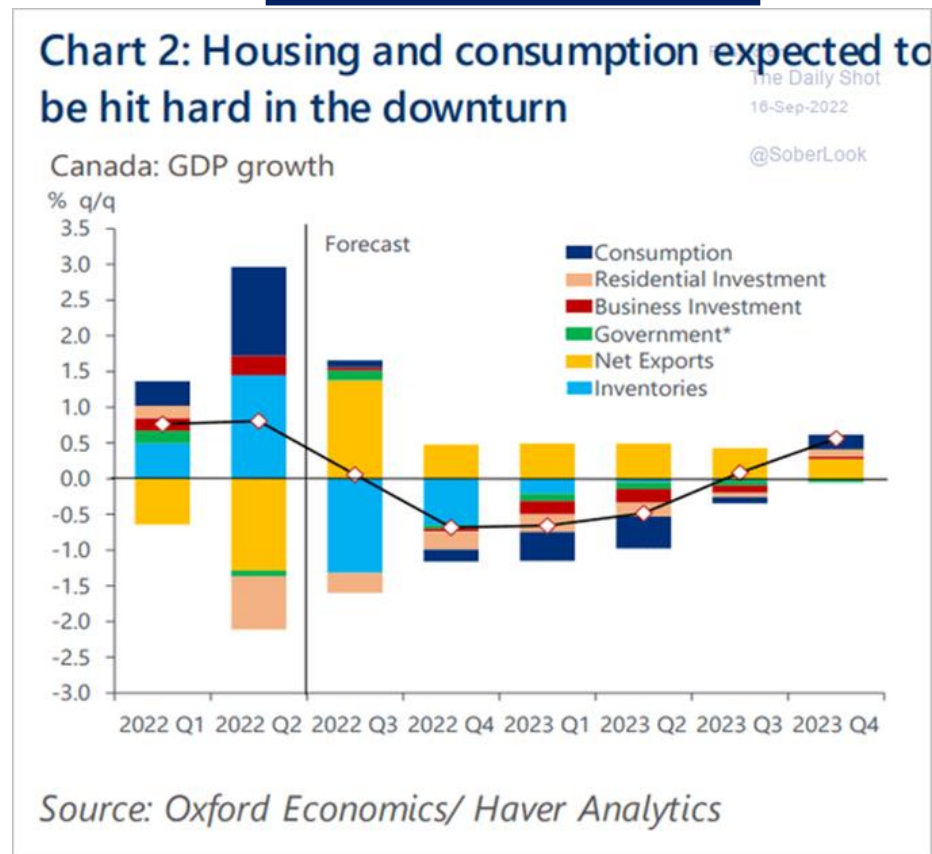
# CAD *diverging* from crude



Never happened before.



# Canadian Real Estate Outlook | “Losing Steam”



Net Exports will keep Canada alive in 2023.





## “Canazuela” comes to my mind

Table 1: Change in Employment (in 000s) and % - Feb 2020 to June 2022				
Total employed	453.50	2.4%		
Public sector employees	417.80	10.7%	Public %	92.1%
Total private sector (inc self-emp)	35.70	0.2%	Private %	7.9%
Private sector employees	284.30	2.3%		
Self-employed	-248.60	-8.6%		

**Public sector employees 19% of workforce pre covid.**

**Public sector employee 24% of workforce post covid.**

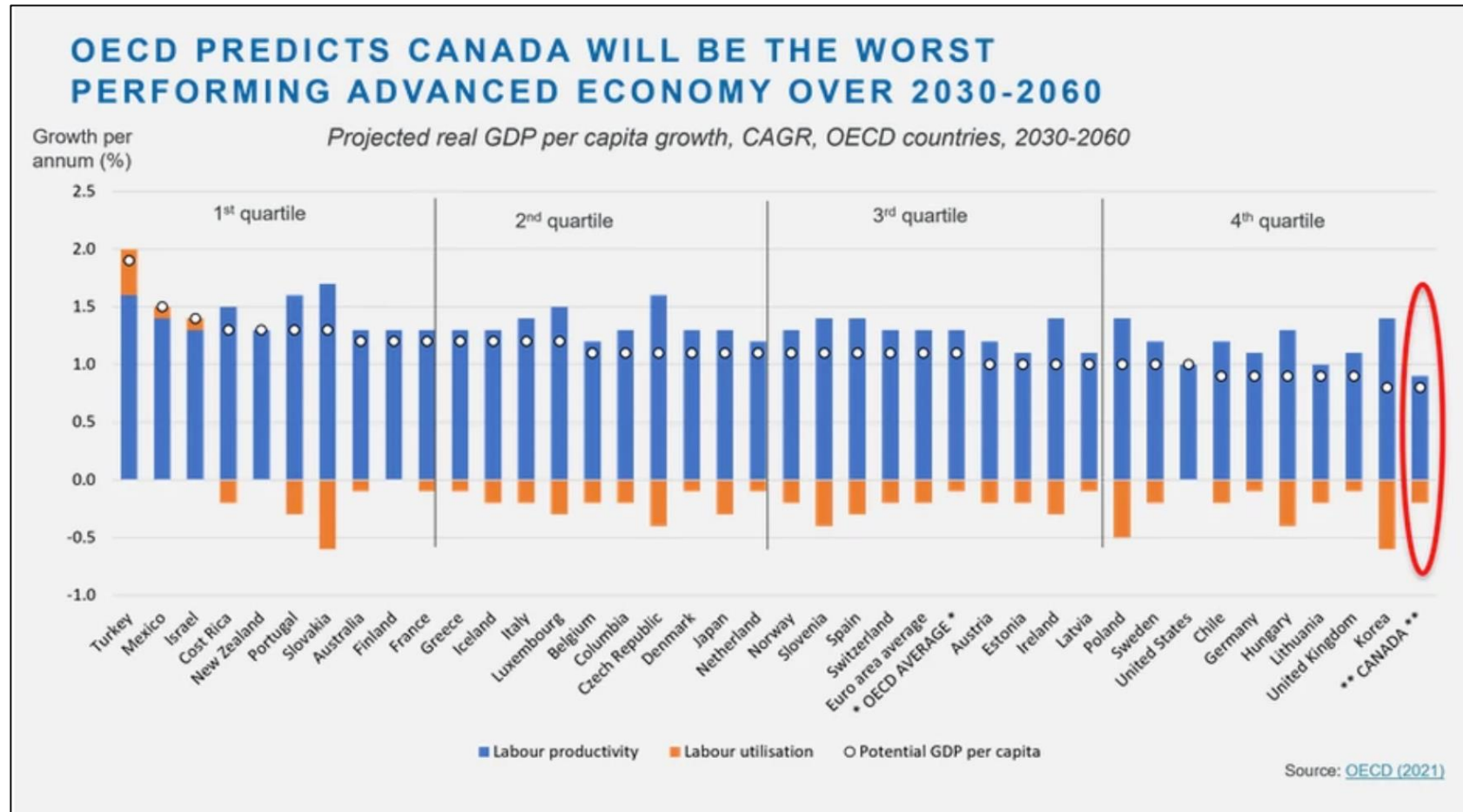




# Impact on Canadians



# The OECD predicts Canadians will experience the *lowest growth* in real wages out of 40 advanced economies.



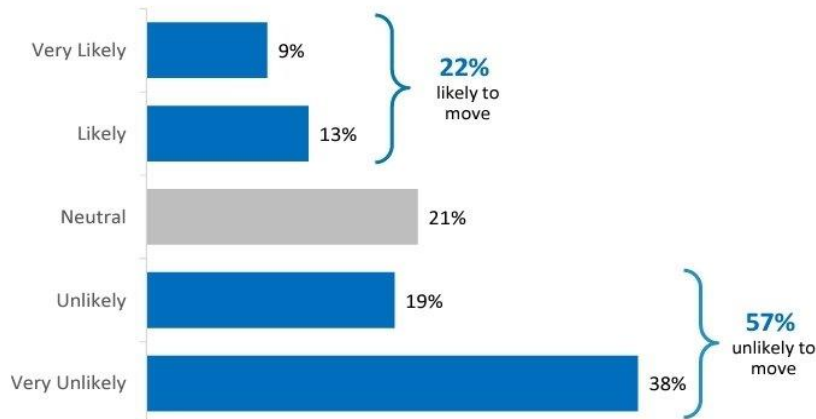
# Survey of new immigrants

## Plans on Moving to Another Country

More than half (57%) of new Canadian immigrants have no plans of moving to another country. Those who are older (55+) and less educated are least likely to want to move, while younger (under 44 years old) new Canadians are more likely to say they want to move.

**Leger**

How likely are you to move to another country in the next two years on a scale from 1 to 5?



New Canadians Panel

18-34 yrs.	35-44 yrs.	45-54 yrs.	55+ yrs.	Male	Female	West	ON	QC	ATL	High School	College	University
288	858	464	376	960	1053	687	750	536	40	84	207	1637
10%	11%	8%	6%	10%	8%	9%	10%	9%	5%	5%	7%	10%
20%	12%	12%	8%	13%	12%	10%	14%	14%	8%	8%	11%	13%
23%	22%	20%	16%	20%	21%	21%	22%	20%	23%	20%	15%	21%
17%	19%	21%	19%	18%	20%	21%	17%	20%	18%	17%	17%	20%
30%	35%	39%	51%	38%	38%	39%	37%	38%	48%	50%	49%	36%

Significantly higher/lower vs. at least one other segment of the same group @95cf is highlighted in GREEN / RED

A5. How likely are you to move to another country in the next two years on a scale from 1 to 5, where "1" means that you are very likely and "5" means that you are very unlikely to move?

Base: New Canadians Panel (n=2013)

19

30% of 18–34-year-old new Canadians and 23% of university-educated new Canadians say they are likely to move to another country in the next two years. Citing high cost of living and current leadership.



# Alberta Economic Outlook




# Why I am bullish on Alberta, Enough signs of diversification

11:33

Safari

←

⋮



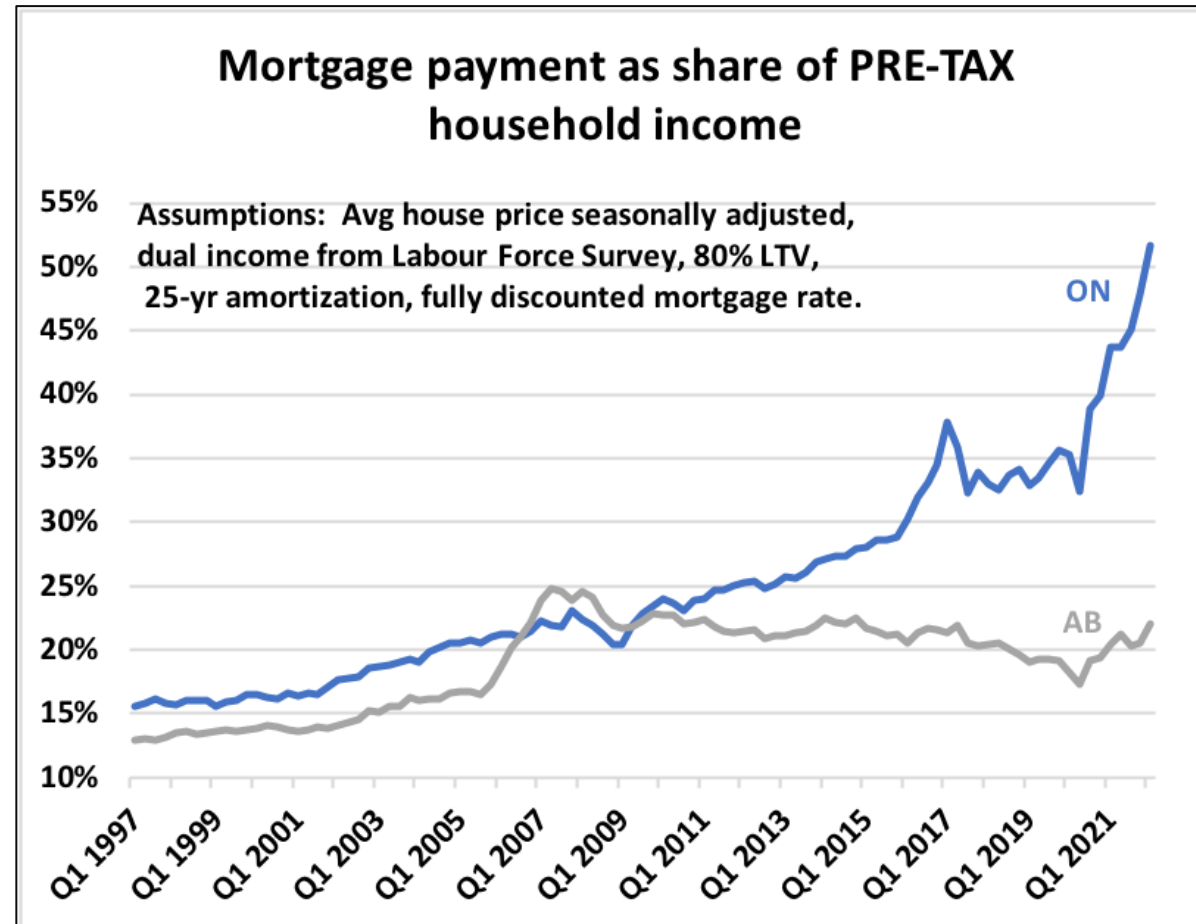
**Ritesh Jain**  
Trend watcher, global Macro, Strategic Advisor and ex-CIO  
5mo · Edited ·

Calgary real estate- Now is your time

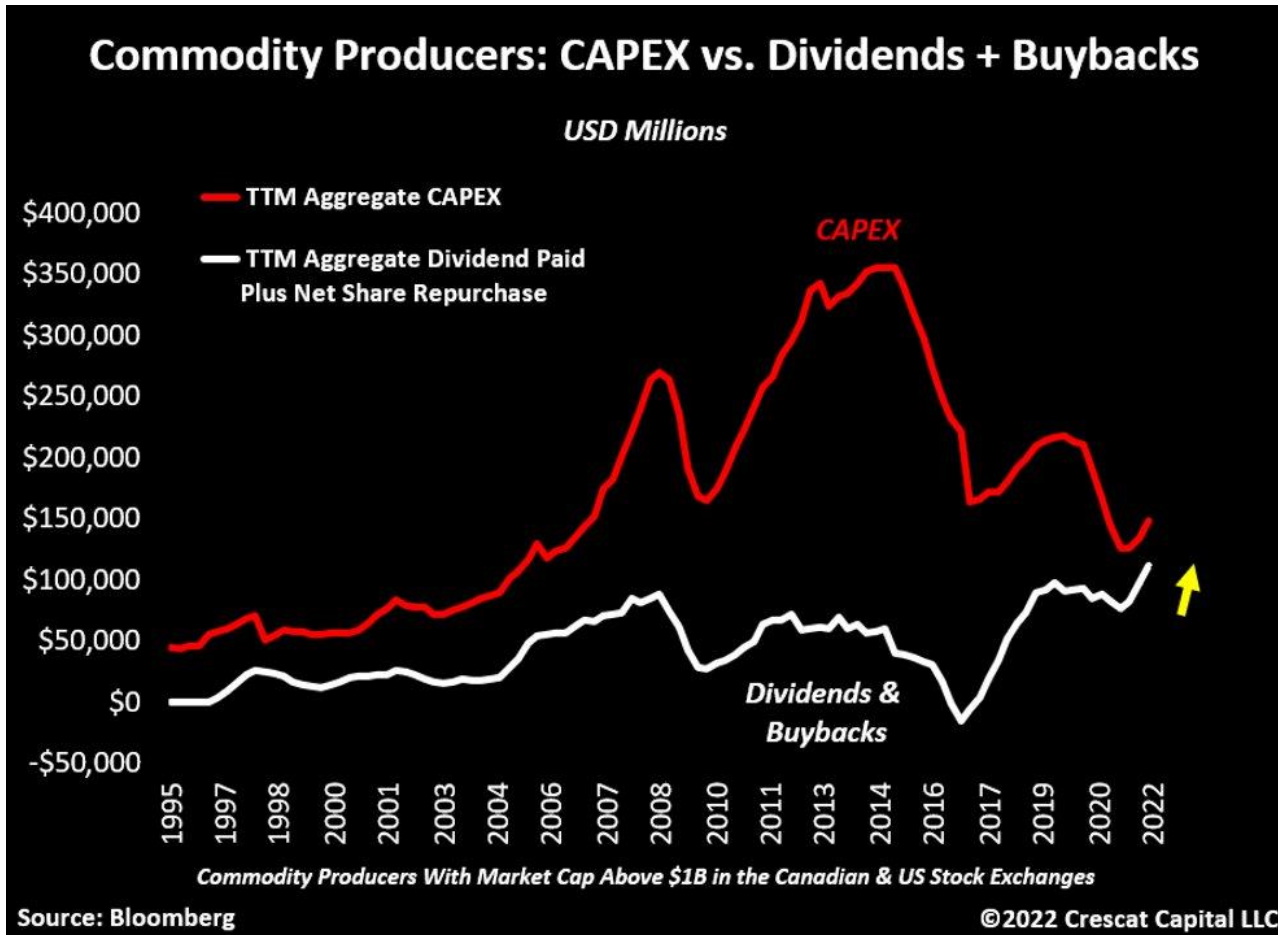
I have been bullish on Calgary real estate for last year or so but now pieces are falling into place.

Hear me out

Something changed in US high end tech scene few years back where US tech companies stopped outsourcing their high end work to emerging countries but Canada is just the backyard of US with same IP related laws. US tech immigration tightened but Canada opened its arm to anybody with a tech experience.. first on work permit with a high chance of converting into PR in 2-3 years. Toronto being the financial hub also became a startup hub and also got some tech giants outsourcing some work to the techies who were easily getting work permits. The house price went through the roof .. much more than wages . as average house in Toronto now costs 1 millions CAD. Vancouver on the other hand is always the place of Chinese money looking for exodus from China



Resource companies are almost *returning more capital* to their shareholders than investing in their own businesses.



This is not a sign of a commodities cycle at its peak.



# Key Takeaways



# Economic war has **broken out** and wars are inflationary

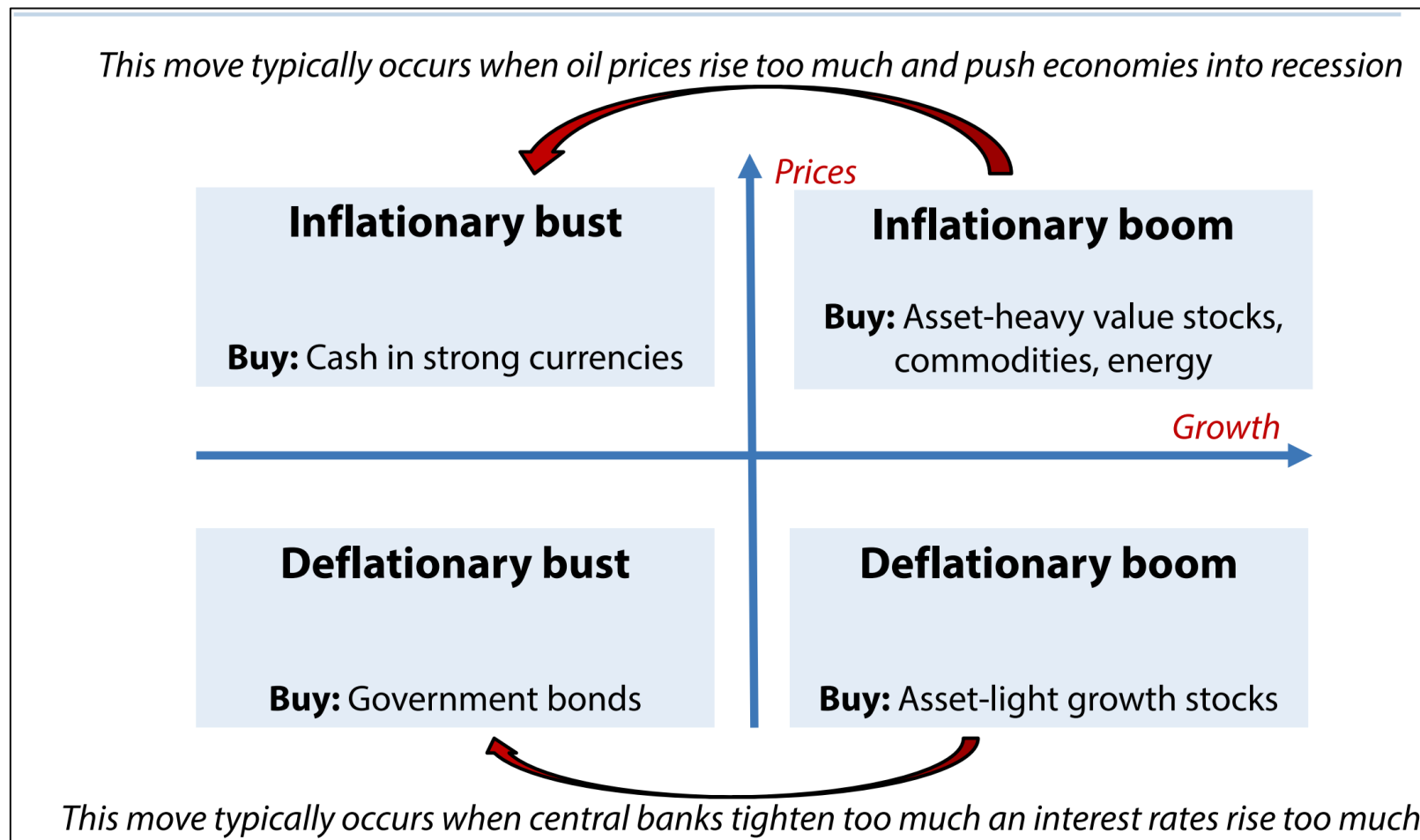
---

“War is inflationary,” Pozsar wrote. “Think of the economic war as a fight between the consumer-driven West, where the level of demand has been maximized, and the production-driven East, where the level of supply has been maximized to serve the needs of the West.” That pattern held “until East-West relations soured, and supply snapped back,” he said.

**Fed may have to hike to 5% or 6% as inflation now structural.**



# Investment environment has changed, *introducing Inflationary bust*



# Asset allocation during STAGFLATION (Bridge water)

Global Asset Performance by Environment

	Sharpe Ratio			Excess Return (Ann)		
	Stagflation	Other Periods	All Periods	Stagflation	Other Periods	All Periods
Frequency of Environment	18%	82%	100%	18%	82%	100%
Assets						
Inflation-Linked Bonds	1.02	0.50	0.57	4.5%	2.2%	2.6%
Gold	0.67	0.10	0.23	17.6%	1.8%	4.5%
Broad Commodities	0.58	0.17	0.28	10.5%	2.4%	4.1%
Nominal Bonds	-0.20	0.63	0.44	-1.2%	3.5%	2.5%
Corporate Spreads	-0.66	0.33	0.18	-3.1%	1.8%	1.0%
Real Estate	-0.68	0.63	0.38	-13.8%	11.8%	7.3%
Global 60/40 Portfolio	-0.70	0.82	0.49	-6.6%	6.5%	4.1%
Equities	-0.72	0.67	0.39	-10.2%	8.6%	5.1%



# Stanley Druckenmiller, the legendary investor

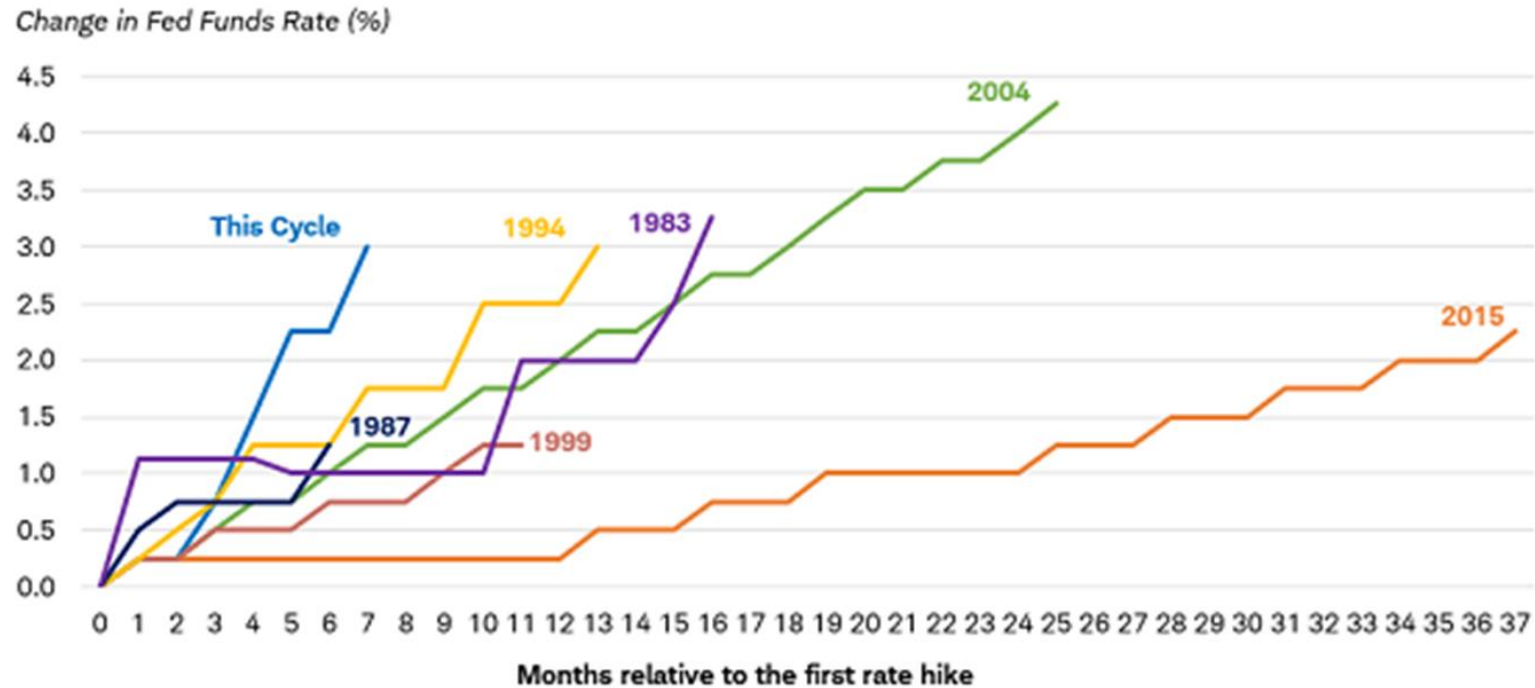
## The odds of a recession are high

"With the caveat that I've been doing this for 45 years and between the pandemic and the war and the crazy policy response in the United States and worldwide, this is the hardest environment I've ever encountered to try and have any confidence in a forecast 6 to 12 months ahead -- The odds of a global recession and a change in the macroeconomy are about as high and as severe as I've seen them in decades..So there's a high probability in my mind that the market at best will be flat for ten years, sort of like the 1966-1982 time period, but the nice thing is there were companies that did very well in that environment back then. That's when Apple computer was founded, and Home Depot was founded, coal and energy companies and chemicals made a lot of money in the 70s." - Duquesne Capital Founder Stanley Druckenmiller



# Do not stand in front of a Running Train

Take Cover



Note: Data is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee (FOMC) as part of its monetary policy.

Source: Bloomberg, Federal Funds Target Rate - Upper Bound (FDTR Index), using monthly data. **Past performance is no guarantee of future results.**

# Pain is Necessary to tackle inflation

**“The Fed needs to break the market”.**

Tree Ring: Consensus is the Fed needs to “tatter people’s savings” (right), “break the market,” inflict “pain,” and “take away credit until the economic pain is greater than the inflation”:



Jim Cramer ✓  
@jimcramer

How do you get people to go back to work? You tatter their savings, That's the fed's pain thesis

9:16 AM · Sep 19, 2022 · TweetDeck



## *Key Takeaways*

- Put your business in “Maintenance” mode
- Understand your supply chains “Better”
- Keep extra cash in Business
- Get ready for large increase in Bankruptcies



Because Winter is Coming

# Canada Is Heading For A Hard Landing, Real Estate Prices To Drop 30%: Oxford Econ





PINETREE MACRO

Thank you

