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BASE CASE SCENARIO FACES TOUGHEST TEST

As the coronavirus outbreak continues, economists and investors are coming to the realization that this may become a more prolonged and widespread event than anticipated. Several companies have significantly downgraded their earnings and revenue guidance for 2020, citing virus concerns. Demand for oil is projected to drop for the first time in over a decade according to the IEA. Global supply chains are struggling to adjust as production and shipments become problematic. Major stock indices entered correction territory, falling 10% from the record highs set just earlier this month. Capital is moving to safe-haven assets with bond yields reaching all-time record lows.

Given that the situation continues to develop, many economists are still adjusting their forecasts and others remain uncertain to what the ultimate impact could be to global growth. Oxford Economics estimated that over US\$1 trillion could be erased from global GDP as a result of an international health crisis. The IMF expects global growth to slow by only 0.1% from its original 3.3% forecast for 2020. UBS, on the other hand, is among the most pessimistic and revised their growth projections for Q1 down to

0.5% from 3.5%. For now, the base case scenario for central banks calls for a marginal short-term hit to the world economy and potentially a sharp rebound once the virus is contained.

Assuming the base case scenario holds, CBRE expects commercial real estate impacts to be felt most acutely over the short-term and will vary by sector. Hotels and retail centres that depend on tourism could be particularly affected, especially in gateway markets that rely on Chinese tourists. The primary impact to the industrial market will likely be felt by manufacturers that export to China, though overall demand for industrial space will likely not be affected.

Central banks are once again expected to step in and bolster the economy. Current market implied odds call for two to three rate cuts by the Bank of Canada and Federal Reserve in 2020. In the meantime, volatility should be expected as this fluid situation evolves.

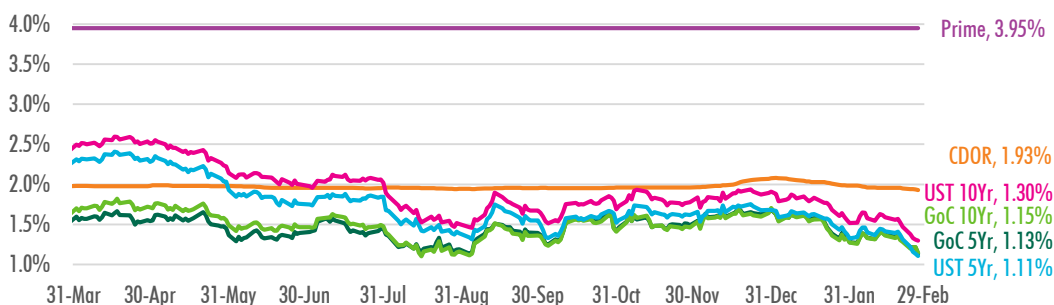
Key Indicator	Current	30 Days
5Yr Mortgage Spread	1.55-2.05%	
10Yr Mortgage Spread	1.65-2.30%	
5Yr Canada Housing Trust Spread	35 bps	5 bps
10Yr Canada Housing Trust Spread	45 bps	5 bps
USD/CAD	\$0.7467	-1.76%
WTI Crude	US\$47.09	-11.95%
WCS Crude	US\$33.00	7.67%
S&P/TSX REIT Index	201.88	-0.45%

Source: Thomson Reuters, February 27, 2020.

Economic Highlights:

- The employment market continues to post strong gains with 34,500 new jobs created in January 2020.
- Retail sales were flat in December 2019, resulting in a net 0.2% decline for Q4 2019.
- GDP growth in Q4 2019 slowed to 0.3%, bringing total annual growth for 2019 to 1.6%.

Benchmark Yields



Source: Thomson Reuters, February 27, 2020.

ViewPoints:

- [Economists War-Game Pandemic Threat to Global Growth](#)
- [U.S. ViewPoint: Potential Impact of Coronavirus Outbreak on U.S. CRE Industry](#)
- [Coronavirus Puts Speed Bump in Canada's 2020 Economic Expansion](#)

Contact

MARC MEEHAN
 Director, Canada Research
 +1 647 943 4205
marc.meehan@cbre.com

EVAN LEE
 Research Manager, Canada Research
 +1 647 943 3654
evan.lee@cbre.com

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