



CIBC CAPITAL MARKETS

Navigating the path back down

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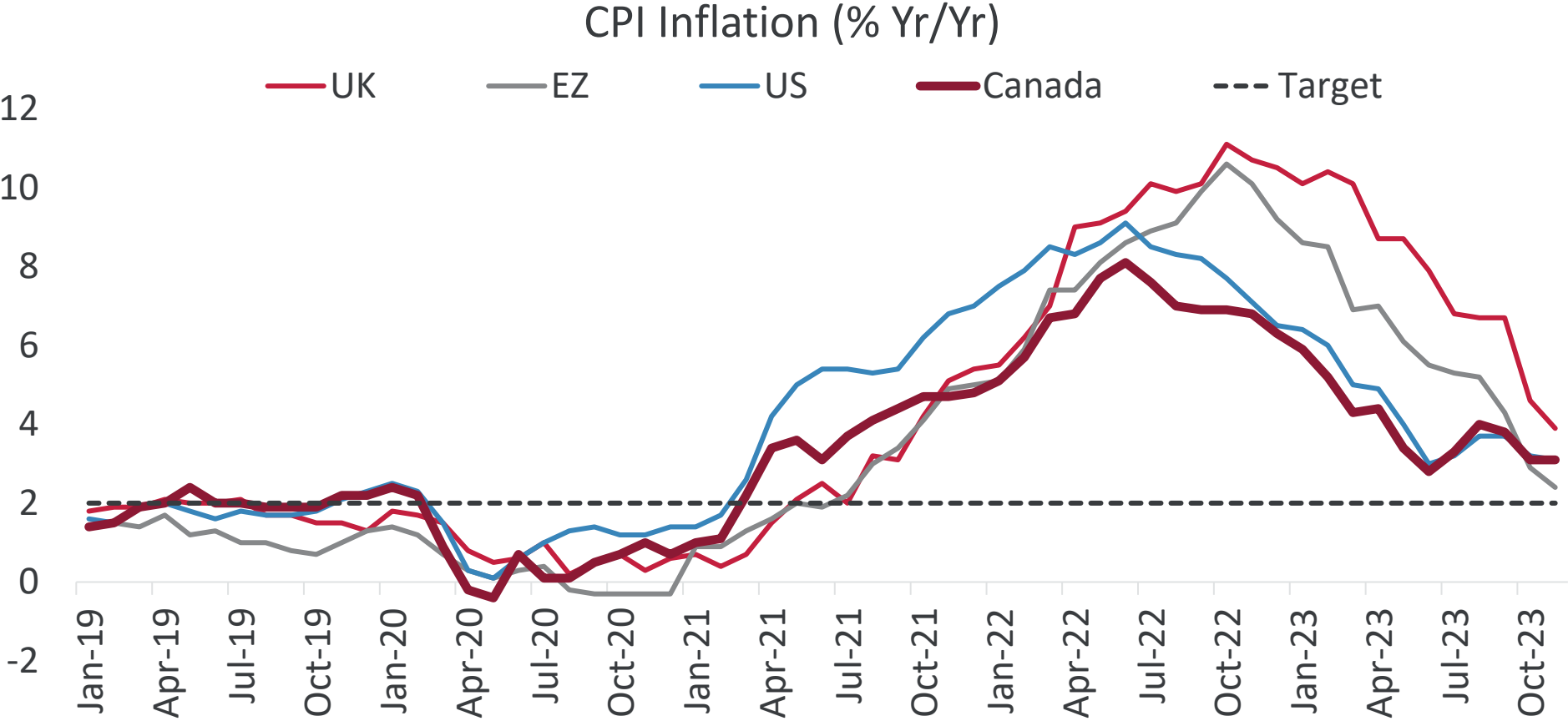
January 2024



Reaching the interest rate summit



Inflation globally has eased significantly



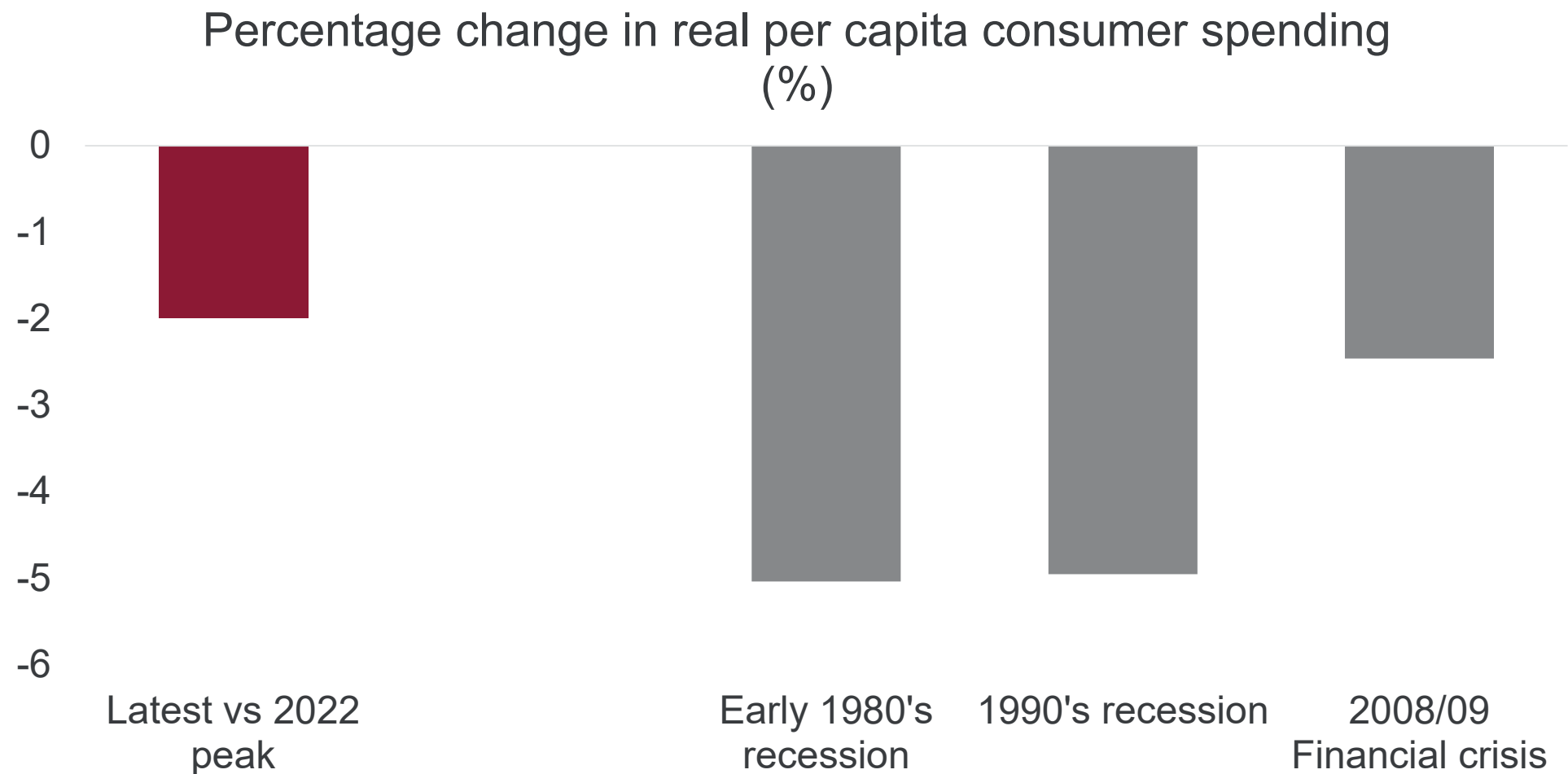
Source: Bloomberg, CIBC



The path back down for interest rates can still be difficult



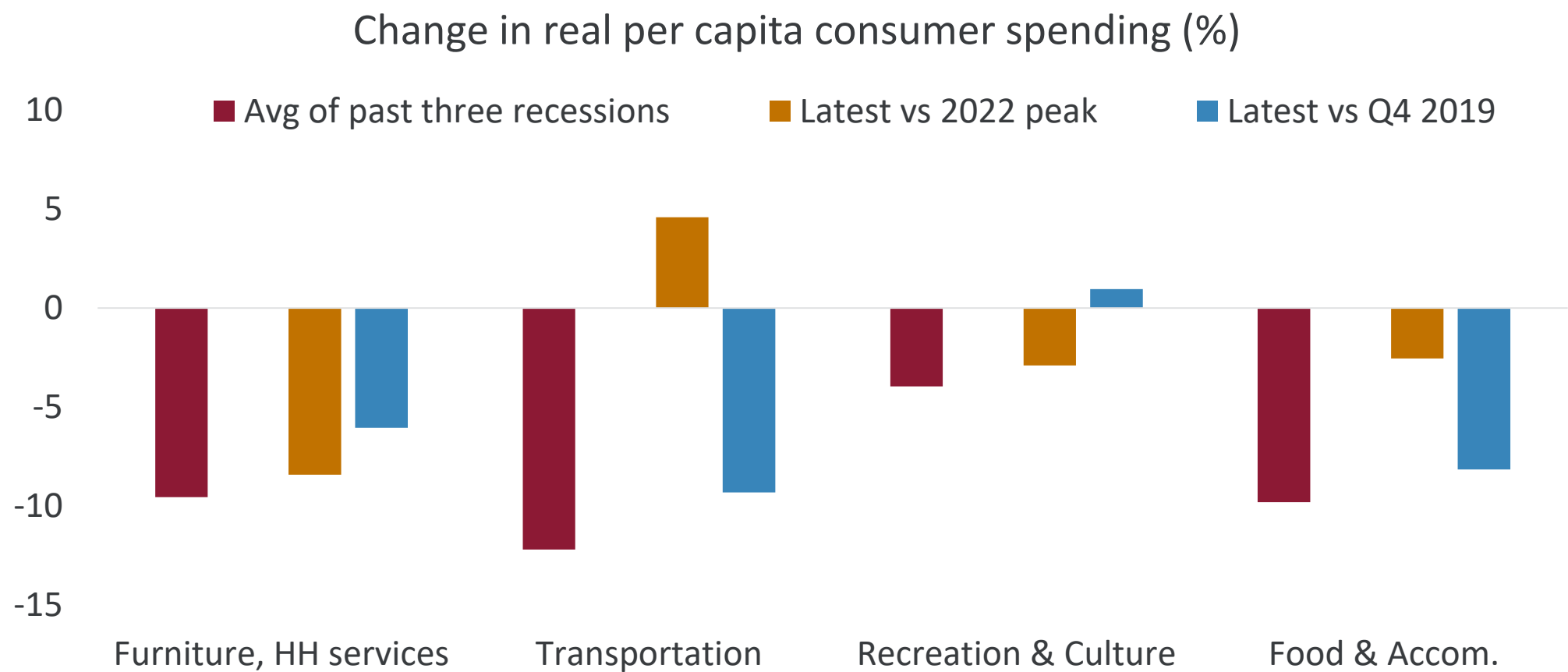
Per-capita consumer spending already declining similarly to prior recessions



Source: Statistics Canada, CIBC

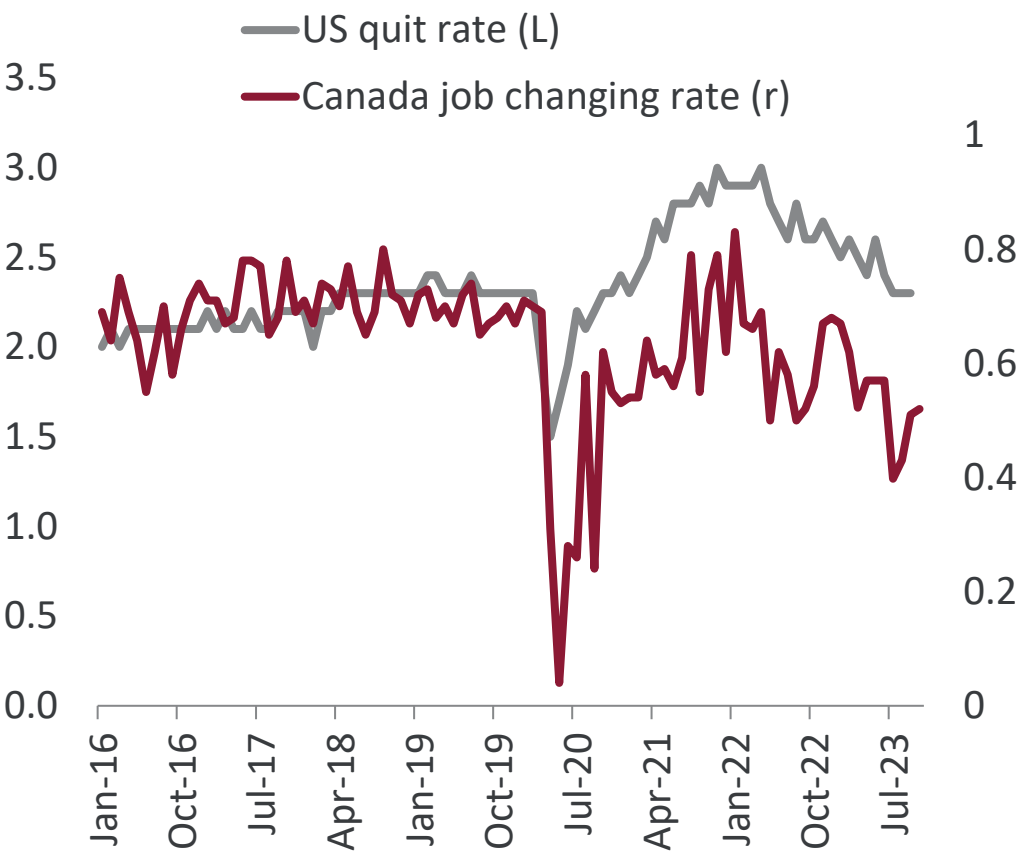
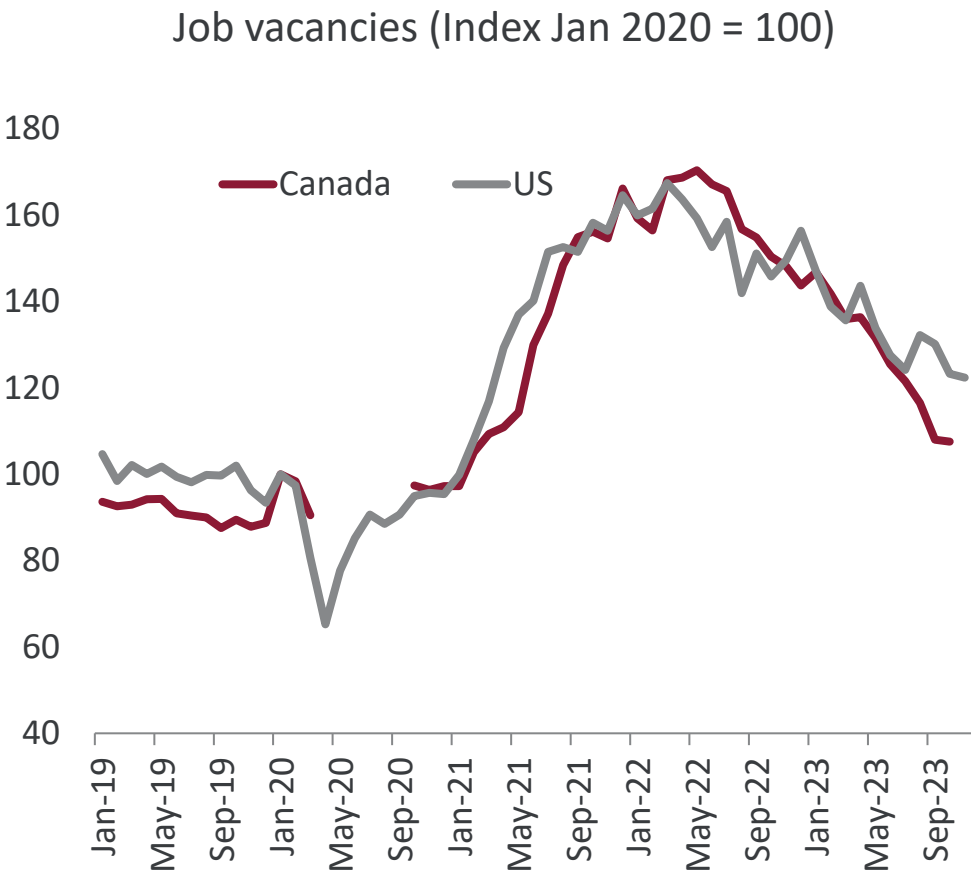


Some areas of spending that have actually increased since 2022 still well below 2019 levels



Source Statistics Canada:

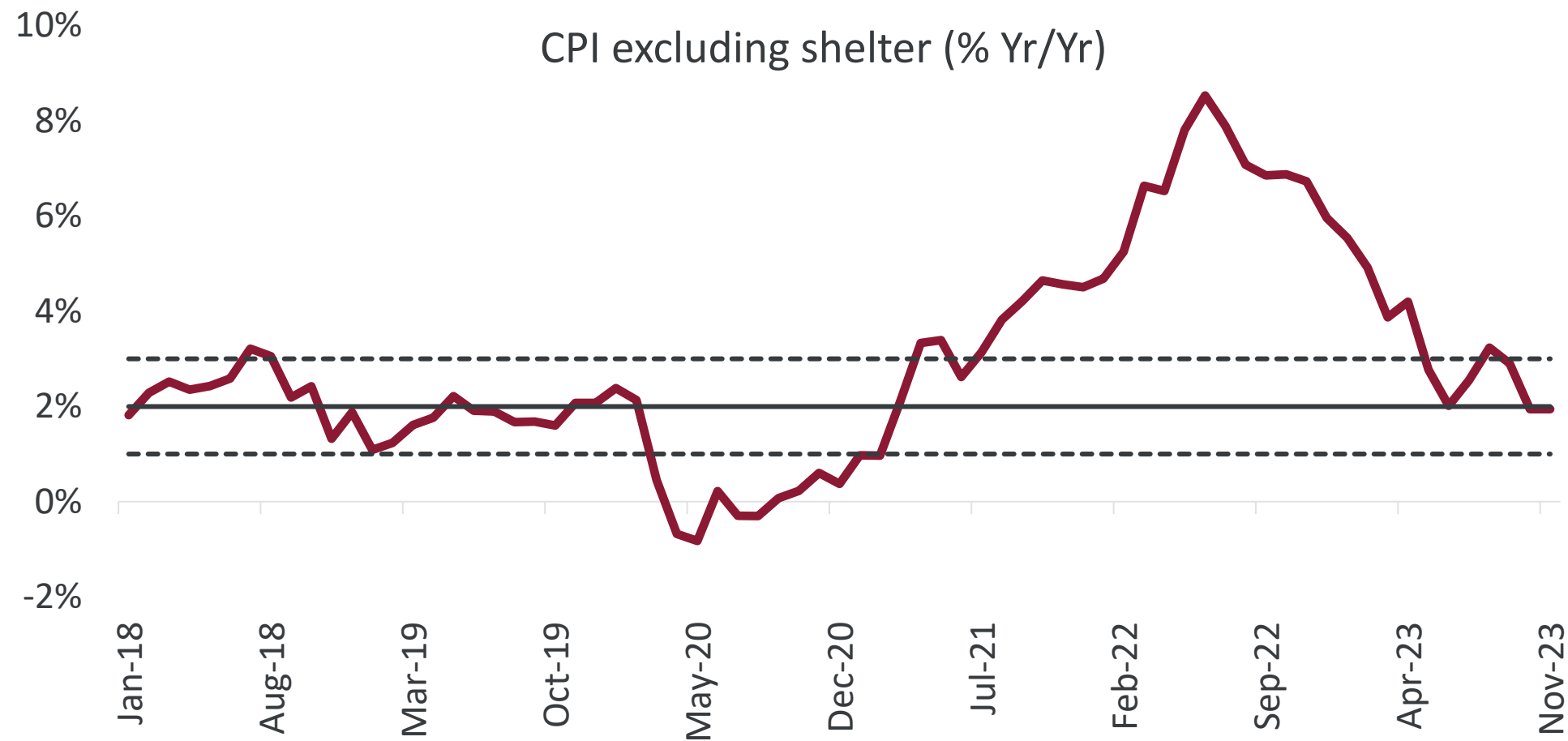
...likely even more so in Canada given greater signs of labour market loosening



Source: Statistics Canada, CIBC



Inflation excluding shelter has been under control since the summer



Source: StatCan, CIBC



The inflation buffet...there's something for everyone

	y/y%	y/y% 3mma	3-mo% ann.	6-mo% ann.
CPI	3.1	3.3	1.5	3.8
Ex. food/energy	3.5	3.4	4.1	3.7
CPIX	2.8	2.8	2.4	2.7
Trim	3.5	3.5	2.6	3.4
Median	3.4	3.5	2.3	3.2
Services ex. shelter	3.0	2.4	1.5	2.0

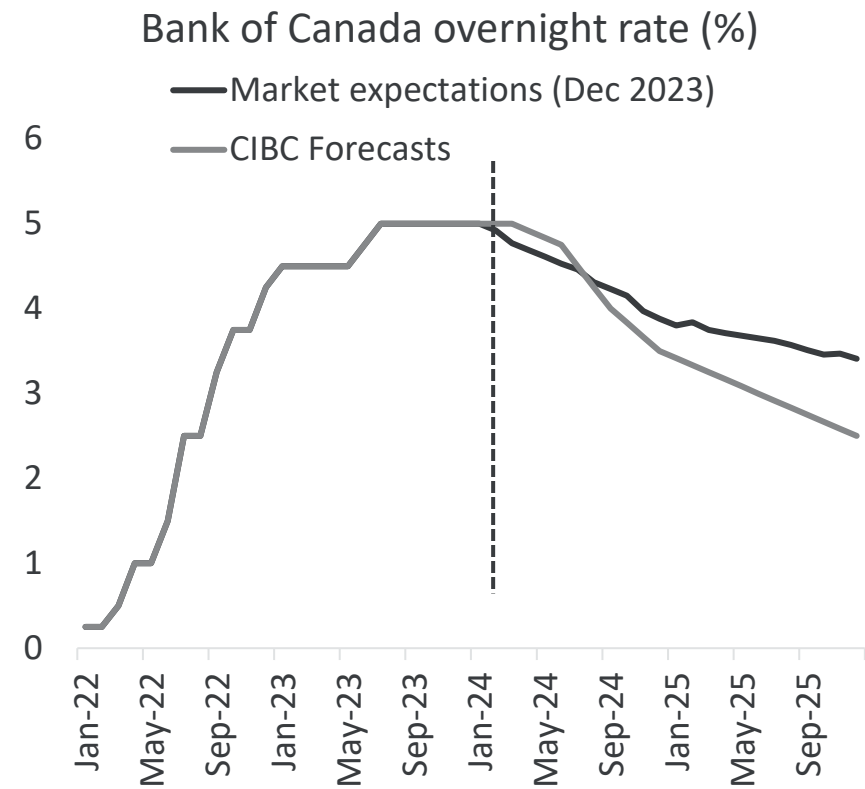
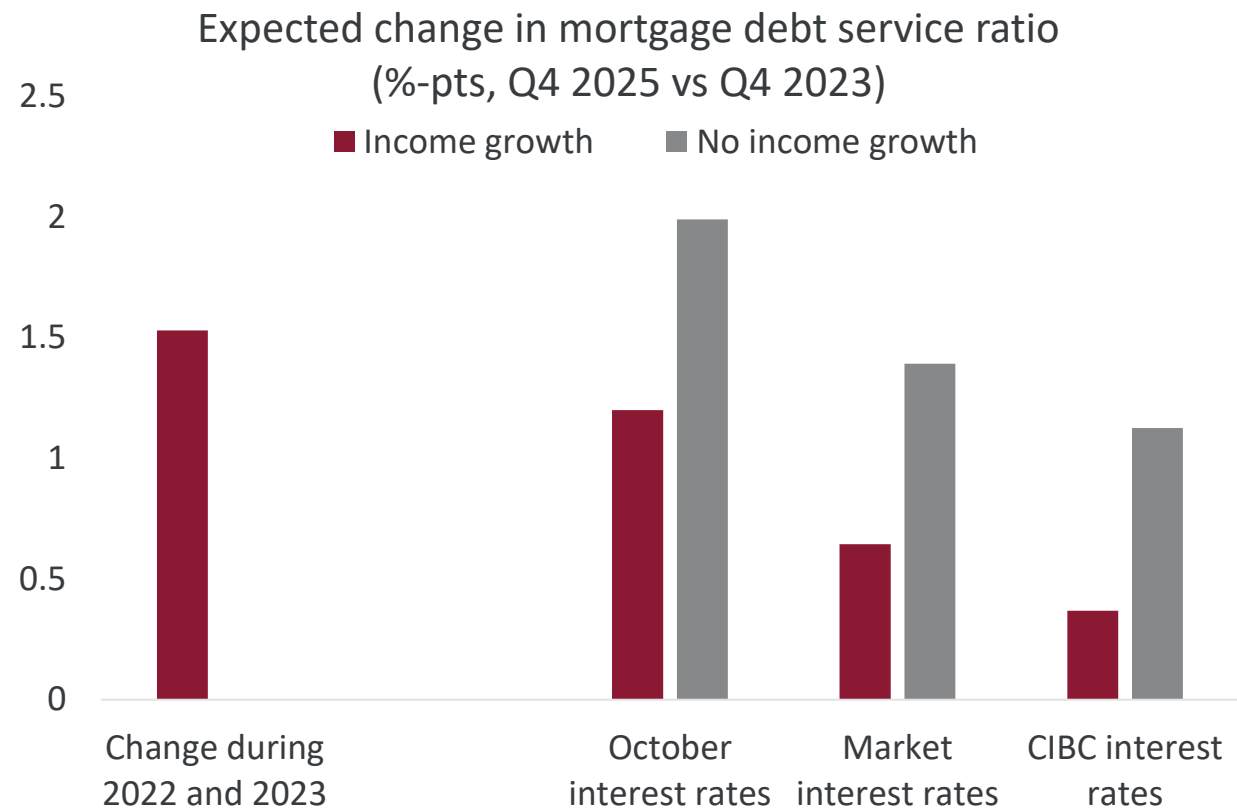


Source: StatCan, CIBC

Interest rate and FX forecasts

		2023	2024				2025	
END OF PERIOD:		9-Jan	Mar	Jun	Sep	Dec	Jun	Dec
<u>CDA</u>	Overnight target rate	5.00	5.00	4.75	4.00	3.50	3.00	2.50
	98-Day Treasury Bills	5.04	5.05	4.60	3.90	3.35	2.85	2.45
	2-Year Gov't Bond	4.04	4.25	3.90	3.40	3.00	2.70	2.60
	10-Year Gov't Bond	3.24	3.45	3.30	3.20	3.10	2.90	2.95
	30-Year Gov't Bond	3.15	3.35	3.40	3.30	3.25	3.10	3.05
	Canada - US T-Bill Spread	-0.34	-0.25	-0.85	-1.05	-1.00	-1.00	-0.90
	Canada - US 10-Year Bond Spread	-0.79	-0.80	-0.85	-0.80	-0.80	-0.70	-0.35
	Canada Yield Curve (10-Year — 2-Year)	-0.80	-0.80	-0.60	-0.20	0.10	0.20	0.35
<u>U.S.</u>	Federal Funds Rate (midpoint)	5.375	5.375	5.375	4.875	4.375	3.875	3.375
	91-Day Treasury Bills	5.38	5.30	5.45	4.95	4.35	3.85	3.35
	2-Year Gov't Note	4.38	4.55	4.35	3.75	3.35	3.00	2.65
	10-Year Gov't Note	4.03	4.25	4.15	4.00	3.90	3.60	3.30
	30-Year Gov't Bond	4.19	4.35	4.30	4.25	4.20	3.90	3.65
	US Yield Curve (10-Year — 2-Year)	-0.36	-0.30	-0.20	0.25	0.55	0.60	0.65
EXCHANGE RATES								
	CADUSD	0.75	0.72	0.73	0.74	0.74	0.77	0.78
	USDCAD	1.34	1.38	1.37	1.35	1.35	1.30	1.29

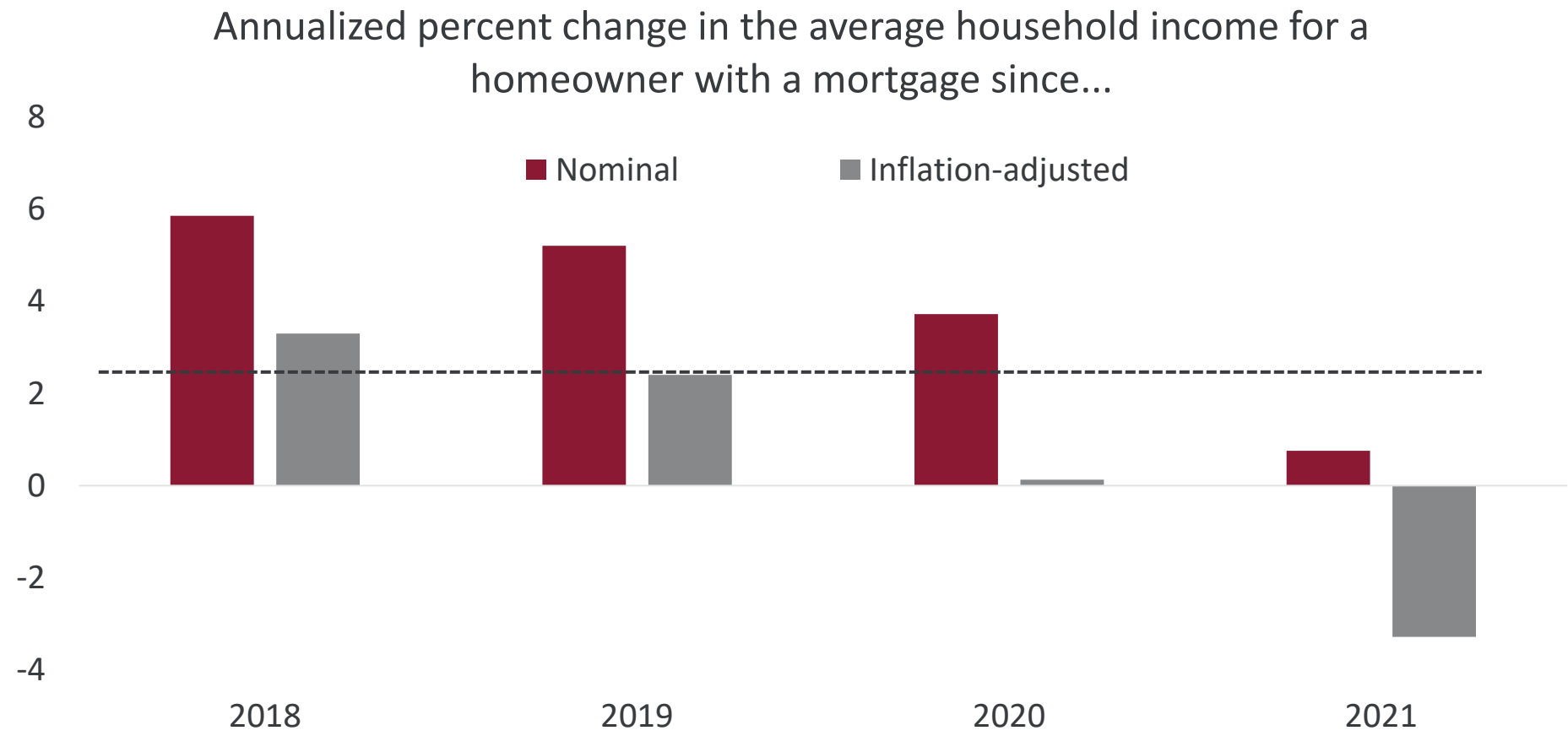
Bank of Canada may have to cut more than markets anticipate...



Source: Bank of Canada, CIBC



...because income growth hasn't been as strong for households refinancing in 2025 and beyond



Source: Statistics Canada, BoC, CIBC

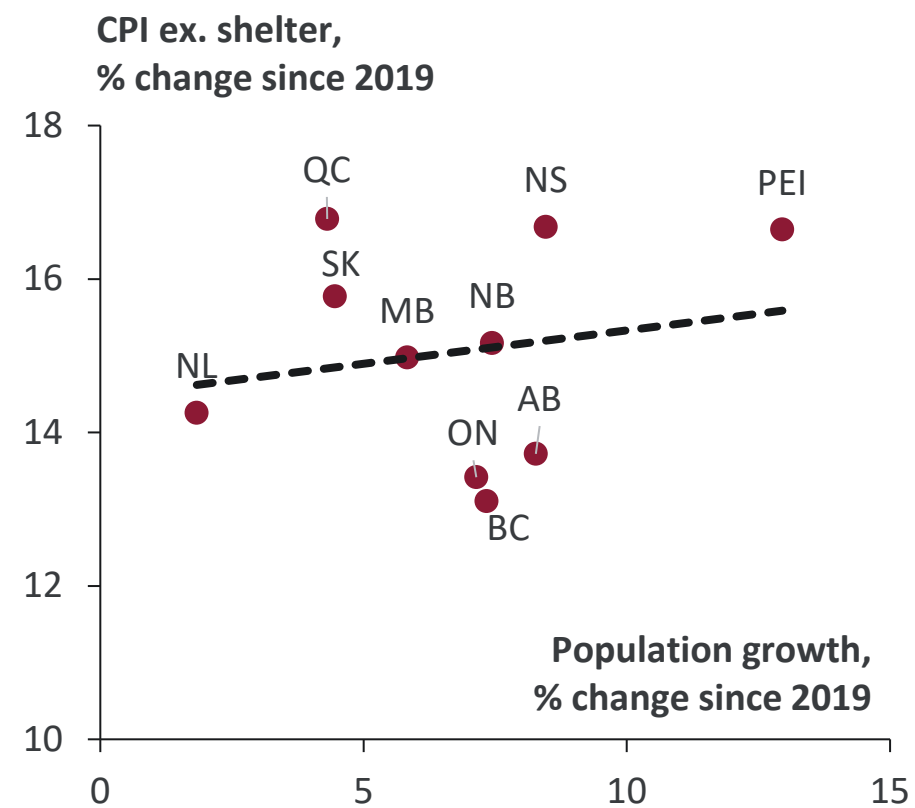
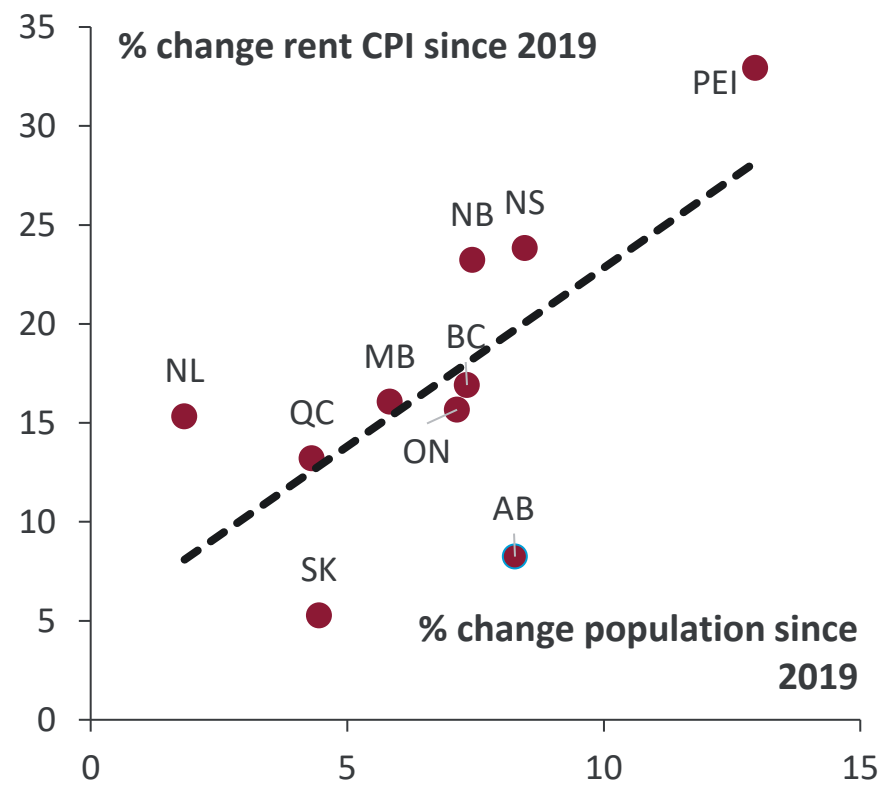
Economic projections: Growth should start to recover in 2025 if the BoC plays its cards right

	Real GDP Y/Y % Chg					Unemployment rate %					Consumer Price Index Y/Y % Chg				
	2021A	2022A	2023F	2024F	2025F	2021A	2022A	2023F	2024F	2025F	2021A	2022A	2023F	2024F	2025F
BC	7.1	3.8	0.6	0.4	2.1	6.5	4.7	5.2	6.0	5.4	2.8	6.9	4.0	2.4	1.9
Alta	4.6	5.0	2.1	1.5	2.8	8.6	5.8	5.9	6.4	5.9	3.2	6.5	3.3	2.2	2.2
Sask	-0.7	6.0	1.9	1.3	2.2	6.5	4.6	4.8	5.4	5.1	2.6	6.6	3.9	1.7	1.9
Man	1.3	3.3	1.1	1.0	1.8	6.4	4.6	4.9	5.4	5.0	3.2	7.9	3.6	2.0	1.9
Ont	5.4	3.9	1.3	0.3	1.8	8.0	5.6	5.6	6.5	5.8	3.5	6.8	3.8	2.5	2.2
Qué	6.7	2.5	0.5	0.4	1.8	6.1	4.3	4.4	5.7	5.3	3.8	6.7	4.5	2.7	2.2
NB	5.3	1.1	1.0	1.1	1.7	9.0	7.3	6.9	7.3	7.0	3.8	7.3	3.6	1.9	1.9
NS	5.9	2.9	1.2	1.1	2.1	8.4	6.6	6.6	7.0	6.7	4.1	7.5	4.0	2.6	1.9
PEI	8.4	2.9	1.3	1.0	1.9	9.4	7.2	7.6	8.4	8.0	5.1	8.9	2.9	1.7	1.9
N&L	1.0	-1.7	0.9	1.8	1.4	12.9	10.8	10.2	10.6	10.2	3.7	6.4	3.3	2.0	1.9
Canada	5.3	3.8	1.1	0.6	2.0	7.4	5.3	5.4	6.2	5.7	3.4	6.8	3.9	2.4	1.9

Sources: CIBC, Statistics Canada, CMHC

Source: Statistics Canada, CIBC

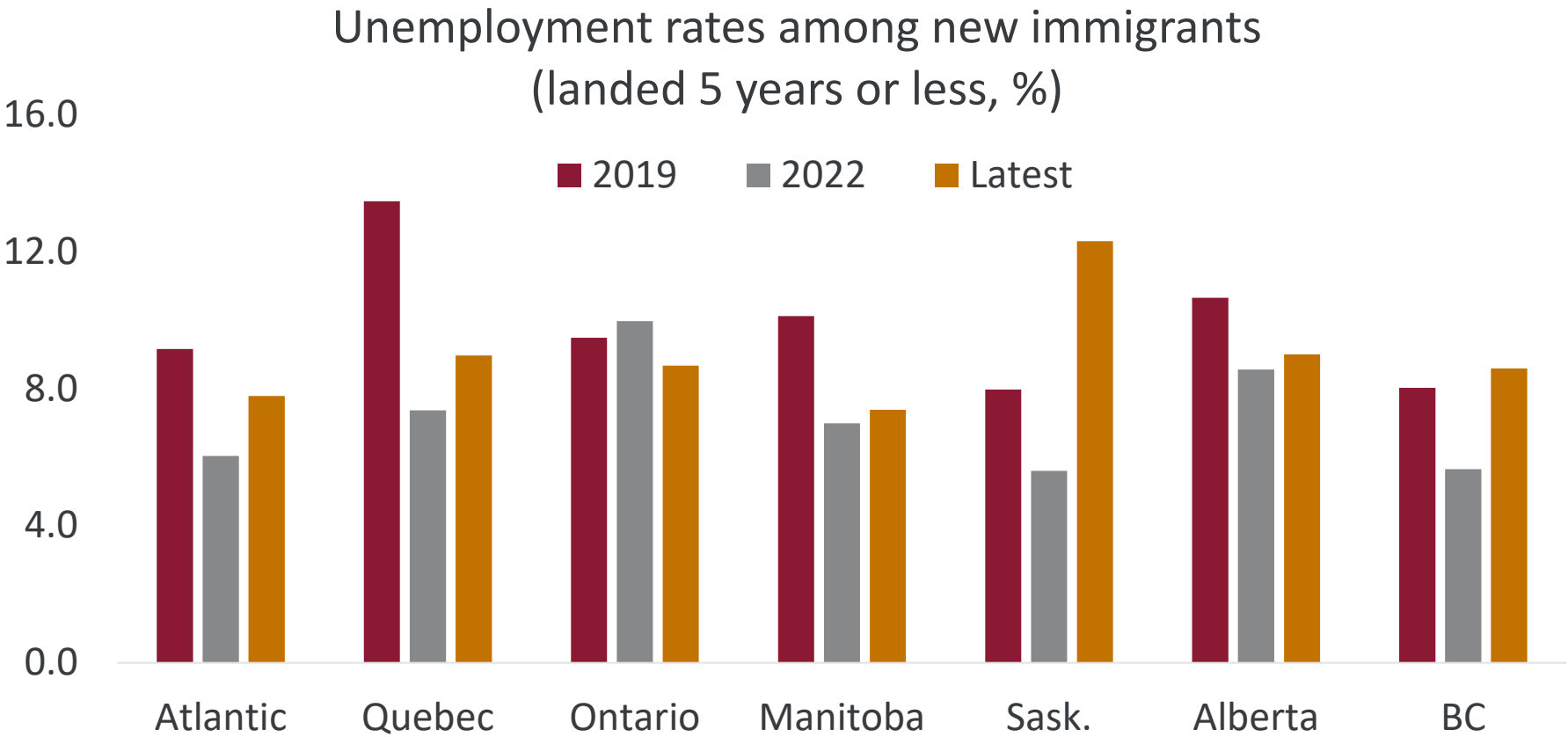
Evidence of population growth boosting housing costs (l), but not inflation in other areas (r)



Source: Statistics Canada, CIBC

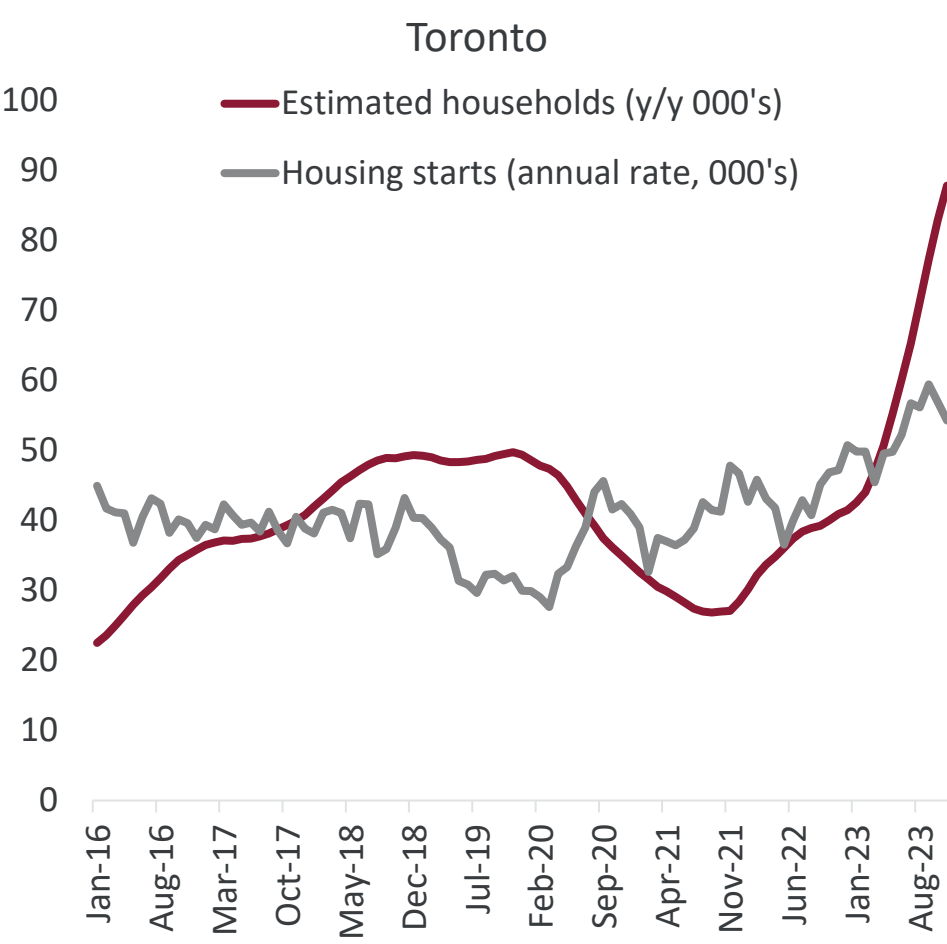
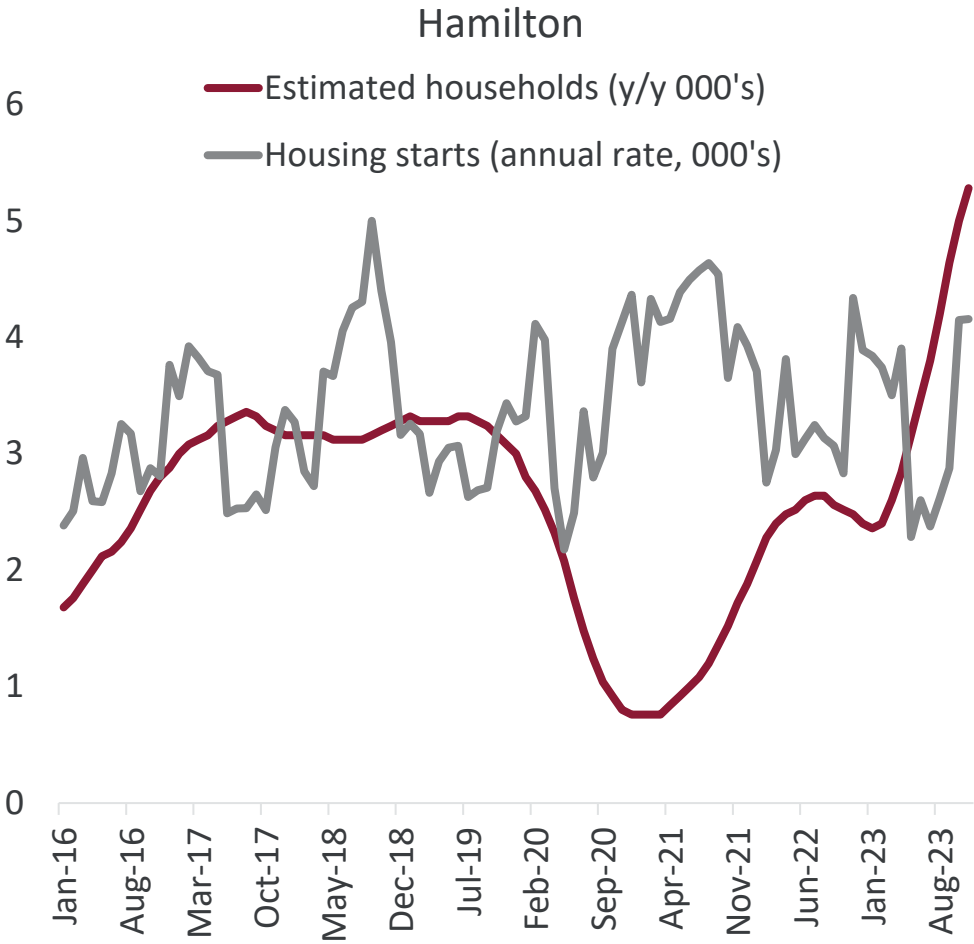


Immigration-fuelled labour force growth easier for some provinces to absorb than others



Source: Statistics Canada, CIBC

Housing starts haven't lagged population growth to the same extent in Hamilton



Source: Haver, CIBC



Key takeaways

- Inflation is already back to target, with the exception of shelter costs. Interest rate cuts should start before mid-year
- The Bank of Canada needs to reduce interest rates enough this year to limit the risk that future mortgage refinancing could have on consumer spending
- Canadian consumer spending is already weak enough to achieve and maintain inflation at 2%
- Greater household debt in Ontario compared to other provinces could see provincial growth underperform the national average in 2024 and 2025

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