



CIBC CAPITAL MARKETS

Economic Outlook

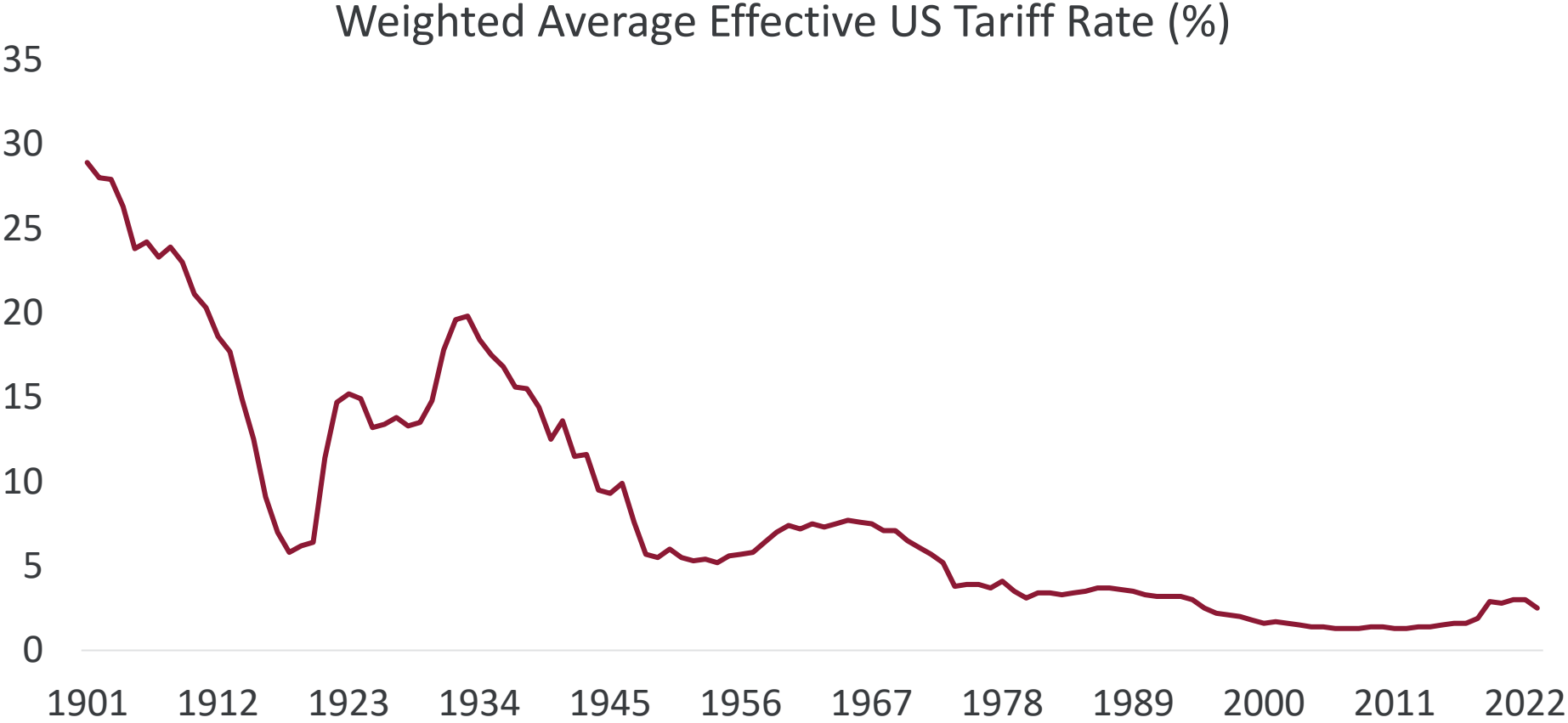
Andrew Grantham

Executive Director & Senior Economist

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Tariffs on the scale threatened haven't been seen for a LOOONNNGGG time...



Source: Budget lab, Yale University



...and the world was very different back then

REVIEW OF CANADA'S FOREIGN TRADE, 1929-30

Canada, in international trade, during the calendar year 1929, even with a very considerable decline in export trade as also a slight decrease in import trade, has maintained her high position among the leading trading countries of the world. In 1929 as in 1928, the Dominion stood in fifth position in imports, exports and aggregate trade. In export trade Canada leads the world in the export of printing paper, nickel and asbestos; occupies second place in exports of automobiles, wheat and wheat flour; and fourth place in exports of wood pulp, as well as a very high place in the world's exports of many staple products such as lumber and timber, fish, copper, barley, cheese, raw furs, whiskey, meats, rubber tires, farm implements, pulpwood, cattle, raw gold, silver, lead, rye, oats, rubber footwear, leather and hides.

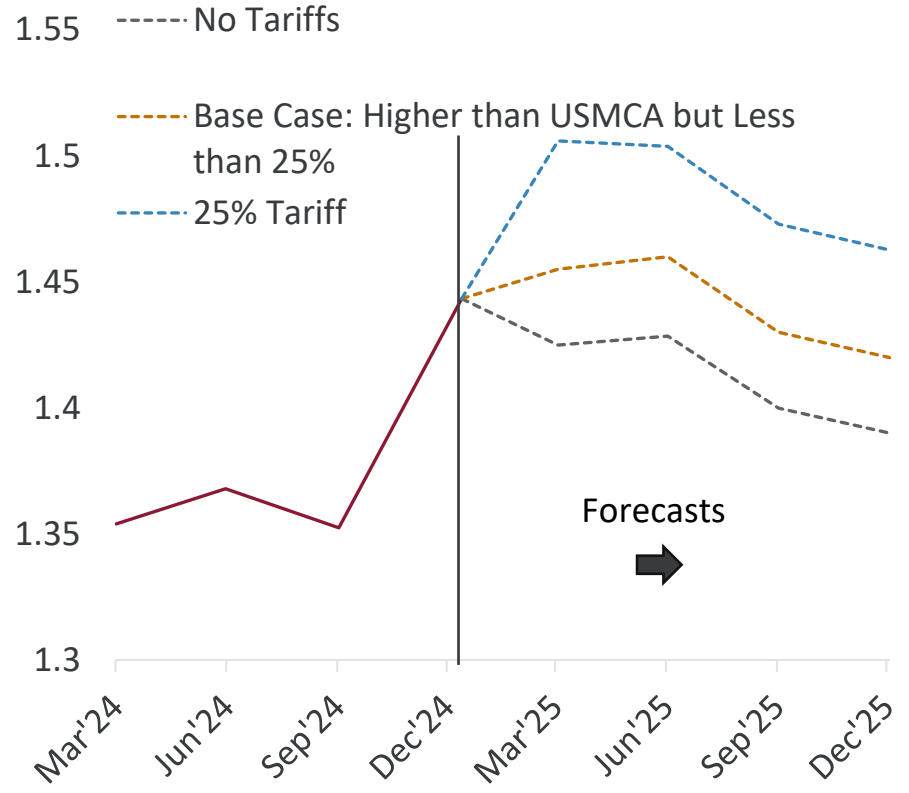
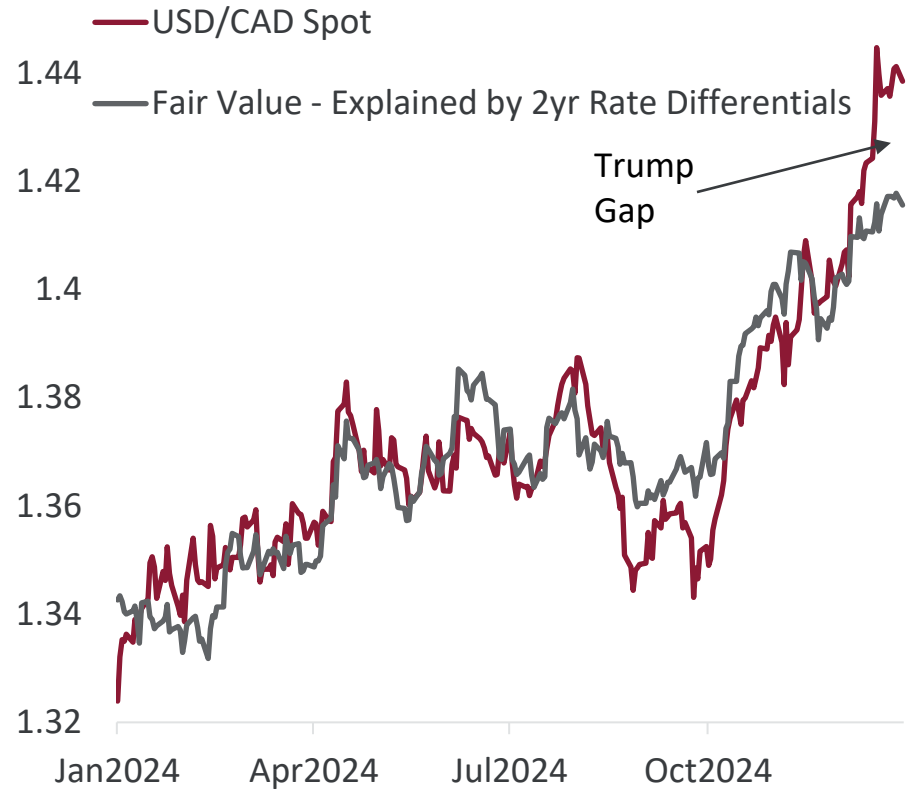
Source: Statistics Canada, CIBC

The model results are in...

Bad



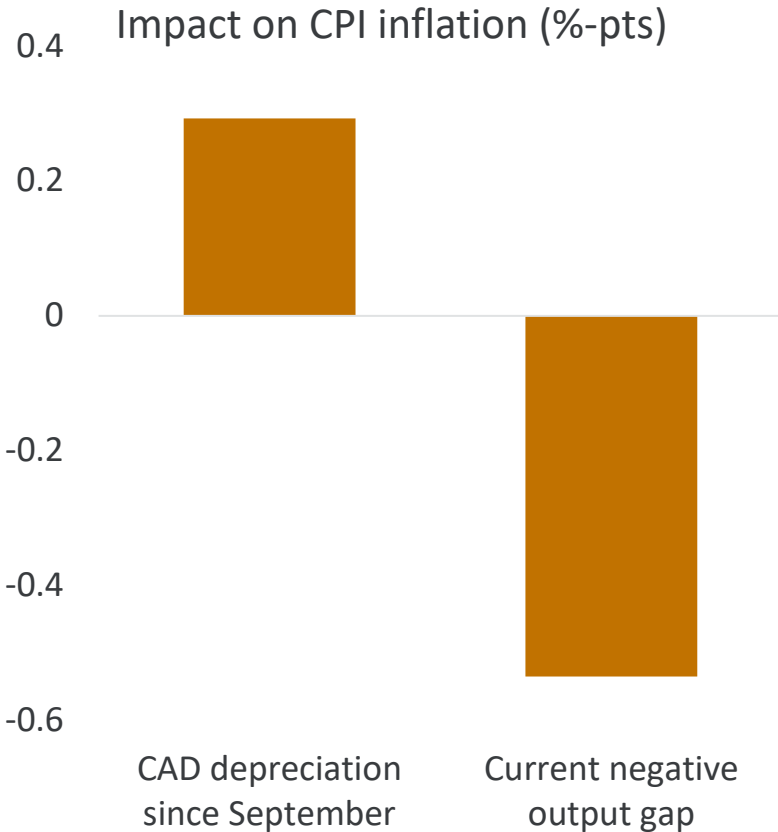
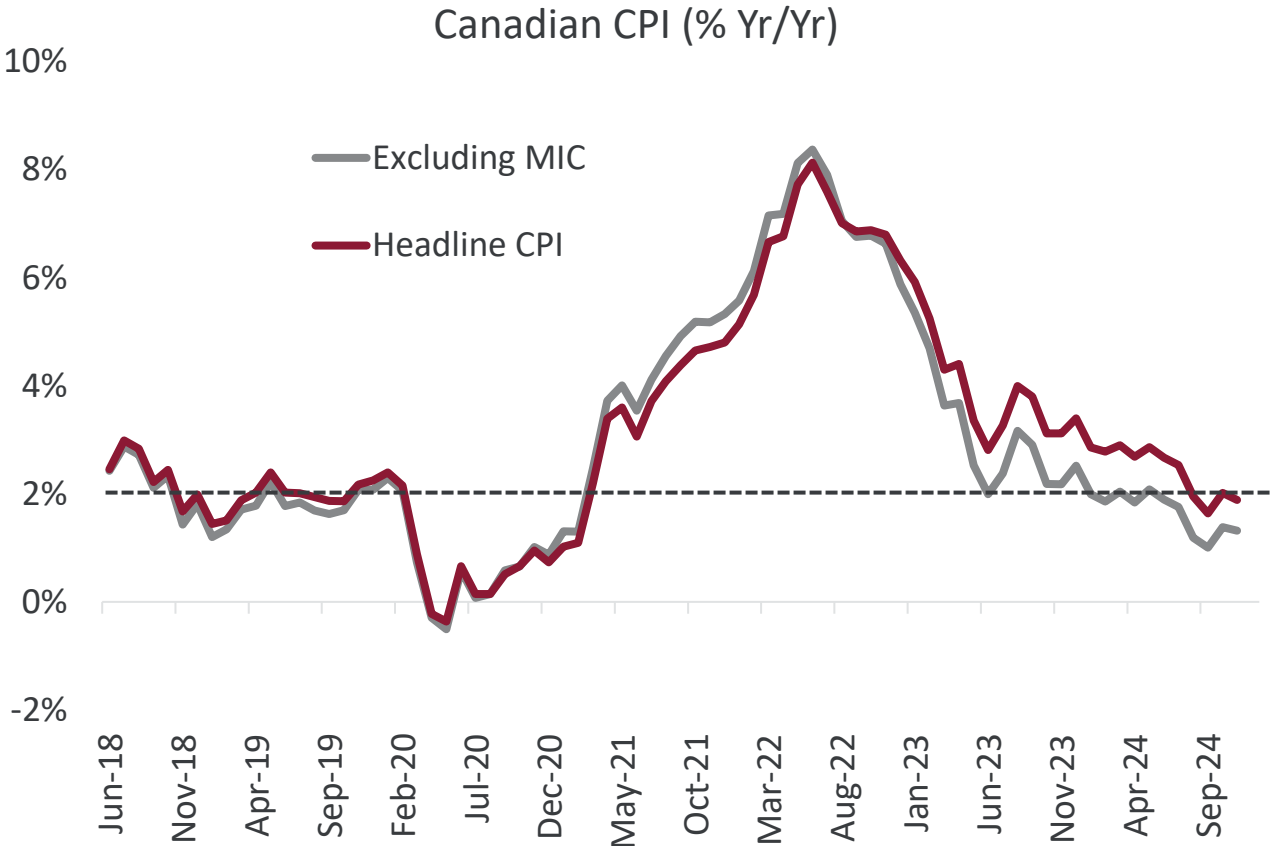
Tariff uncertainty already impacting exchange rate (L), but the impact could get even bigger (R)



Source: CIBC FICC Strategy



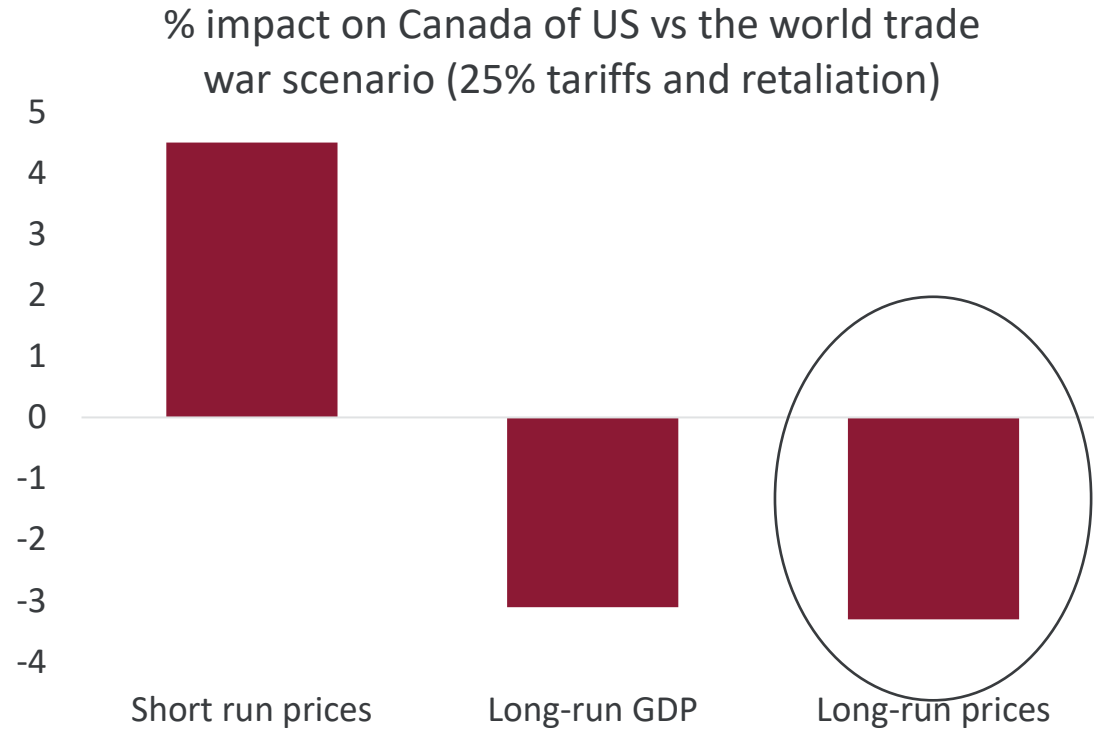
Canadian inflation is weak, particularly excluding MIC (L) Increased economic slack should balance out currency depreciation (R)



Source: Statistics Canada, CIBC



Bank of Canada suggests tariffs will be negative for inflation longer-term... ...but does the current Governor believe that?

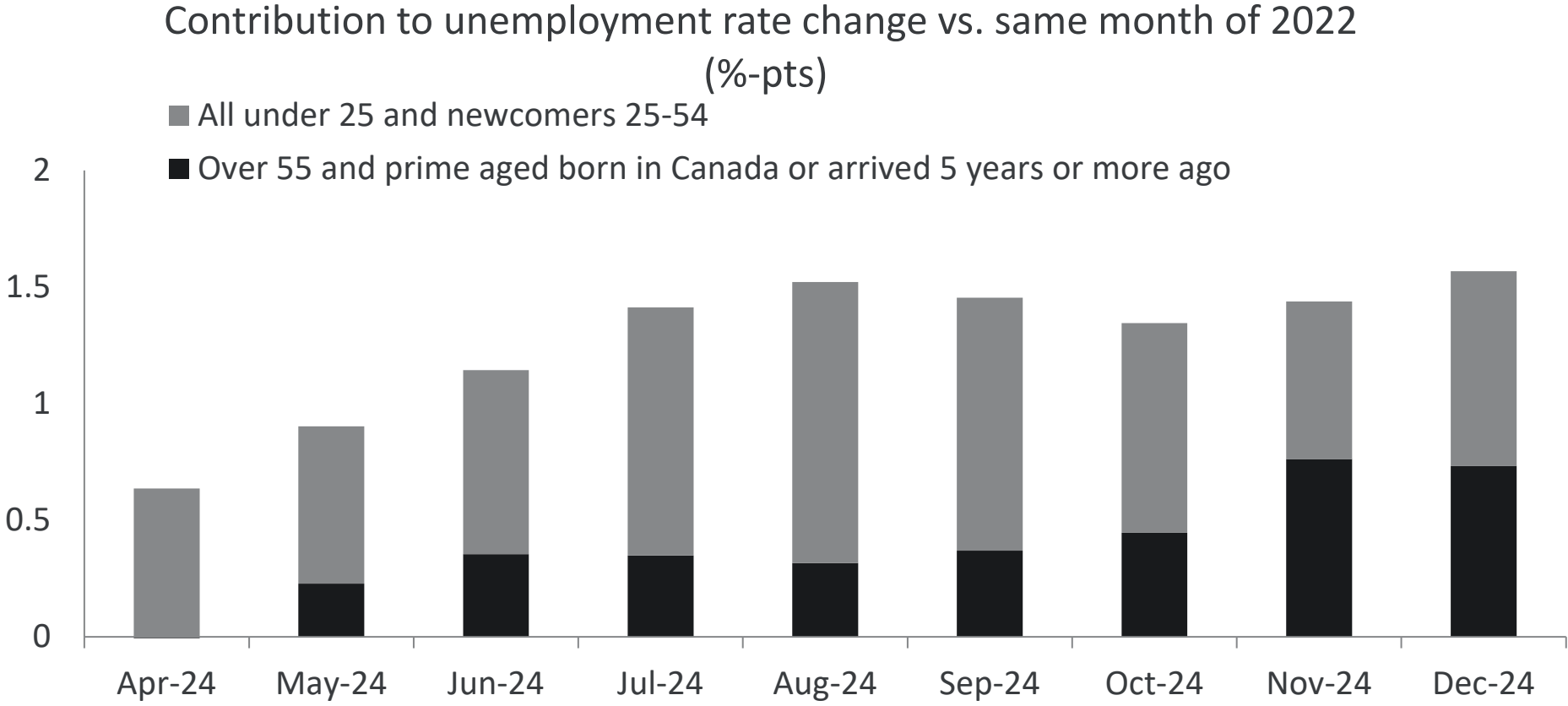


...even if something is theoretically a level effect, if it's a very big level effect, you can't look through it.

Governor Macklem Dec 2024

Source: Bank of Canada 2019, Globe and mail

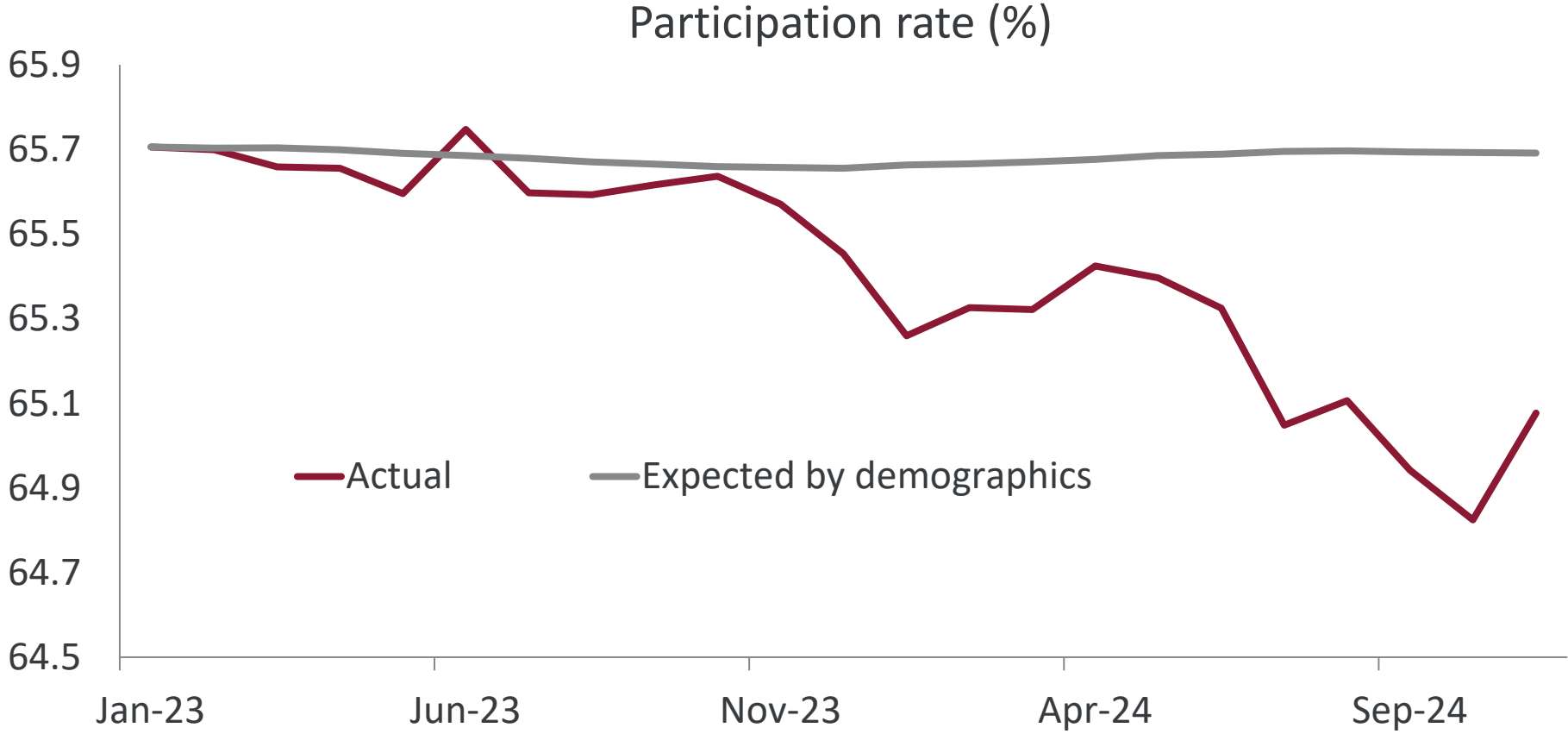
Rise in unemployment rate becoming broader based



Source: Statistics Canada, CIBC



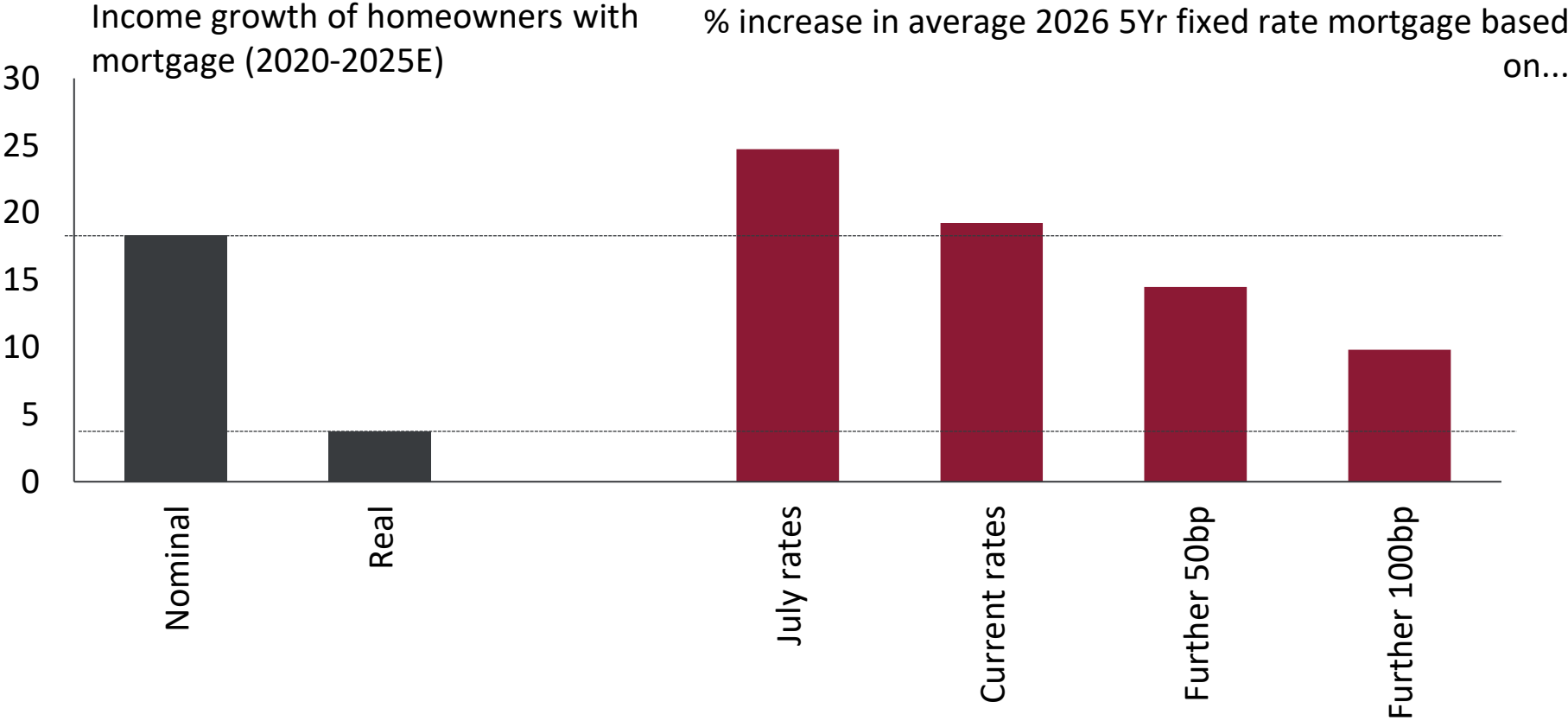
Participation rate decline has not been due to an aging population



Source: Statistics Canada, CIBC



Bank of Canada will also have to cut more than markets currently expect to ease threat from mortgage renewals

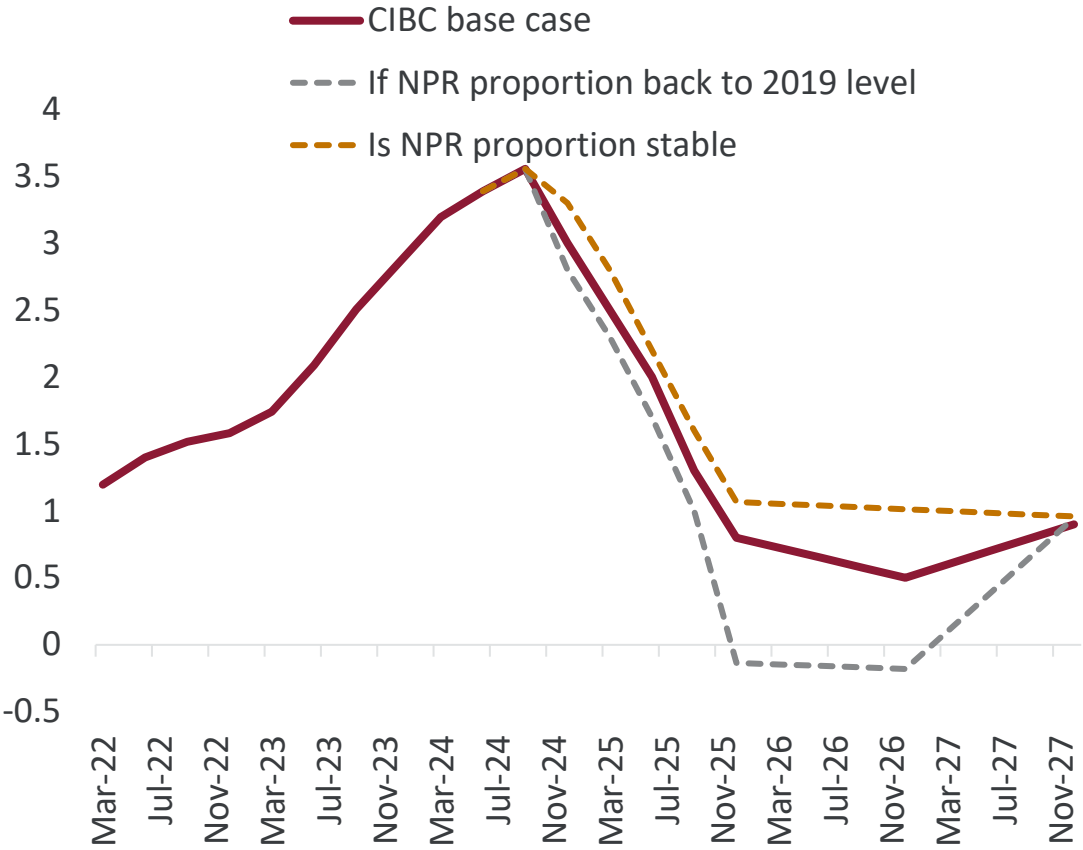


Source: Statistics Canada, BoC, CIBC



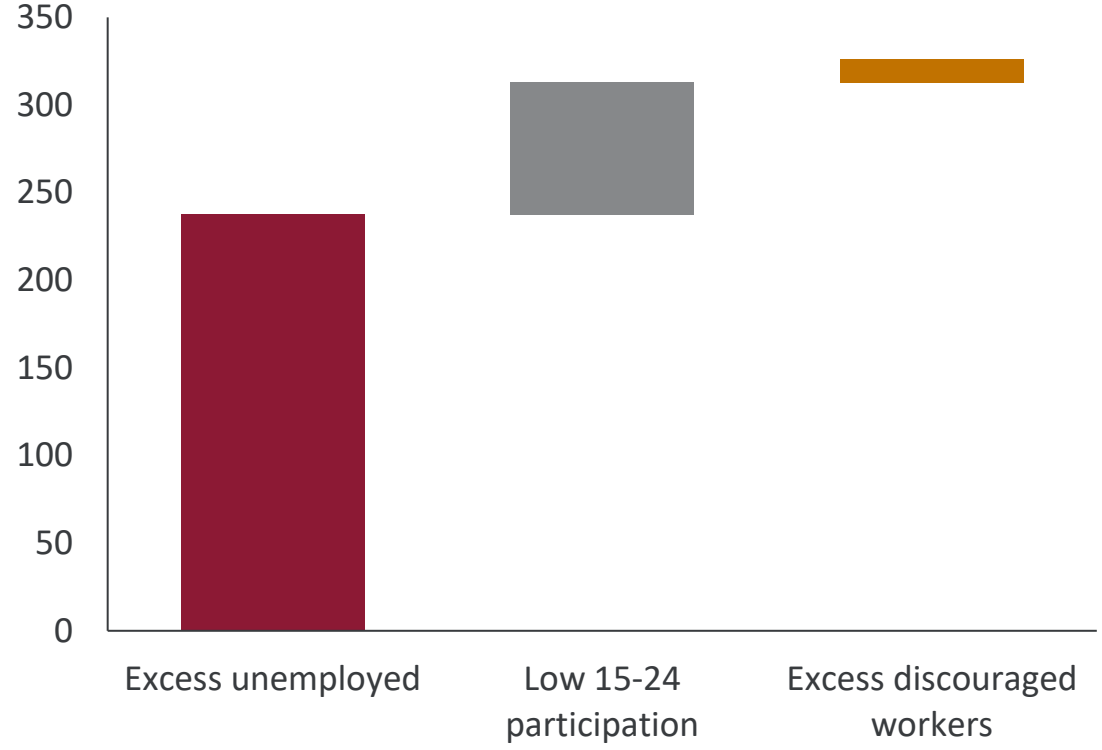
Population growth to slow, but how much is uncertain (L); Plenty of labour market slack to use up before worker shortages a concern (R)

Canada population growth (% yr/yr)



Source: Statistics Canada, CIBC

Estimate of spare capacity in the labour market (000's persons)



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