



CIBC CAPITAL MARKETS

Defying gravity

Andrew Grantham

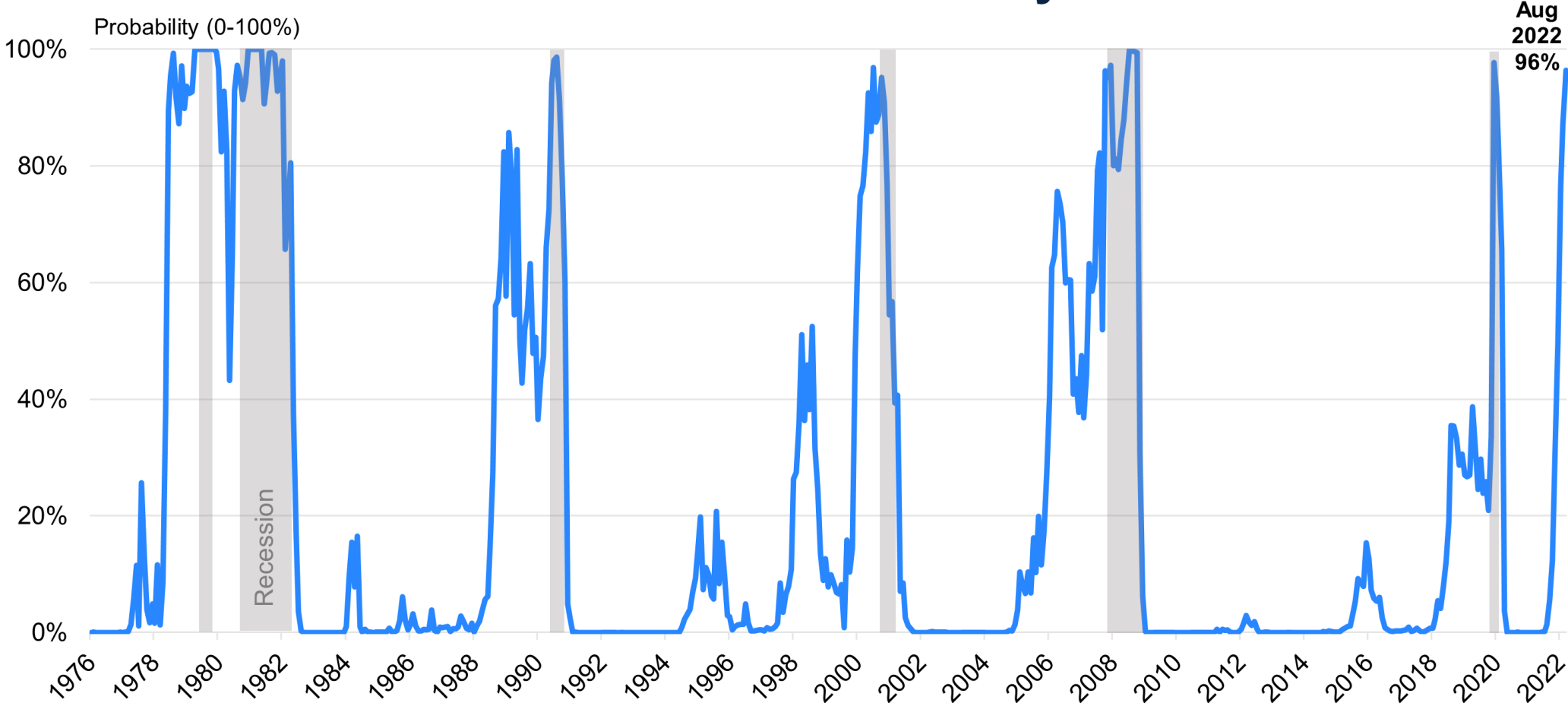
Executive Director & Senior Economist

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Weren't we supposed to be in a recession already?

US Recession Probability Model

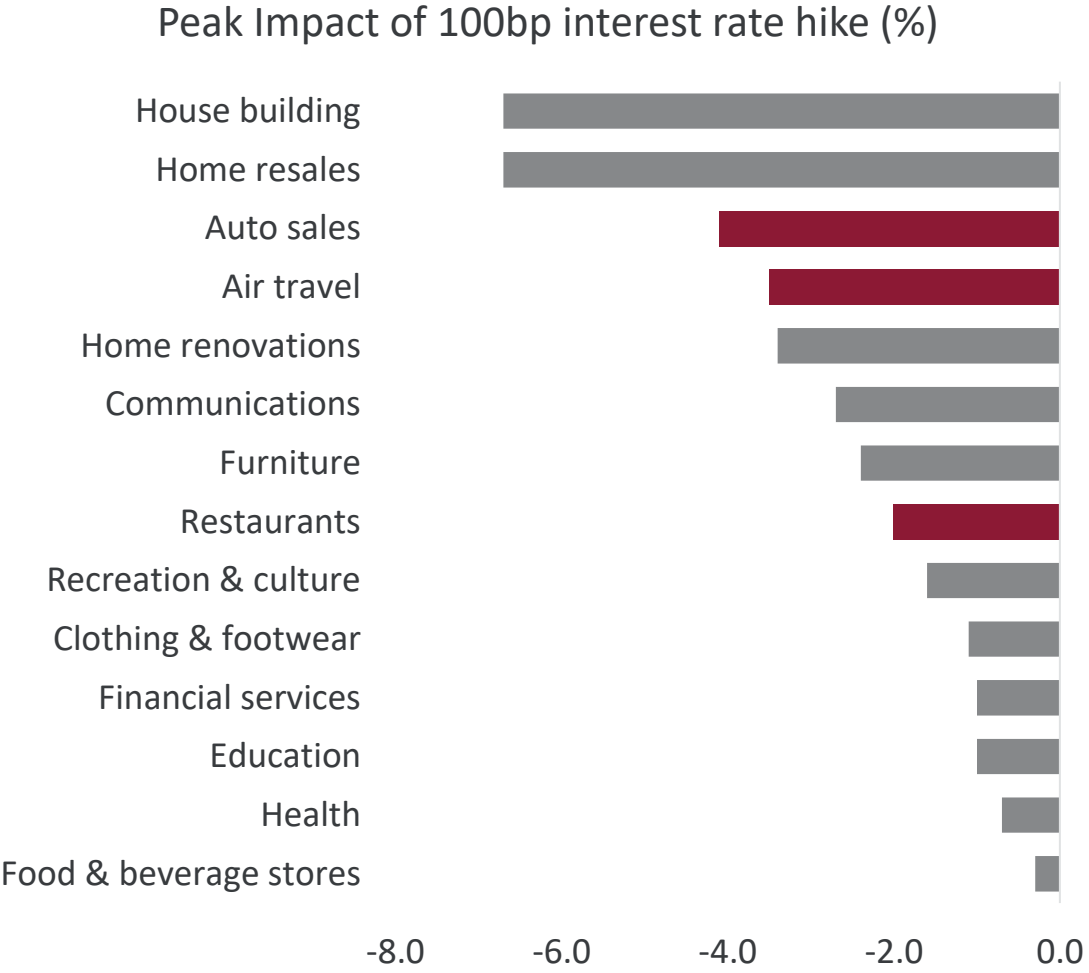


Source: The Conference Board

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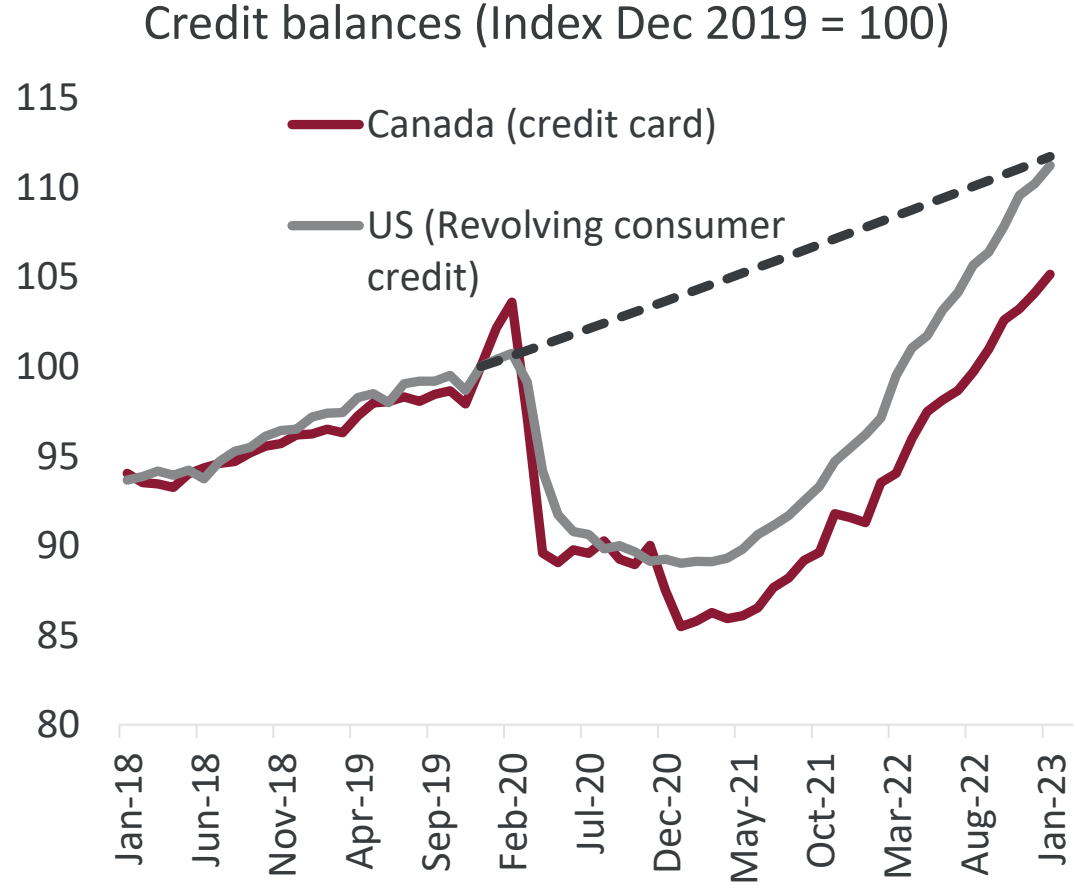
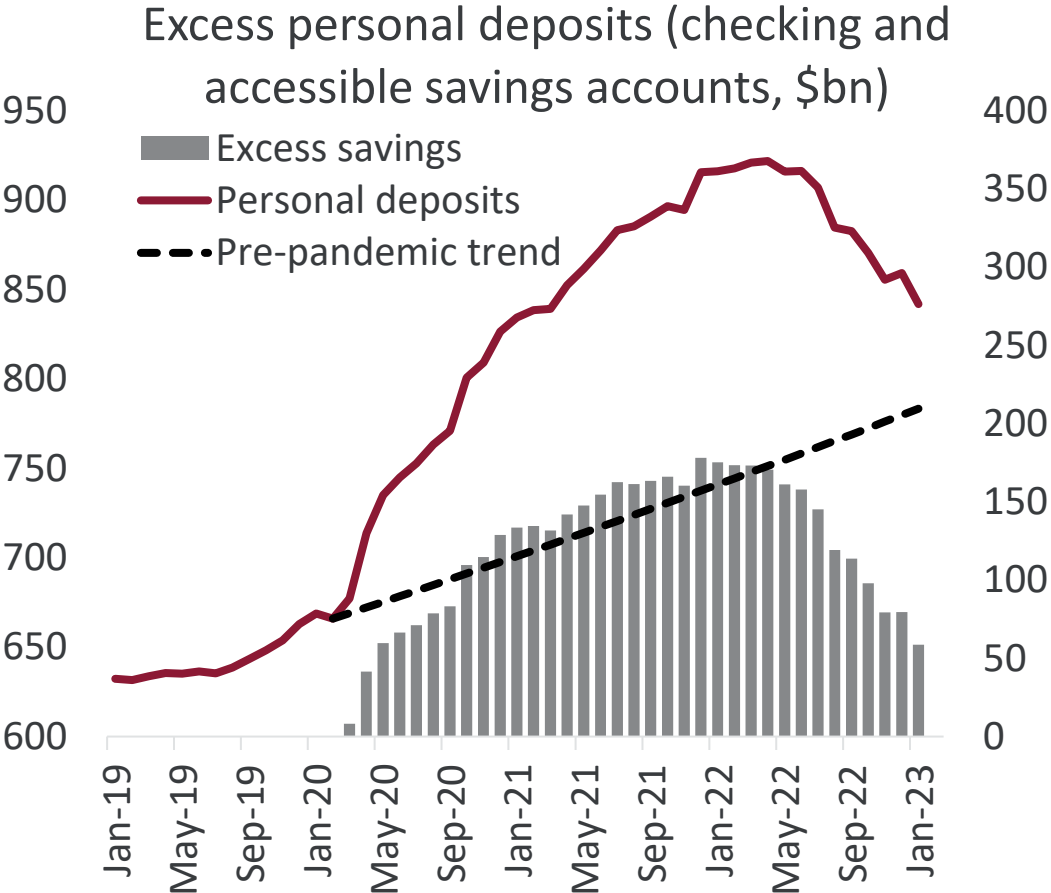
Pent up demand: areas usually most impacted by rate hikes were also most negatively impacted by the pandemic



Source: BoC



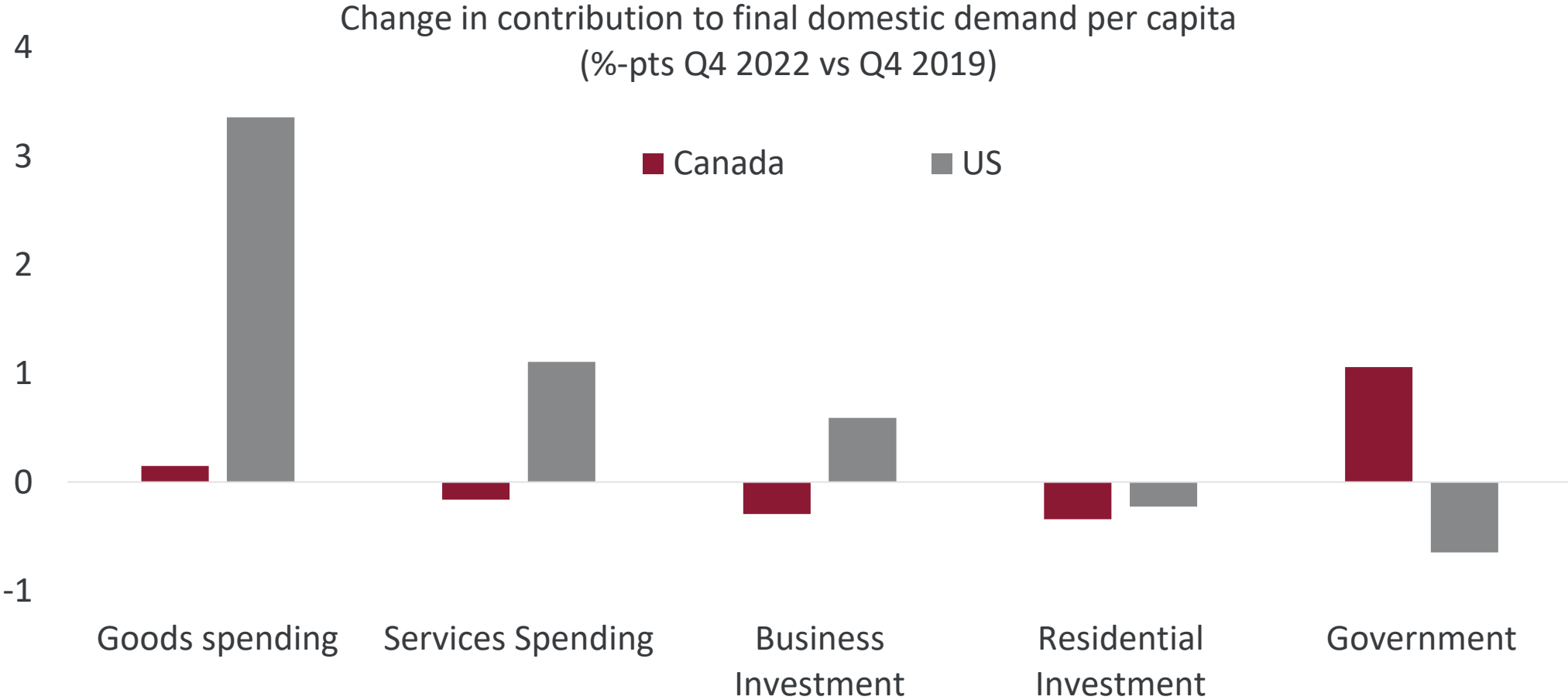
Cushioning the blow: households running down savings and using credit cards again



Source: Statistics Canada, CIBC



US economy is much more overheated than Canada

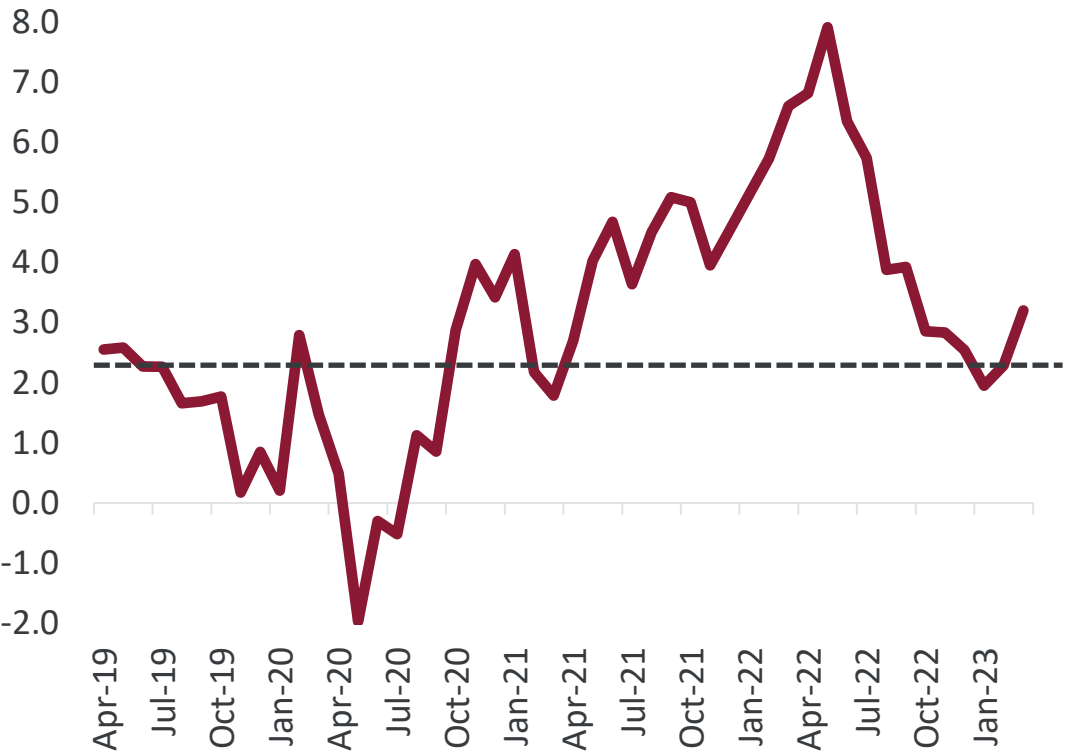


Source: Bank of Canada, Statistics Canada, CIBC

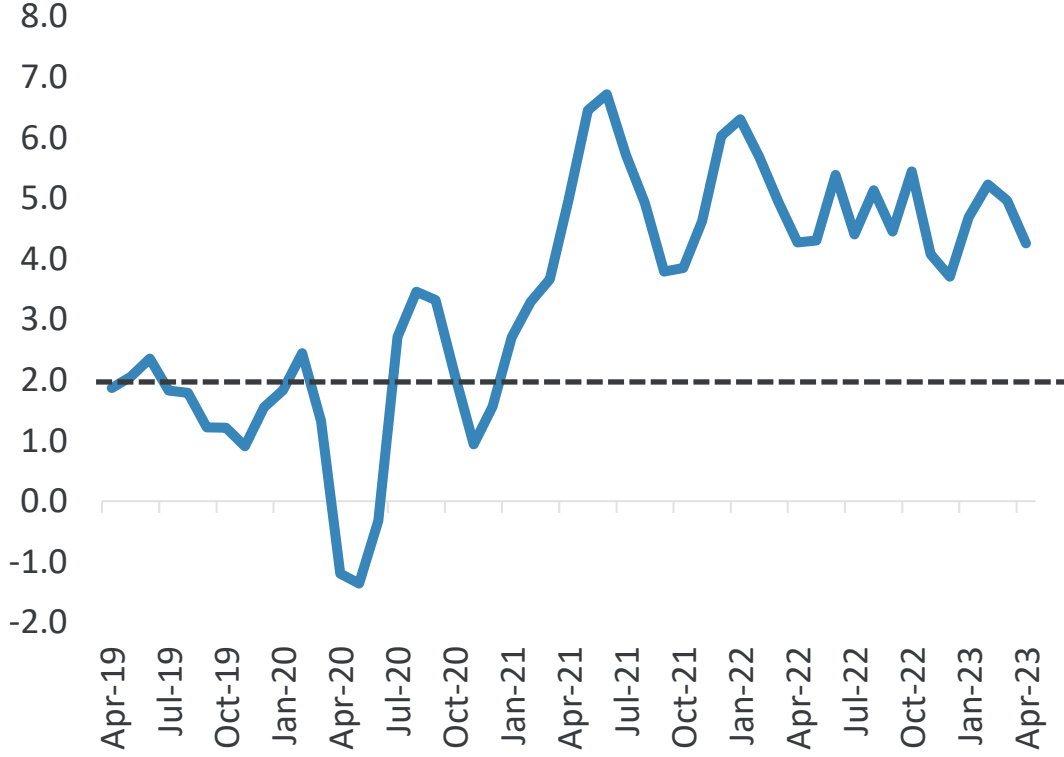


Core inflation has fallen more in Canada than in the US

Canada CPI ex food/energy/mortgage costs
(3-month seasonally-adjusted annualized rate)



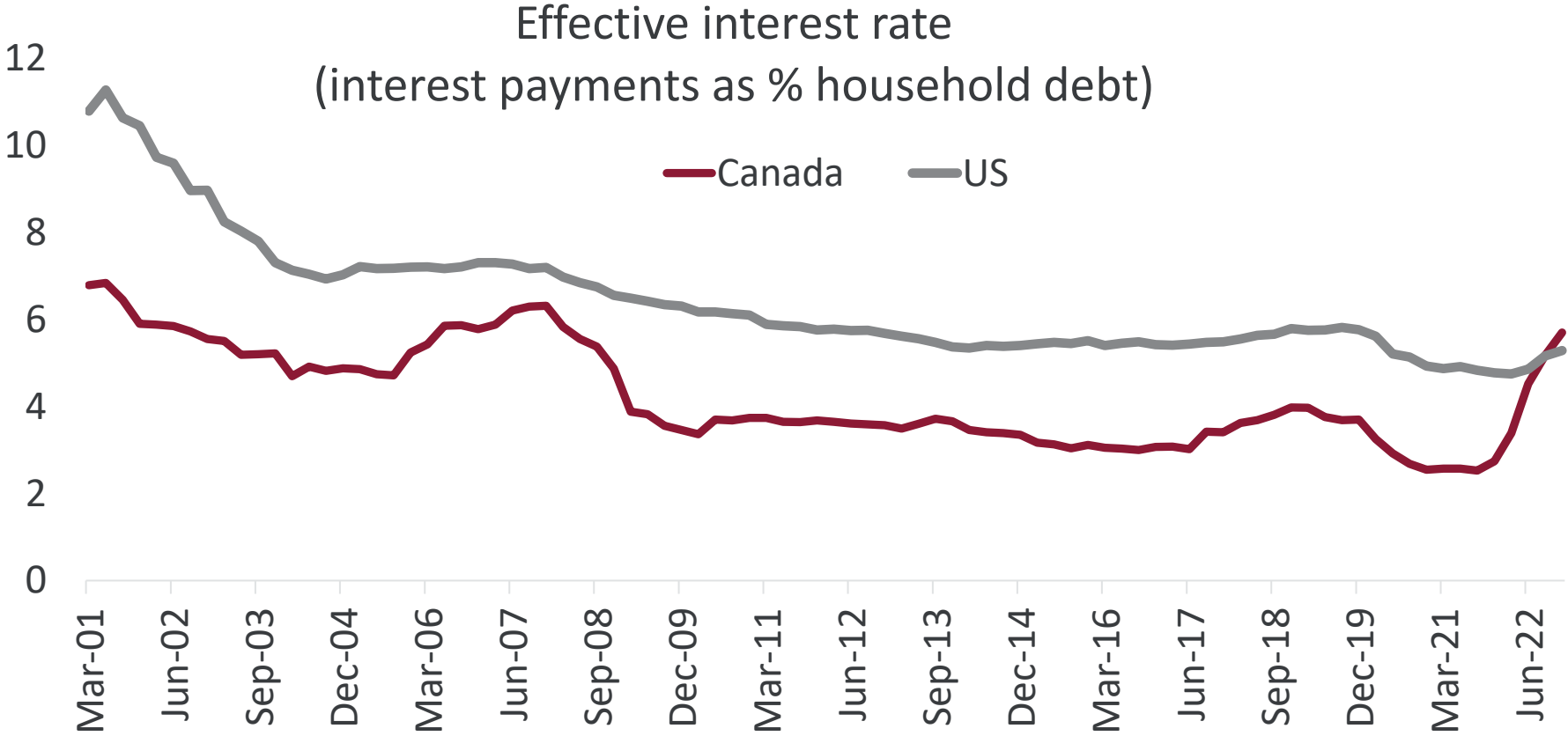
US PCE ex food/energy
(3-month seasonally-adjusted annualized rate)



Source; Statistics Canada, CIBC



Effective interest rate on debt well above pre-pandemic levels for Canada, still below in the US thanks to pandemic-era refinancing/mortgage structure



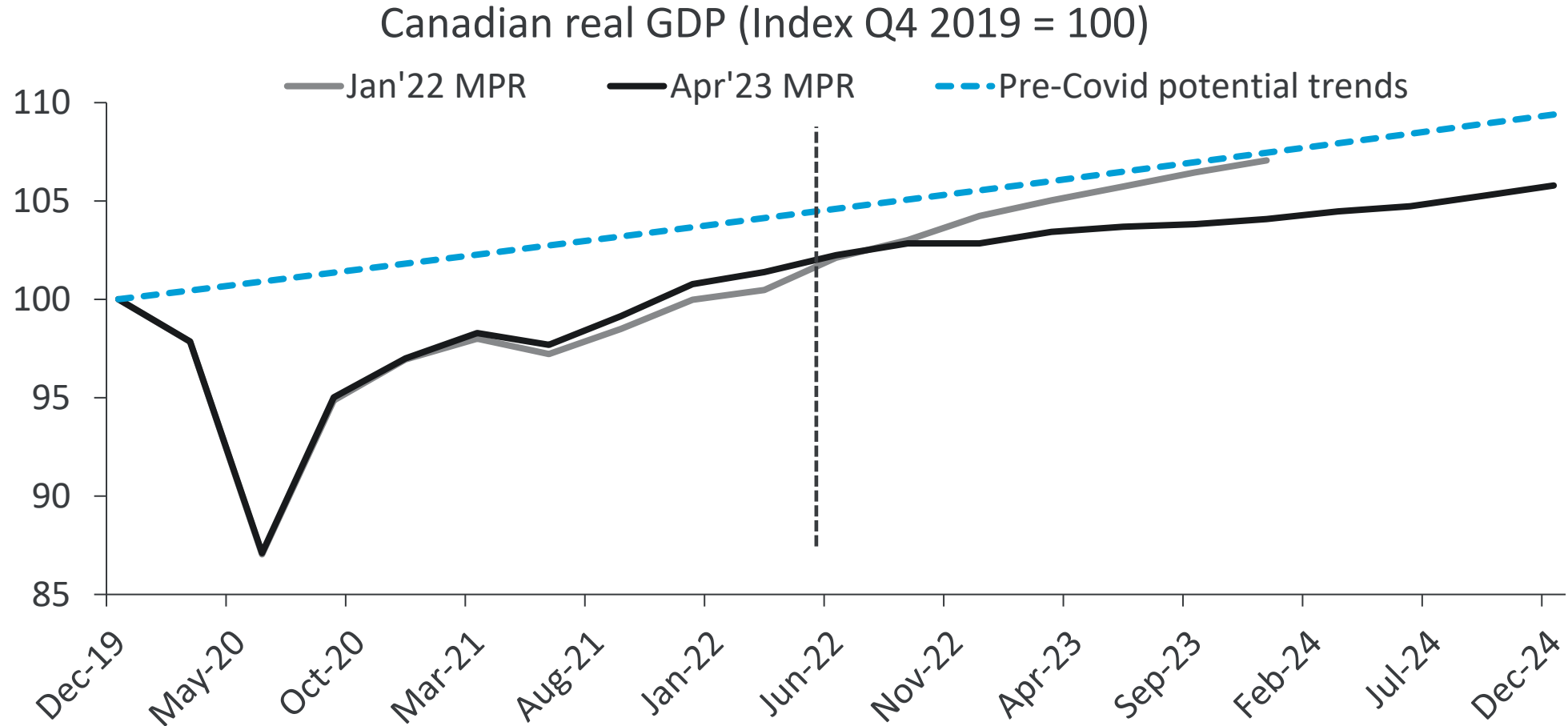
Source: BEA, Statistics Canada, CIBC



Want to know where the Bank of Canada thinks the economy's non-inflationary potential is? Follow the Governor's hand...



...he's been aiming for a lower level of demand.

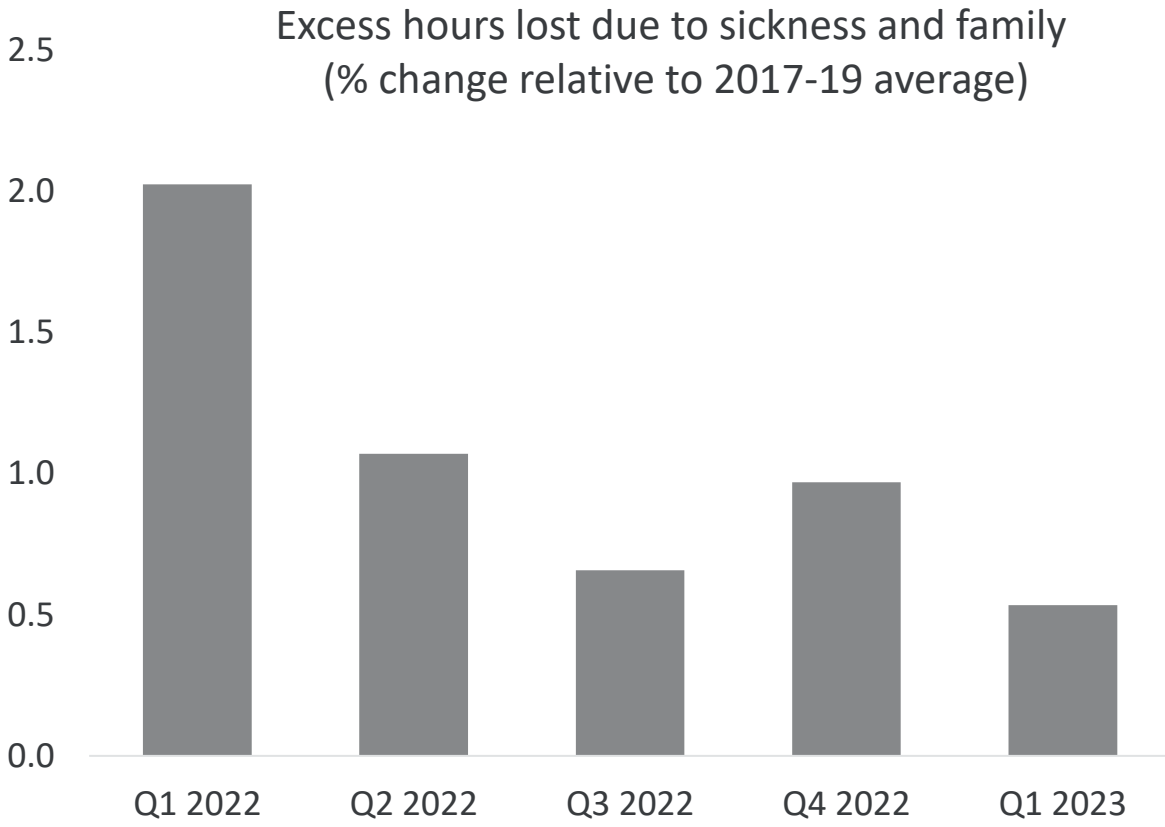


Source: Bank of Canada, CIBC



Stock-to-sales ratio improves (L)

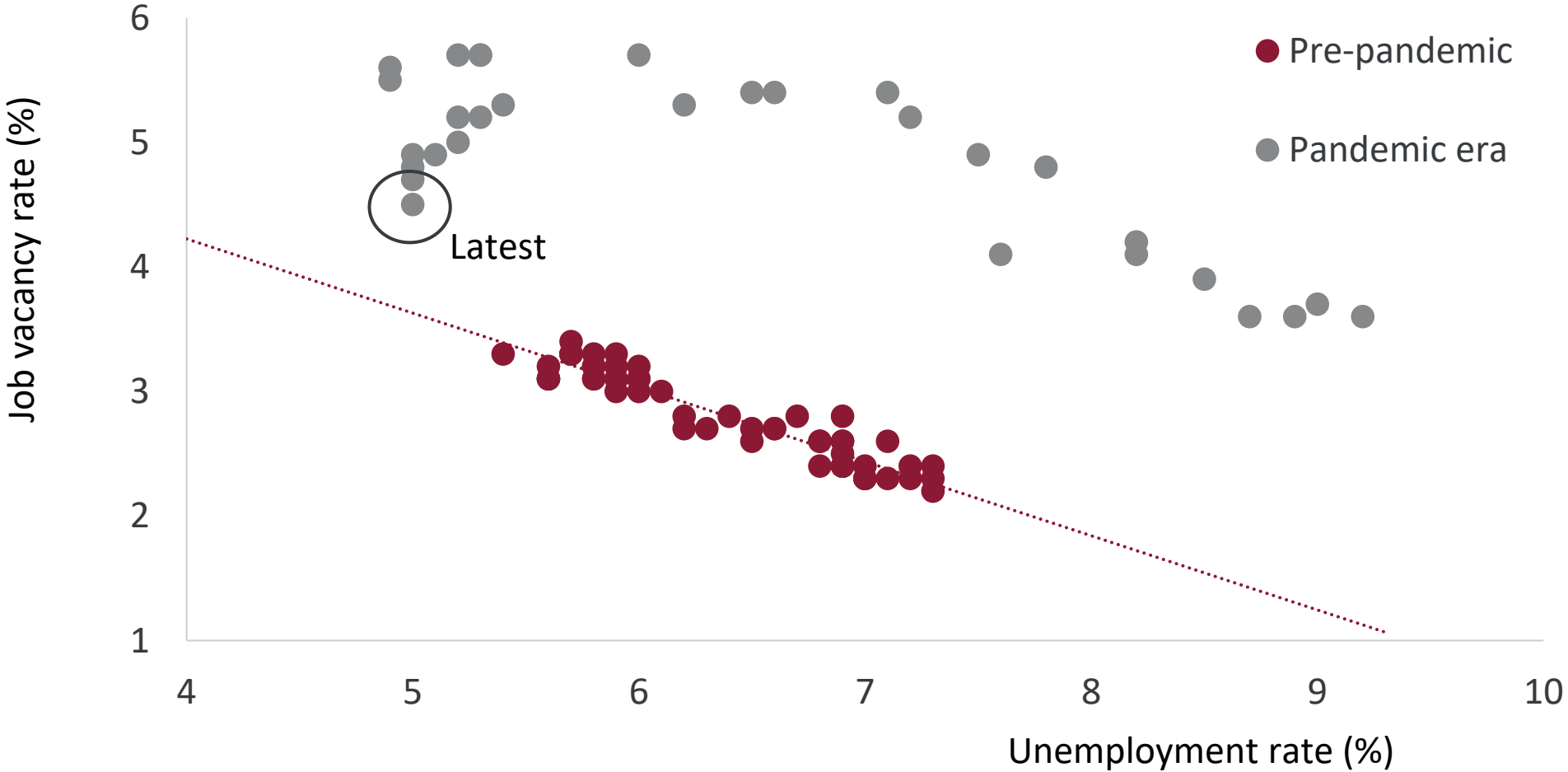
Excess sickness within labour force has eased (R)



Source: Statistics Canada, CIBC



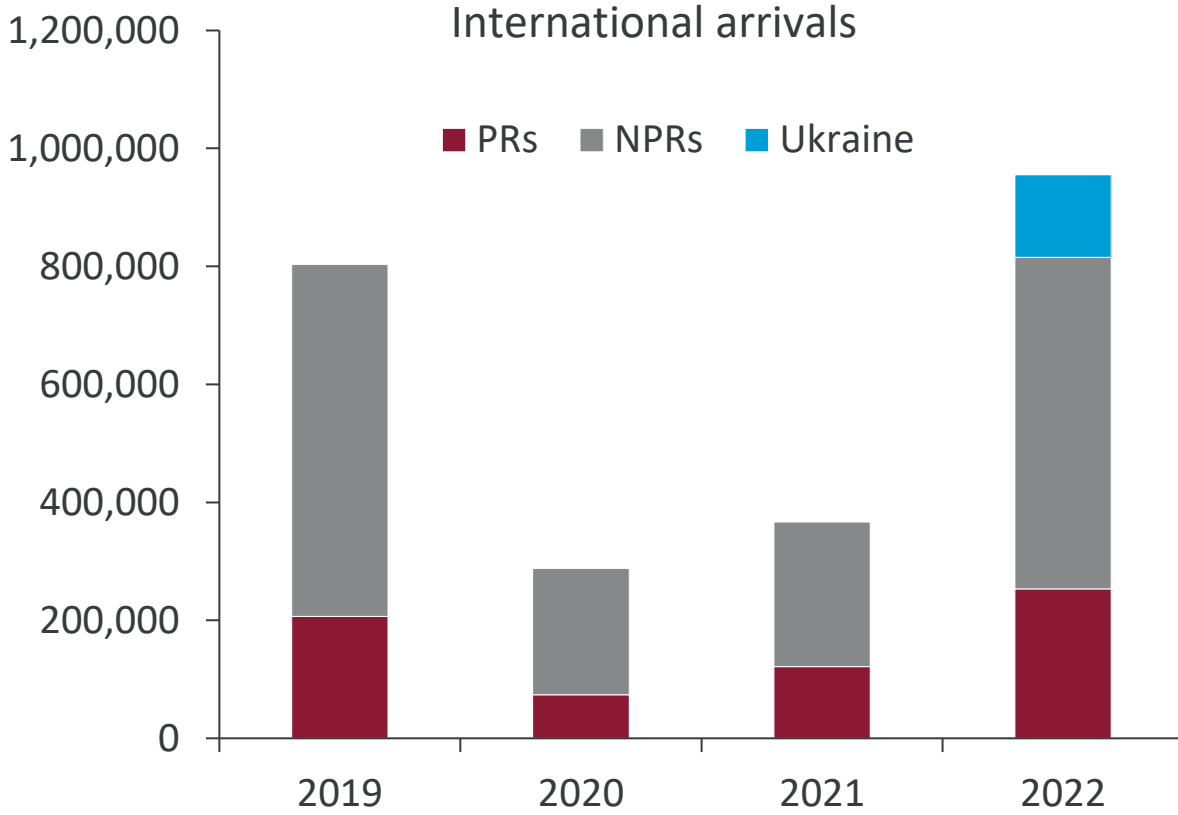
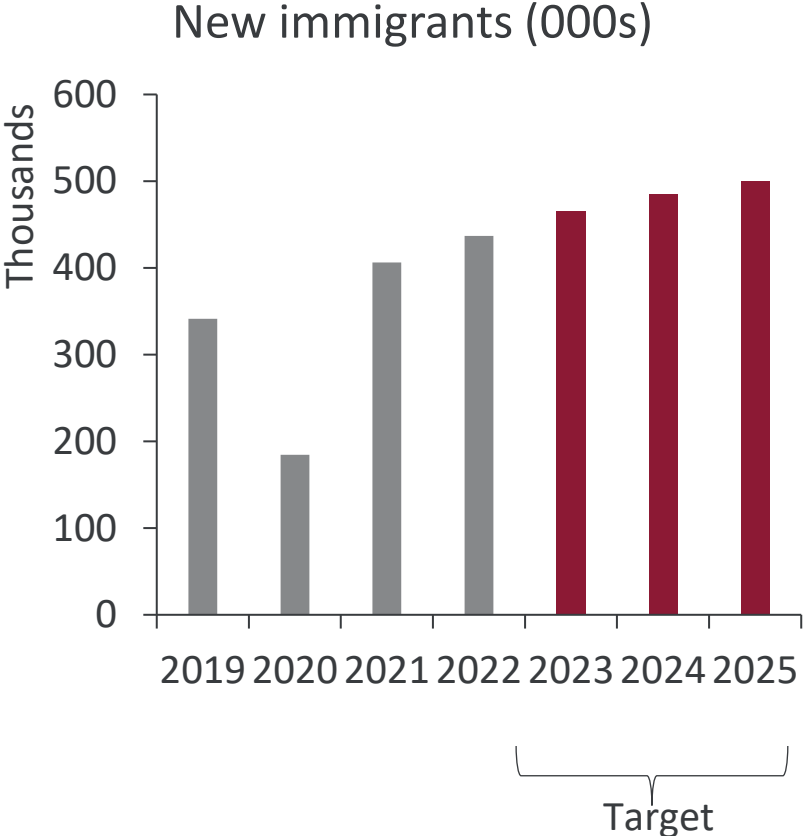
Canadian labour market is normalising, even if unemployment rate remains low



Source: Statistics Canada, CIBC



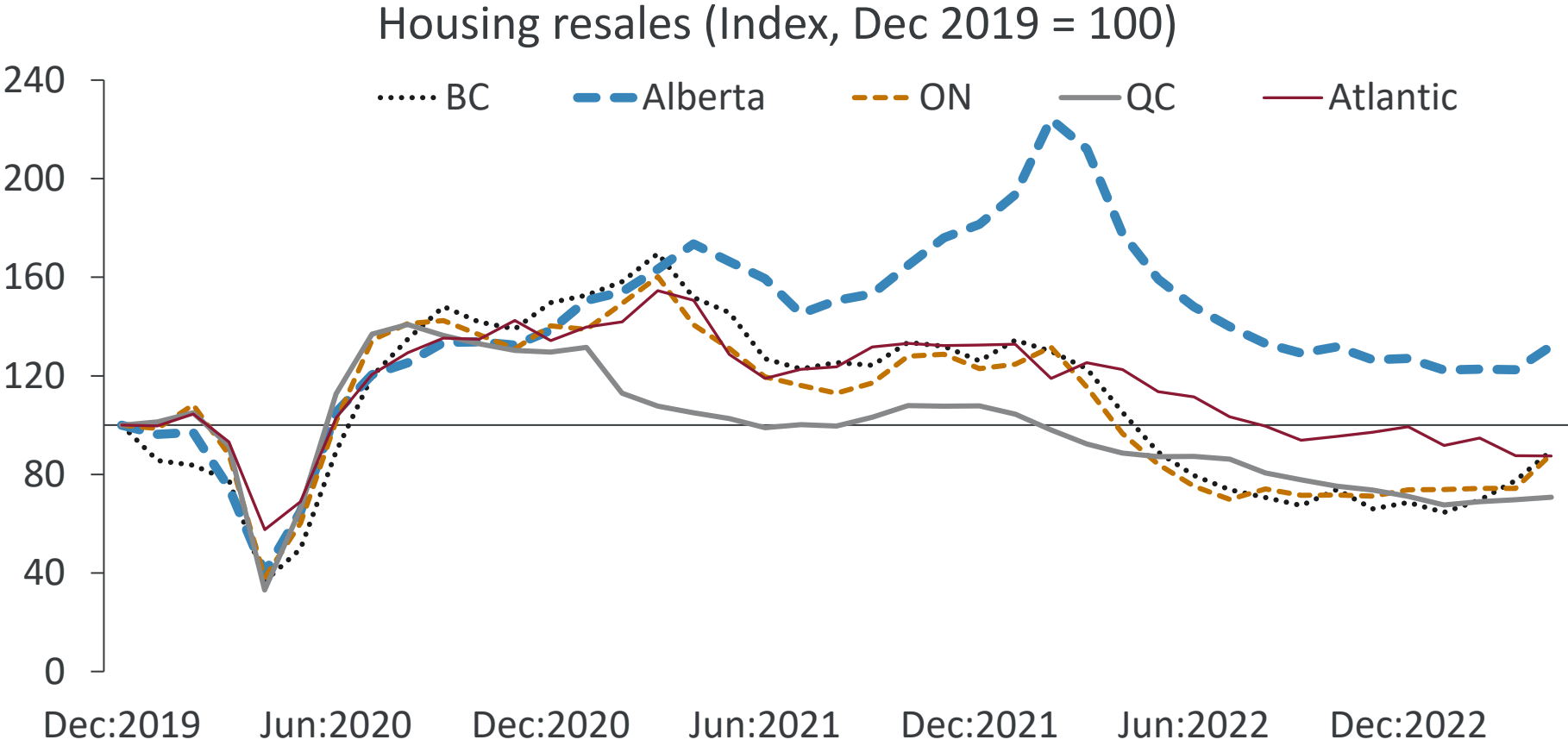
Immigration numbers and targets only tell part of the story



Source: CIBC



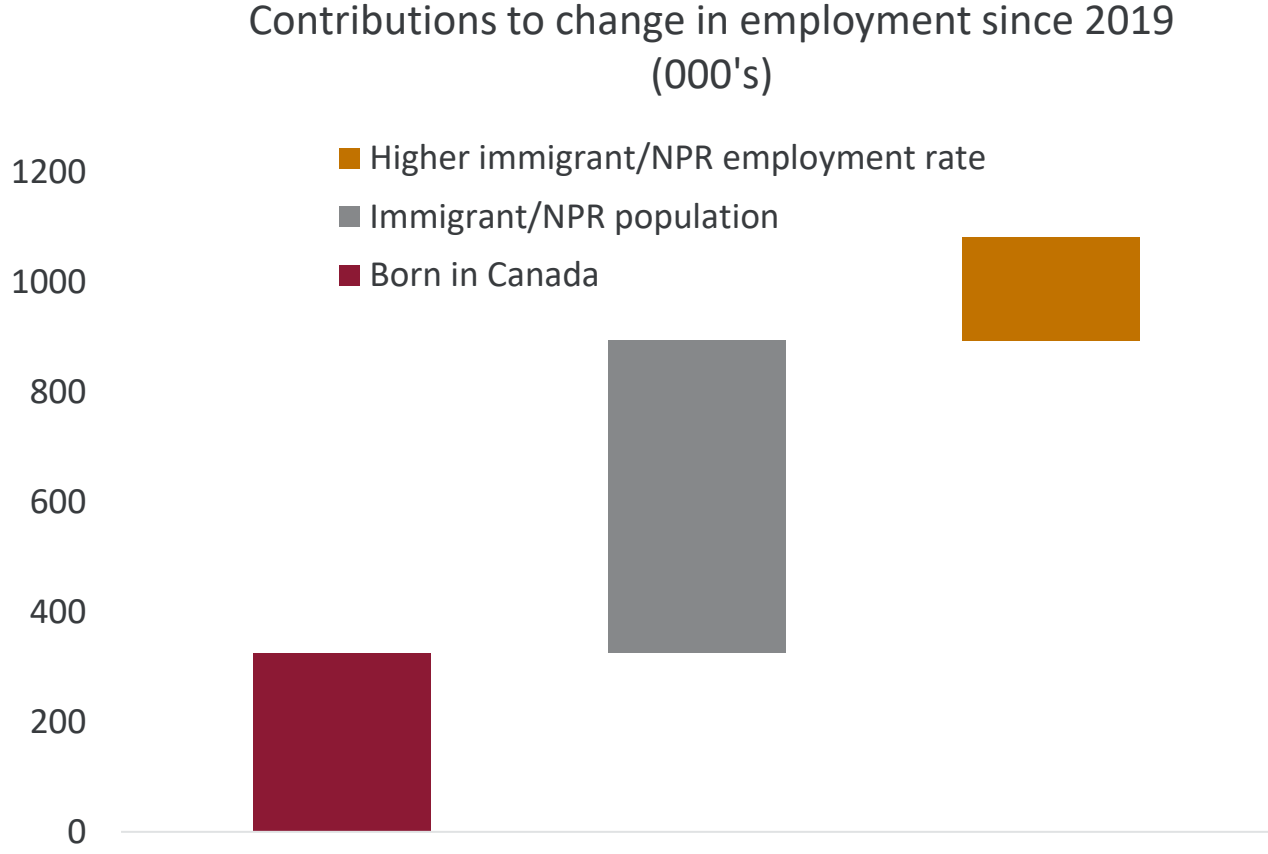
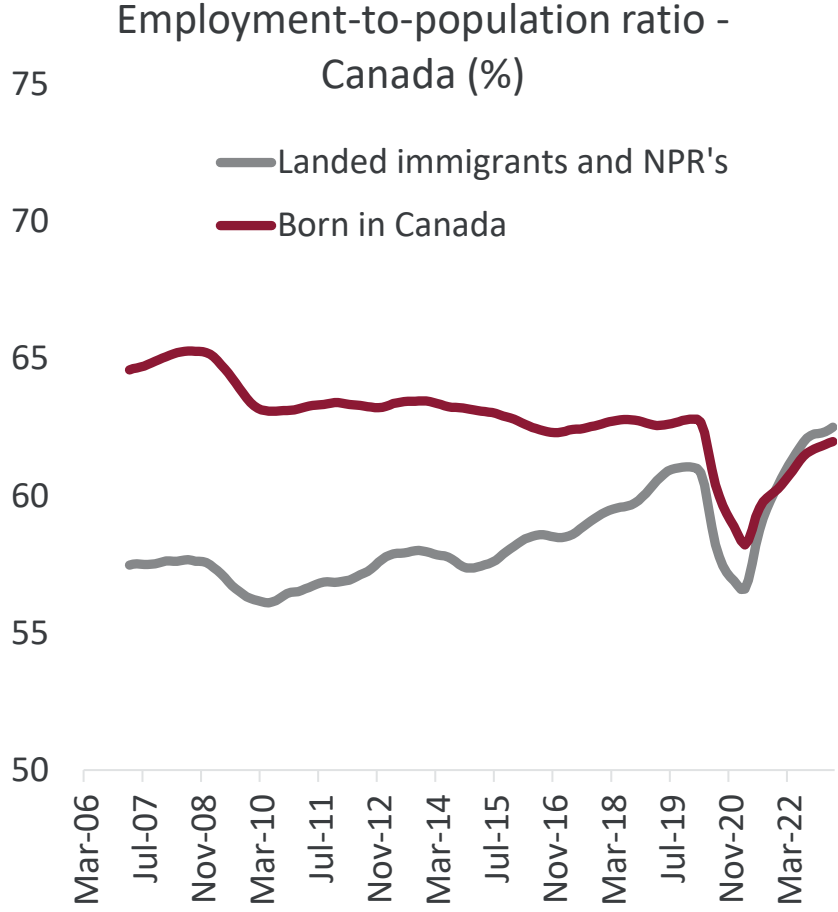
Population and labour force growth helping housing find a stronger footing



Source: CREA, CIBC



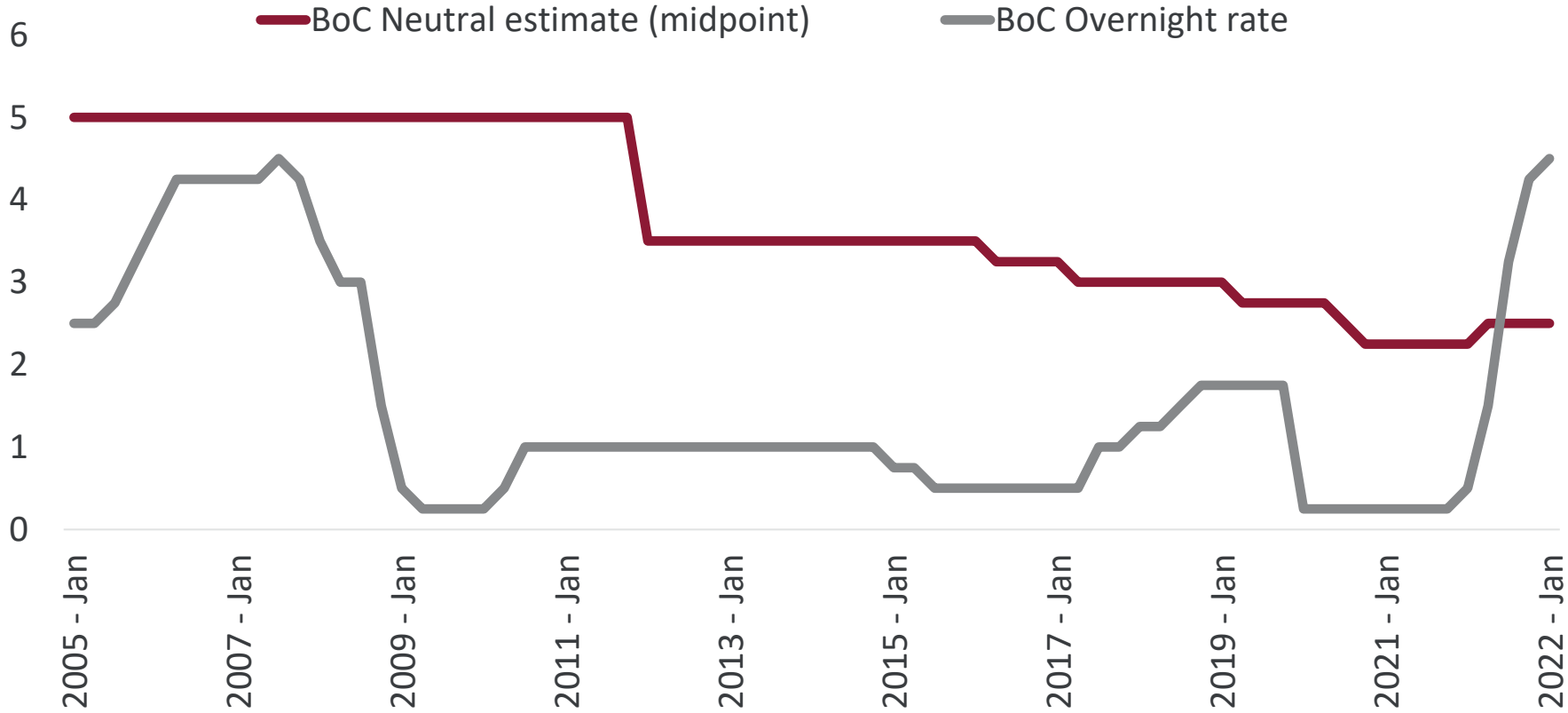
Employment ratios of immigrant population now above those for people born in Canada



Source: Statistics Canada, CIBC



Rate cuts to come in 2024, but what is the new normal?



Source: Bank of Canada, CIBC



Defying gravity. But for how long?

- Canadian economy may not be able to defy the gravitation pull of higher interest rates forever. Characteristics of post-pandemic world mean a longer lag between rate hikes and a slowdown, but won't prevent one
- Immigration is supporting labour supply, which helps to ease inflation, but it is also boosting demand for housing and non-discretionary goods
- Interest rate cuts to start in the first half of 2024. However, rates will stay higher than pre-pandemic levels due to lingering supply constraints. Disposable income for discretionary purchases will be negatively impacted

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