

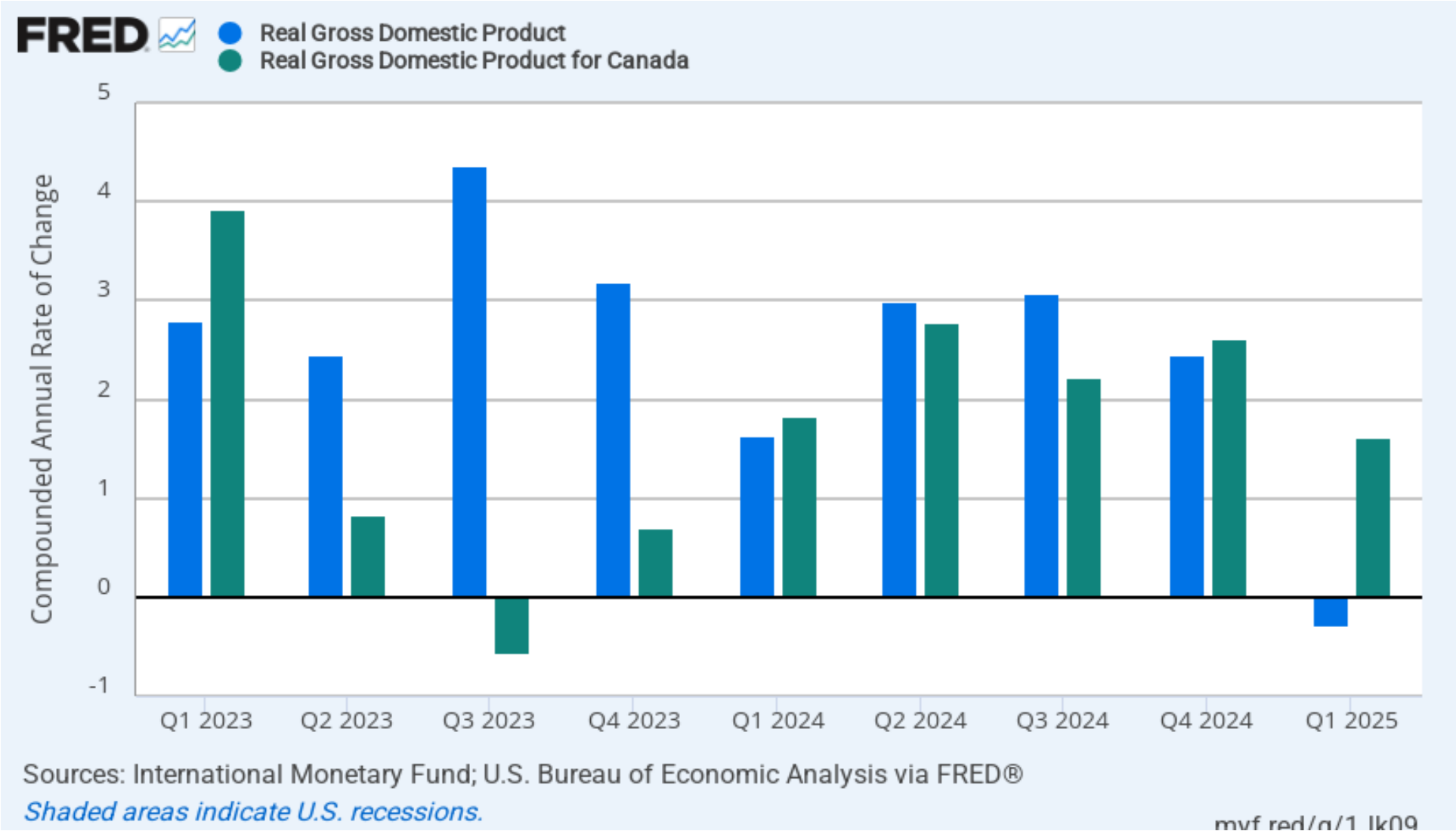
# Economic outlook

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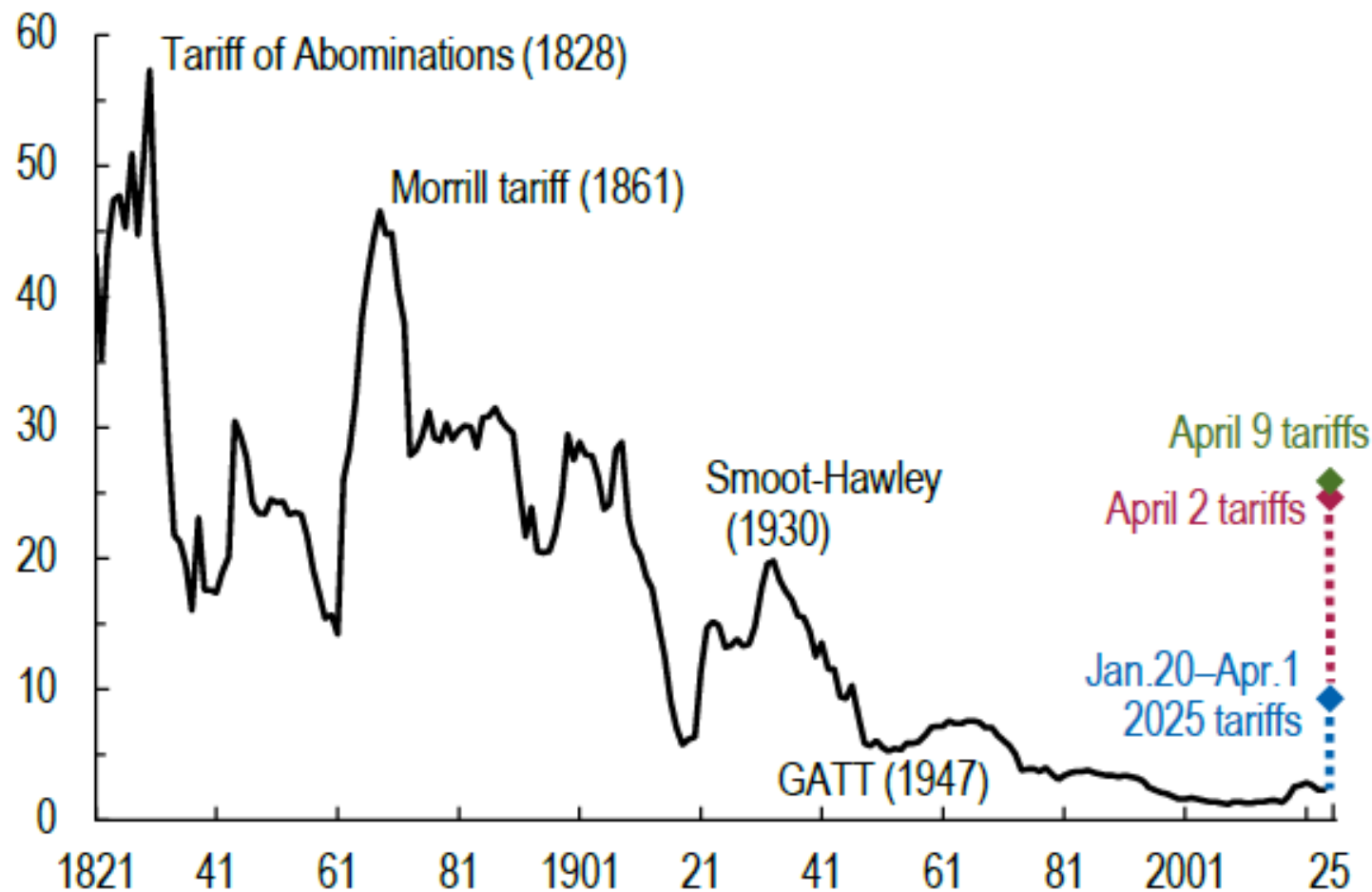


# The US and Canadian economic situation until now



# Liberation Day and beyond

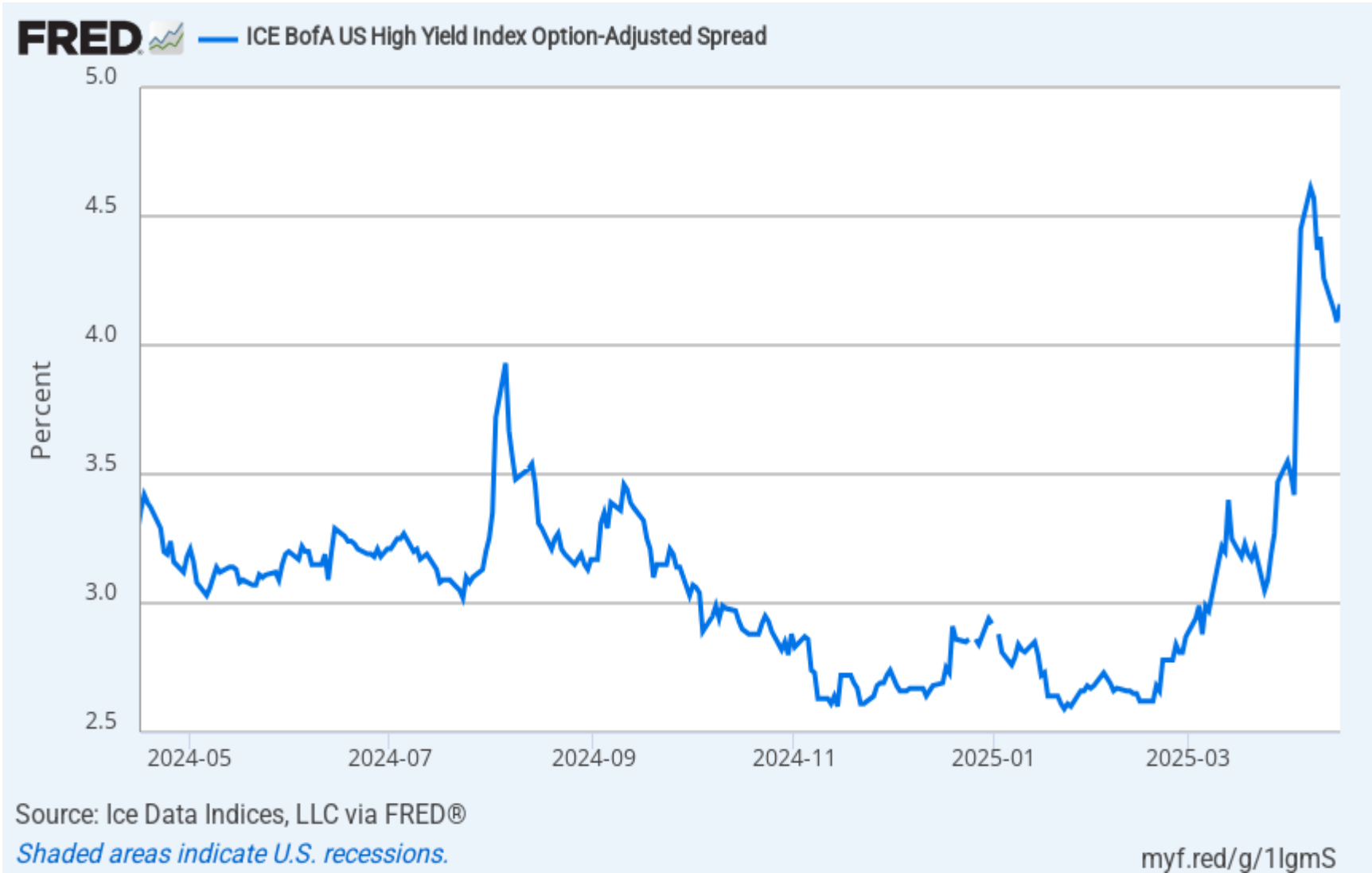
Average US Tariff Rate



# Financial markets react: inflation expectations



# Financial markets react: risk spreads





Source: Board of Governors of the Federal Reserve System (US) via FRED®

Shaded areas indicate U.S. recessions.

[myf.red/g/1lgp6](https://myf.red/g/1lgp6)



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[myf.red/g/1lgpp](https://myf.red/g/1lgpp)

# US impact of tariffs and tariff uncertainty

- Frontloading of imports to US
- Frontloading of US consumer and business spending
- Stalled business spending on longer term projects
- Stalled US retail spending after tariffs introduced
- Sharp decline in US consumer sentiment
- Sharp increase in consumer expectations of inflation
- Sharp decline in shipments from China
- Declining global role of US dollar



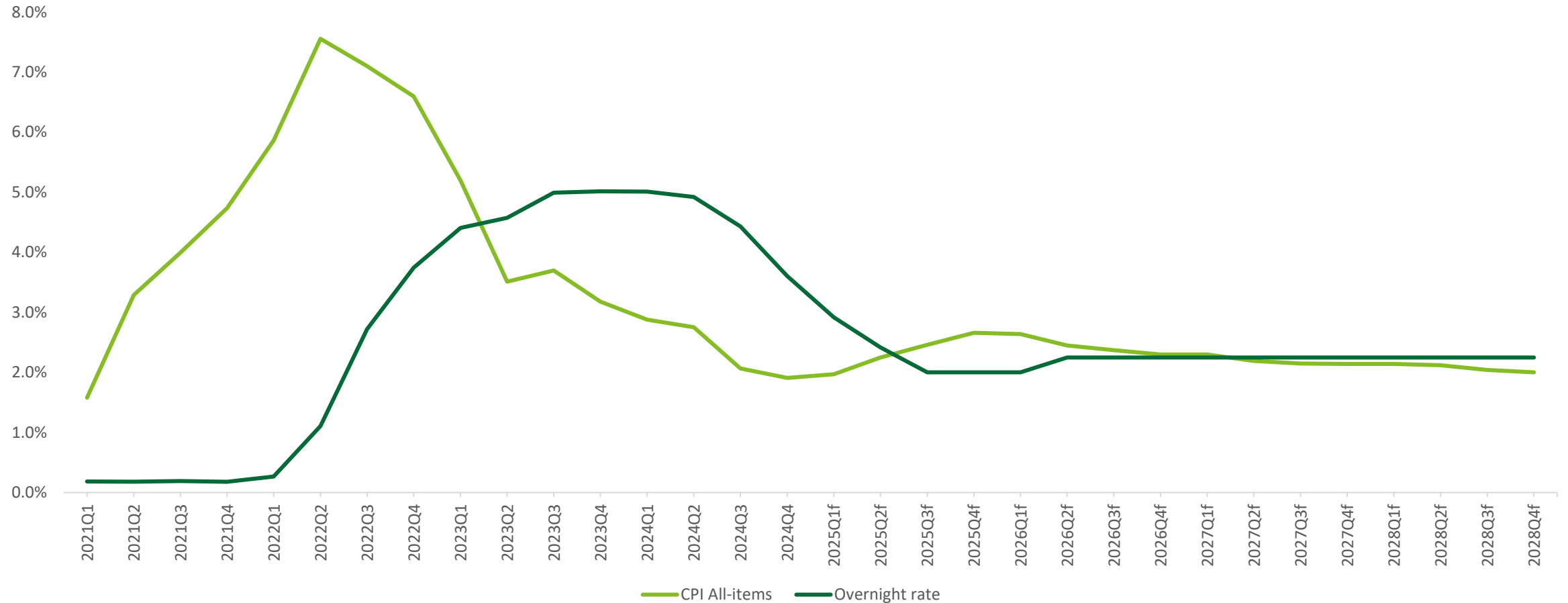
# Canada: impact of US tariffs and tariff uncertainty

- Canada and Mexico face uncertainty about tariffs. This creates uncertainty about everything else.
- Recession in Mexico and slowdown in Canada likely
- Countries consider strategies for dealing with US:
  - Retaliate strongly: China
  - Get Trump to delay: EU, Canada, Mexico
  - Cosmetic concessions: Canada, Mexico, Japan
  - Boost trade with others: everyone
  - Boost domestic demand through monetary and fiscal easing



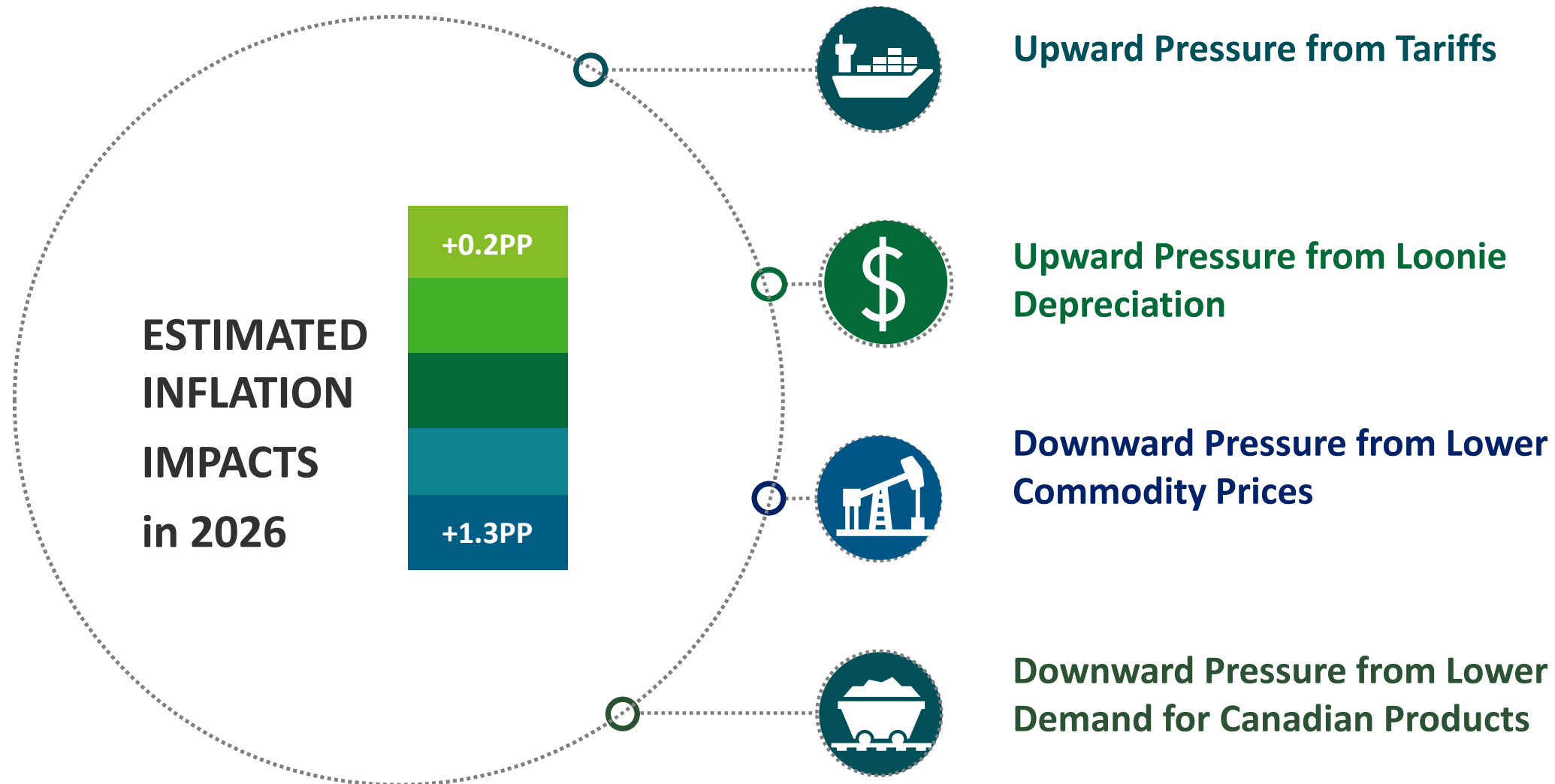
# Tariffs are expected to temporarily push up Canadian inflation

Consumer price index (year-over-year percent change) and Overnight rate (per cent)



Sources: Statistics Canada; Deloitte. f = forecast

# A trade war is expected to result in slightly higher prices in Canada



Sources: Bank of Canada; Deloitte

# North American trade



# Europe

- US threatens to abandon Ukraine and NATO
- European leaders shaken
- Germany amends constitution and allows borrowing for defense and infrastructure
- Massive fiscal stimulus will boost growth, increase borrowing costs, boost value of euro
- US tariffs and retaliation will hurt growth

## Germany ten-year bond yields



# China

- Weak economic growth
- Fiscal and monetary stimulus combined with structural reforms aimed at boosting growth
- Trade dispute with the US threatens economic growth. China responds by:
  - Retaliating with tariffs
  - Putting pressure on US through export restrictions and cutting purchases of airplanes, food, and natural gas
  - Boosting domestic demand and seeking trade opportunities elsewhere

# What to expect from the US

- Some investors engage in the TACO trade
  - They expect no significant impact from trade war
  - They focus on US fiscal and regulatory policy
- Yet tariffs remain very high.
  - Higher US inflation in short term
  - Slower US growth
  - Difficult choices for Federal Reserve



# Plausible scenarios:

- US retains high tariffs and engages in fiscal stimulus
- US negotiates lower tariffs and commitments by other countries to purchase more US products
- Unpredictability continues. US imposes some high tariffs, provides some exemptions, negotiates some reductions, threatens new tariffs

