



CIBC CAPITAL MARKETS

Navigating the path back down

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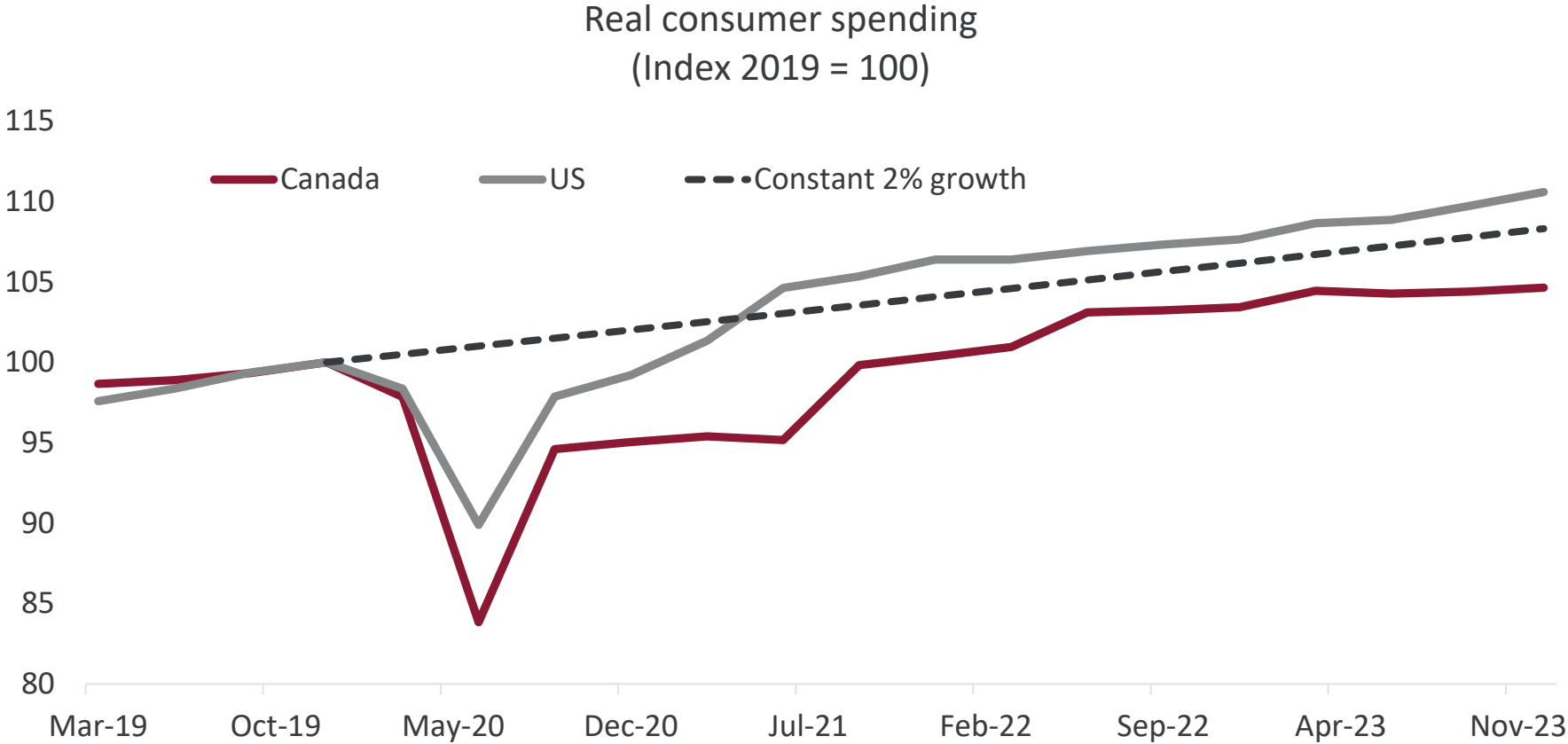
Leaving the interest rate summit



The path back down can still be difficult



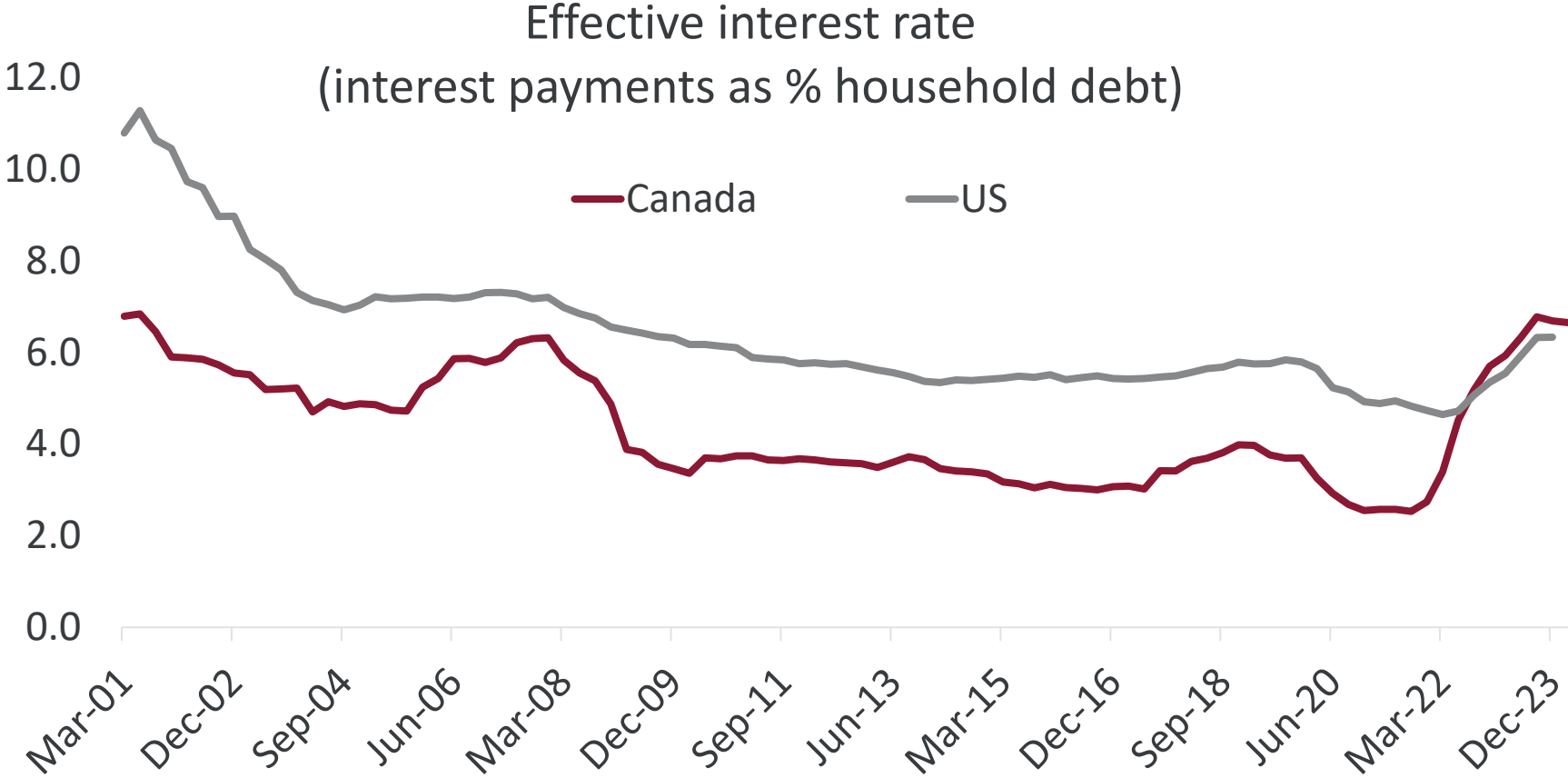
Is US demand still too strong to bring sustained 2% inflation?



Source: Statistics Canada, BEA, BLS, CIBC



Interest rates paid by US households move much more slowly than in Canada due to mortgage structure



Source: BEA, Statistics Canada, CIBC



“Soft landings” actually more common in Canada than the US

United States

Date of Peak Rates	Landing
1981Q3	Hard
1984Q3	Hard
1989Q2	Hard
1995Q3	Soft
2000Q4	Hard
2006Q3	Hard

Canada

Date of Peak Rates	Landing
1981Q3	Hard
1984Q3	Hard
1990Q2	Hard
1995Q1	Soft
2000Q4	Soft
2006Q2	Hard
2014Q4	Soft

Source: BEA, Statistics Canada, CIBC

“A recession or not a recession, that is the question”



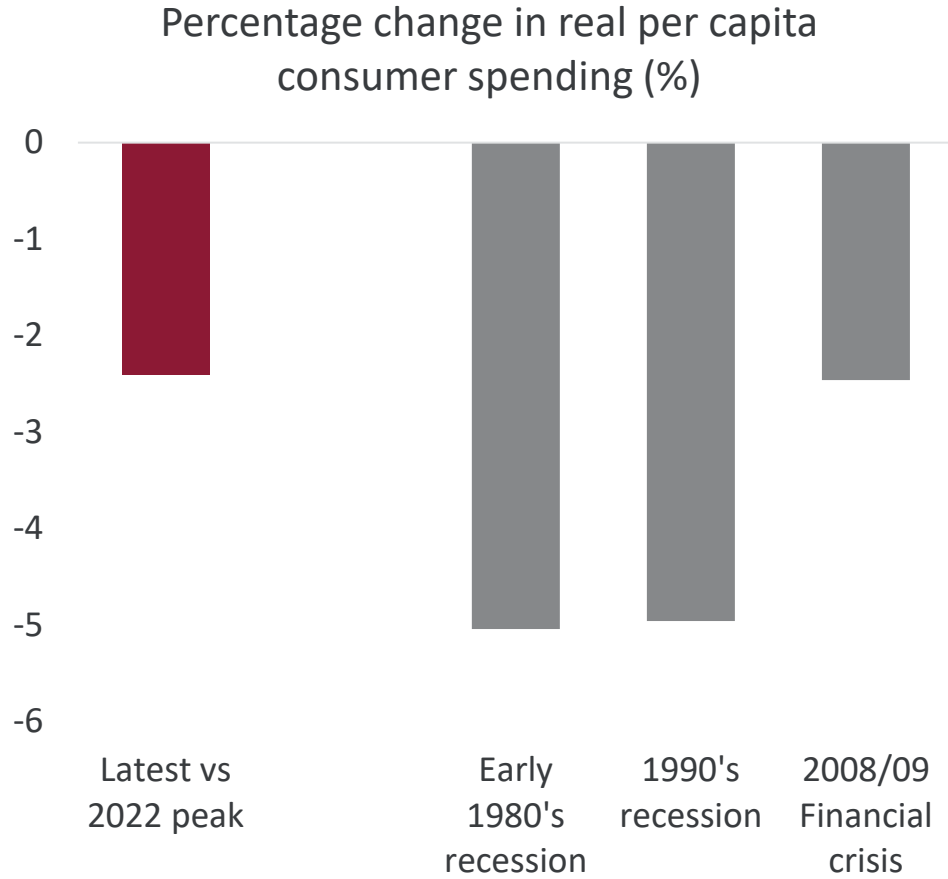
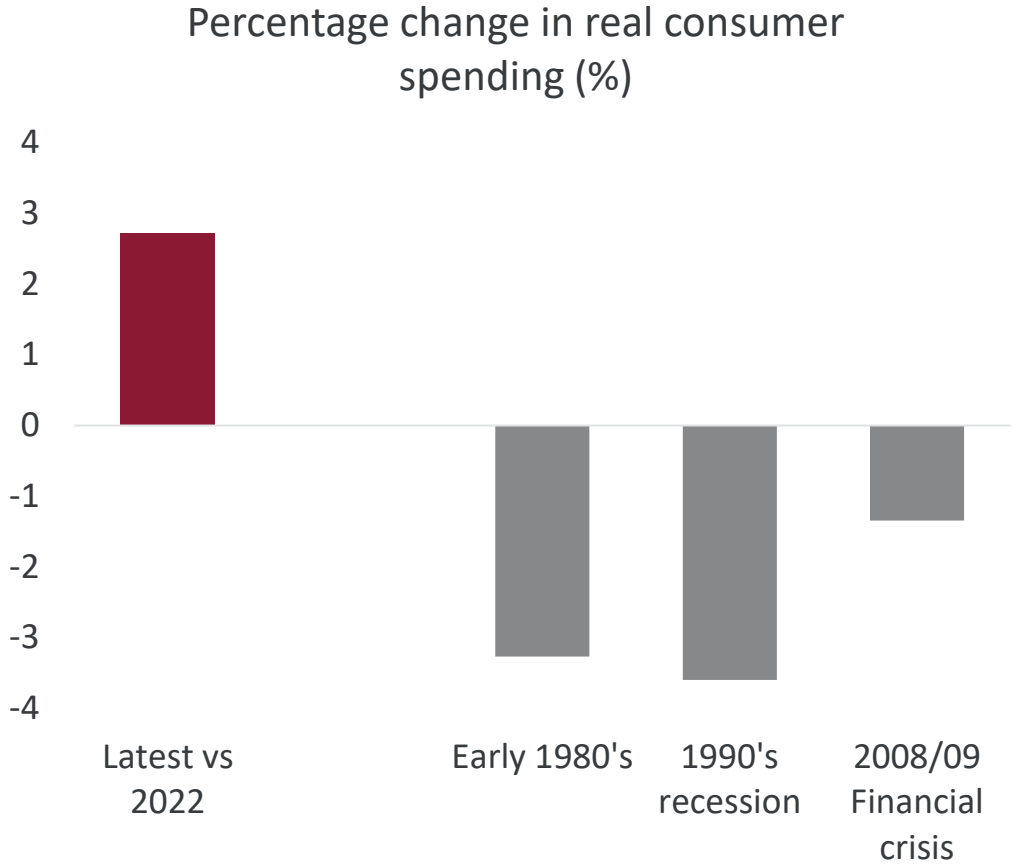
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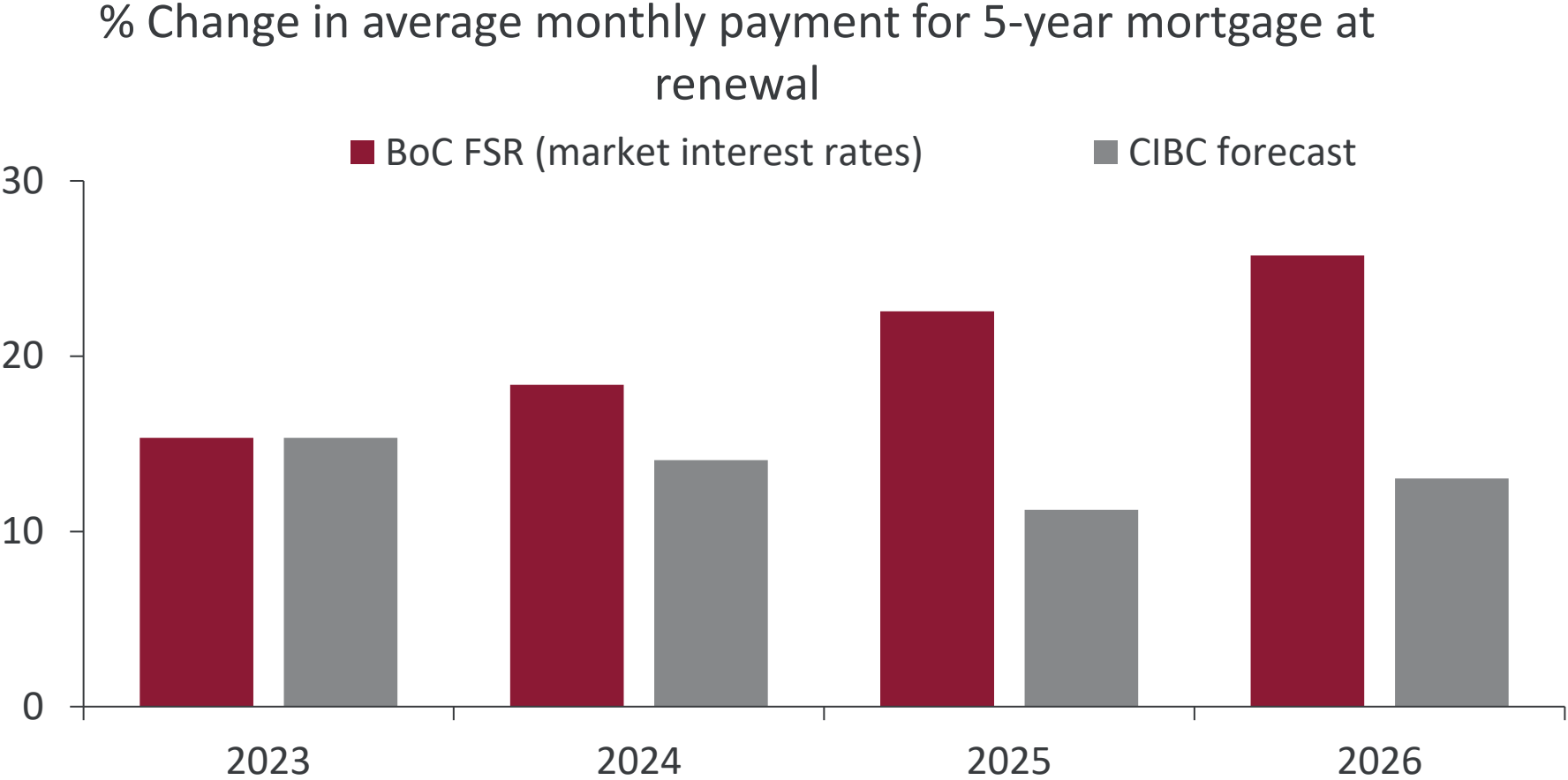
Per-capita consumer spending already declining similarly to prior recessions



Source: Statistics Canada, CIBC



Bank of Canada will have to cut more than markets currently expect to stimulate the economy

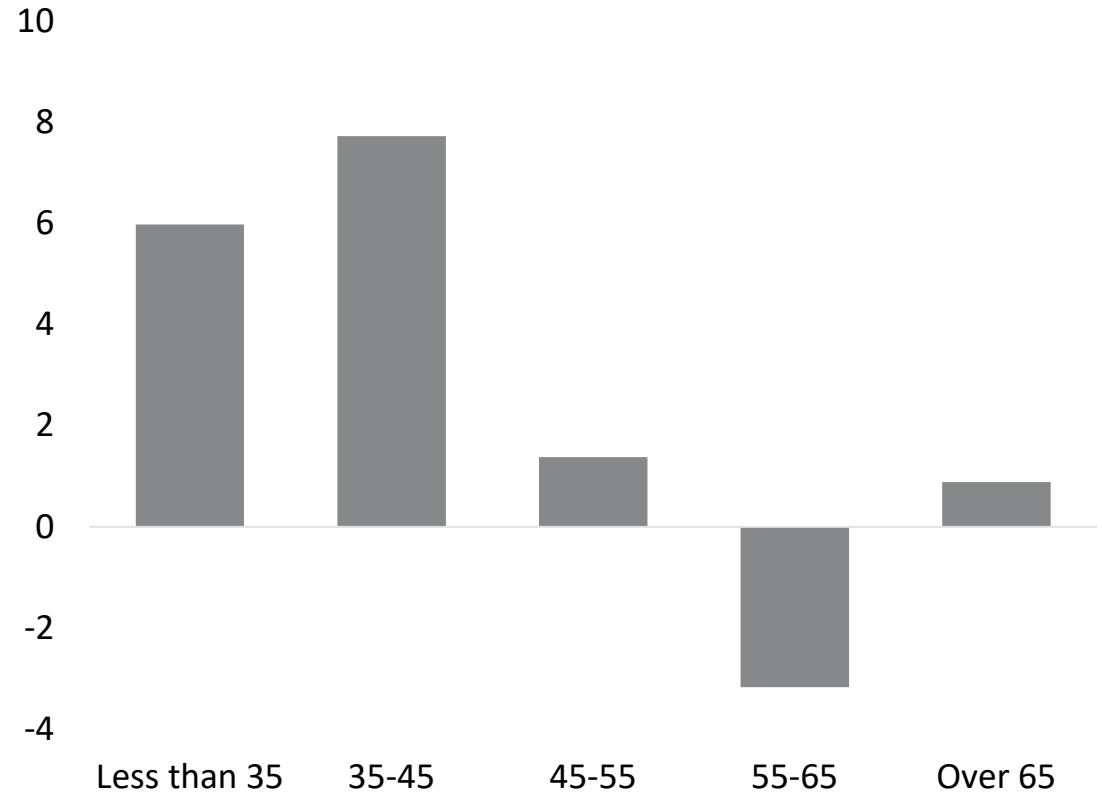


Source: Statistics Canada, BoC, CIBC

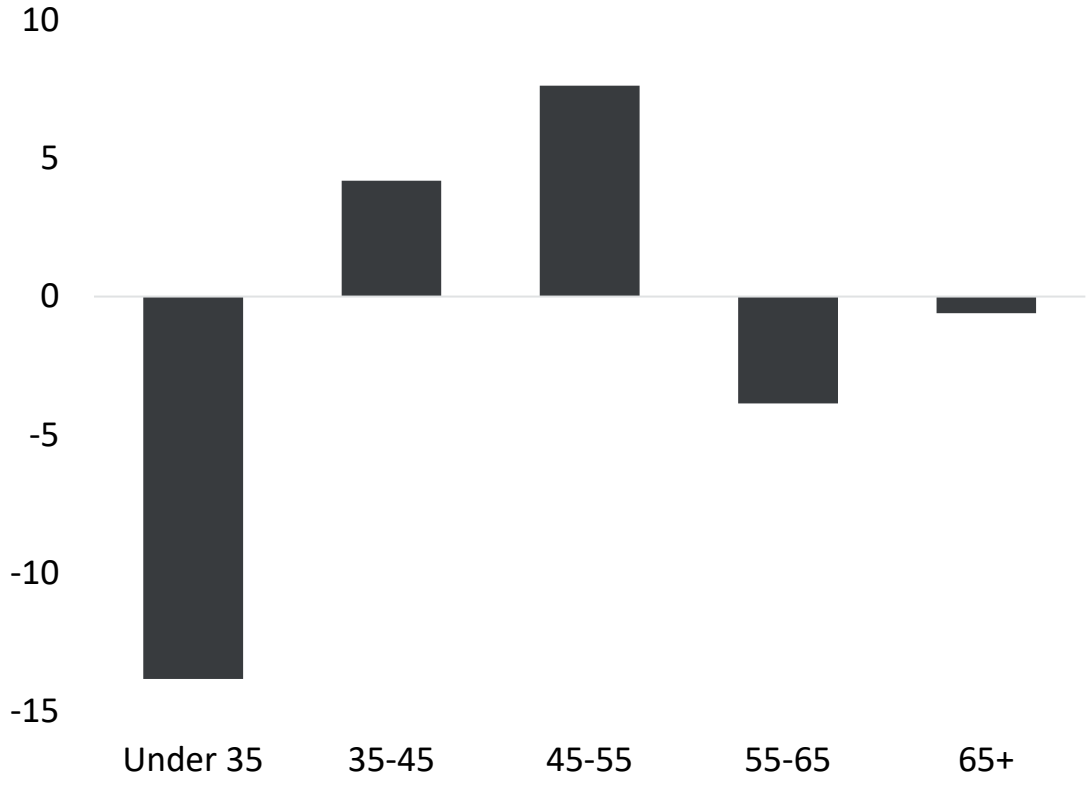


Younger Canadians are becoming more prudent: Good for longer-term stability but problematic for near-term growth

Change in savings (latest 4 qtrs vs pre-pandemic avg, %-pts disposable income)



Change in debt-to-income ratio by age group
(%-pts latest vs 2017-19 avg)



Source: Statistics Canada, CIBC



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

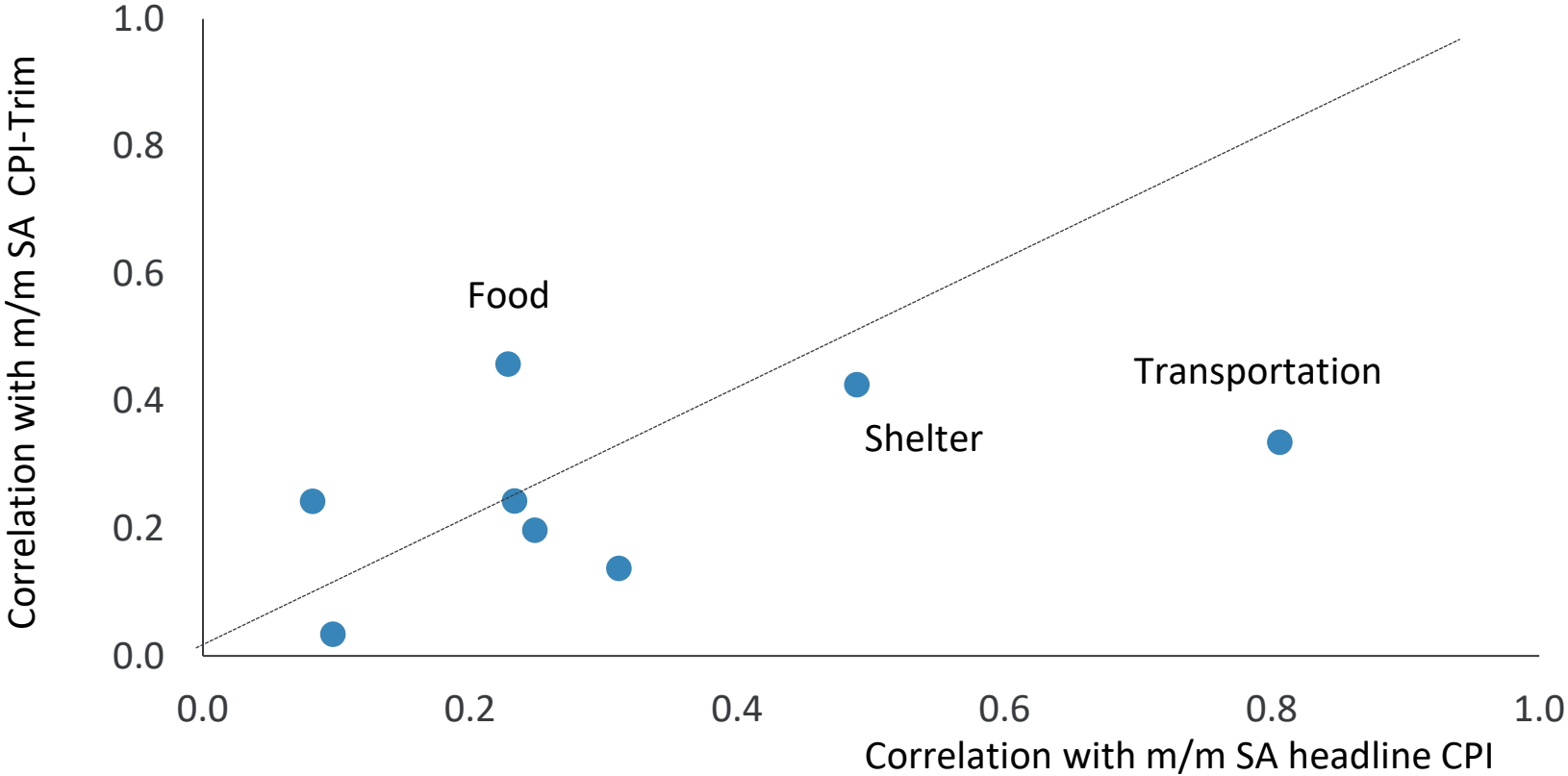
	y/y%	y/y% 3mma	6-mo% ann.	3-mo% ann.
CPI	2.7	2.8	2.0	2.3
Ex. food/energy	2.7	2.8	2.2	1.9
CPIX	1.6	1.9	0.9	0.5
Trim	2.9	3.1	2.5	1.8
Median	2.6	2.9	2.3	1.5



Source: StatCan, CIBC



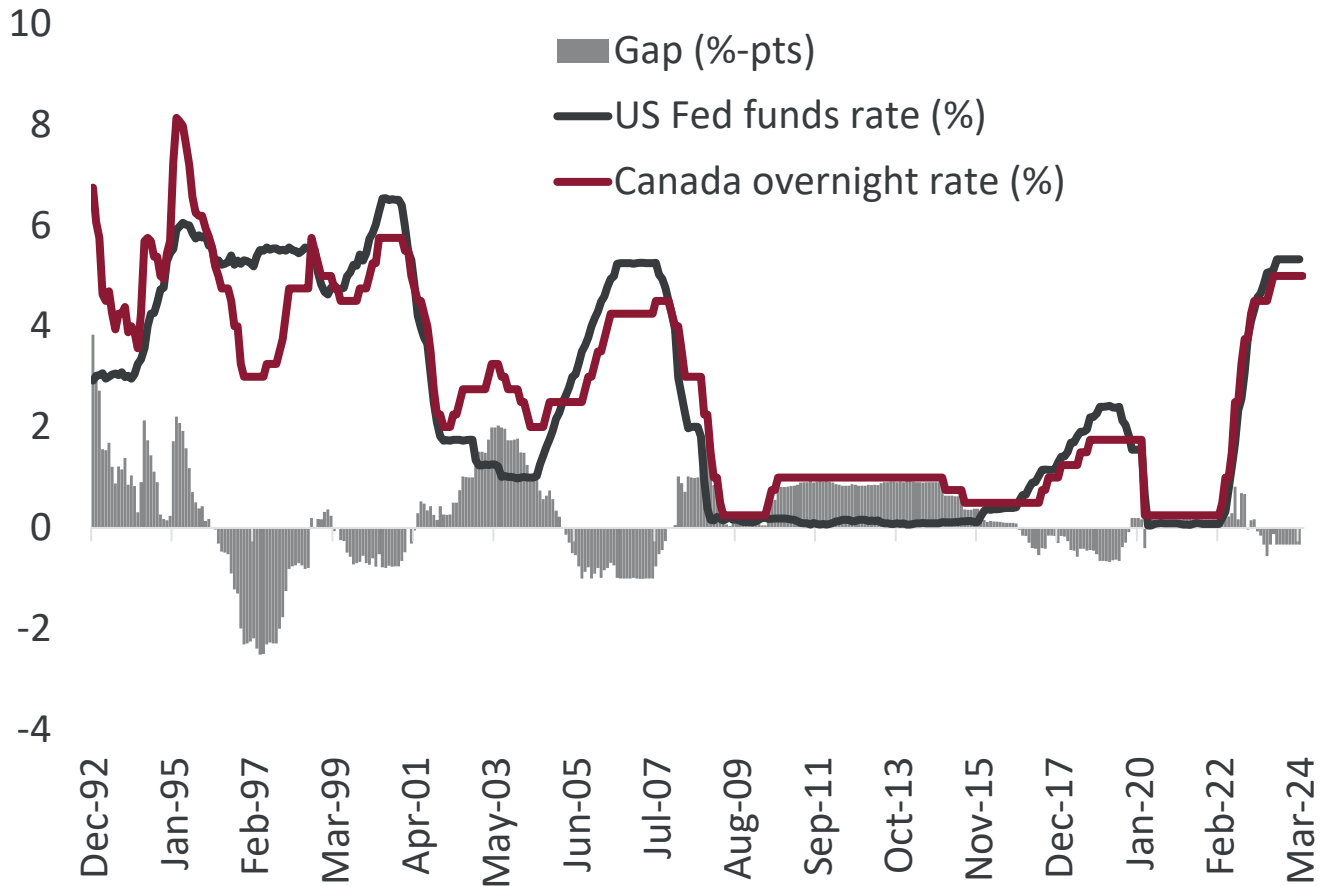
Food price inflation had been key in keeping some core measures elevated, but it is now easing



Source: Statistics Canada, CIBC



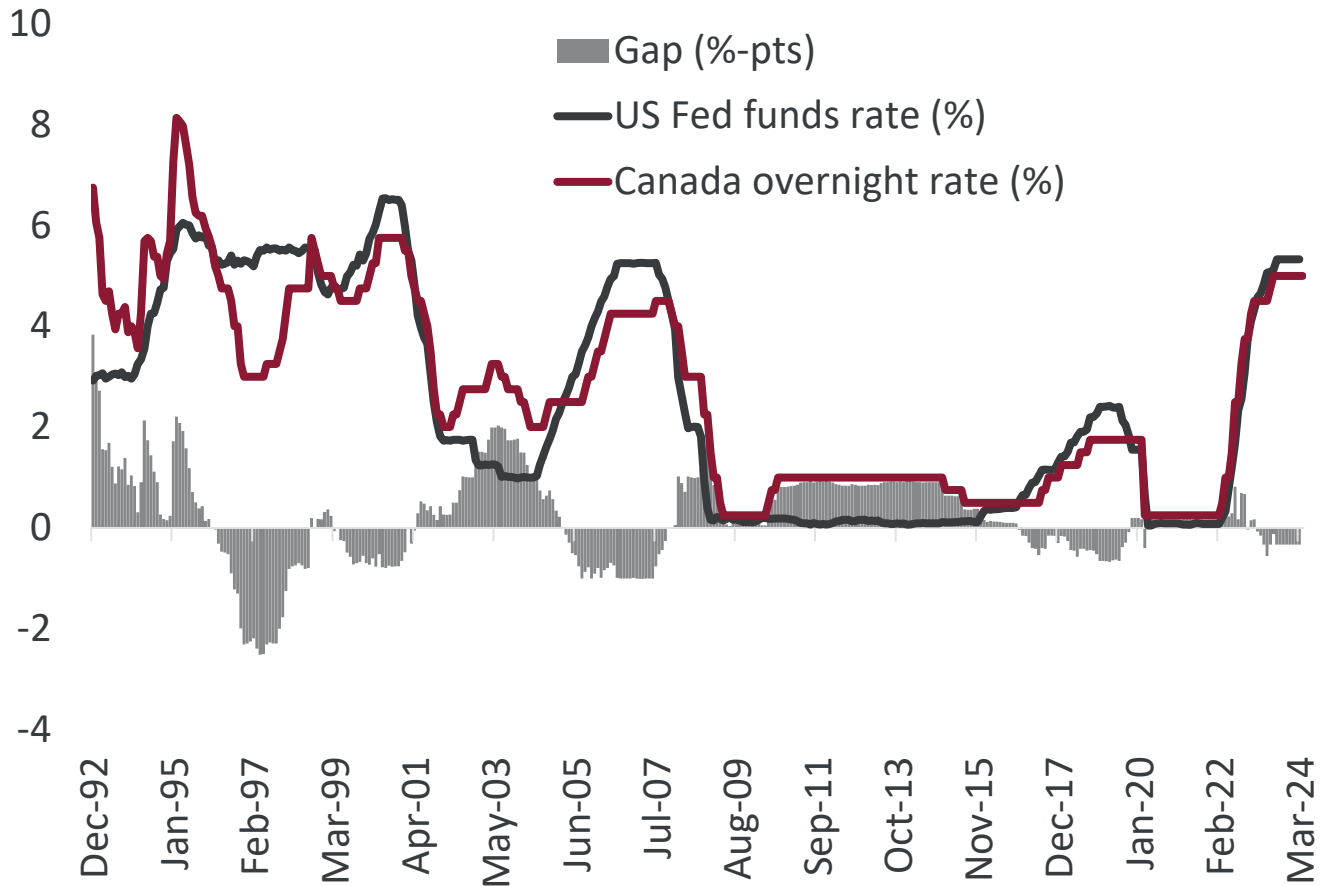
Mind the gap. How far can the BoC diverge from the Fed?



Source: Bloomberg, CIBC



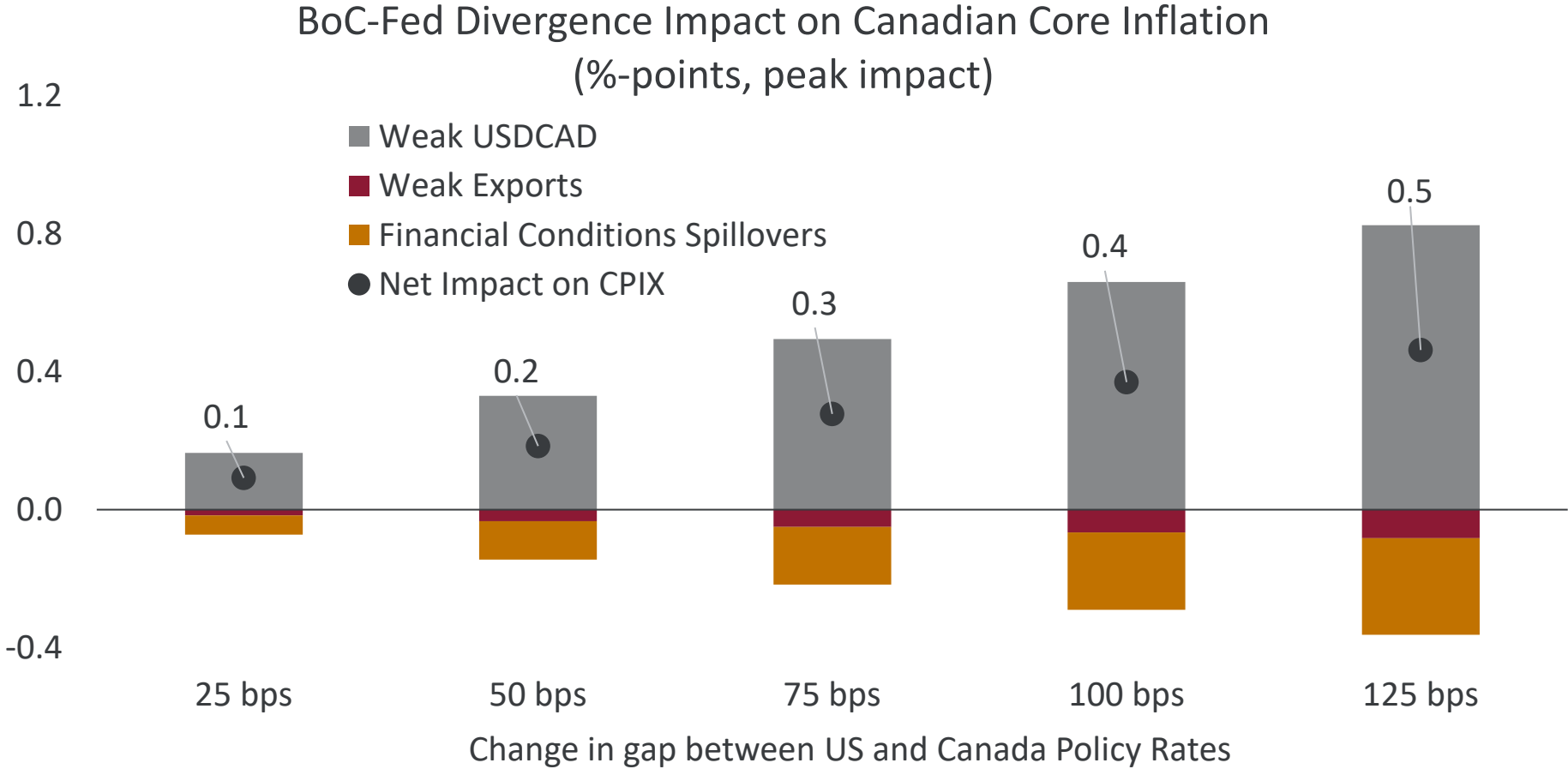
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Source: Bloomberg, CIBC



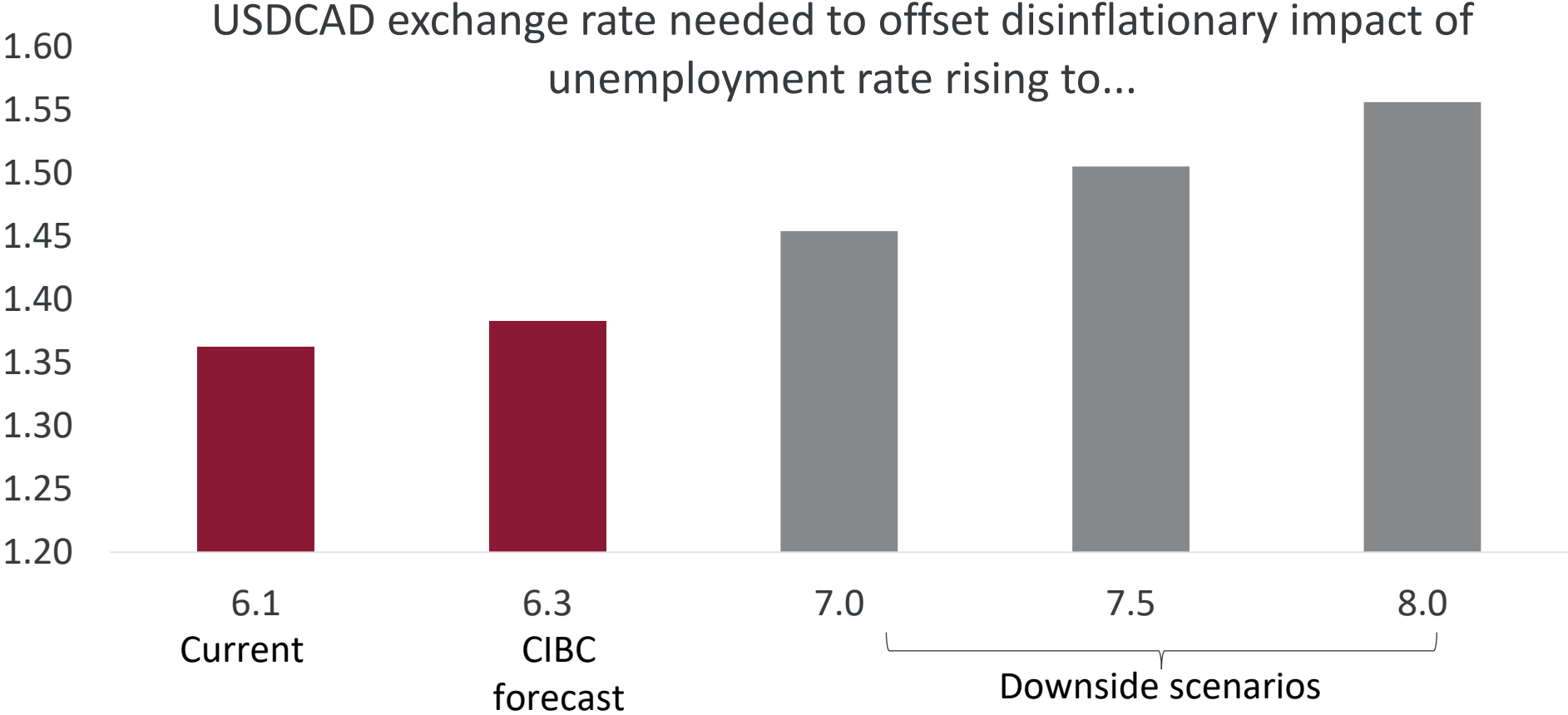
FX is a concern, but there are offsets



Source: CIBC



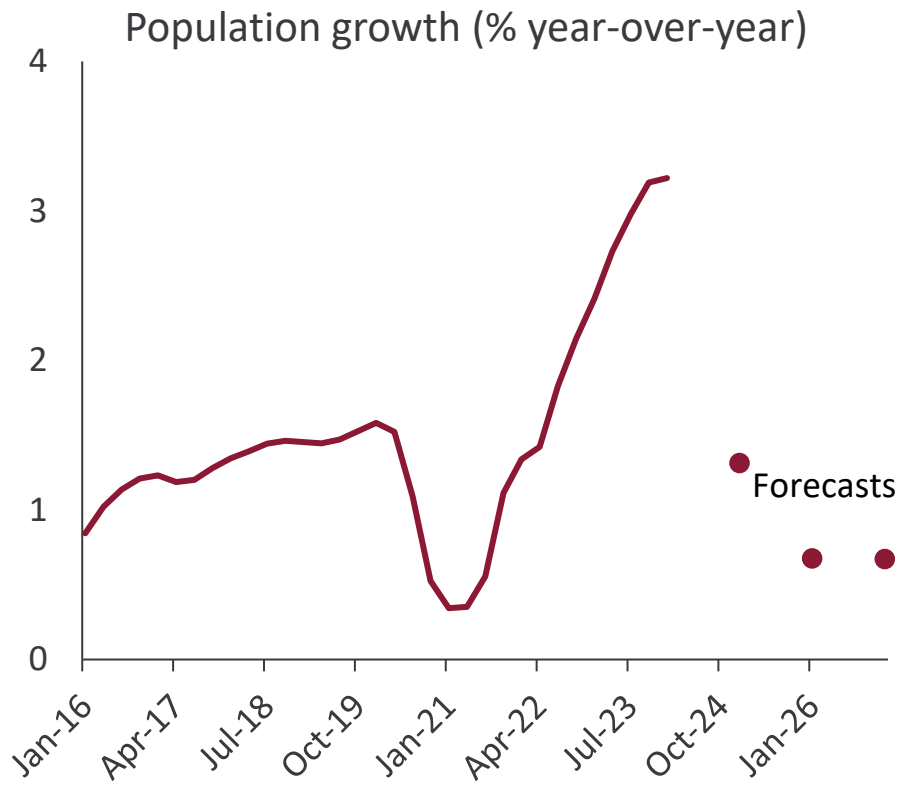
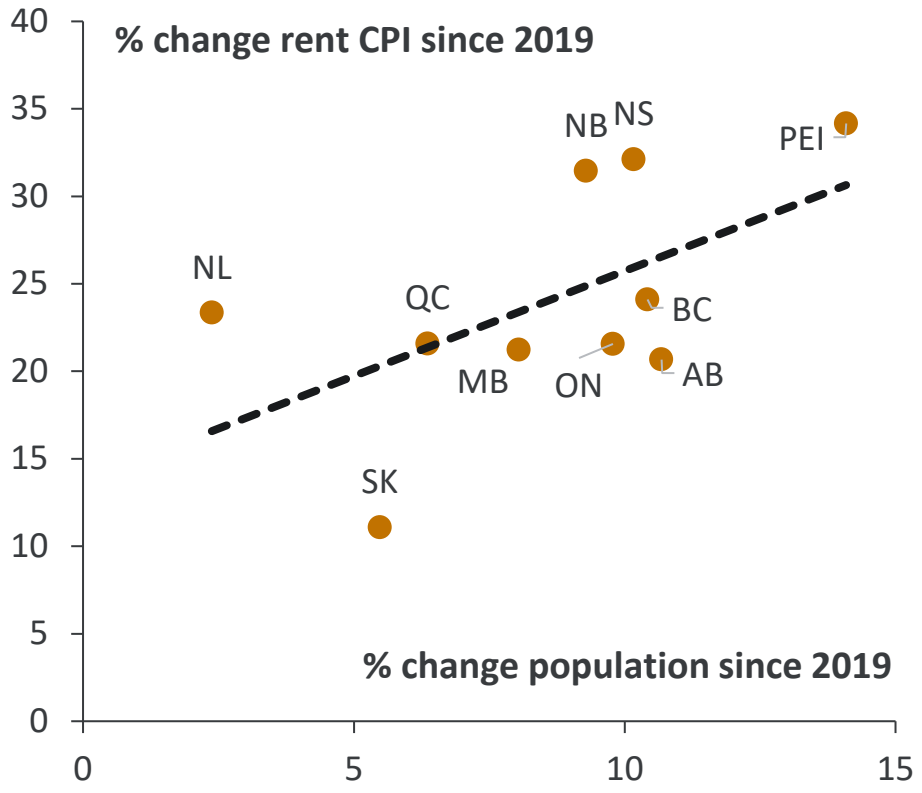
Bank of Canada would risk a wider spread and weaker currency if the domestic economy REALLY needed it.



Source: Statistics Canada, BLS, CIBC



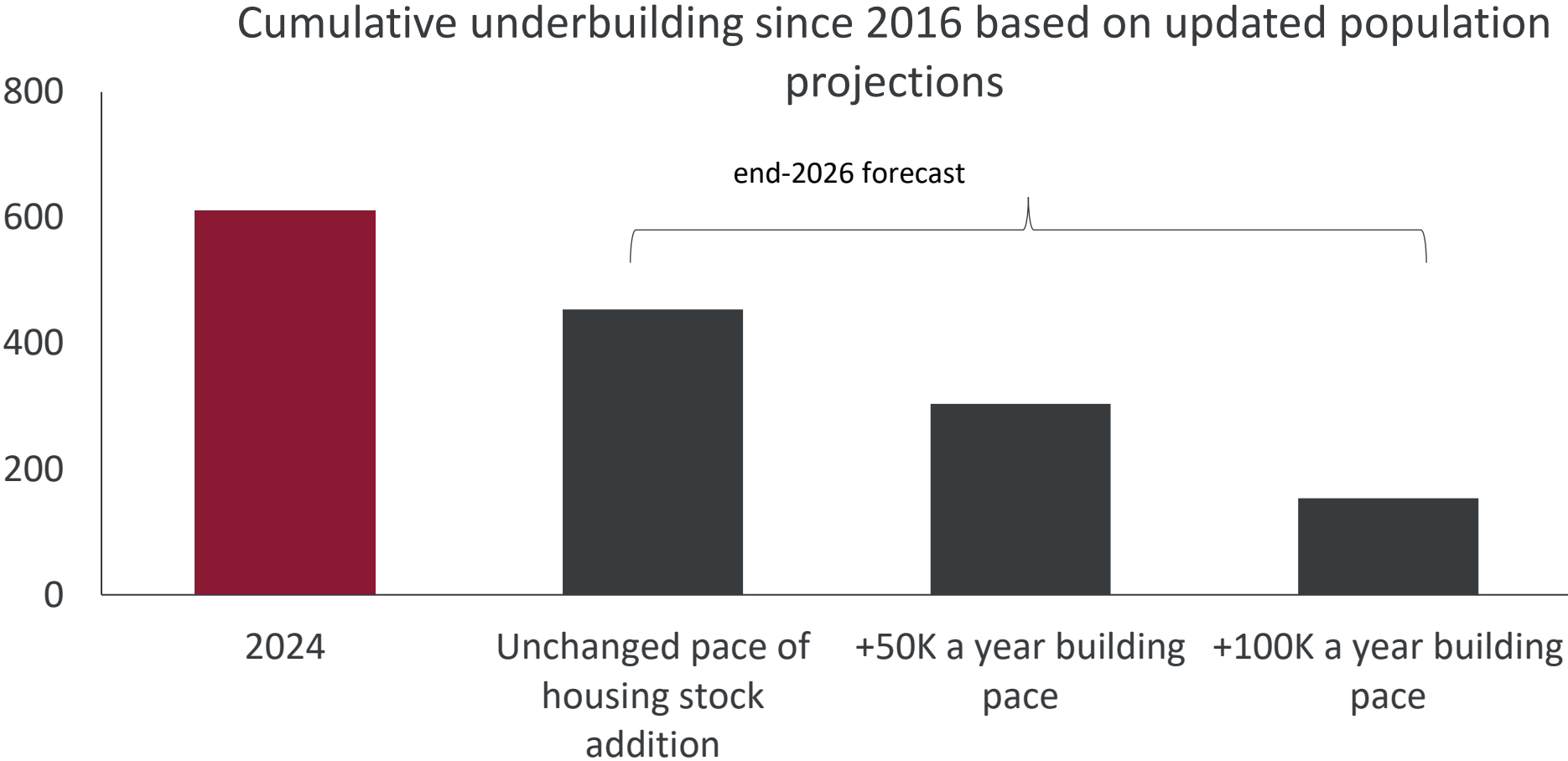
Evidence of population growth boosting housing costs (l); new measures will tame population growth (r)



Source: Statistics Canada, CIBC



Slowing population growth won't solve housing affordability by itself



Source: Statistics Canada, CMHC, CIBC



But slowing population growth could open up labour shortages in other areas

Job vacancies vs pre-pandemic (000's)

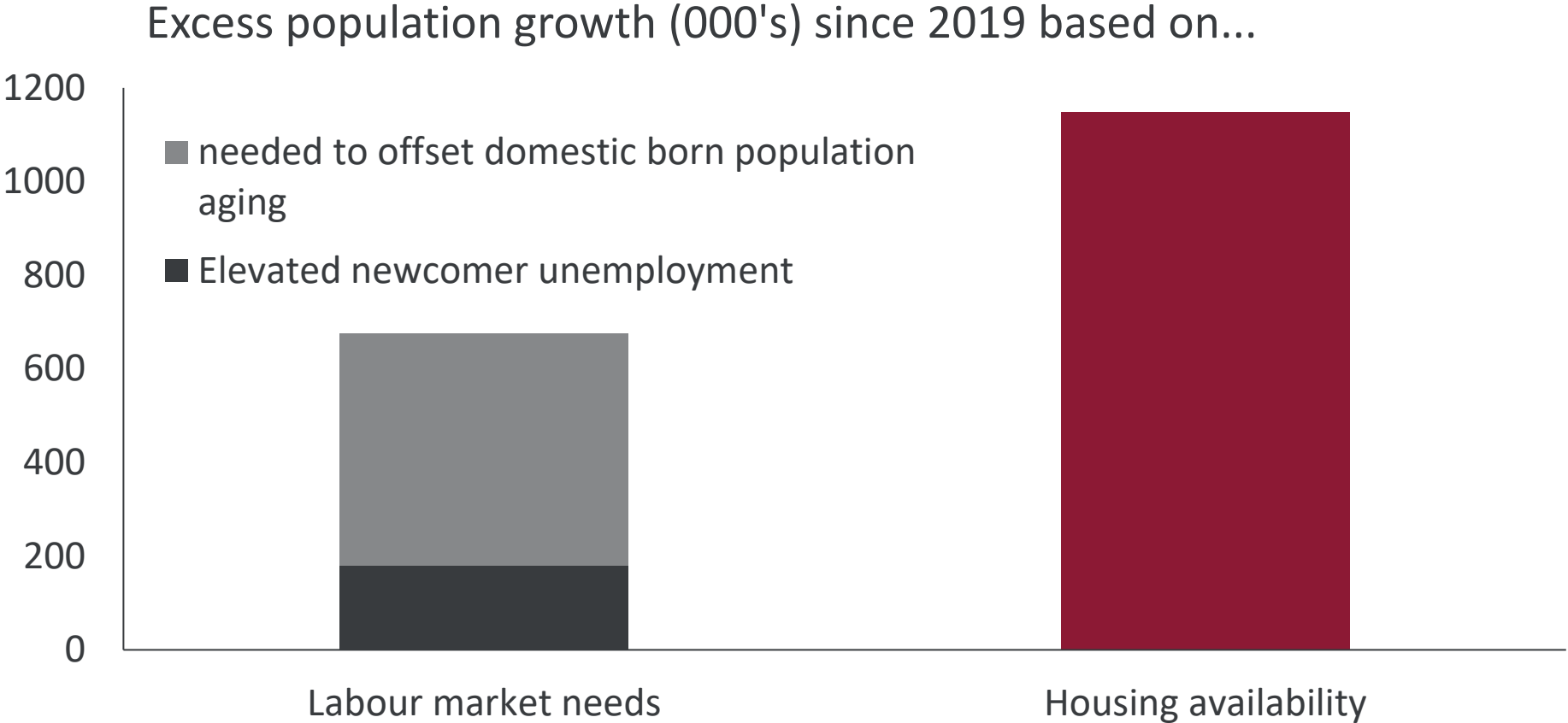


*non-landed immigrants and immigrants landed 5 years and less

Source: Statistics Canada, CIBC



Managing population growth will be a delicate balancing act



Source: CIBC



Interest and FX forecasts

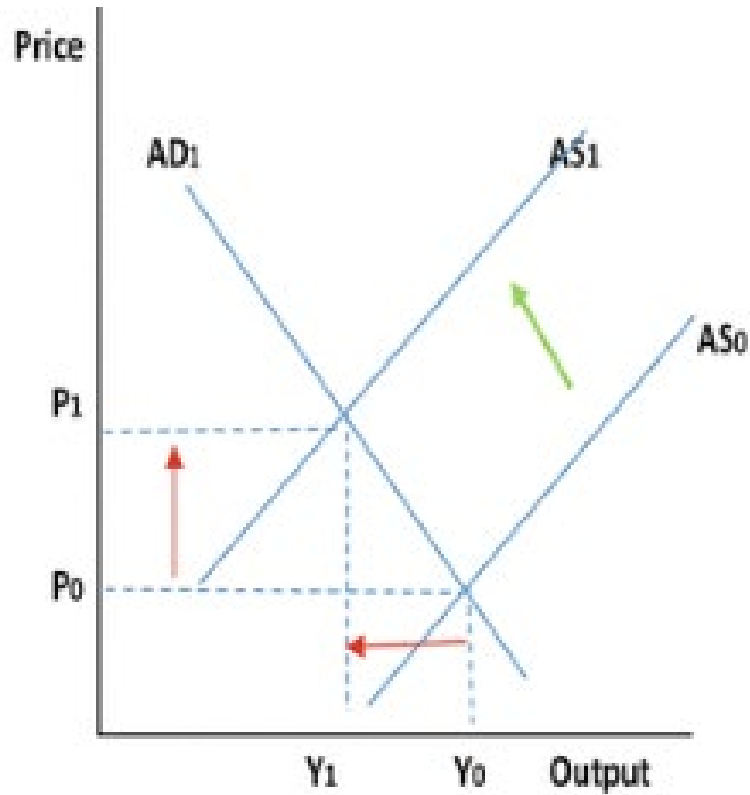
END OF PERIOD:	2024	2024	2025					
	5-Jun	Jun	Sep	Dec	Mar	Jun	Sep	Dec
CDA Overnight target rate	4.75	4.75	4.50	4.00	3.50	3.25	3.00	2.75
98-Day Treasury Bills	4.66	4.60	4.35	3.85	3.40	3.15	2.85	2.60
2-Year Gov't Bond	3.95	3.90	3.70	3.25	3.00	2.85	2.75	2.85
10-Year Gov't Bond	3.37	3.50	3.40	3.30	3.20	3.15	3.10	3.35
30-Year Gov't Bond	3.28	3.50	3.45	3.35	3.30	3.20	3.15	3.35
Canada - US T-Bill Spread	-0.73	-0.70	-0.70	-0.90	-0.80	-0.60	-0.80	-1.05
Canada - US 10-Year Bond Spread	-0.93	-1.00	-1.00	-1.00	-0.60	-0.55	-0.40	-0.20
Canada Yield Curve (10-Year — 2-Year)	-0.58	-0.40	-0.30	0.05	0.20	0.30	0.35	0.50
U.S. Federal Funds Rate (midpoint)	5.375	5.375	5.125	4.875	4.375	4.125	3.875	3.625
91-Day Treasury Bills	5.39	5.30	5.05	4.75	4.20	3.75	3.65	3.65
2-Year Gov't Note	4.75	4.80	4.60	4.40	3.80	3.60	3.40	3.30
10-Year Gov't Note	4.30	4.50	4.40	4.30	3.80	3.70	3.50	3.55
30-Year Gov't Bond	4.45	4.45	4.30	4.25	4.00	3.90	3.85	3.80
US Yield Curve (10-Year — 2-Year)	-0.45	-0.30	-0.20	-0.10	0.00	0.10	0.10	0.25
EXCHANGE RATES								
CADUSD	0.73	0.72	0.72	0.72	0.74	0.74	0.74	0.75
USDCAD	1.37	1.38	1.39	1.38	1.36	1.35	1.35	1.34

Source: CIBC

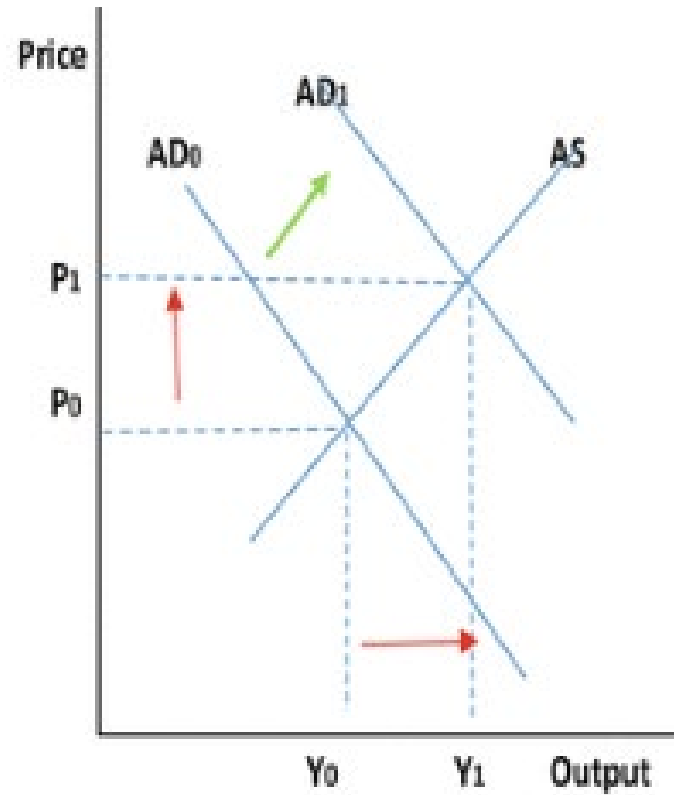


Explaining “higher for longer”

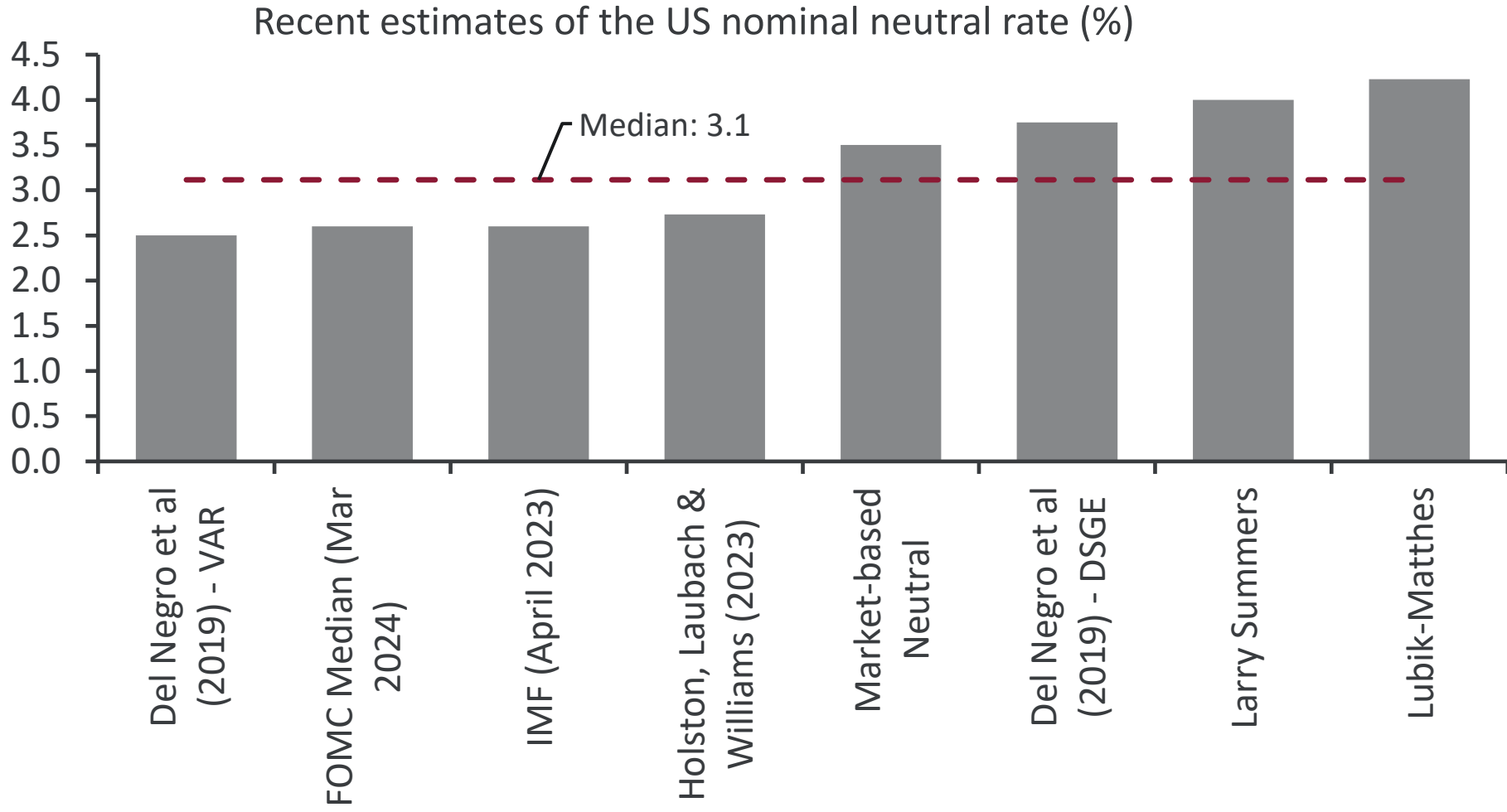
Negative supply shock



Positive demand shock



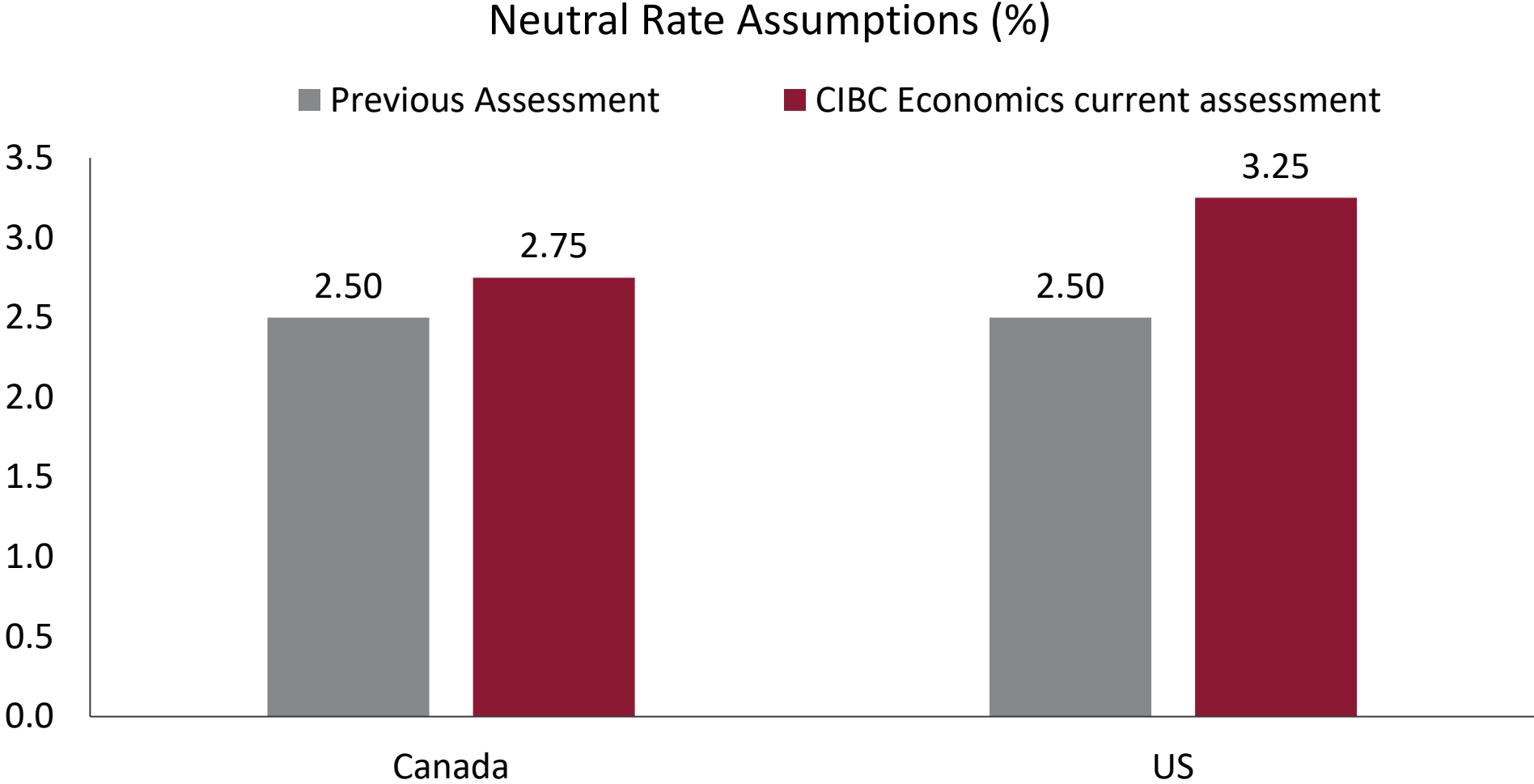
Where's the US neutral rate? We'll only know it when we see it given varied estimates



Source: Federal Reserve Board of Governors, NY Federal Reserve, Richmond Federal Reserve, Bloomberg, IMF, CIBC



Canadian neutral rate probably hasn't risen as much as the US



Source: CIBC



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