



More Qs Than As

November 12th, 2024

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Vice President & Head of Capital Markets Economics



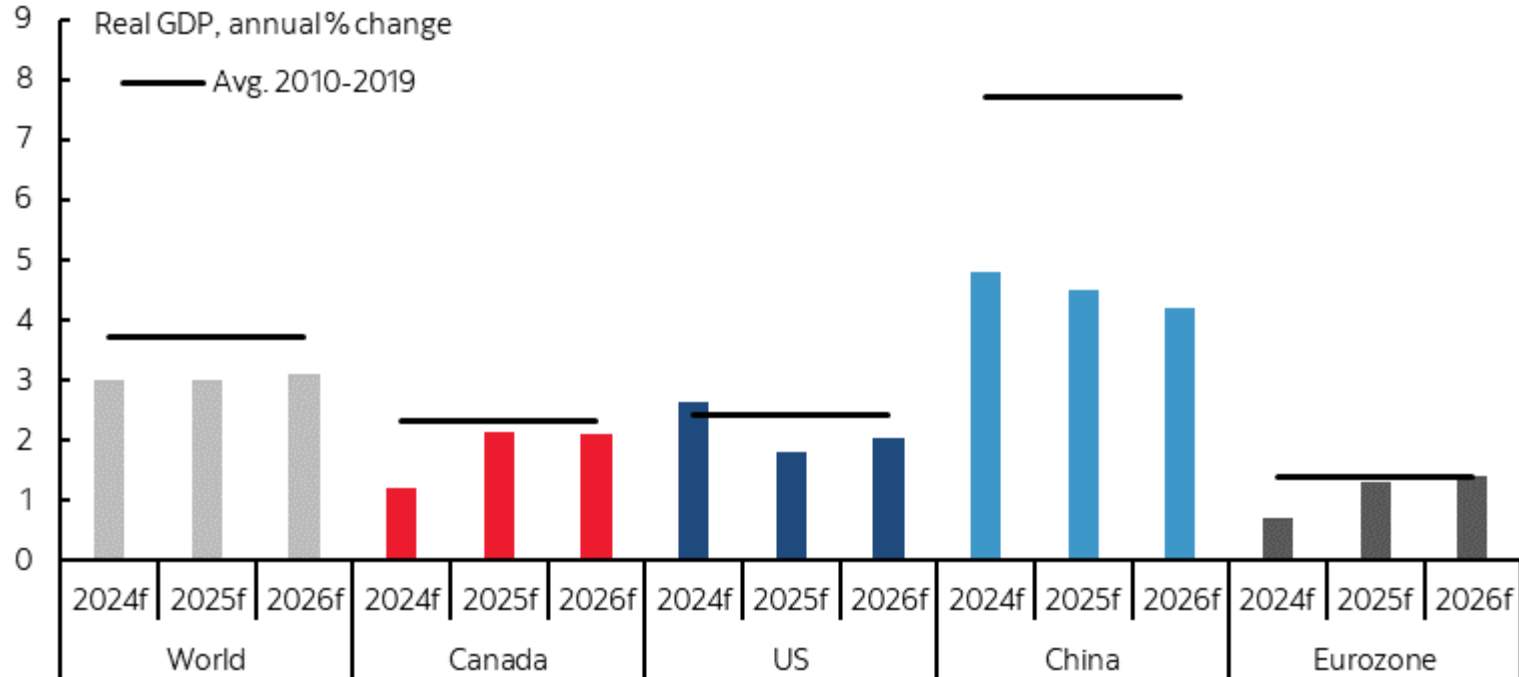
GLOBAL BANKING AND MARKETS

The World Before Trump

We will soon issue revised global forecasts. I will walk through the direction of risks to our prior round that we are now debating. The initial forecast revisions are likely to be measured and informed by highly uncertain developments.

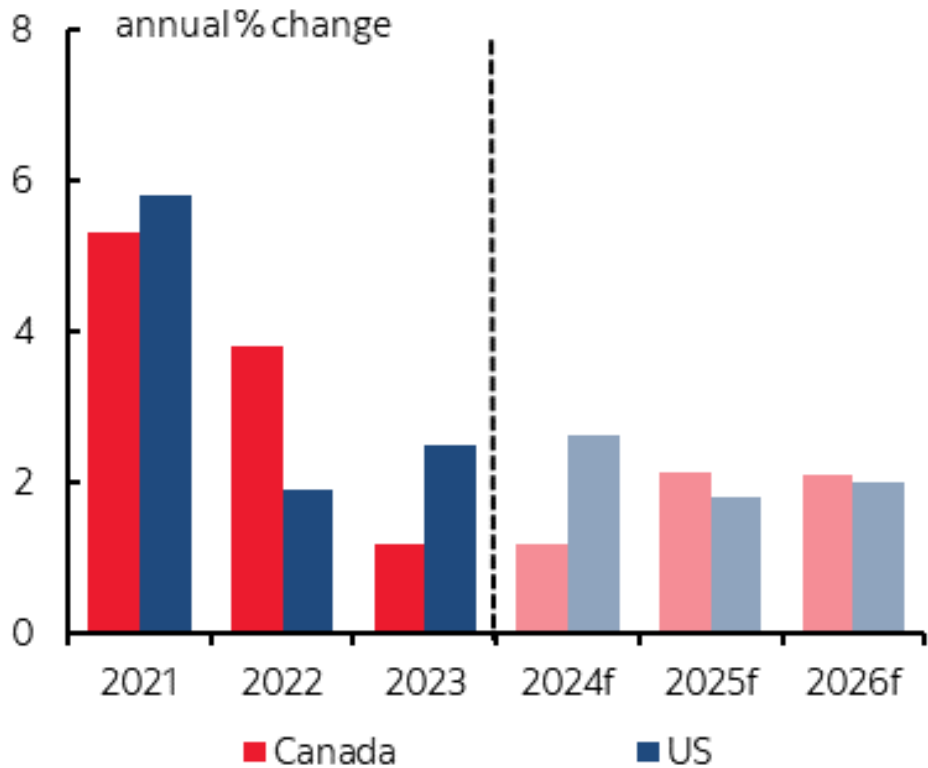
We Will Be Revising Growth Lower

Global Outlook



Sources: Scotiabank Economics, IMF, Haver Analytics, Bloomberg.

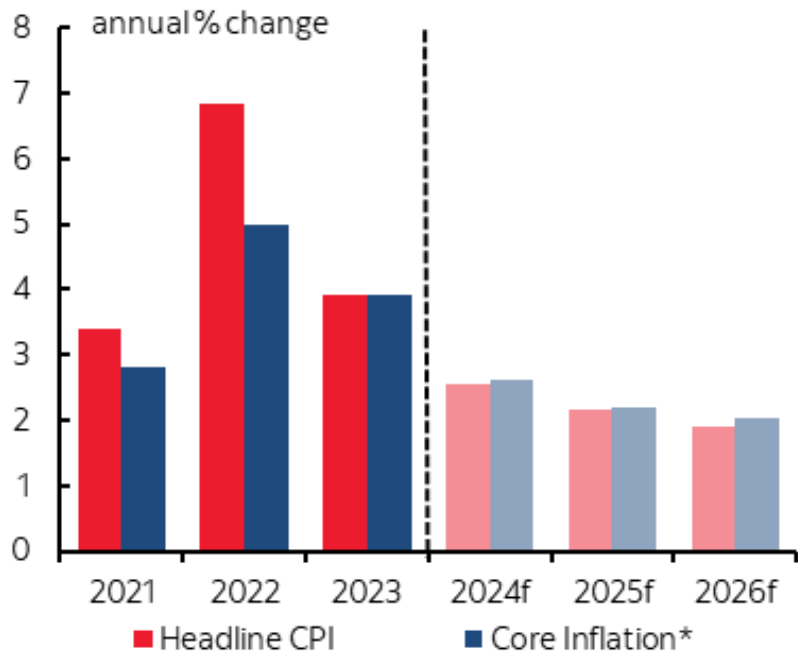
Scotiabank Economics Annual GDP Forecasts



Source: Scotiabank Economics.

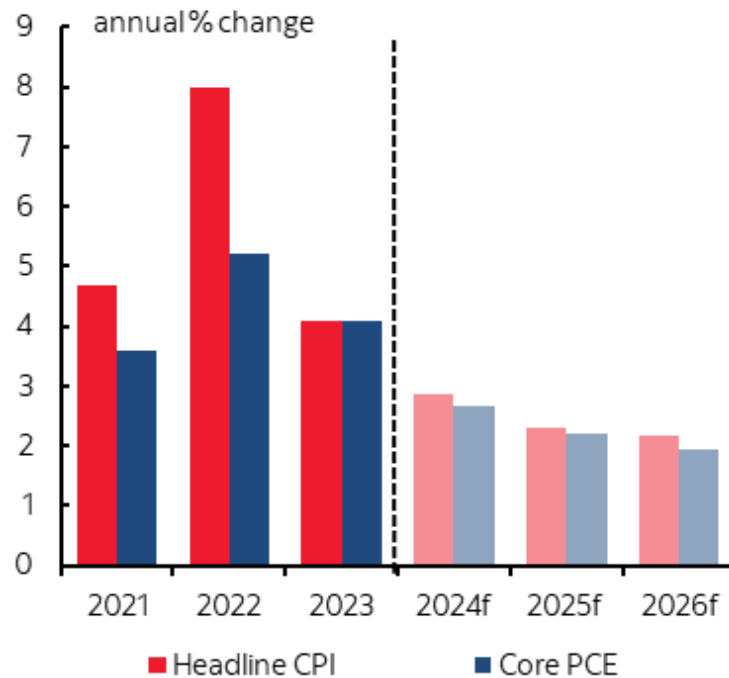
Relative Inflation Forecasts Face Wider US-Canada Spread

Scotiabank Economics Annual Inflation Forecasts (Canada)



* Avg. of 2 core measures published by the BoC.
Source: Scotiabank Economics.

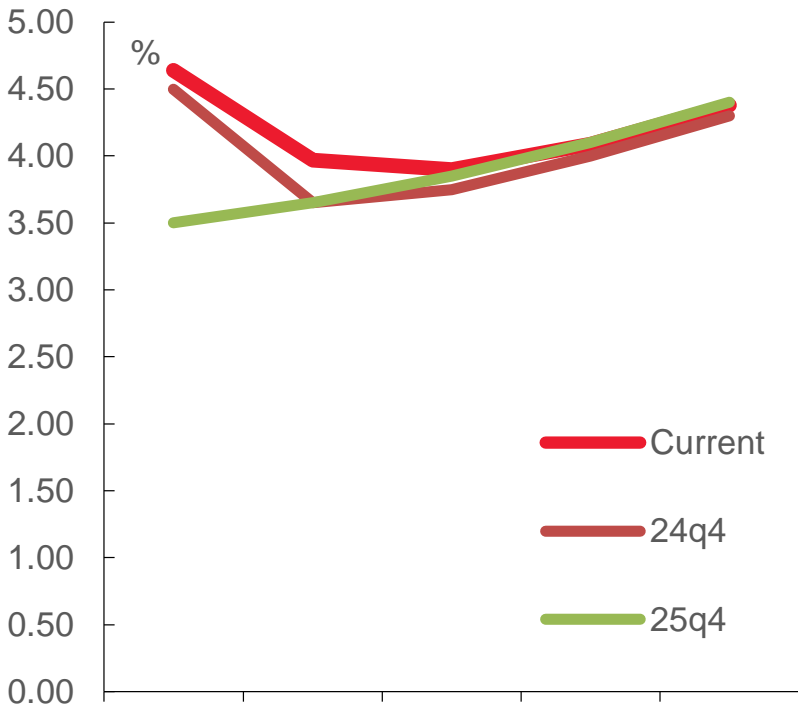
Scotiabank Economics Annual Inflation Forecasts (US)



Source: Scotiabank Economics.

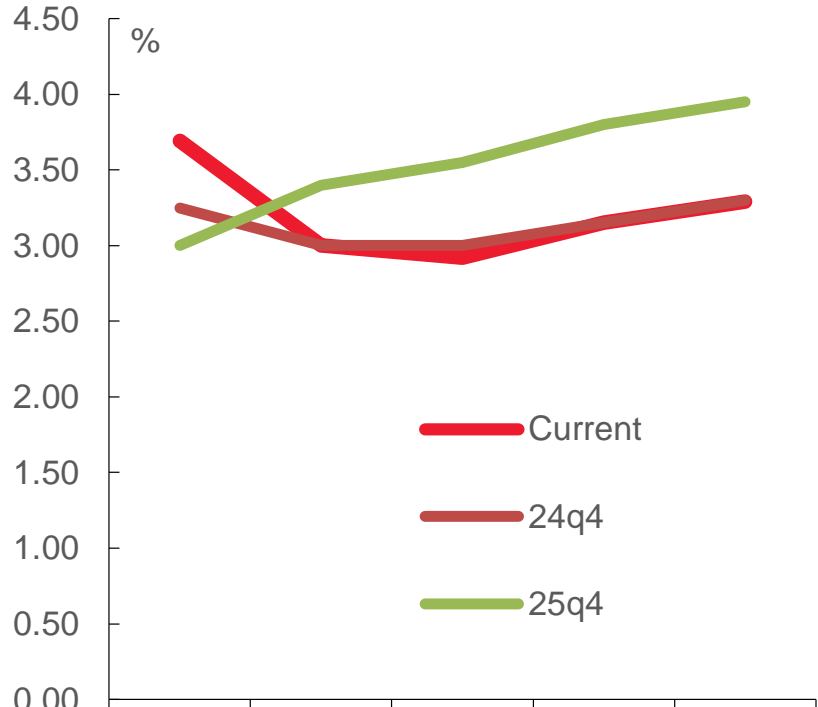
Prior Relative Rates Forecast Below Faces Wider US-Canada Differentials Now

US Yield Curve



3-month T-Bill 2-year Treasury 5-year Treasury 10-year Treasury 30-year Treasury
Sources: Scotiabank Economics, Bloomberg.

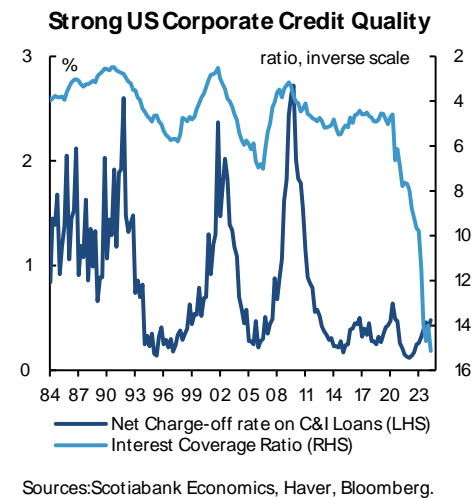
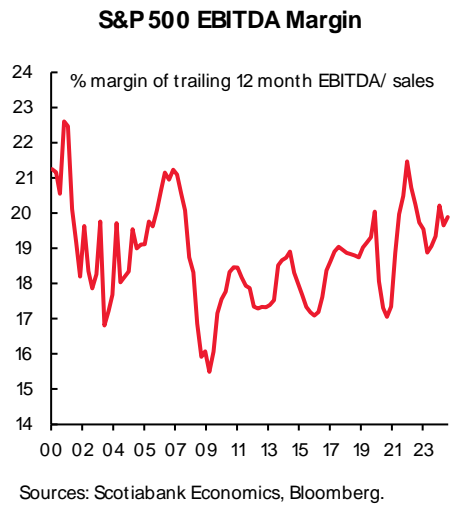
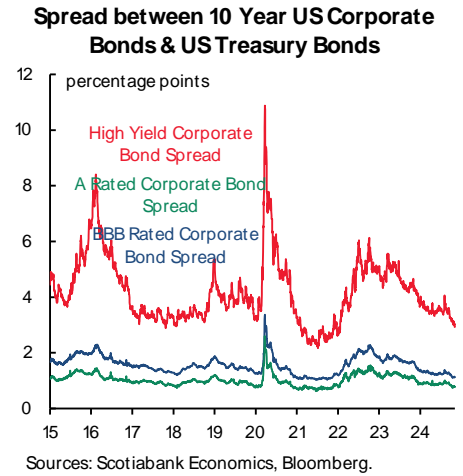
Canada Yield Curve



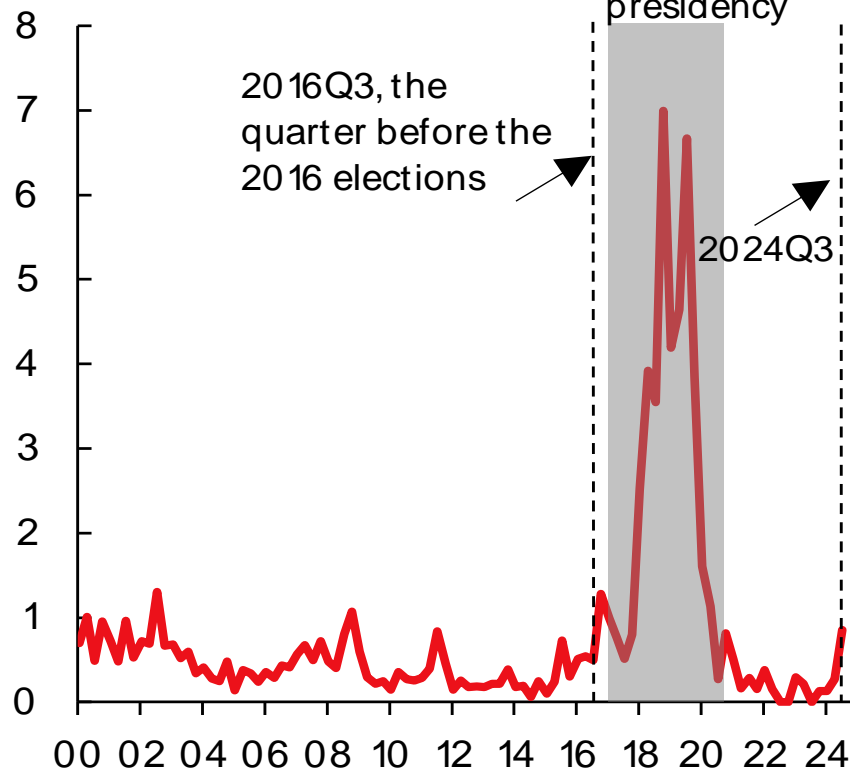
3-month T-Bill 2-year Canada 5-year Canada 10-year Canada 30-year Canada
Sources: Scotiabank Economics, Bloomberg.

More Downsides to our Upsides Now

Priced for Perfection? Everything is Starting Richer Than in 2016-18



U.S. Trade Policy Uncertainty Index*



* Trade policy category of the EMV tracker.
Sources: Policyuncertainty.com.

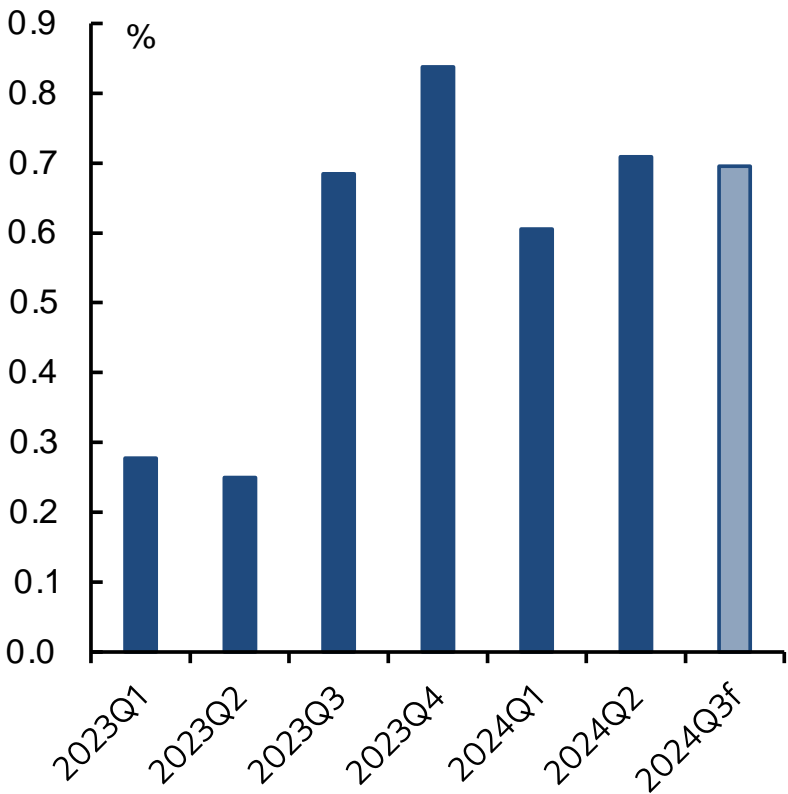
Our Initial & Highly Uncertain Tariff and Immigration Assumptions

- 50% tariff on half of US imports from China
- 10% tariff on half of US imports from Mexico
- 5% tariff on 50% of imports from elsewhere
- Canadian tariffs more likely to be sector-specific. Canada also hit indirectly by the terms of trade.
- US reduces population by 1 million per year indefinitely

We realize that these are more conservative than the incoming US administration has threatened.

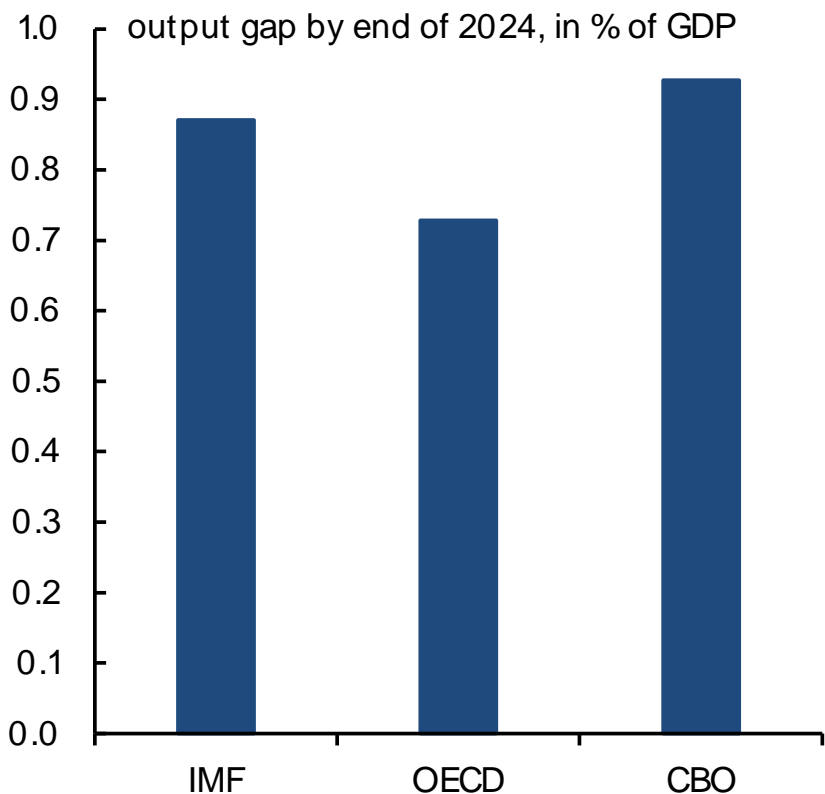
The US Doesn't Need Fiscal Stimulus – More Likely to Overheat

US Output Gap



Sources: Scotiabank Economics.

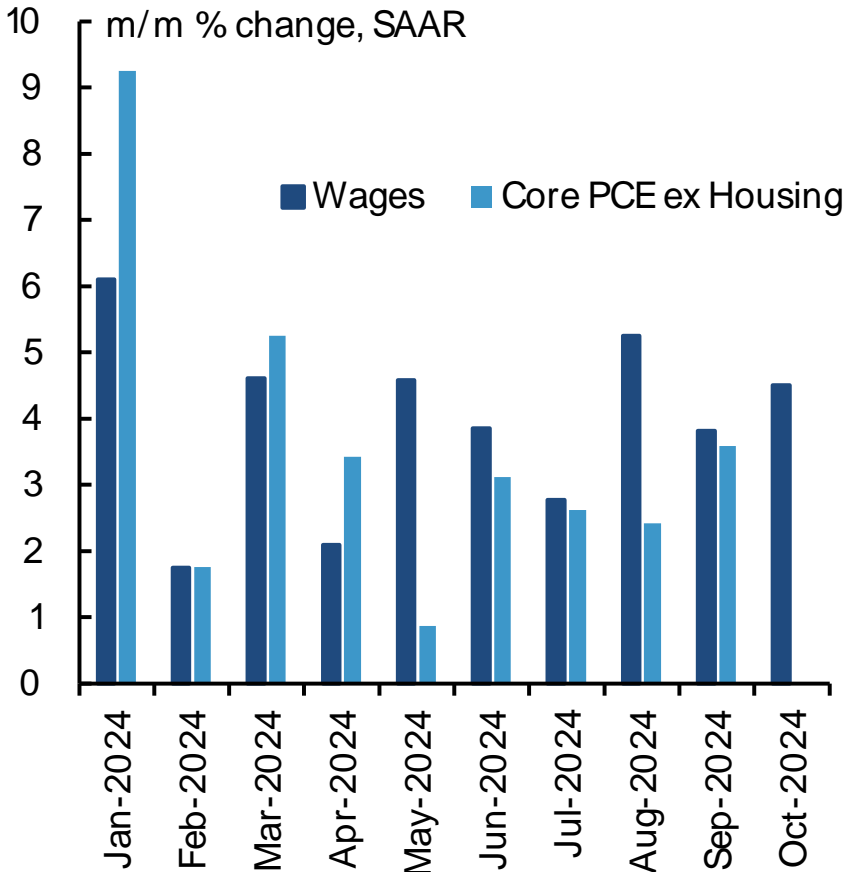
Three Estimates of the US Output Gap



Sources: Scotiabank Economics, OECD, IMF, CBO.

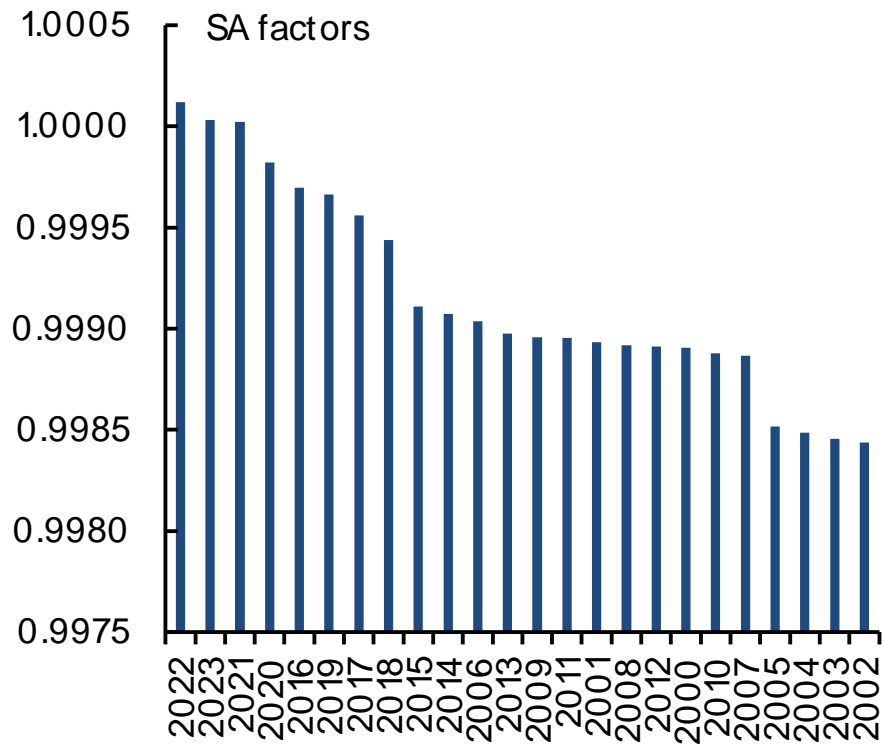
Even Before Trump, the FOMC's Size and Pace Were in Jeopardy

Fed Chair Powell's New Fear



Sources: Scotiabank Economics, BLS, BEA.

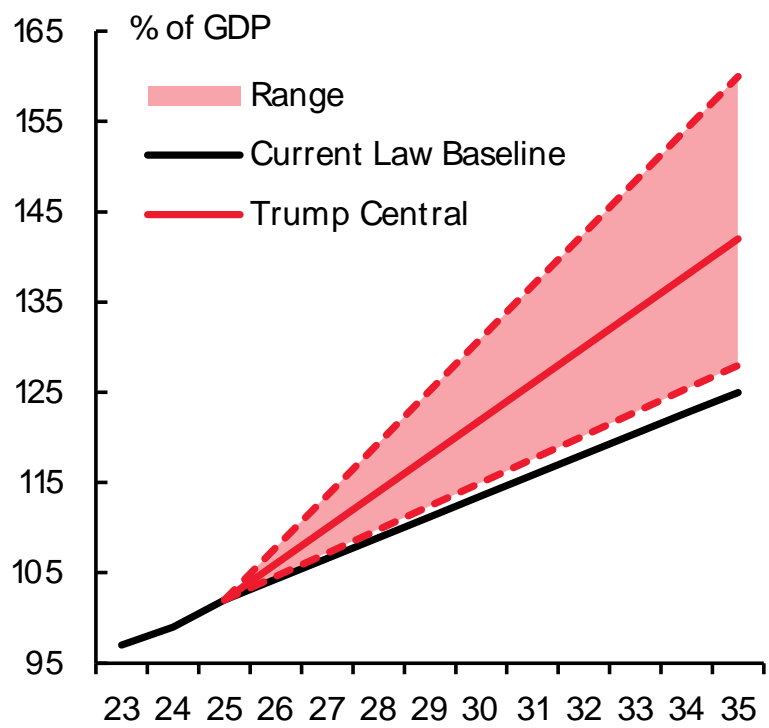
Comparing US Core CPI SA Factors for All Months of October



Sources: Scotiabank Economics, BLS

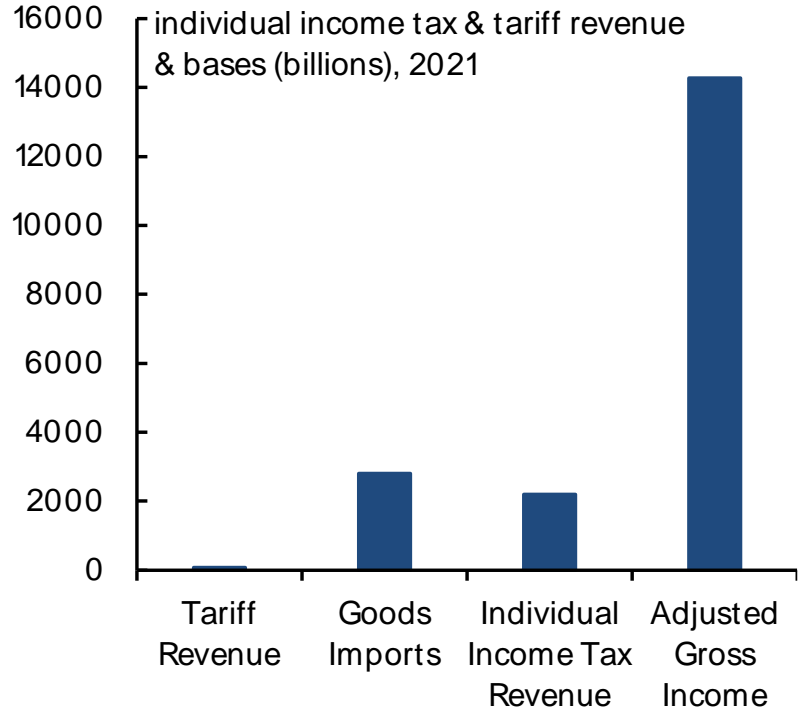
US Playing Russian Roulette With Debt Markets

Projection of Debt Under Trump



Sources: Scotiabank Economics, Committee for a Responsible Federal Budget.

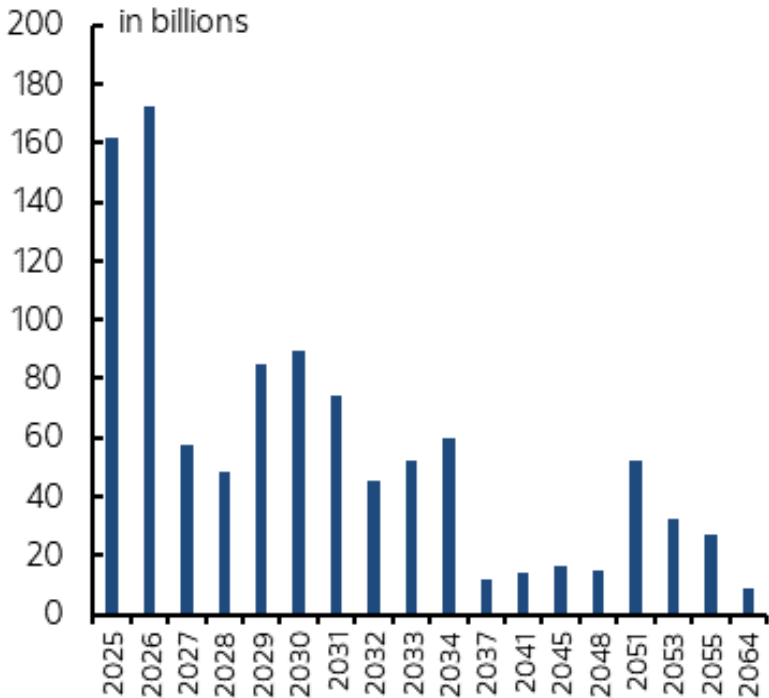
Replacing the Income Tax with Tariffs Doesn't Add Up



Sources: Scotiabank Economics, Tax Foundation.

Large Debt Resets Coming

Canadian Government Bond Distribution



Sources: Scotiabank Economics, Bloomberg.

Provinces front-loaded much of their issuance this year.

High bond refinancing requirements over 2025-26.

Canada faces a record \$100 billion of corporate bond refinancings in 2025.

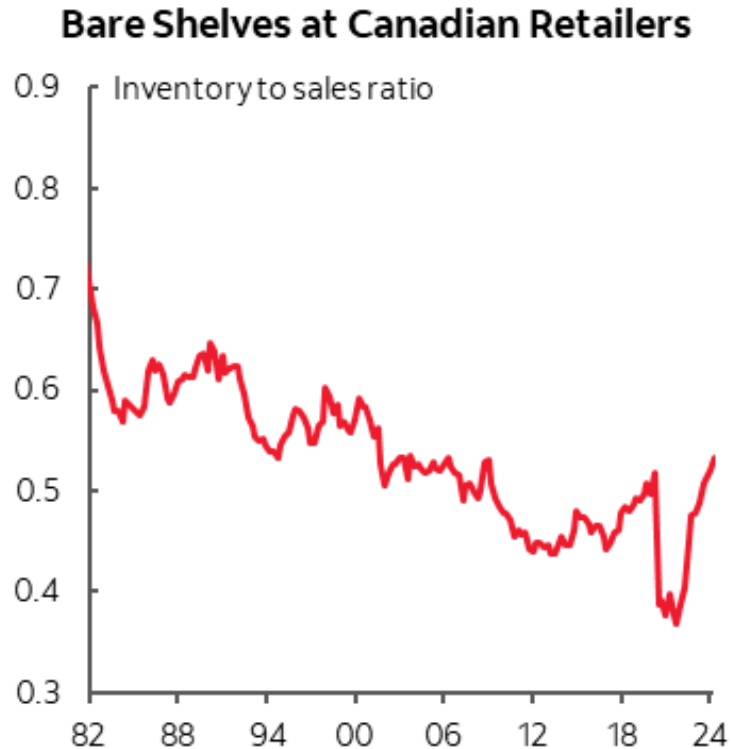
Canadian mortgage resets are more vulnerable.

Inventories - Excessive, or Good Reasons to Hold More?

Inventories should be higher in a world of higher border frictions post-2016 (tariffs, Brexit, pandemic, Ukraine, Taiwan tensions) with costs passed onto end consumers. But the trade shock now complicates this perspective as a downside to production and hiring.

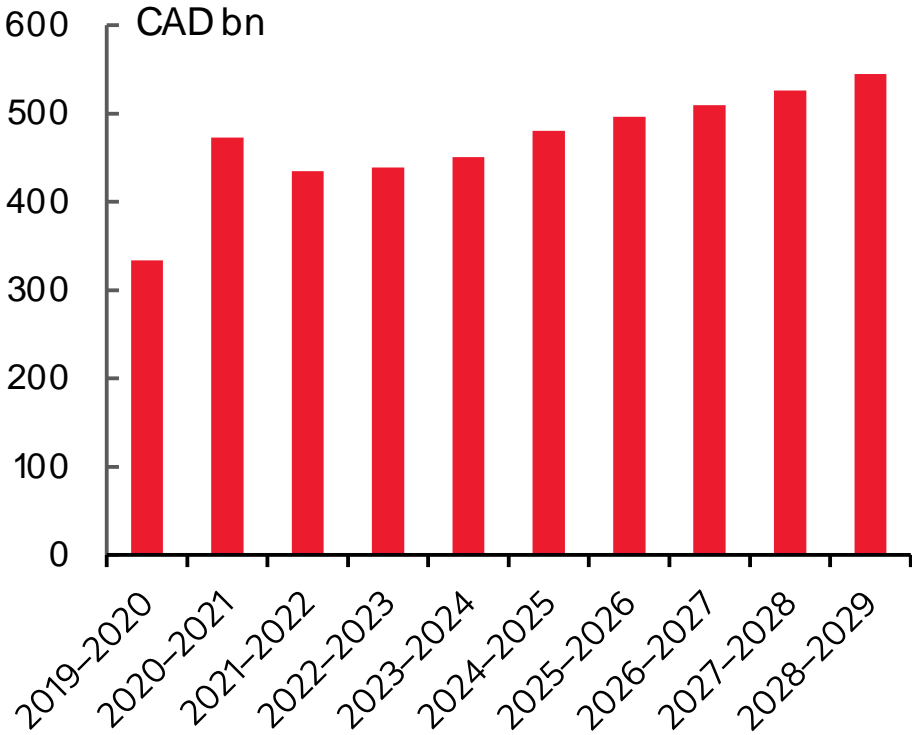


Source: Scotiabank Economics, Statistics Canada.



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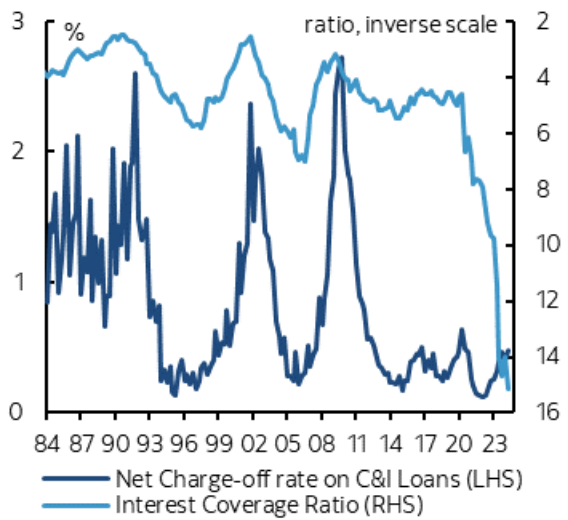
Program Spending Ex-COVID Supports



Sources: Scotiabank Economics, Federal Budget 2023 FES.

Robust N.A. Corporate Balance Sheets Are a Strength...

Strong US Corporate Credit Quality



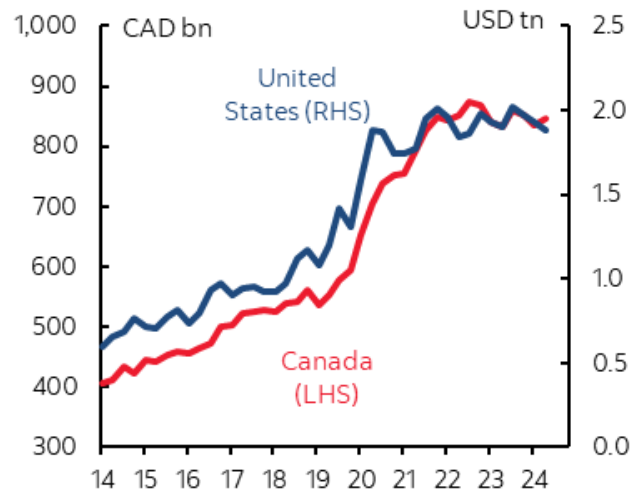
Sources: Scotiabank Economics, Haver, Bloomberg.

Canadian Interest Coverage Ratio



Sources: Scotiabank Economics, Statistics Canada.

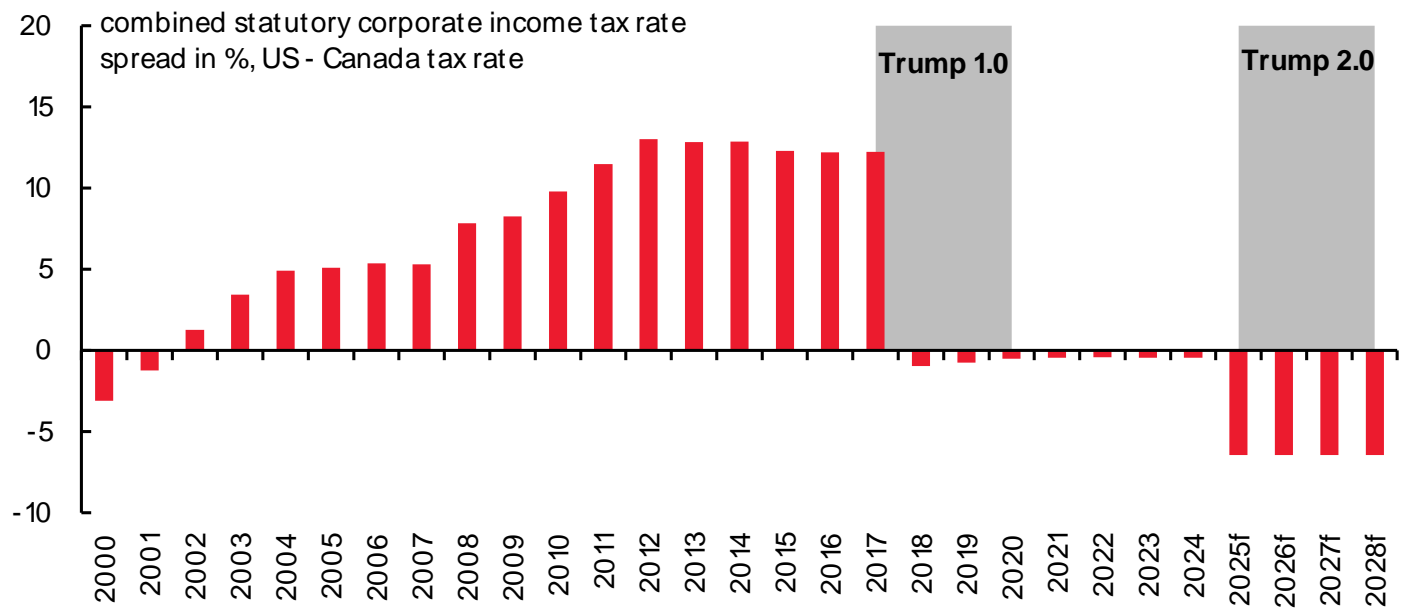
Non-Financial Corporate Cash and Deposit Holdings



Sources: Scotiabank Economics, Statistics Canada, Federal Reserve Board.

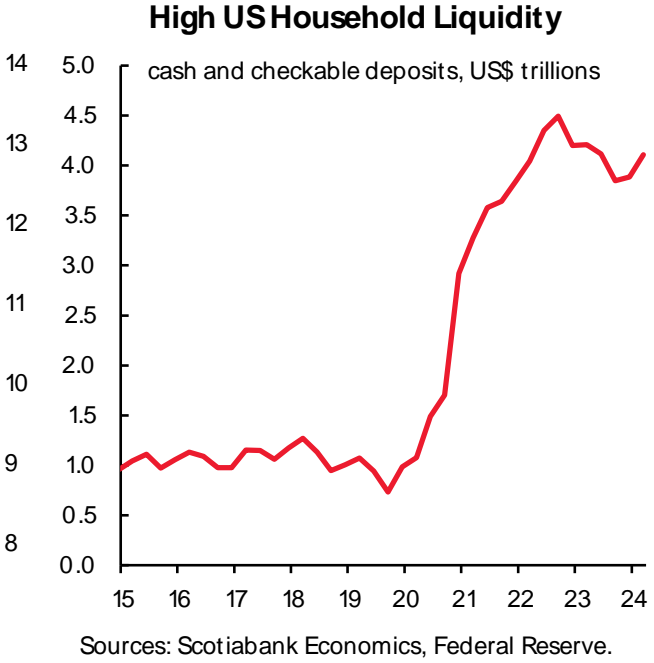
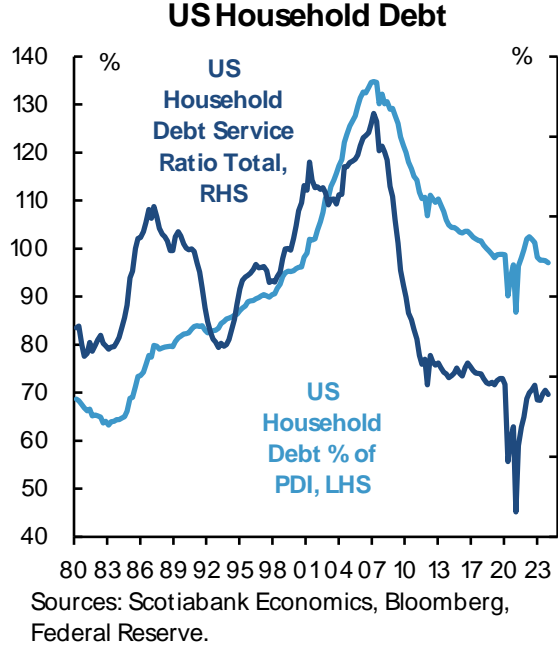
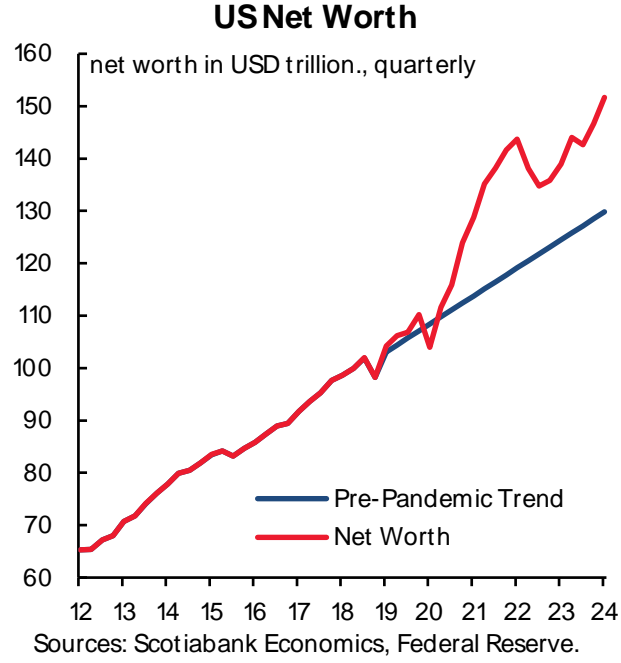
...But Canadian Tax Policy is Wildly Uncompetitive

Canada's Corporate Tax Conundrum: Navigating Trump's Second Term

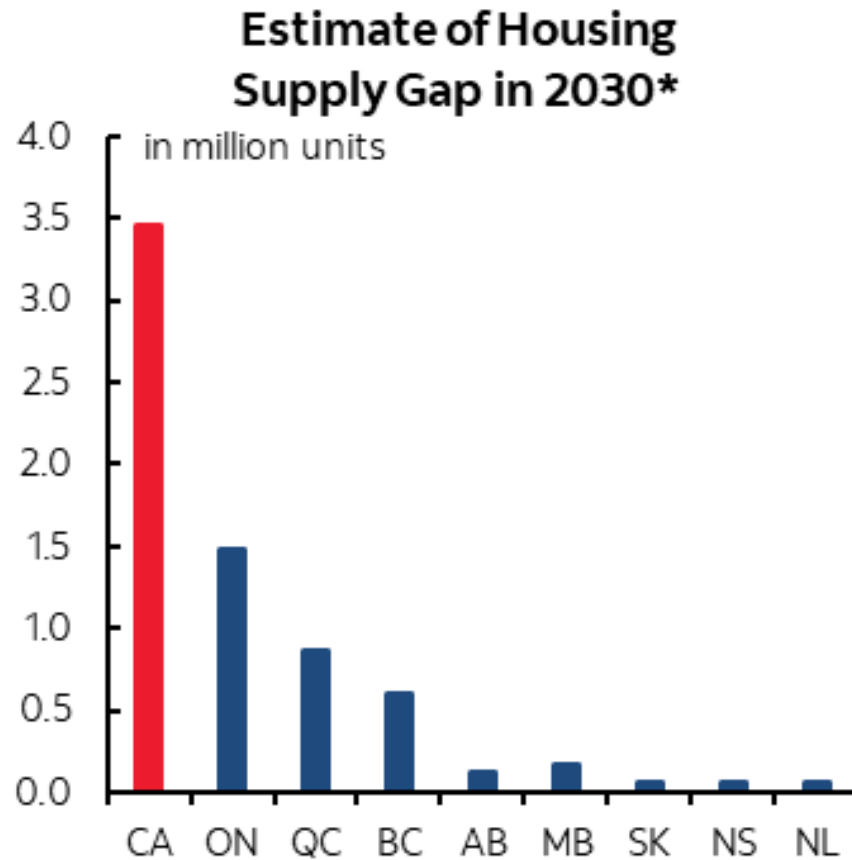


Note: Forecast assumes no change to Canadian corporate tax rate while Trump slashes tax rate to 15%.
Sources: Scotiabank Economics, OECD.

US Consumers Are in Excellent Shape to Mitigate Uncertainty's Effects

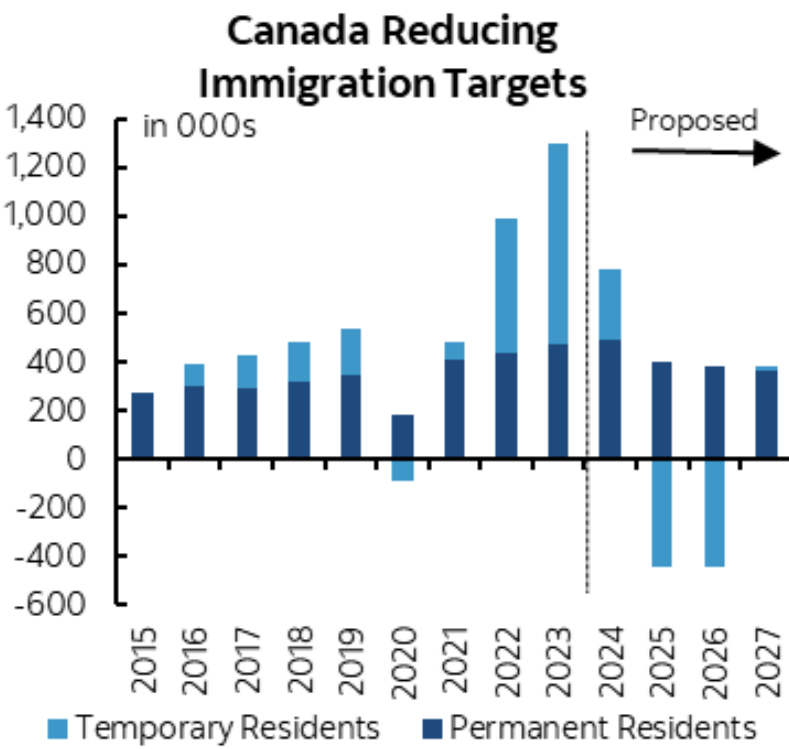


Canada Has Massive Pent-Up Demand for Undersupplied Housing...

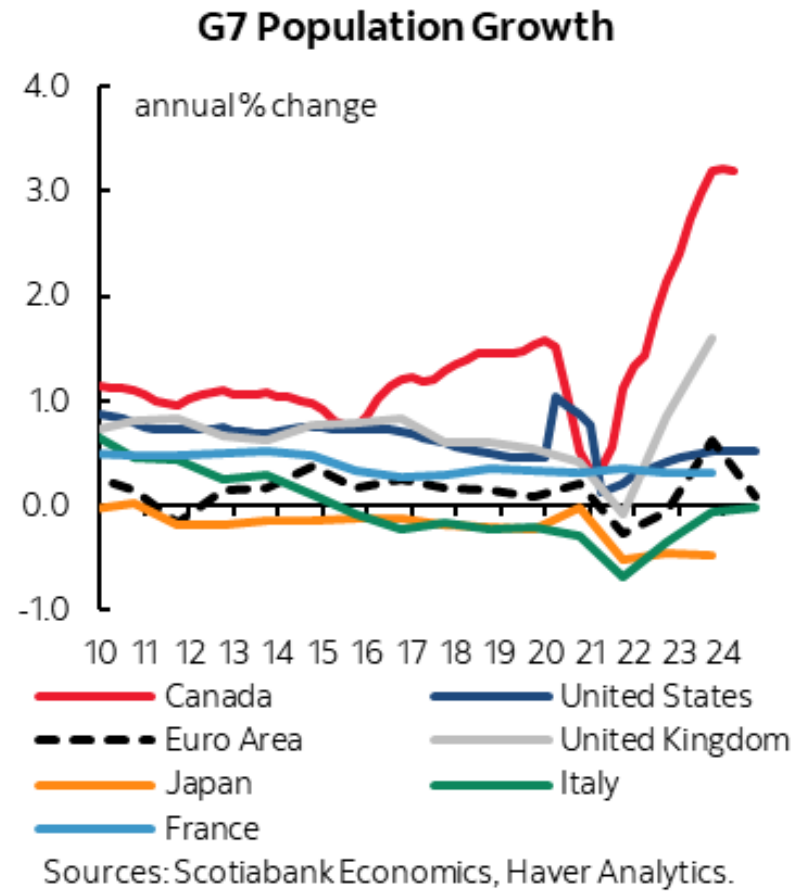


* Based on September 2023 Report.
Sources: Scotiabank Economics, CMHC.

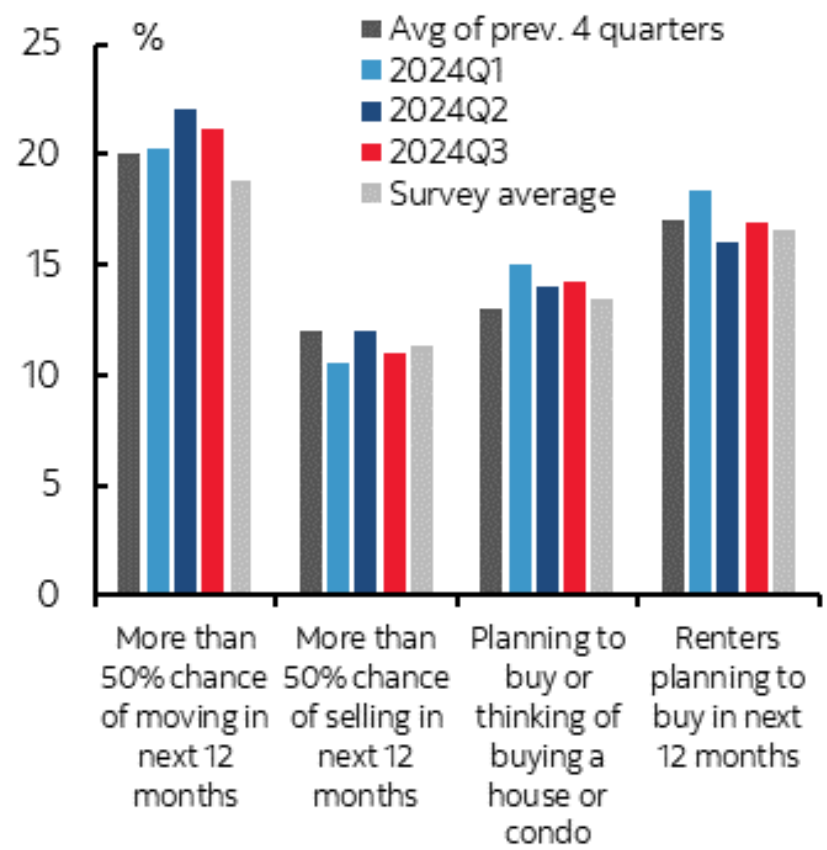
...And Even More With the Lagging Effects of Population Growth As it Slows...



Sources: Scotiabank Economics, Statistics Canada, Ministry of Immigration, Refugees & Citizenship Canada.



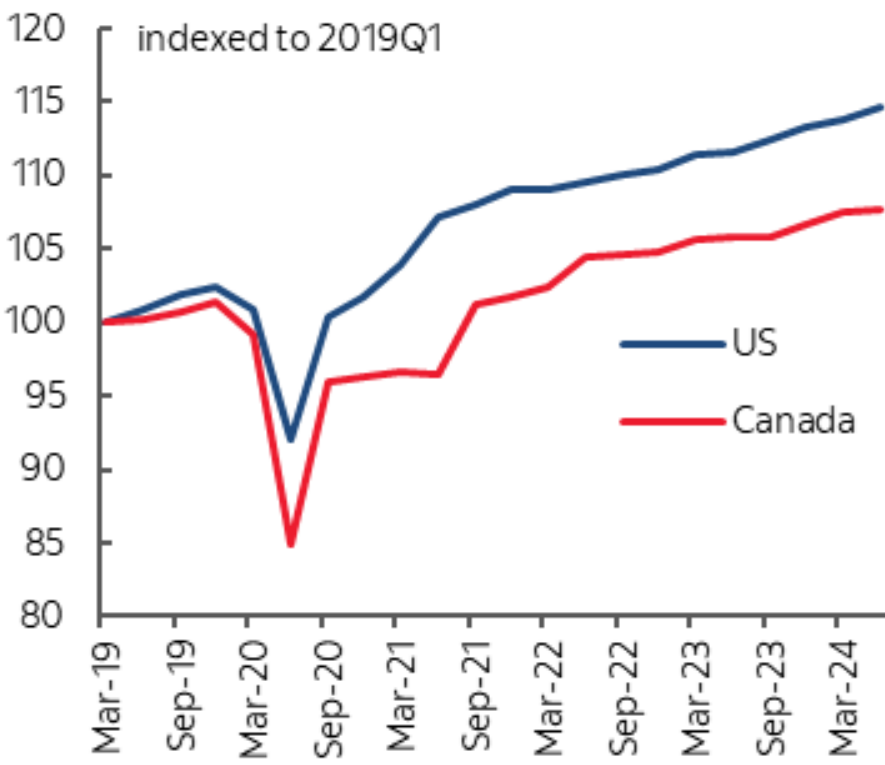
More People Planning to Buy A Home



Sources: Scotiabank Economics, Bank of Canada.

...and Consumption Still has Room to Catch Up in Canada

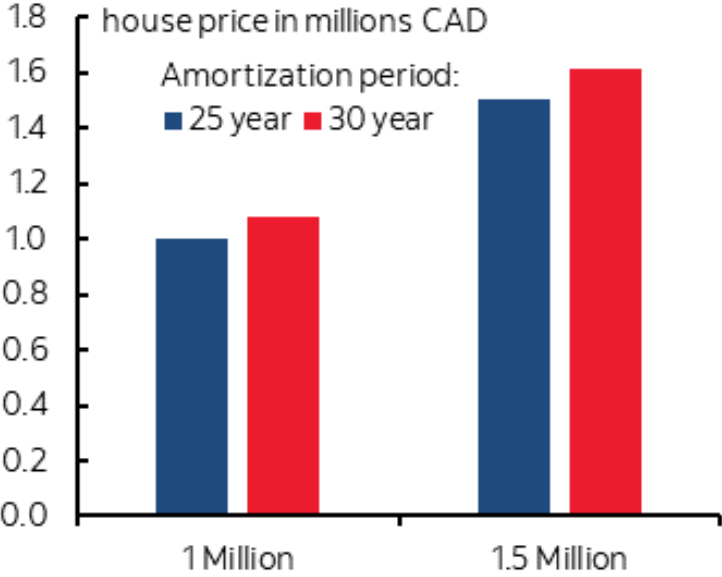
Consumer Spending



Sources: Scotiabank Economics, BEA, Statistics Canada.

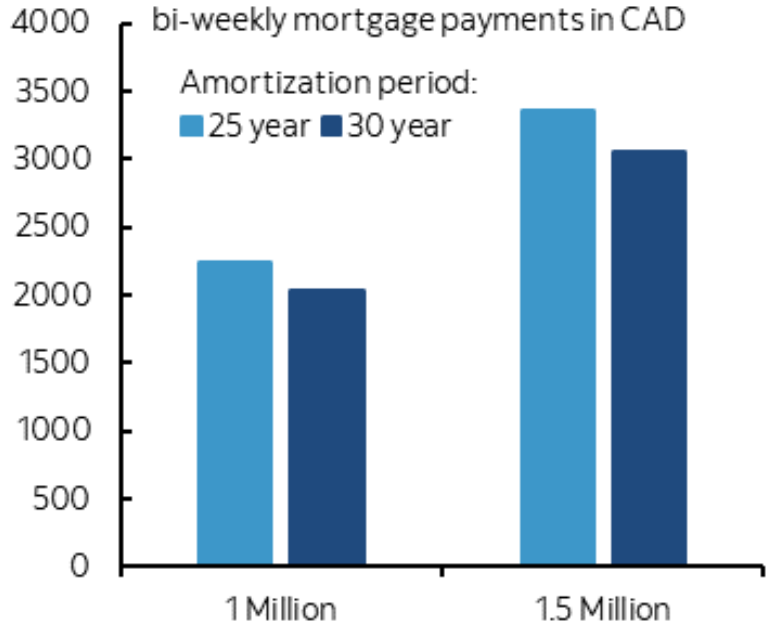
Ottawa's Easier Mortgage Financing is Equivalent to a 1% Rate Cut

The Payments Impact of Ottawa's Mortgage Changes on Home Prices



* Assuming a 5-year fixed term rate at about 4.6% from ratehub.ca - offers from the biggest banks. Plus assuming 40% as total debt service ratio. Sources: Scotiabank Economics, Ratehub.ca

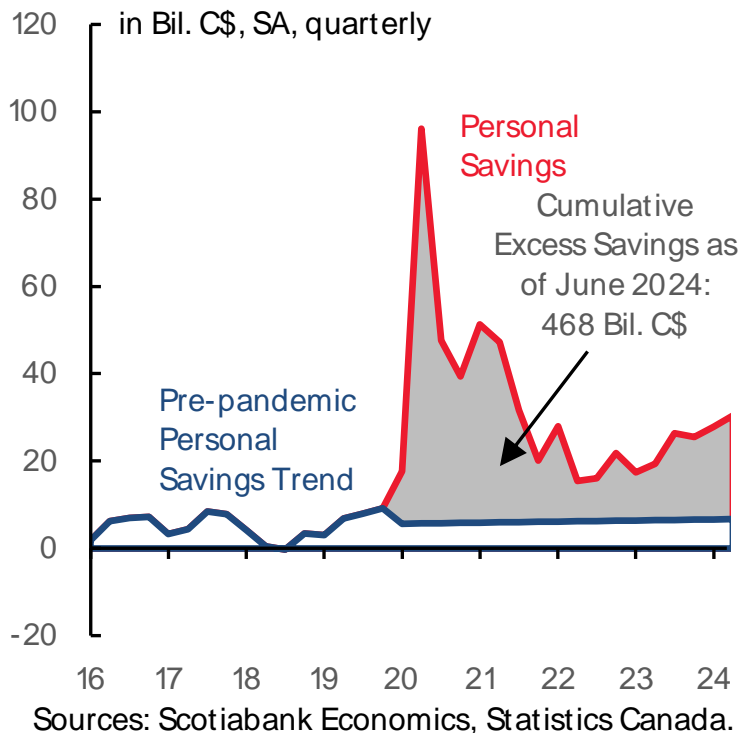
The Payments Impact of Ottawa's Mortgage Changes



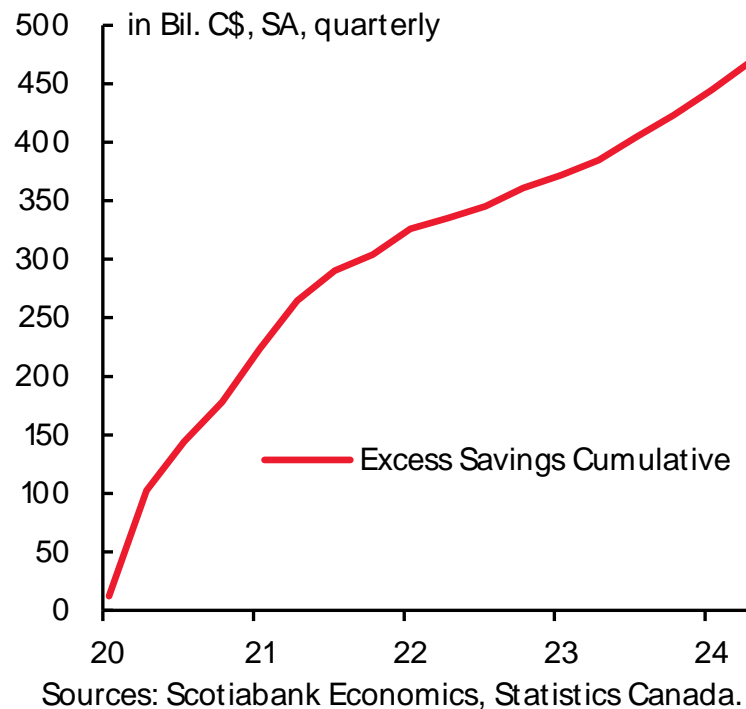
* Assuming a 5-year fixed term rate at about 4.6% from ratehub.ca - offers from the biggest banks. Sources: Scotiabank Economics, Ratehub.ca

Canadian Households Have A Half Trillion Dollars of Excess Savings...

Canada Still Has Pre-Pandemic Excess Savings Left!

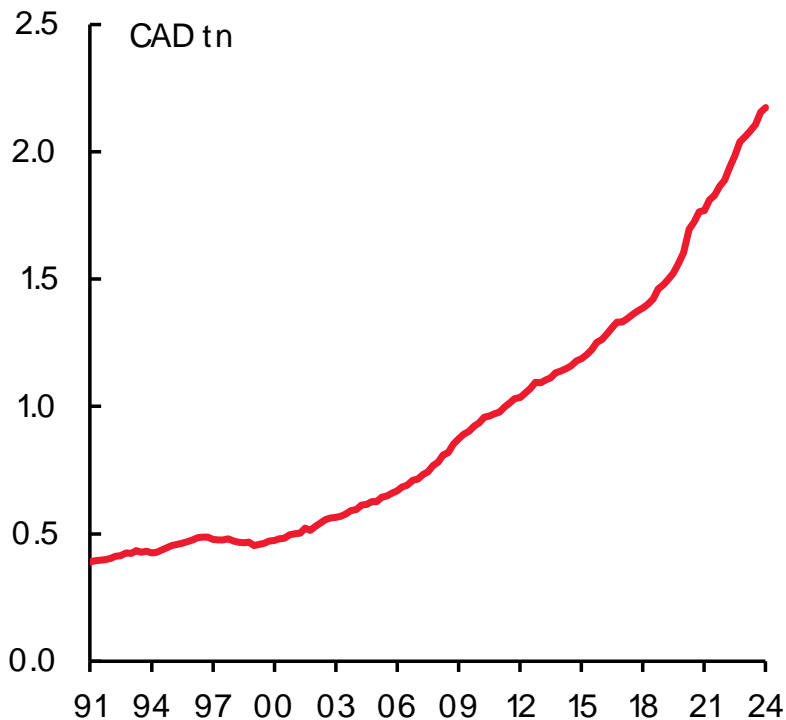


Canada's Cumulative Aggregate Pandemic-Era Excess Savings



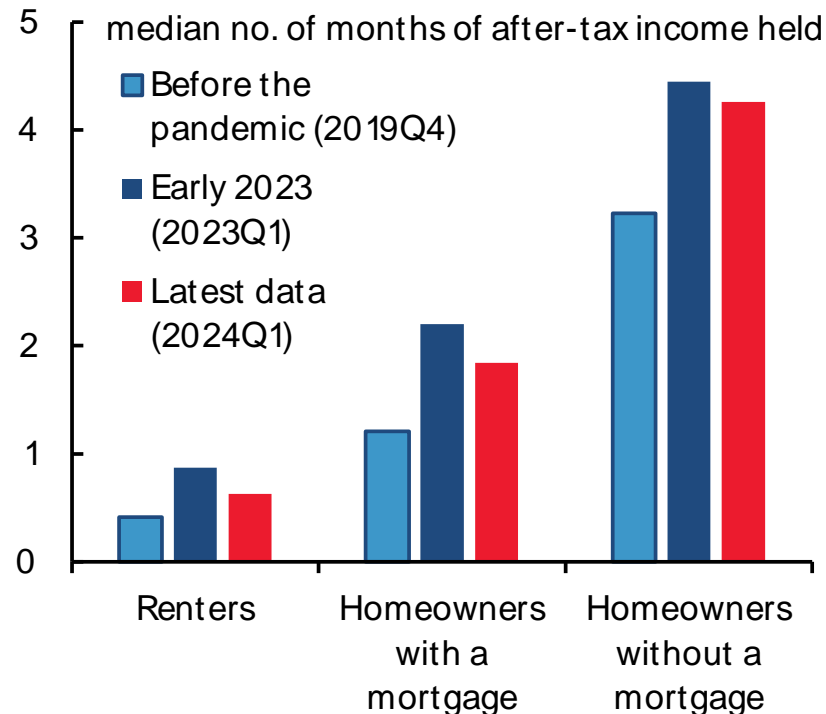
...with High Liquidity as Mortgage Free Homeowners Lead the Way...

Canadian Household Cash Balances



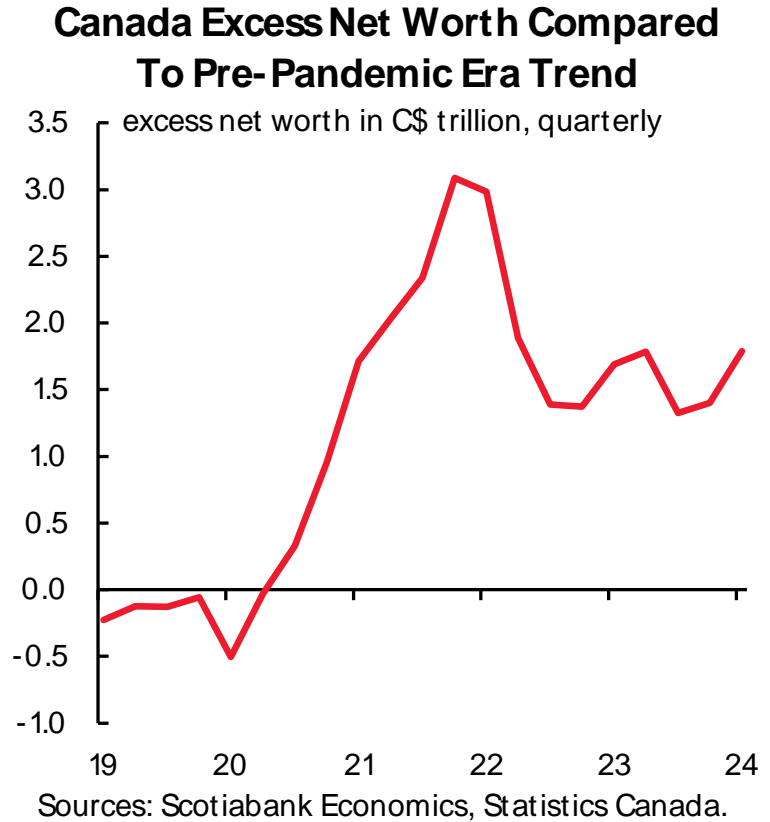
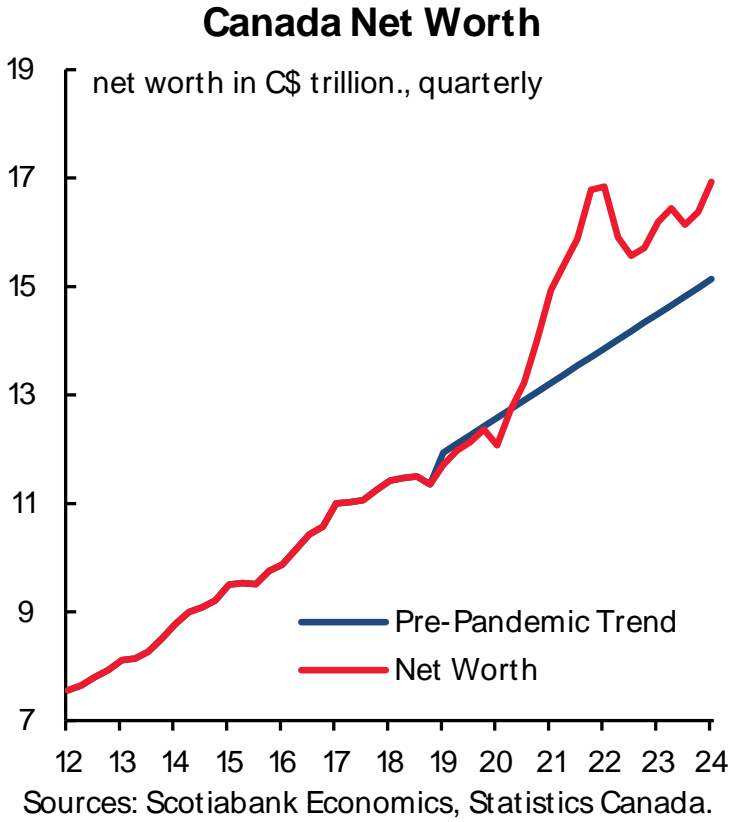
Sources: Scotiabank Economics, Statistics Canada.

Canadian Households Carry Larger Holdings of Liquid Assets than before the Pandemic

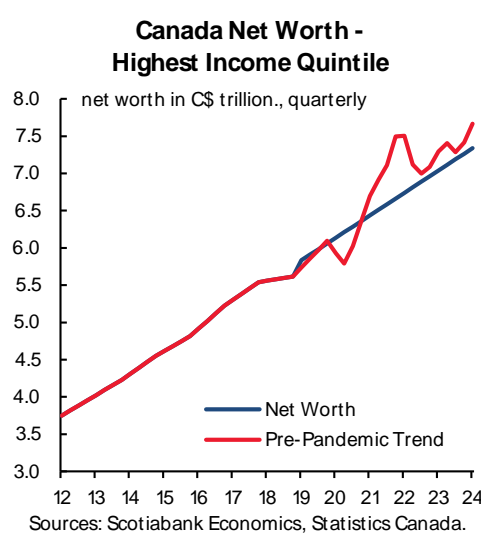
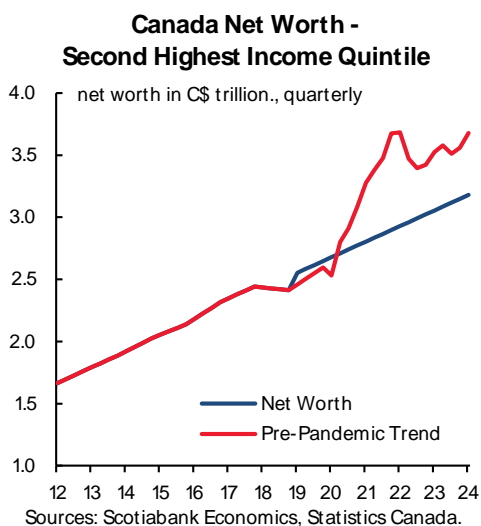
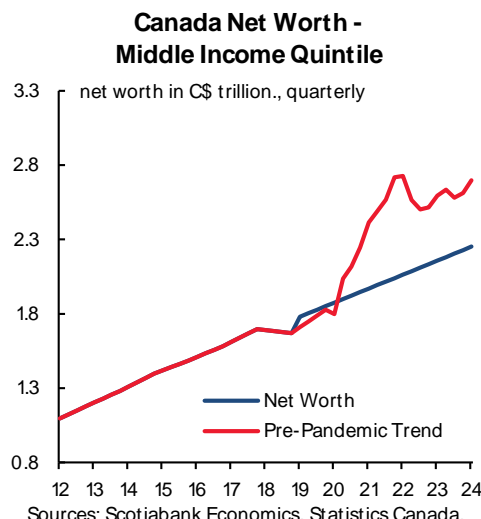
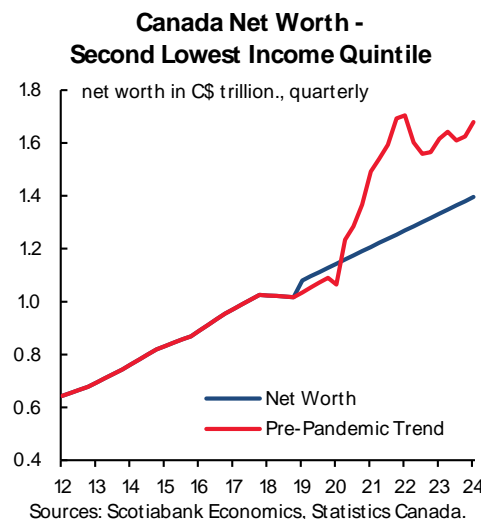
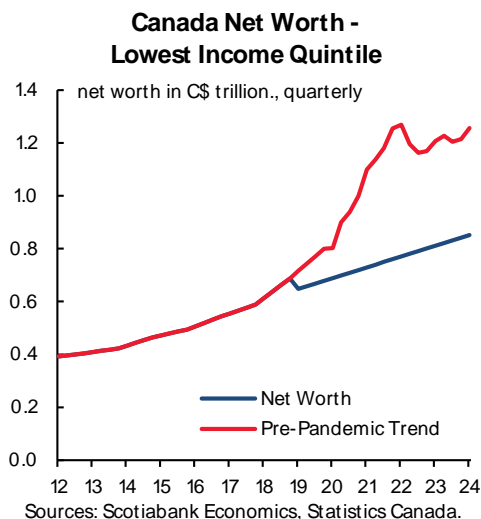


Sources: Scotiabank Economics, Bank of Canada.

...And Almost \$2 Trillion of Extra Net Worth...

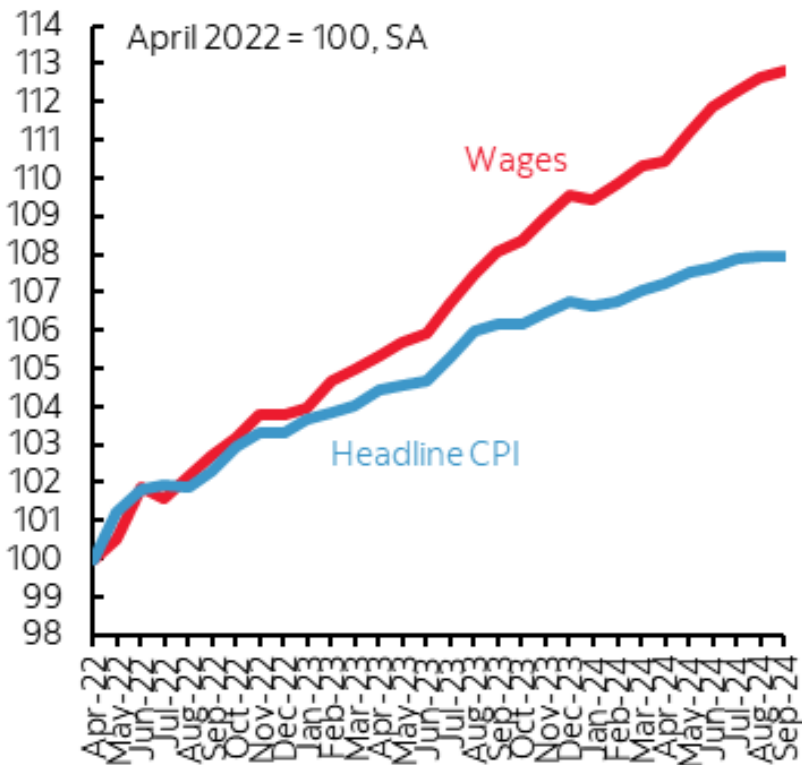


...that is Spread Across All Income Cohorts



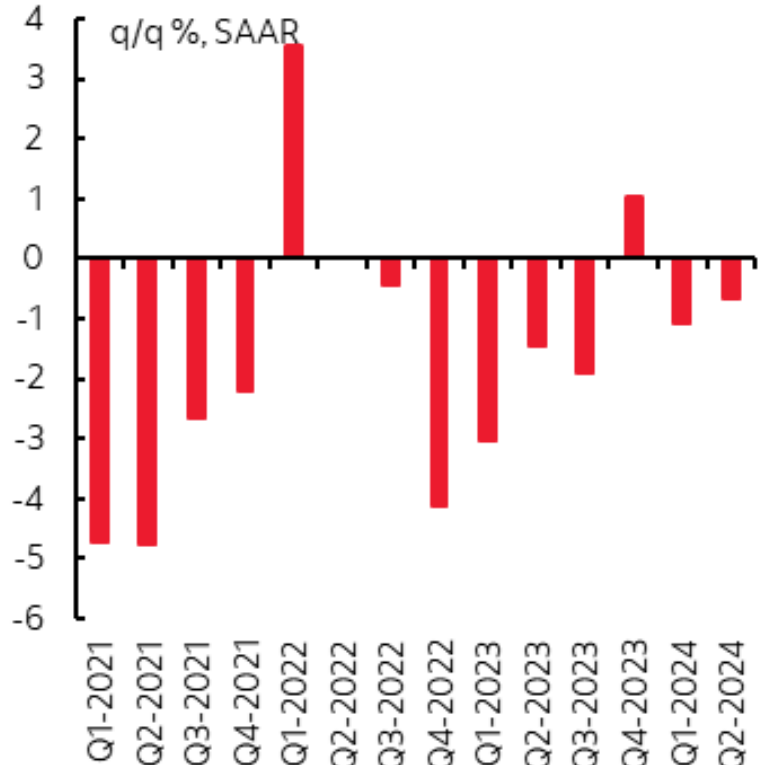
Canadian Inflation-Adjusted Wages Are Soaring...

Wages Outpacing Inflation in Canada



Sources: Scotiabank Economics, Statistics Canada.

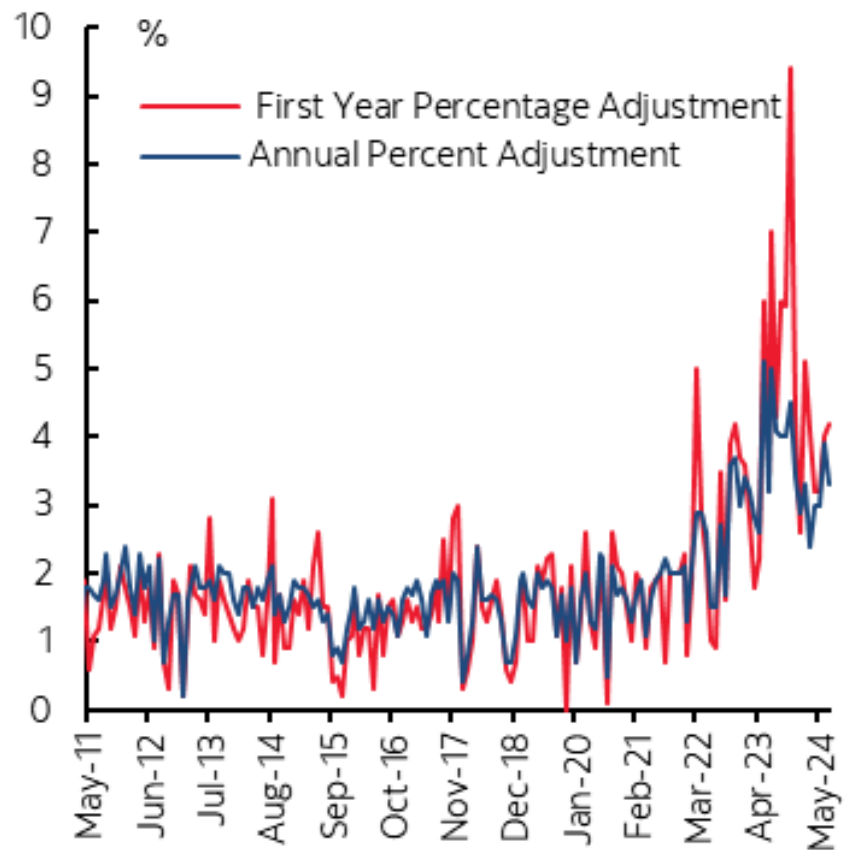
Canadian Labour Productivity Growth



Sources: Scotiabank Economics, Statistics Canada.

...and Wage Settlements Are Still Running Hot With Lagging Effects

Canadian Wage Settlements

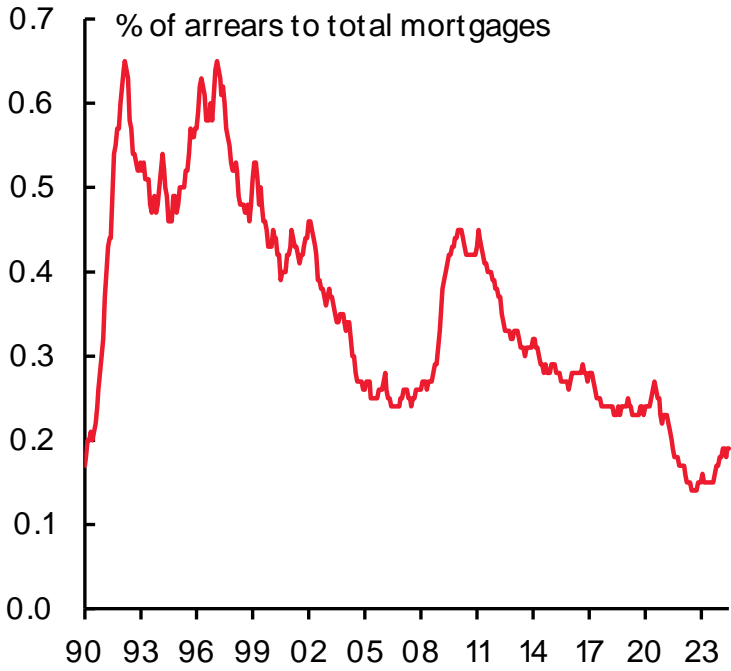


Sources: Scotiabank Economics, Statistics Canada.

10% of US workers are unionized versus triple that share in Canada.

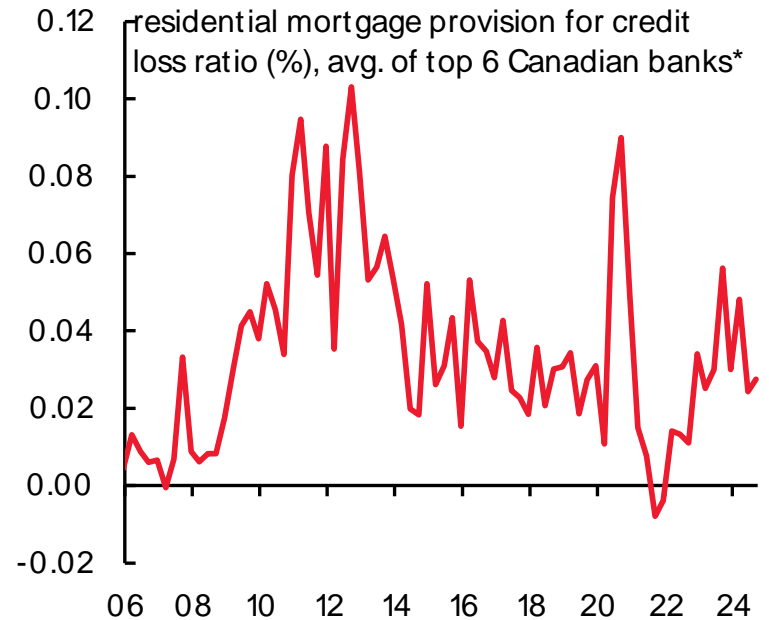
Canada's Mortgage Market is Resilient...

Canadian Residential Mortgage Delinquencies



Sources: Scotiabank Economics, CBA.

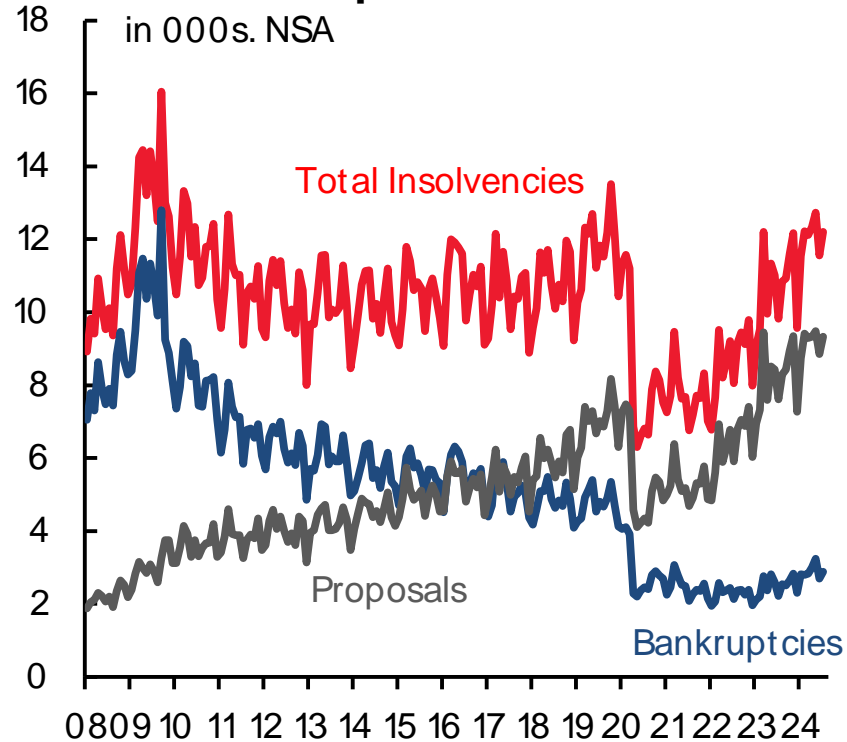
Present Mortgage Provisioning Isn't Terribly Unusual



* Average of full sample since Q1 - 2013.

Sources: Scotiabank Economics.

Total Insolvencies, Bankruptcies & Proposals Filed



Sources: Scotiabank Economics, ISED, Statistics Canada.

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