

in conversation with
Eddy Coccio and
Dr. Sherry Cooper



WEDNESDAY, JANUARY 29

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CANADA'S RECORD
ECONOMIC GAP
WITH THE US

BANK OF CANADA
CUTS RATES 25 BPS

Dr. Sherry Cooper
January 29, 2025



Year	GDP Growth (%)
2022	3.8
2023	1.5
2024	1.3
2025	1.9
2026	1.9



CANADIAN GDP GROWTH VULNERABLE TO TARIFFS

Canadian GDP Growth

(% change at seasonally adjusted annual rates)



2025Q1
Boosted by
cheques from
Feds and
Province, GST
Cuts

CANADIAN GDP PER CAPITA GROWTH FALLS FOR FIFTH CONSECUTIVE QUARTER

Record Canadian GDP underperformance stretching on
5-year percent change in per-capita real GDP



Source: Statistics Canada, Bureau of Economics Analysis, RBC Economics

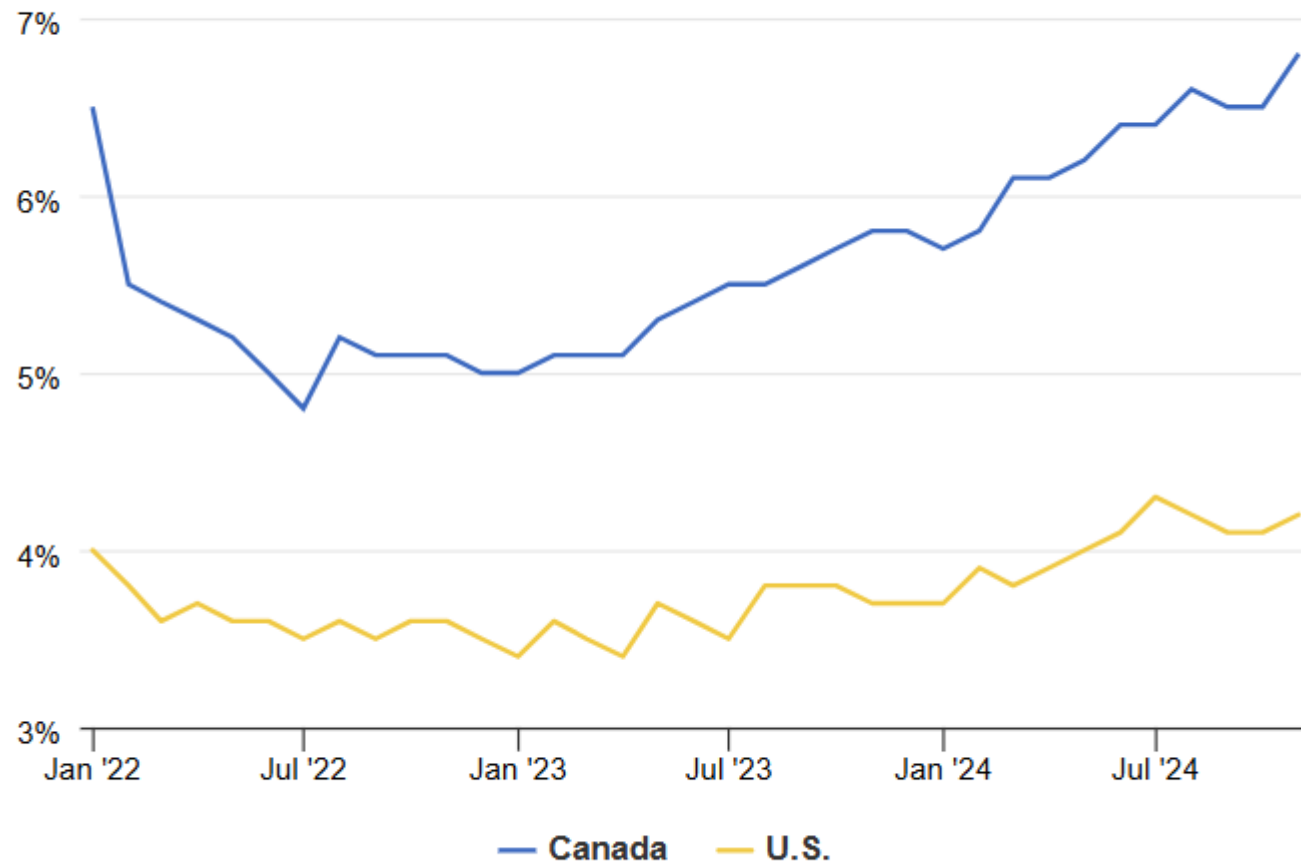
Royal Bank of Canada

The stunning divergence between the US and Canada is unprecedented in modern history

CANADA UNDERPERFORMS

Canada's labour market deterioration is more pronounced

Seasonally adjusted unemployment rate, %

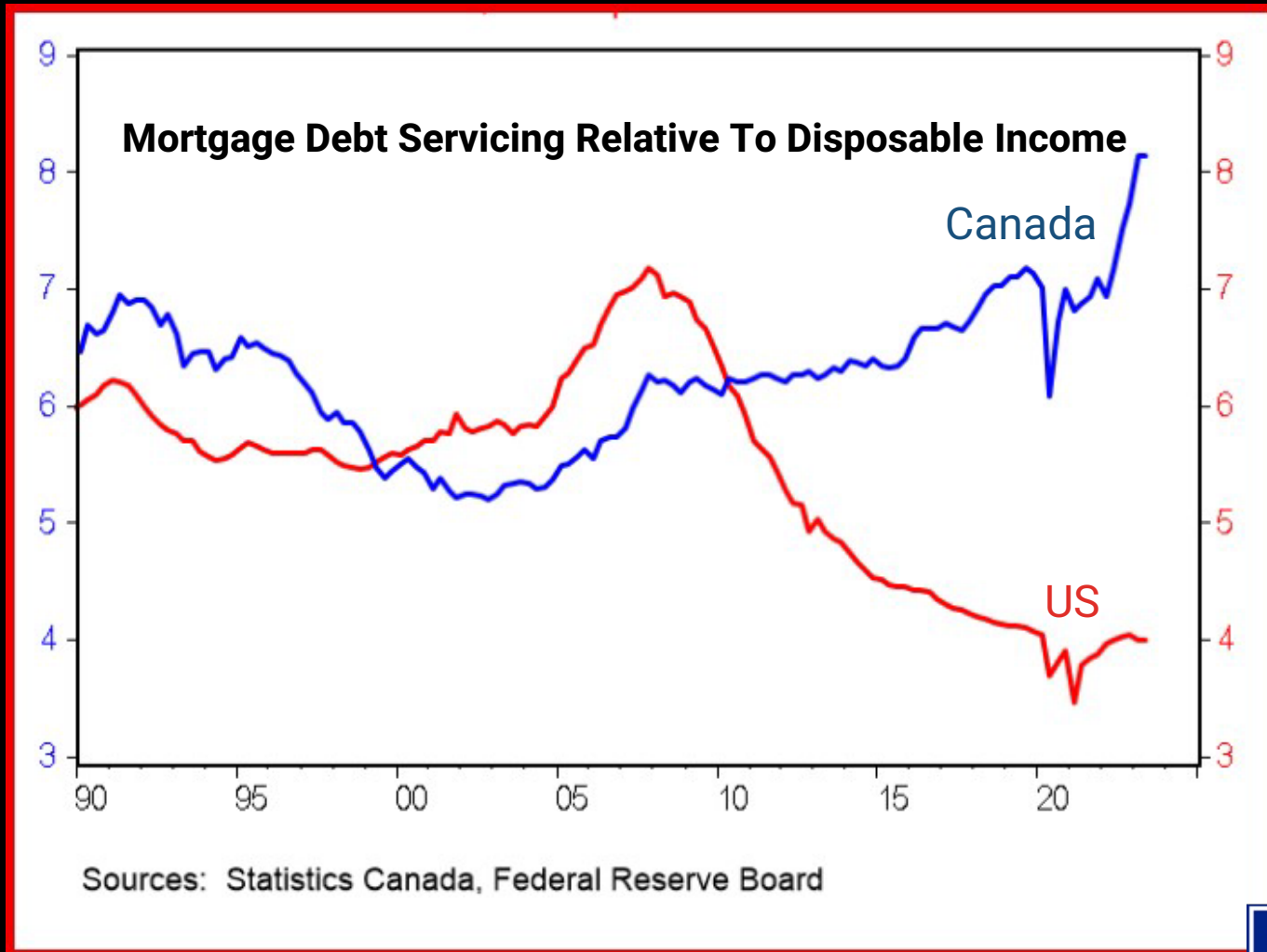


Source: Statistics Canada, Bureau of Labor Statistics, RBC Economics



DOMINION LENDING
CENTRES

MORTGAGE PAYMENTS RELATIVE TO AFTER-TAX INCOME



DECEMBER 2024

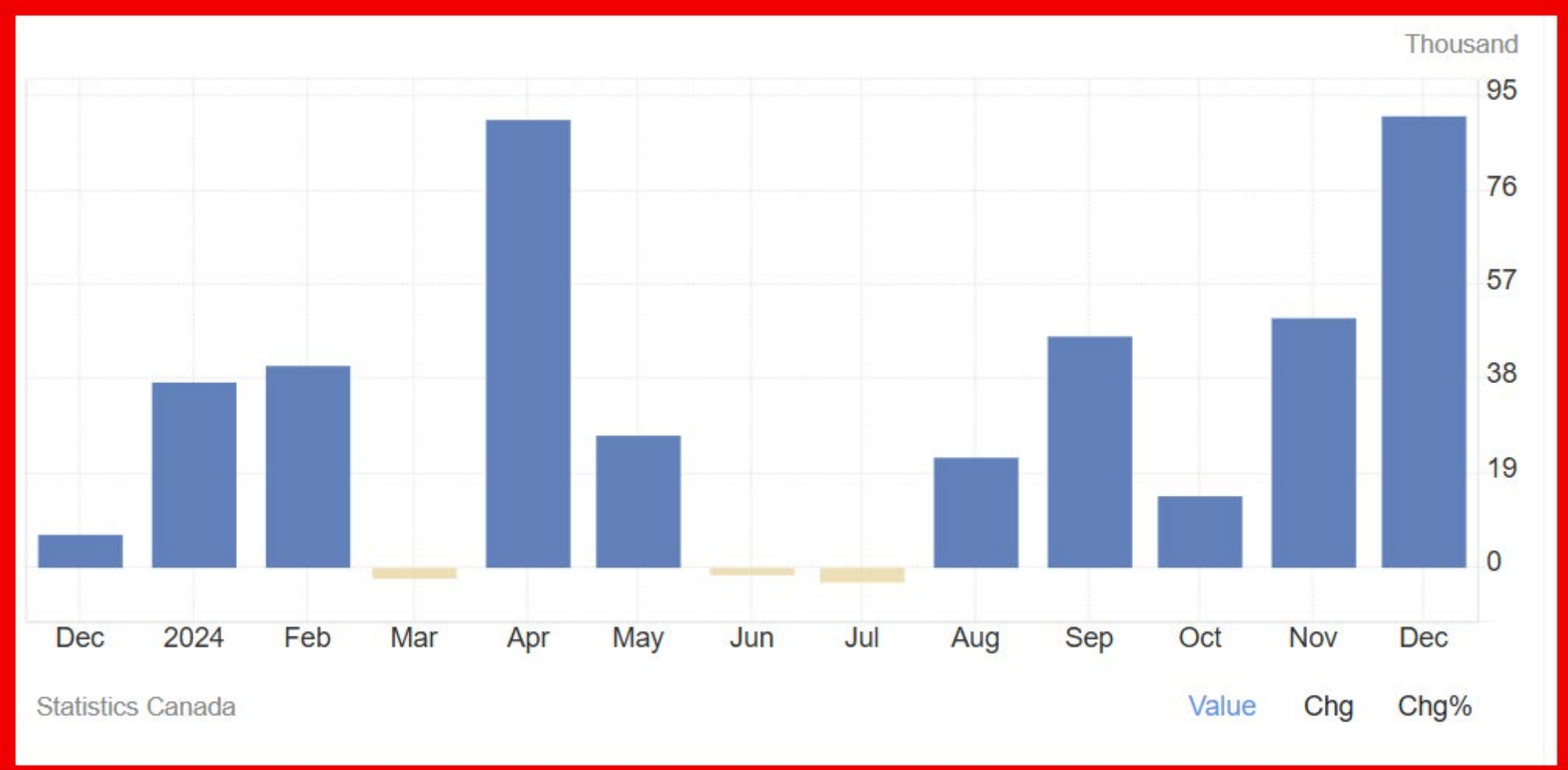


Strong Jobs Report In December 2024



**DOMINION LENDING
CENTRES**

JOB GROWTH SURGES TO 90,900—STRONGEST IN NEARLY TWO YEARS



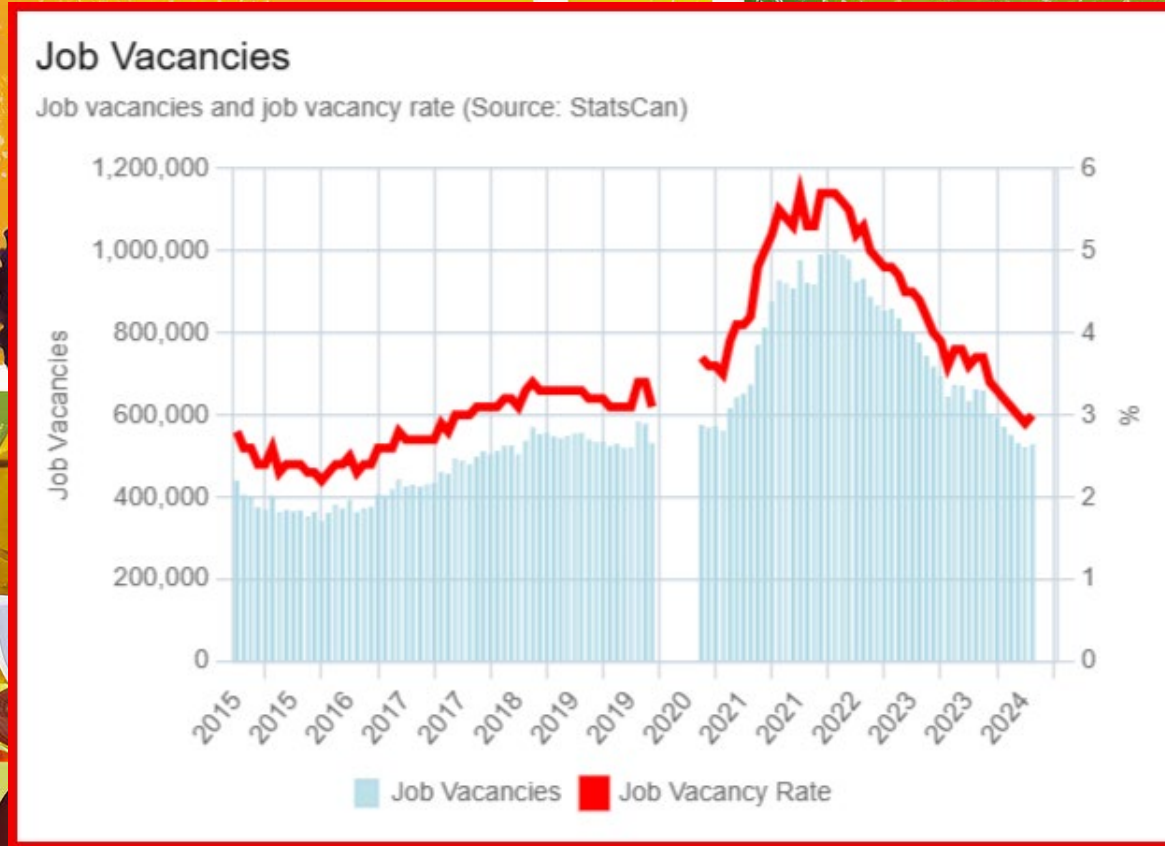
THE DECEMBER UNEMPLOYMENT RATE FALLS A TICK TO 6.7%



WAGE INFLATION CONTINUES TO FALL



JOB VACANCIES FALL



Courtesy of Mortgage Logic News

U.S. ELECTION RESULTS



Courtesy of Mortgage Logic News

SEISMIC SHIFTS COMING WITH TRUMP TRIFECTA

Tax Cuts

Tariffs

Immigration

Deregulation

Federal Reserve

Canadian exports to the US represent 20% of GDP

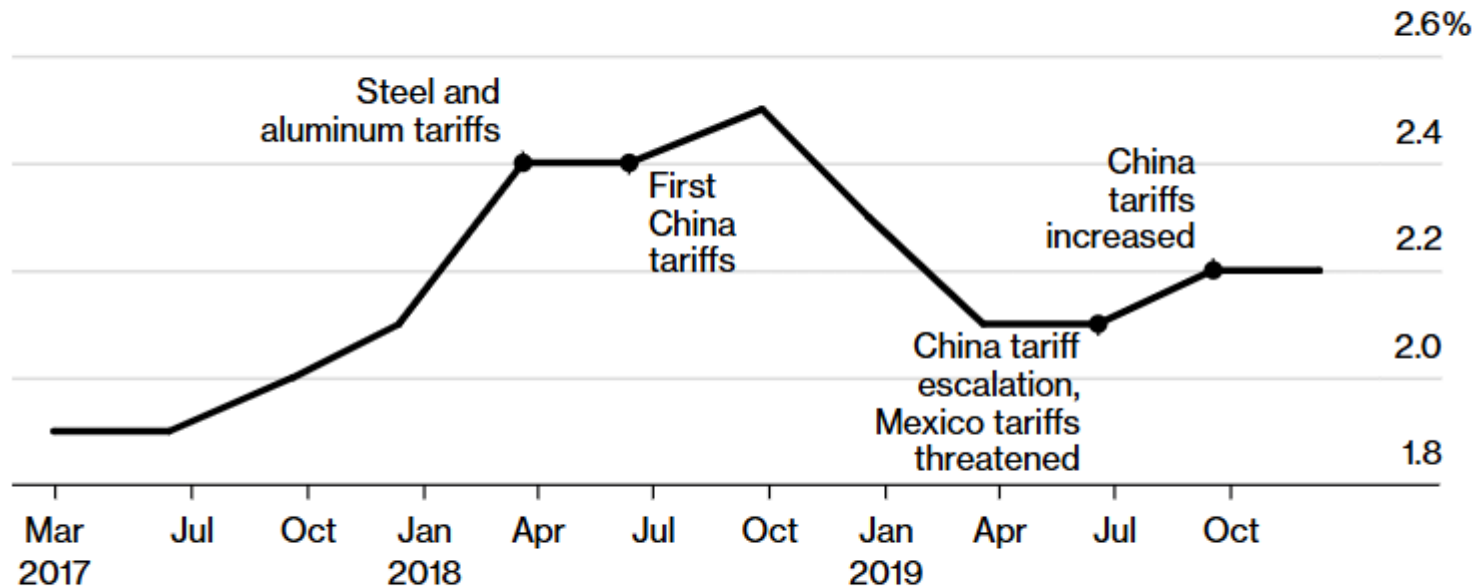


TARIFFS REDUCE GROWTH—BIGGER EFFECT THAN INFLATION

Tariffs Drive Down Growth Estimates

Fed officials revised down 2019 forecasts as tariffs were implemented

✓ Fed officials' 2019 GDP forecast



Source: Federal Reserve's Summary of Economic Projections.

Note: Median estimate for percent change from the fourth quarter of 2018 to the fourth quarter of 2019.

2019 was the first full year of tariffs:

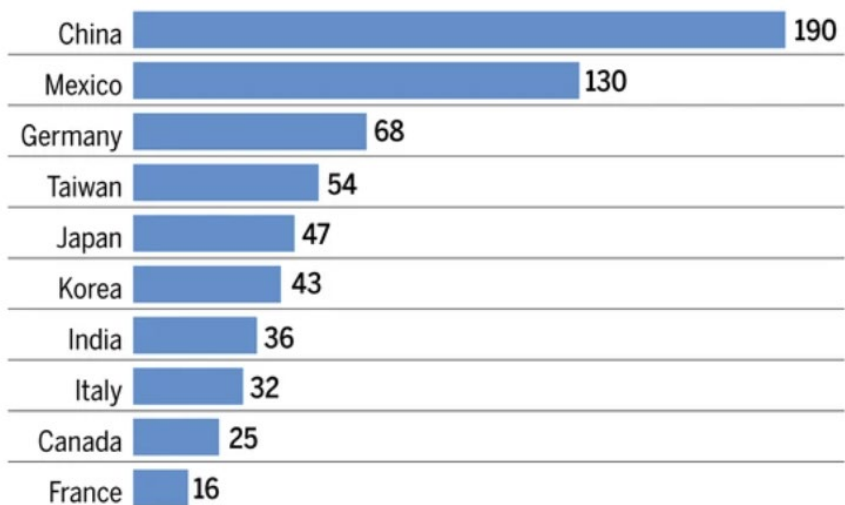
- US lost 43,000 factory jobs.
- Industrial production contracted.
- Business investment stalled.
- Real median household incomes fell for the first time in 5 years.
- Hit to consumer earnings was \$8 billion.

CANADA IS THE US'S SECOND-LARGEST TRADING PARTNER AND THE #1 EXPORT MARKET FOR AMERICAN GOODS AND SERVICES.

Canada has the 2nd lowest trade deficit in goods and services with the US

Excluding Canadian energy exports to the US, the US has a trade surplus with Canada

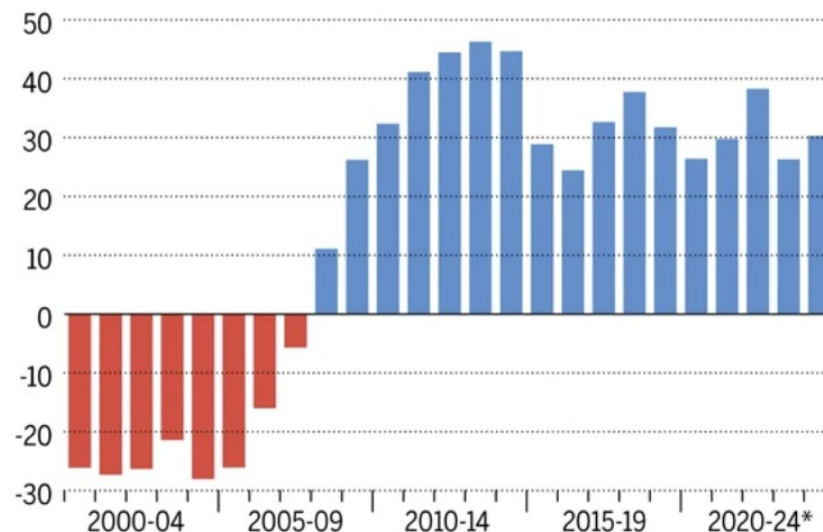
HOW CANADA'S TRADE DEFICIT WITH U.S. STACKS UP
Deficit, billions, U.S. dollars, to Q3 2024, goods and services



SOURCE: TD ECONOMICS

GIGI SUHANIC / FINANCIAL POST

TAKE OUT ENERGY, U.S. RUNS SURPLUS WITH CANADA
U.S. trade balance, billions, U.S. dollars



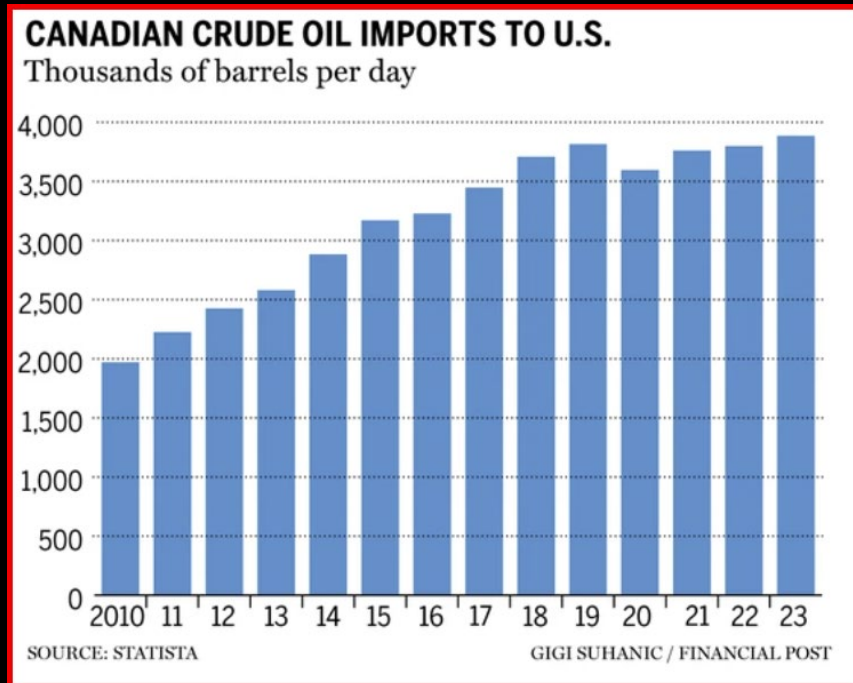
*Up to November

SOURCE: TD ECONOMICS

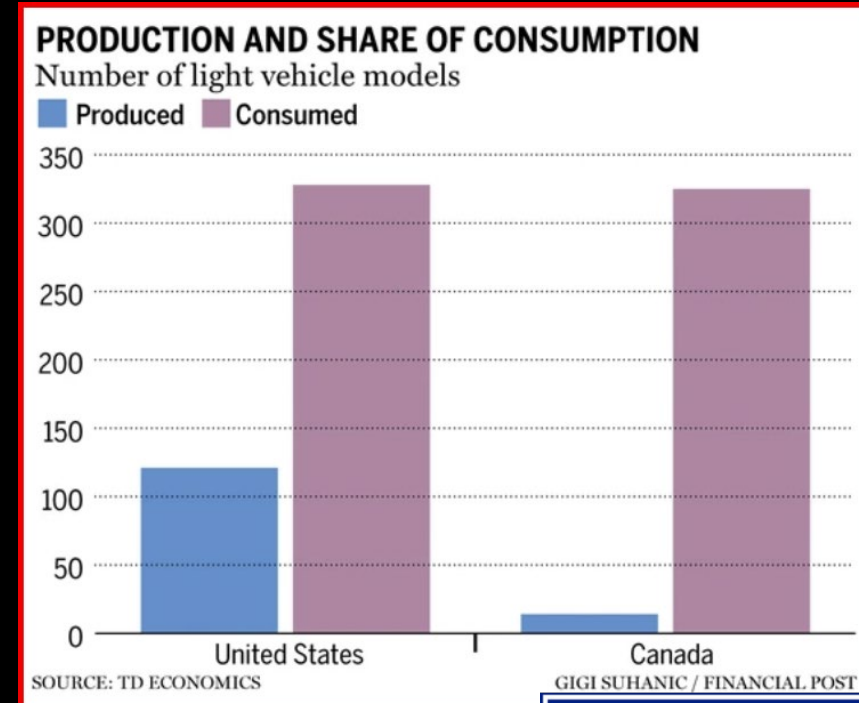
GIGI SUHANIC / FINANCIAL POST

TRUMP HAS SAID THE U.S. IS “LOSING \$200 BILLION A YEAR” TO CANADA AND CHARACTERIZED THAT FIGURE AS A SUBSIDY.

A trade deficit is not a subsidy



Canada makes 10% of American cars



FULL ONSHOREING OF ALL NON-US AUTO PRODUCTION WOULD REQUIRE A 75% BOOST IN US PRODUCTION AND \$50 BILLION IN NEW FACTORIES

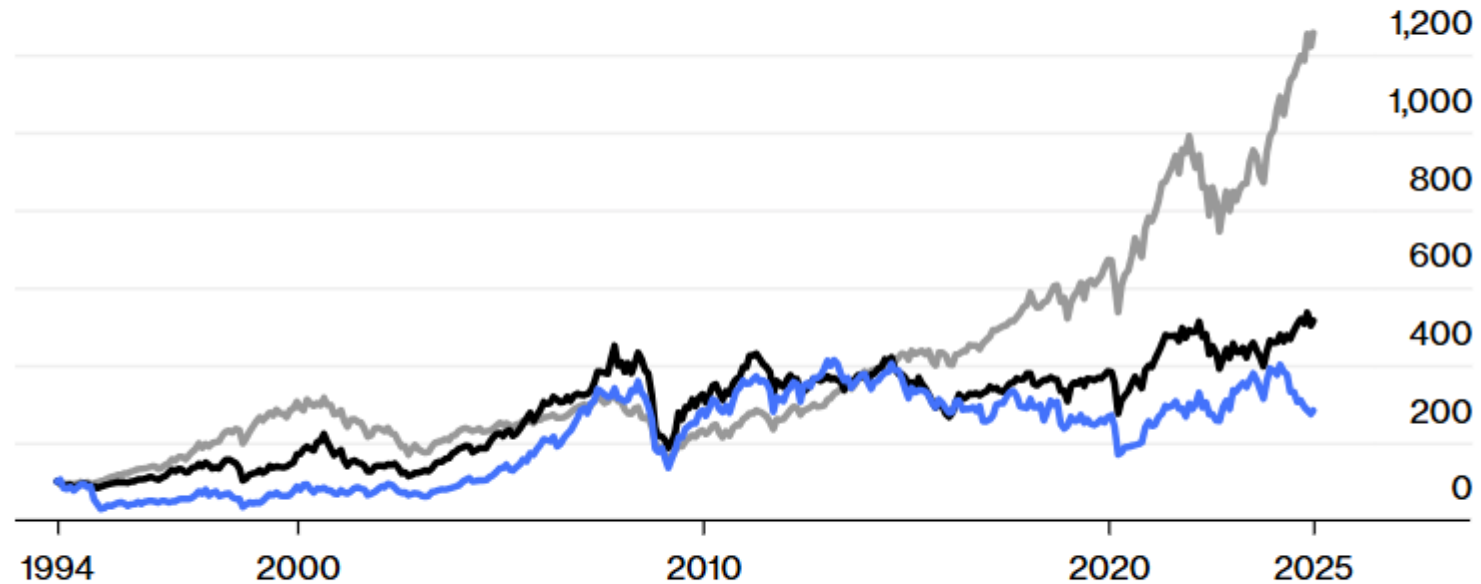
This would significantly decrease the
profitability of US auto companies.

NAFTA AND USMCA HAS BENEFITTED THE US

The Stock Market Judgment on Nafta

Corporate USA has far outperformed Canada and Mexico in three decades

Mexico Bolsa / Canada TSX / US S&P 500



Source: Bloomberg

Note: Re-based: 100 = 01/01/1994 (Nafta Initiation Day)

Trump thinks free trade damaged US employment and contributed to growing inequality

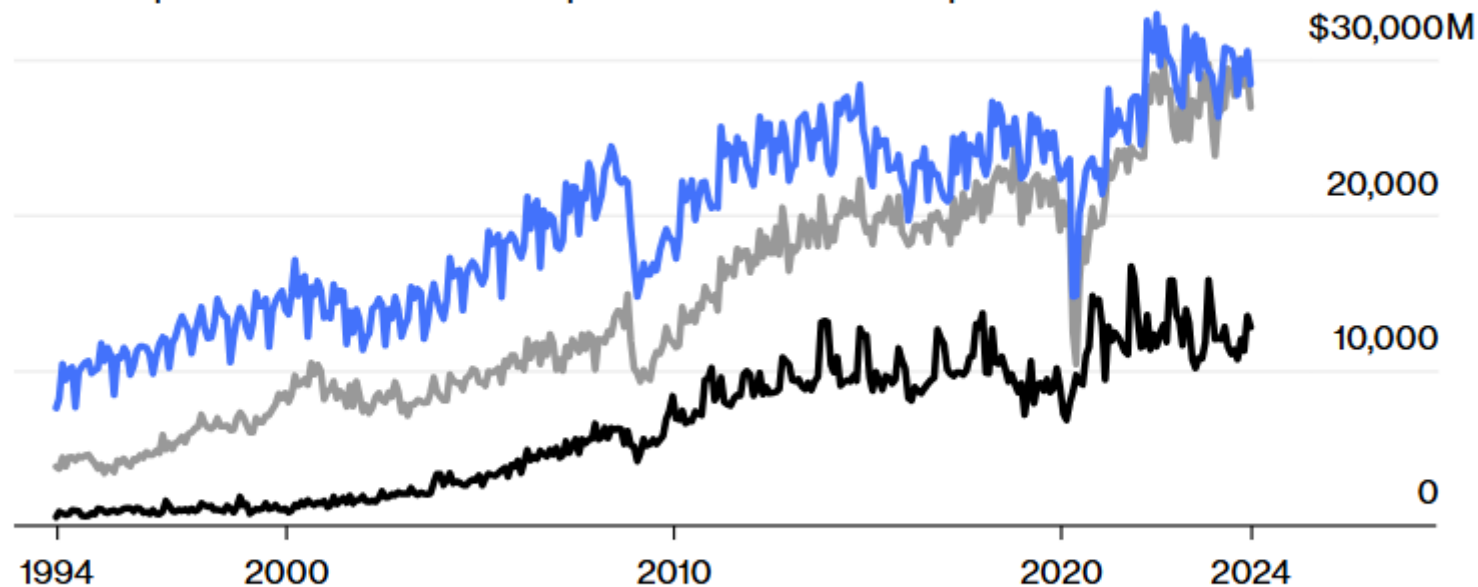
Trump Wants to Renegotiate the USMCA Sooner Than 2026

US EXPORTS TO CANADA AND MEXICO ARE ALMOST TRIPLE EXPORTS TO CHINA

Room for Retaliation

Tariffs from Mexico and Canada might truly hurt the US

US Exports to Canada / US Exports to China / US Exports to Mexico



Source: Bloomberg

- Gives Canada and Mexico the power to retaliate.
- Most exports to the US are from US companies.
- Tariffs could reduce US corporate profits.

TRUMP SAYS US NEEDS TO STEP-UP OIL PRODUCTION

- The “Drill Baby Drill” policy is profitable only if oil prices average about \$78/barrel—which is now about \$73.
- The US has plenty of oil. The real emergency is the lack of power generation.
- China is already at peak oil demand, arguing that prices will trend downward.
- Tariffs slow economic activity and weaken oil demand and oil prices.



The energy and automotive sectors would likely be exempt from tariffs because no alternative sources can meet US demand.



Primary metals (including aluminum), food and beverage manufacturing, chemicals, machinery, and aerospace are the sectors most likely to be vulnerable to potential tariffs.



Canada exports strategic materials to the US, such as uranium ore, zinc, tellurium, nickel, etc. The US buys 50% to 80% of critical minerals from Canada.

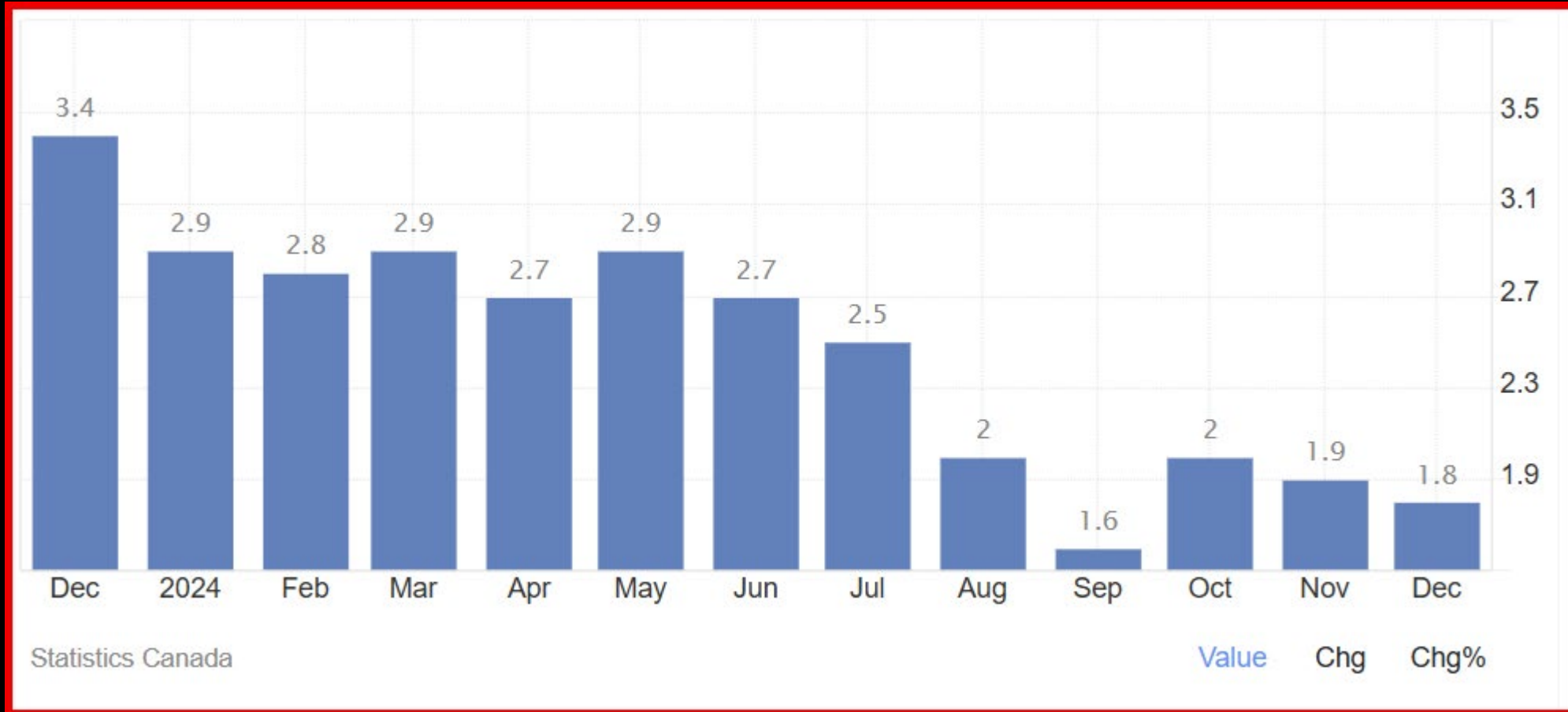


Canadian tourism to the US yields a surplus of \$15 billion in total service trade.

Inflation Falls To 1.8% in December

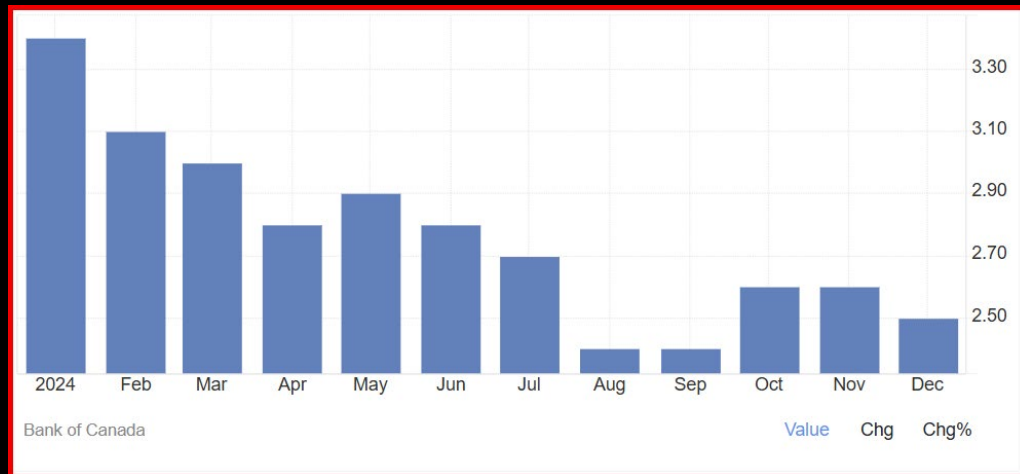


CANADIAN INFLATION FELL TO 1.8% Y/Y IN DECEMBER

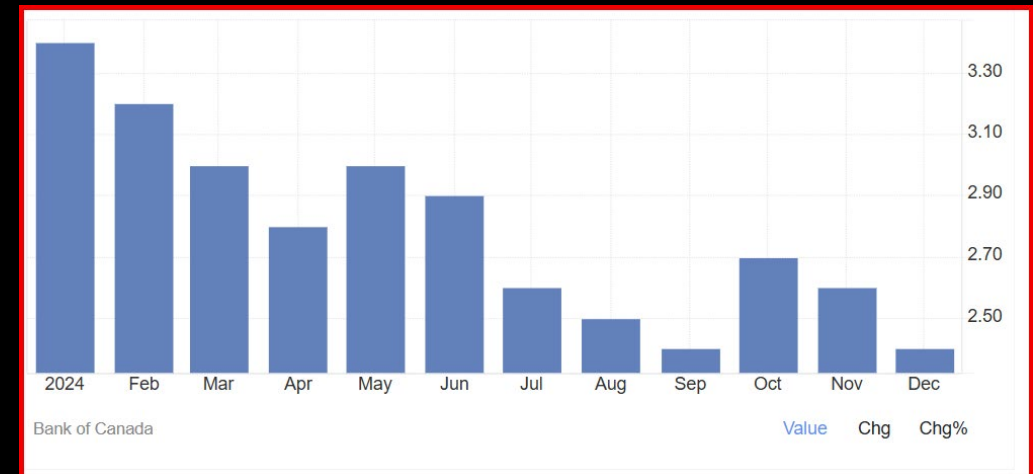


BOC CORE INFLATION MEASURES FELL CONSIDERABLY IN DECEMBER

CPI Trimmed-Mean Y/Y decreased to 2.5% in December, down 10 ticks from November



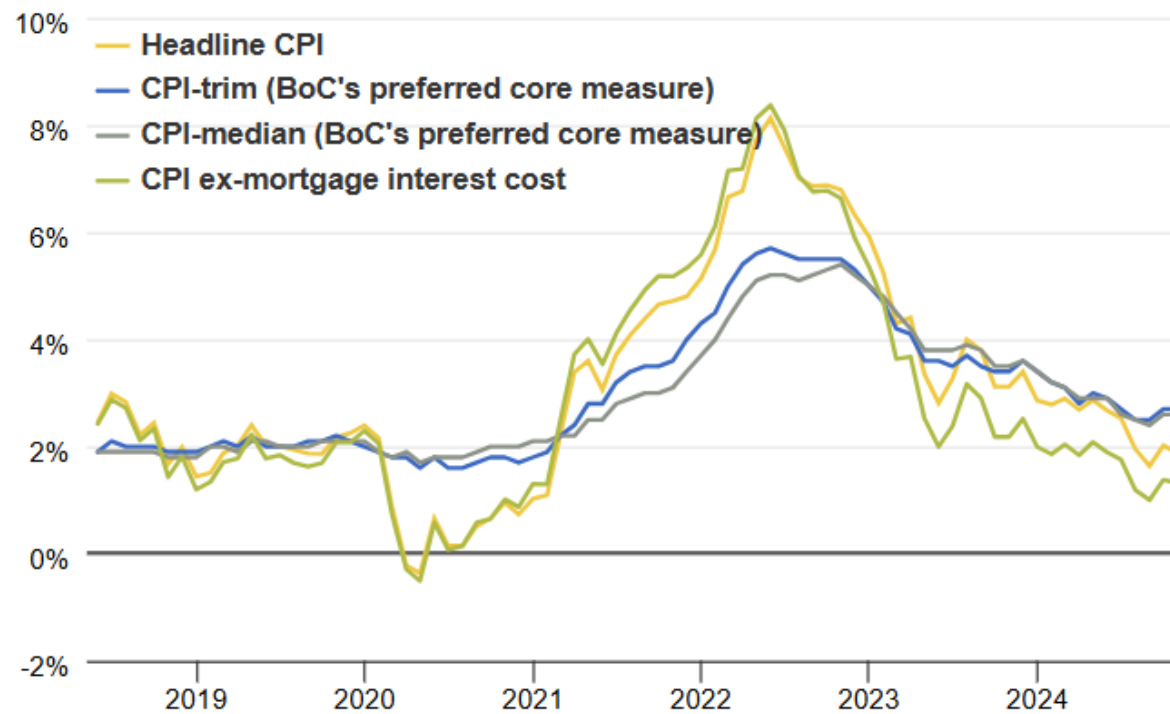
CPI Median Y/Y fell to 2.4% in December from 2.6% in November



Growth In BoC's Preferred Core Measures

Different inflation measures signal easing price pressures in Canada

year-over-year %



Source: Statistics Canada, RBC Economics



- BoC Cuts Overnight Rate By 25 Bps to 3.0%
- Ends Quantitative Tightening
- Monetary Policy is Still Restrictive
- Further Declines Coming, Taking the Policy Rate to 2.5% by Spring 2025



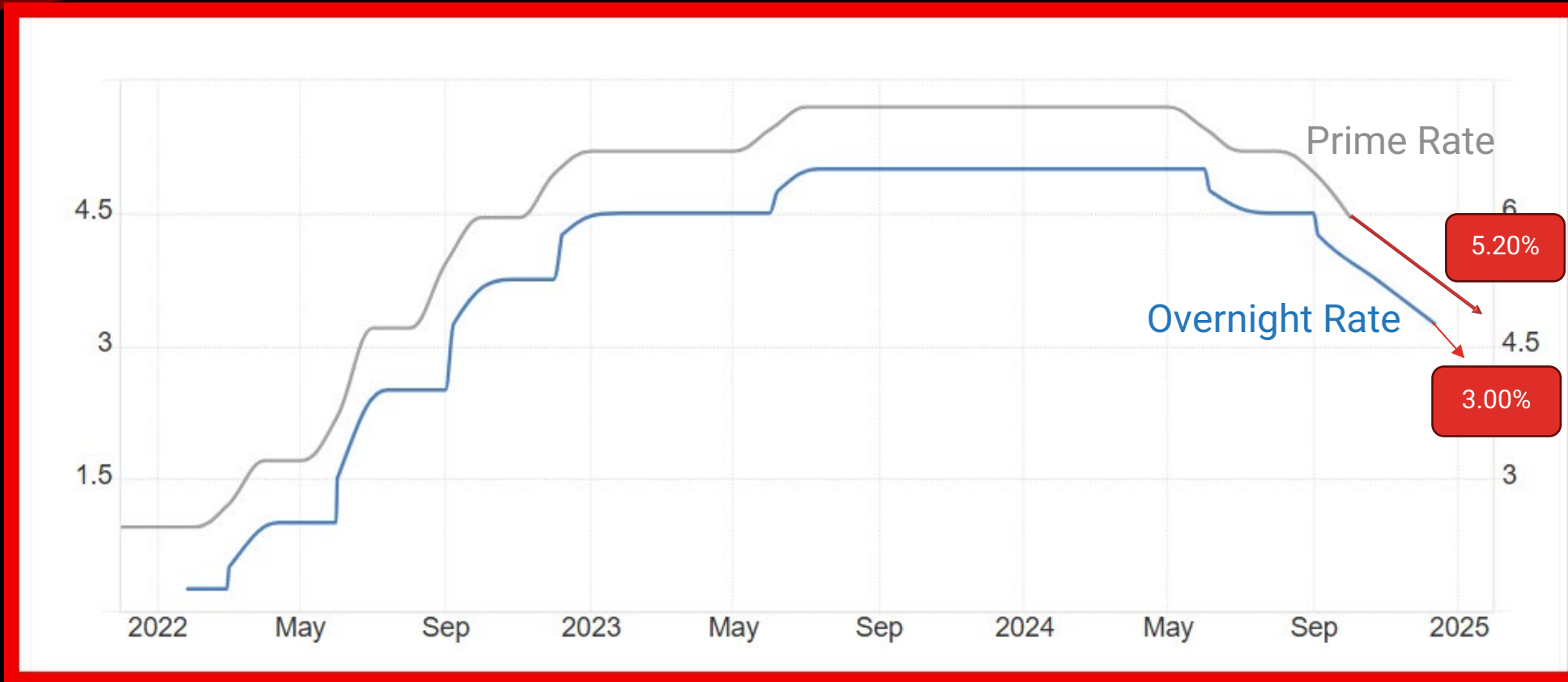
BANK OF CANADA

MONETARY POLICY REMAINS RESTRICTIVE



- The Overnight Rate is still **120** bps above the current core CPI inflation rate.
- The average real rate of the past 30 years is just **60** bps.
- Overnight rate is likely headed for **2.50%** by spring 2025.

BOC CUTS RATES BY ANOTHER 25 BPS TO 3.0%

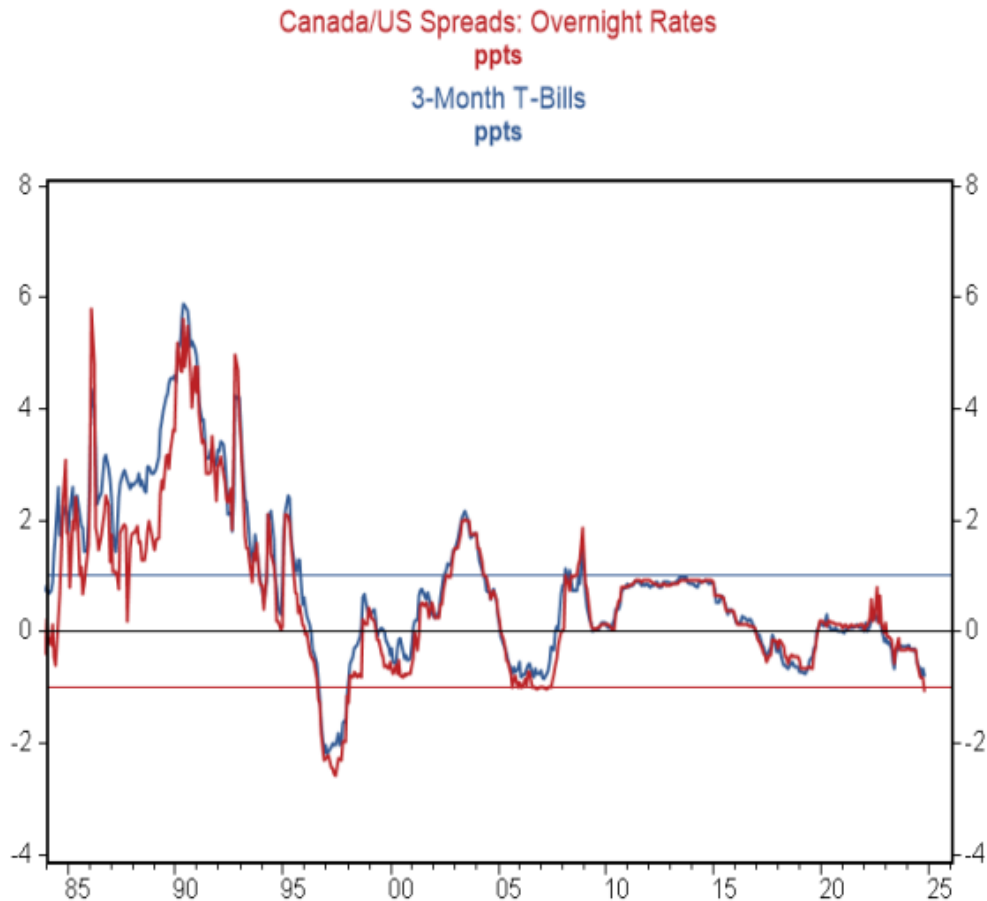


Prime Rate

Overnight Rate

Decline in Floating Rates With The BoC Rate Cut

CANADIAN AND US CENTRAL BANK POLICIES DIVERGE



Source: Haver Analytics

BMO  Capital Markets

Overnight Rate Spreads Canada/US are about -140 bps—A record gap driving \$C down.

FIVE-YEAR YIELD BACK DOWN AGAIN

Canada 5 Year Government Bond

Watchlist

2.870%

▼ -0.024

Last Updated: Jan 29, 2025 8:32 a.m. EST

PREVIOUS CLOSE

2.894%

2.868

DAY RANGE

2.894

2.651

52 WEEK RANGE

3.910



2025 DECISION DATES

January 29 → 3.0%
March 12
April 16 →
June 4 → 2.50%
July 30
September 17
October 29
December 10

Strong Spring Selling
Season Coming

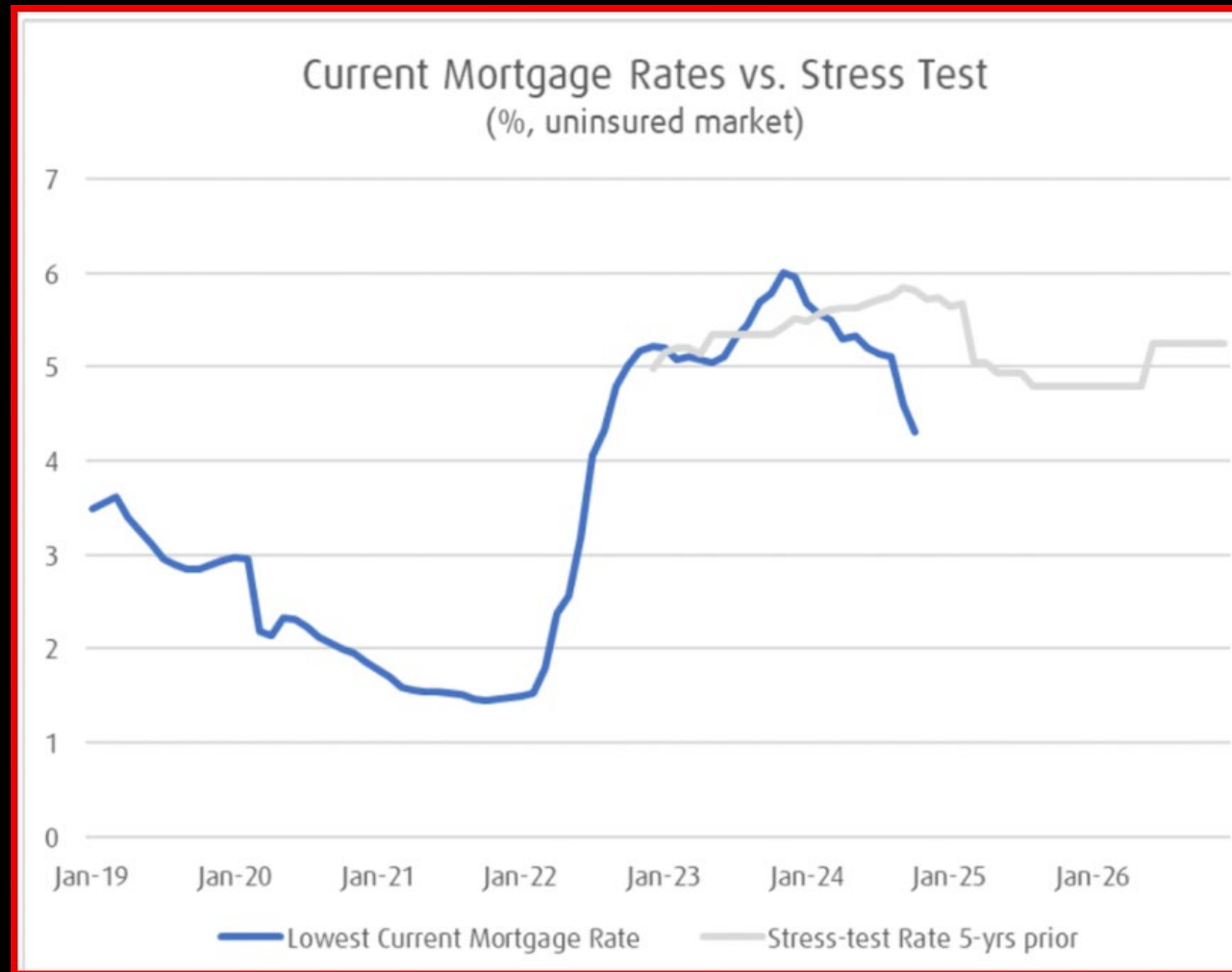
Overnight Rate Headed for 2.50% by Spring 2025.
Above Pre-Covid Rate of 1.75%.



PAYMENT SHOCK:

Half of Canadian mortgages come up for renewal in the next two years

CLIFF MYTH



CANADIAN HOME SALES FALL IN DECEMBER



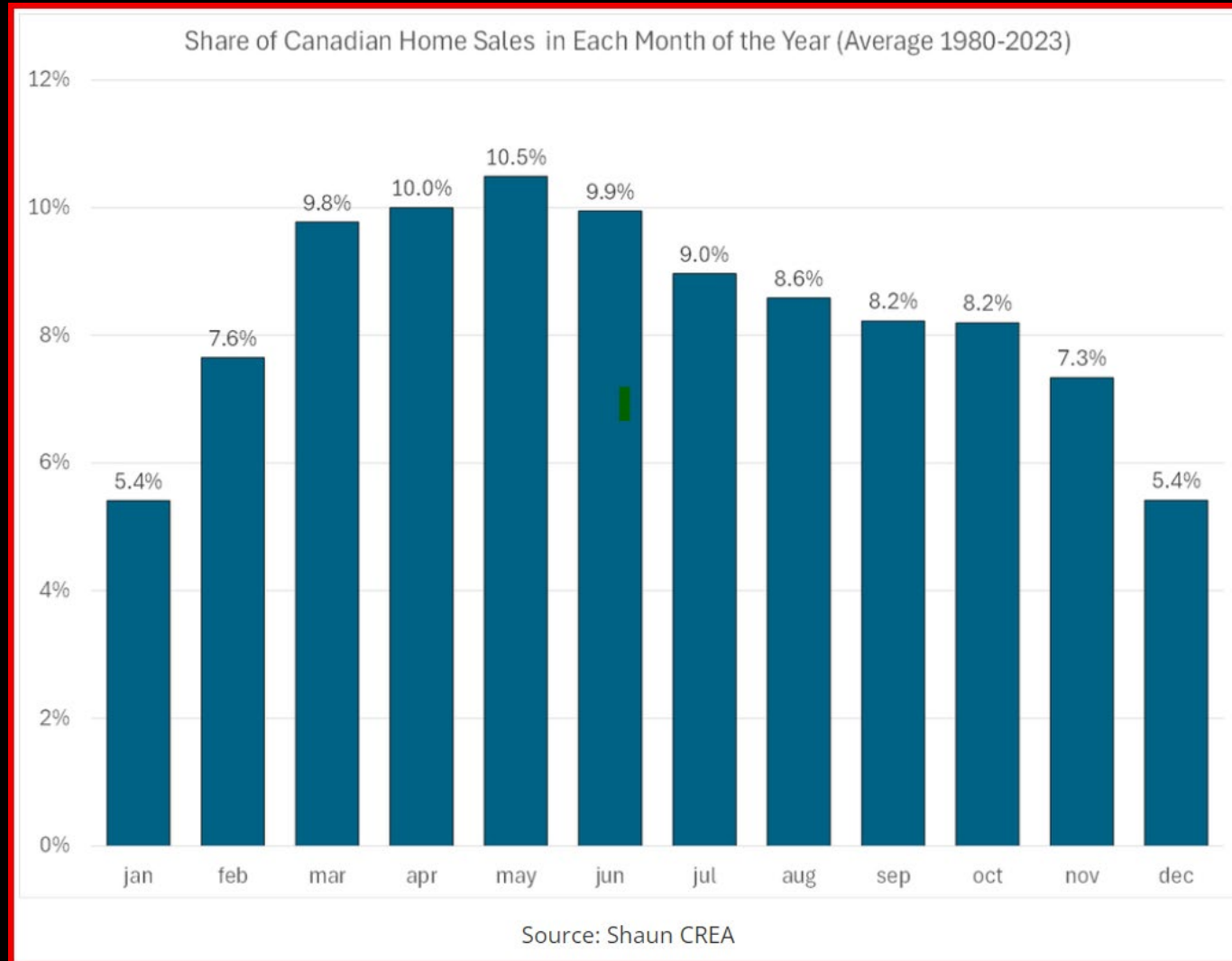
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CENTRES**

DECEMBER HOME SALES FELL 5.8% M/M

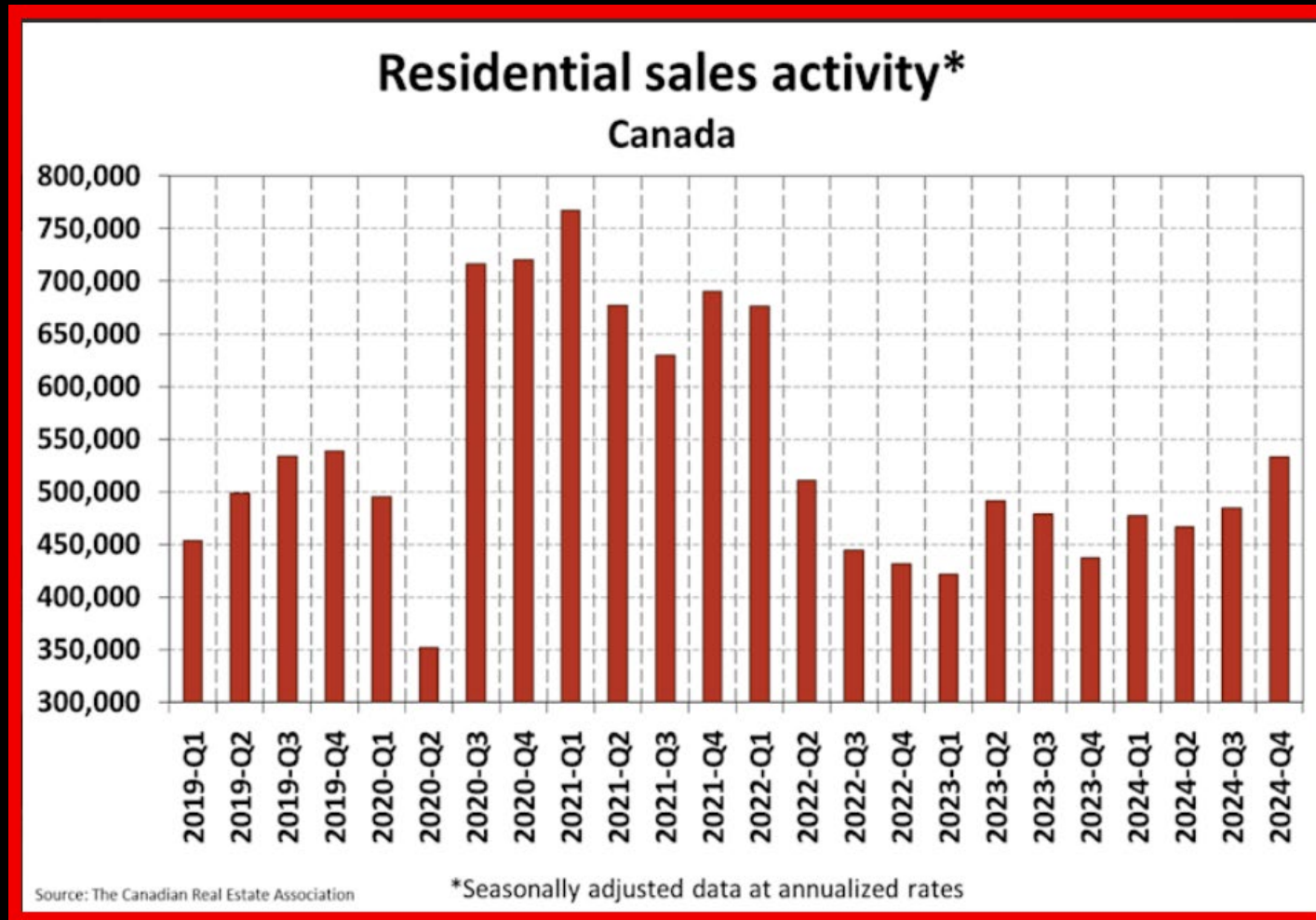


DOMINION LENDING
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MONTHLY PATTERN OF HOME SALES



MONTHLY HOME SALES FALL IN DECEMBER BUT RISE IN Q4



NEW LISTINGS EDGE DOWNWARD IN DECEMBER

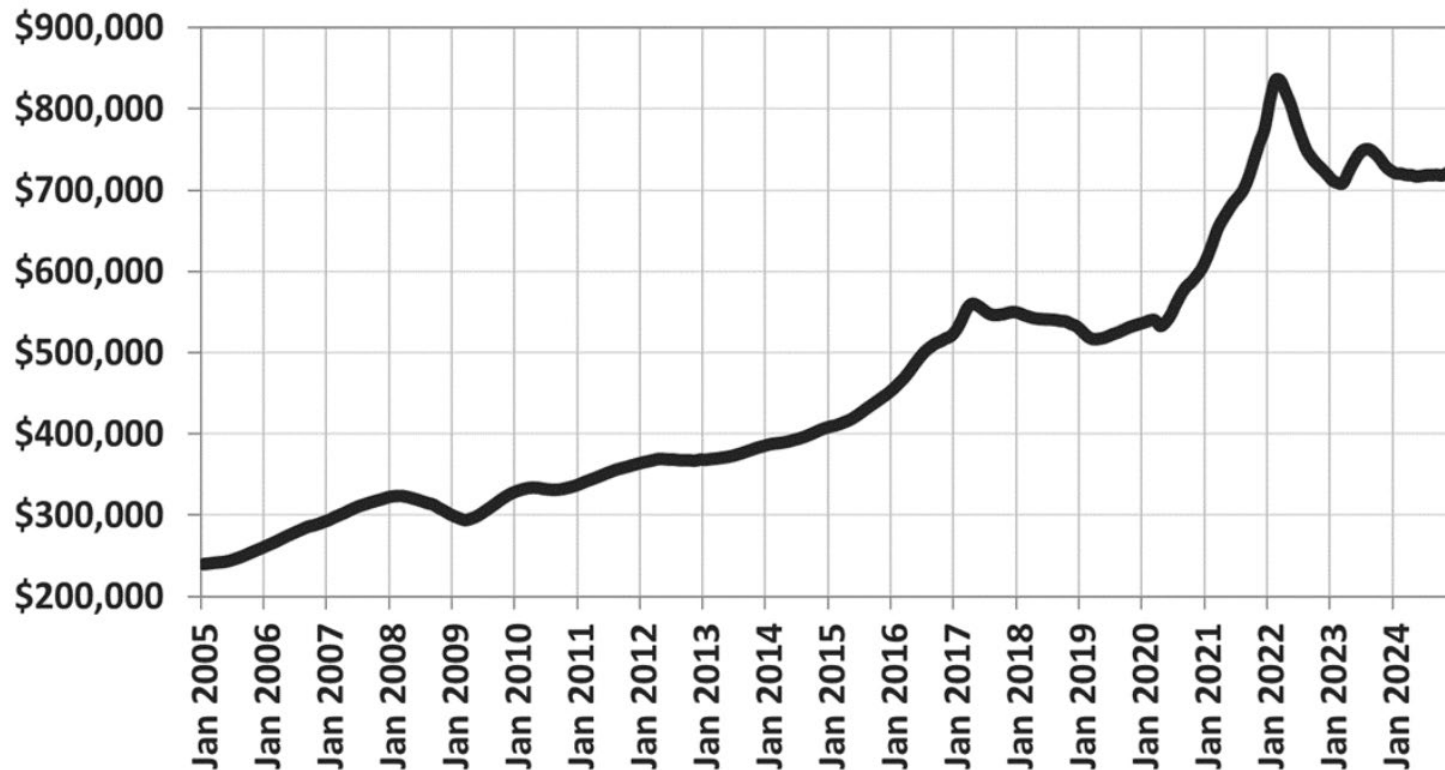


SALES-TO-NEW-LISTINGS FALL IN DECEMBER



NATIONAL HOME PRICES WERE FLAT IN DECEMBER

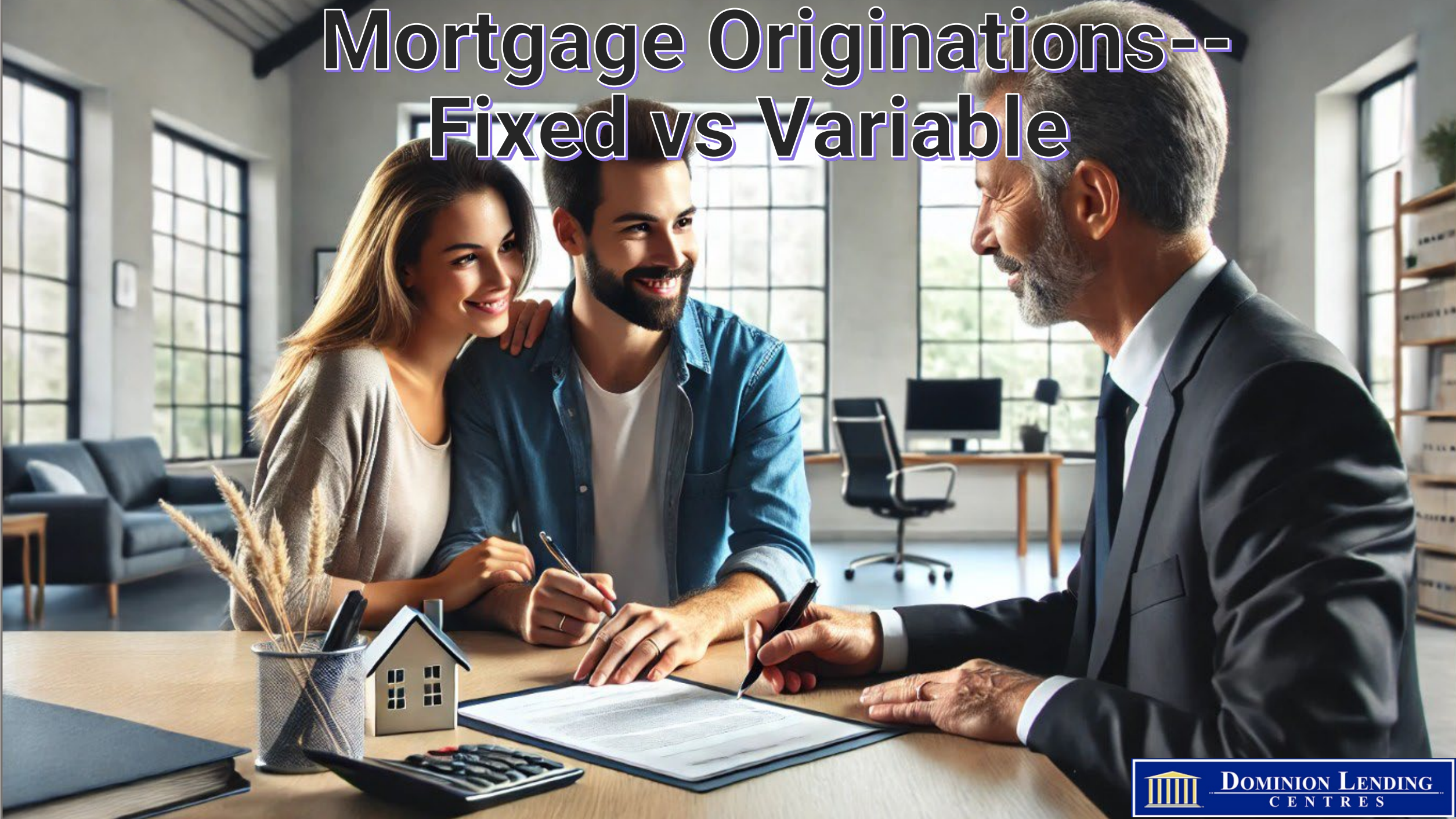
MLS® HPI Benchmark Price*
Aggregate Composite



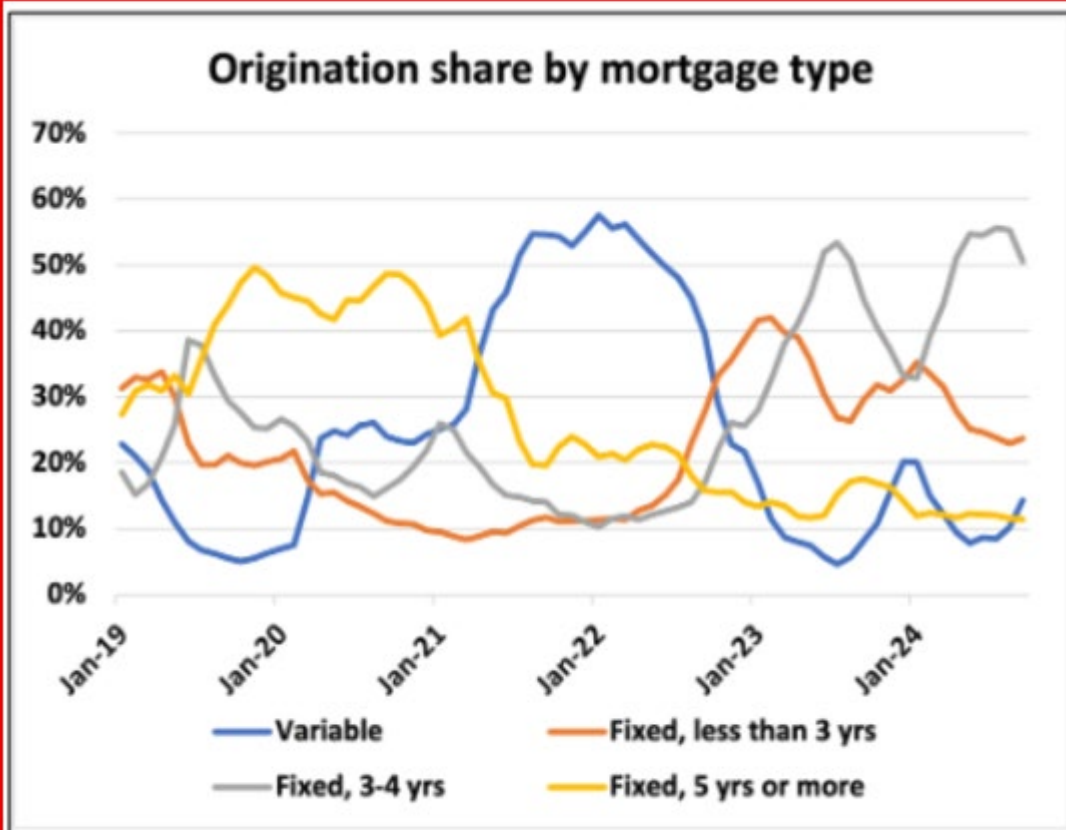
Source: The Canadian Real Estate Association

* Seasonally adjusted

Mortgage Originations-- Fixed vs Variable



Mortgage Originations-- Variable vs. Fixed



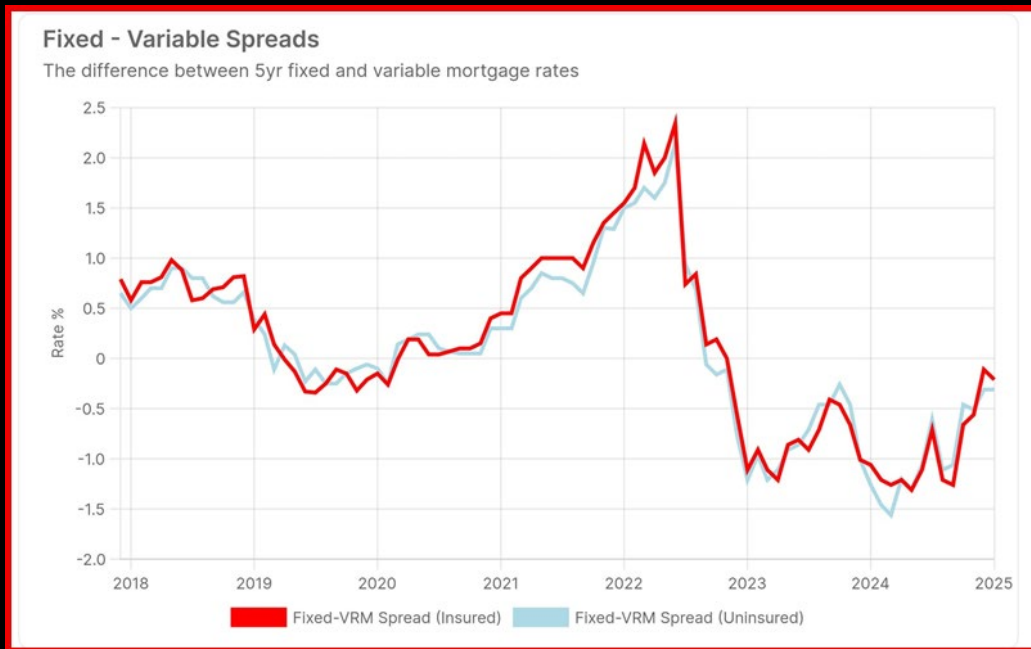
Courtesy: Edge Realty Analytics

50% of new mortgage borrowing is in 3- to 4-year fixed-rate loans; 23% are fixed, less than 3 years; 10% are fixed, 5 years or more.

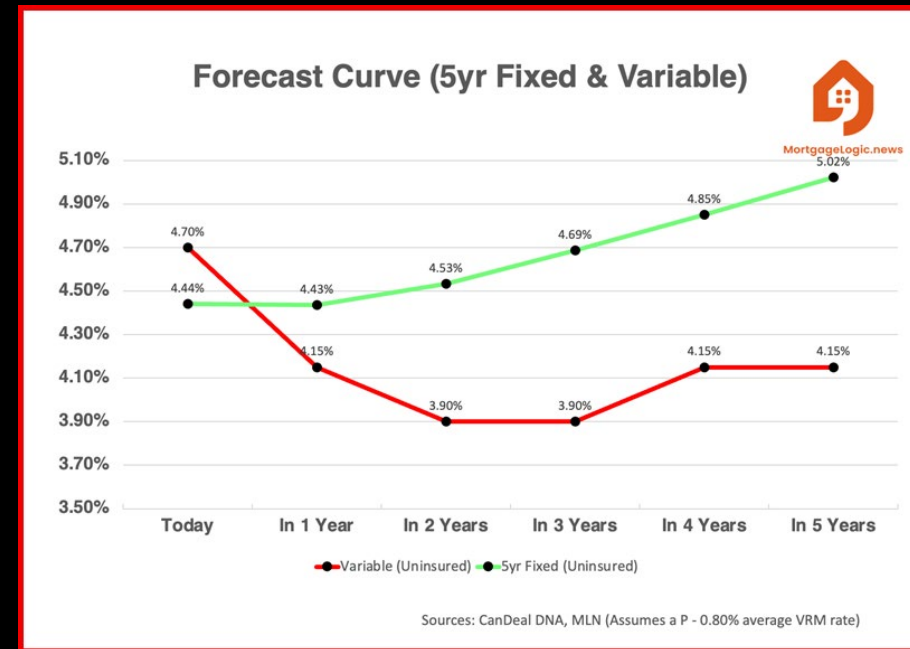
VRMs are starting to pick up.

EACH BOC RATE CUT ADDS FUEL TO REAL ESTATE DEMAND

Fixed vs Variable Spread



Fixed vs Variable Cross Over



Courtesy of Mortgage Logic News

IMMIGRATION TARGETS SLASHED



PLANNED PERMANENT IMMIGRATION CUT



Year	Planned Permanent Immigration
2023	465,000
2024	485,000
2025	395,000
2026	380,000
2027	365,000

These numbers are dwarfed by the influx of foreign students and temporary workers hoping to get permanent residency.

TEMPORARY ENTRANTS DWARF PERMANENT ONES



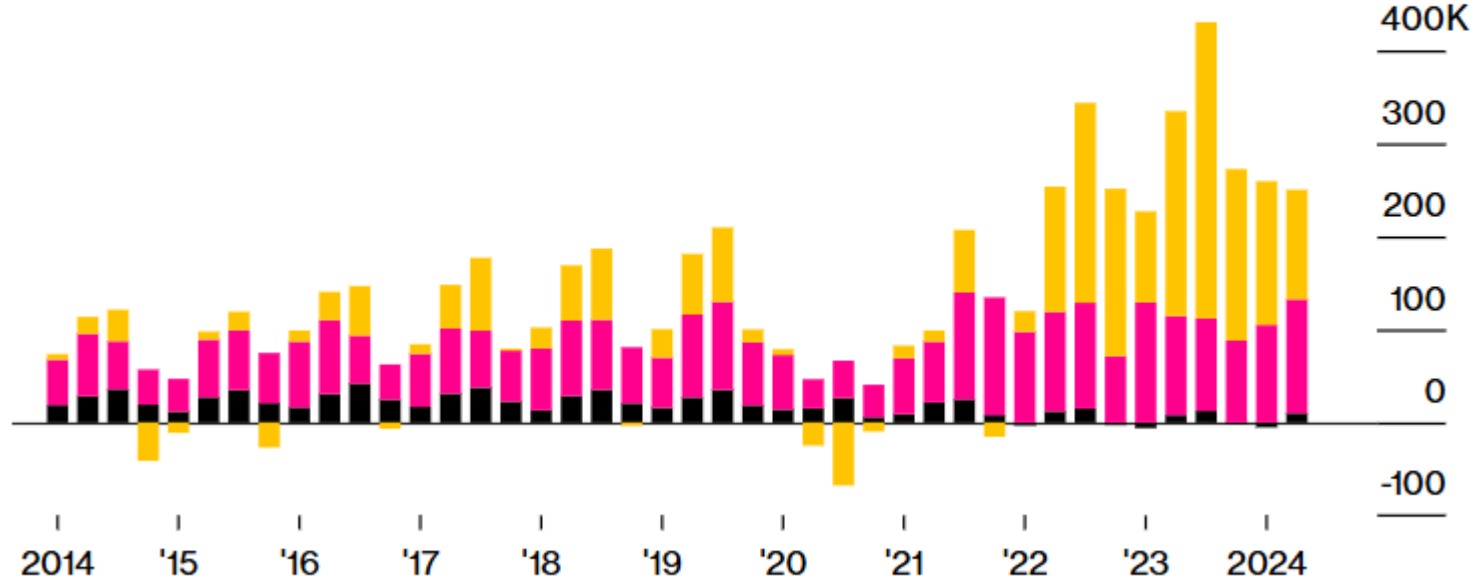
More than 800,000 temporary workers and foreign students were accepted in the year ending 2023

TEMPORARY RESIDENTS SURGED SINCE MID-2022

Canada Population Growth Slows on Fewer Temporary Residents

Temporary residents account for 47% of population growth in 2Q

■ Natural growth ■ Permanent migration ■ Temporary migration



Source: Statistics Canada

Temporary Residents:

- Foreign students
- Temp workers
- Asylum claimants

Ottawa Plans To Slash the Number Of Temporary Residents

Temporary residents make up 7.2% of the population today.

The government wants it at 5.0% by 2026.

2.4 million NPRs will have to leave in the next two years if they aren't granted permanent residency

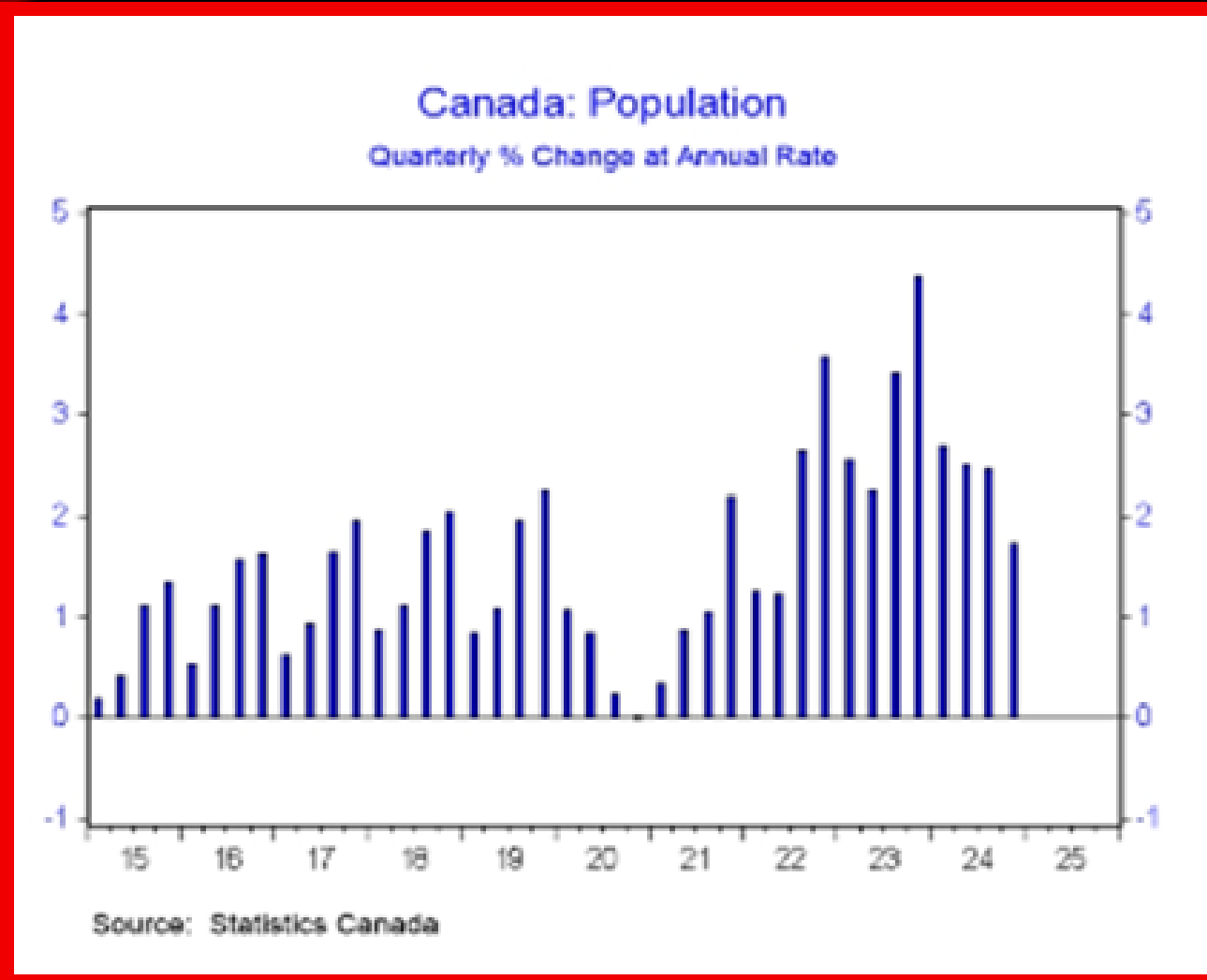
But the target for new permanent residents has been cut as well.

FOREIGN STUDENT PERMITS PLUNGED 45% TO 280K IN 2024

Down from
650K foreign
student permits
issued in 2023

Compared to the 364K planned

POPULATION GROWTH IS ALREADY SLOWING



At 1.7%, population growth is the slowest in 2-1/2 years.

WHAT ABOUT LABOUR SHORTAGES IN THE TRADES, AGRICULTURE AND IN HEALTHCARE?

Seasonal
Workers?

Most will be temporary foreign workers hoping to become citizens.

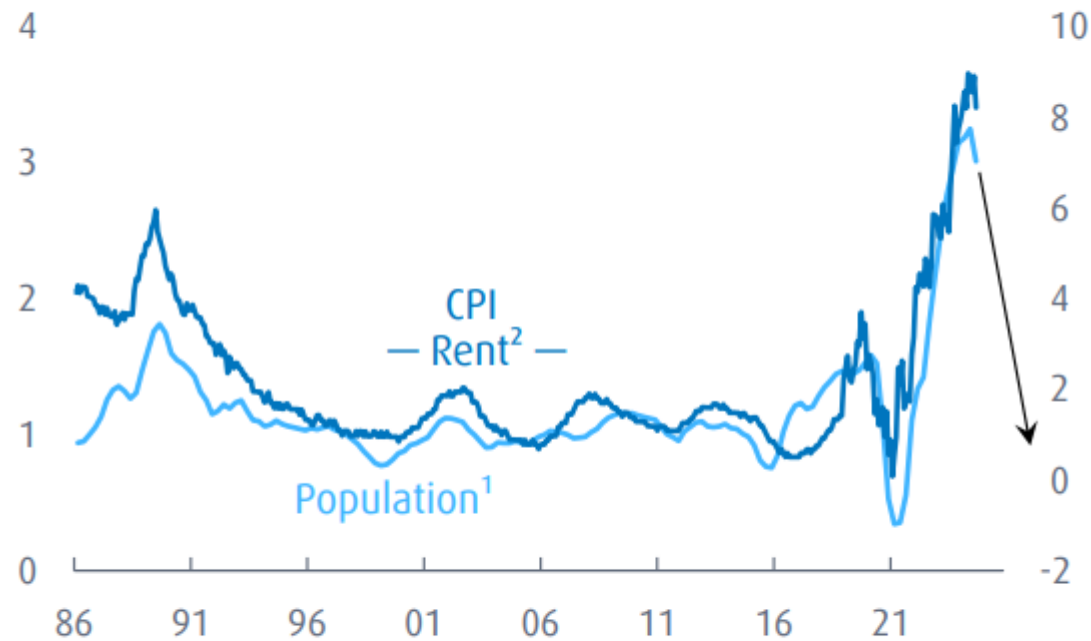


**DOMINION LENDING
CENTRES**

RENTS FELL 3.2% IN 2024 TO A 17-MONTH LOW

Peak Rent

Canada (y/y % chng)



Sources: BMO Economics, Haver Analytics, Statistics Canada ¹ (lhs); ² (rhs)



SLOWER
POPULATION
GROWTH REDUCES
ECONOMIC GROWTH
AND INFLATION

Consistent with lower
interest rates

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