

# Wrong-Footed



Andrew Grantham, Executive Director & Senior Economist

September 2019

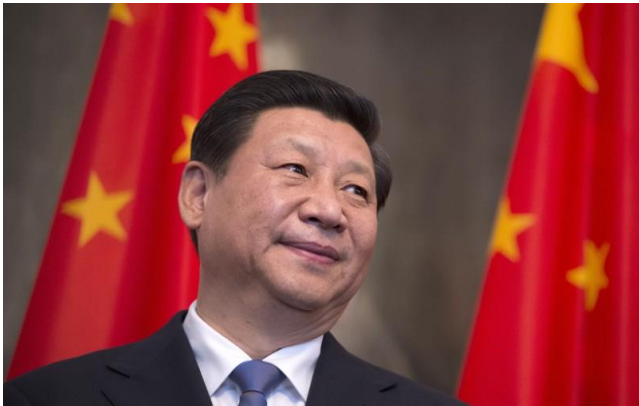


# He Said, Xi Said



“We cannot continue to allow China to rape our country, and that’s what they’re doing.”

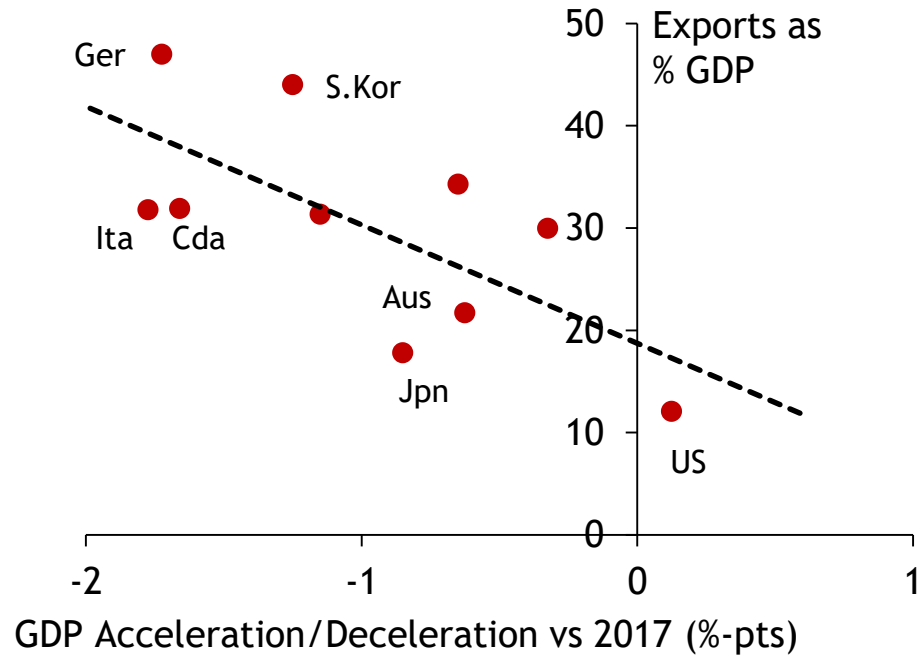
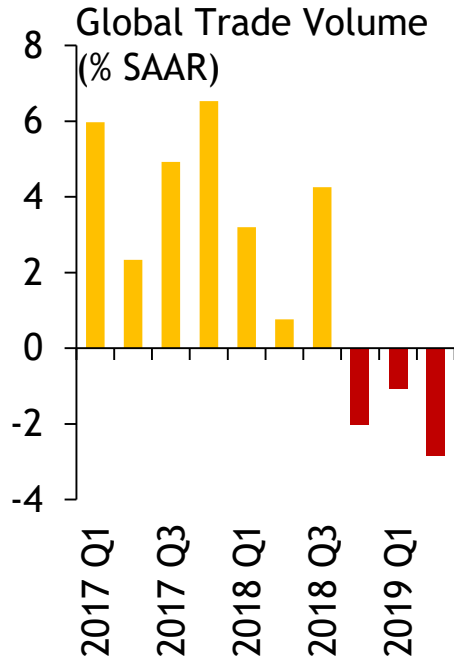
“China has total respect for Donald Trump and for Donald Trump’s very, very large brain.”



“There are some bored foreigners, with full stomachs, who have nothing better to do than point fingers at us.”

# Slowing Global Trade (L)

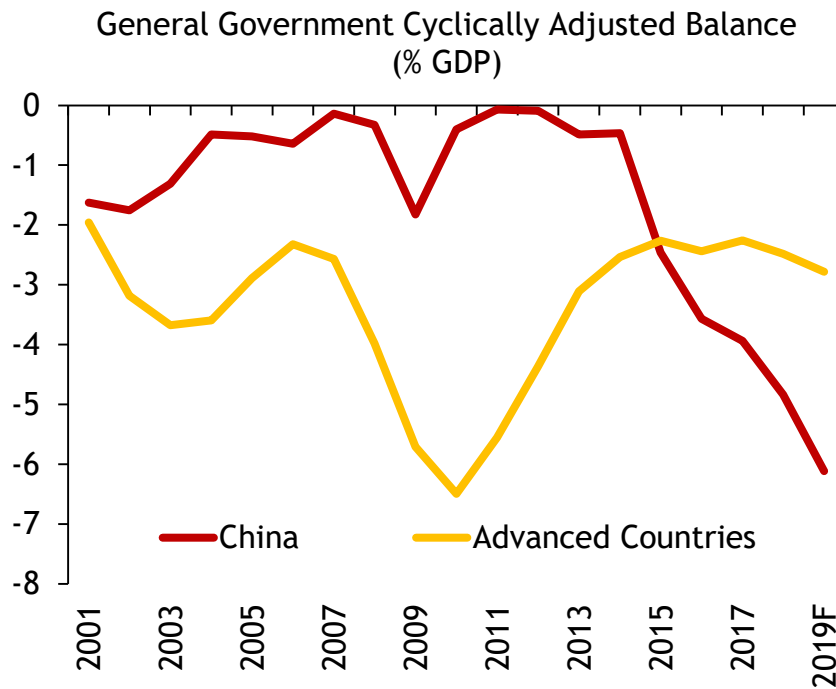
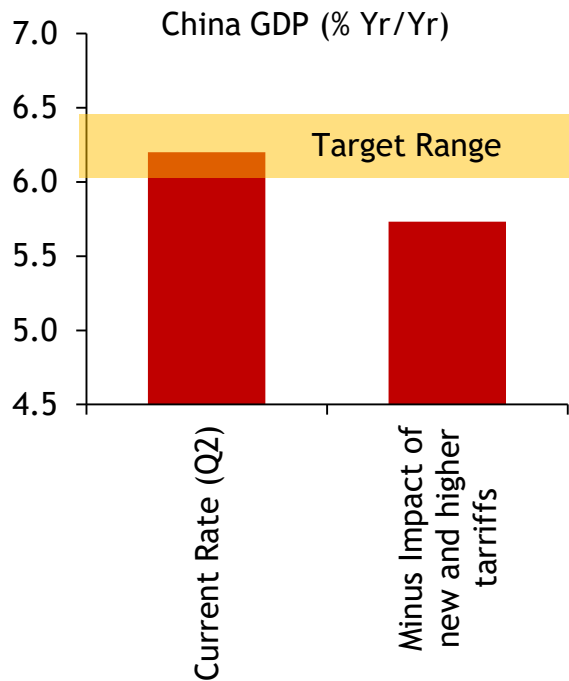
# Exposes Open Economies to Greatest Deceleration (R)



Source: CRB, National Statistics Agencies, CIBC



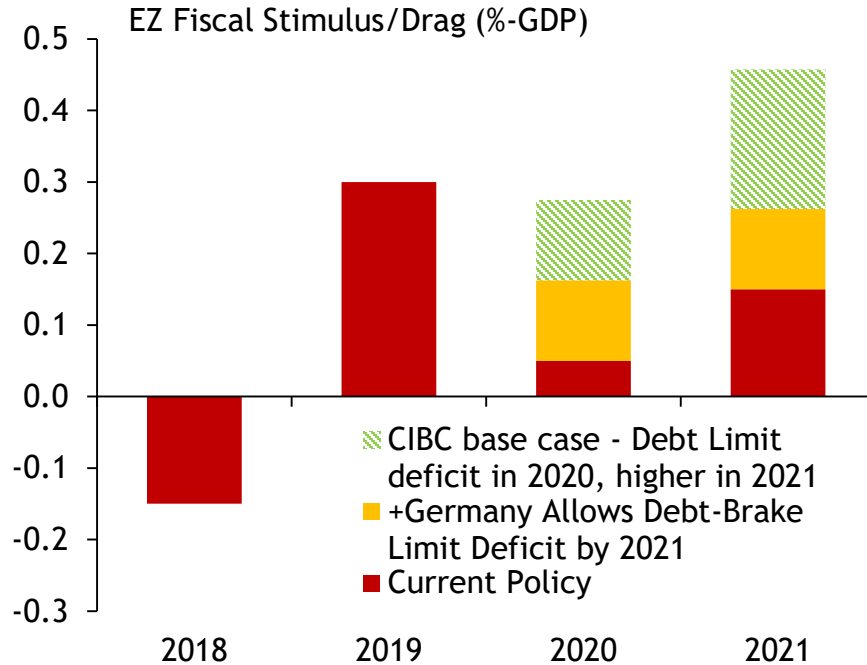
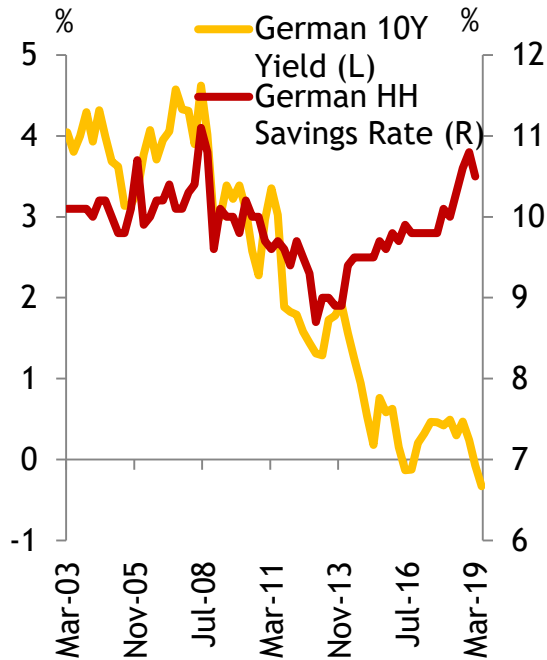
# New Tariffs Will Slow China More Than Desired (L) Beijing Can't Keep Up Pace of Fiscal Rescue (R)



Source: National Statistics Agencies, Bloomberg, CIBC



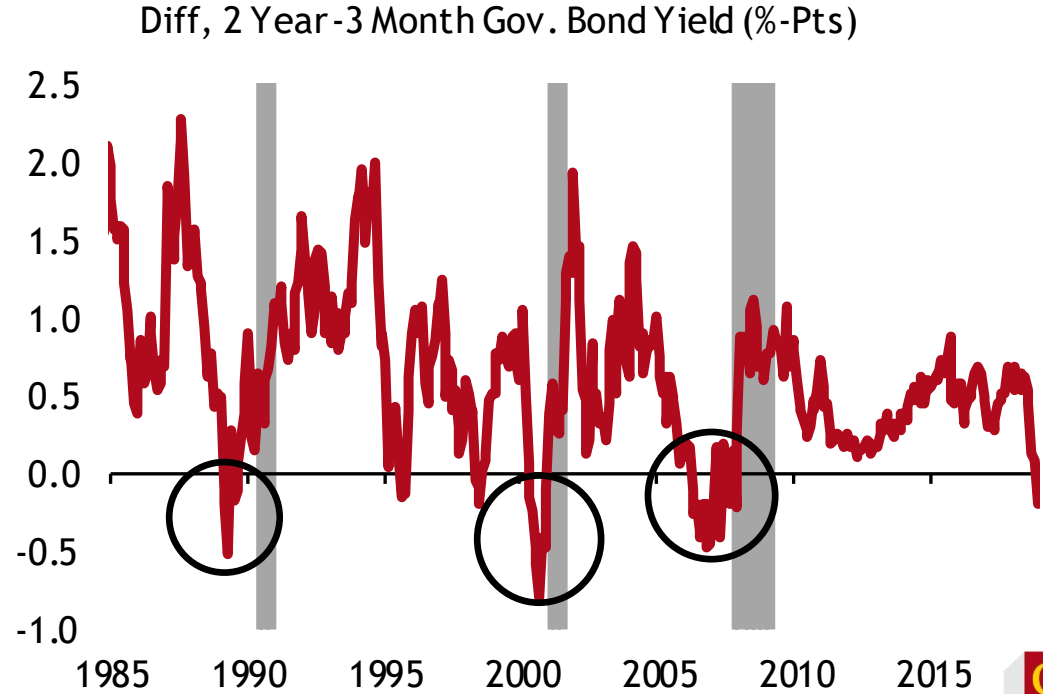
# Interest Rate Cuts Haven't Worked (L) Eurozone Needs Germany to Take the Brake Off Debt (R)



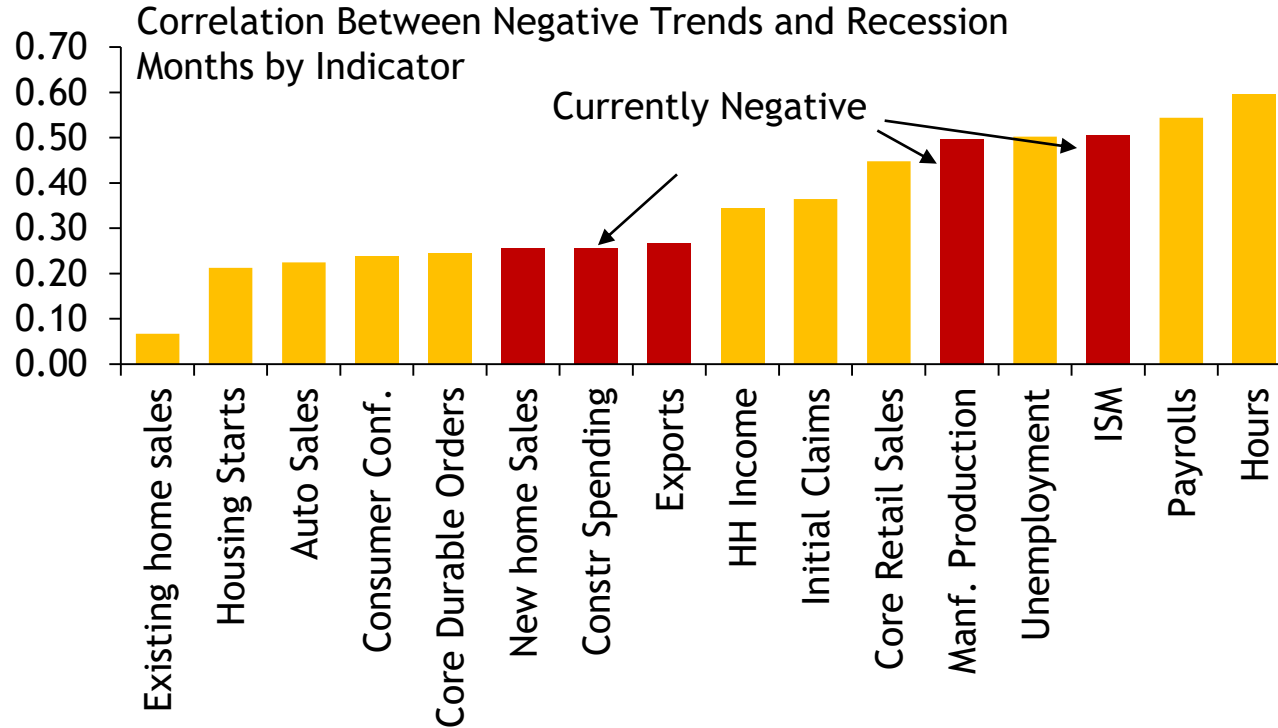
Source: Eurostat, European Commission, IMF, CIBC



# US Yield Curve: the Grim Reaper?



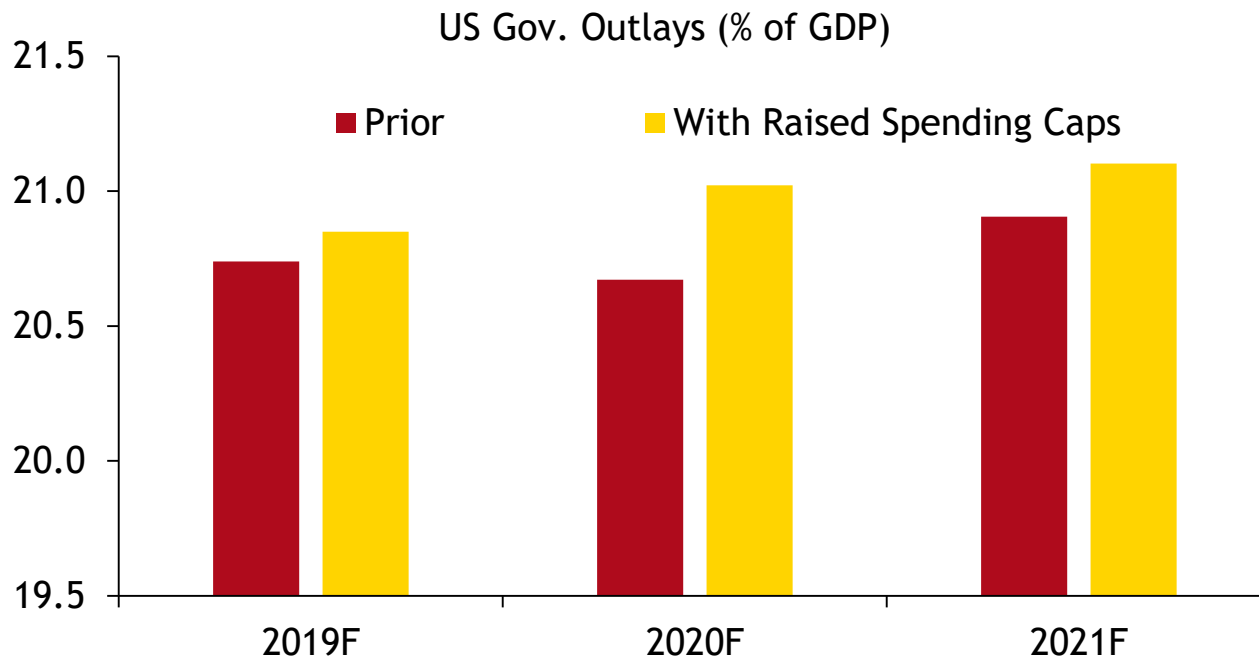
# Only Five of 16 Indicators in Negative Territory



Source: BEA, BLS, Census, Markit, Bloomberg, CIBC



# Government Spending Caps - Raised



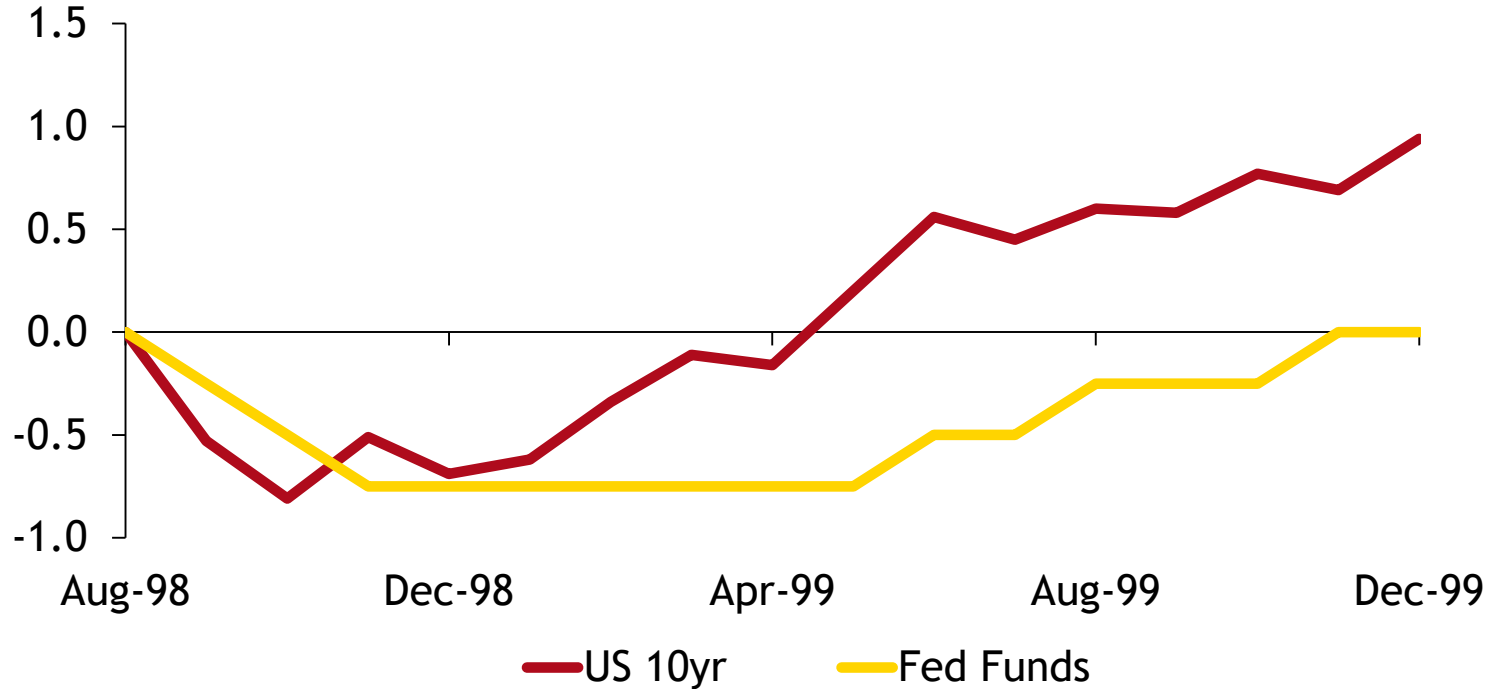
Source: CBO, CIBC





# Bond Yields Rise As Mid-Cycle Ease is Concluded Well Before Fed Tightens

### Interest Rates Changes During A Mid-Cycle Ease (%)



Source: Federal Reserve, CIBC



## 2020 Marks a Mid-Cycle Growth Nadir But 2021 Is Still Below 2014-18 Trend

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	Avg 2014-18	2017A	2018A	2019F	2020F	2021F
World*	3.6	3.8	3.6	3.1	2.9	3.3
US	2.5	2.4	2.9	2.2	1.7	2.1
Canada	1.9	3.0	1.9	1.6	1.4	1.9
Euroland	1.9	2.4	1.9	1.0	0.6	1.2
UK	2.1	1.8	1.4	1.0	0.4	1.4
Japan	1.0	1.9	0.8	1.2	0.9	1.1
China	6.9	6.8	6.6	6.2	5.8	5.9

\* at Purchasing Power Parity





BANK OF CANADA  
BANQUE DU CANADA

FOR IMMEDIATE RELEASE  
September 4, 2019

CONTACT: Media Relations  
613 782-8782

## Bank of Canada maintains overnight rate target at 1 ½ percent

**OTTAWA** – The Bank of Canada today maintained its target for the overnight rate at 1 ½ percent. The Bank Rate is correspondingly 2 percent and the deposit rate is 1 ½ percent.

As the US-China trade conflict has escalated, world trade has contracted and business investment has weakened. This is weighing more heavily on global economic momentum than the Bank had projected in its *July Monetary Policy Report* (MPR). Meanwhile, growth in the United States has moderated but remains solid, supported by consumer and government spending. Commodity prices have drifted down as concerns about global growth prospects have increased. These concerns, combined with policy responses by some central banks, have pushed bond yields to historic lows and inverted yield curves in a number of economies, including Canada.

In Canada, growth in the second quarter was strong and exceeded the Bank's July expectation, although some of this strength is expected to be temporary. The rebound was driven by stronger energy production and robust export growth, both recovering from very weak performance in the first quarter. Housing activity has regained strength more quickly than expected as resales and housing starts catch up to underlying demand, supported by lower mortgage rates. This could add to already-high household debt levels, although mortgage underwriting rules should help to contain the buildup of vulnerabilities. Wages have picked up further, boosting labour income, yet consumption spending was unexpectedly soft in the quarter. Business investment contracted sharply after a strong first quarter, amid heightened trade uncertainty. Given this composition of growth, the Bank expects economic activity to slow in the second half of the year.

Inflation is at the 2 percent target. CPI inflation in July was stronger than expected, largely because of temporary factors. These include higher prices for air travel, mobile phones, and some food items, which are offsetting the effects of lower gasoline prices. Measures of core inflation all remain around 2 percent.

In sum, Canada's economy is operating close to potential and inflation is on target. However, escalating trade conflicts and related uncertainty are taking a toll on the global and Canadian economies. In this context, the current degree of monetary policy stimulus remains appropriate. As the Bank works to update its projection in light of incoming data, Governing Council will pay particular attention to global developments and their impact on the outlook for Canadian growth and inflation.

### Information note:

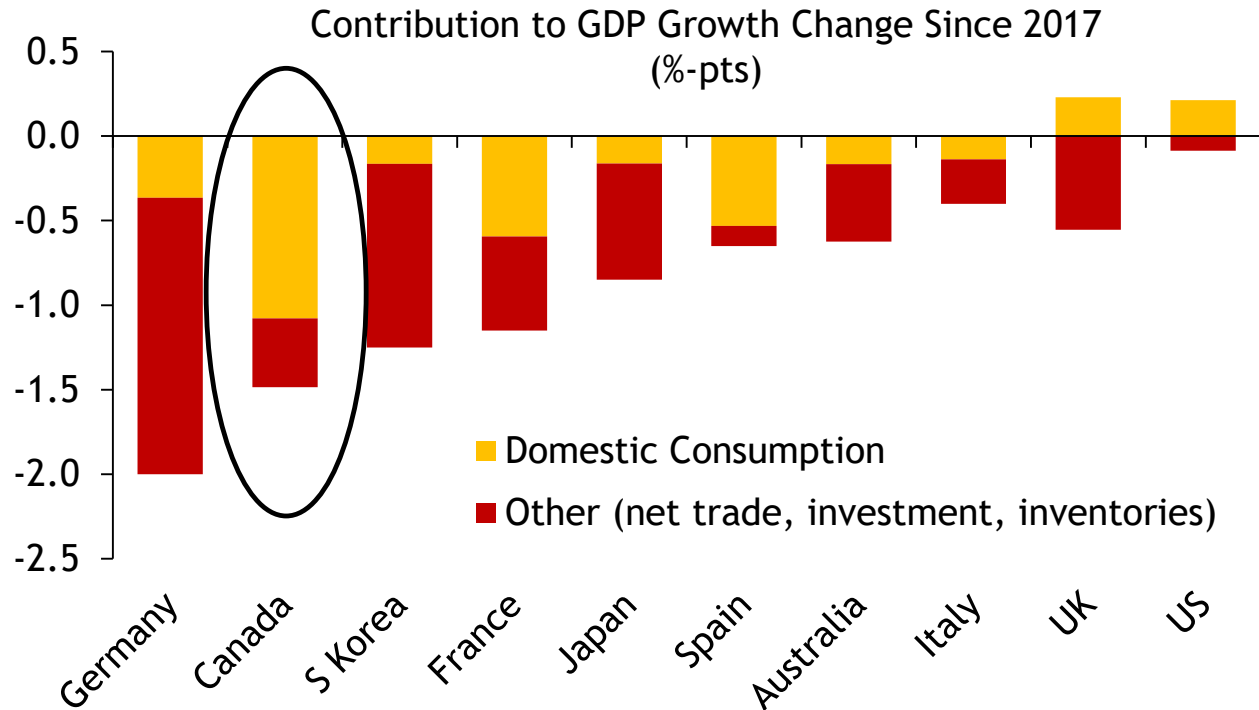
The next scheduled date for announcing the overnight rate target is October 30, 2019. The next full update of the Bank's outlook for the economy and inflation, including risks to the projection, will be published in the MPR at the same time.

“Business investment contracted sharply after a strong first quarter, amid heightened trade uncertainty”

“escalating trade conflicts and related uncertainty are taking a toll on the global and Canadian economies”



# But...Domestic Spending a Bigger Contributor to Slowdown Here



Source: National Statistics Agencies, CIBC



# Canada-China Trade Tensions Mainly a Provincial Story

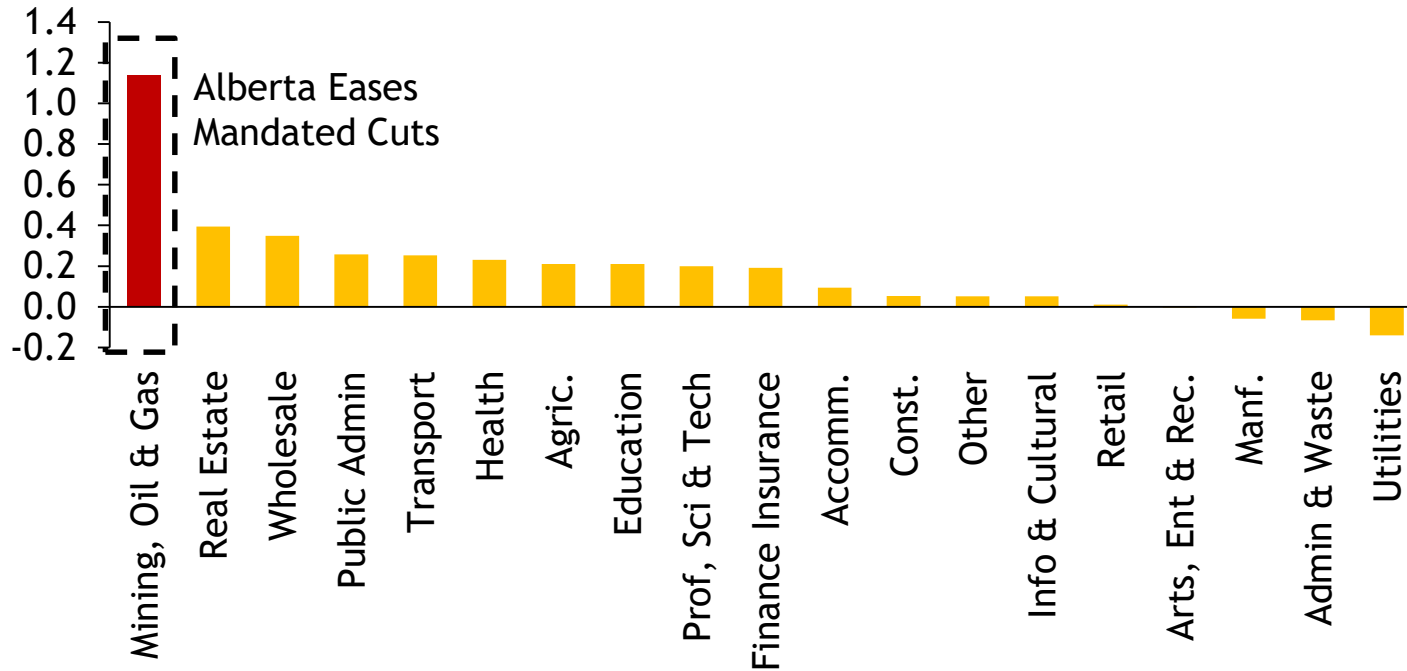


Source: Statistics Canada, CIBC



# Canada's Q2 Growth is a Head Fake

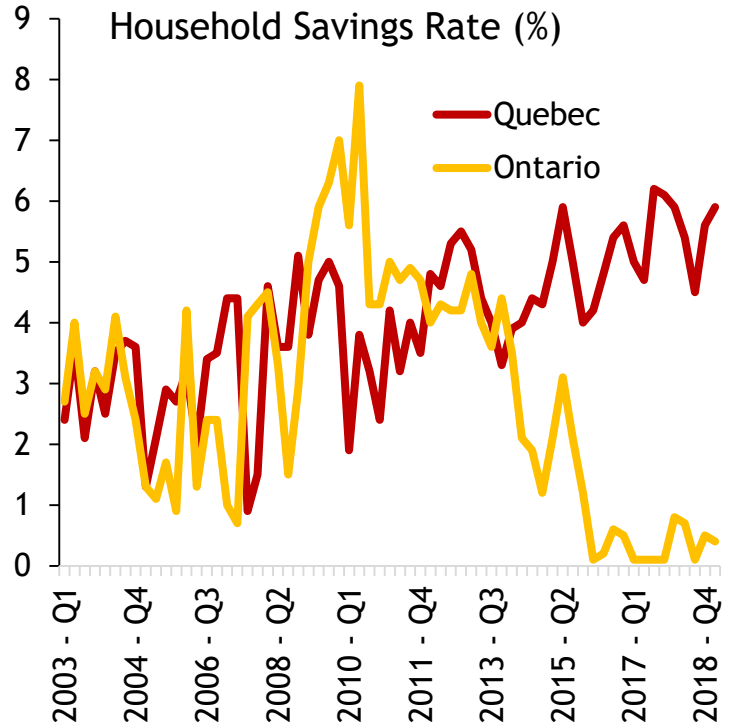
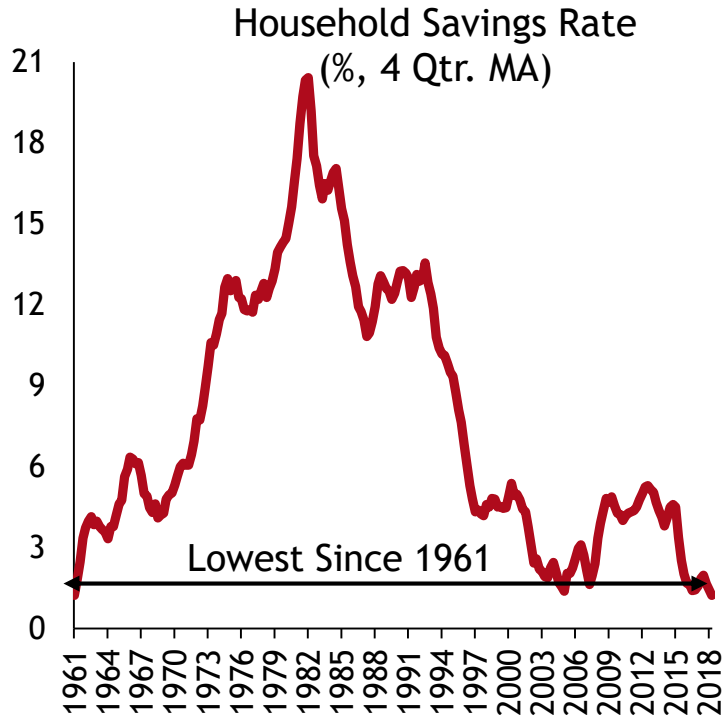
### Estimated Q2 Contribution to Growth By Industry (%pts)



Source: Statistics Canada, CIBC



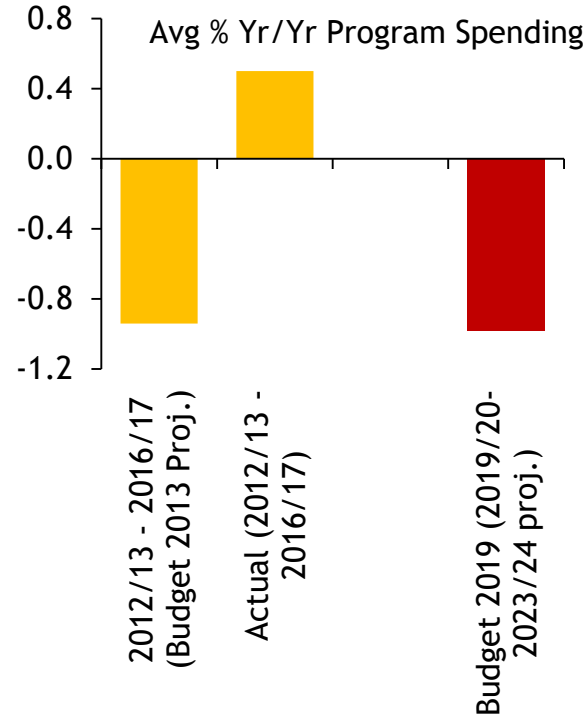
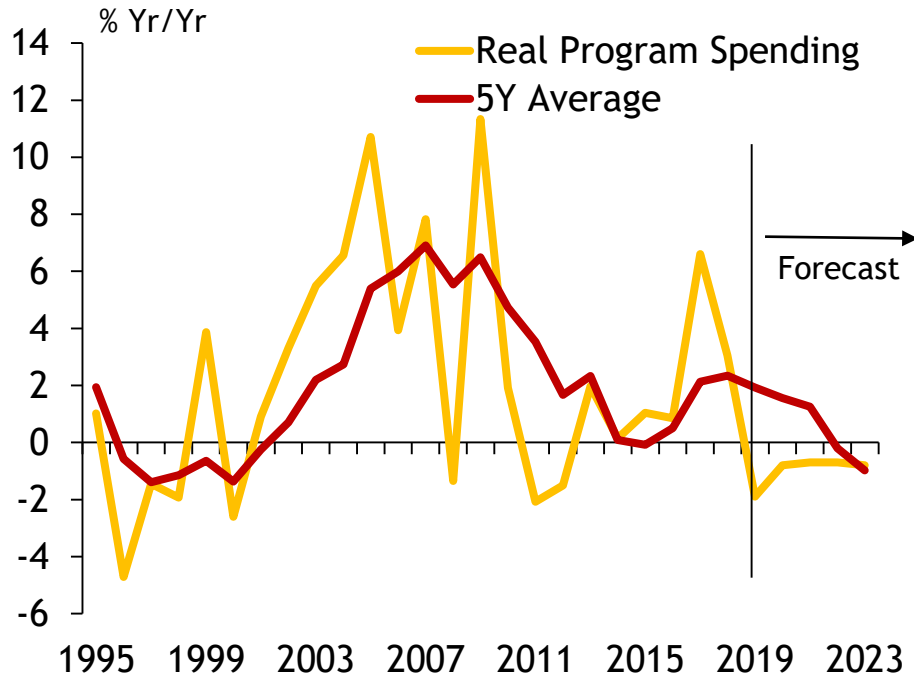
# Household Savings Historically Low (L) Particularly in Ontario (R)



Source: Statistics Canada, Ontario Finance, CIBC



# Harsh, But Not Unprecedented, Restraint in Ontario (L) There Has Been Wiggle Room in the Past (R)



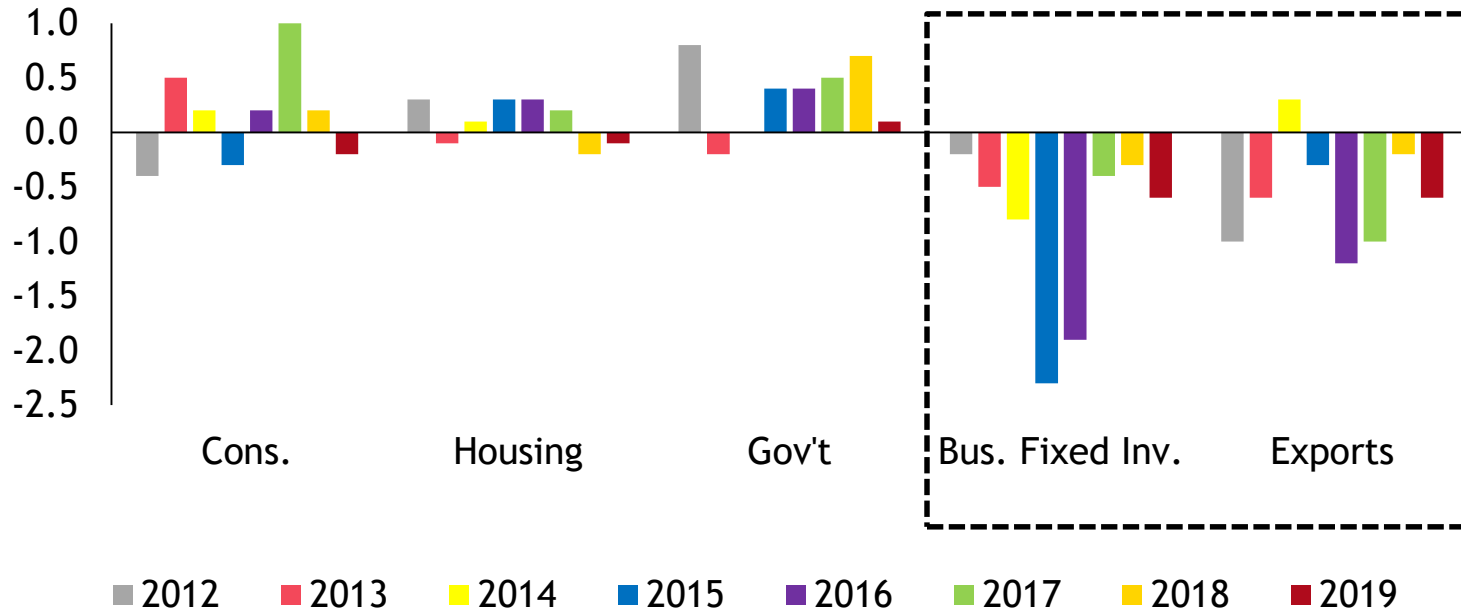
Source: Ontario Finance, CIBC





# Exports and Capital Spending Have Been Serial Disappointments

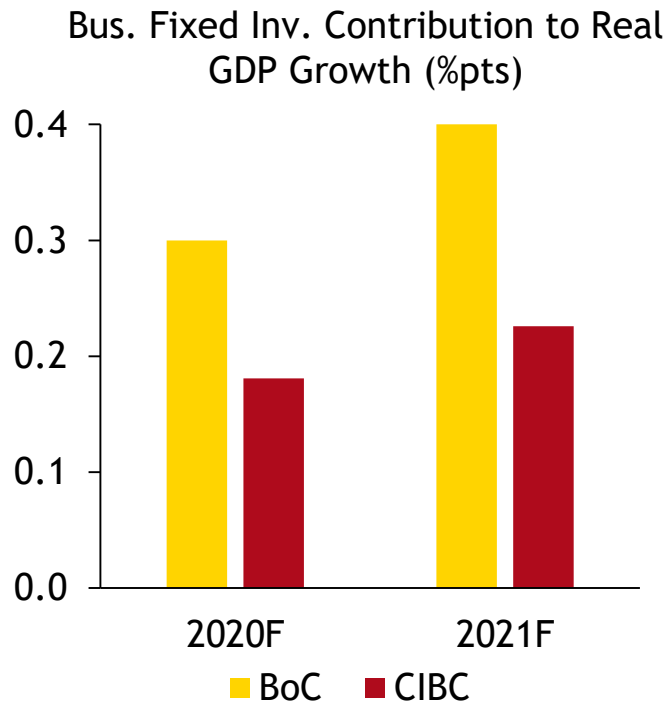
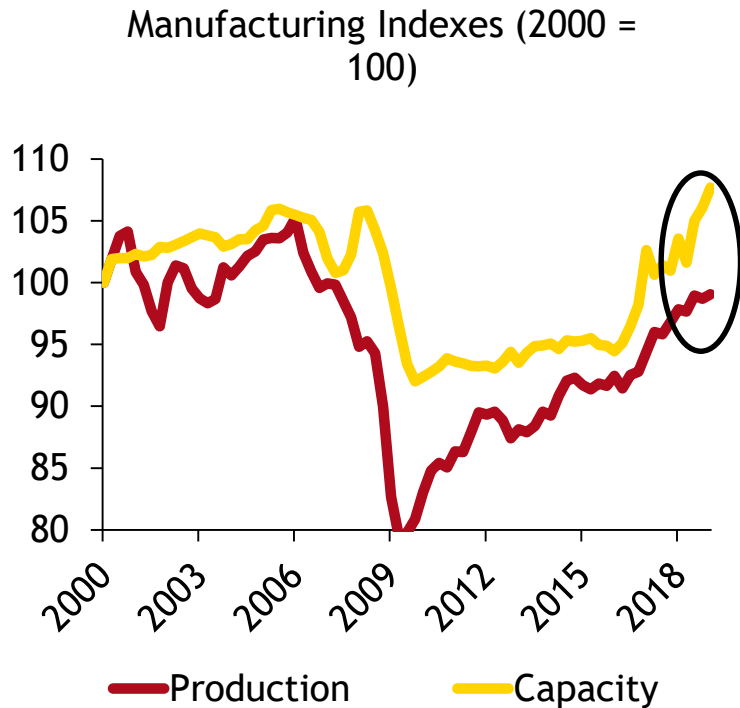
Difference Between Bank of Canada's Initial and Final Estimate of GDP Contribution (%)



Source: Bank of Canada, CIBC



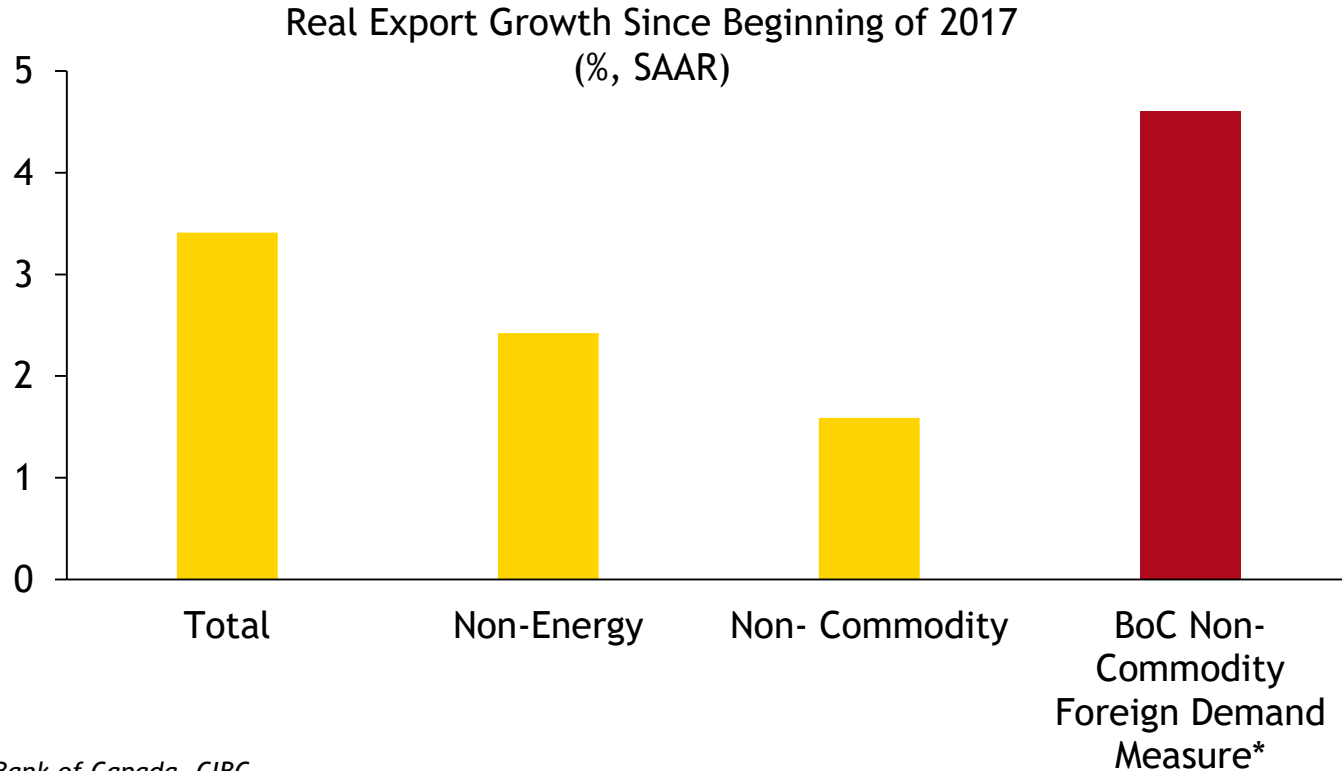
# Capacity Additions Have Run Ahead of Needs (L) Pointing to Disappointments in Future Capital Spending (R)



Source: Statistics Canada, CIBC



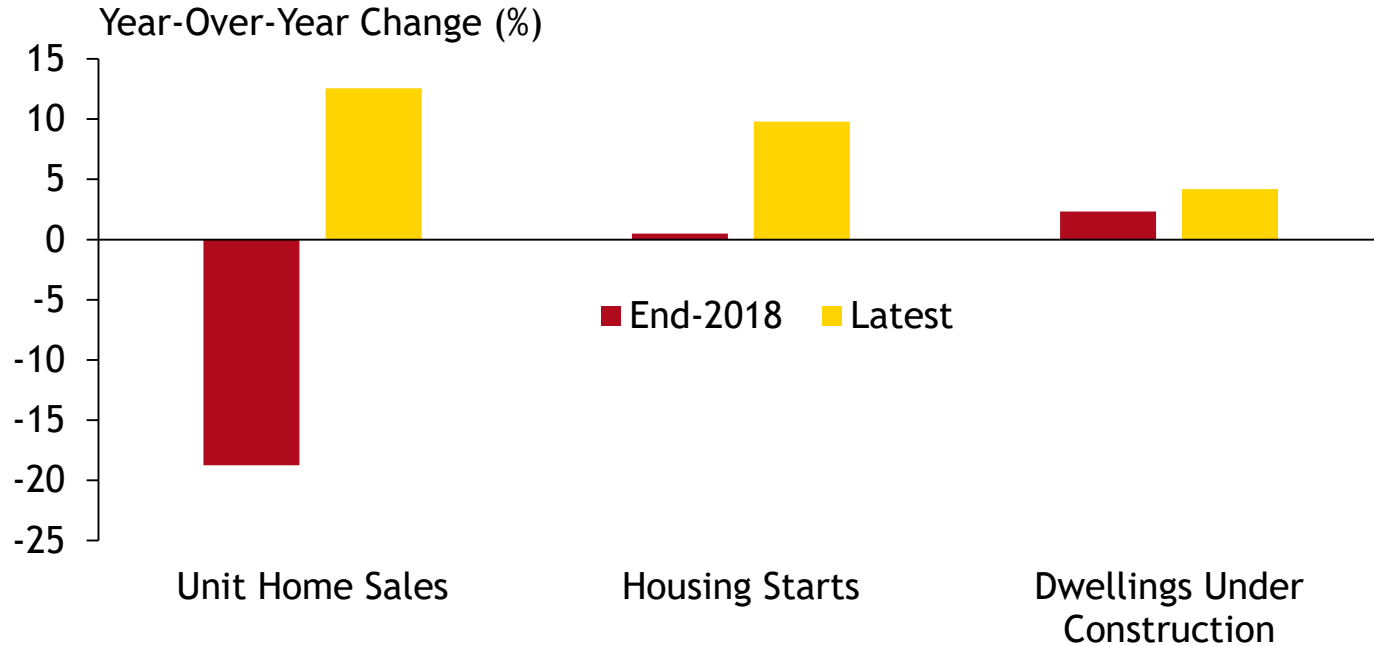
# Canadian Exports Have Fallen Short vs. Foreign Demand Measure



Source: Bank of Canada, CIBC



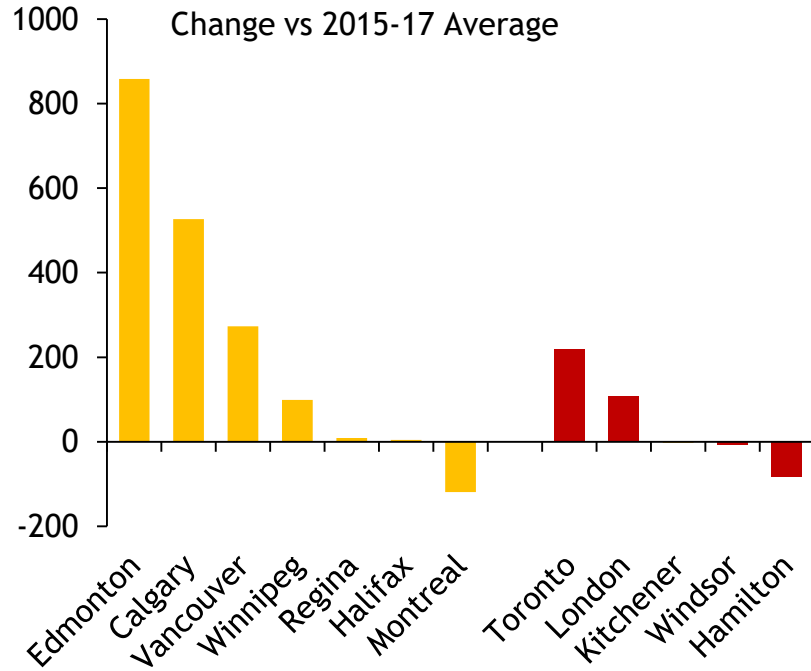
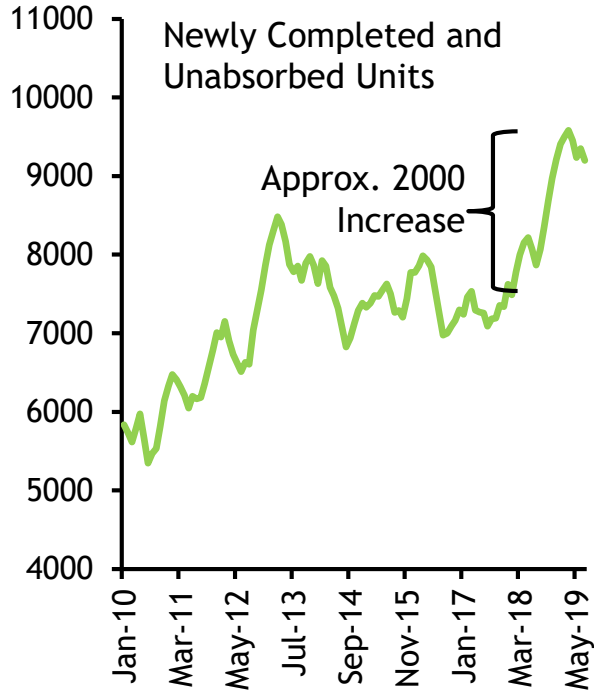
# Canadian Housing Data Starting to Recover



Source: Statistics Canada, CMHC, CIBC



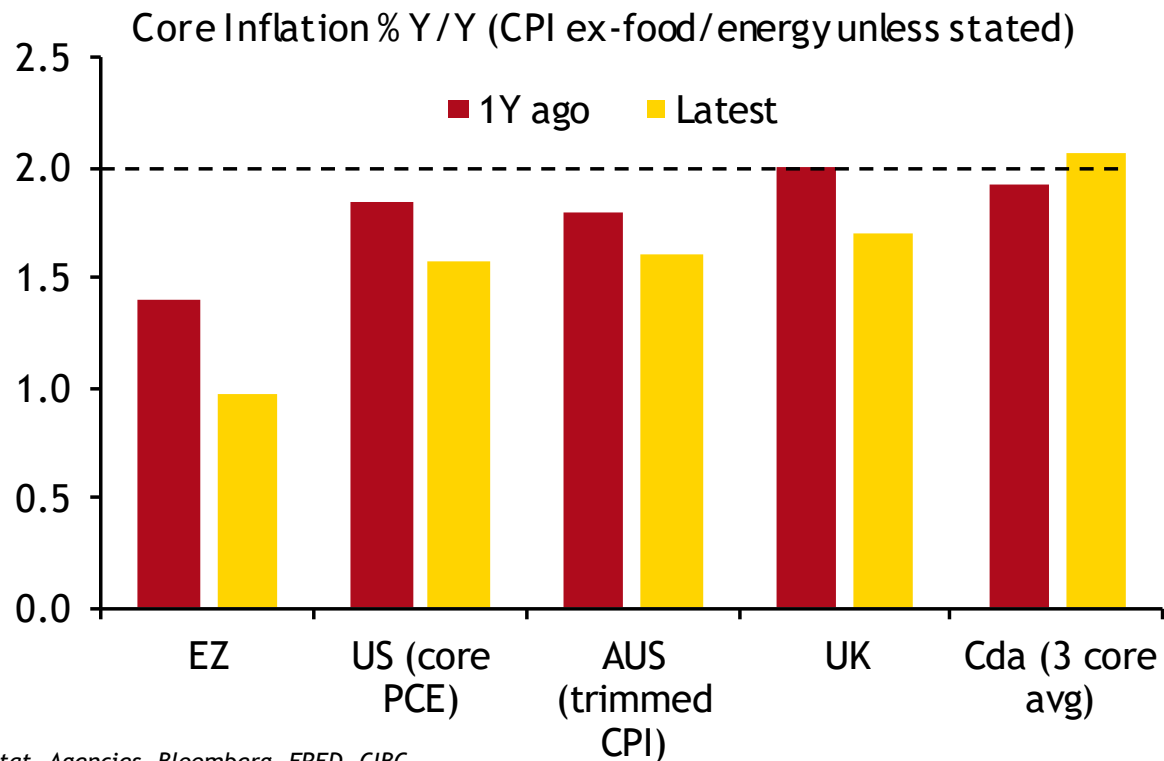
# Overbuilding? Not so Obvious in Ontario



Source: CMHC, CIBC



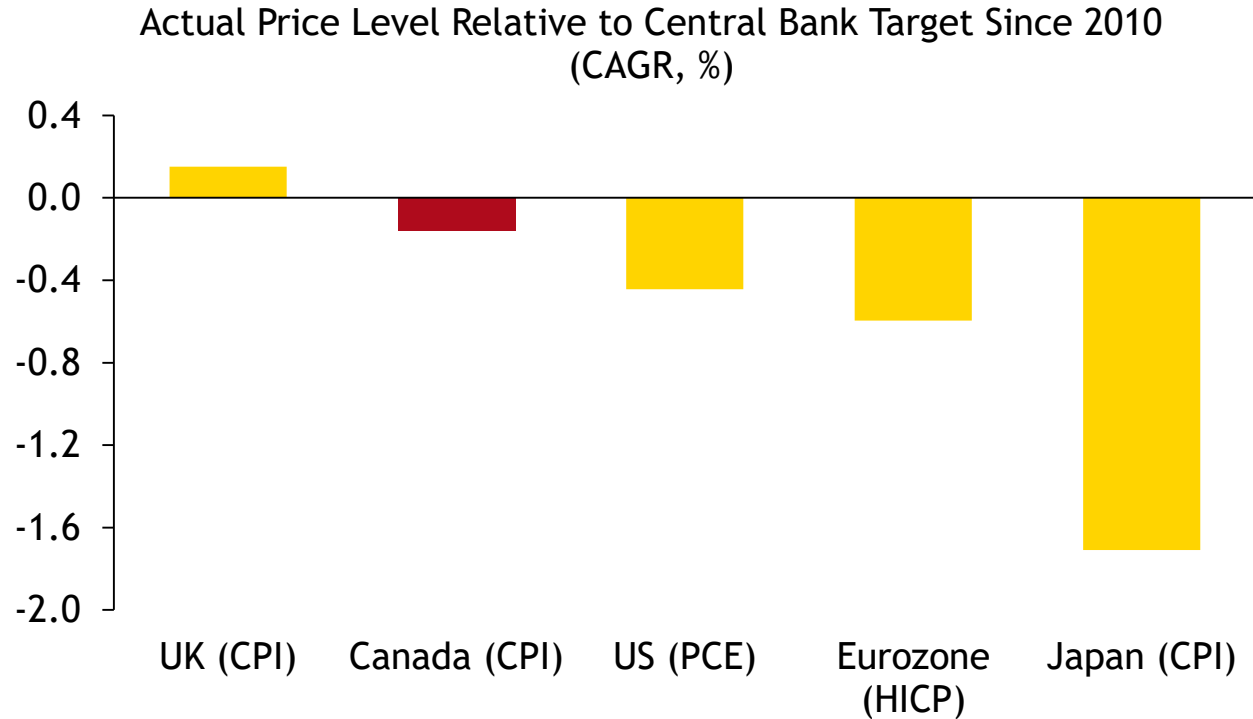
# Canadian Inflation Closer to Target Today...



Source: National Stat. Agencies, Bloomberg, FRED, CIBC



# ...and over the Past Decade



Source: National Stat. Agencies, Bloomberg, FRED, CIBC



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Steve Kuwahara, Market Vice-President and Head of CIBC's Public Sector and Not-for-Profit Group, email [steve.kuwahara@cibc.com](mailto:steve.kuwahara@cibc.com), tel 416-980-6320





For Canada, slower growth is mainly domestically, not globally-driven



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