

# The Arms Race



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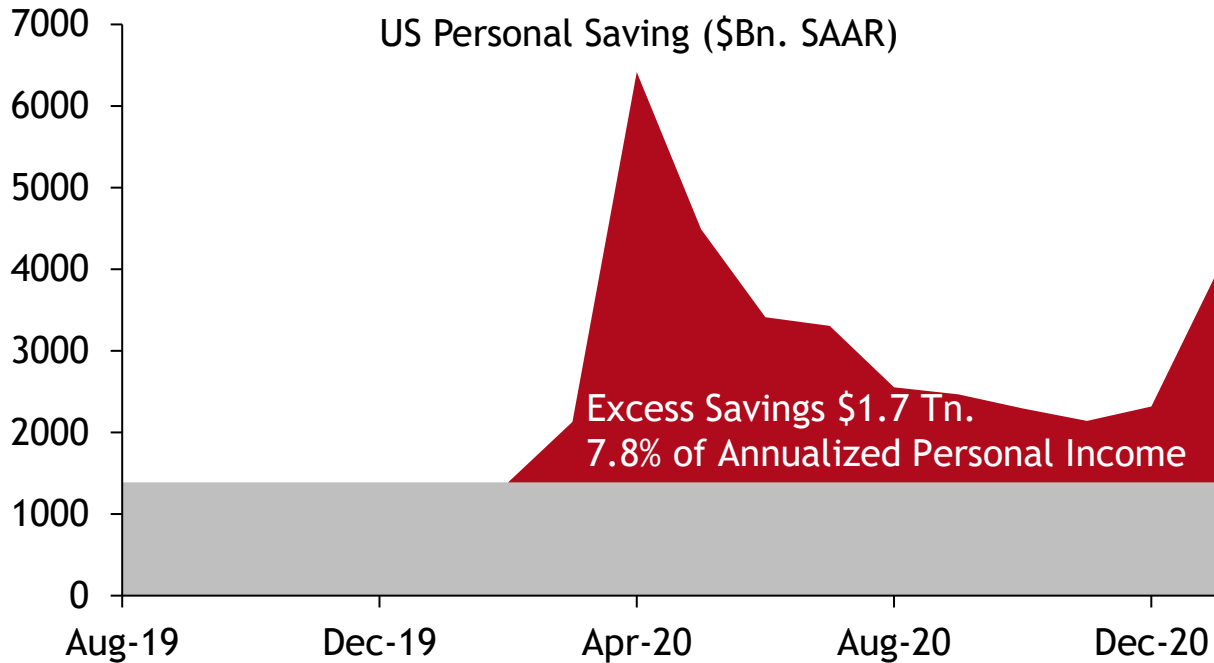
# A Shot in the Arm For Global Growth, But Mind the Gaps Between US and Others

| Real GDP Growth, Y/Y % Change |       |       |       |       |       |       |
|-------------------------------|-------|-------|-------|-------|-------|-------|
|                               | 2017A | 2018A | 2019A | 2020F | 2021F | 2022F |
| World*                        | 3.8   | 3.5   | 2.8   | -3.1  | 5.3   | 4.5   |
| US                            | 2.3   | 3.0   | 2.2   | -3.5  | 5.8   | 4.3   |
| Canada                        | 3.0   | 2.4   | 1.9   | -5.4  | 5.3   | 4.6   |
| Euroland                      | 2.4   | 1.9   | 1.3   | -6.8  | 4.2   | 3.9   |
| UK                            | 1.7   | 1.3   | 1.4   | -9.9  | 5.9   | 6.0   |
| Australia                     | 2.4   | 2.8   | 1.9   | -2.8  | 3.5   | 3.4   |
| Japan                         | 1.7   | 0.6   | 0.3   | -4.9  | 4.3   | 1.9   |
| China                         | 6.9   | 6.7   | 6.1   | 2.3   | 8.6   | 5.6   |

\* at Purchasing Power Parity



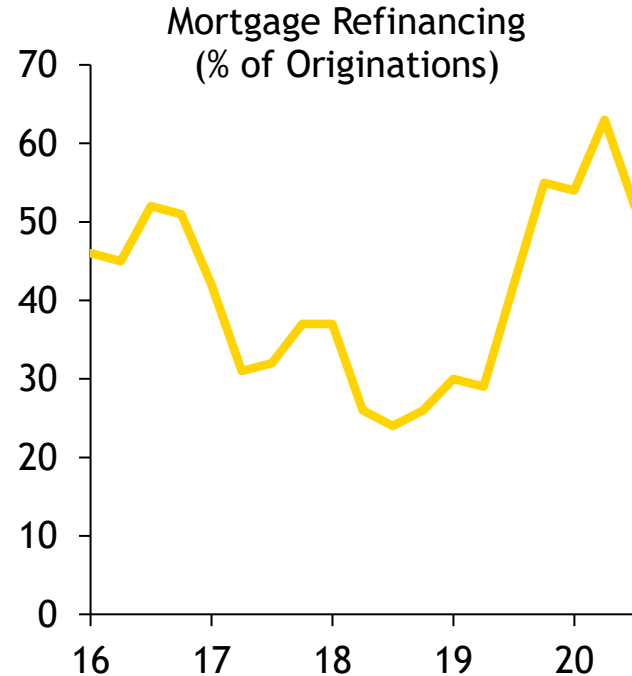
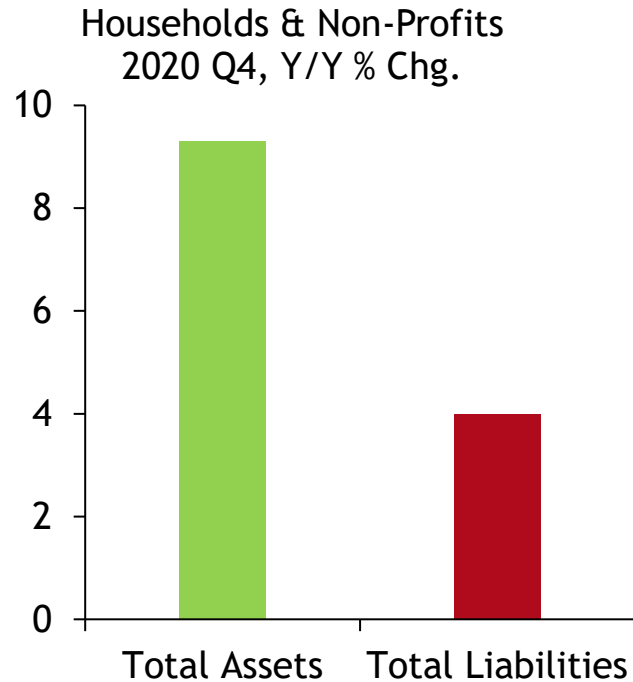
# Large Run-Up In US Savings to be Unleashed As Virus Worries Fade



Source: BEA, CIBC



# Americans are Richer, and Tapping Cheaper Mortgages

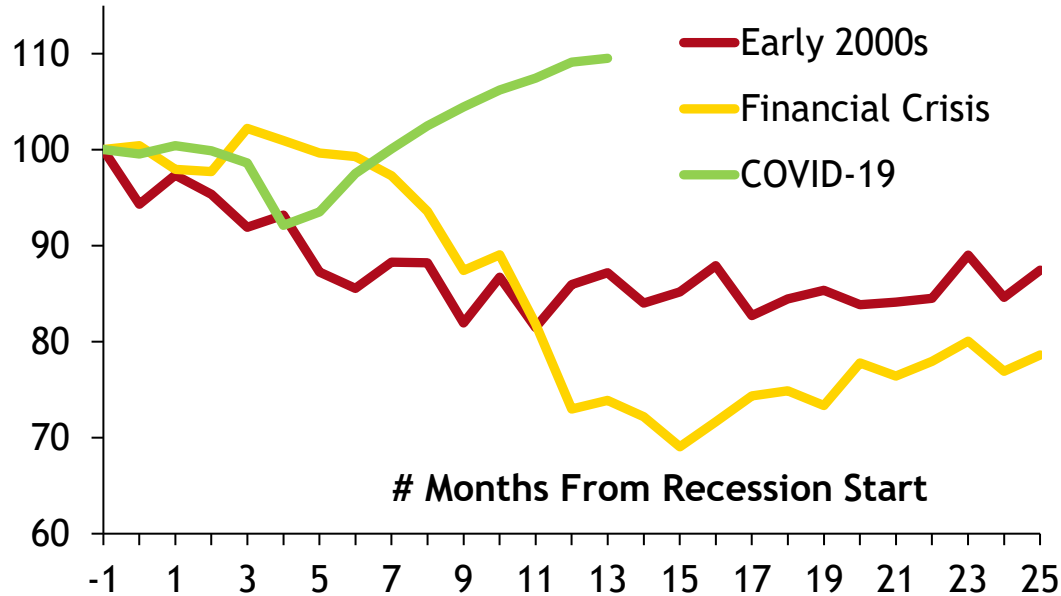


Source: Federal Reserve, CIBC



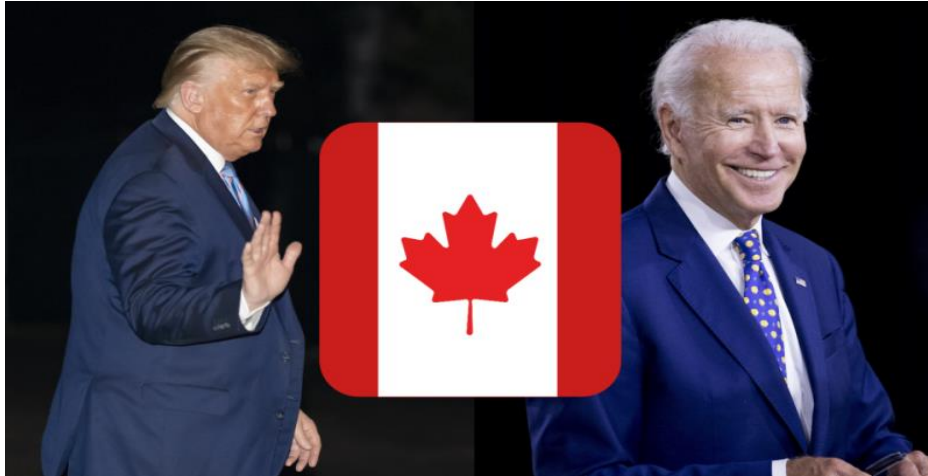
# Recovery in Capital Goods Orders Unusually Strong

Core Capital Goods Orders (Non-Defense, Ex. Aircraft), Pre-Recession Peak=100



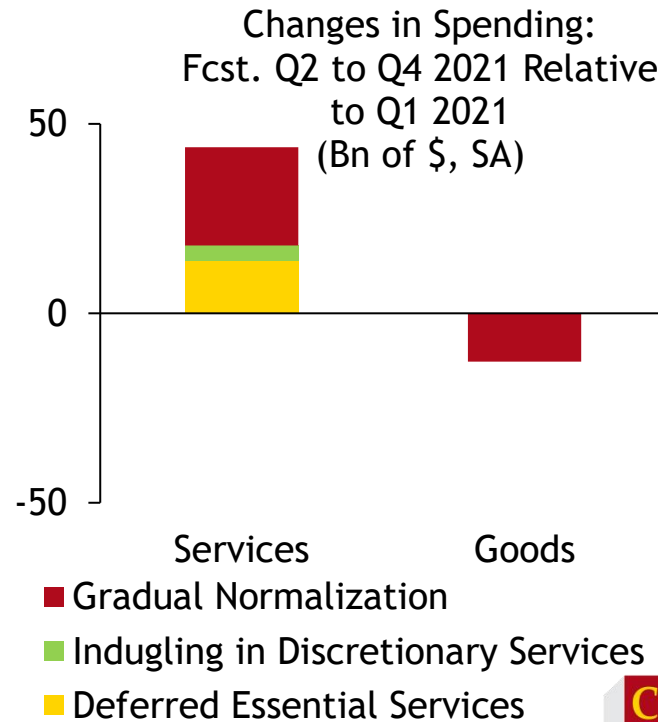
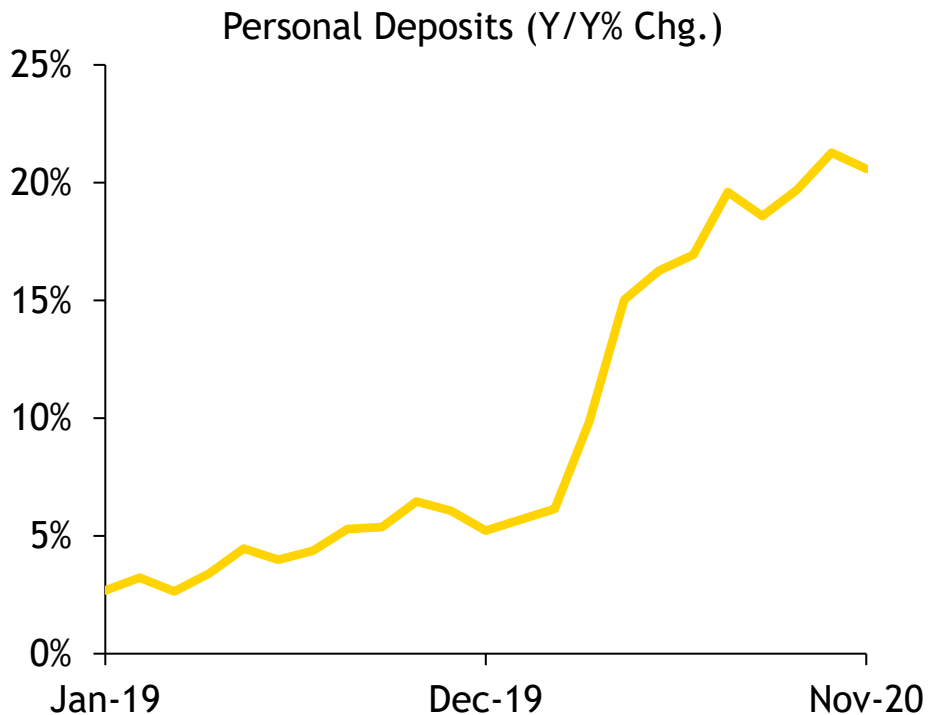
Source: Census Bureau, BEA, CIBC





- “Covid, Covid, Covid”
- Stimulus: now vs. later
- Taxes
- Climate
- China
- Buy (North?) America.

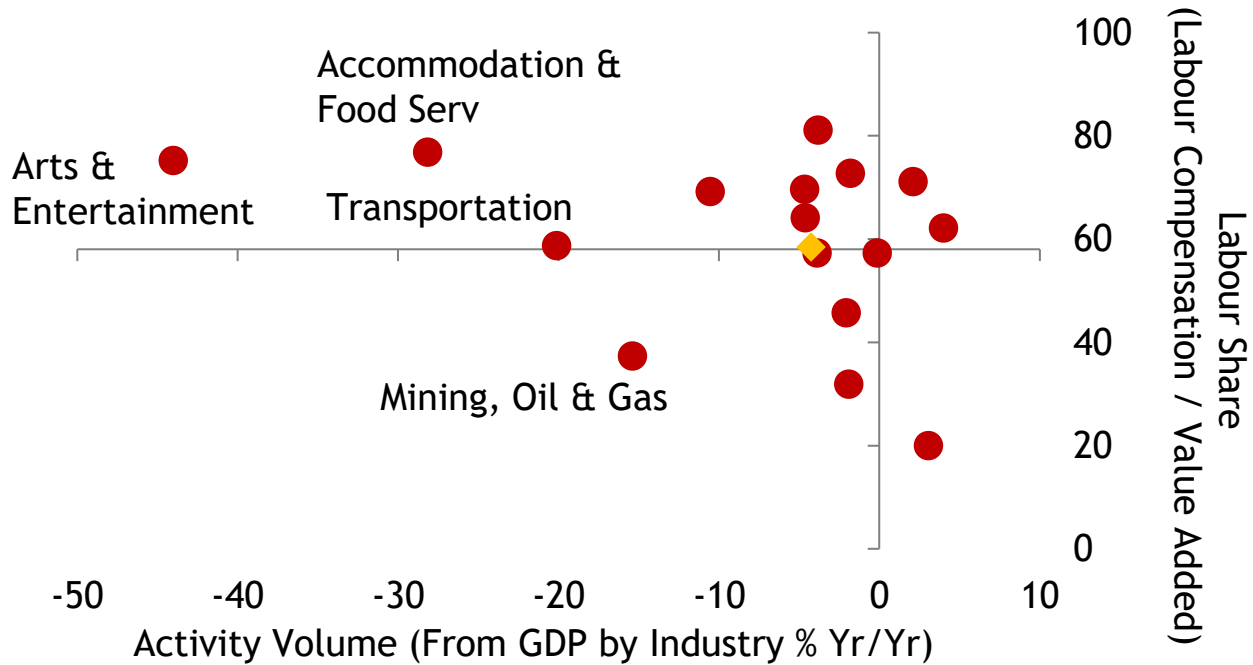
# Canadians are Sitting On a Boatload of Cash (L) Lower Savings Rate will Boost Services in Q2-Q4 (R)



Source: OSFI, CIBC



# Excluding Oil, Biggest Demand Hits in Sectors That Don't Require Much Cap-Ex



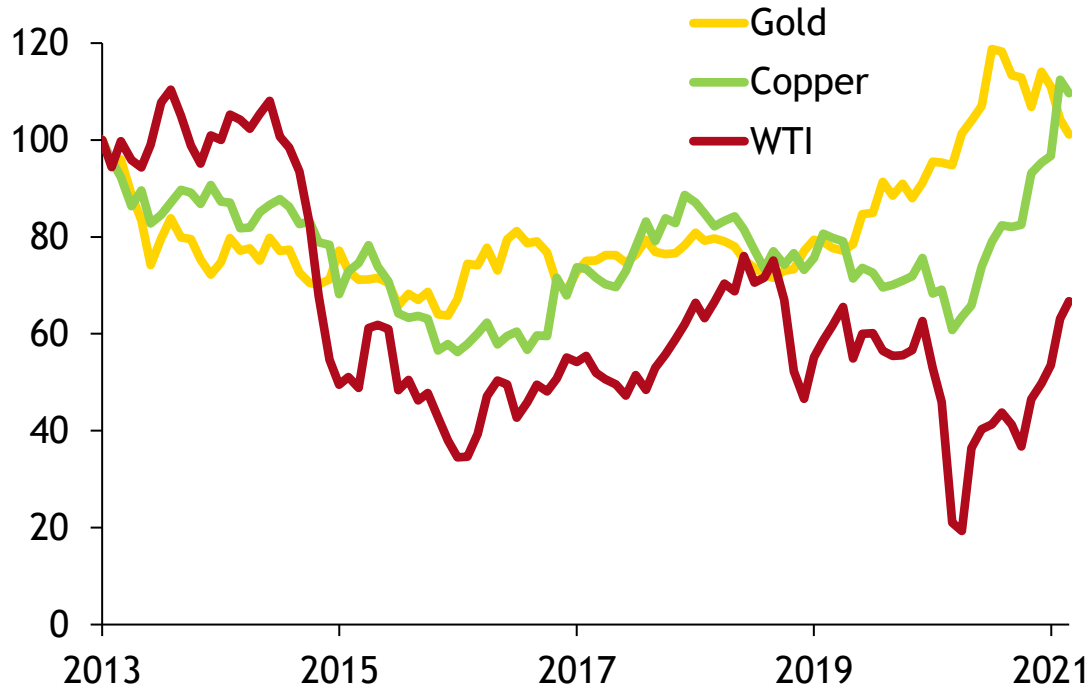
Source: Statistics Canada, CIBC





# Listening to Some Heavy Metal

Price Index, Jan. 2013=100



Source: Bloomberg, StatCan, CIBC



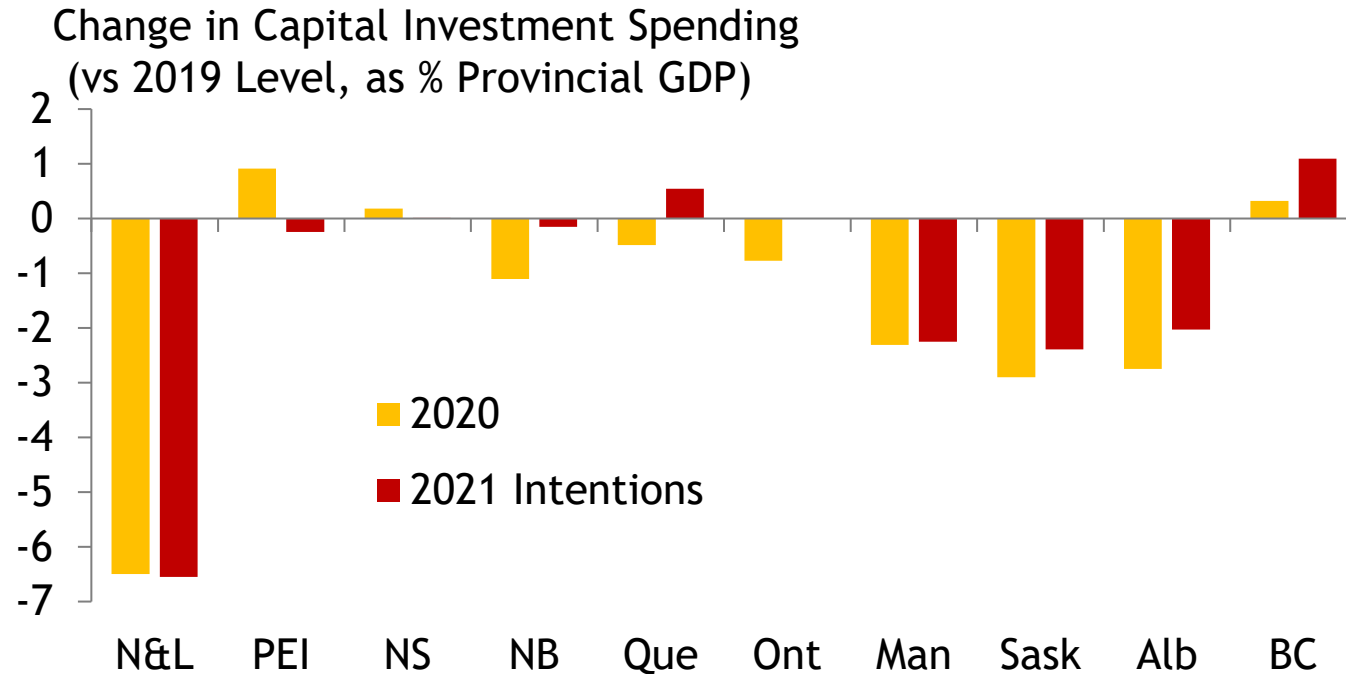
# Provincial Forecasts - Let's Get ready to Rebound

|               | Real GDP<br>Y/Y % Chg |             |            |            | Nominal GDP<br>Y/Y % Chg |             |            |            |
|---------------|-----------------------|-------------|------------|------------|--------------------------|-------------|------------|------------|
|               | 2019A                 | 2020F       | 2021F      | 2022F      | 2019A                    | 2020F       | 2021F      | 2022F      |
| BC            | 2.7                   | -5.3        | 5.9        | 4.4        | 4.4                      | -3.4        | 8.4        | 6.4        |
| Alta          | 0.1                   | -7.3        | 6.5        | 5.3        | 2.7                      | -11.0       | 13.0       | 7.6        |
| Sask          | -0.7                  | -4.9        | 5.1        | 4.1        | 0.1                      | -7.9        | 10.6       | 6.1        |
| Man           | 0.6                   | -3.9        | 4.3        | 4.0        | 1.0                      | -2.0        | 6.5        | 6.0        |
| Ont           | 2.1                   | -5.3        | 5.3        | 4.7        | 3.8                      | -3.4        | 7.8        | 6.7        |
| Qué           | 2.7                   | -5.0        | 5.5        | 4.6        | 4.3                      | -3.1        | 8.0        | 6.6        |
| NB            | 1.2                   | -3.5        | 4.0        | 3.0        | 3.0                      | -1.6        | 6.2        | 5.0        |
| NS            | 2.4                   | -3.8        | 4.3        | 3.6        | 3.8                      | -1.9        | 6.5        | 5.6        |
| PEI           | 5.1                   | -4.5        | 4.5        | 4.5        | 7.0                      | -2.6        | 6.7        | 6.5        |
| N&L           | 4.0                   | -7.0        | 5.2        | 3.9        | 4.1                      | -10.0       | 10.7       | 5.9        |
| <b>Canada</b> | <b>1.9</b>            | <b>-5.4</b> | <b>5.5</b> | <b>4.6</b> | <b>3.6</b>               | <b>-4.6</b> | <b>8.7</b> | <b>6.6</b> |

Sources: CIBC, Statistics Canada, CMHC



# Capital Investment Remains a Positive For BC Relative to Others 10



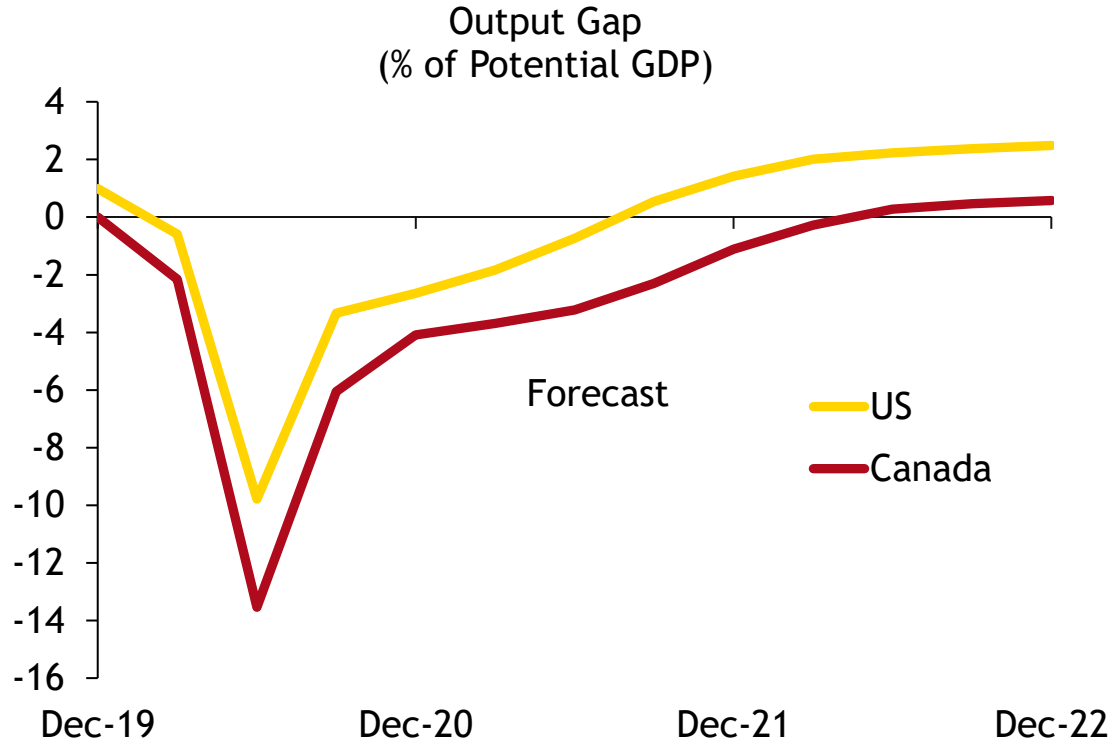
“Après Vous.”

“No, After *You*”

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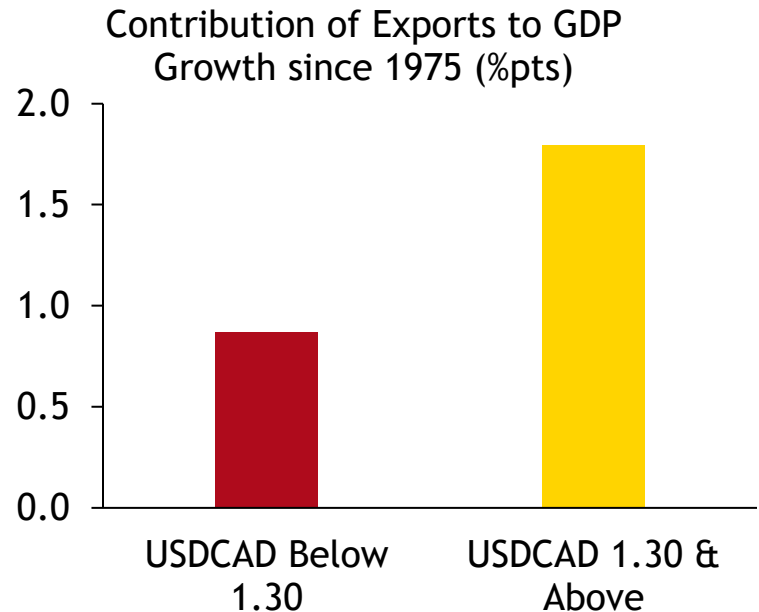
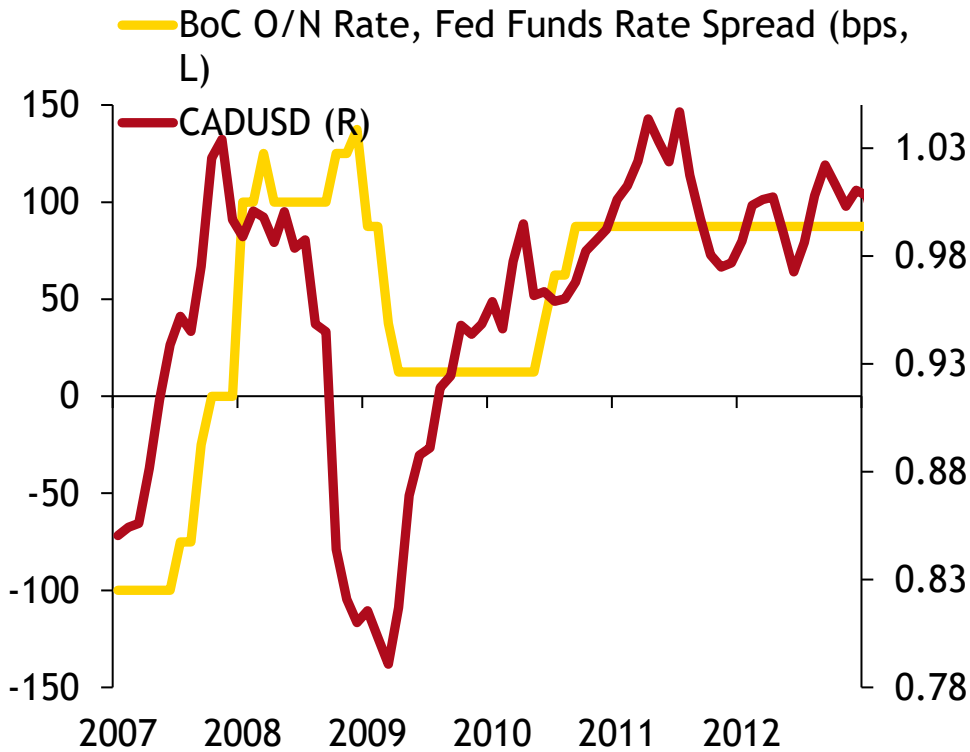
# US Will Eliminate Economic Slack Ahead of Canada



Source: BoC, StatCan, BEA, CBO, CIBC



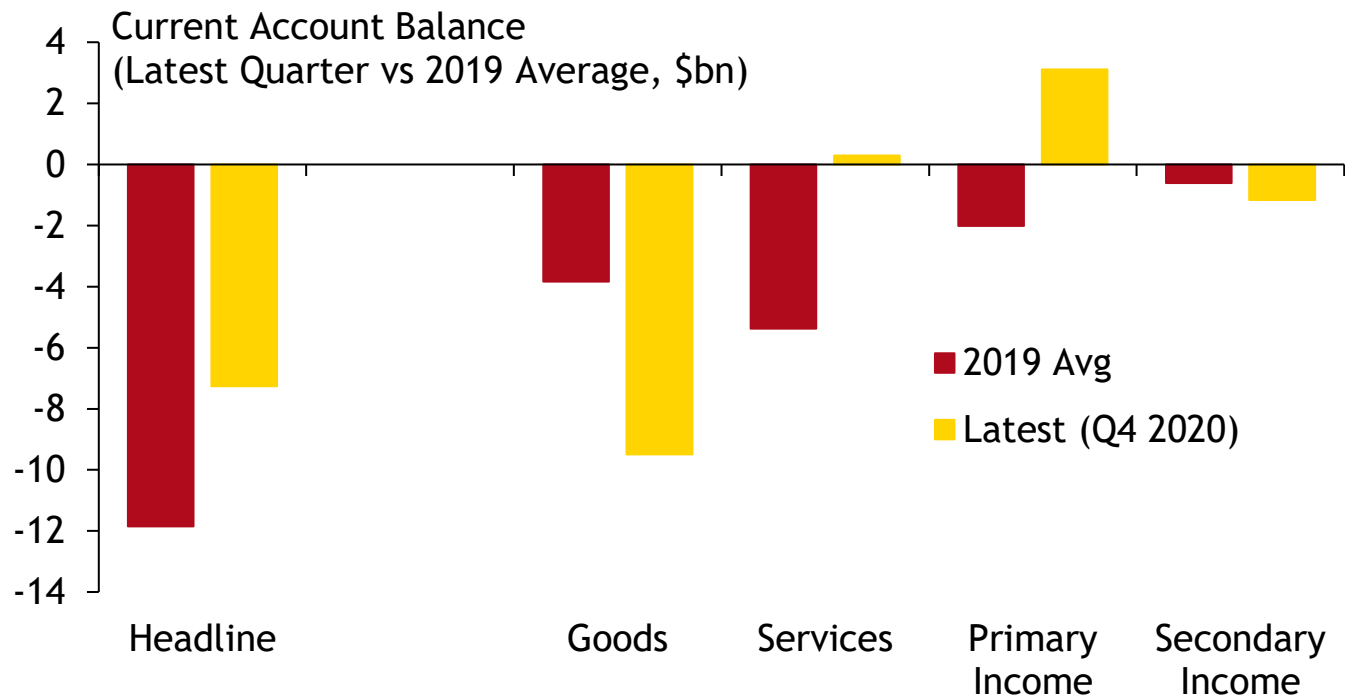
# BoC 2010 Hikes With Fed On Hold Drove C\$ Stronger (L) Weak Export Growth with CAD Below 1.30 (R)



Source: Haver Analytics, CIBC



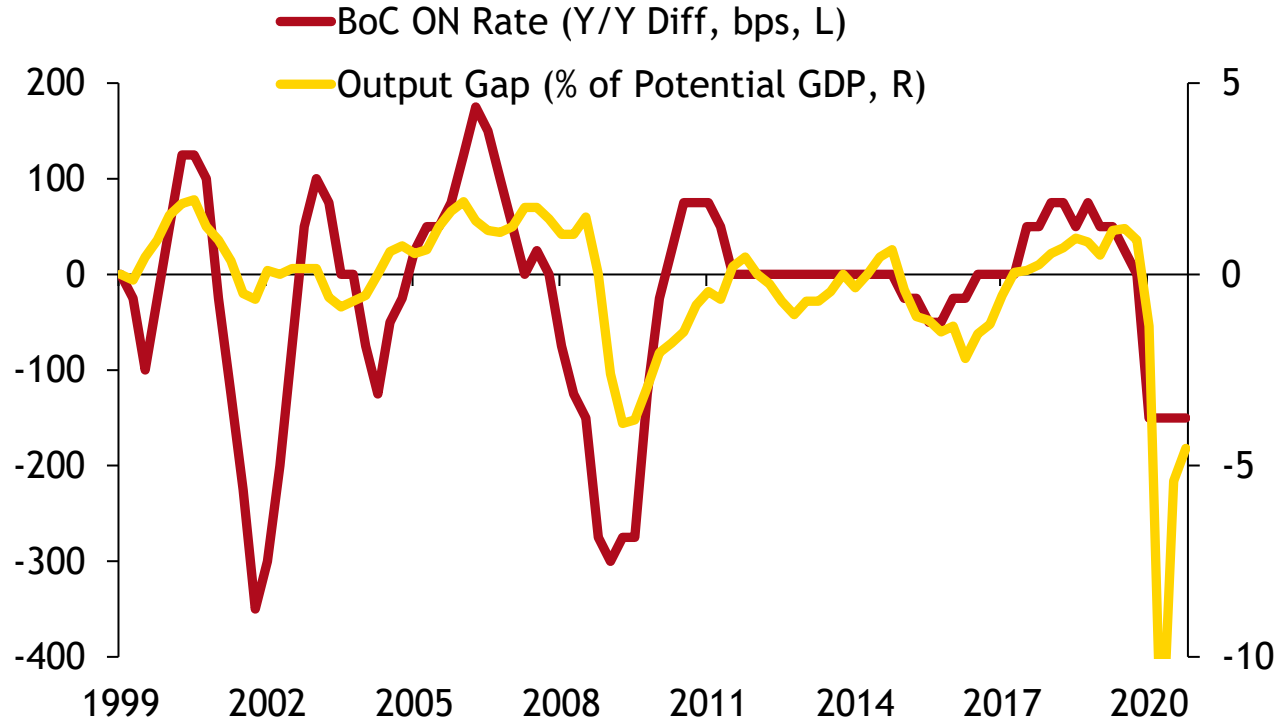
# Swing to Surplus in Primary Income and Services, Outweighs Larger Goods Deficit...For Now



Source: Statistics Canada, CIBC



# Output Gap is Key to When BoC Changes Overnight Rate



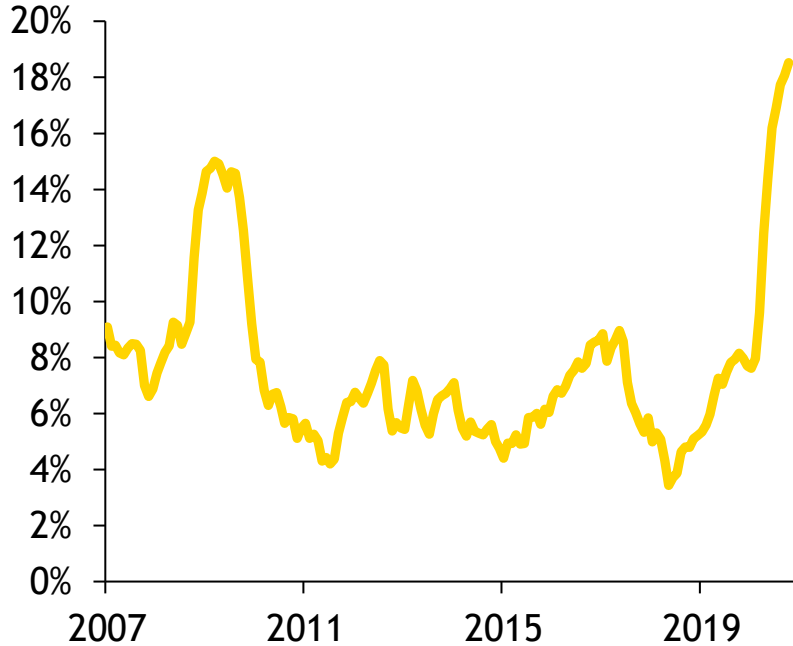
Source: BoC, Haver Analytics, CIBC



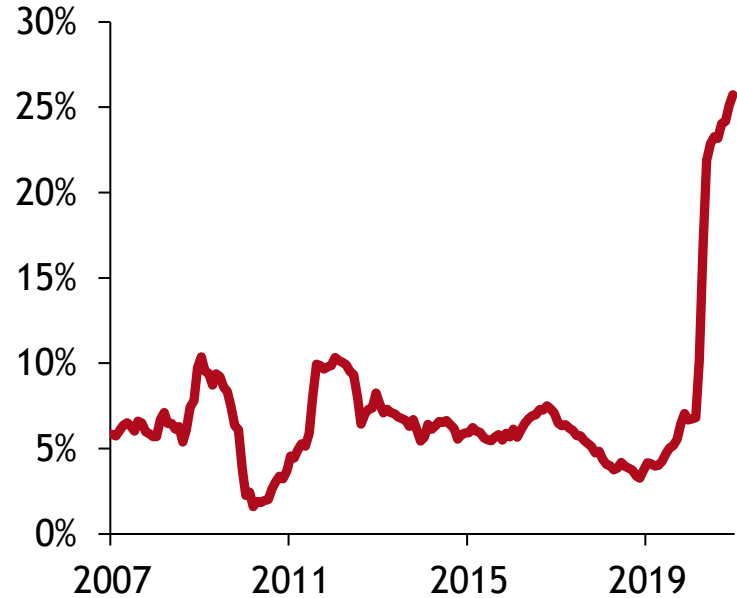


# Remember When We Watched Money Supply Data?

### Canada M2 Money Supply (Y/Y% Chg.)



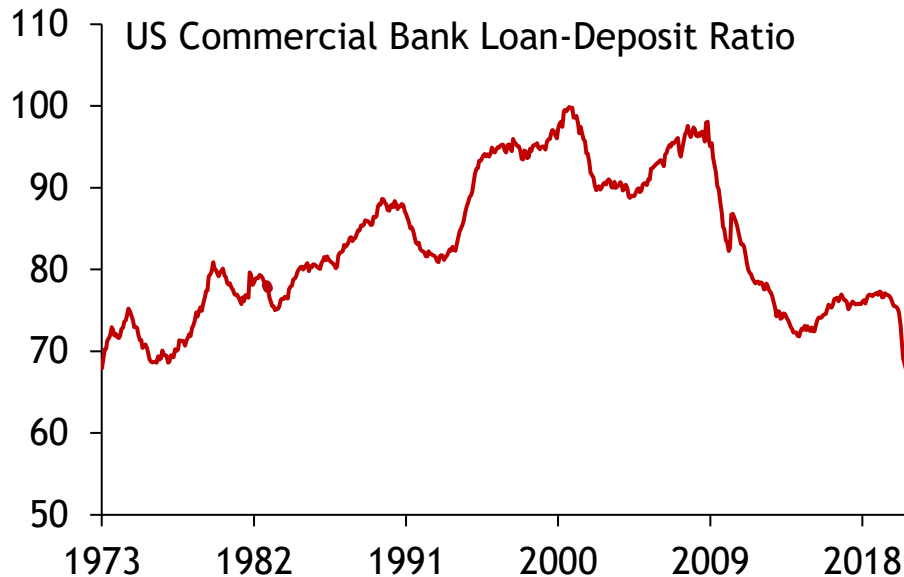
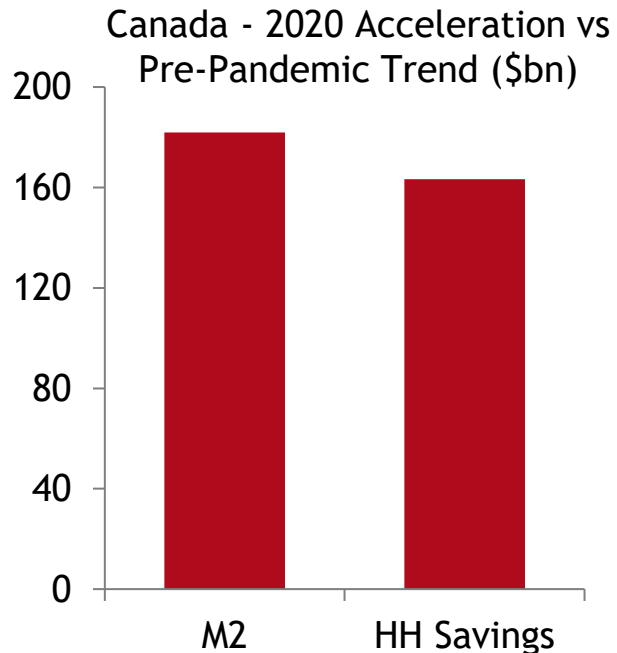
### US M2 Money Supply (Y/Y% Chg.)



Source: FRB, BoC, CIBC



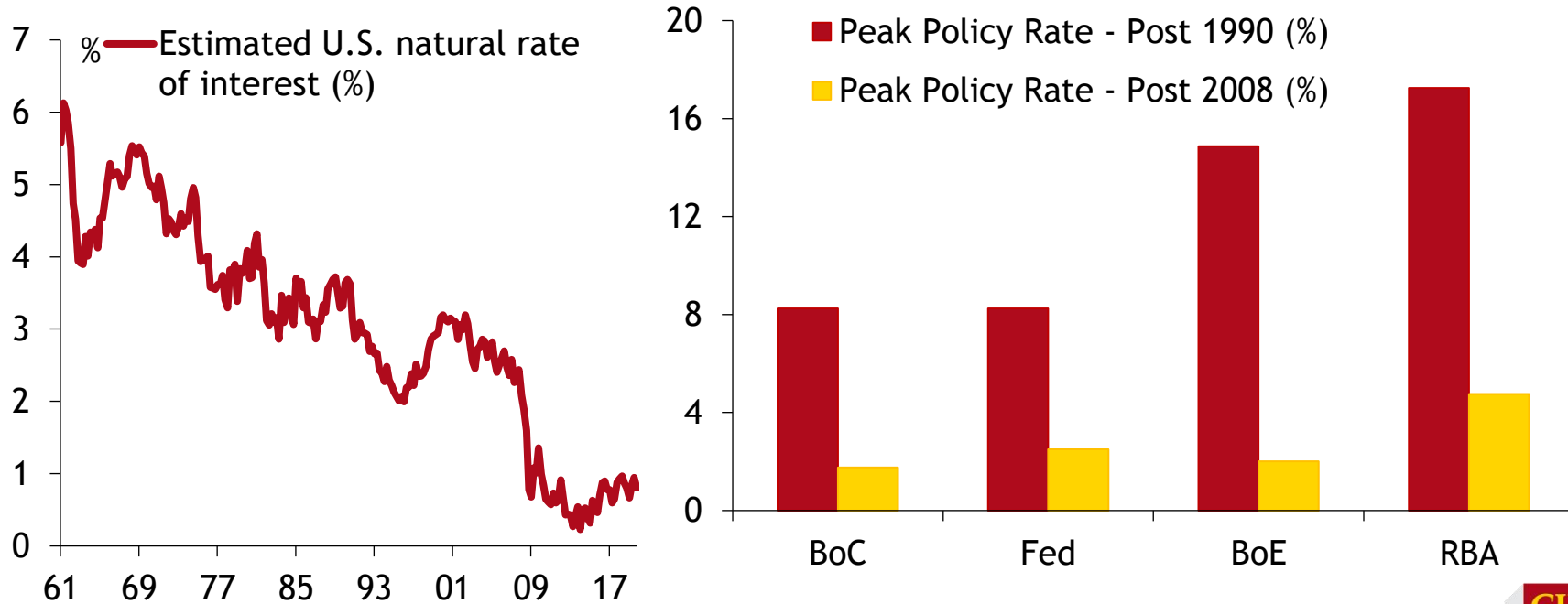
# Why No Inflation Yet? Not Being Spent, Not Driving Loans



Source: Fed, BoC, Statistics Canada, BEA, CIBC



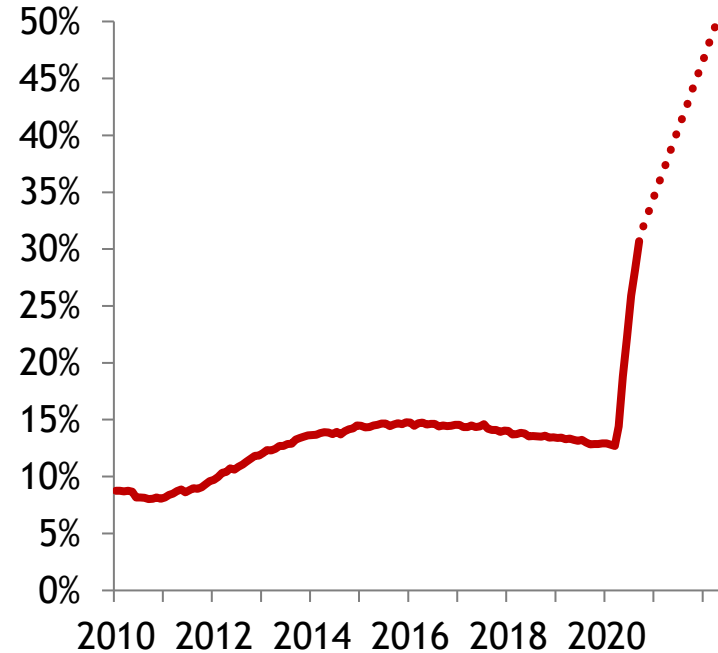
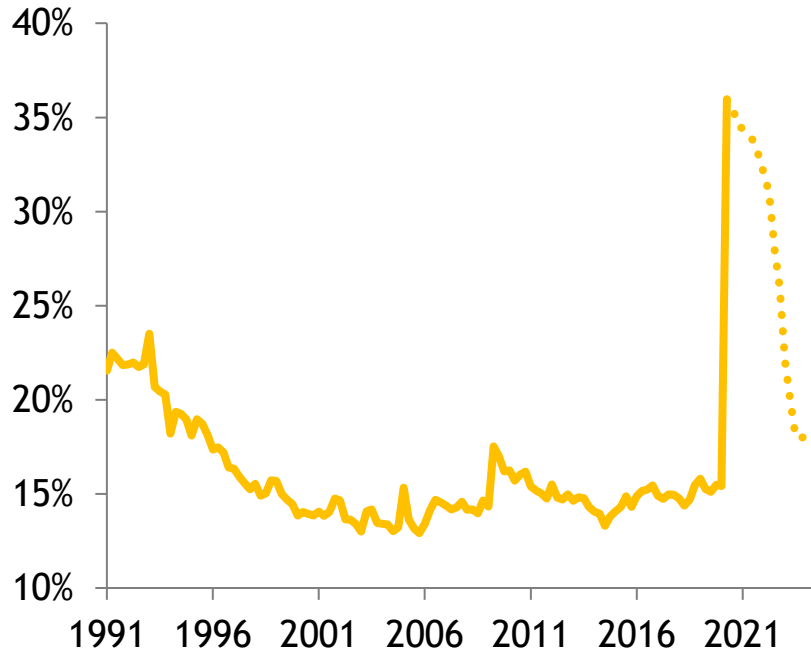
# Bond Sell Off Contained by Low Real Neutral Rates (L) Nominal Peak Policy Rates are Lower These Days (R)



Source: Federal Reserve, Haver Analytics, CIBC Capital Markets



# Twins: Canadian Gov't Spending as % of GDP (L) Bank of Canada Ownership Share of Cdn Govt Bonds (R)



Source: Statistics Canada, Department of Finance, CIBC



# Some Rates Have Topped Our Near-Term Forecast, But Will Still Be Higher in 2022 and Beyond

## INTEREST AND FOREIGN EXCHANGE RATES

| END OF PERIOD:                        | 2021   |       | 2021  |       | 2022  |       |       |       |
|---------------------------------------|--------|-------|-------|-------|-------|-------|-------|-------|
|                                       | 22-Mar | Jun   | Sep   | Dec   | Mar   | Jun   | Sep   | Dec   |
| <b>CDA</b> Overnight target rate      | 0.25   | 0.25  | 0.25  | 0.25  | 0.25  | 0.25  | 0.25  | 0.50  |
| 98-Day Treasury Bills                 | 0.08   | 0.15  | 0.10  | 0.15  | 0.20  | 0.25  | 0.25  | 0.35  |
| 2-Year Gov't Bond                     | 0.26   | 0.25  | 0.30  | 0.35  | 0.40  | 0.45  | 0.60  | 0.90  |
| 10-Year Gov't Bond                    | 1.55   | 1.50  | 1.65  | 1.45  | 1.65  | 1.75  | 1.80  | 1.85  |
| 30-Year Gov't Bond                    | 2.03   | 2.10  | 2.00  | 1.90  | 1.95  | 2.10  | 2.20  | 2.25  |
| <b>U.S.</b> Federal Funds Rate        | 0.125  | 0.125 | 0.125 | 0.125 | 0.125 | 0.125 | 0.375 | 0.625 |
| 91-Day Treasury Bills                 | 0.01   | 0.00  | 0.05  | 0.15  | 0.20  | 0.25  | 0.40  | 0.50  |
| 2-Year Gov't Note                     | 0.15   | 0.15  | 0.15  | 0.25  | 0.40  | 0.50  | 0.85  | 1.15  |
| 10-Year Gov't Note                    | 1.70   | 1.60  | 1.75  | 1.50  | 1.60  | 1.70  | 1.80  | 2.00  |
| 30-Year Gov't Bond                    | 2.40   | 2.30  | 2.40  | 2.25  | 2.30  | 2.40  | 2.50  | 2.70  |
| Canada - US T-Bill Spread             | 0.08   | 0.15  | 0.05  | 0.00  | 0.00  | 0.00  | -0.15 | -0.15 |
| Canada - US 10-Year Bond Spread       | -0.15  | -0.10 | -0.10 | -0.05 | 0.05  | 0.05  | 0.00  | -0.15 |
| Canada Yield Curve (10-Year — 2-Year) | 1.29   | 1.25  | 1.35  | 1.10  | 1.25  | 1.30  | 1.20  | 0.95  |
| US Yield Curve (10-Year — 2-Year)     | 1.55   | 1.45  | 1.60  | 1.25  | 1.20  | 1.20  | 0.95  | 0.85  |
| <b>EXCHANGE RATES</b>                 |        |       |       |       |       |       |       |       |
| CADUSD                                | 0.80   | 0.81  | 0.79  | 0.77  | 0.76  | 0.75  | 0.75  | 0.75  |
| USDCAD                                | 1.25   | 1.24  | 1.27  | 1.30  | 1.32  | 1.33  | 1.34  | 1.34  |



# What Will Post-Covid Life Look Like? A Lot Like This Again

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