



CIBC CAPITAL MARKETS

Economic Update

October, 2022

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Key Themes

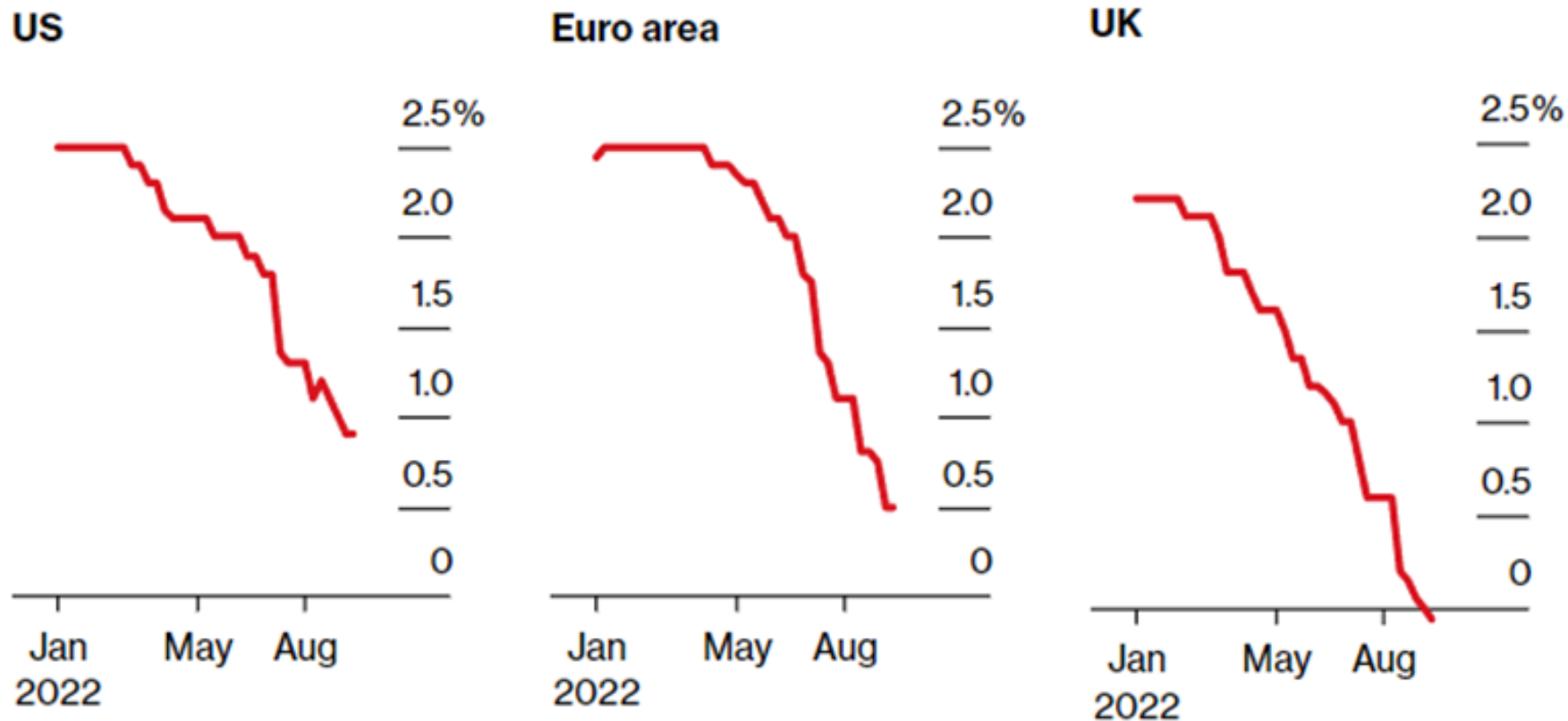
- Central Bankers
- Inflation
- Interest Rates
- GDP – Recession?
- Commodities

Central bankers face a touch challenge



Q1 '21		"QE wont cause inflation"
Q2 '21		"Some inflation but transitory"
Q3 '21		"Ok high inflation but we are peaking"
Q4 '21		"Ok inflation maybe not transitory but job market, wage growth very strong"
Q1 '22		"Need to hike aggressively to curb inflation but no worries economy very strong and soft landing possible"
Q2 '22		"Negative growth in Q1 but no recession risk"
Q3 '22		"Ok recession coming but you will not lose your home"

Growth forecasts for 2023 are sliding

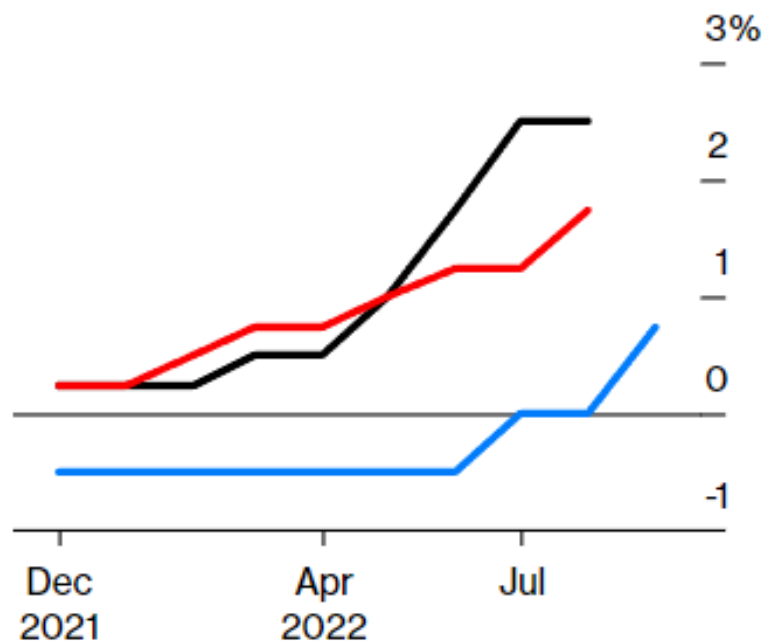


Source: Bloomberg economist surveys

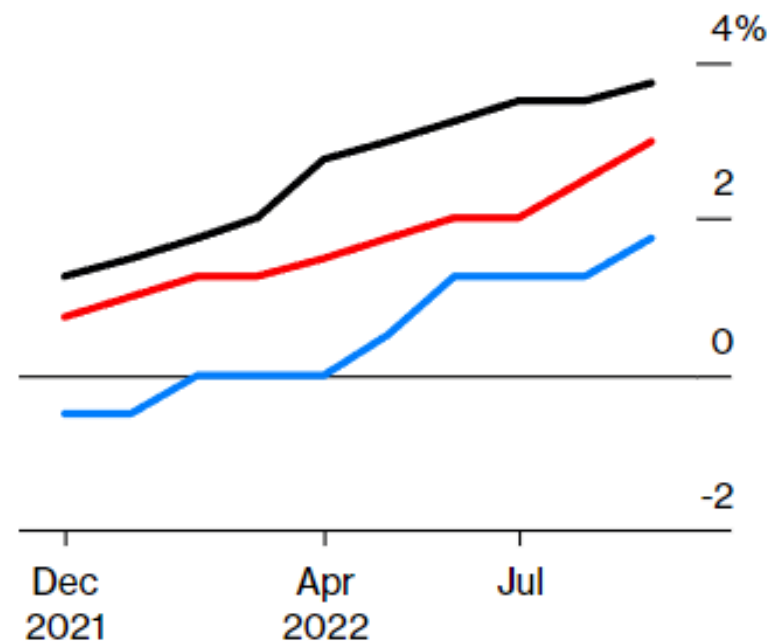
...as central banks turn hawkish

■ Fed ■ ECB ■ BOE

Current benchmark rate

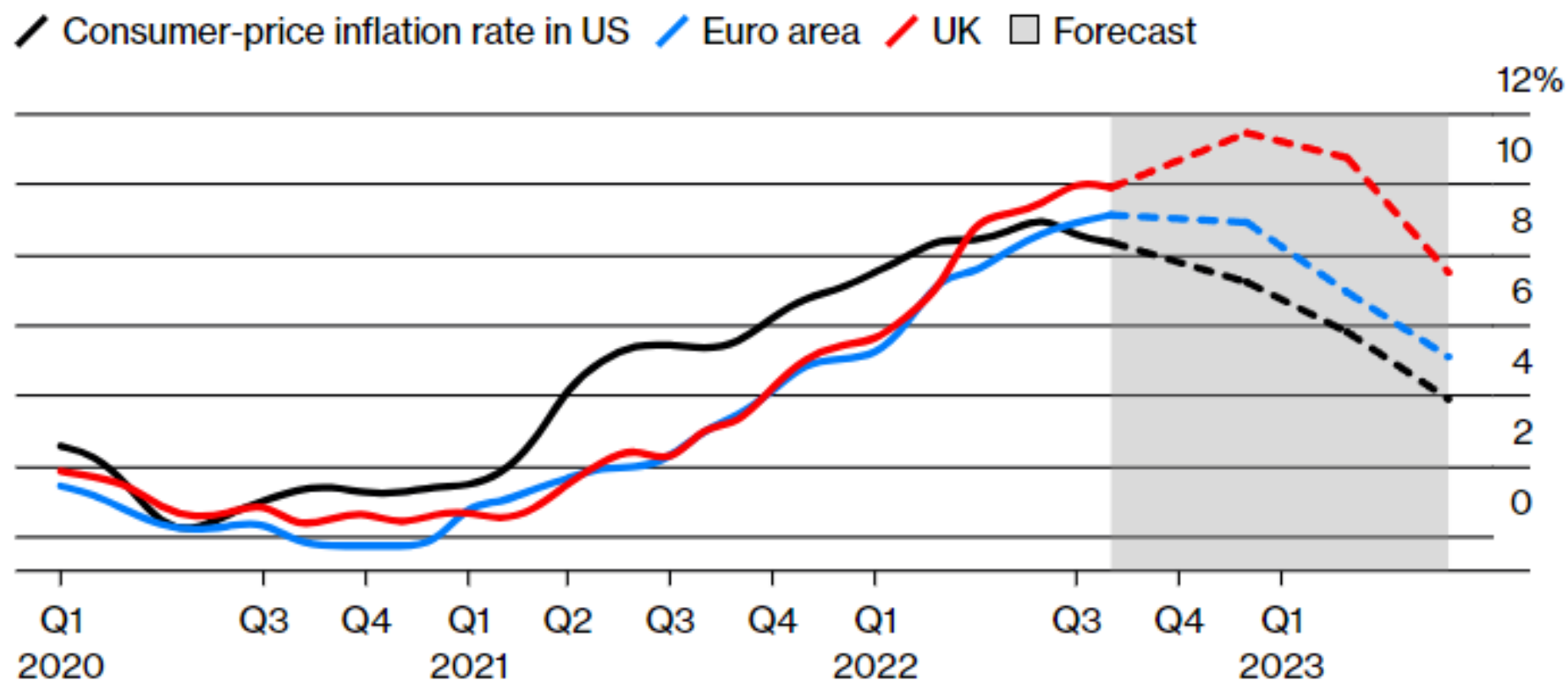


Expected rate in 2Q 2023



Source: Central banks, Bloomberg economist surveys

...to fight inflation that won't go away



Source: Official data, Bloomberg economist surveys

More than 40 central banks have increased interest rates by at least 0.75% at once since the start of 2022

■ Hiked rates by 75 basis points or more in one move this year

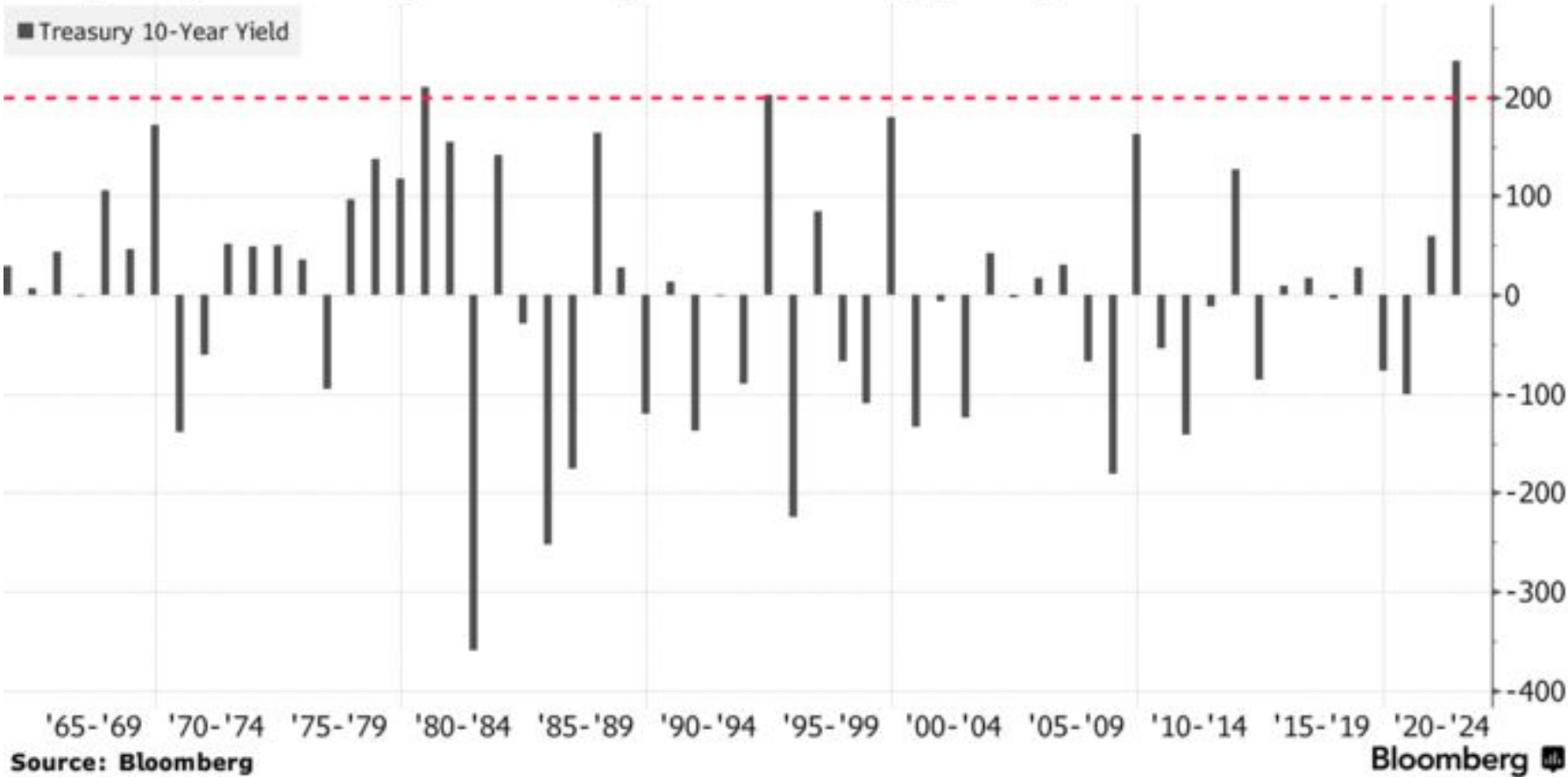


Source: Bloomberg

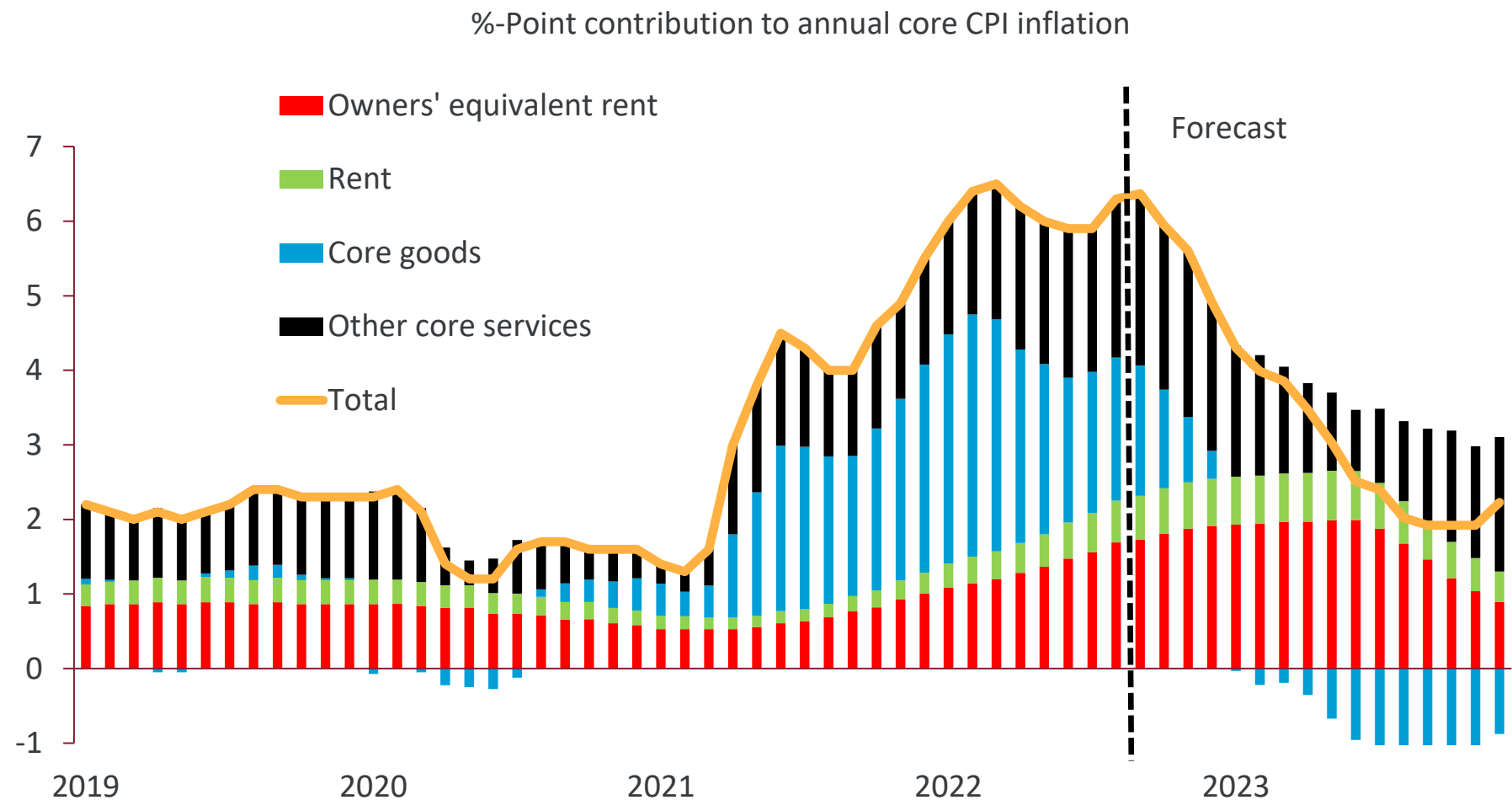
Yields have jumped more in 2022 than any full year since 1962

Record Surge

Ten-year yields are up in 2022 by more than any prior year



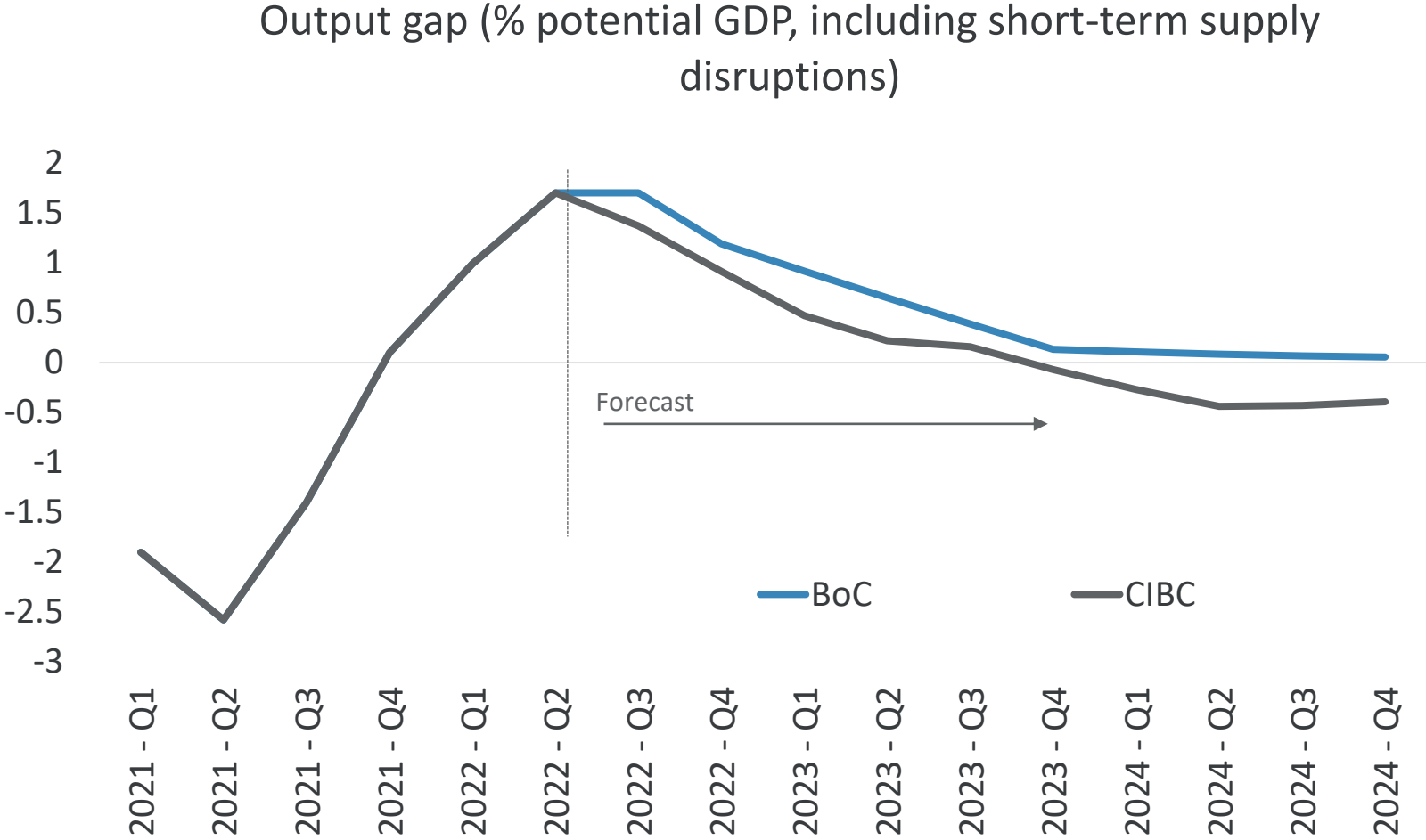
US core CPI pressures to melt, with rent measures the last to soften



Source: BLS, CIBC



Canada's excess demand to close by end 2023



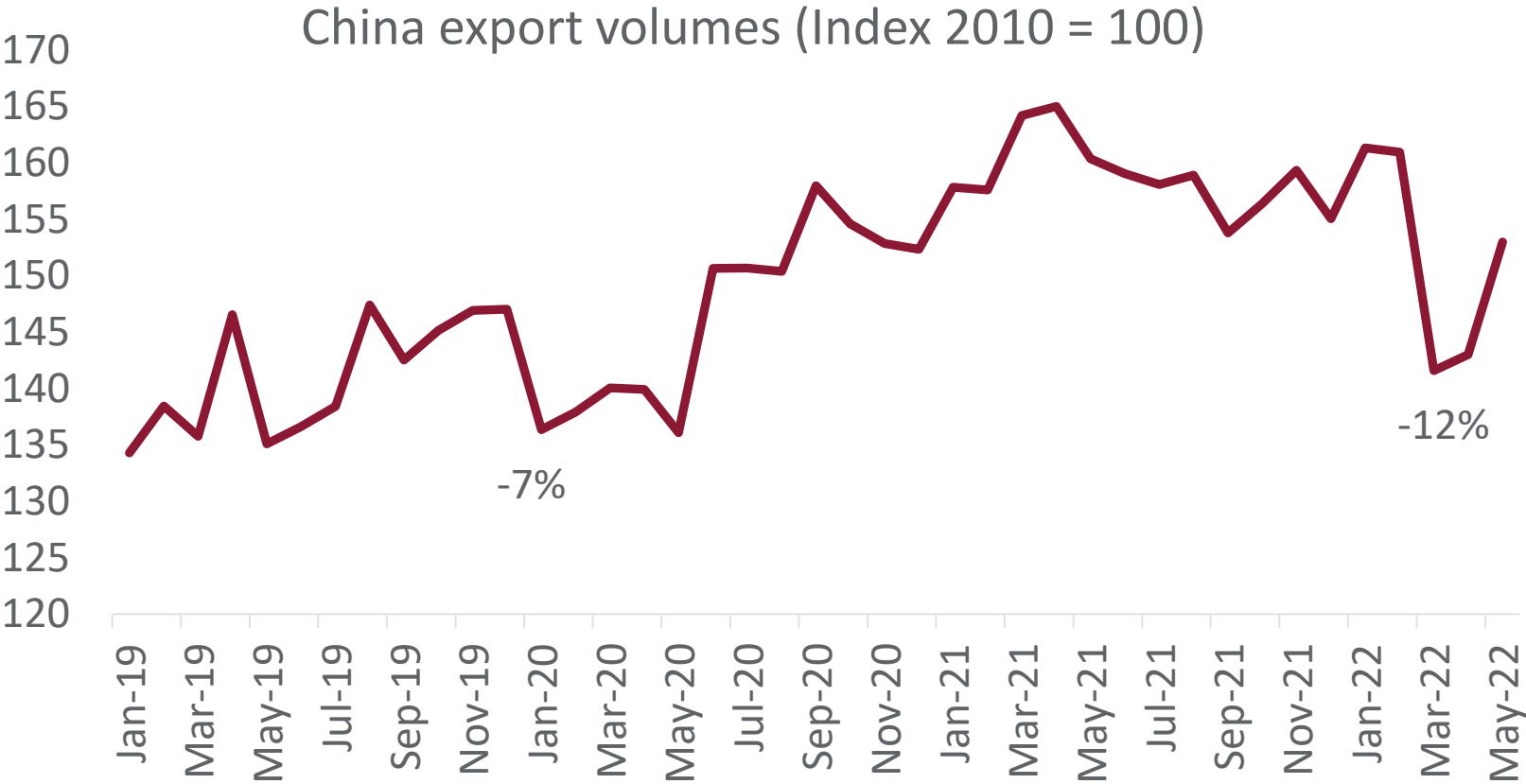
Source: BoC, CIBC



Supply chain problems have persisted

- “Just-in-time” makes businesses vulnerable
- The toilet paper problem
- Tight capacity makes catching up difficult
- Resistance to paying market wages
- War in Ukraine
- Covid-19: the gift that keeps on giving

This year's China lockdowns have had a larger impact on exports



Source: CPB, CIBC



Short rates stay elevated in 2023 to suppress growth in 2023/24

Canada

Variable	2022 13-Sep	2022 Dec	2023 Mar	2023 Jun	2023 Sep	2023 Dec	2024 Jun	2024 Dec
Overnight target rate	3.25	3.75	3.75	3.75	3.75	3.75	3.25	2.75
98-Day Treasury Bills	3.28	3.80	3.70	3.60	3.50	3.40	3.00	2.40
2-Year Government Bond	3.75	3.60	3.50	3.25	3.10	2.90	2.60	2.45
10-Year Government Bond	3.23	3.50	3.40	3.20	3.00	2.90	2.75	2.55
30-Year Government Bond	3.19	3.40	3.30	3.10	2.95	2.80	2.50	2.45

United States

Variable	2022 13-Sep	2022 Dec	2023 Mar	2023 Jun	2023 Sep	2023 Dec	2024 Jun	2024 Dec
Federal funds rate	2.375	4.125	4.125	4.125	4.125	4.125	4.125	3.375
91-Day Treasury Bills	3.22	4.25	4.25	4.10	4.05	4.00	3.90	3.25
2-Year Government Note	3.78	4.20	4.00	3.80	3.50	3.30	2.85	2.50
10-Year Government Note	3.45	3.65	3.50	3.40	3.20	3.00	2.90	2.50
30-Year Government Bond	3.53	3.65	3.50	3.30	3.15	3.00	2.75	2.60

Source: CIBC



Monetary tightening to address inflation sees recessions or very slow growth

Real GDP Growth (Y/Y % change)						
Region	2019A	2020A	2021A	2022F	2023F	2024F
World ¹	2.9	-3.1	6.1	2.8	2.2	2.7
United States	2.3	-3.4	5.7	1.8	0.7	0.8
Canada	1.9	-5.2	4.5	3.1	0.6	1.4
Eurozone	1.6	-6.2	5.2	2.7	-0.1	1.8
United Kingdom	1.7	-9.3	7.4	2.9	-0.4	1.9
Australia	2.0	-2.1	4.9	3.8	1.6	1.8
Japan	-0.4	-4.6	1.7	1.6	1.7	1.2
China	6.0	2.2	8.1	2.9	5.1	5.5

¹ At purchasing power parity

Source: IMF, CIBC

Prairies lead growth ahead, but 2022 was a year to remember for nominal GDP

	Real GDP Y/Y % Chg				Nominal GDP Y/Y % Chg			
	2021E	2022F	2023F	2024F	2021F	2022F	2023F	2024F
BC	5.9	2.8	0.6	1.1	13.4	7.8	2.3	3.3
Alta	5.1	4.2	1.3	1.7	22.1	23.2	1.1	4.5
Sask	0.0	4.3	1.6	1.9	13.0	22.3	1.4	4.9
Man	1.5	3.4	1.1	1.4	7.5	8.7	2.6	3.4
Ont	4.4	2.8	0.3	1.3	10.9	8.8	2.0	3.5
Qué	5.6	2.9	0.5	1.2	12.1	8.9	2.2	3.4
NB	5.3	1.9	0.6	1.1	11.3	6.9	2.1	3.1
NS	5.8	1.7	0.8	1.3	11.8	6.7	2.3	3.3
PEI	6.6	1.5	1.1	1.4	12.6	6.5	2.6	3.4
N&L	1.2	3.3	0.9	1.5	14.2	21.3	1.1	4.0
Canada	4.5	3.1	0.6	1.4	13.0	11.3	1.9	3.7

For US and Canada, a close brush with recession, and a higher jobless rate

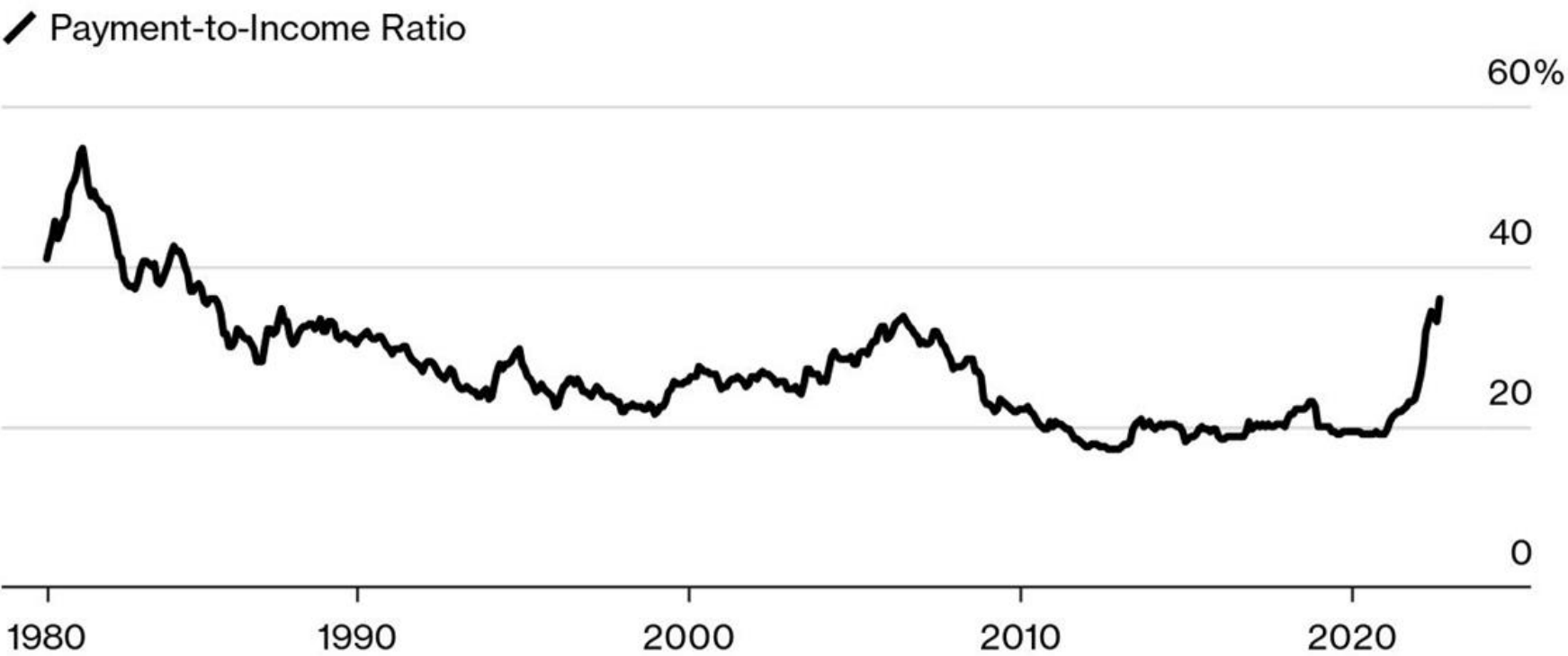
CANADA	22Q2A	22Q3F	22Q4F	23Q1F	23Q2F	23Q3F	23Q4F	2022F	2023F	2024F
Real GDP Growth (AR)	3.3	0.5	0.0	-0.2	0.6	1.4	1.3	3.1	0.6	1.4
Real Final Domestic Demand (AR)	2.9	0.6	0.7	0.6	0.5	1.4	1.3	3.1	0.9	1.6
Household Consumption (AR)	9.7	2.7	1.2	0.7	0.2	1.7	1.1	5.5	1.6	1.1
All Items CPI Inflation (Y/Y)	7.5	7.1	6.2	4.8	2.1	1.8	2.2	6.7	2.7	2.0
Unemployment Rate (%)	5.1	5.1	5.2	5.4	5.7	5.9	5.9	5.3	5.7	5.7

U.S.	22Q2A	22Q3F	22Q4F	23Q1F	23Q2F	23Q3F	23Q4F	2022F	2023F	2024F
Real GDP Growth (AR)	-0.6	1.9	1.6	-0.2	0.3	1.4	0.7	1.8	0.7	0.8
Real Final Sales (AR)	1.3	1.7	1.4	0.2	1.0	1.8	0.9	1.0	1.1	1.0
All Items CPI Inflation (Y/Y)	8.6	8.3	6.9	4.9	2.5	1.8	1.8	7.9	2.7	2.0
Core CPI Inflation (Y/Y)	6.0	6.2	5.5	4.0	3.0	2.1	2.0	6.0	2.8	2.1
Unemployment Rate (%)	3.6	3.6	3.7	4.0	4.2	4.1	4.2	3.7	4.1	4.4

Source: CIBC

Locked out

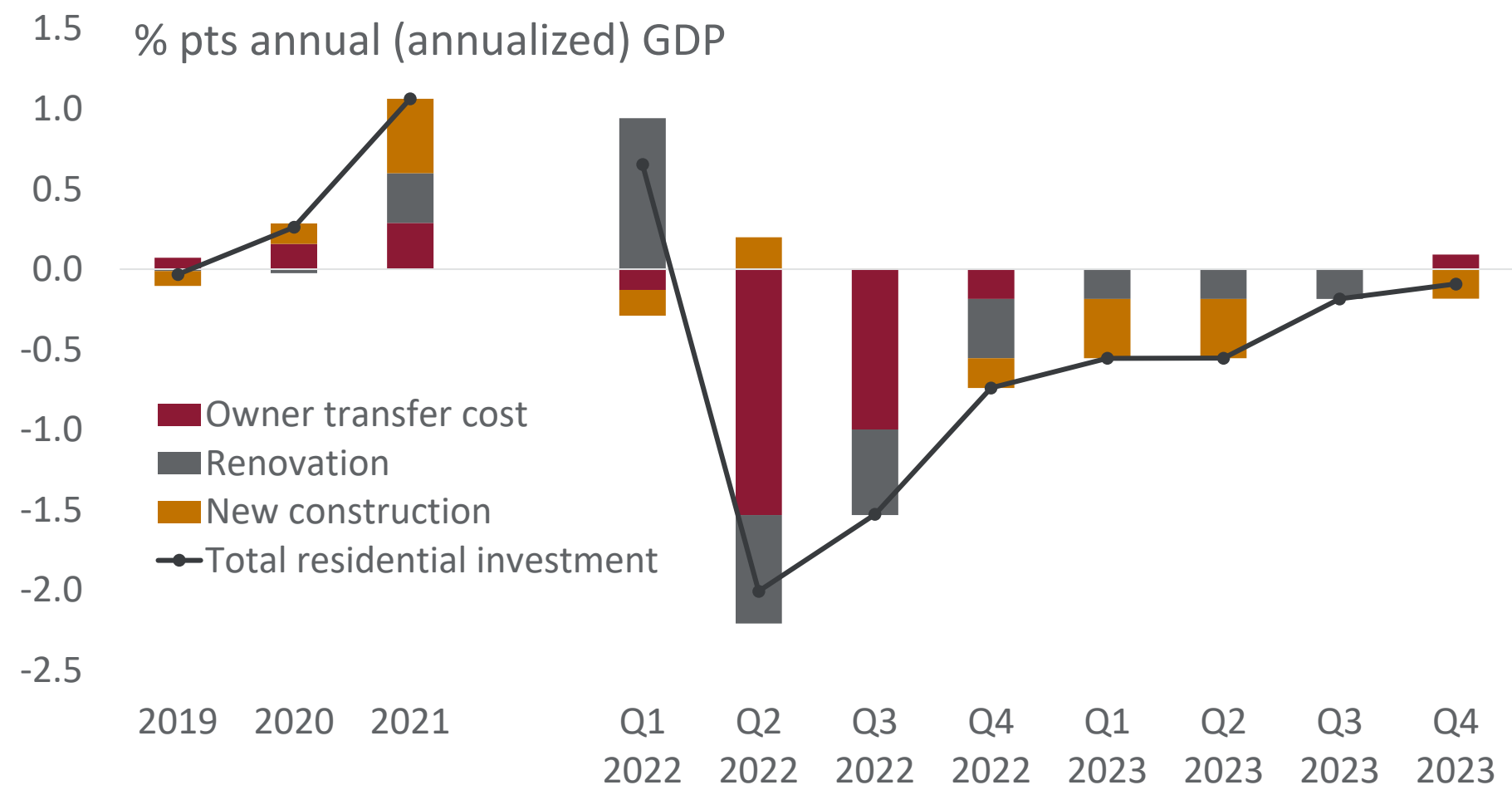
Housing affordability now at worst level since 1985



Source: Black Knight Inc.
Footnote: Data based on median income needed to cover payments on median-priced home bought with 30-year mortgage and 20% down. September level based on last week's Freddie Mac 30-year rate.

Bloomberg

Housing takes the first big hit from Canadian rate hikes

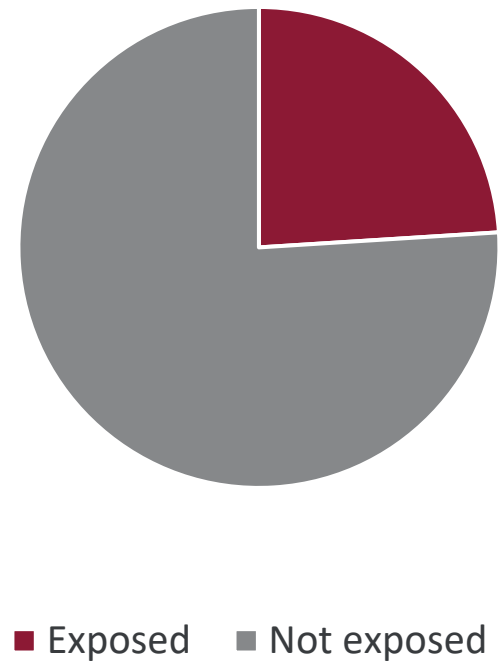


Source: Statistics Canada, CIBC

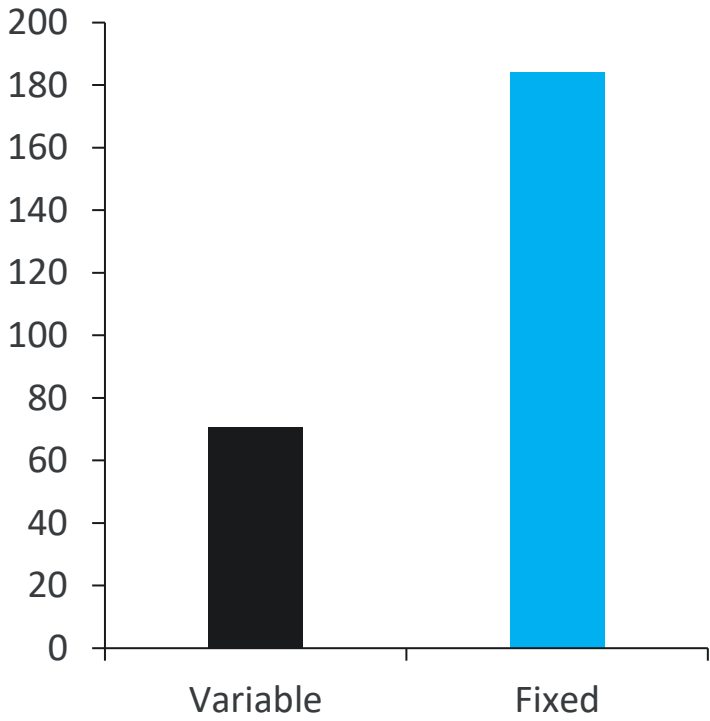


Only a quarter of debt has been hit so far (L), but that will grow over time
For mortgages, the increase is steep (R)

Share of household debt



Current rate minus 2017 rates (bps)



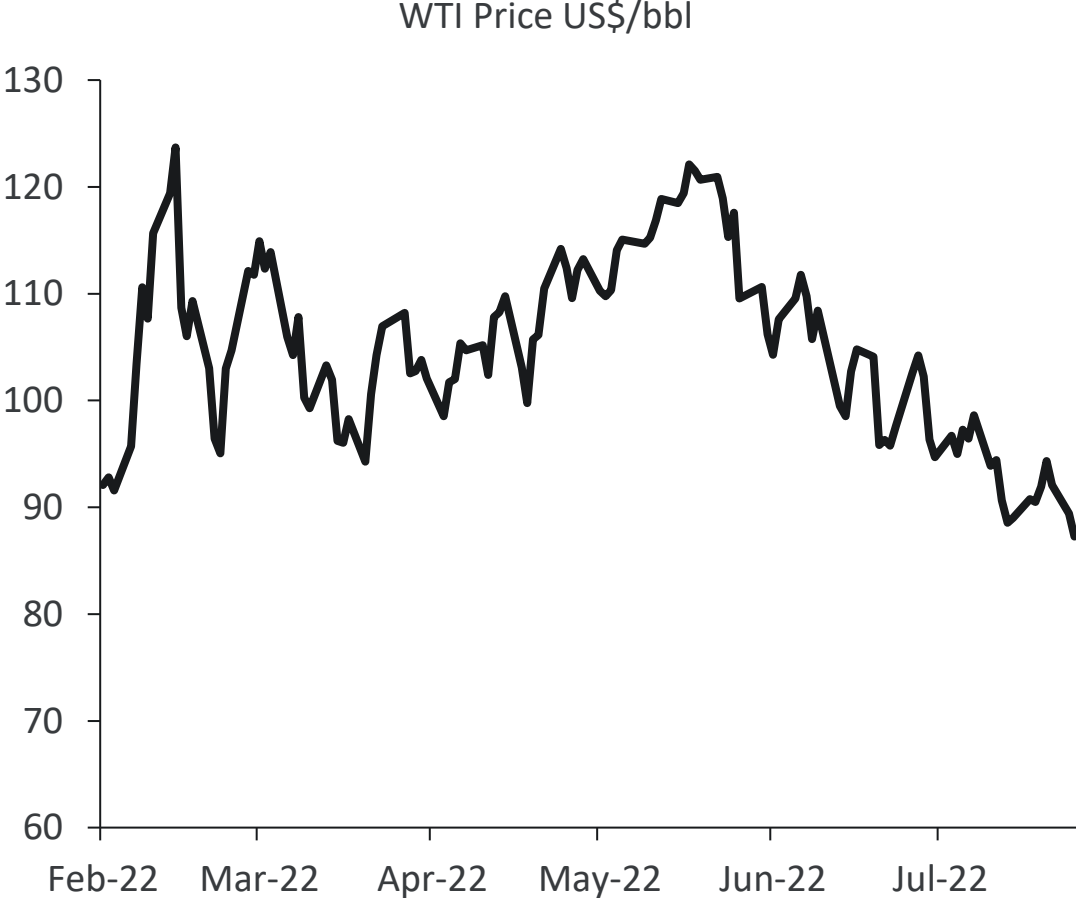
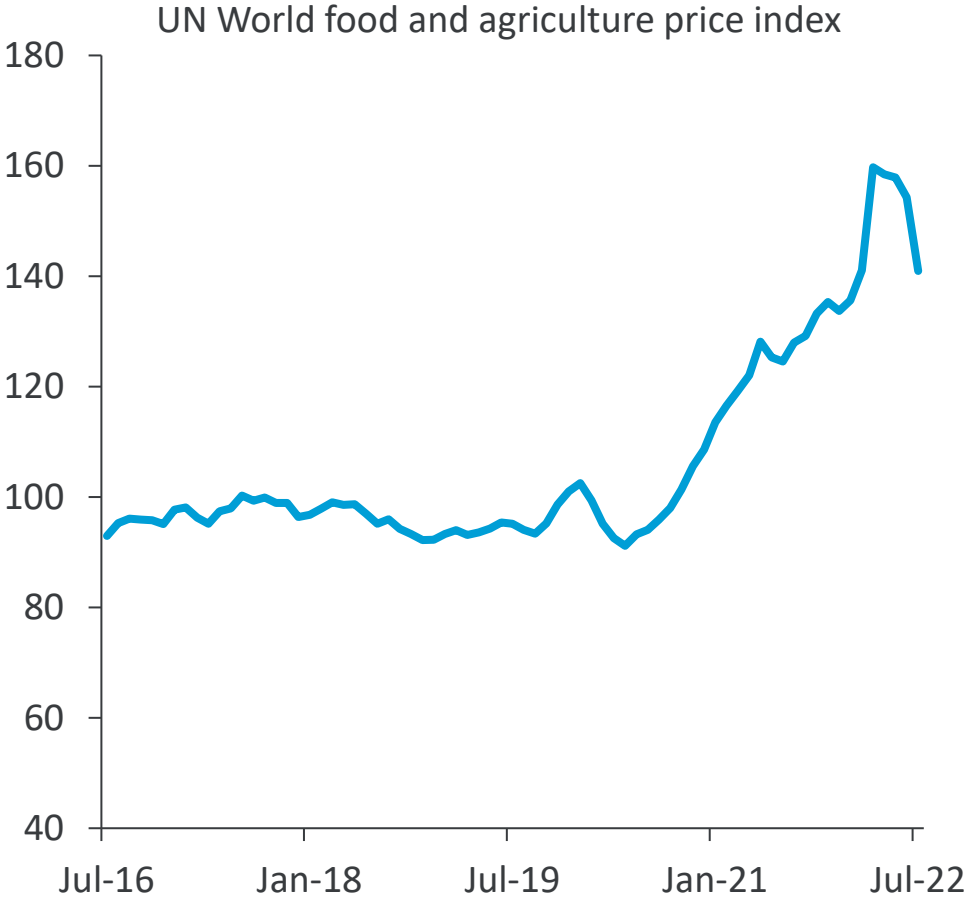
Source: Statistics Canada, CIBC



Currency – Flight to the US Dollar



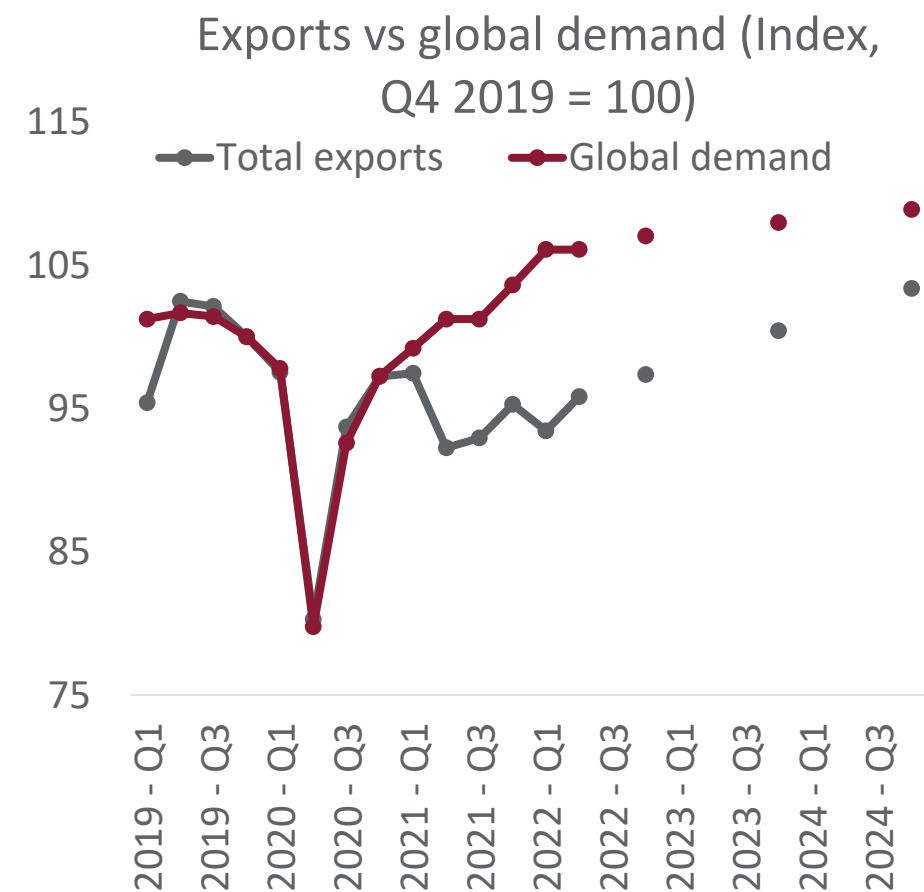
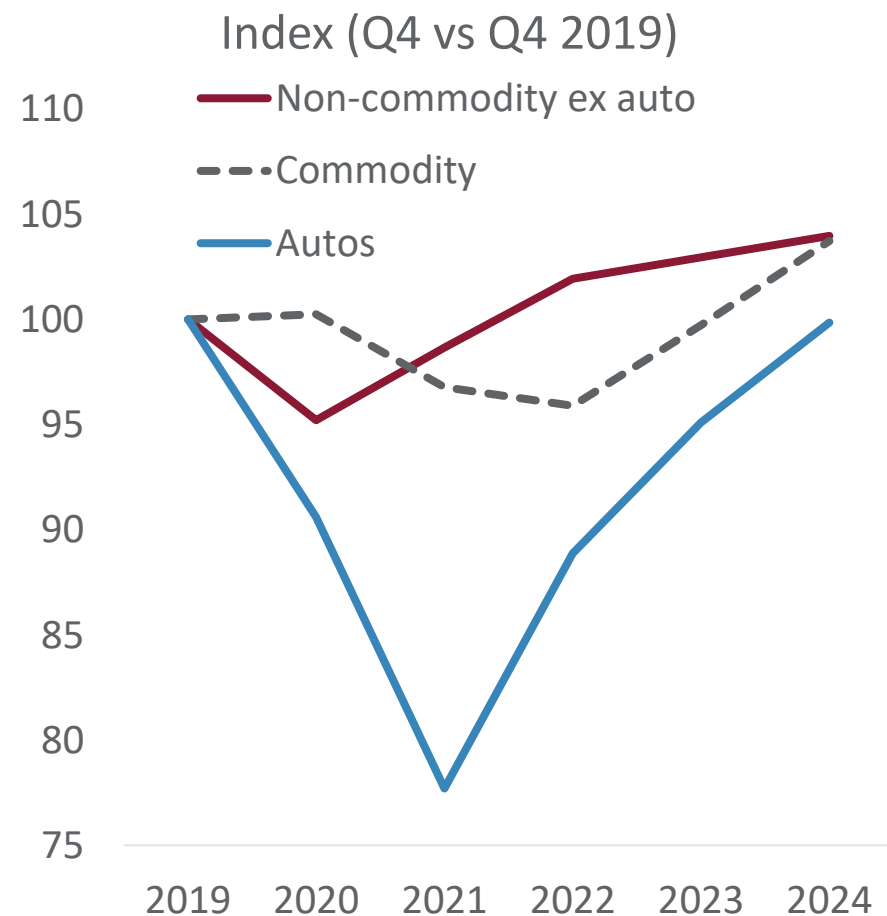
Commodity prices showing signs of levelling off amid global growth concerns



Source: Bloomberg, CIBC

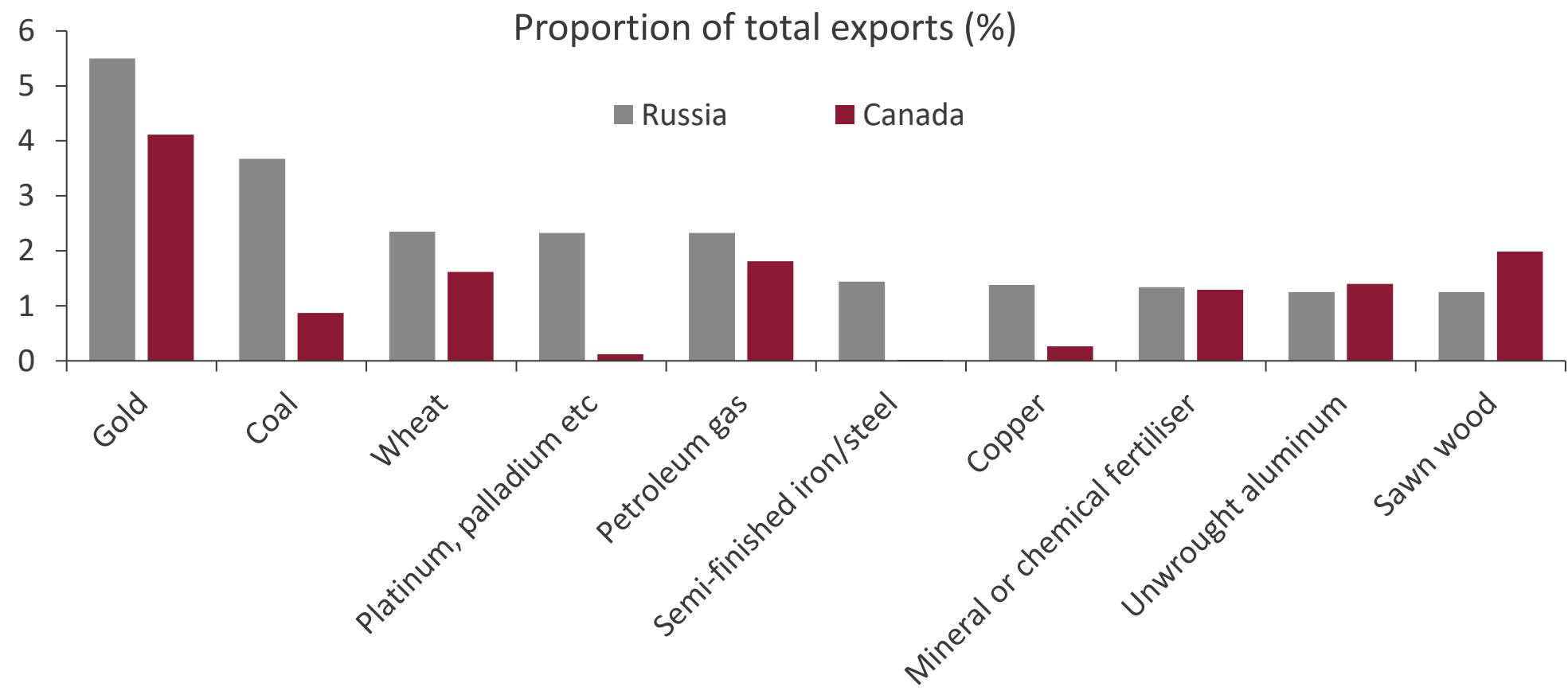


A recovery in autos and strength in commodities (L), Allows exports to catch up to earlier global growth (R)



Source: Statistics Canada, CIBC

Beyond Oil: Canada and Russia compete for market share; Volume gains for Canadian potash, uranium, but not wood



Source: ITC Trademap, CIBC

Where the recession monster lurks

- Excessive rate hikes by central banks
- A spike in oil price to \$150+
- Financial markets and wealth effect
- Inflation expectations build or supply chain issues deepen
- The war in Ukraine spreads; China-Taiwan
- We're hit with a pi in the face

Summing up...

- Sluggish economic growth in Canada and US in 2023/24. Recession risks are elevated. Alberta a growth leader
- Europe likely sees a recession
- Slower growth, and some supply chain improvements necessary to cool inflation
- Inflation to cool in 2023, wages to follow suit

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