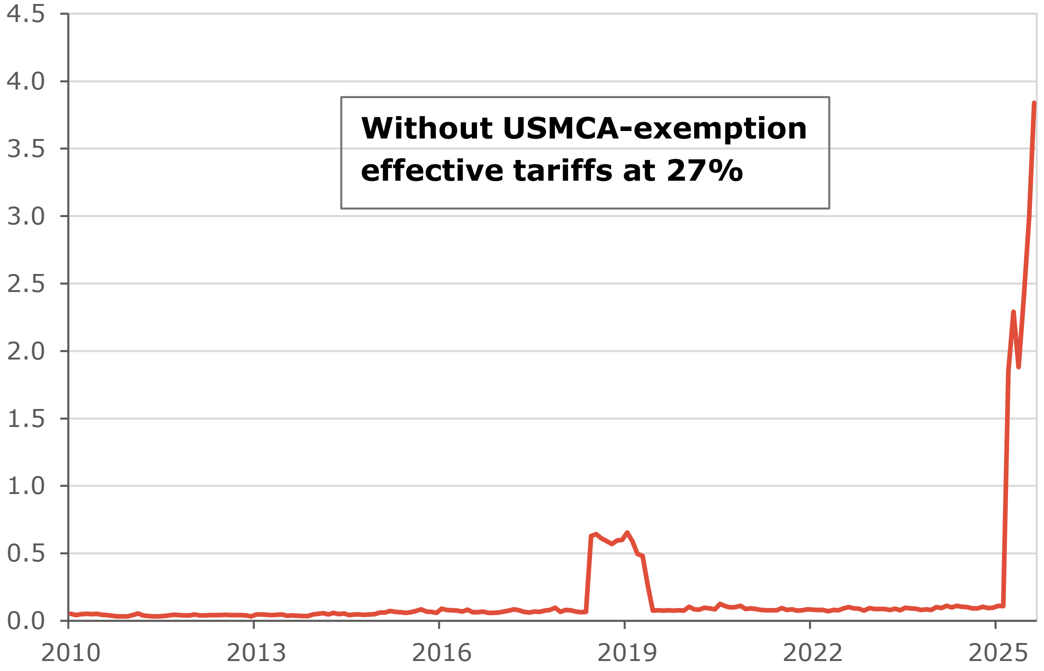
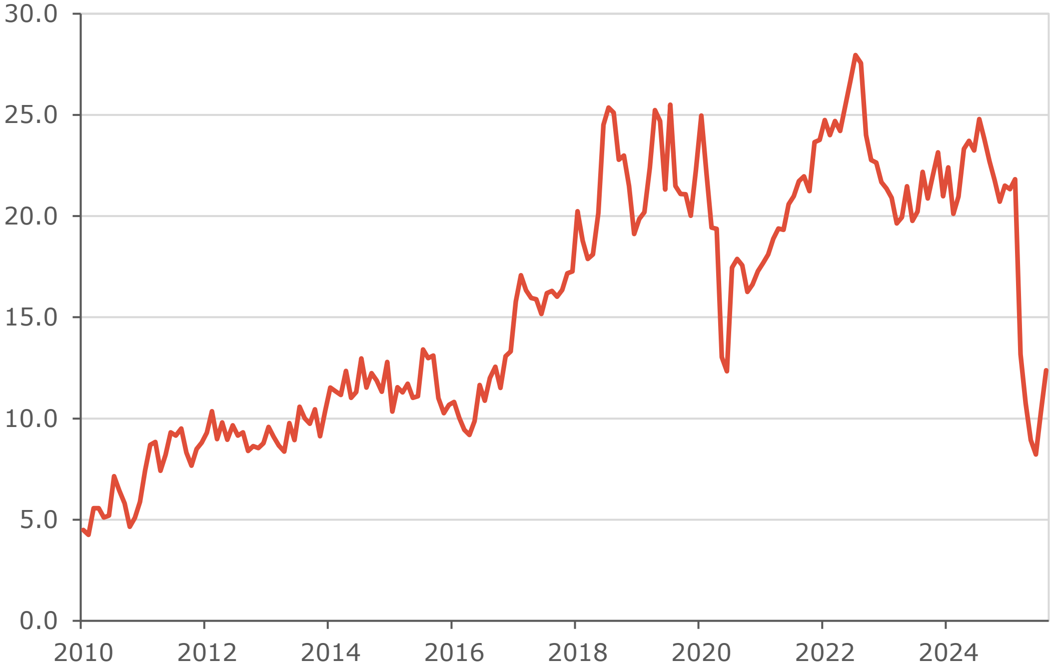
Overview of the Canadian Economy

US tariffs – Not as bad as originally feared, for now

Effective tariff rate on imports from Canada (%)



Share of imports from Canada under tariffs (%)

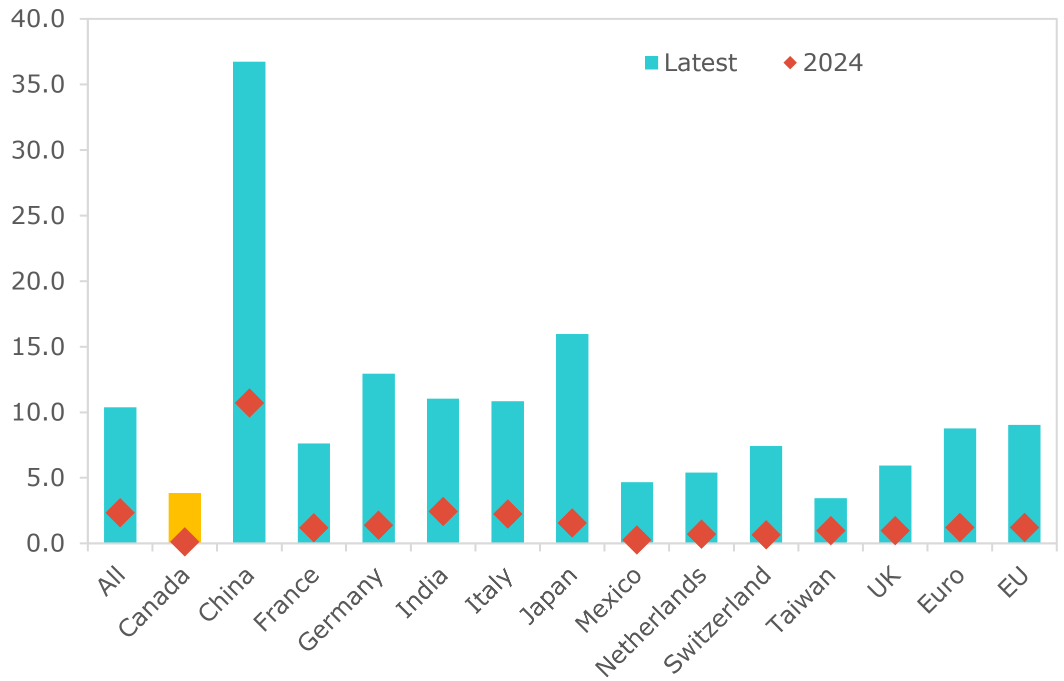


- USMCA-compliant exports are exempt of US tariffs, about 85% of Canadian exports.
- Tariffs on steel, aluminum and the non-US share of auto exports.
- The importance of the USMCA cannot be underestimated, next year's renegotiation is a key risk.

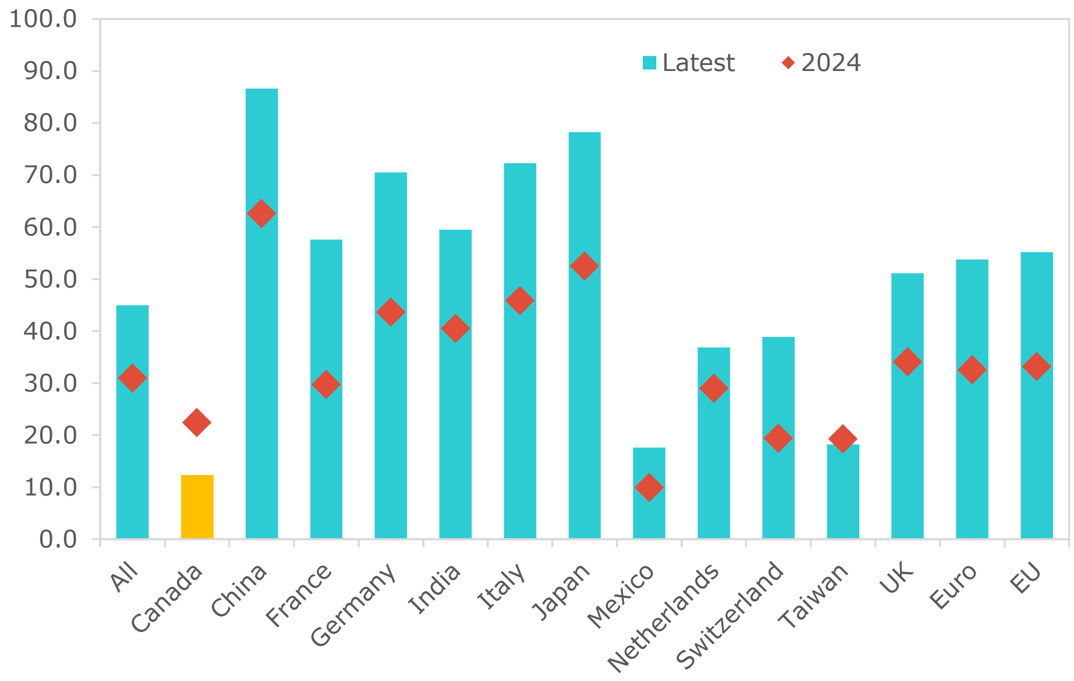
Source: US Census Bureau, Alberta Central

US tariffs – Canada amongst the least affected

Effective tariff rate on imports (%)



Share of imports under tariffs (%)

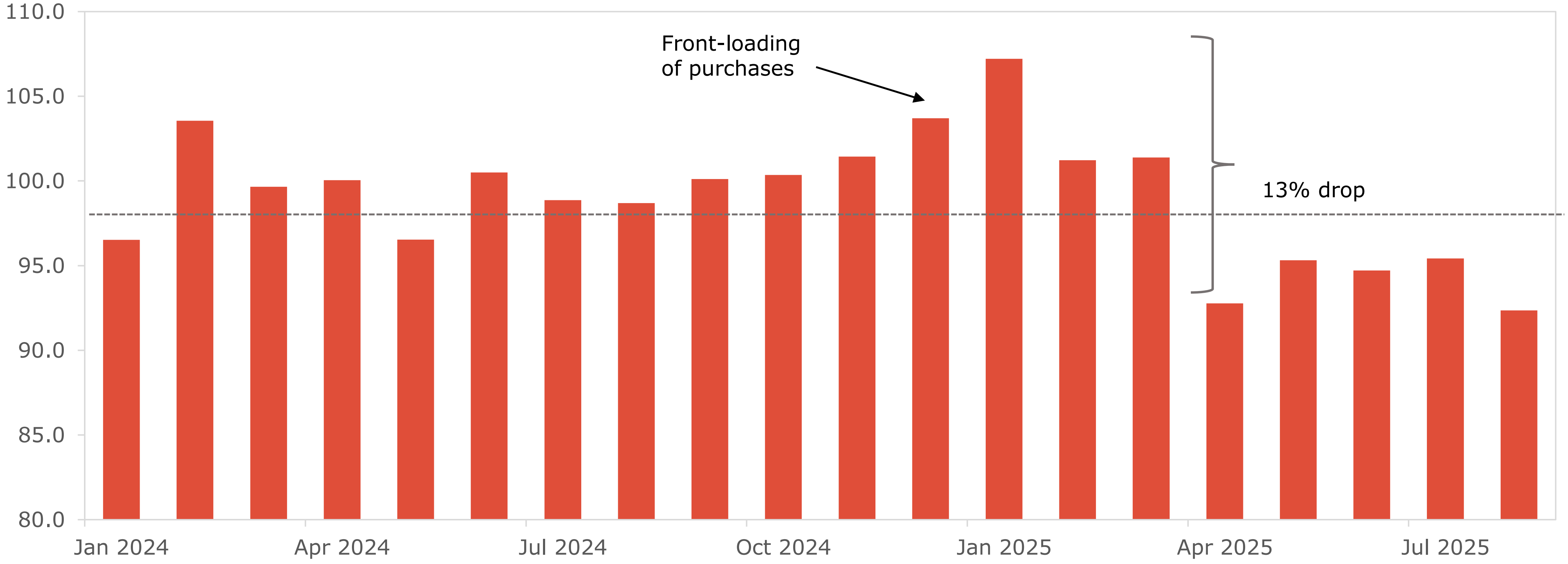


- The US effective tariff rate on Canadian imports is amongst the lower.
- Similarly, the share of imports subjected to tariffs declines is also one of the lowest.
- No country has avoided tariffs on steel and aluminum, except the UK

Source: US Census Bureau, Alberta Central

Tariffs have had a deep negative impact on Canada

Exports volume (index: 2024 average = 100)

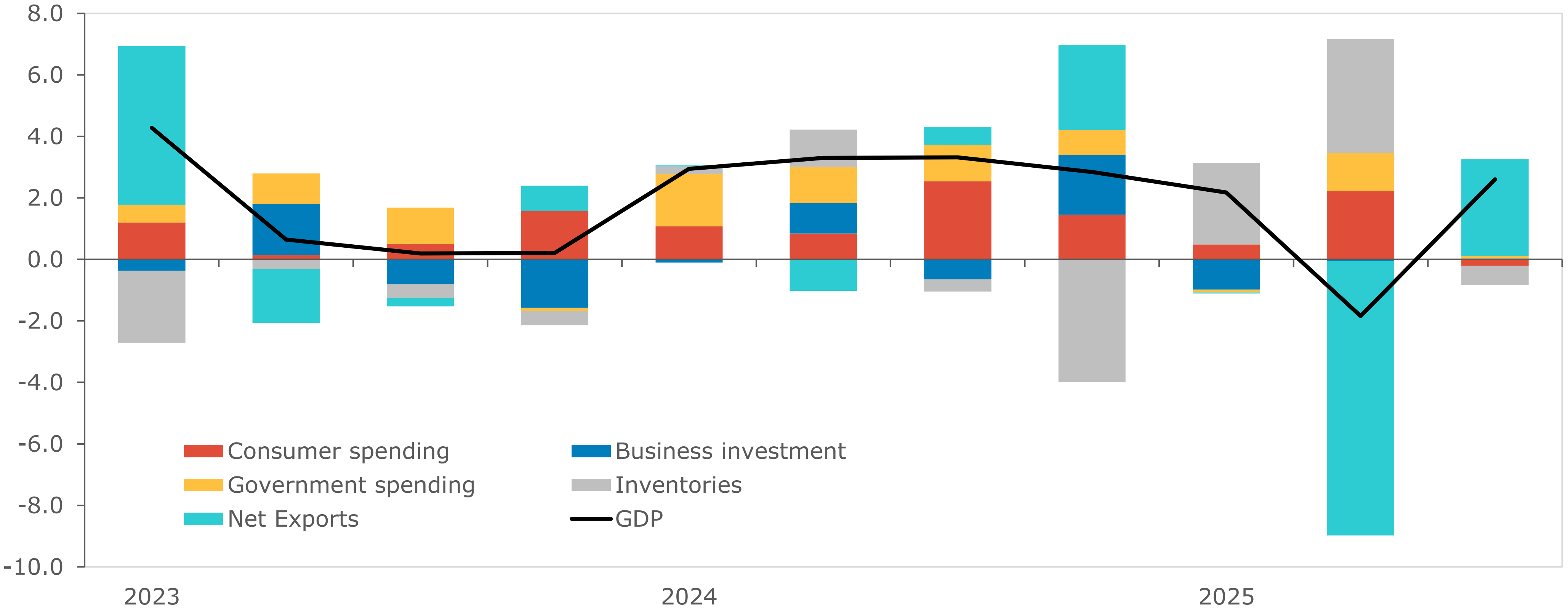


- Front-loading of purchasing by US customers meant pushed exports and growth higher in Q1, but this was reversed in Q2. As a result, the economy contracted sharply by -1.6% q-o-q ar. in Q2.
- Exports are still about 5% below their 2024 level.

Source: Statistics Canada, Alberta Central

Don’t be fooled by headline growth

Contribution to GDP growth (Q-o- ar.)

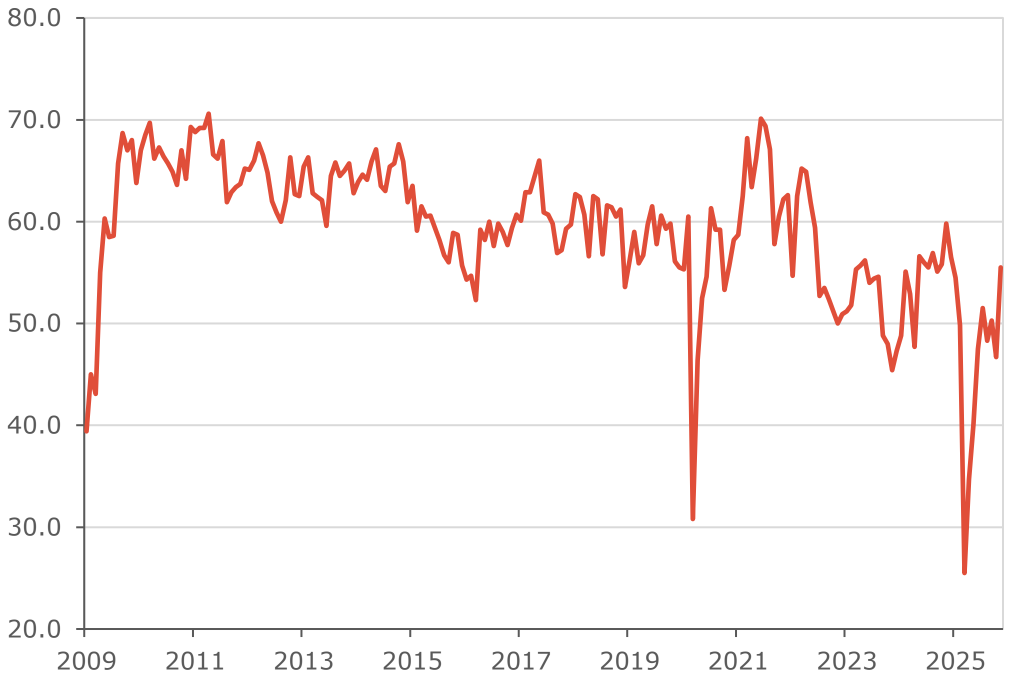


- Growth rebound in Q3. However, it was mostly due to a drop in imports.
- Domestic demand is anemic, with declines in consumer spending and business investment. Residential investment and overall government spending made a marginally positive contribution.

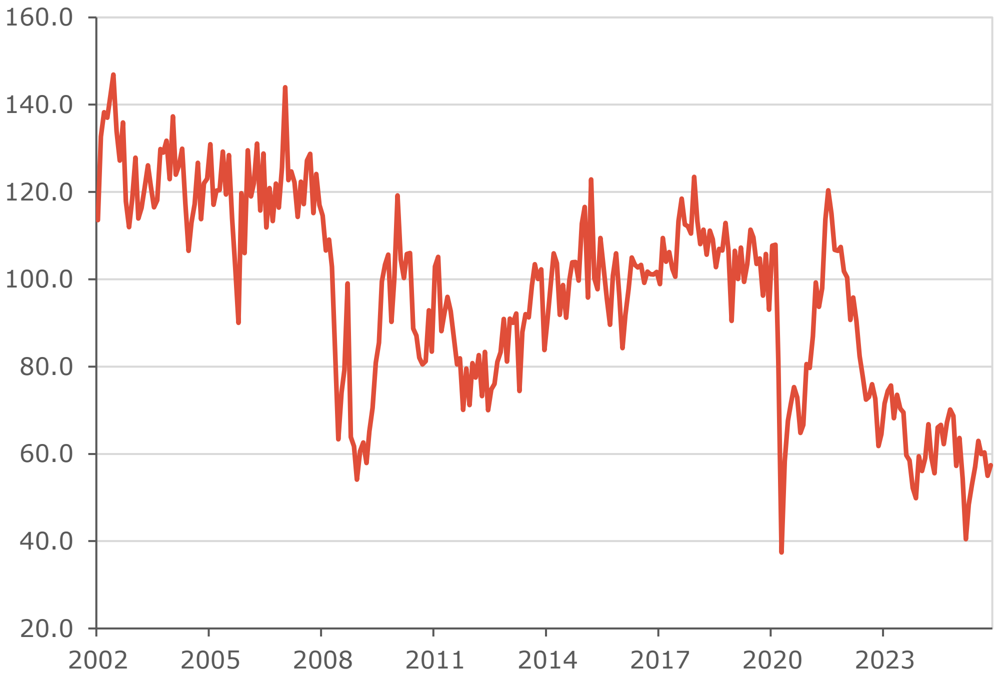
Source: Statistics Canada, Alberta Central

Confidence has recovered but remains weak

CFIB Business confidence



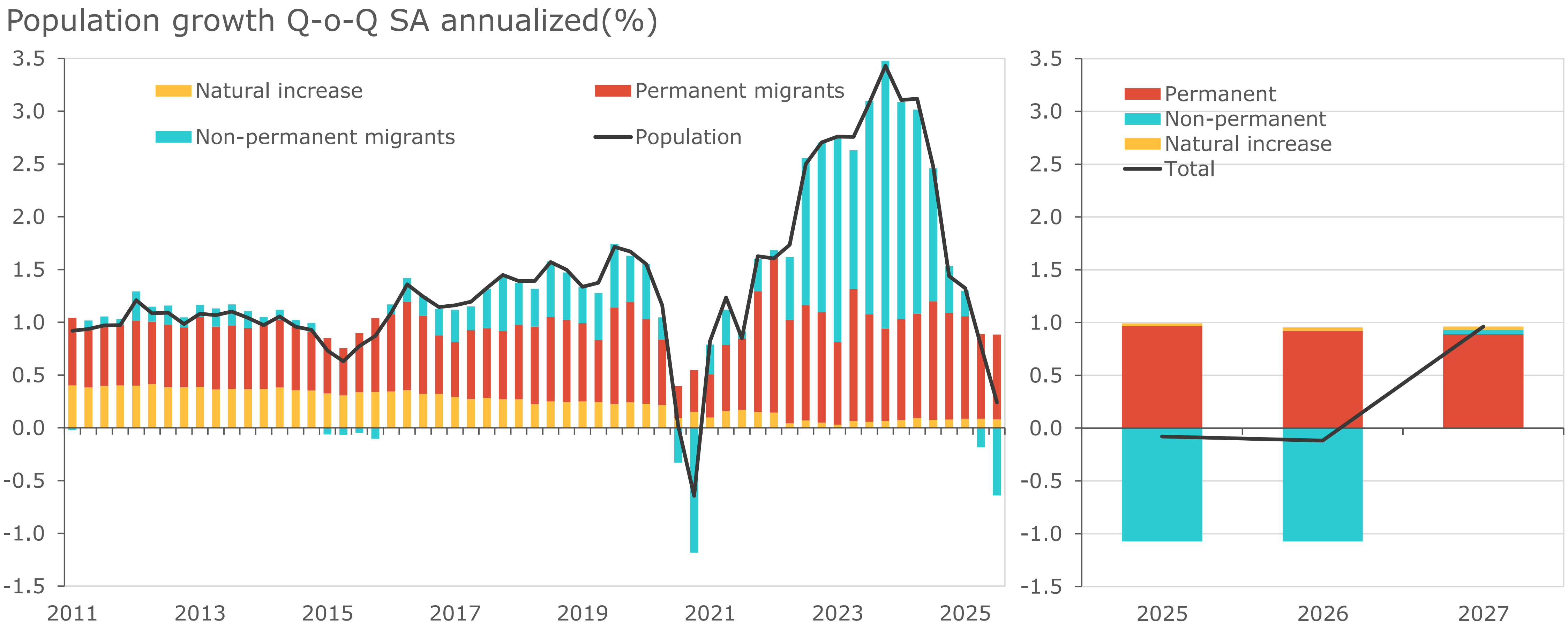
Consumer confidence



- Business and consumer confidence hit record lows. As a result, firms postponed and delayed investment and hiring decisions. Improved sentiment could suggest some improvement in business activity
- Consumer confidence also dropped and remains low. Nevertheless, consumer spending has been resilient.

Source: CFIB, Conference Board of Canada, Alberta Central

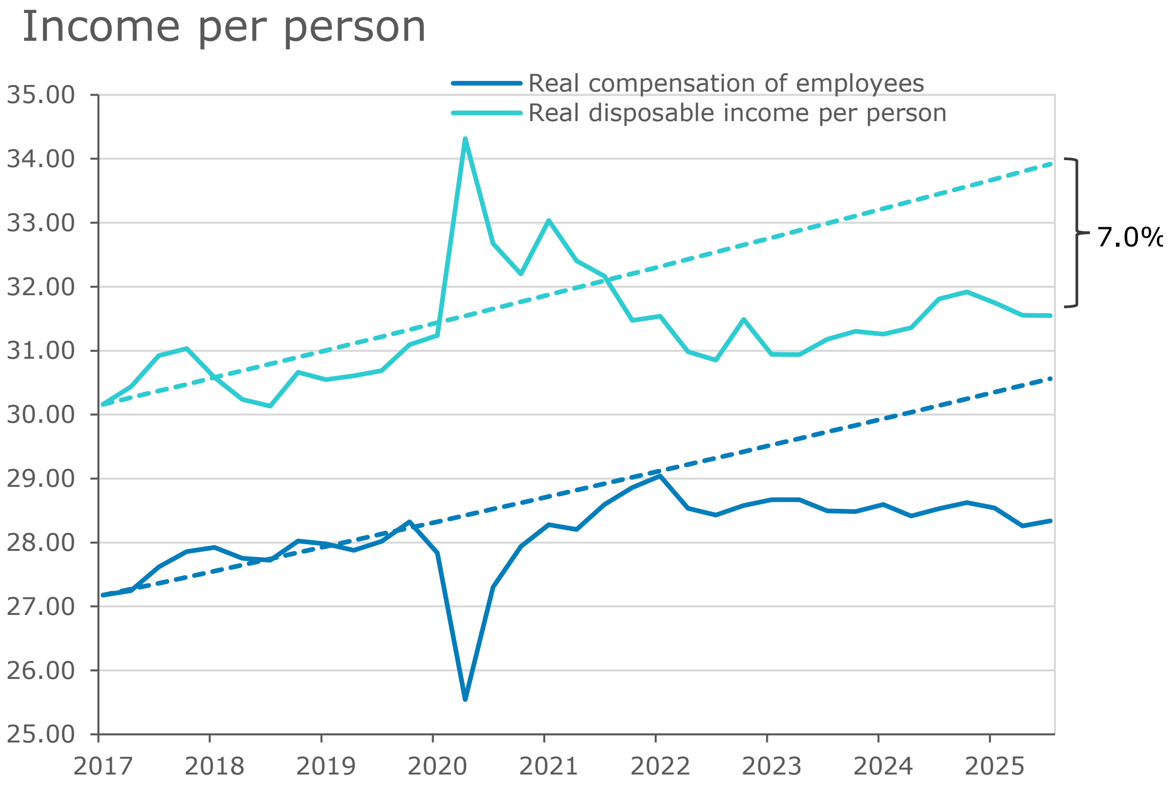
Population growth is slowing quickly

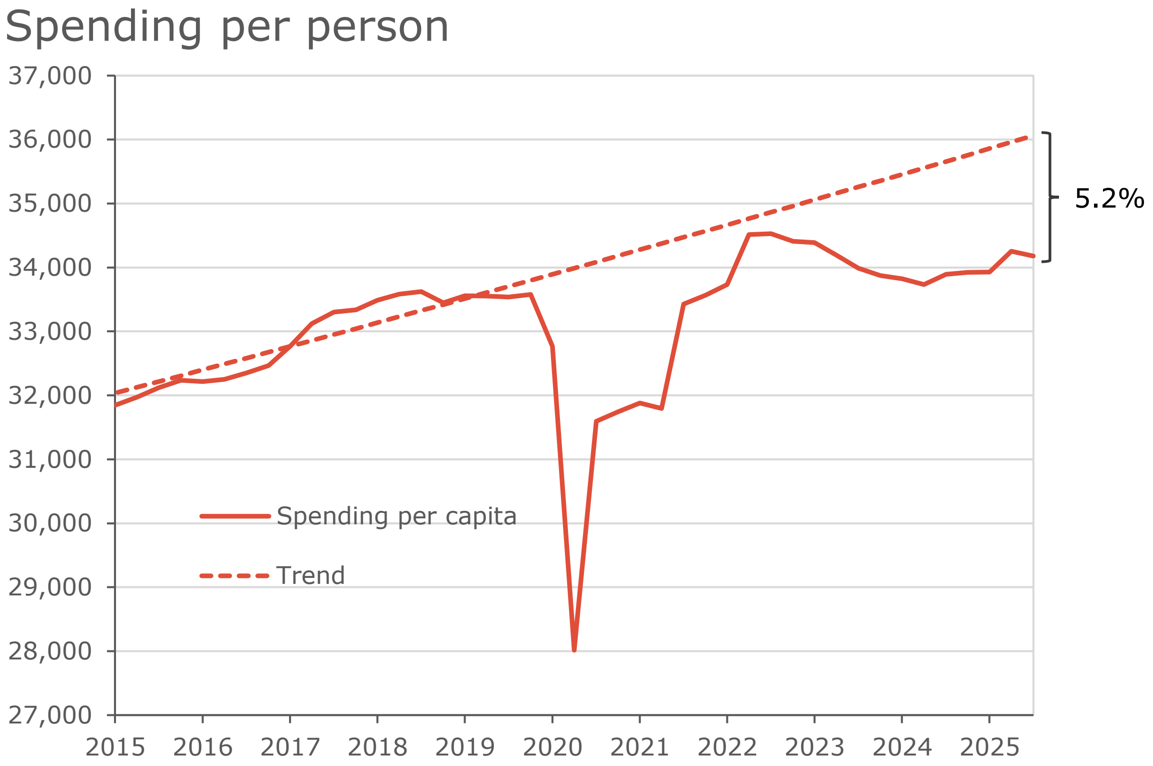


- Population growth is slowing rapidly, from a pace of 3.5% per year in early 2024 to 0.2% currently.
- As a result, potential growth is also very close to 0 and dependent on productivity growth, which has been weak.

Source: Statistics Canada, Alberta Central

Purchasing power is stagnating



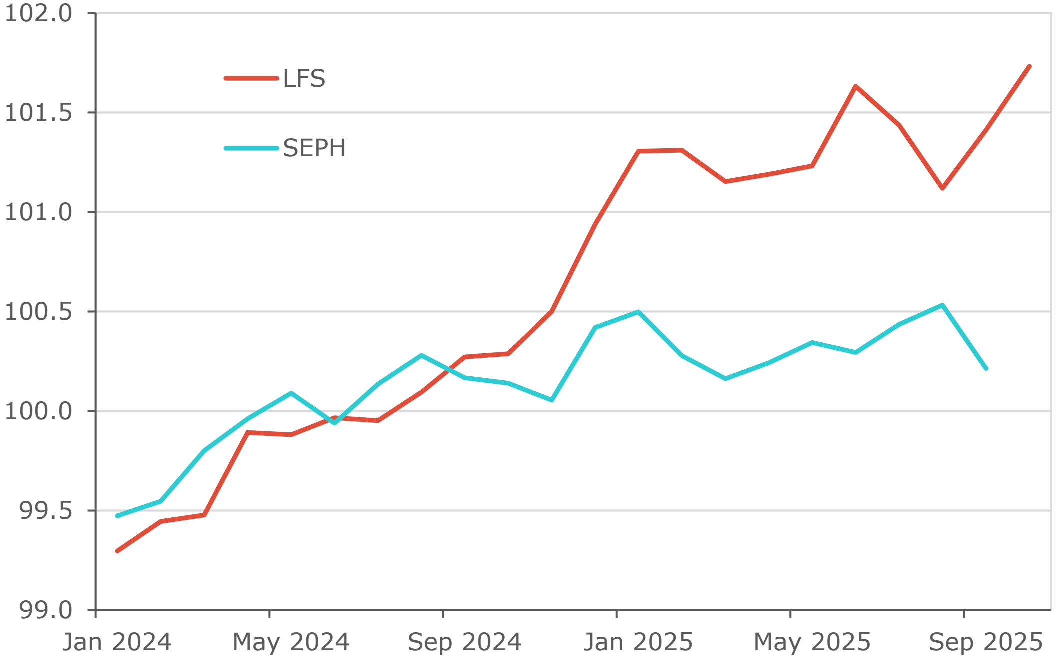


- Canadian’s purchasing power is about 7.0% lower than where it should be, as measured by real disposable income per capita, resulting in spending underperformance.
- Households are falling behind and feeling it; feeding into weak economic sentiment and stagnant spending.

Source: Statistics Canada, Alberta Central

A weak labour market

Employment (index: 2019=100)



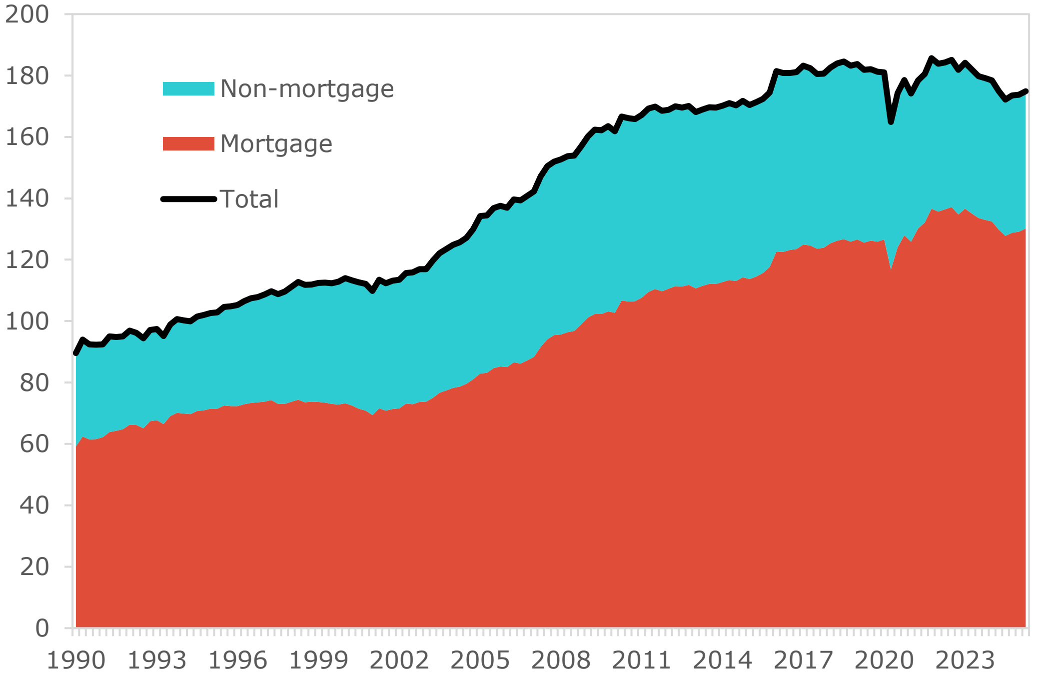
Unemployment rate (%)

- Weak economic activity and high uncertainty have led to only a very modest job gains in 2025 and a rise the unemployment rate, to its highest since 2016.
- Whether Canada experiences a recession will likely depend on whether prolonged uncertainty and weak growth leads to job losses.

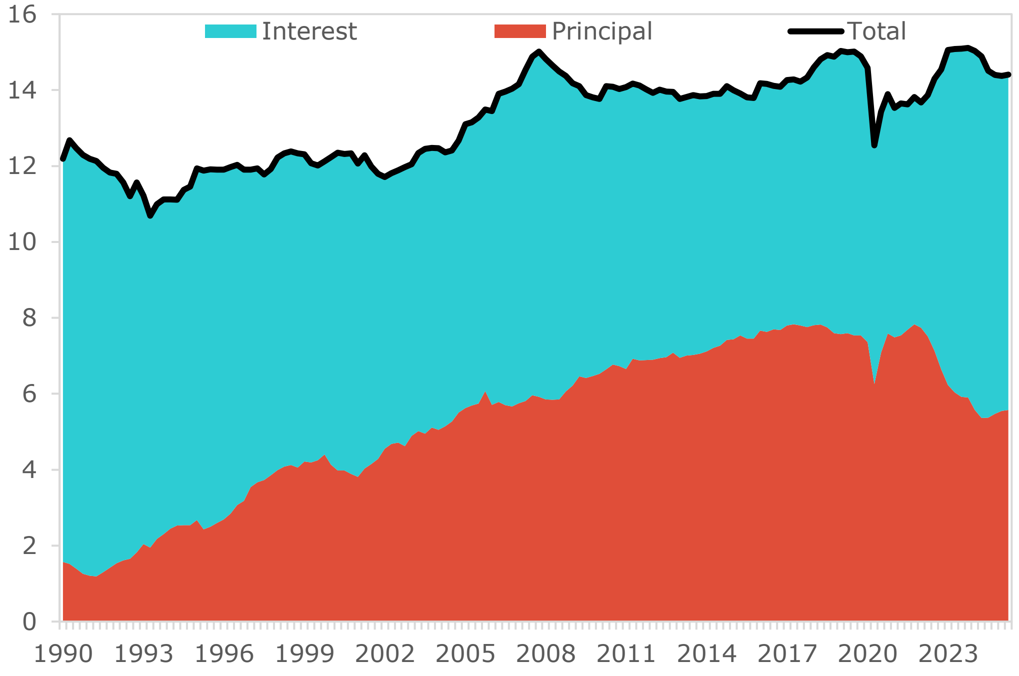
Source: Statistics Canada, Alberta Central

Households are vulnerable to job losses

Debt-to-disposable income (%)



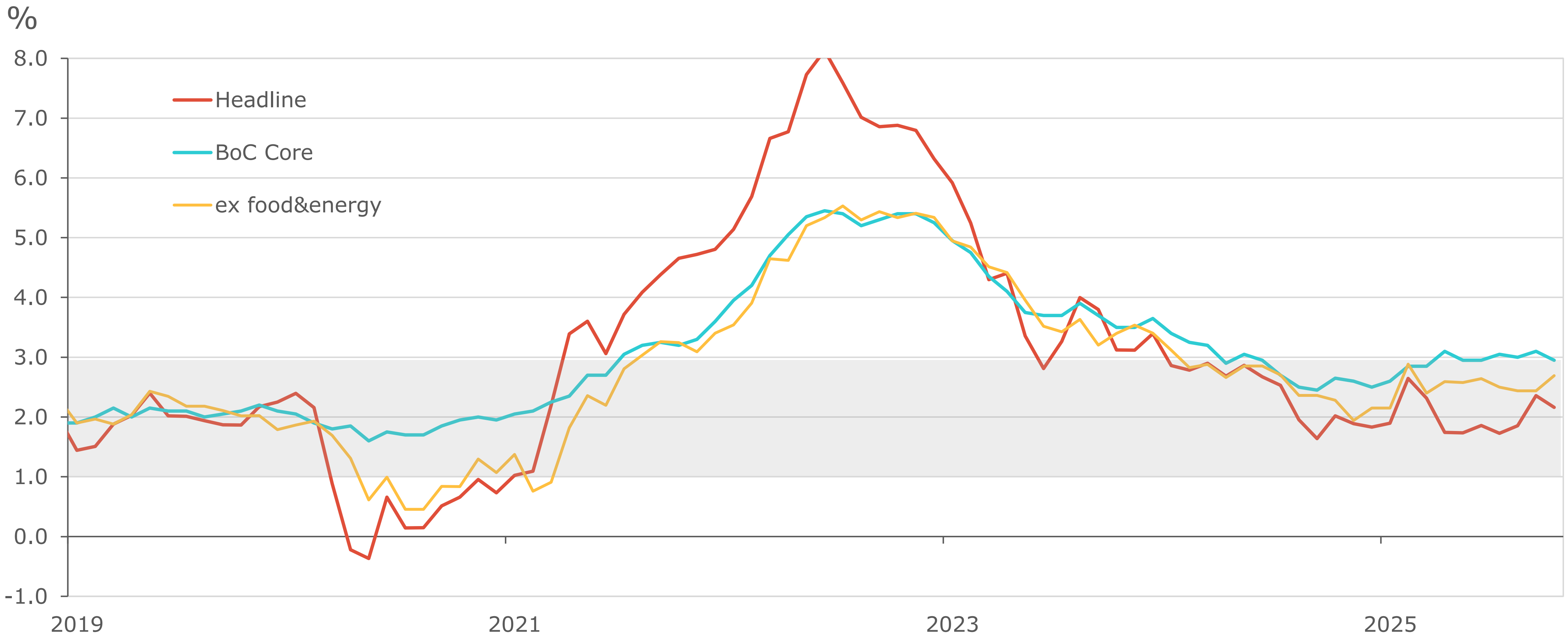
Debt-service ratio (%)



- High indebtedness and the associated high debt-service ratio make households vulnerable to a decline in income.
- Continued high interest rates continue to put pressure, as some households refinance their mortgage at higher interest rates (by 175bp to 200bp).

Source: Statistics Canada, Alberta Central

Inflation is showing some persistence

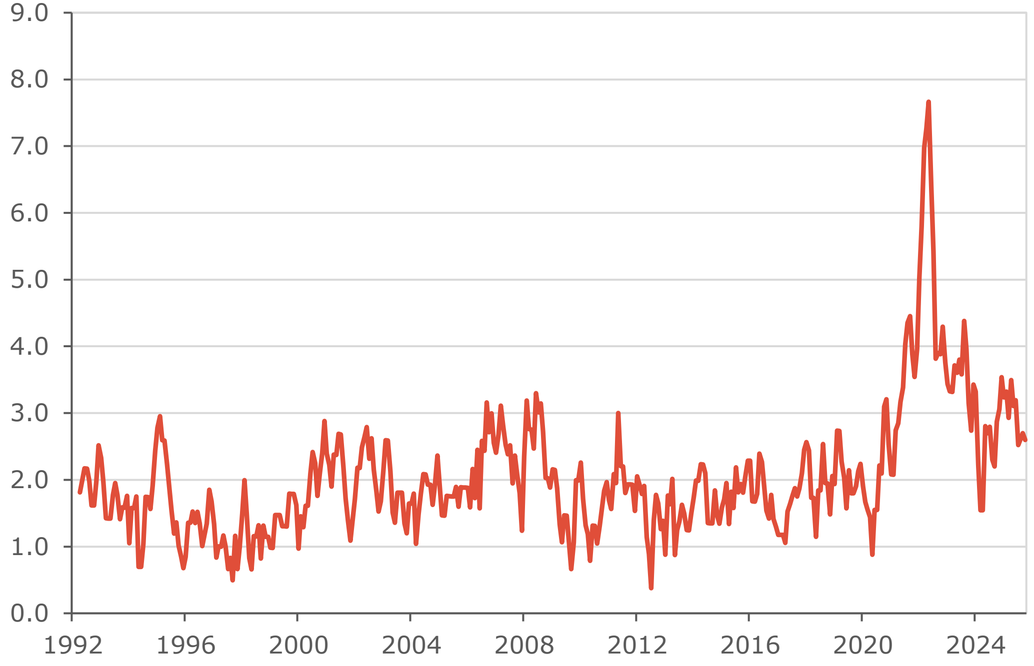


- Inflation is at target at 1.7%. Changes in taxes (GST, Carbon Tax) have led to volatile inflation in recent months, but hasn't change the underlying trends.
- Various measures of core inflation are at or slightly below 3%.

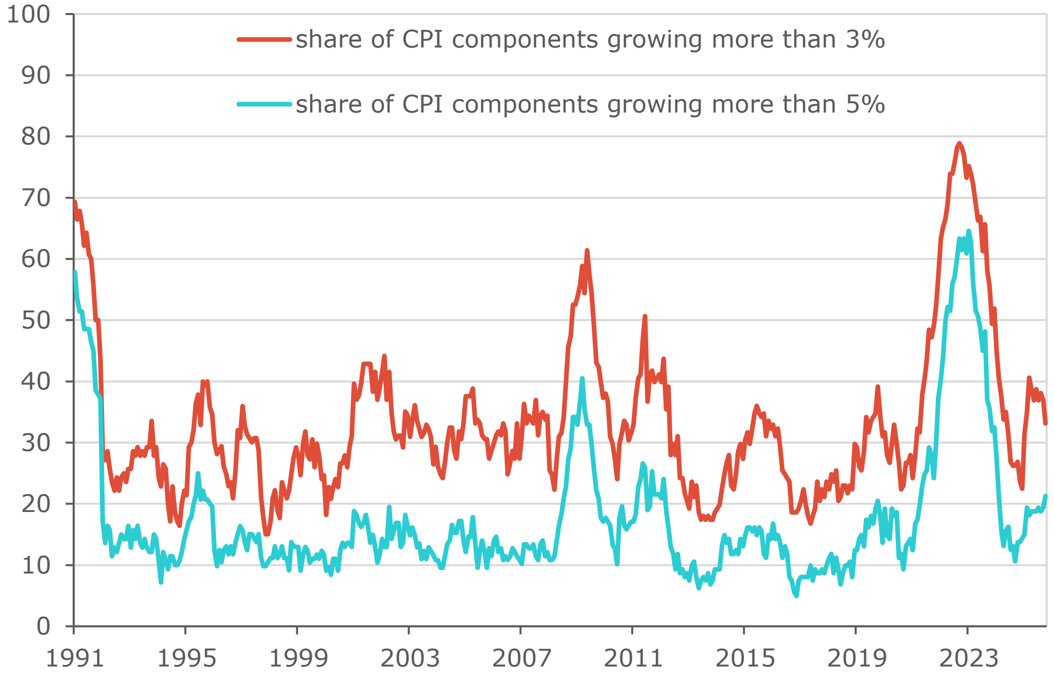
Source: Statistics Canada, Alberta Central

What is the BoC focusing on?

Core inflation momentum (% 3m/3m ann.)



Breadth of inflationary pressures

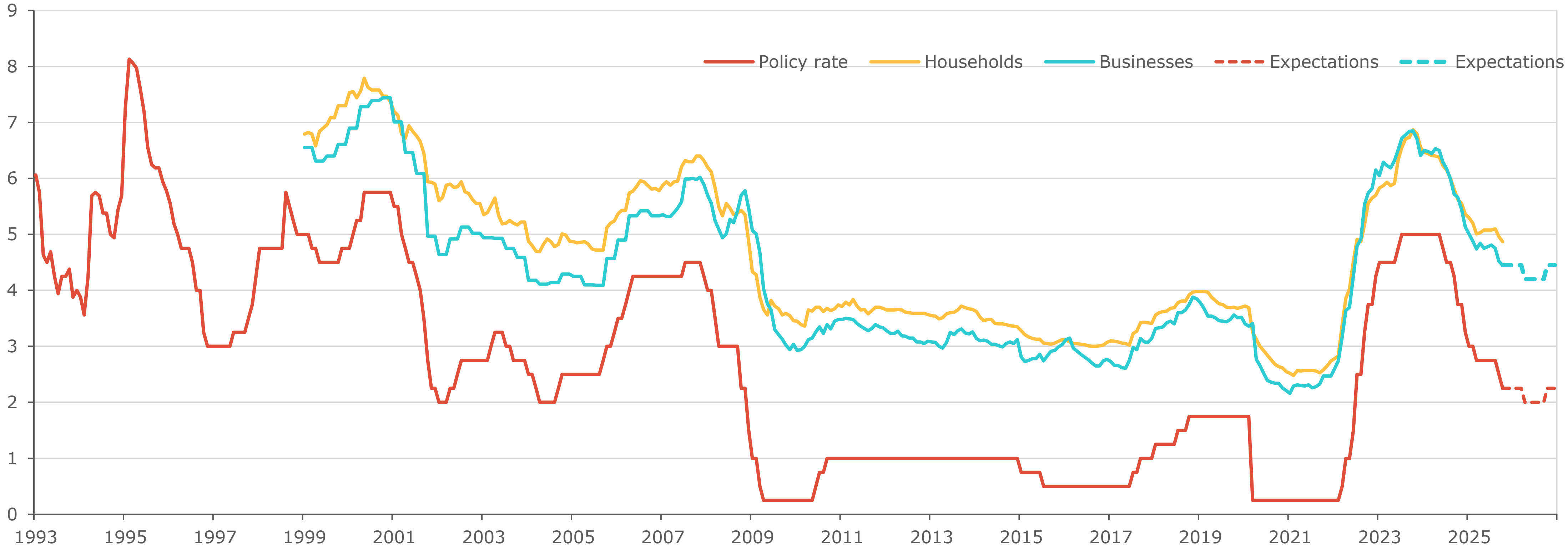


- Inflation momentum, as measured by the 3-month on 3-month annualized change in prices, suggests price pressures are slightly above target
- The broadness of inflation is higher than historical norms and is likely a concern for the BoC.

Source: Statistics Canada, Bank of Canada, Alberta Central

Where’s the terminal rate?

%

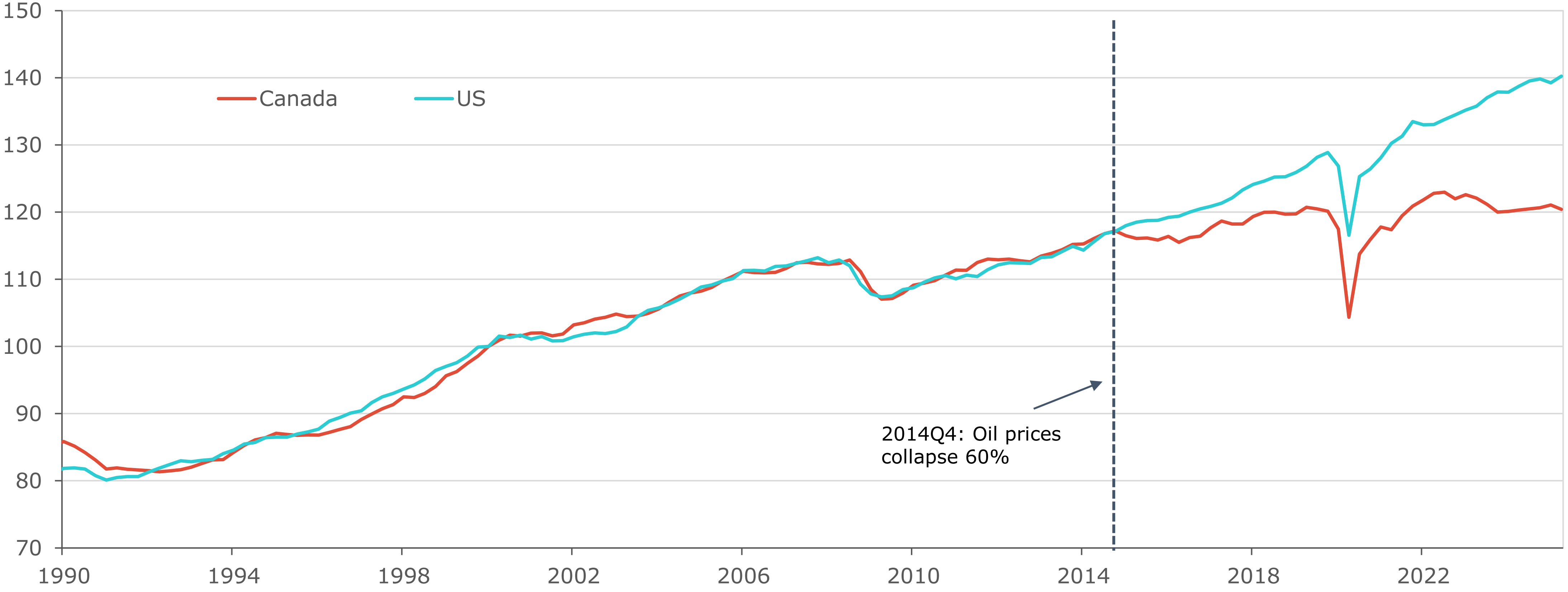


- The BoC is expected to cut its policy rate twice this year (50bp) to support the economy
- However, interest rates will remain above levels seen during the decade that preceded the pandemic.

Source: Bank of Canada, Alberta Central

Canada is falling behind

GDP per Capita (index: 2000=100)

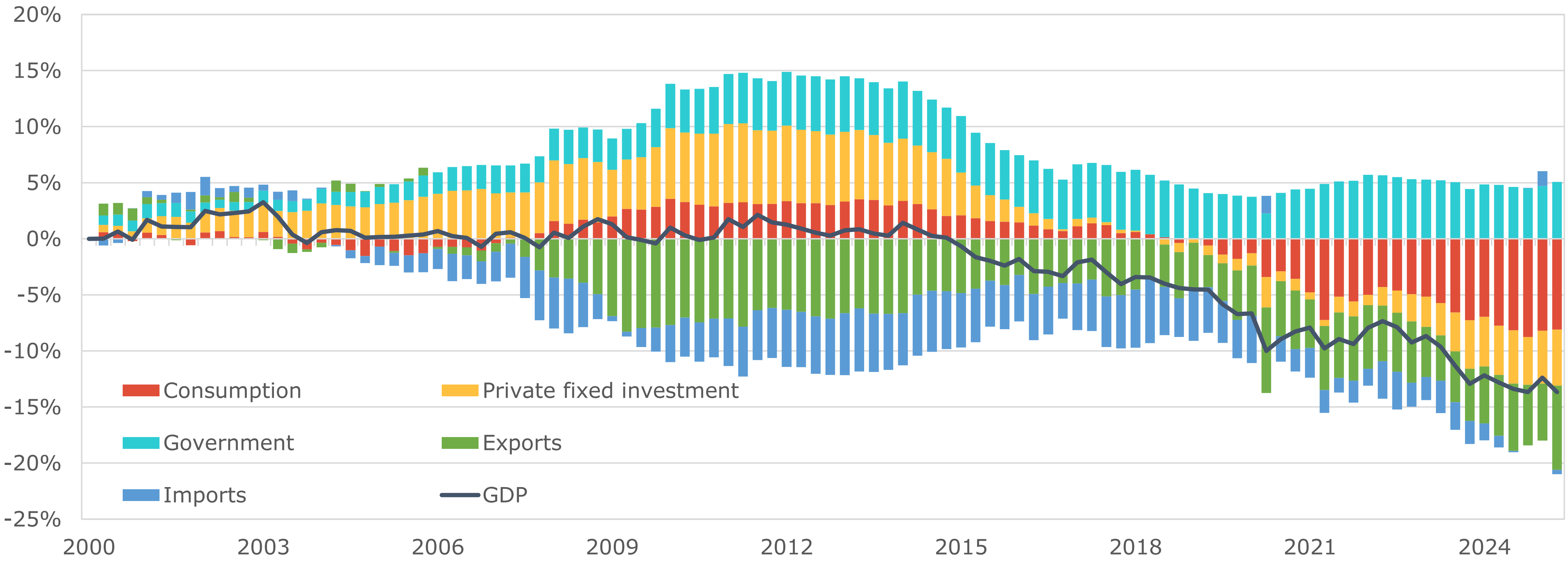


- Canada has underperformed the US since end-2014.
- The collapse in oil prices in late 2014 seems like the trigger, not change in government.

Source: Statistics Canada, Alberta Central

The oil boom hid Canada's economic mediocrity

Decomposition of the relative GDP per capita US vs Canada – Canadian drivers only

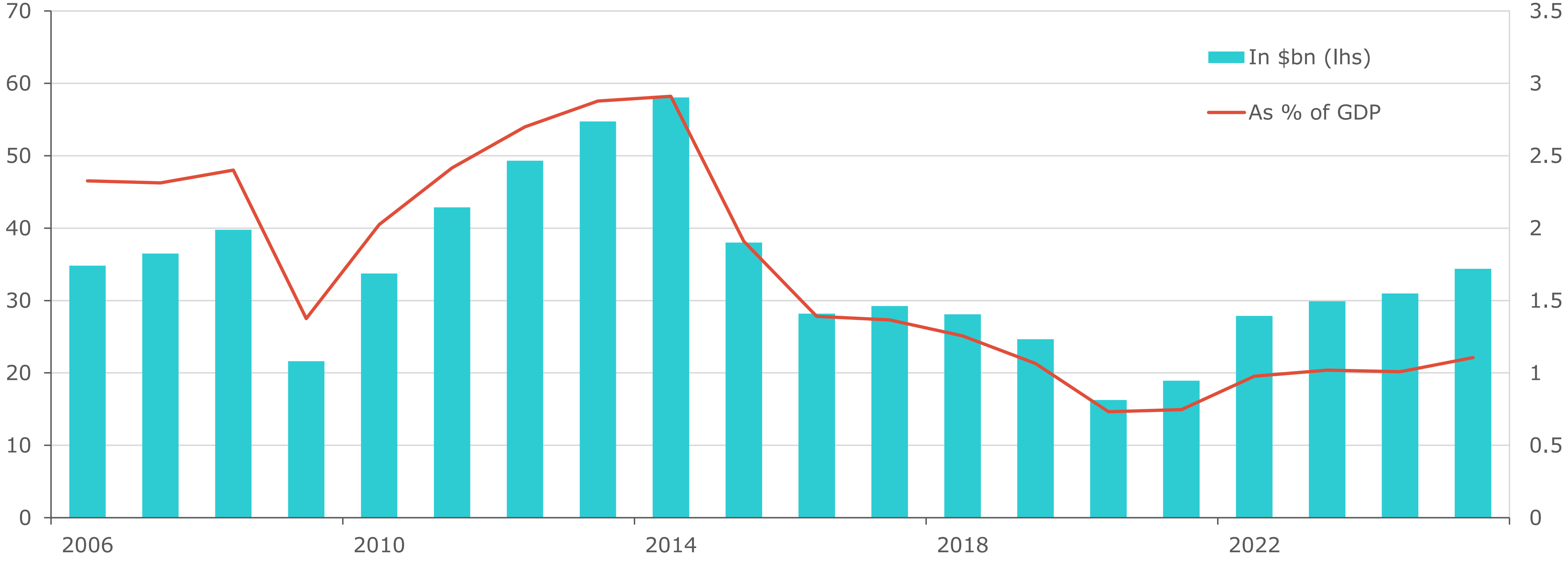


- The oil boom that ended in 2014 hid the mediocre performance in the rest of the economy.
- Without any sector to drive its prosperity, GDP per capita in Canada has persistently underperformed the US.

Source: Statistics Canada, BEA, Alberta Central

Capex is growing but well below 2014 levels

Investment by the oil and gas sector ($bn)

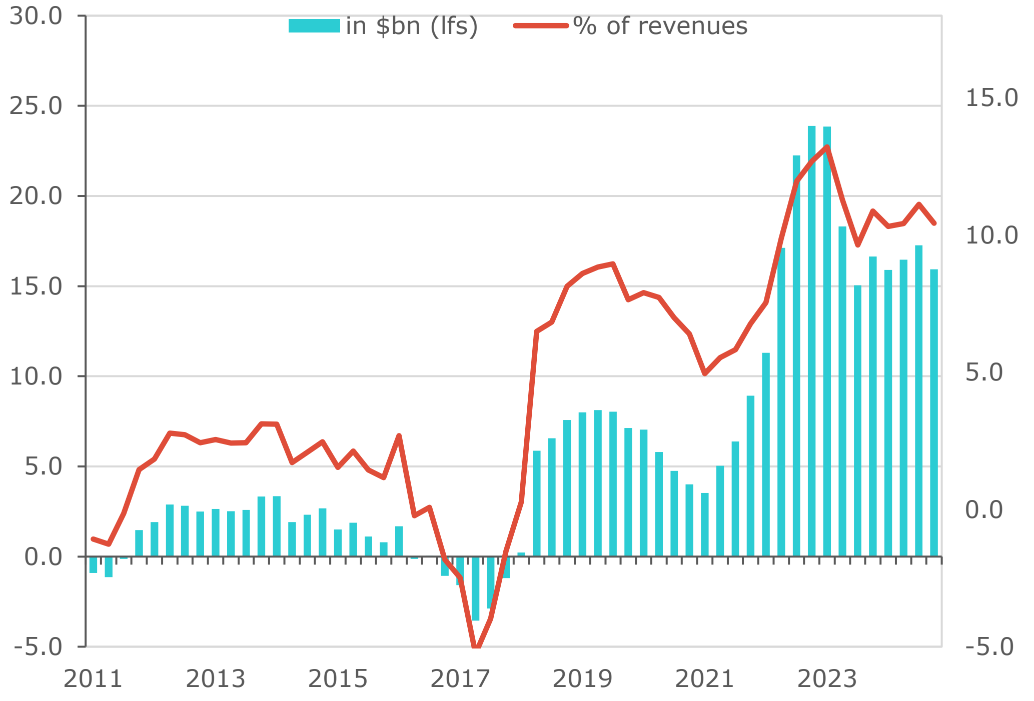


- Oil and gas producers are increasing their amount of Capex, which is a positive for the economy. However, the level of investment remains significantly below the peak in 2014 by almost 50%.
- Less revenues staying in Canada and small economic multiplier.

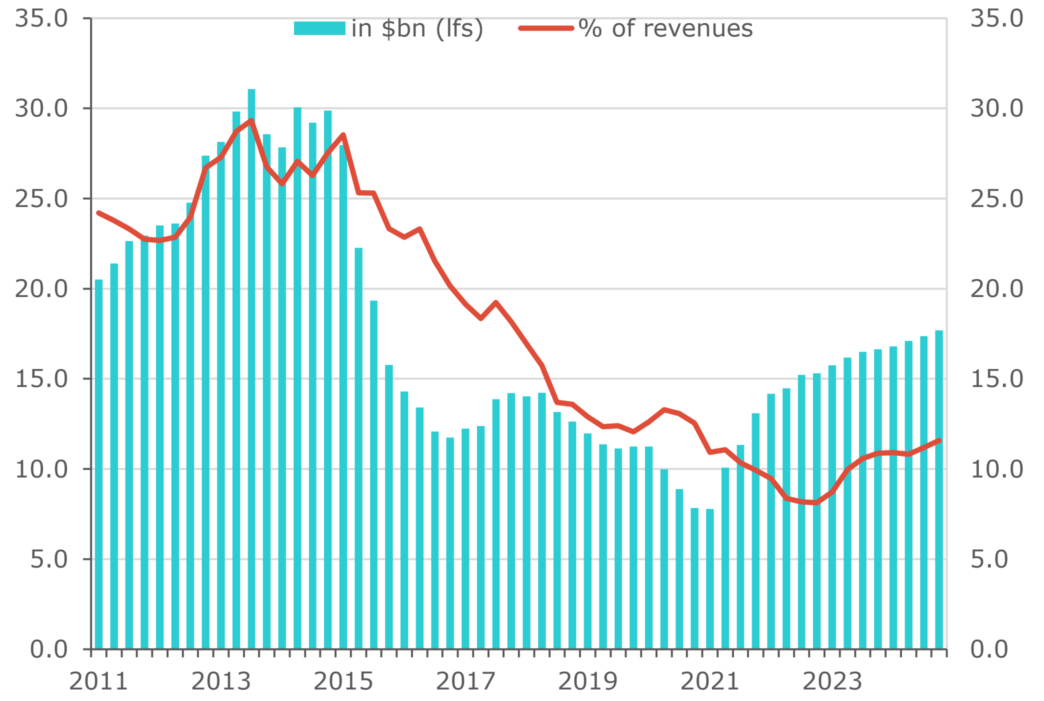
Source: Statistics Canada, Alberta Central

Less oil revenues staying in Canada

Revenues returned to shareholders (4Q sum)



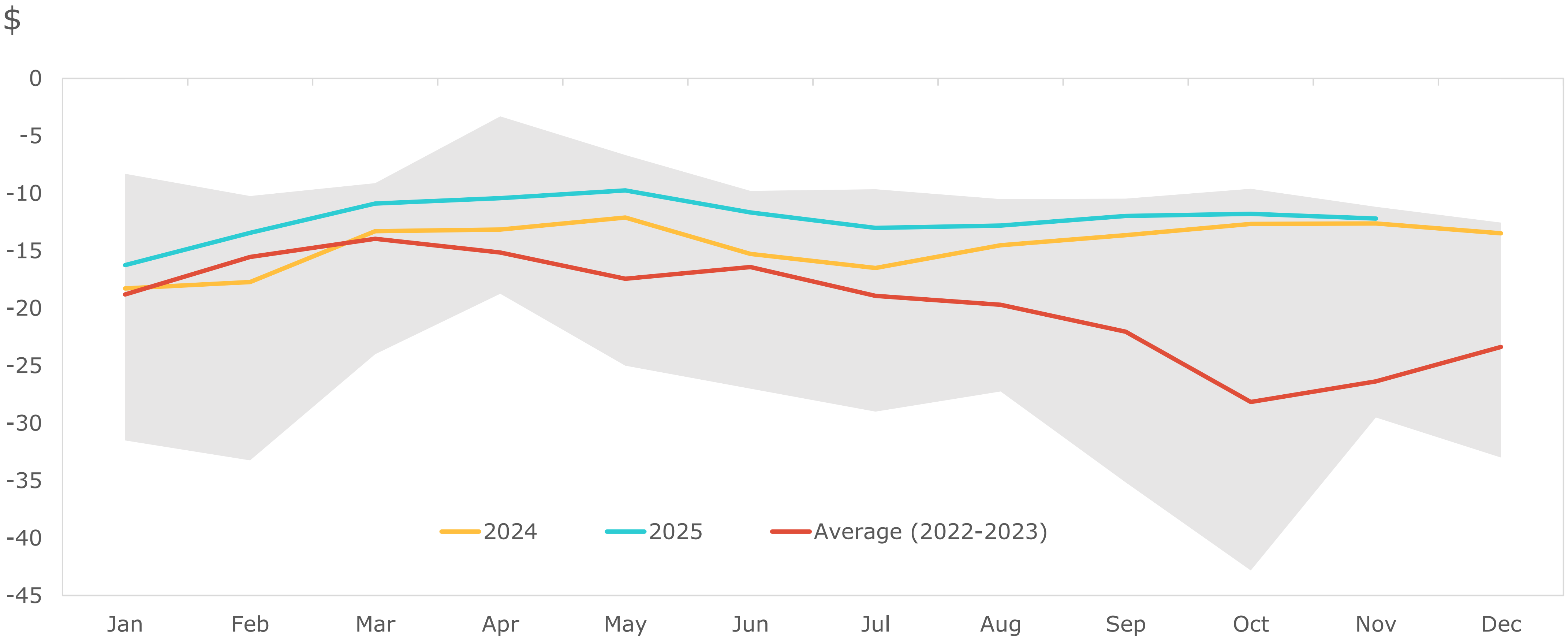
CAPEX (4Q sum)



- A greater share of revenues is being returned to shareholders, 80% of whom are not Canadians.
- A smaller share of revenues is being reinvested in current operations.
- This explains why the Canadian dollar is less sensitive to oil price fluctuations.

Source: Bloomberg, Alberta Central

Canadian oil no longer selling at a discount

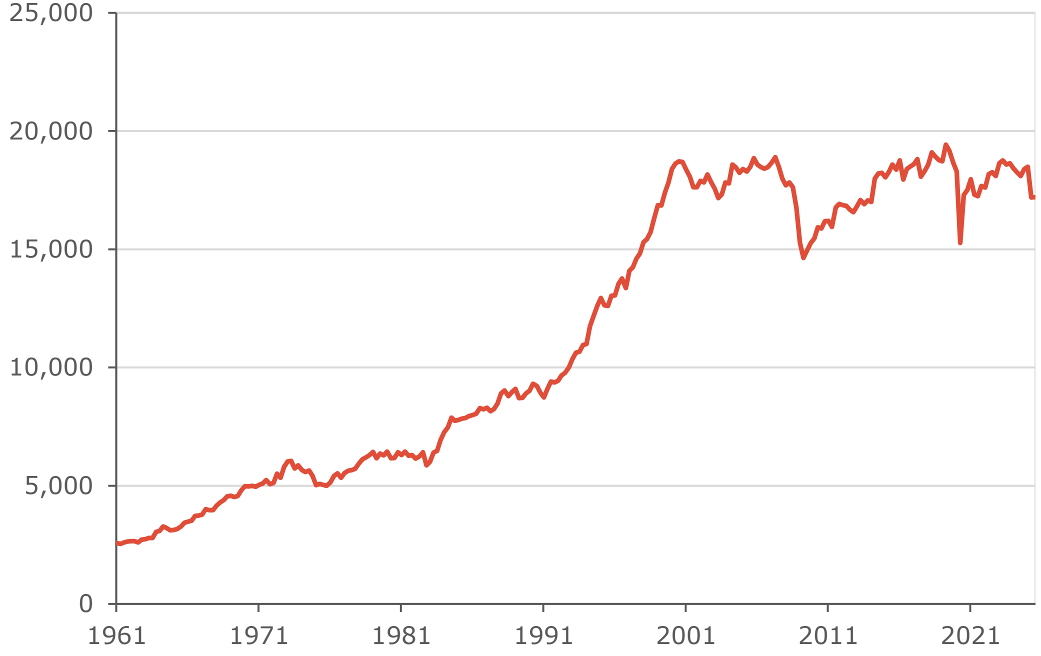


- Since the opening of the expanded TMX, Canadian oil is selling close to its fair value relative to WTI.
- The narrower differential translates into an extra C$13bn in revenue over the past year, equivalent to almost an extra month and half of production

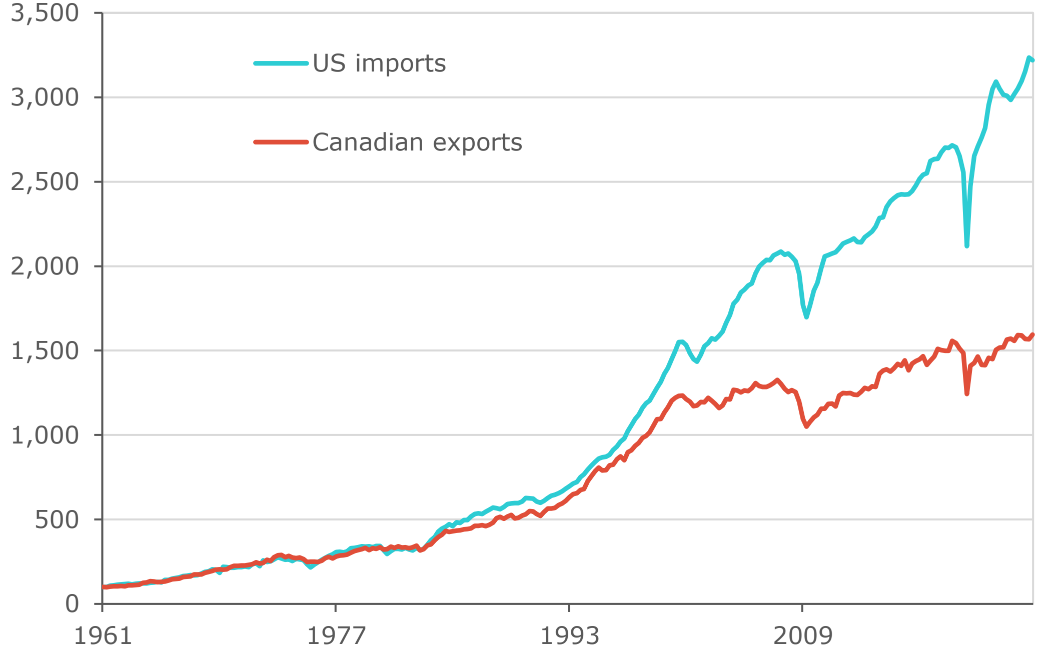
Source: Statistics Canada, Alberta Central

Is Canada still a “trading nation”?

Exports per capita (C$)



Canadian exports vs US imports (Index: 1960=100)

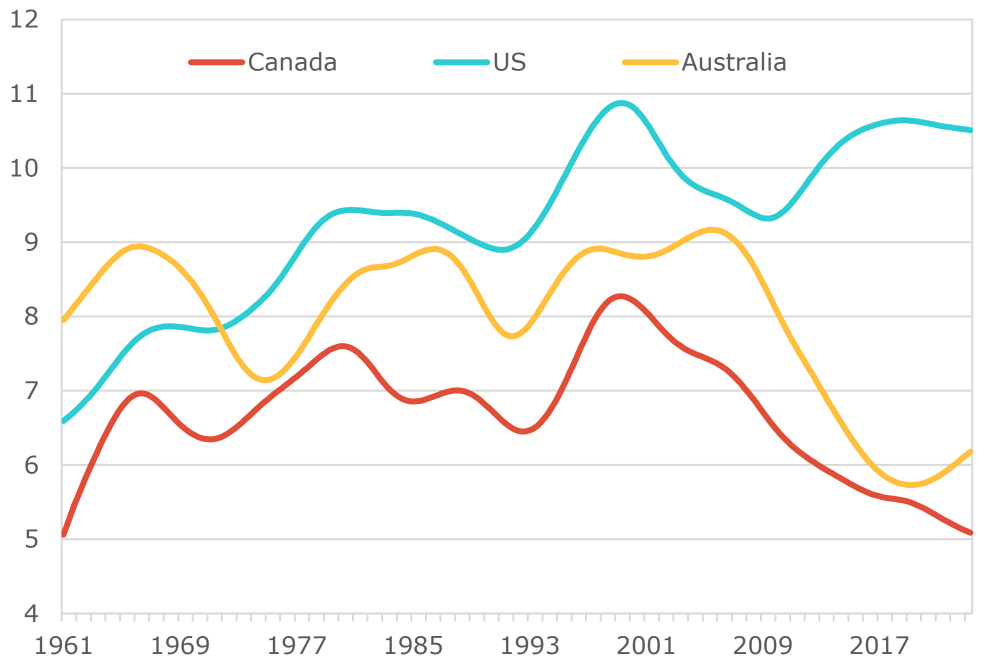


- Canada’s export sector has not contributed to its prosperity in more than 25 years. As a comparison, about half of the increase in GDP per capita between 1960 and 2000 came from exports.
- Exports have dramatically underperformed increasing demand from the US over the past three decades.

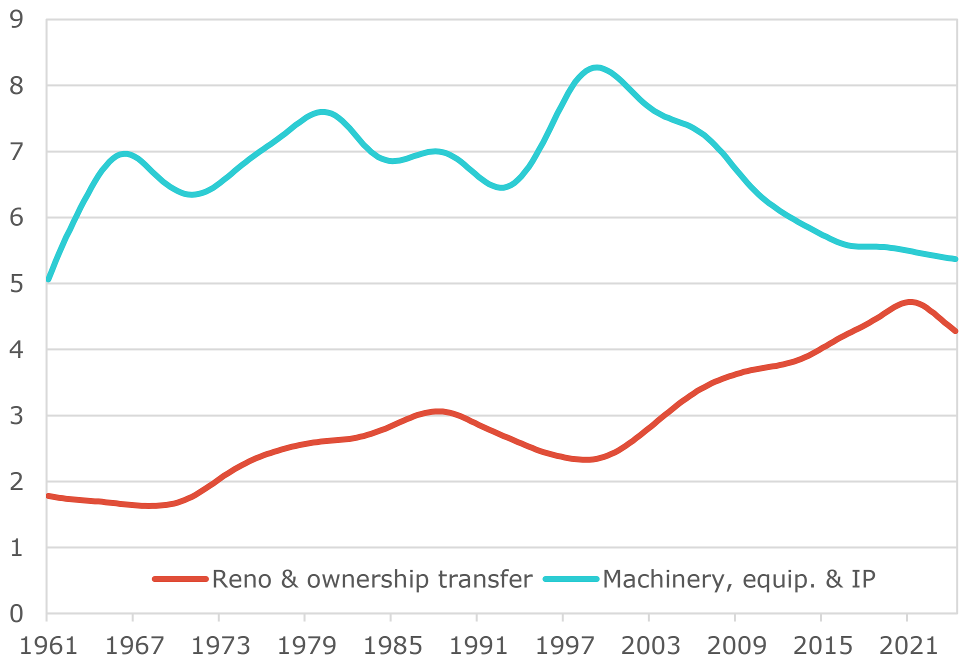
Source: Statistics Canada, BEA, Alberta Central

Weak productive investment

Invest. in machine, equip. and IP (% of GDP)



Investment (% of GDP)



- Canada has persistently invested a smaller share of its GDP in productive investment.
- The country is spending almost as much as a share of GDP on home renovation and ownership transfer costs than on machinery, equipment and IP.

Source: Statistics Canada, Alberta Central

Competition for scarce resources and crowding out

Saving = Investment

Domestic Foreign

4 million homes @375k each = **$1.5 trillion**

4 million homes @500k each = **$2 trillion**

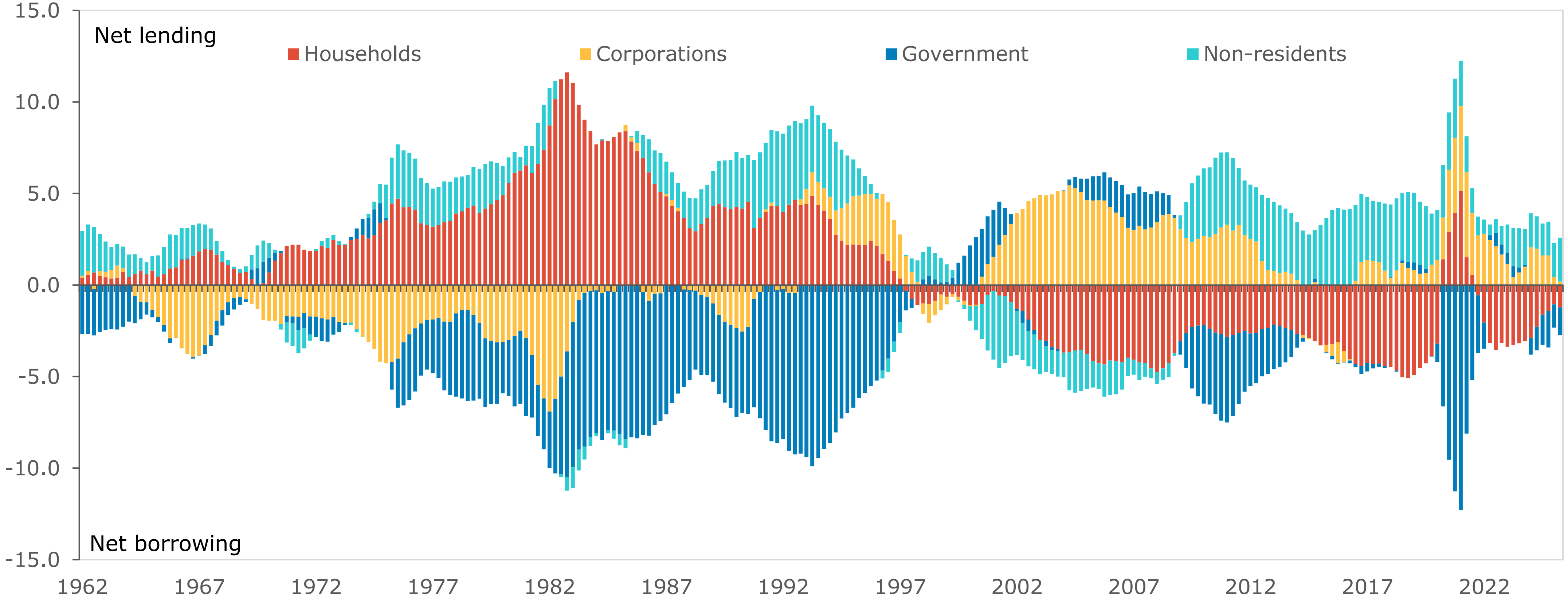
About 5% to 7% of GDP per year, double the current level

Competition for the available savings between the various needs:

- Residential
- Infrastructure
- Machinery & equipment
- R&D, IP
- Household borrowing
- Government (e.g. defence)

Net lending/borrowing

% GDP



- Households will need to start to be net lenders to finance the needed borrowing required.
- Higher interest rates will be needed to entice them to save/repay debt and/or to attract foreign capital.

Source: Statistics Canada, Alberta Central

Q&A

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