

Economic & Financial Outlook

Charting a Course Through the Fog of the Trade War

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September 8, 2025



Economic & Financial Outlook

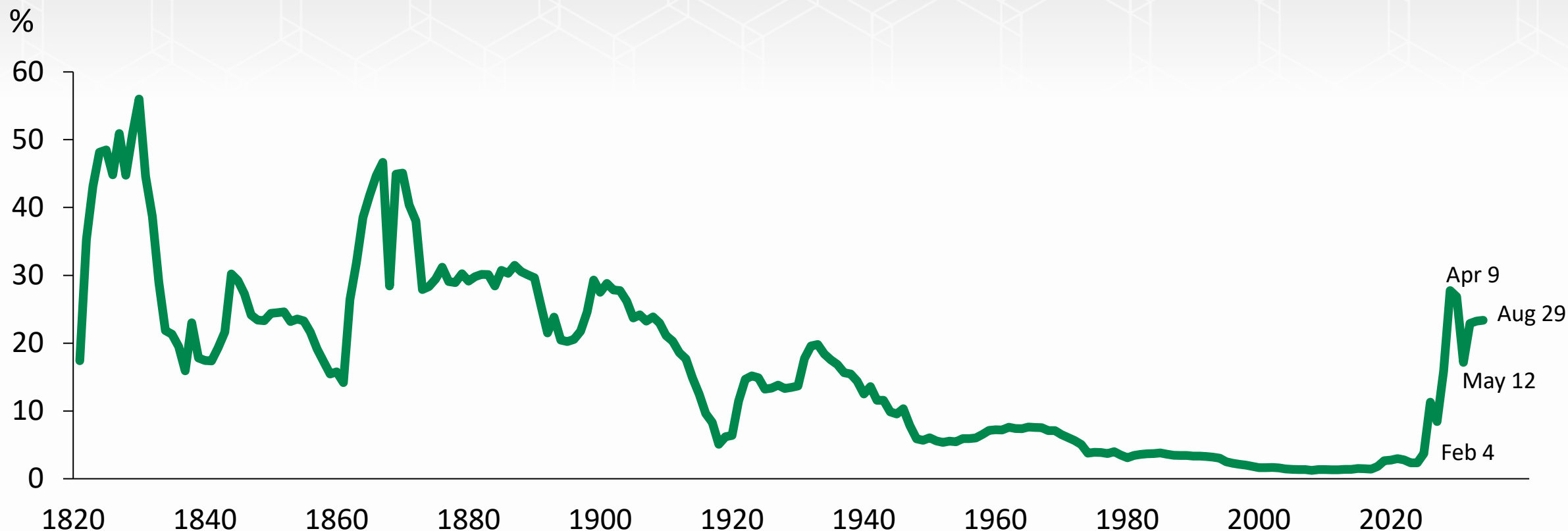
Charting a Course Through the Fog of the Trade War

- Tariffs and other US policy uncertainty are weighing on the outlook
- Central banks are trying to balance slower growth and higher inflation
- Households are struggling with high housing and borrowing costs
- Business investment should pick up as uncertainty fades

US TARIFFS

US Tariffs Remain at the Highest Level in a Century

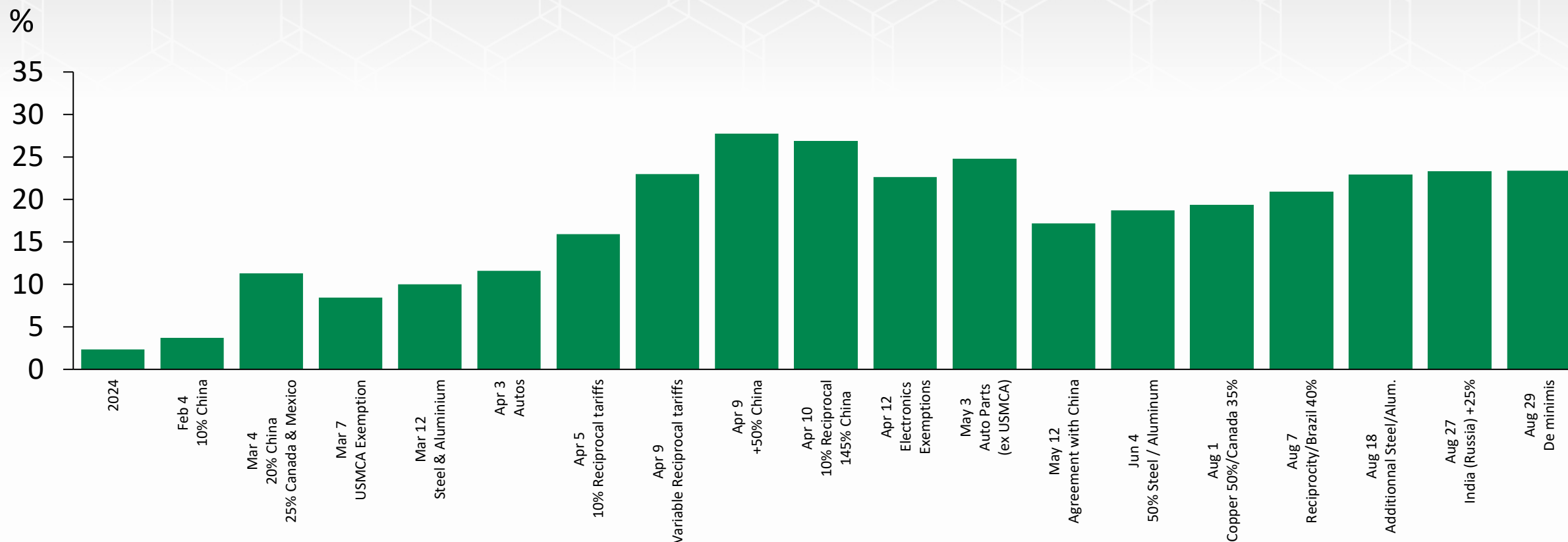
US effective tariff rate



US TARIFFS

Recent Trade Deals Have Done Little to Reduce the Effective Tariff Rate

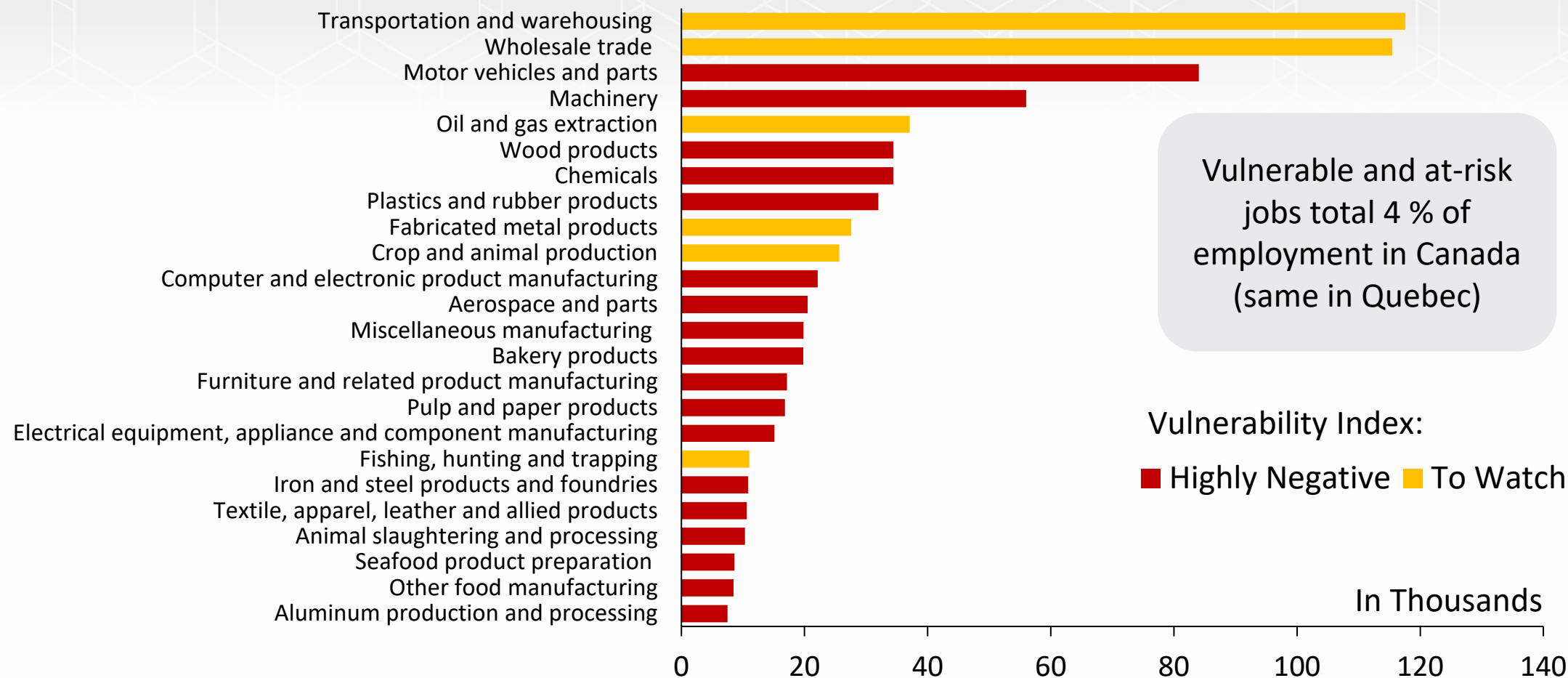
US effective tariff rate



CANADA-US TRADE

The Most Exposed and Vulnerable Jobs Are Concentrated in Manufacturing

Vulnerable and at-risk jobs (estimate)*, Canada, 2023



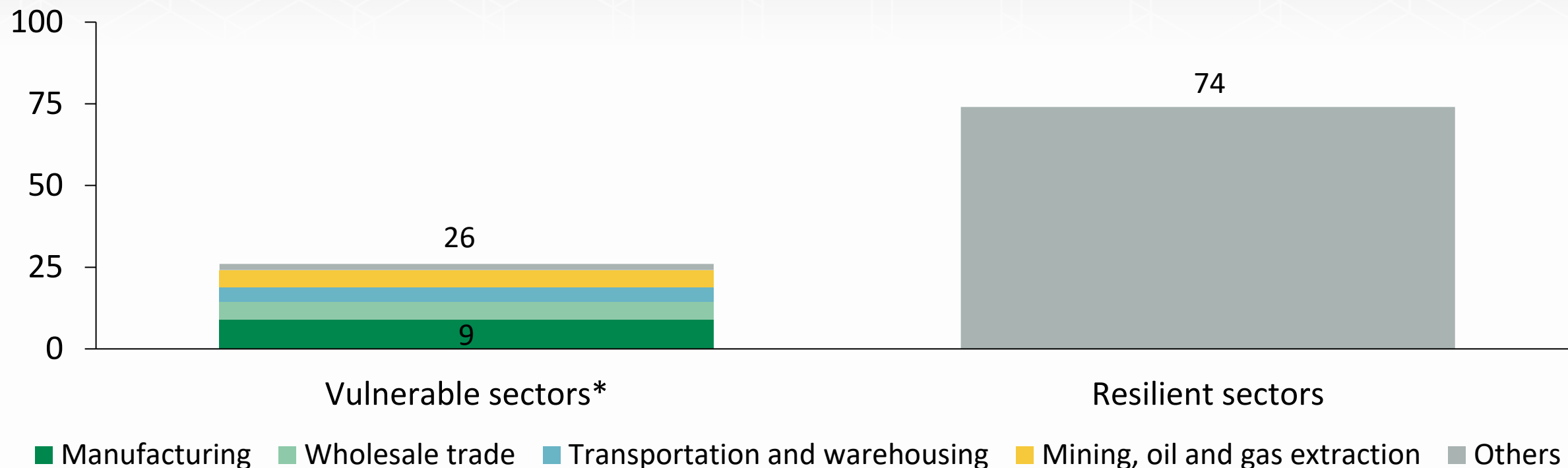
* Estimate based on the proportion of an industry's production that depends on exports to the United States, multiplied by the number of jobs in that industry.
Statistics Canada (SEPH) and Desjardins Economic Studies

CANADA-US TRADE

Three-Quarters of the Canadian Economy Is Made Up of Sectors That Are Resilient to American Tariffs

Proportion of GDP by sector, Canada, 2024

% of GDP

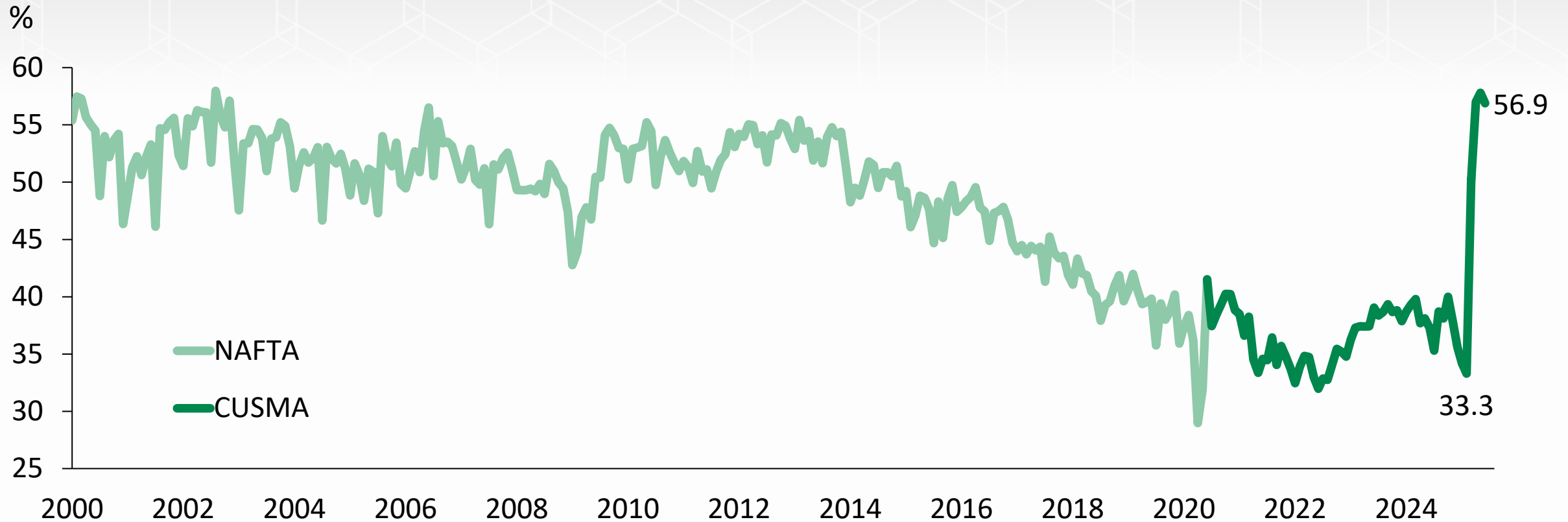


*Vulnerable sectors are those that risk a significant decrease in their revenues as a result of American tariffs targeting Canada and Mexico.

CANADA-US TRADE

The Proportion of CUSMA-compliant Exports from Canada has Increased

Proportion of US imports from Canada that comply with NAFTA or CUSMA



NAFTA: North American Free Trade Agreement (January 1994 – June 2020); CUSMA: Canada-United States-Mexico Agreement (since July 2020)

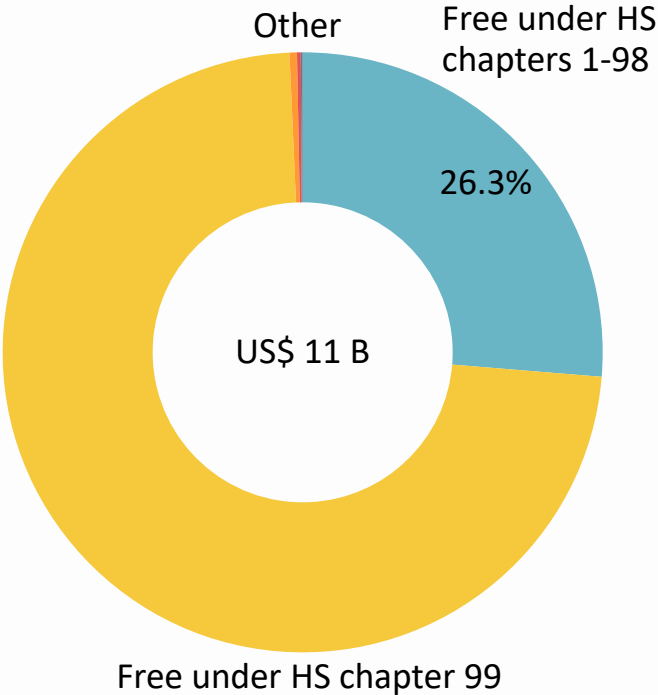
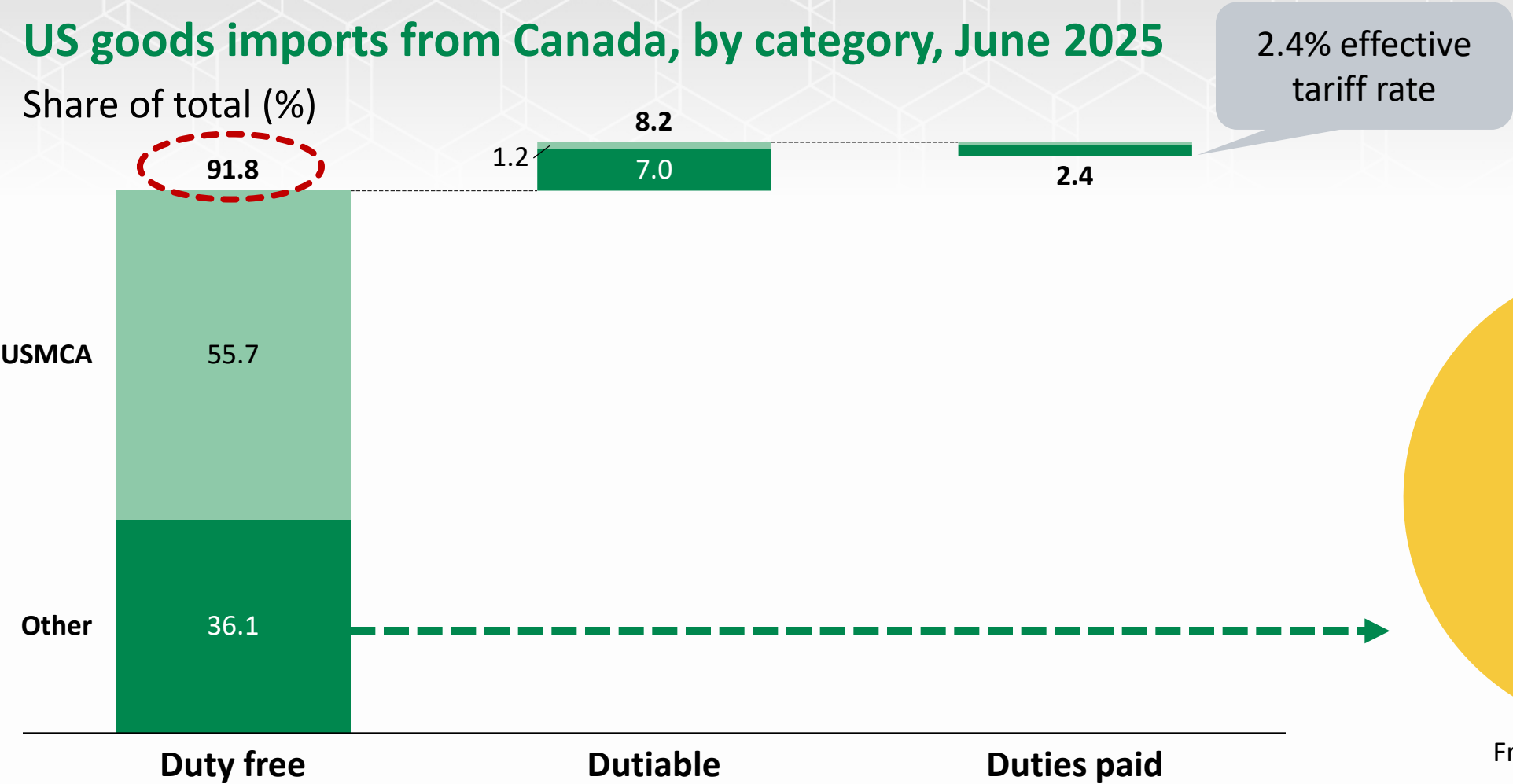
U.S. International Trade Commission and Desjardins Economics

CANADA-US TRADE

A Substantial Share of Canadian Exports Are Entering the US Duty Free

US goods imports from Canada, by category, June 2025

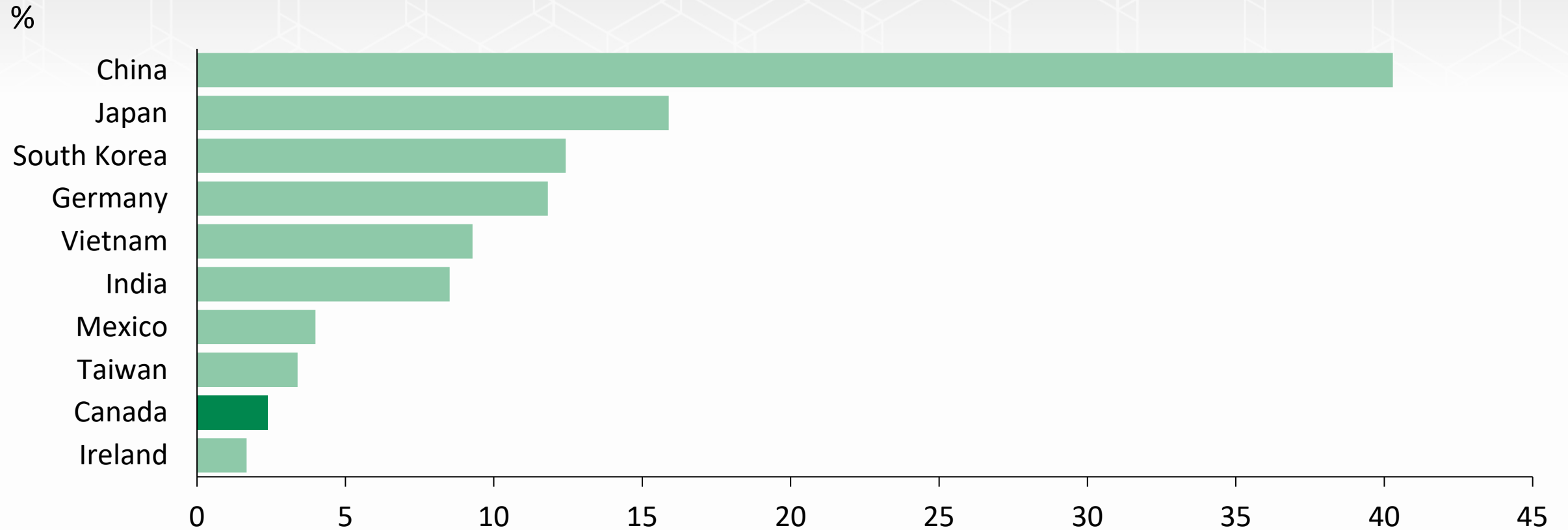
Share of total (%)



CANADA-US TRADE

Canada Has So Far Been Spared the Worst of US Tariffs

Effective tariff rates on US imports from countries with largest trade deficits

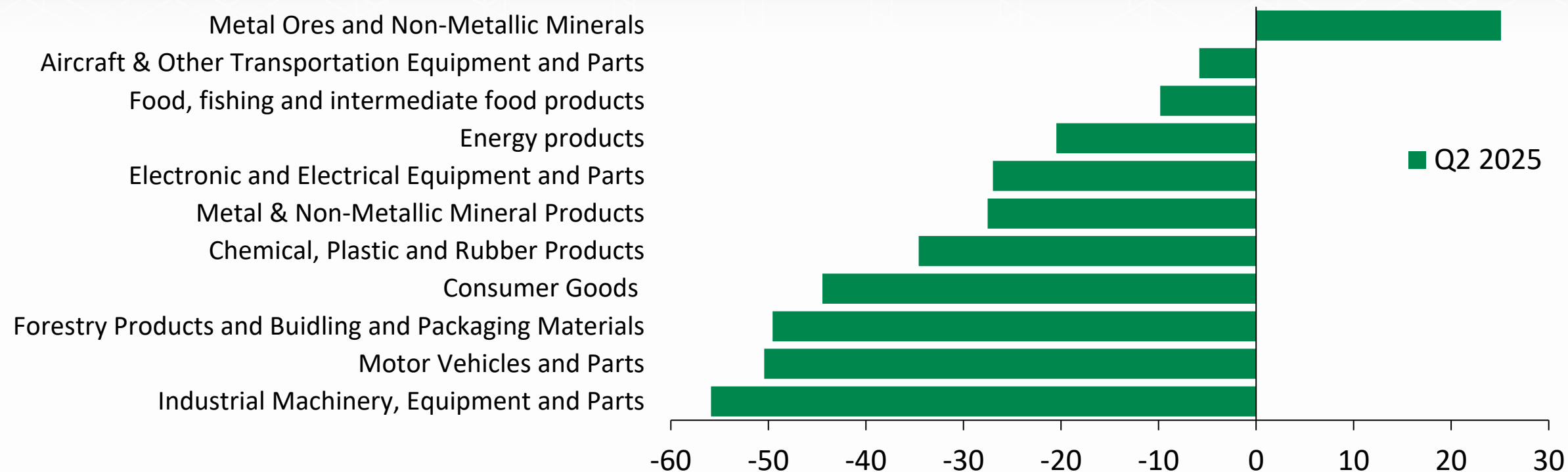


CANADA-US TRADE

Real Exports Dropped Like a Stone in Q2, Driven by Lower US Trade

Canadian real export growth

%, q/q, annualized rates

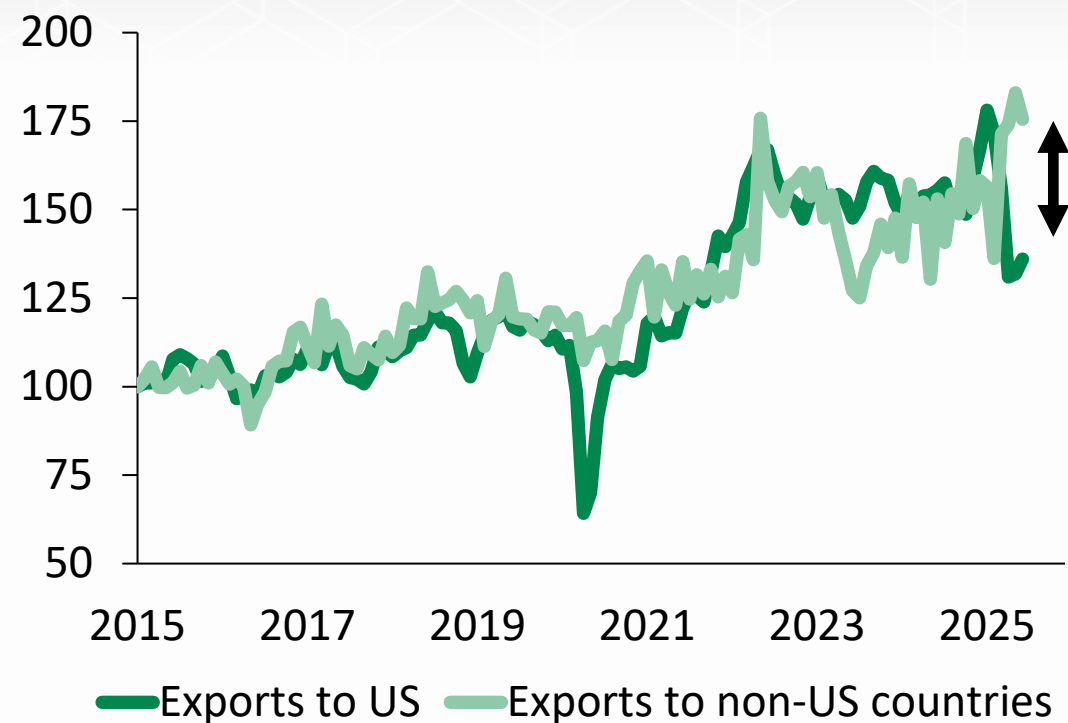


CANADA-US TRADE

Canadian Imports from the US Have Followed Exports Lower

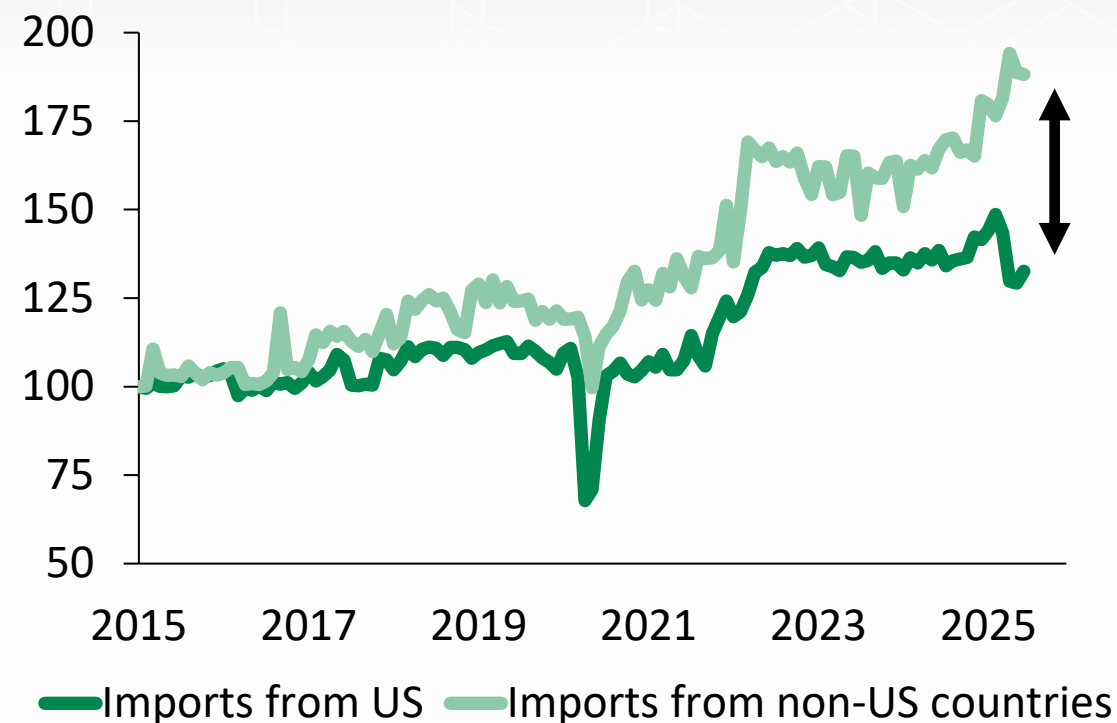
Canadian nominal exports by country

Index, Jan 2015 = 100



Canadian nominal imports by country

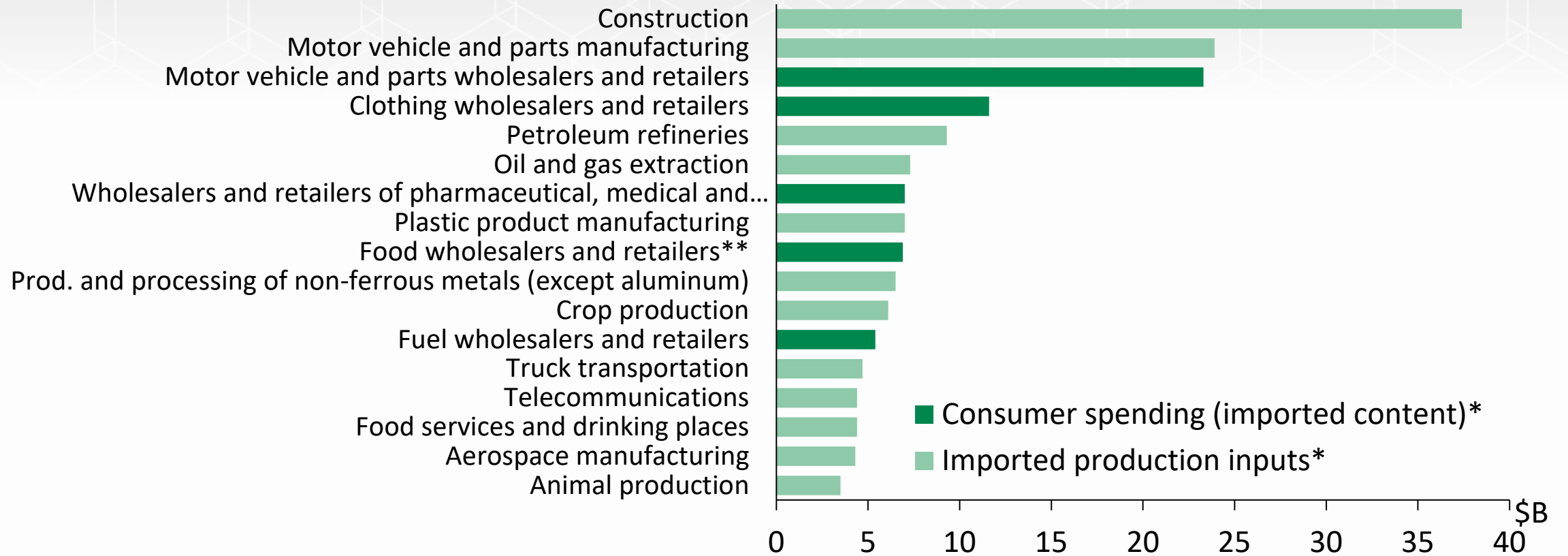
Index, Jan 2015 = 100



CANADA-US TRADE

The Construction Industry, Followed by Auto Manufacturing, Is the Most Exposed to Imports from the United States

Estimated content imported from the United States, by industry

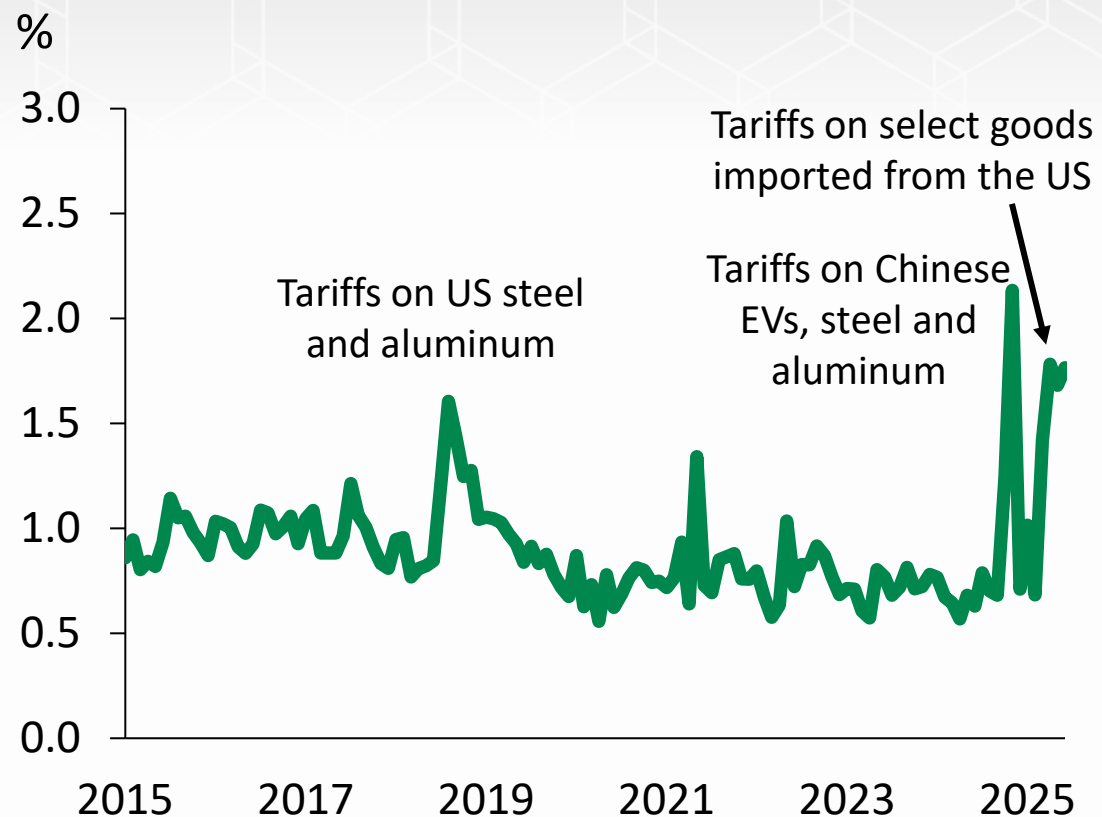


* Estimate (2022). Inputs include capital goods. ** Excluding consumer spending on food services.

CANADA-US TRADE

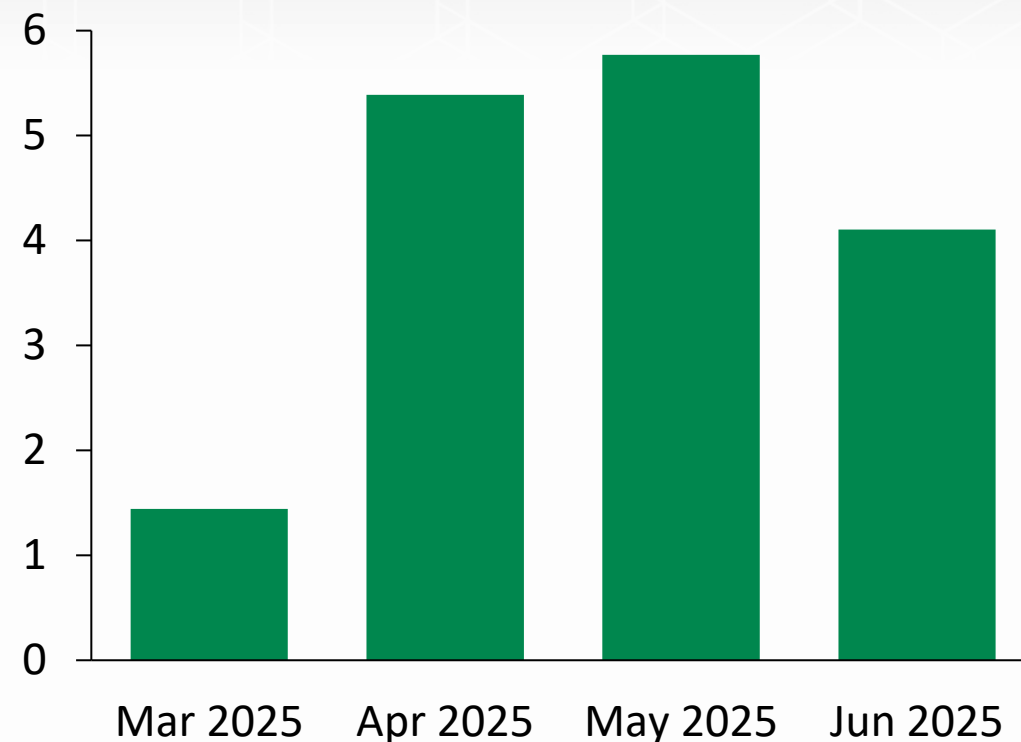
Canadian Tariffs on US Imports Are Biting but Increasingly Less So

Tax-revenue-inferred effective tariff rate*



Effective tariff rate on imports from US

Percentage points

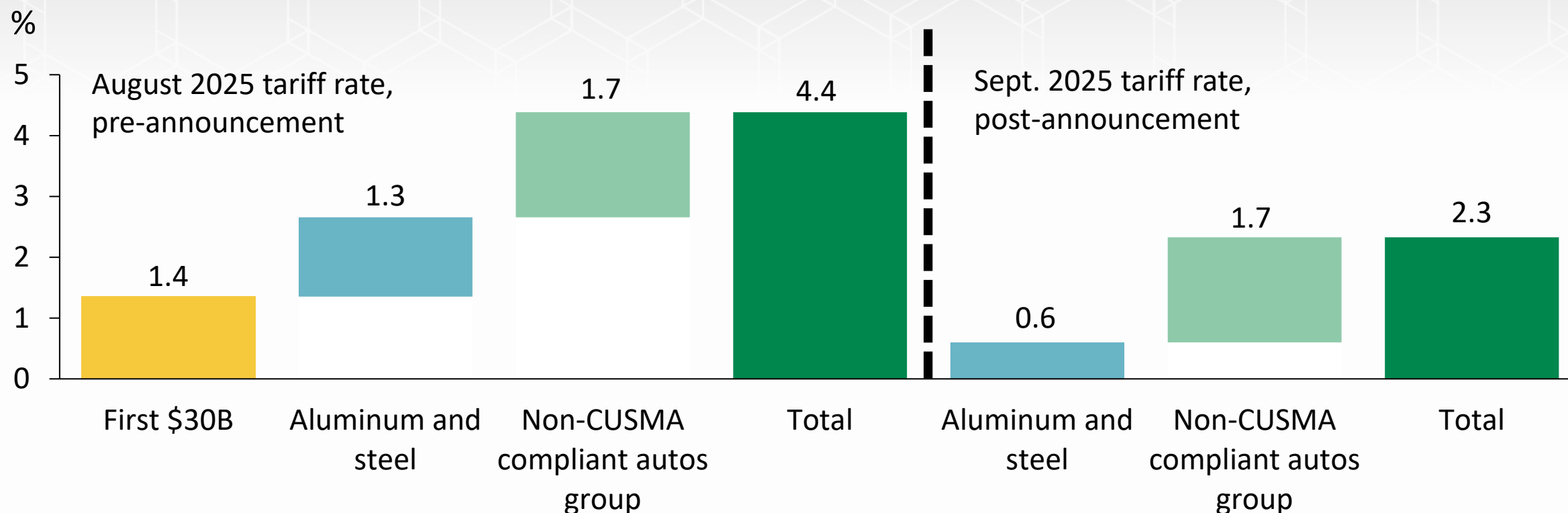


*derived from Government of Canada custom import duties published in the Fiscal Monitor, as a share of non-seasonally adjusted nominal goods imports on a customs basis

CANADA-US TRADE

As of September, Tariffs on Imports from the US are Being Removed

Canadian estimated effective tariff rate on US imports

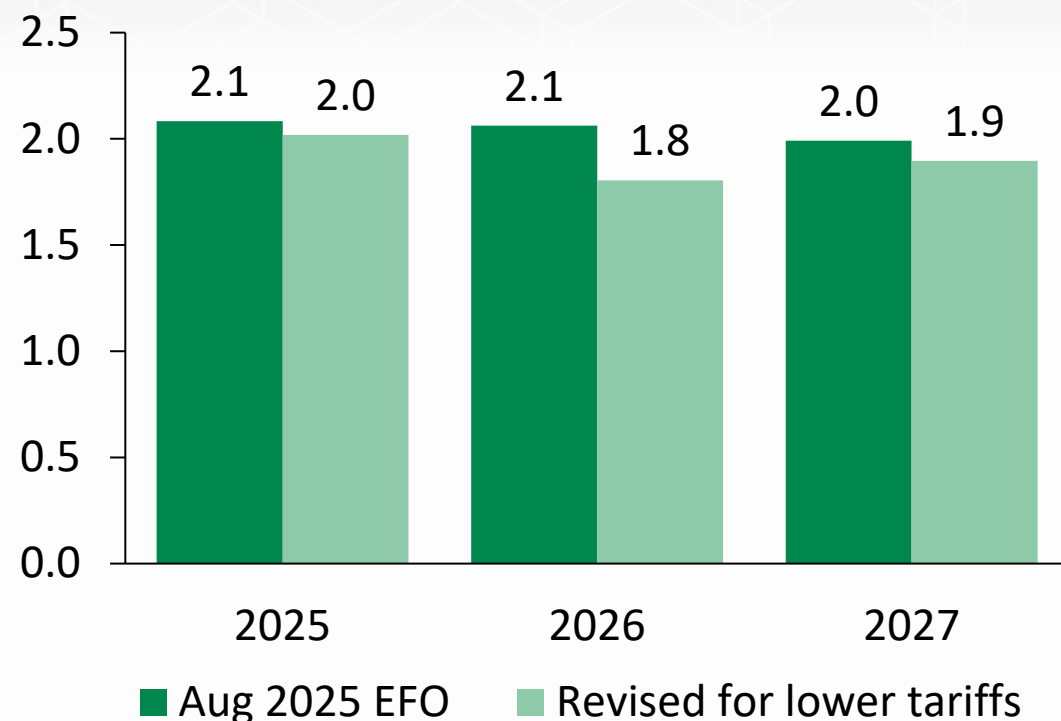


CANADIAN INFLATION

Removing Counter Tariffs Should Bring Total CPI Inflation to Below the BoC's 2% Target

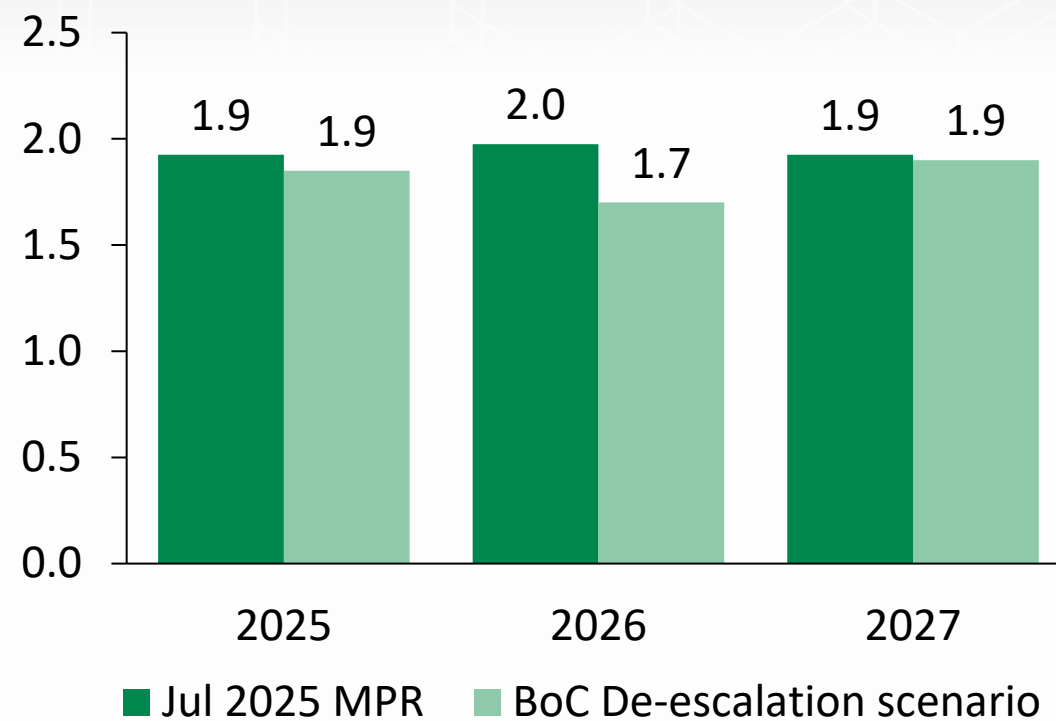
DESJ total CPI inflation forecast scenarios

y/y % change



BoC total CPI inflation forecast scenarios

%, y/y



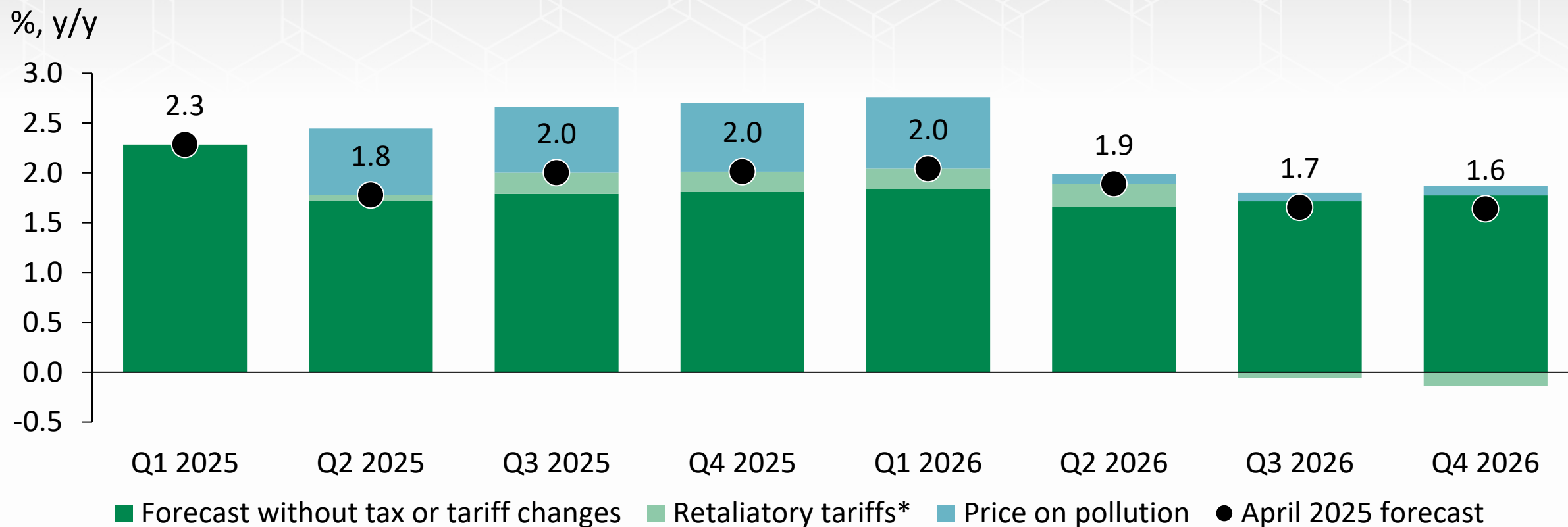
BoC: Bank of Canada; DESJ: Desjardins Economic Studies; EFO: Economic and Financial Outlook;
MPR: Monetary Policy Report

BoC and DESJ

CANADIAN INFLATION

Eliminating the Price on Pollution Should More Than Offset the Retaliatory Tariff Price Impact

Canada CPI inflation forecast decomposition



*Up to and including tariffs announced as of August 14, 2025

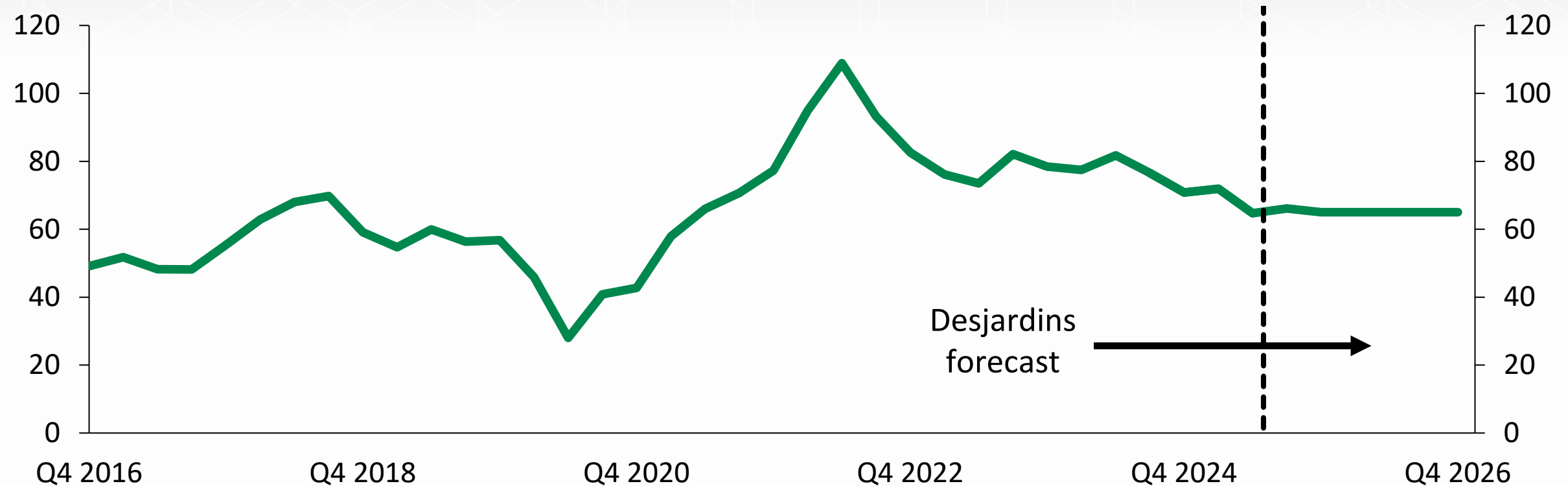
Government of Canada, Statistics Canada and Desjardins Economic Studies

CANADIAN INFLATION

Lower Oil Prices Should Help to Pull Energy CPI Inflation Down Further

West Texas Intermediate (WTI) crude oil price

US\$ per barrel



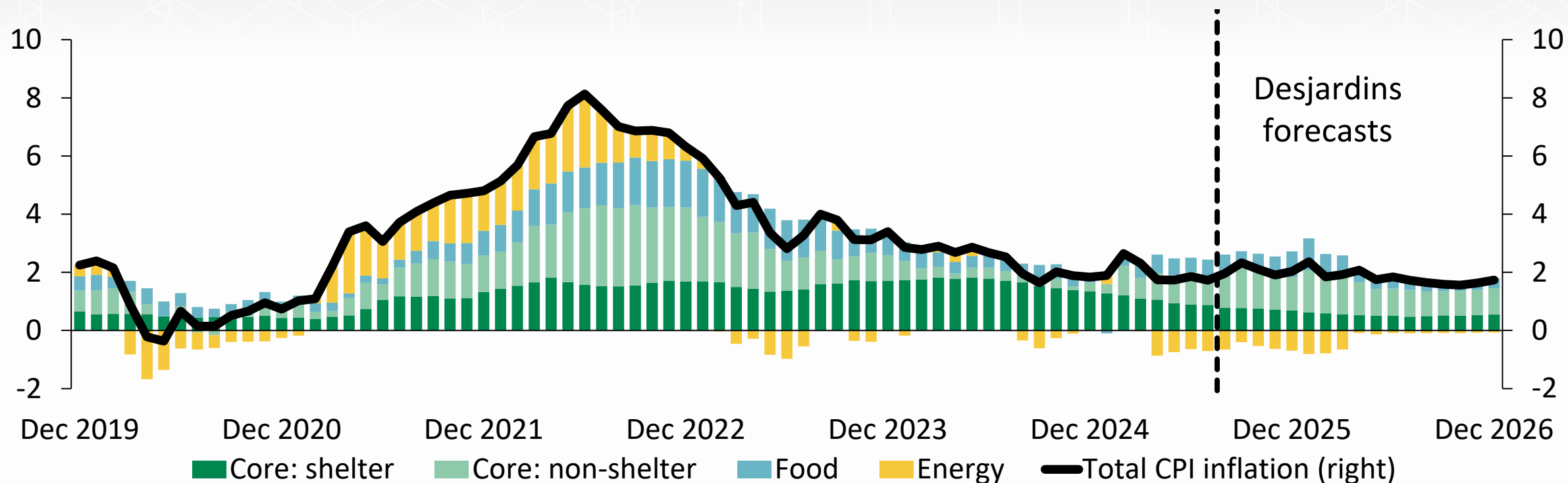
CANADIAN INFLATION

Tariffs Are Replacing Shelter as the Main Driver of Inflation

Total CPI inflation and its underlying decomposition*

Percentage points

y/y % change



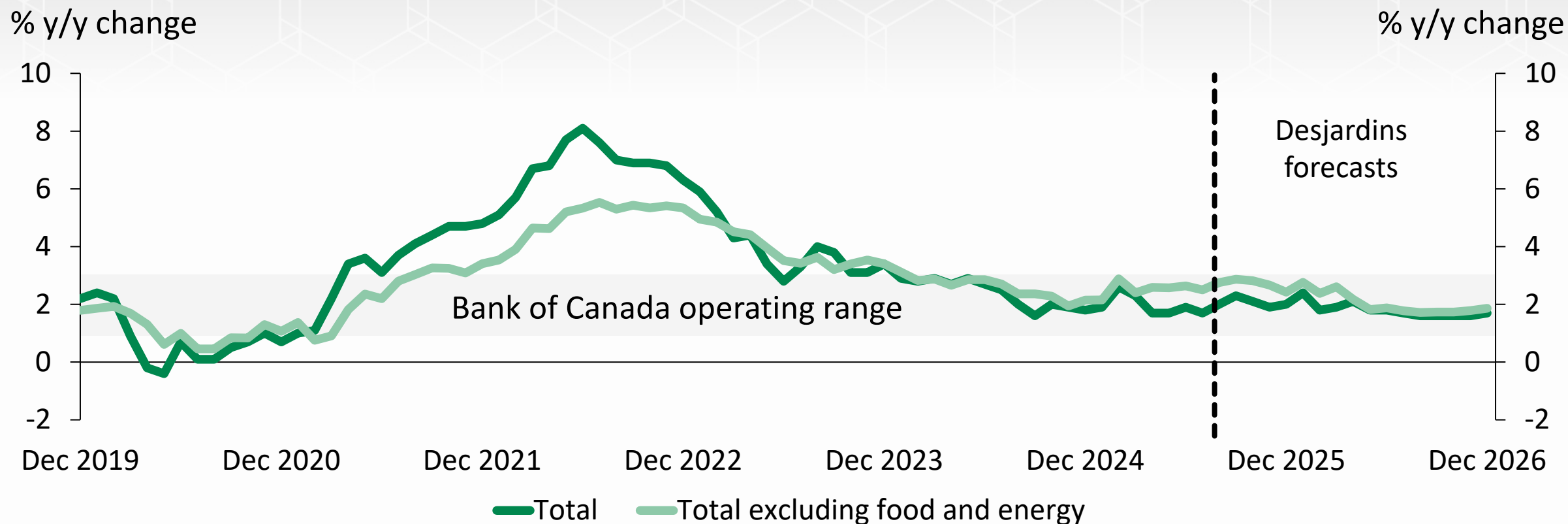
*Calculated using fixed basket weights; Core refers to the total CPI index excluding food and energy

Sources: Statistics Canada and Desjardins Economic Studies

CANADIAN INFLATION

Total Inflation Should Stay Around 2% but Core Inflation Will be Higher

Total and core CPI inflation*



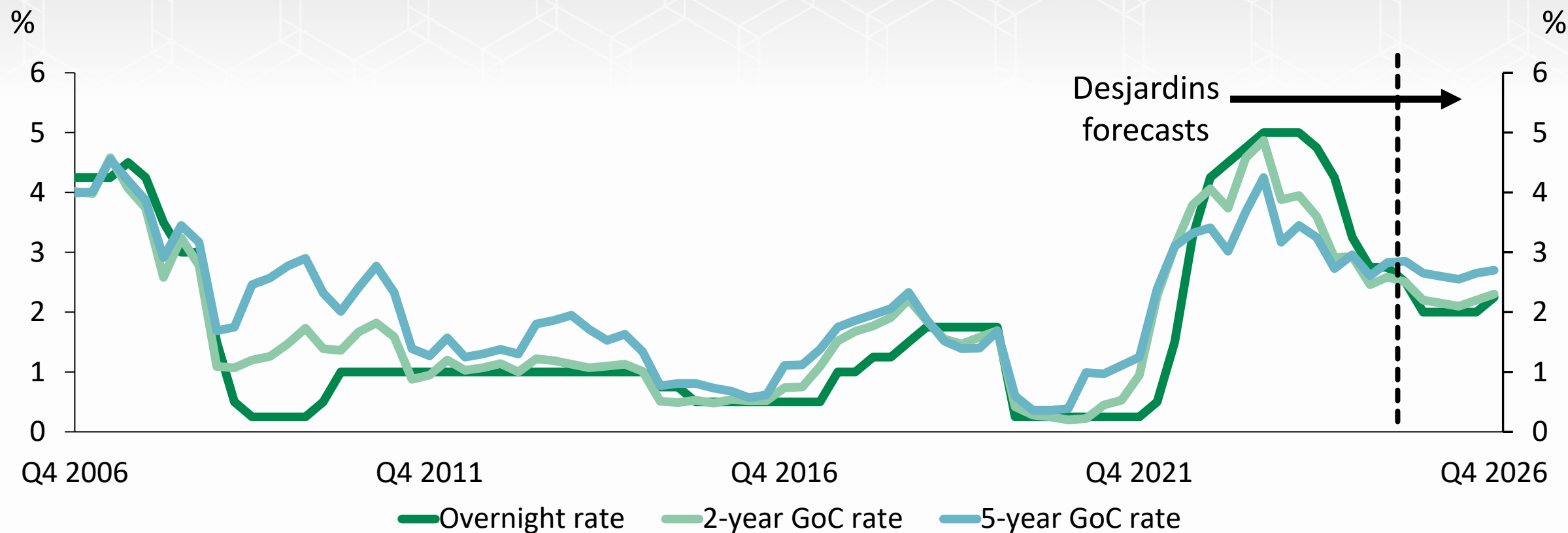
*Calculated using fixed basket weights

Statistics Canada and Desjardins Economic Studies

CANADIAN INTEREST RATES

Lower Inflation Should Allow the BoC to Respond to a Weaker Economy

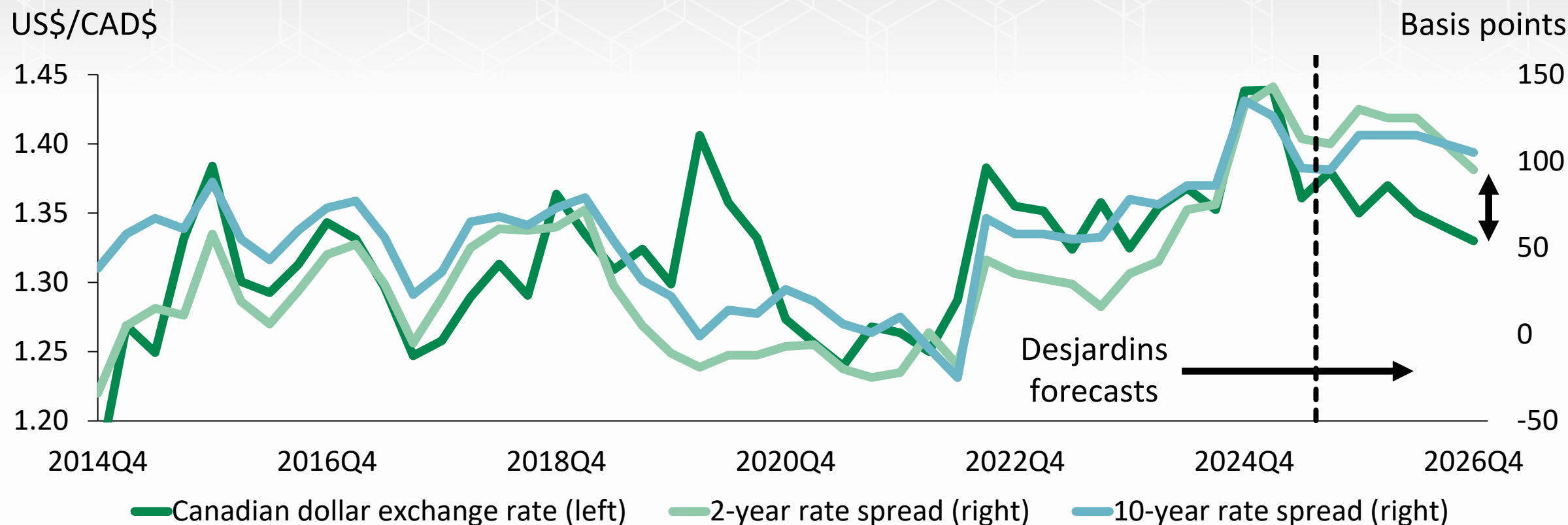
Policy rate and Government of Canada (GoC) bond yields



CANADIAN DOLLAR

The CAD Is Expected to Appreciate Beyond Levels Suggested by Yield Spreads

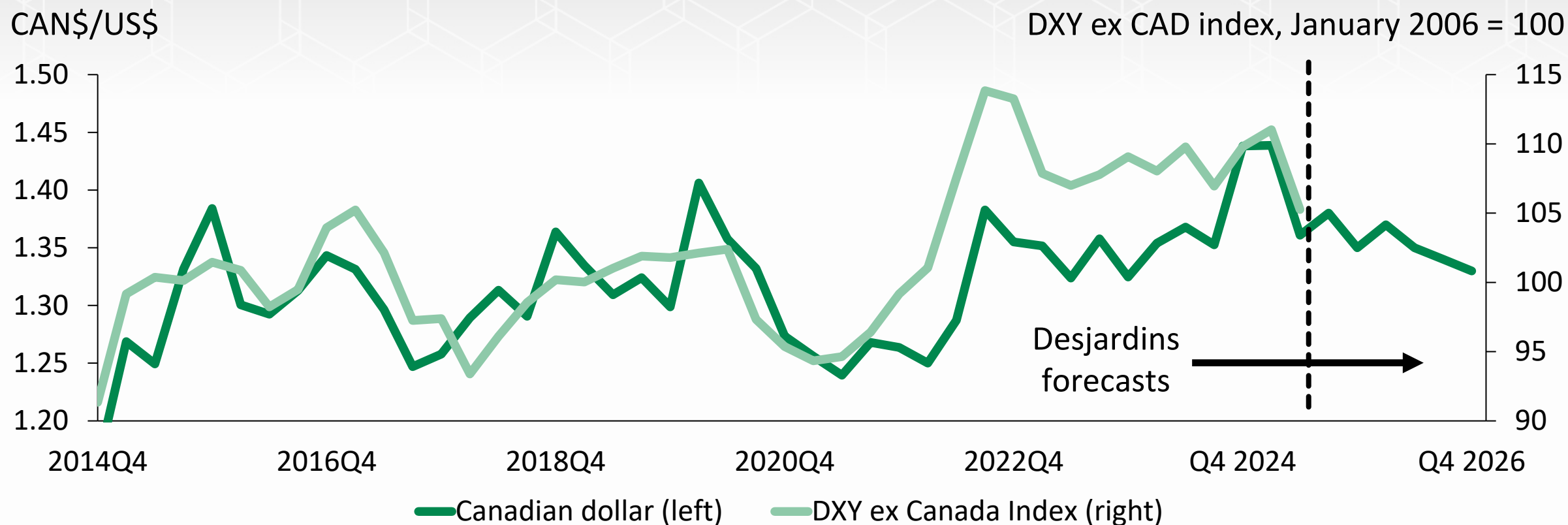
Canadian dollar versus US-Canada government bond spreads



CANADIAN DOLLAR

Further CAD Appreciation Is Part of a Broader Trend Away From USD

USD index excluding the CAD versus the Canadian dollar



USD: US dollar; CAD: Canadian dollar; estimates and forecasts are for end-of-period values

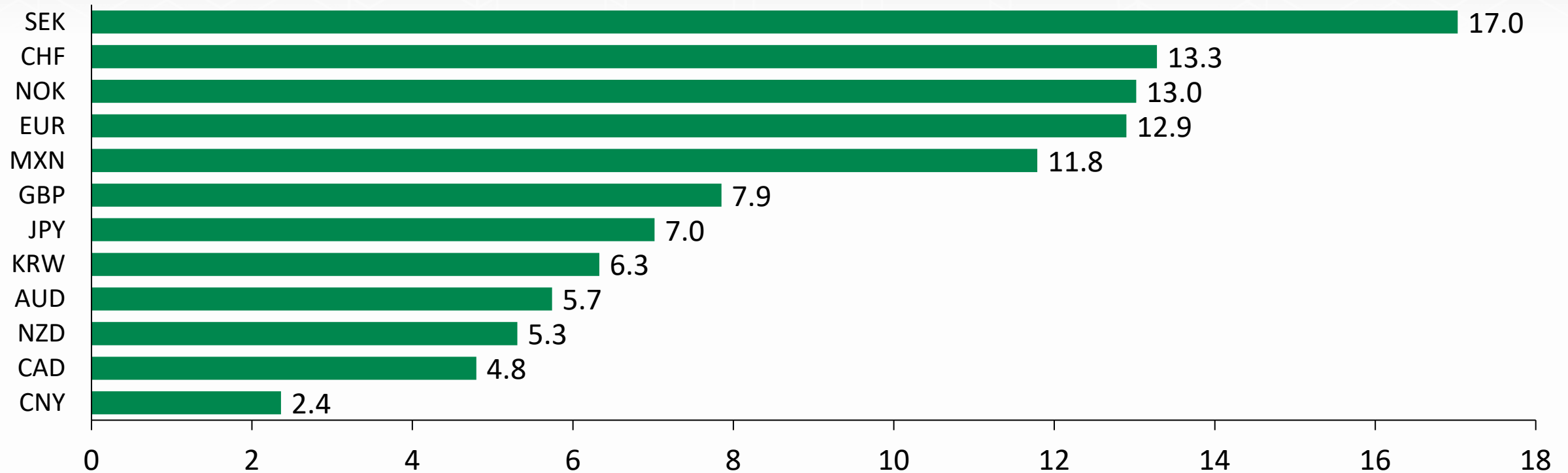
US Federal Reserve and Desjardins Economic Studies

CANADIAN DOLLAR

The CAD has Appreciated This Year Despite Trade Tensions with the US

Relative currency performance

% change, year to date*



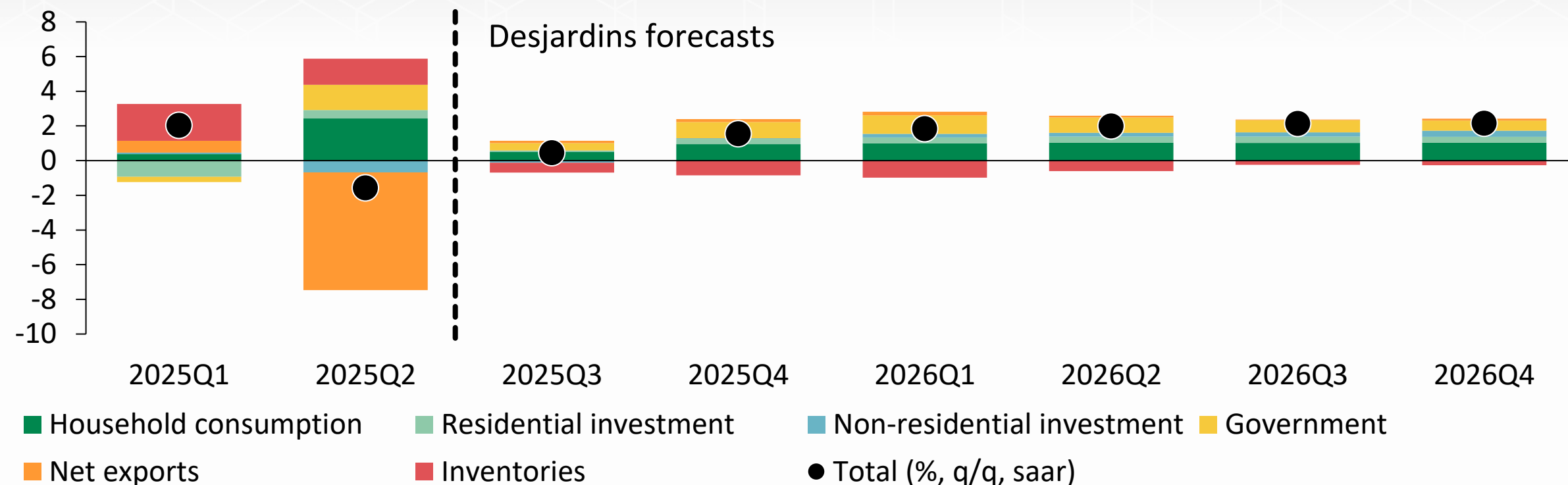
* as of August 31, 2025

CANADIAN ECONOMY

We Expect Economic Growth to Improve Going Forward

Contributions to the quarterly Canadian real GDP growth forecast

Percentage points, annualized rates

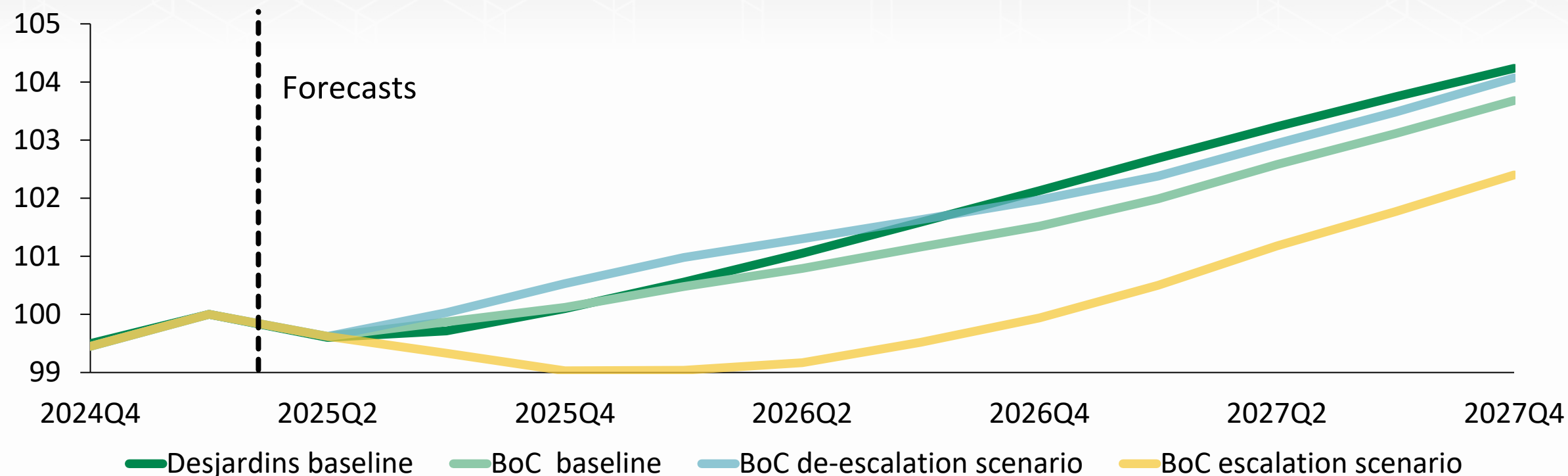


CANADIAN ECONOMY

We're In Line with the BoC's Baseline in 2025 But More Positive in 2026

Real GDP level forecast scenario

Index, 2025Q1 = 100



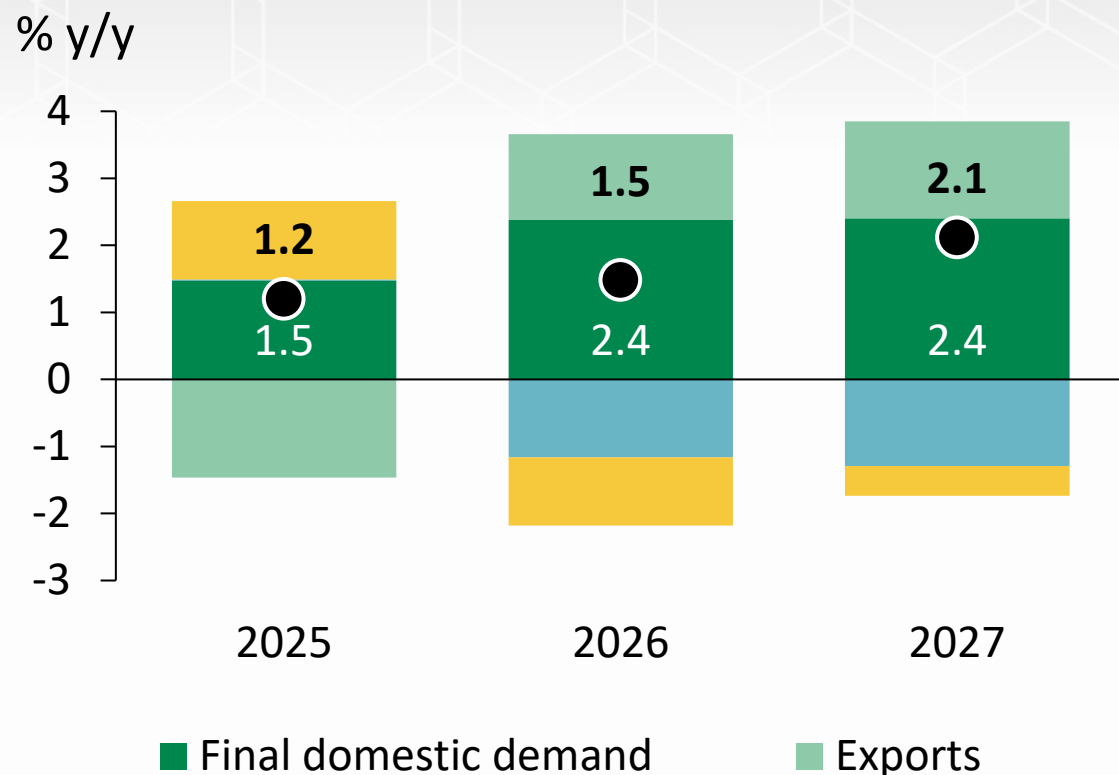
BOC: Bank of Canada

Bank of Canada, Statistics Canada and Desjardins Economic Studies

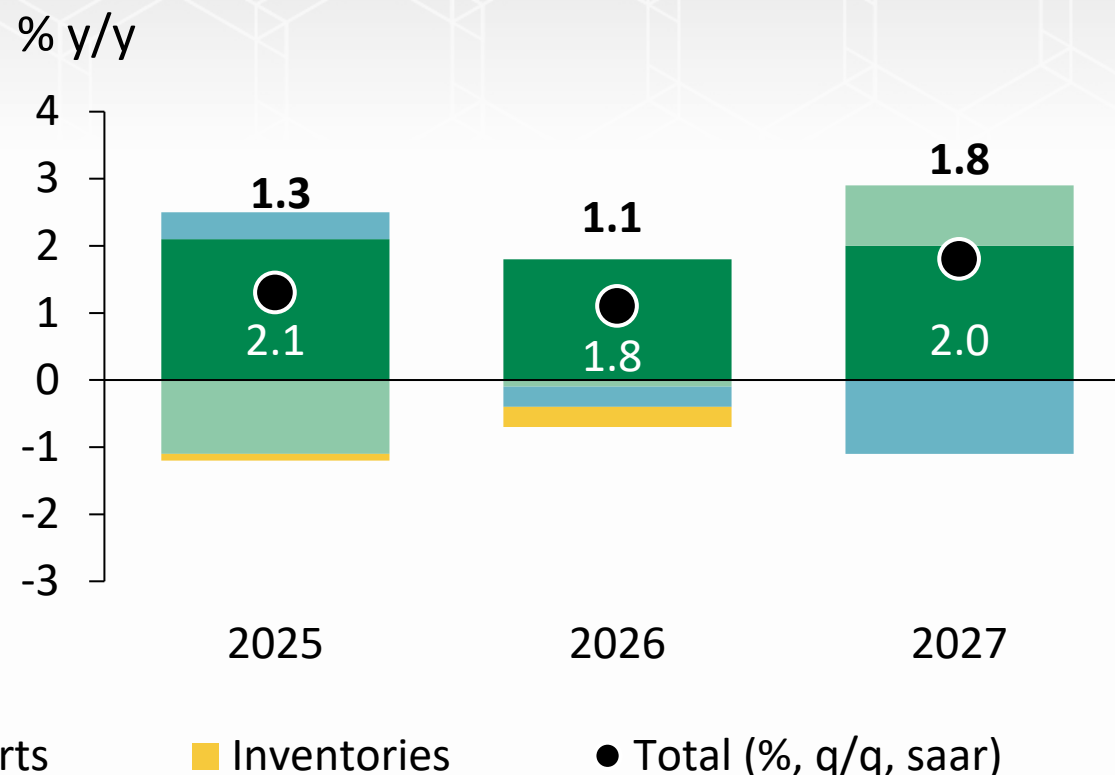
CANADIAN ECONOMY

We Are More Optimistic on Growth Overall than the BoC in 2026

Desjardins real GDP growth forecast



July 2025 MPR real GDP growth forecast

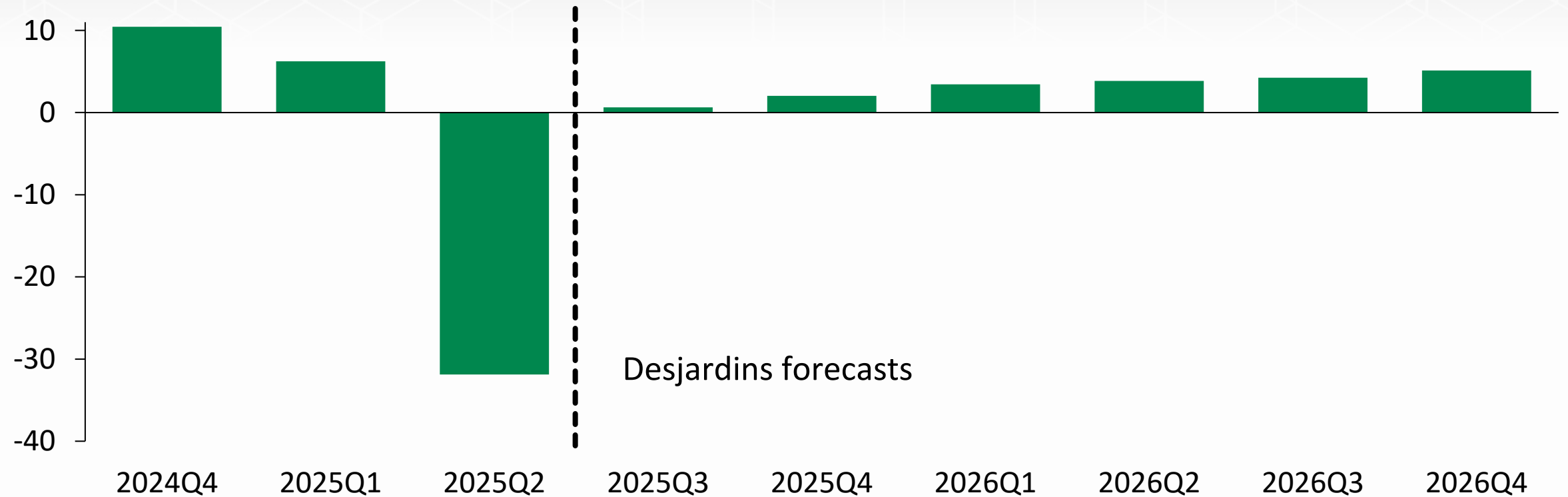


CANADIAN ECONOMY

A Trade Deal with the US is Possible in 2026, Even If It's Ugly

Real Canadian export growth

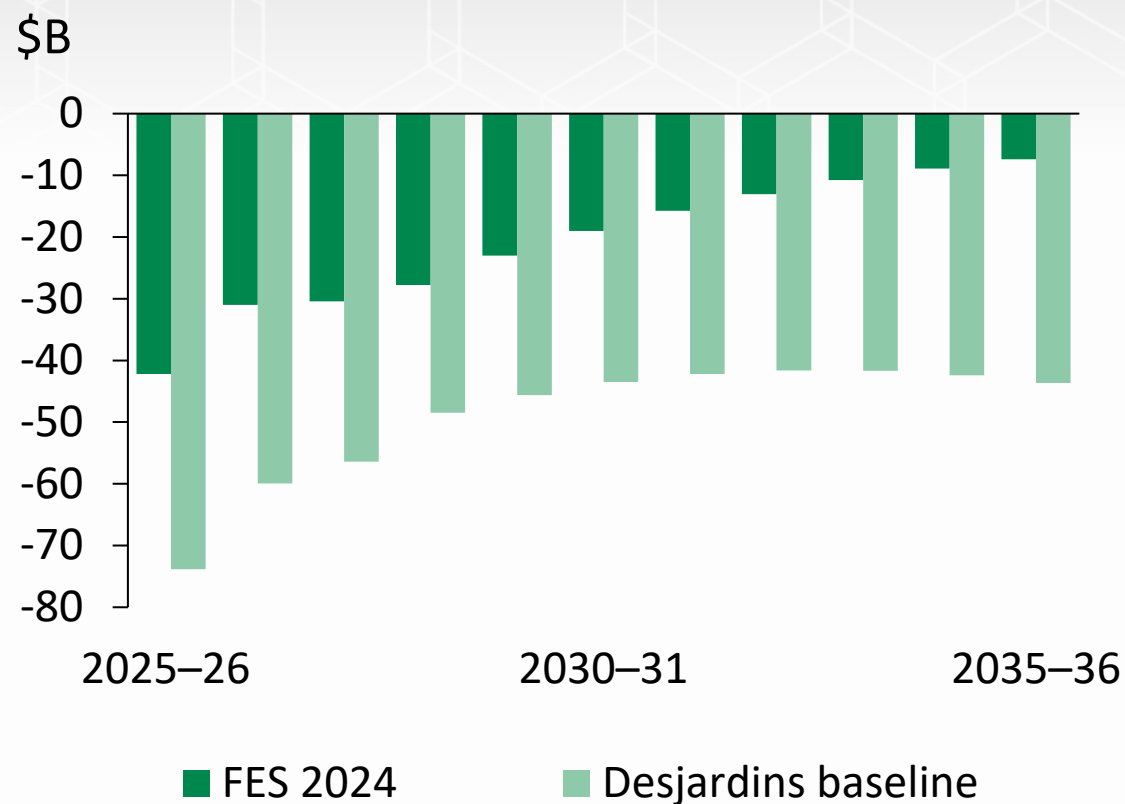
%, q/q, annualized rates



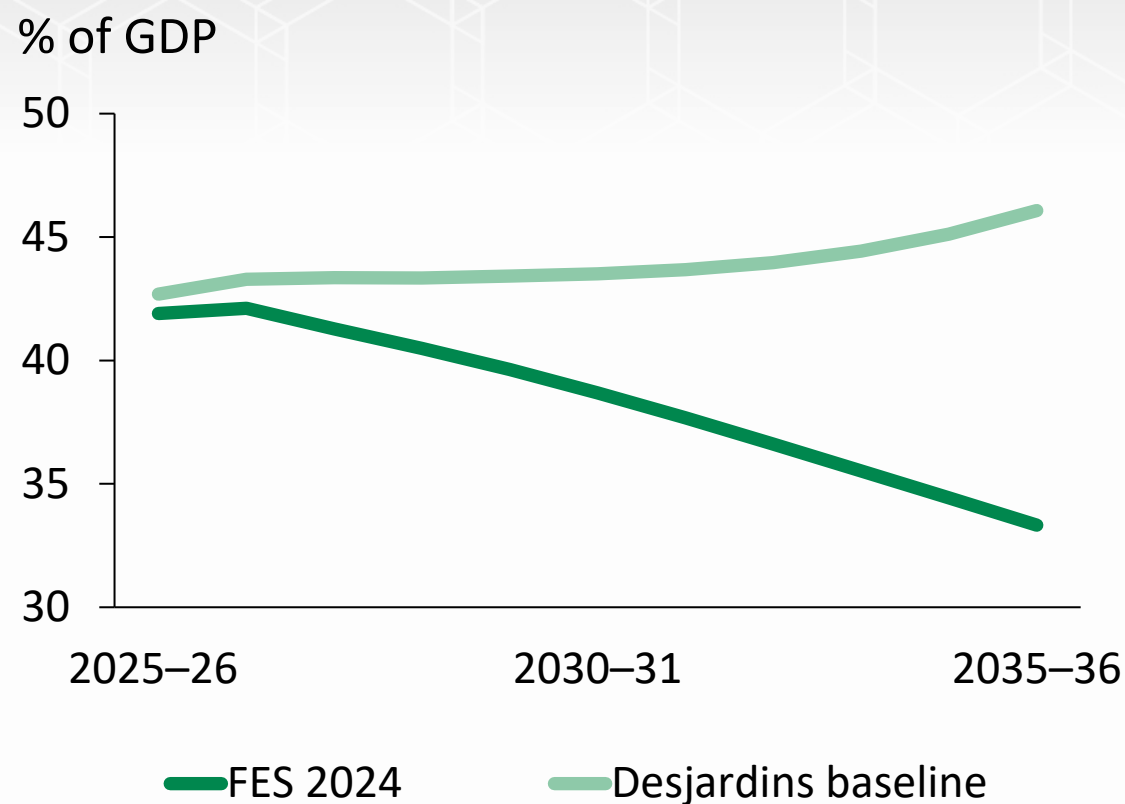
CANADIAN ECONOMY

Federal Deficits Will Be Larger Due to Defence and Other Spending

Federal debt forecasts*



Federal debt forecasts*



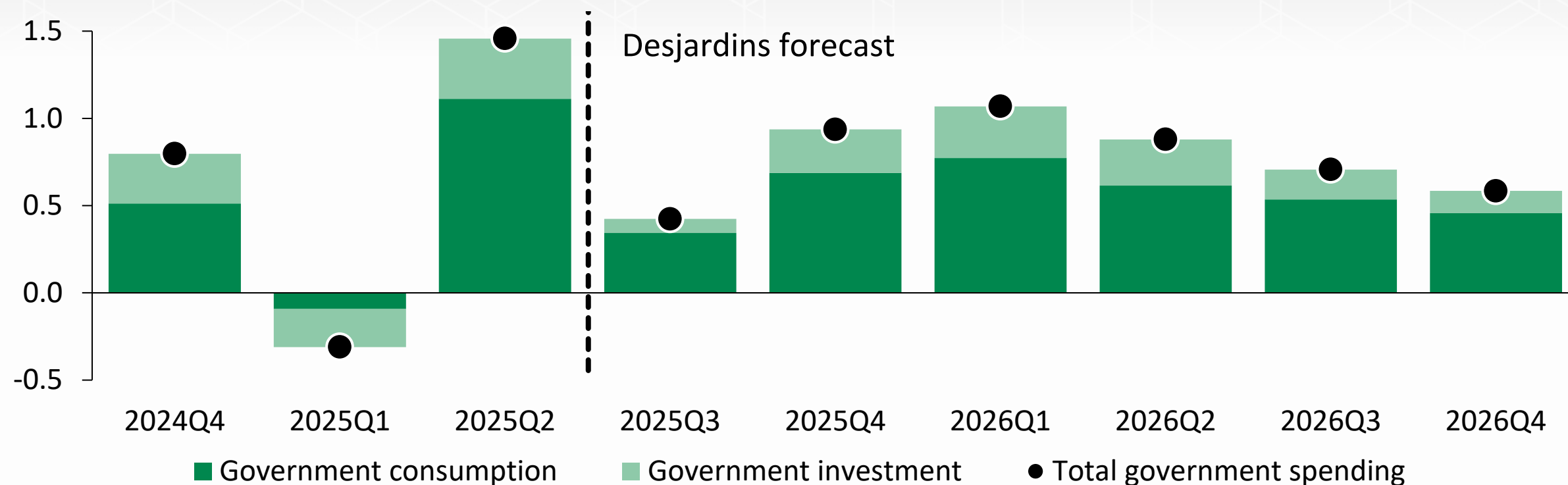
* Based on Desjardins Economic Studies' June 2025 Economic and Financial Outlook; federal debt refers to the accumulated deficit or gross liabilities less financial and nonfinancial assets; FES: Fall Economic Statement
Government of Canada, Office of the Parliamentary Budget Officer, Liberal Party of Canada (LPC), and Desjardins Economic Studies

CANADIAN ECONOMY

Government Spending Should Boost Growth, Especially Next Year

Forecast contribution to real GDP growth from government consumption and investment

Percentage points

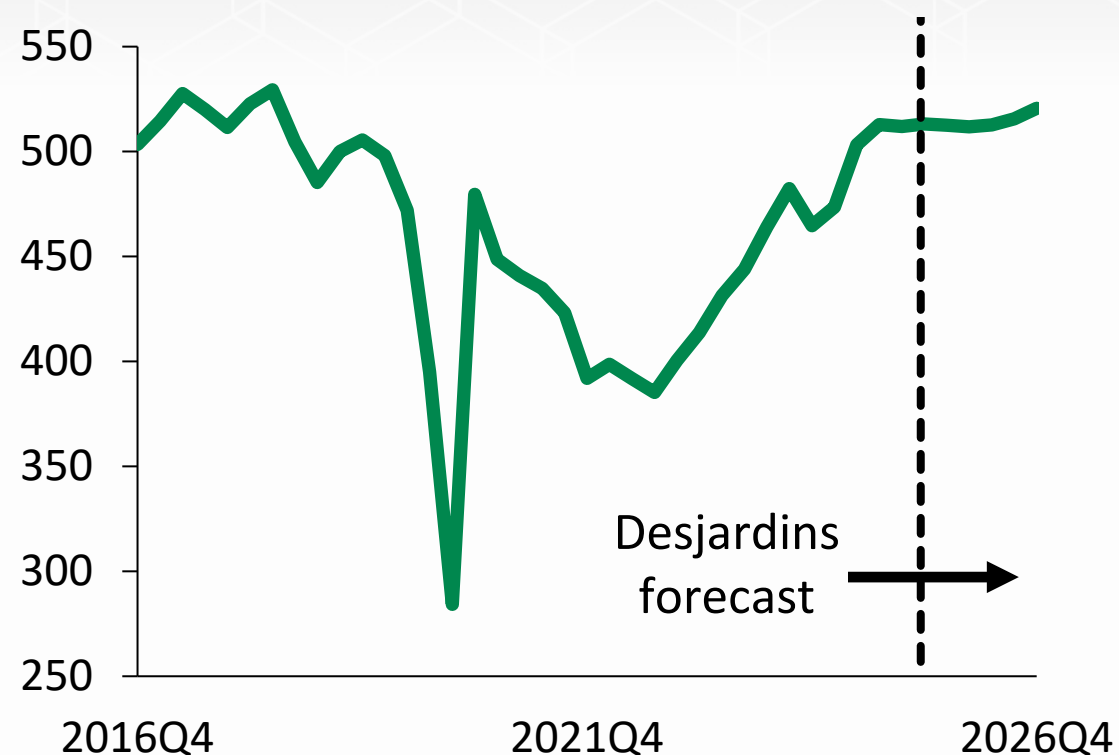


CANADIAN ECONOMY

We Expect Consumption Growth to Slow But Not Fall Off a Cliff

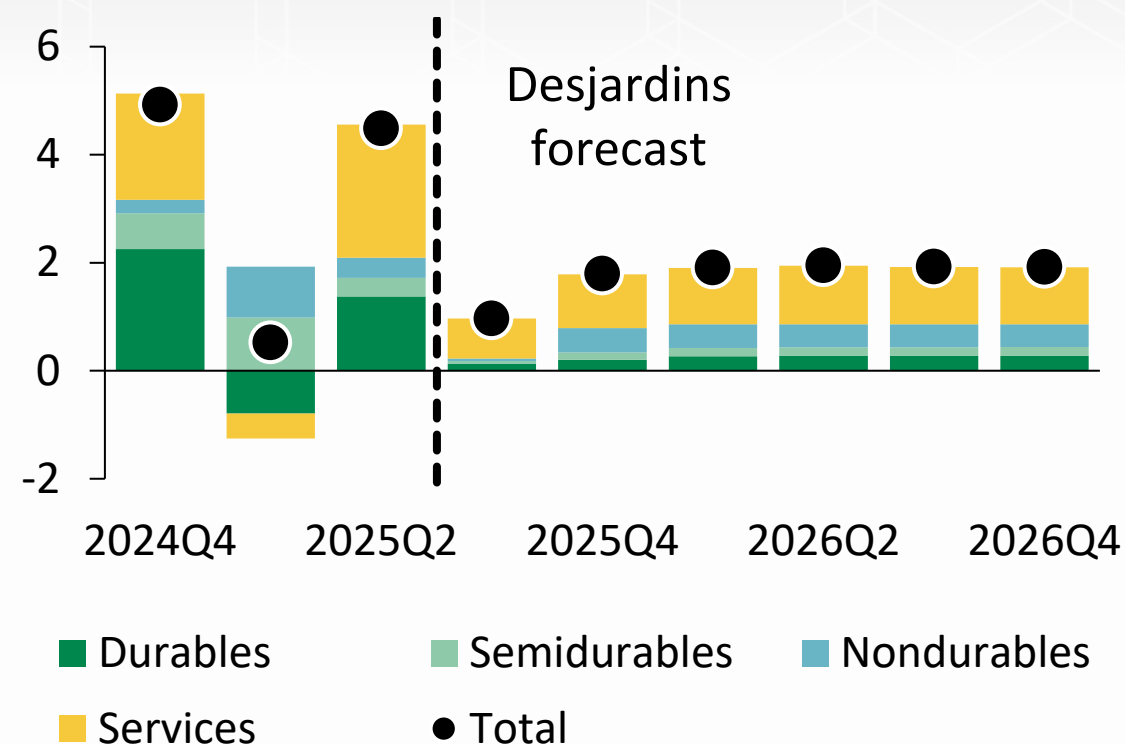
Passenger vehicle sales

Thousands, sa



Consumption growth decomposition

%, q/q, annualized

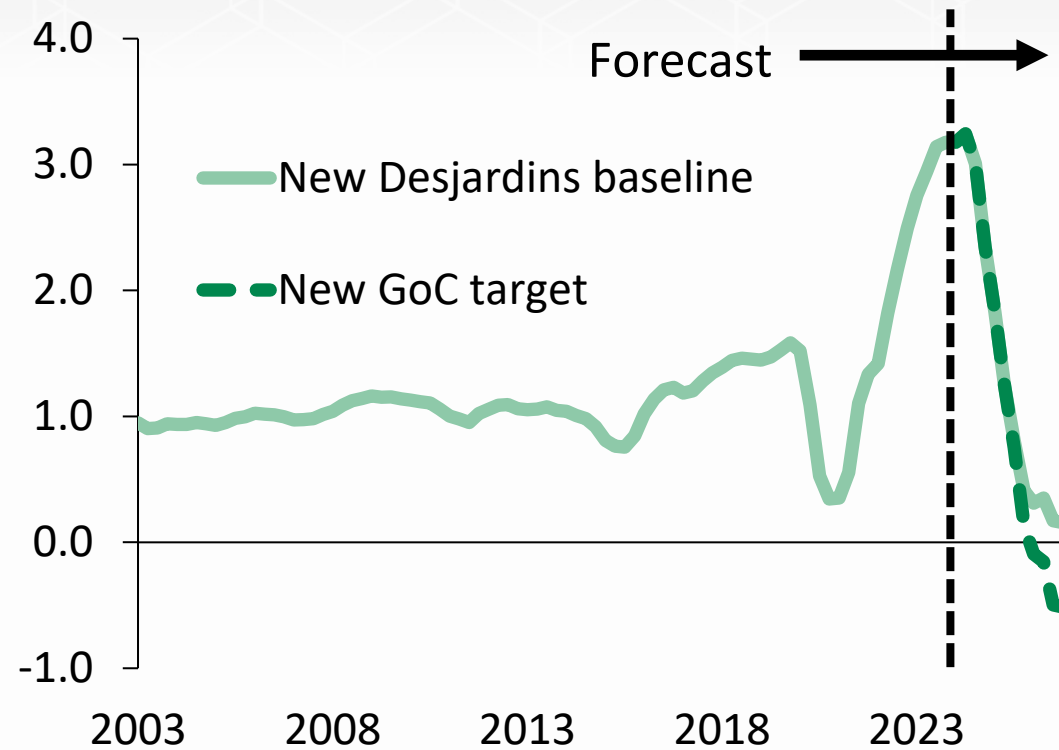


CANADIAN ECONOMY

Population Growth Is Slowing and Will Be Headwind to Consumption Growth

Population growth

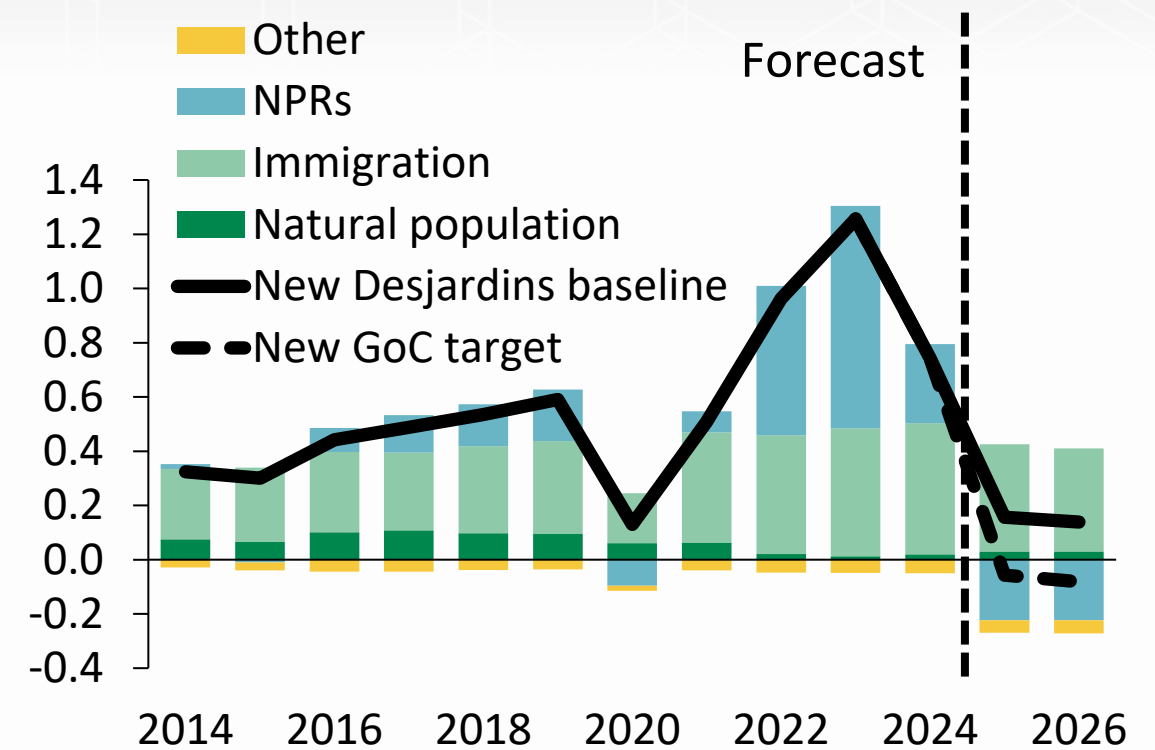
y/y % change



Note: Annual population is presented on a calendar-year basis.
NPRs: Non-permanent residents; GoC: Government of Canada

Change in population level by source

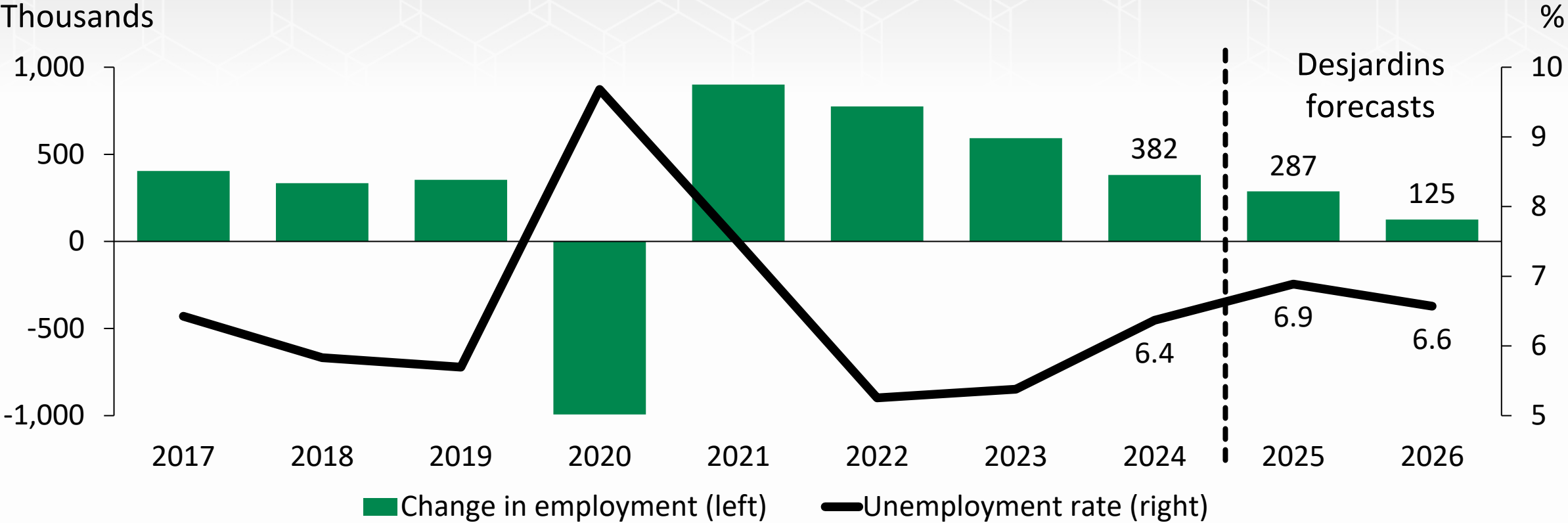
Millions of people



CANADIAN ECONOMY

Canada's Labour Market Has Proven Resilient, and Should Remain So

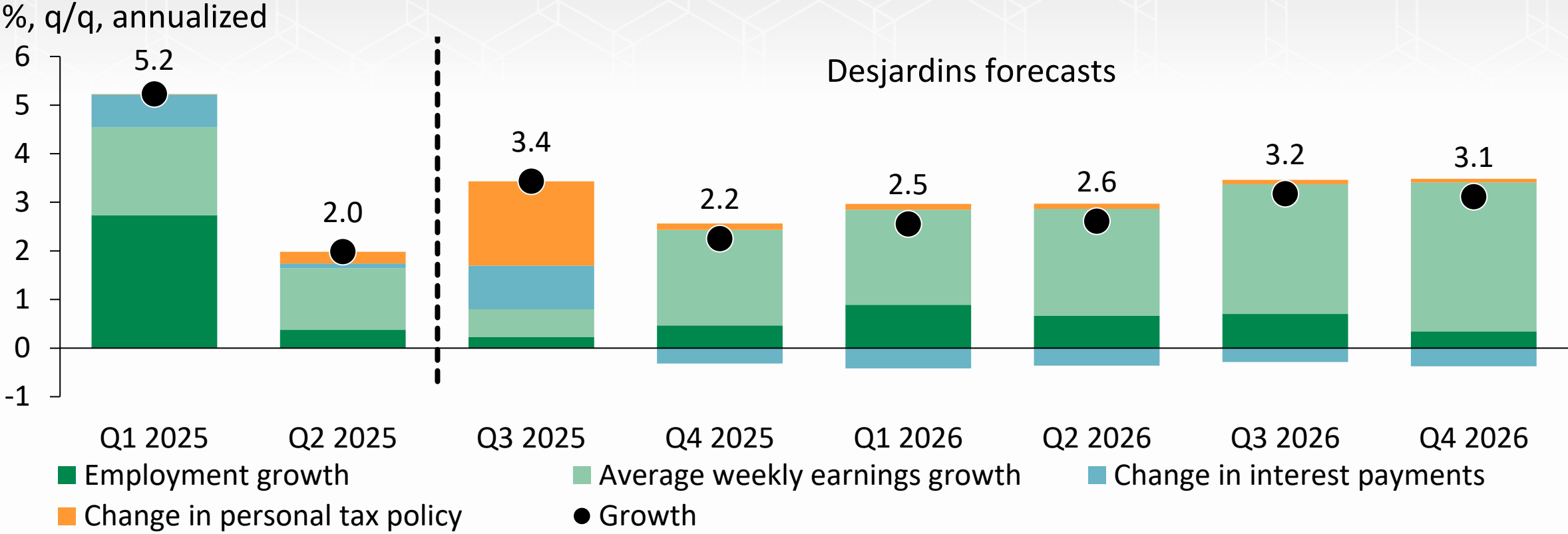
Change in employment versus the unemployment rate



CANADIAN SAVINGS AND INCOME

Tax Cuts Will Provide a Modest Offset to Weaker Employment Growth

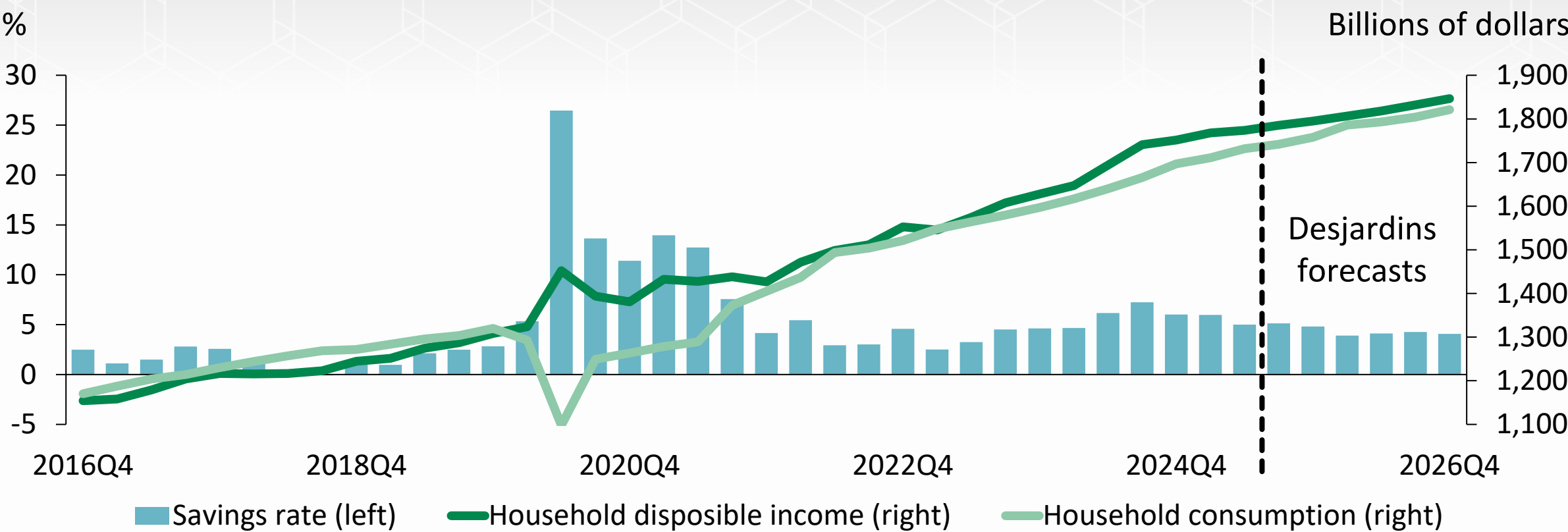
Nominal disposable income growth and its drivers



CANADIAN SAVINGS AND INCOME

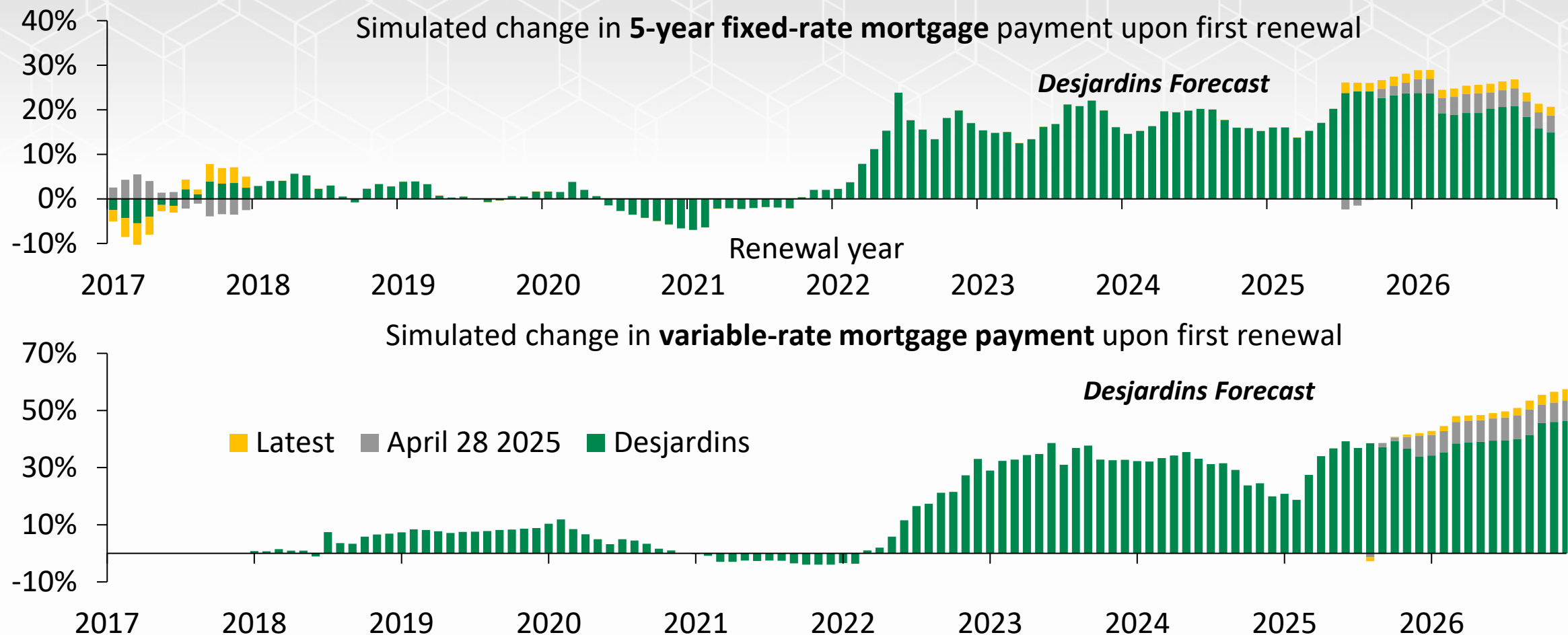
The Savings Rate in Canada is Expected to Fall Slightly Going Forward

Household savings rate, disposable income and consumption



CANADIAN SAVINGS AND INCOME

Mortgage Renewals Will Be a Headwind to Household Spending

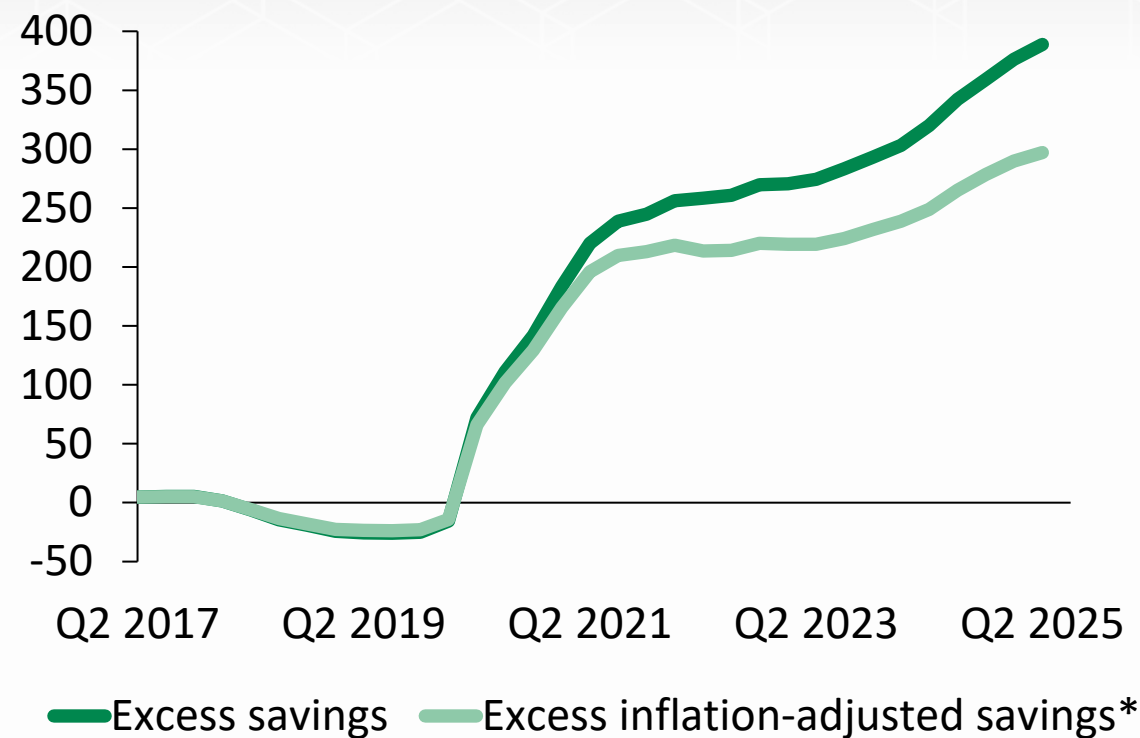


CANADIAN SAVINGS AND INCOME

Affluent Canadians Continue to Build on Their Pandemic-Era Savings

Excess actual and inflation-adjusted savings*

Billions of dollars



Average household net saving by income

Dollars



* The underlying trend is based on the 5-year cumulative average growth rate from Q4 2014 to Q4 2019

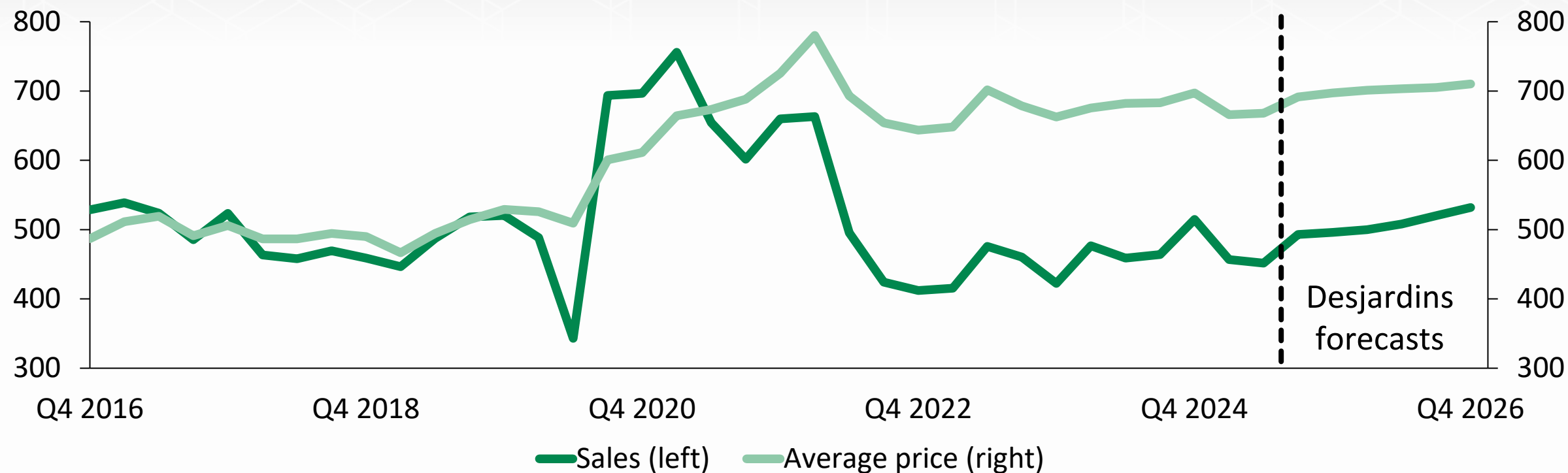
Statistics Canada and Desjardins Economic Studies

CANADIAN HOUSING MARKET

Home Sales and Prices Should Improve as Uncertainty Dissipates

Existing home sales and average price

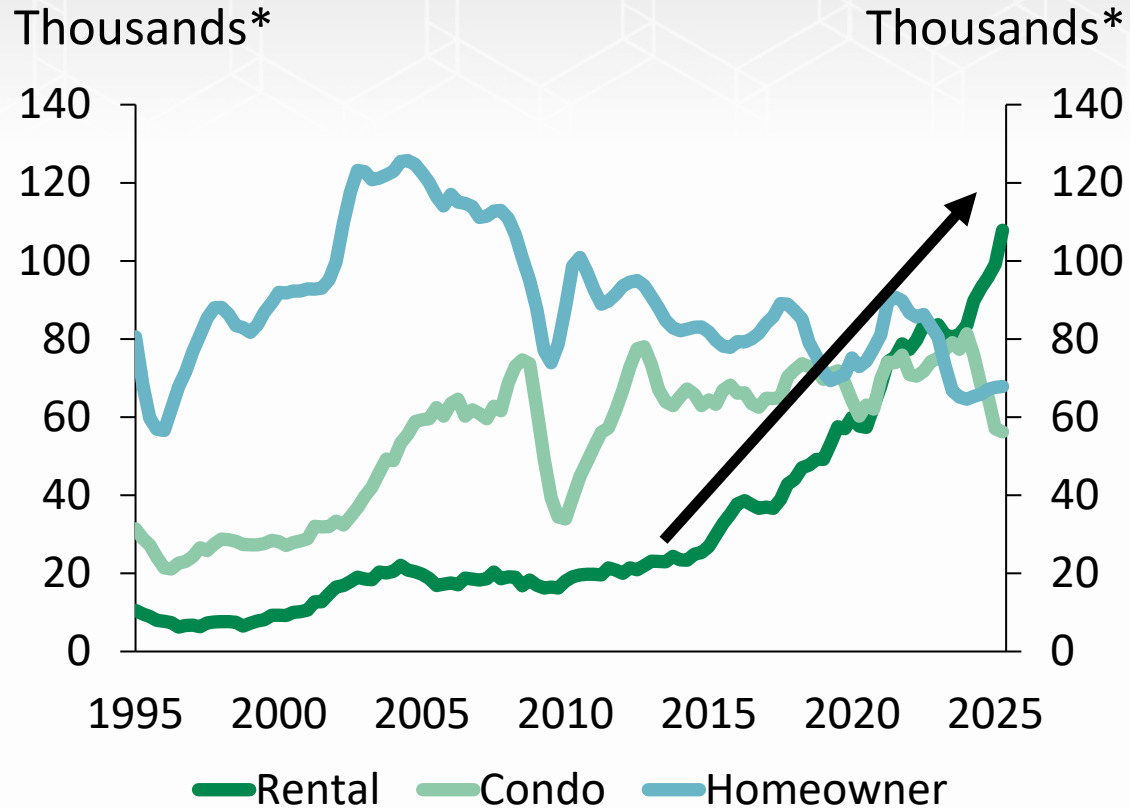
Thousands of units, annualized



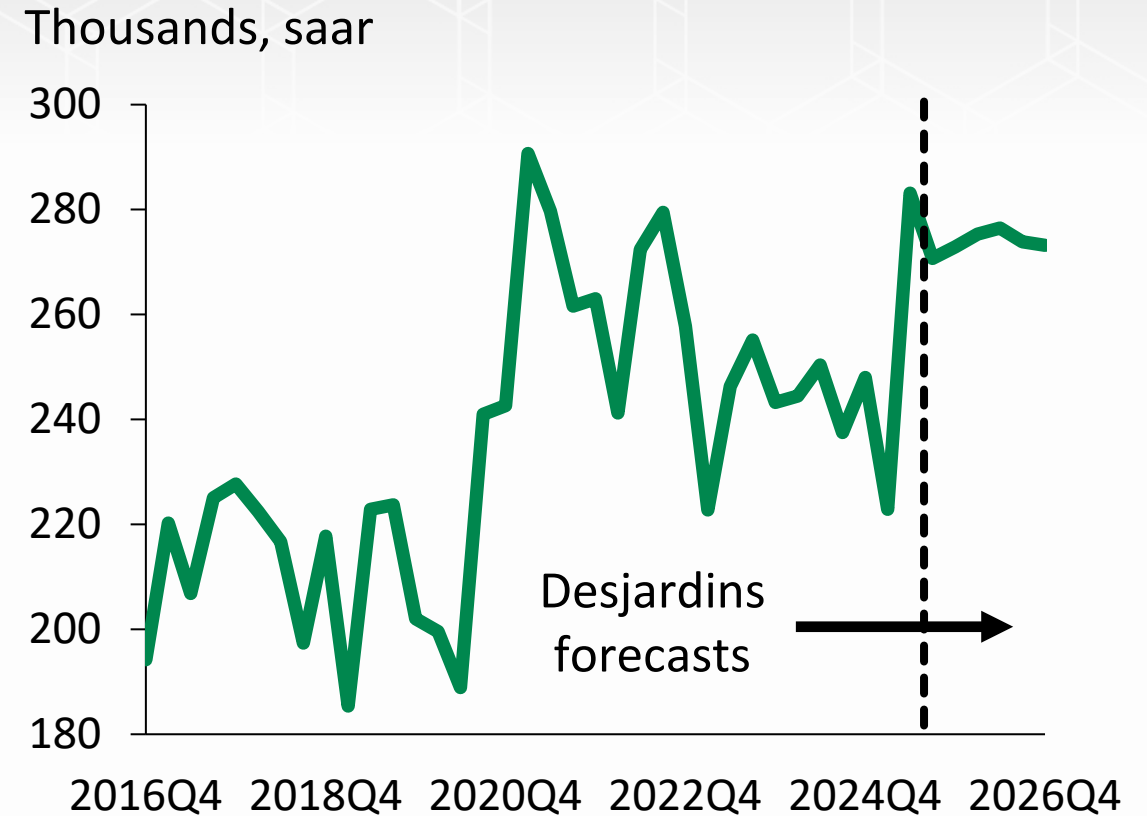
CANADIAN HOUSING MARKET

Purpose-Built Rentals Have Skyrocketed, and Should Keep Starts Elevated

Housing starts, Canada



Housing starts forecast



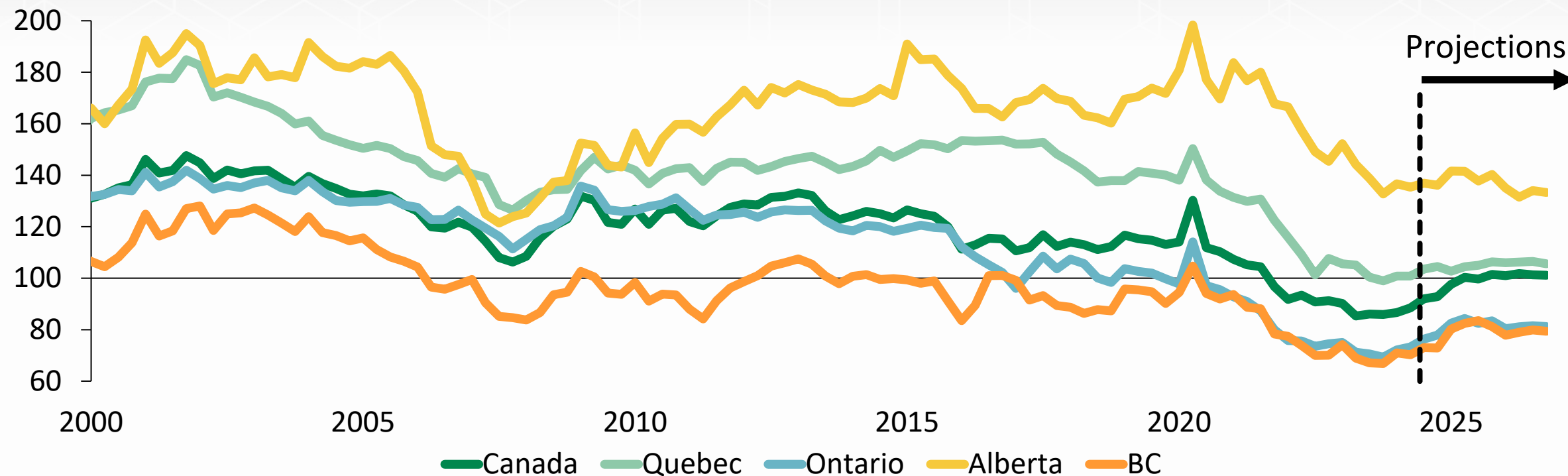
* Four-quarter moving sum.

CANADIAN HOUSING MARKET

Affordability Is Expected to Improve Slightly in 2025

Desjardins Affordability Index*

Index, higher = more affordable



* Assumes a 20% down payment

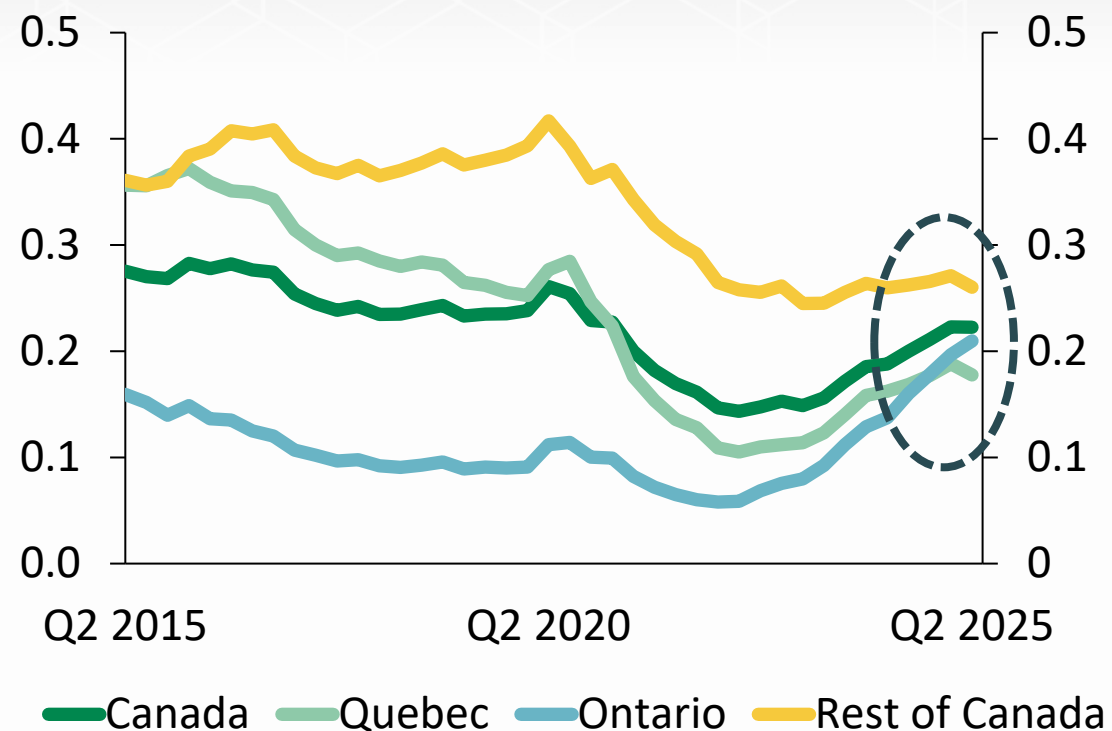
Canadian Real Estate Association, Statistics Canada, Bank of Canada and Desjardins Economic Studies

CANADIAN HOUSING MARKET

Mortgage Arrears and Consumer Insolvencies are Moving Higher

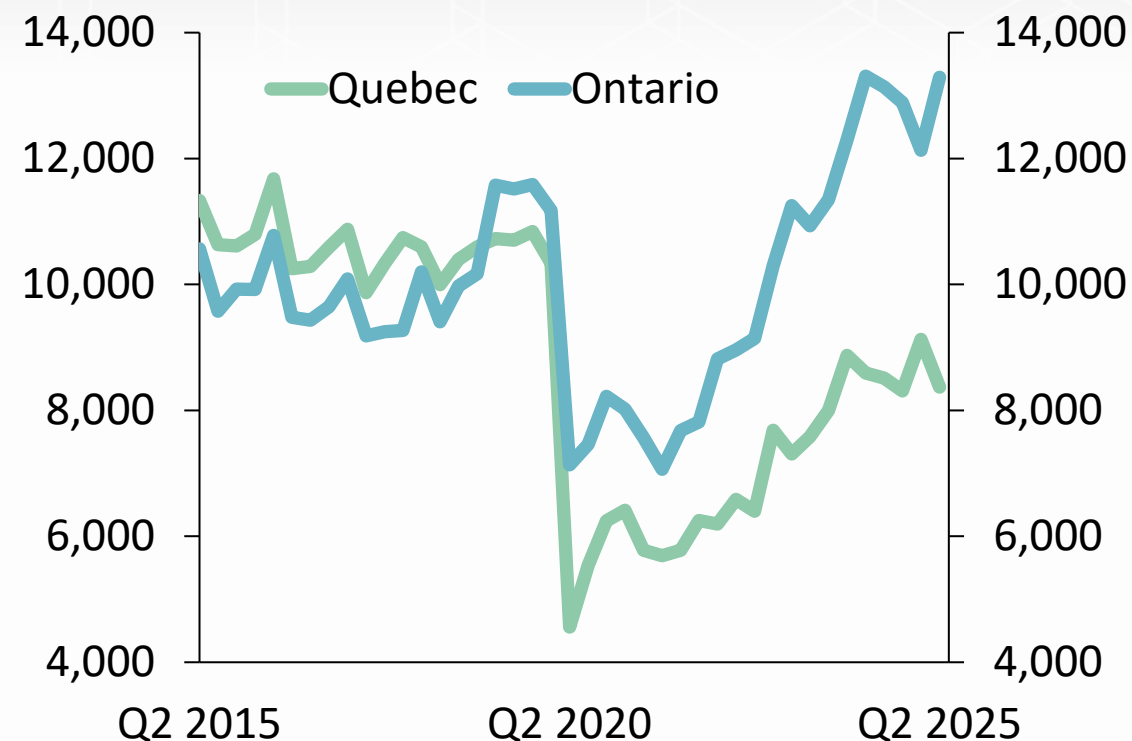
Residential mortgages in arrears

% of residential mortgages



Consumer insolvencies

Number



CANADIAN SENTIMENT

Consumer and Business Confidence Has Improved but Remains Low

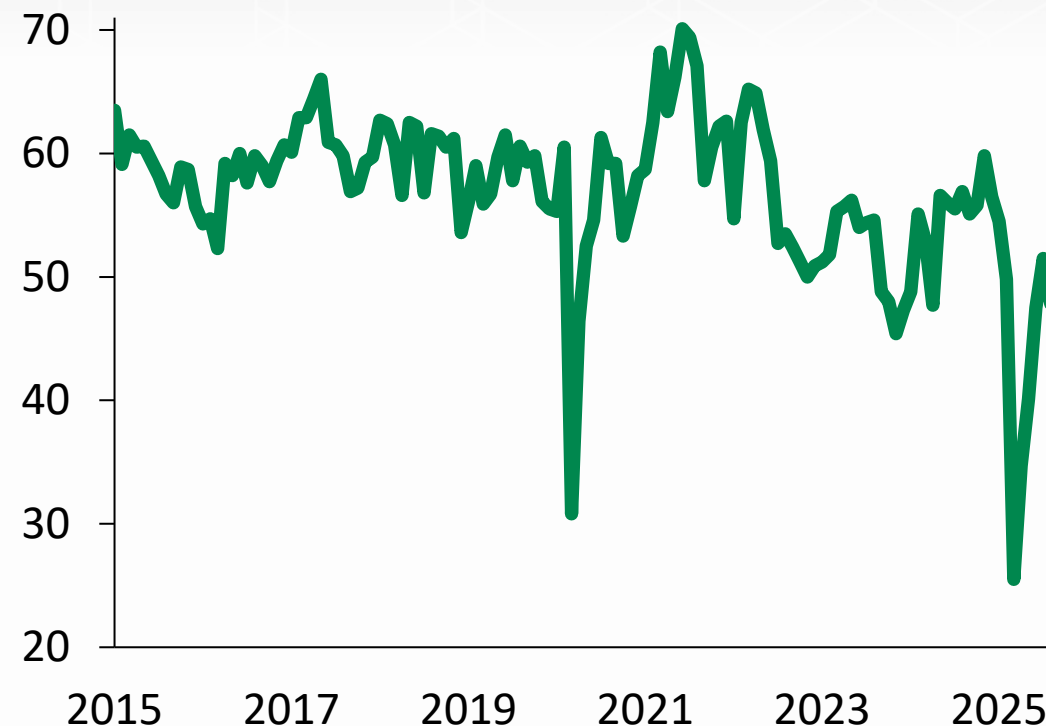
Canadian consumer confidence

Index, 2014 = 100



Canadian business confidence

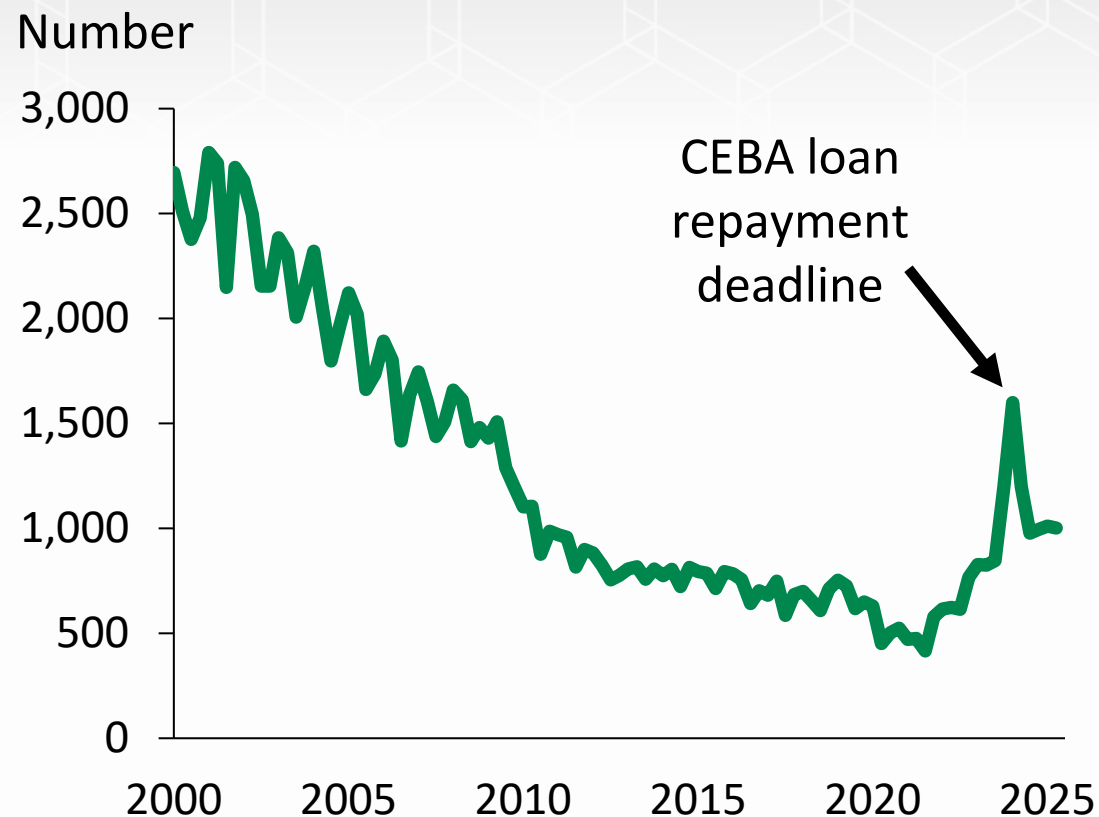
>50 = stronger in the next year



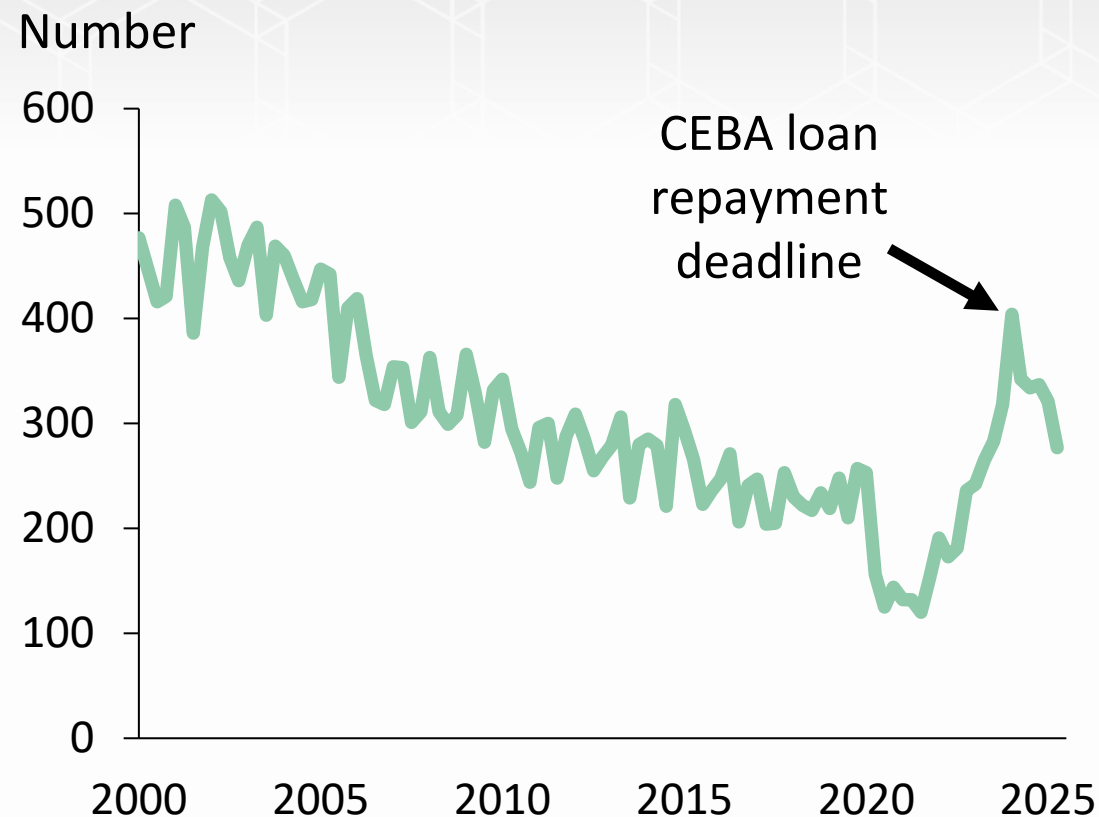
CANADIAN BUSINESS CONDITIONS

Business Insolvencies Have Come Down from Their Early 2024 Surge

Business bankruptcies



Business proposals

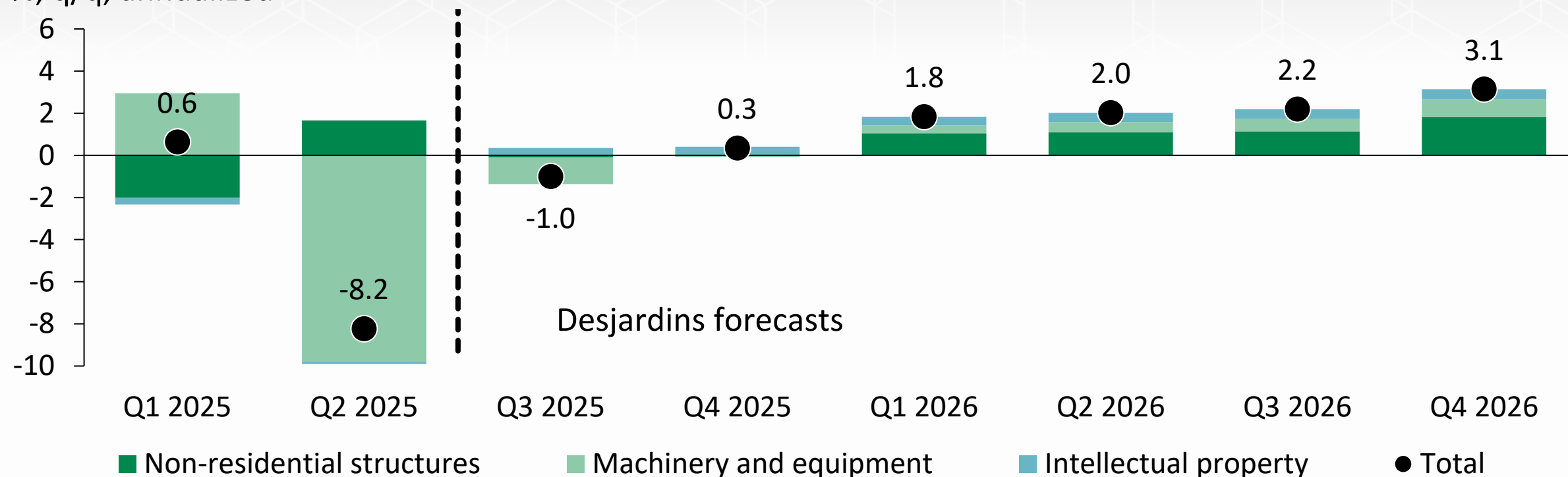


CANADIAN ECONOMY

Business Investment Should Pick Up as Uncertainty Fades

Real business investment growth and its drivers

%, q/q, annualized



Economic & Financial Outlook

Charting a Course Through the Fog of the Trade War

- Tariffs and other US policy uncertainty are weighing on the outlook
- Central banks are trying to balance slower growth and higher inflation
- Households are struggling with high housing and borrowing costs
- Business investment should pick up as uncertainty fades

Thank you!

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