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CHARTBOOK
Market Comment

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Market Comment

The Bank of Canada held its policy rate at 2.25% this morning, its seventh consecutive decision without a change, and the statement read more constructively than the headlines of the past two weeks would suggest. Second-quarter GDP rose 3.3% after a very weak first quarter, and the Bank described the rebound as broad-based across consumption, housing, exports and business investment. Unemployment edged down to 6.4% in July. Governing Council will now "assess the sustainability of the economic rebound" — the word doing the work there is sustainability, not rebound.

On the trade rupture, Governor Macklem was specific: the newly tariffed products "represent about 5% of exports to the United States." Section 338 takes the average U.S. effective tariff on Canadian goods to roughly 5.7%, still below the world average of 6.7% and well below the euro area at 7.5%, Japan at 9.9% and China at 20.5%. Canada remains one of the least-tariffed suppliers to the United States, and the 20-percentage-point spike of March 2025 was twice as punitive as anything in force today.

The cost has been real but narrow. Canada's share of U.S. imports has fallen from about 11% in 2023 to roughly 8.8%, while Mexico's has climbed above 13%. Yet in dollar terms Canada shipped $385 billion to the United States over the past twelve months, down less than 5% year over year, against a 34% collapse in shipments from China. Canada now sells more to the United States each month than China does.

The Bank's own caution is the one worth passing on: the greater danger is not the duty but that "added uncertainty about the future of Canada-US trade relations may lead businesses more broadly to delay investment and hiring decisions." Nor is inflation quite settled — CPI is near 3% on gasoline, though 2.2% without it, with core measures close to target.

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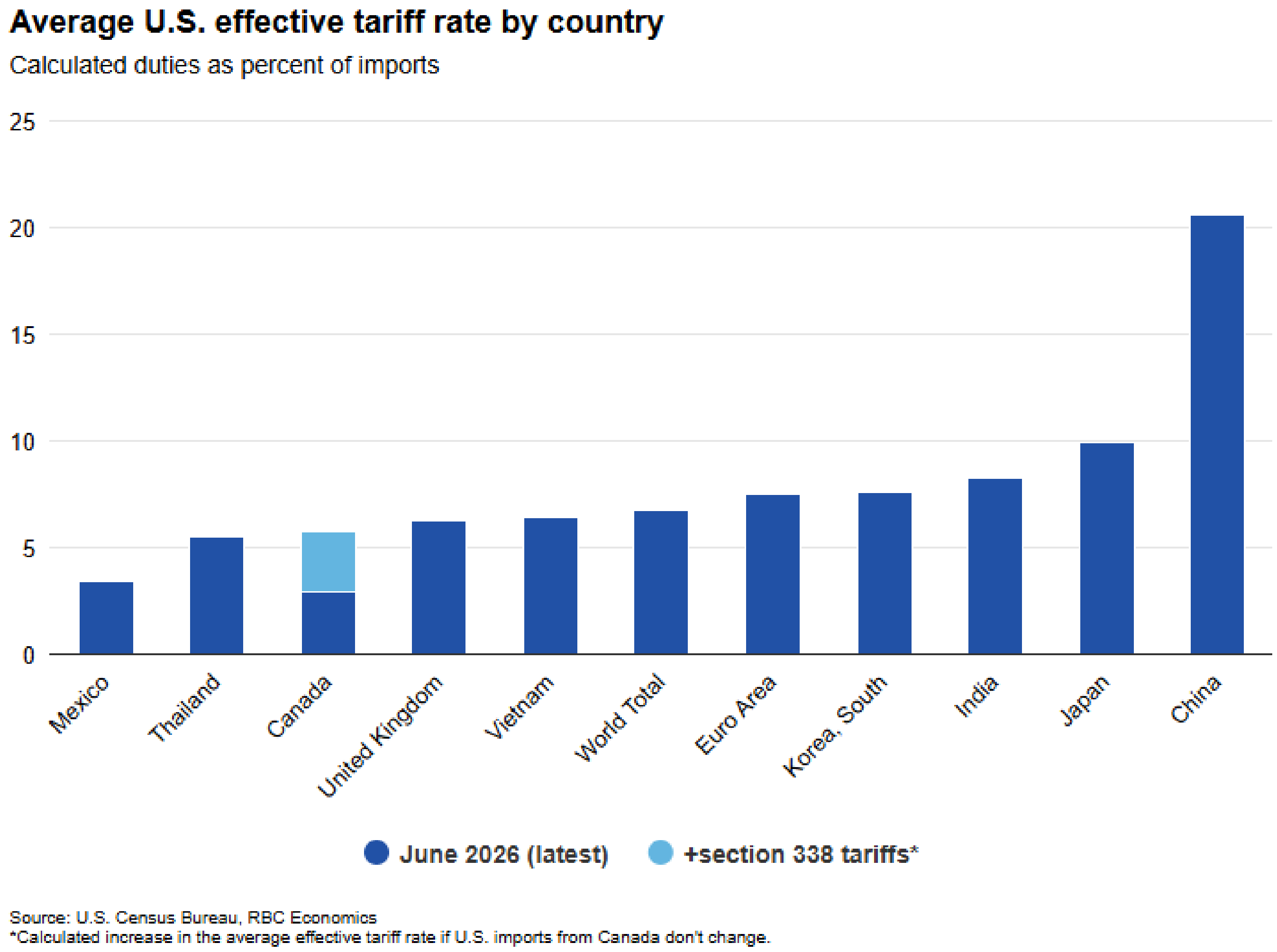
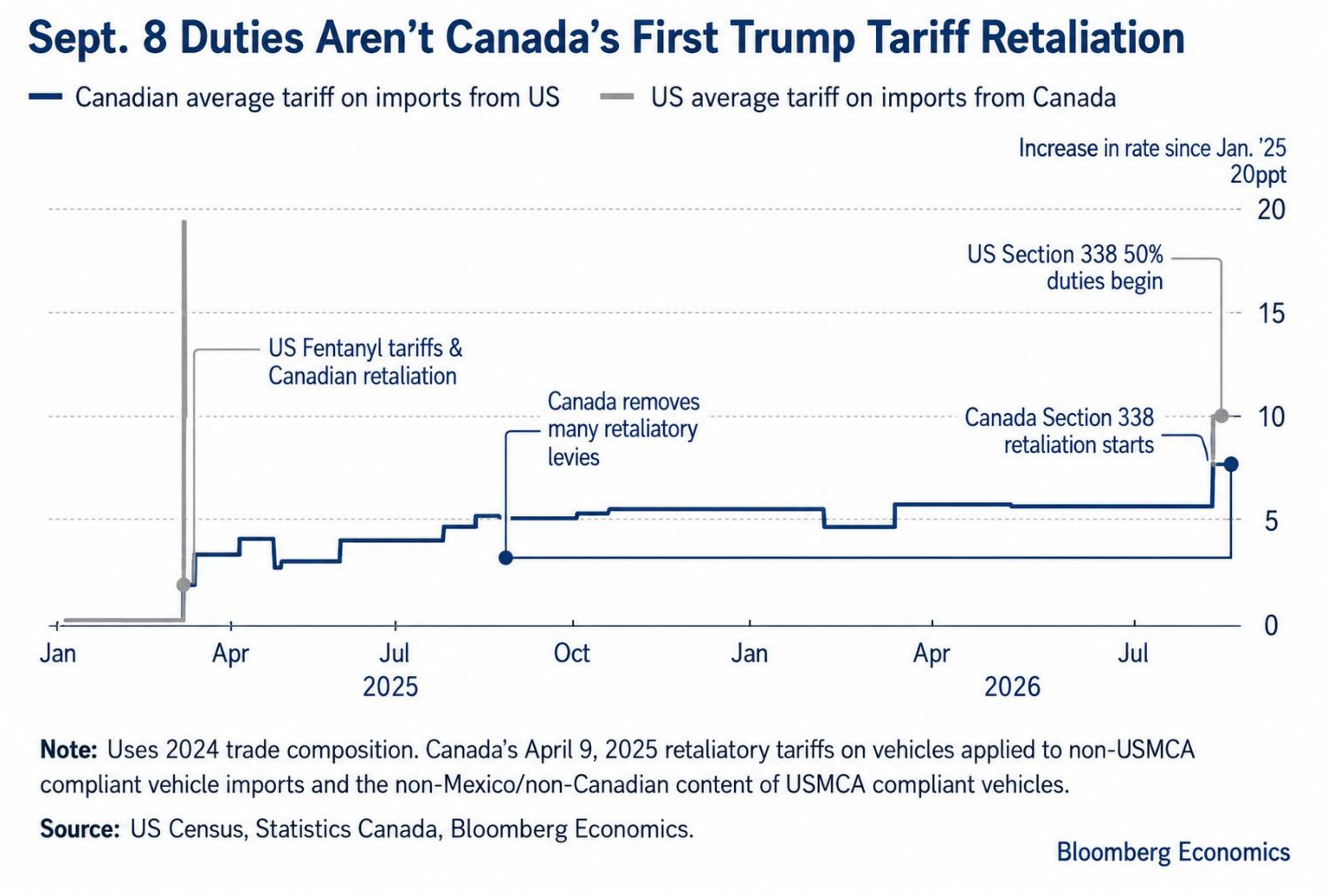
US Tariff Rates



Even with Section 338, Canada's average effective U.S. tariff rate is about 5.7% — below the world average of 6.7%, the euro area at 7.5%, Japan at 9.9% and China at 20.5%. This suggests that Canada remains a favoured US trading partner.

Canada – USA Trade War



Both countries' average tariffs have risen, but today's levels are half the March 2025 spike, when the fentanyl tariffs briefly pushed the U.S. average 20 points above its January 2025 base.

Section 338 lifts the U.S. average about 10%; Canada's retaliation about 7.5%. An escalation but not a catastrophe.

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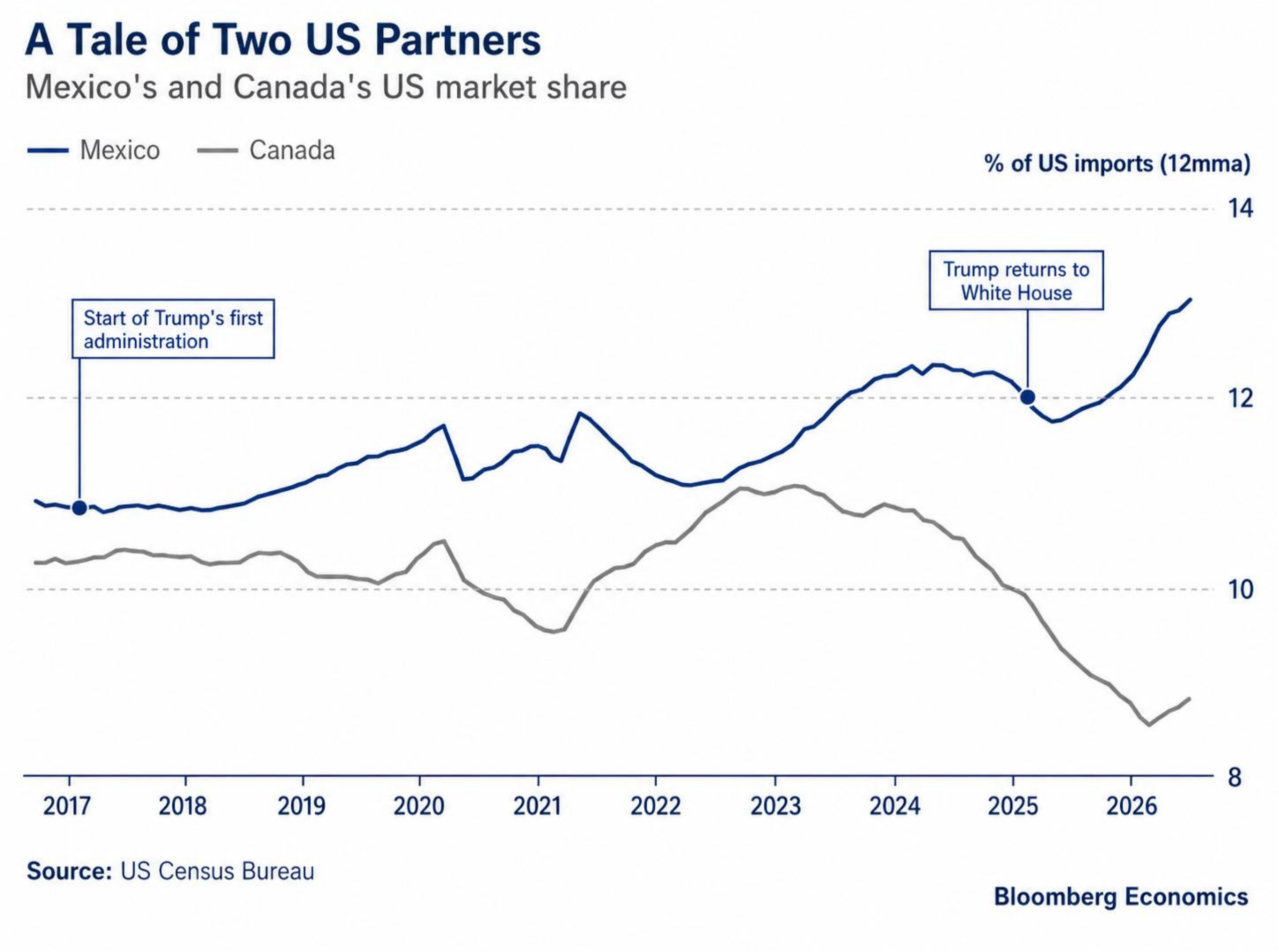
Canada/Mexico Trade Share



The trade dispute does not come without a cost. Canada's share of U.S. imports has slid from about 11% in 2023 to roughly 8.8%, while Mexico's has pushed above 13%.

Note the recent upturn in the Canadian line, though. The decline may have stopped, and share lost to a tariff is not necessarily lost for good.

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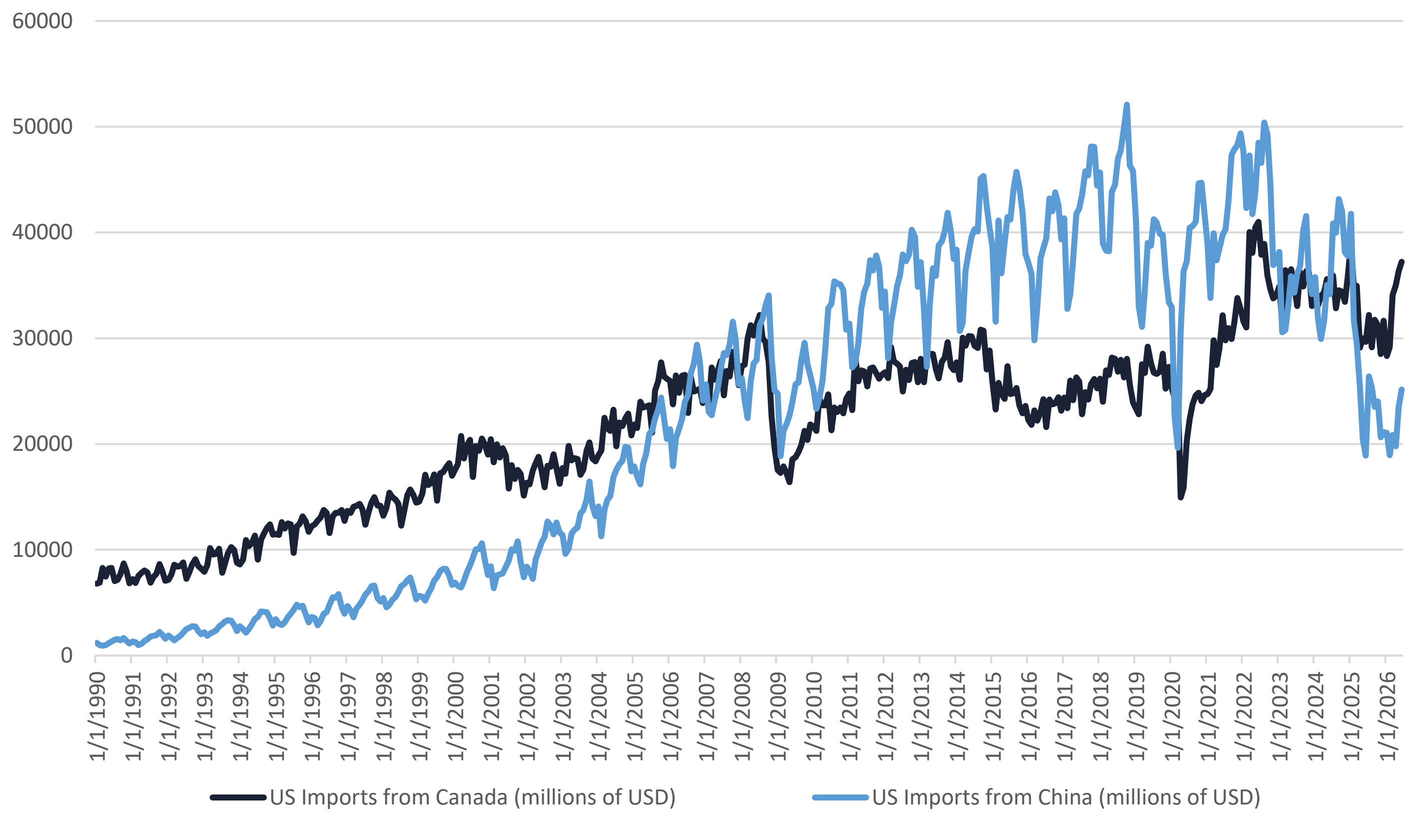
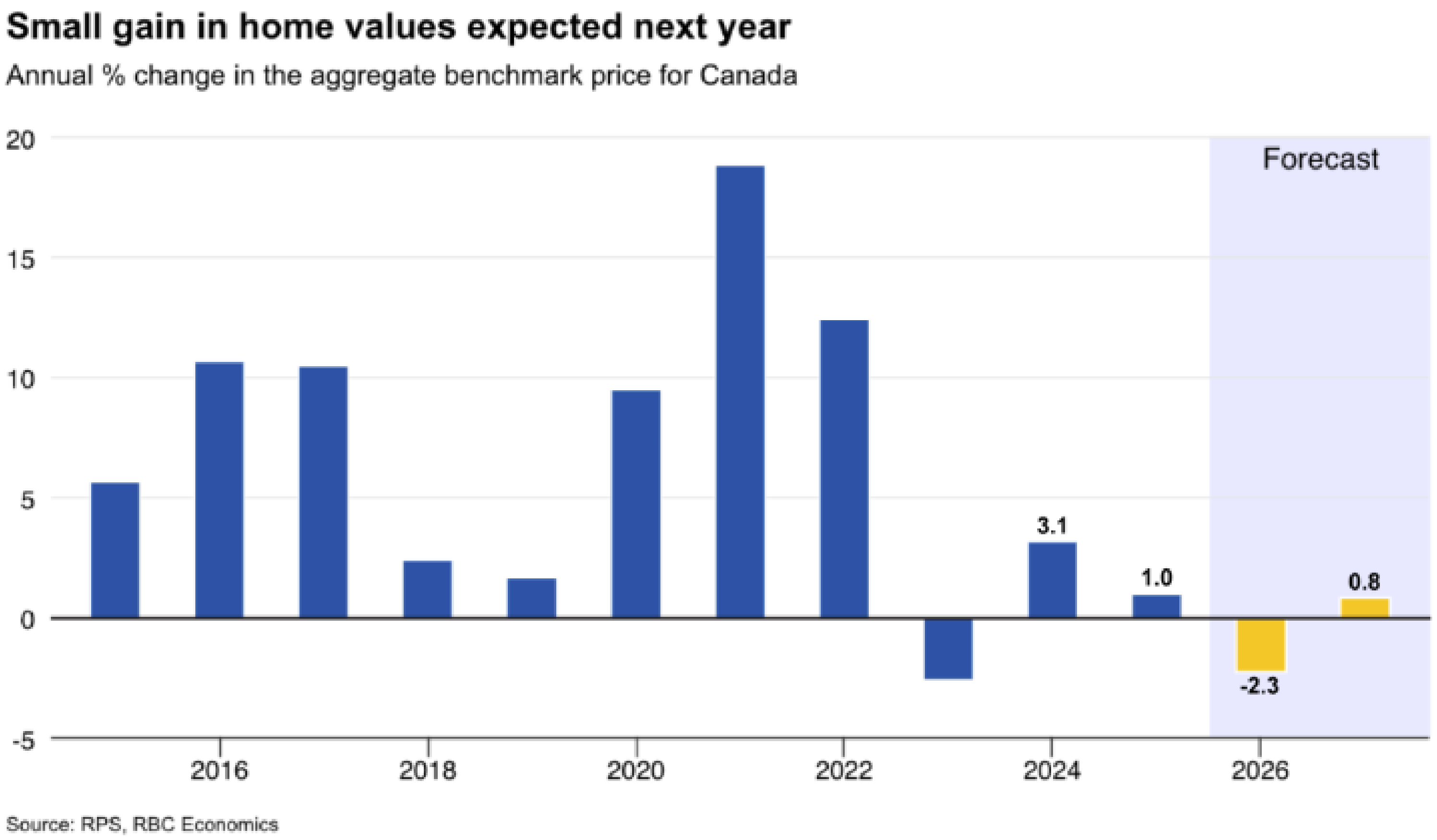
An Important Trade Partner



Canada now sells more to the United States each month than China does — $37.2 billion against $25.2 billion in June.

Over the past year Canadian shipments fell less than 5%, to $385 billion. Chinese shipments fell 34%. Leverage runs in both directions. Canada is a very important trade partner to the US.

Canadian Housing Market



RBC sees evidence of a recovery in the housing market. Housing is troughing and forecast to begin to recover in 2027, according to this analysis from RBC. Benchmark prices are forecast to fall 2.3% this year before a 0.8% gain next year.

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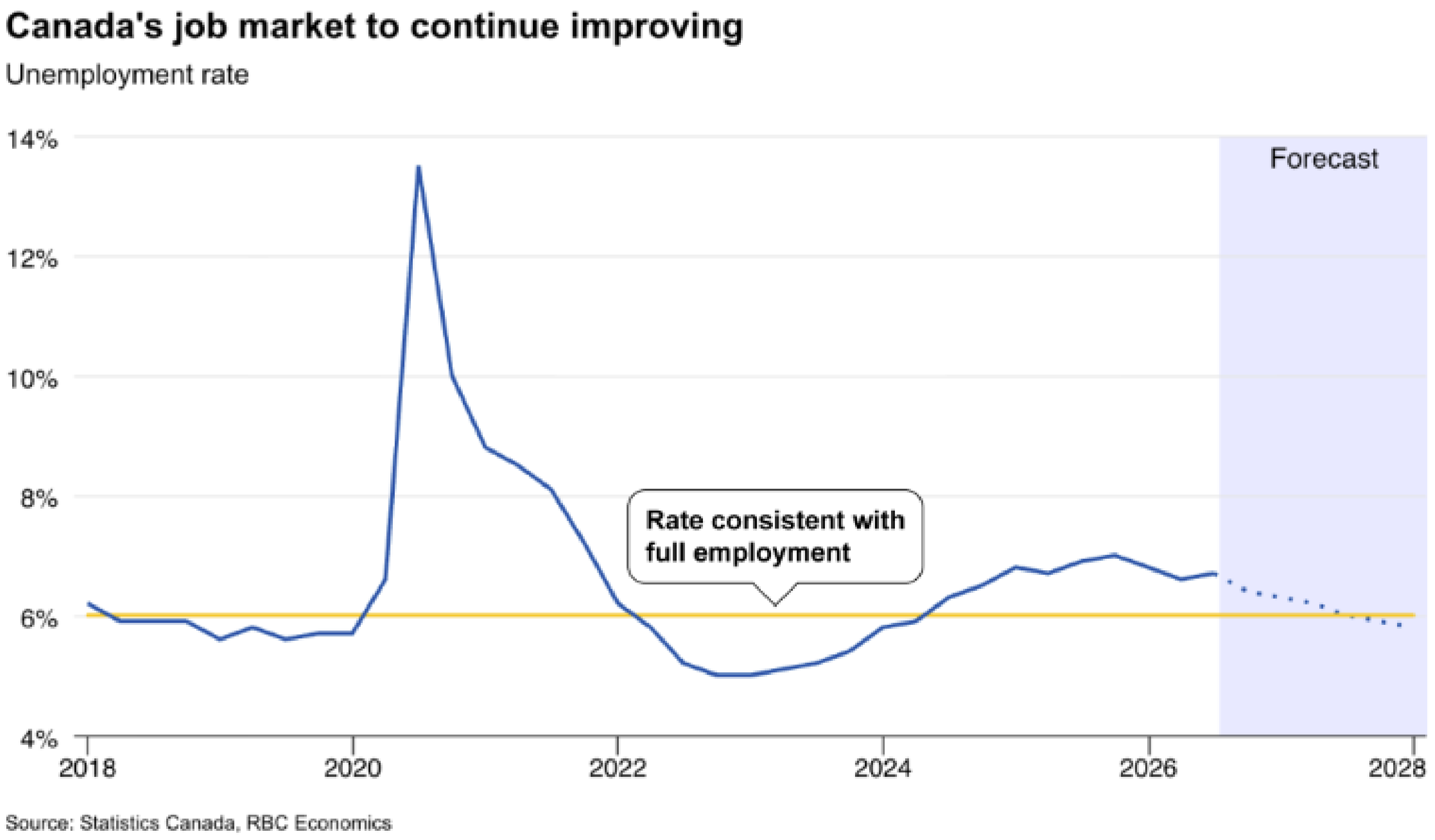
Employment - Canada



The labour market is the clearest evidence for the improving economy. Unemployment edged down to 6.4% in July from a 2026 peak above 7%, and RBC expects a gradual decline toward the rate consistent with full employment by 2028.

The Bank of Canada still sees excess supply and warns that trade uncertainty may cause businesses to delay hiring.

An improving labour market with core inflation near target is a supportive combination for investors.

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