

Outlook 2022: No Quiet on the Inflation Front

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Russia invades Ukraine



Apart from the huge human tragedy,
a stagflation shock to the global economy:

Higher oil and other commodity prices

Further disrupted supply chains

Sanctions on Russia

Bottom line: Inflation ↑, Growth ↓

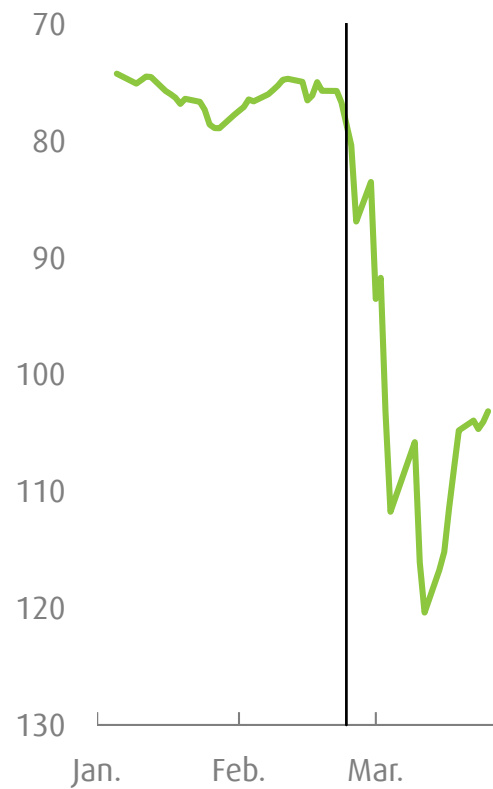
Financial market reaction SWIFT

2022 (as of March 23, 2022)

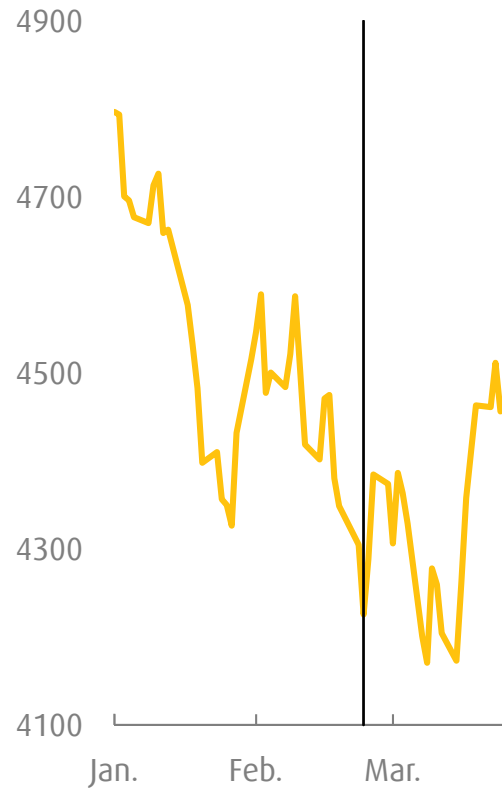
U.S. 10-year Treasuries (percent)



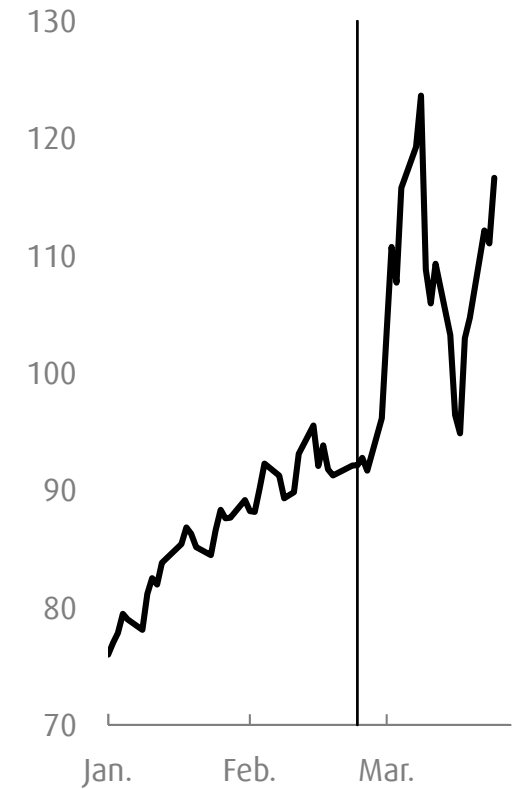
Russian ruble (RUB/US\$)¹



S&P 500 (1941-43 = 10)



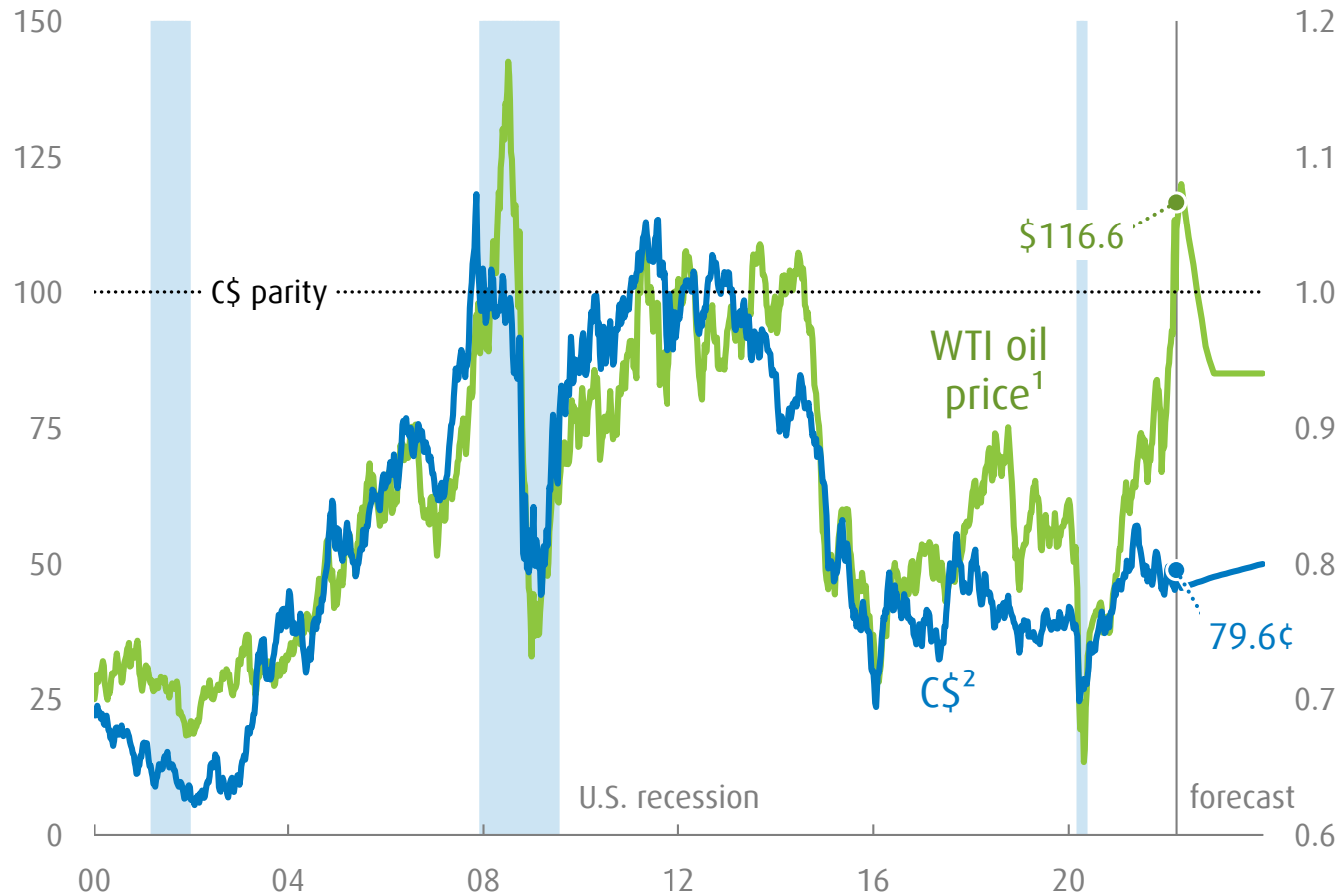
WTI crude oil (US\$/bbl)



¹ Inverted scale

Canadian dollar and oil: Drift apart

(as of March 23, 2022)



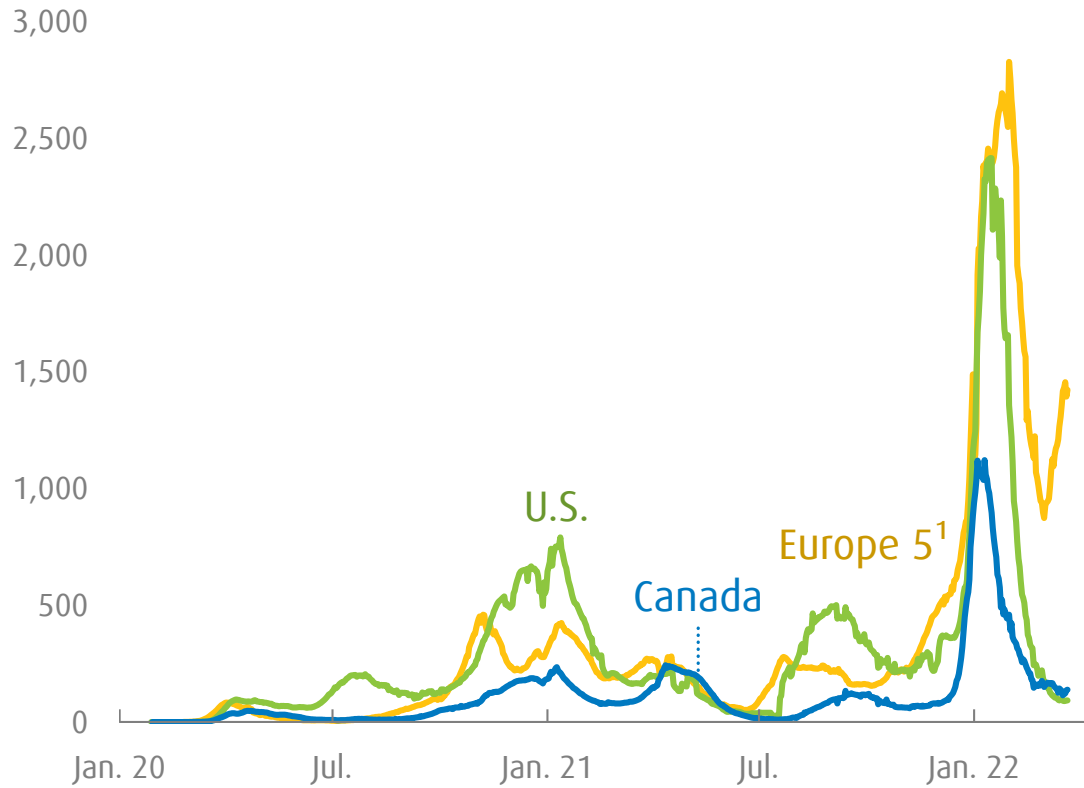
¹ (lhs : US\$/bbl) • ² (rhs : US\$/C\$)

- BoC to match the Fed
- Current account close to balance
- Commodities still supportive
- U.S. dollar to weaken in second half

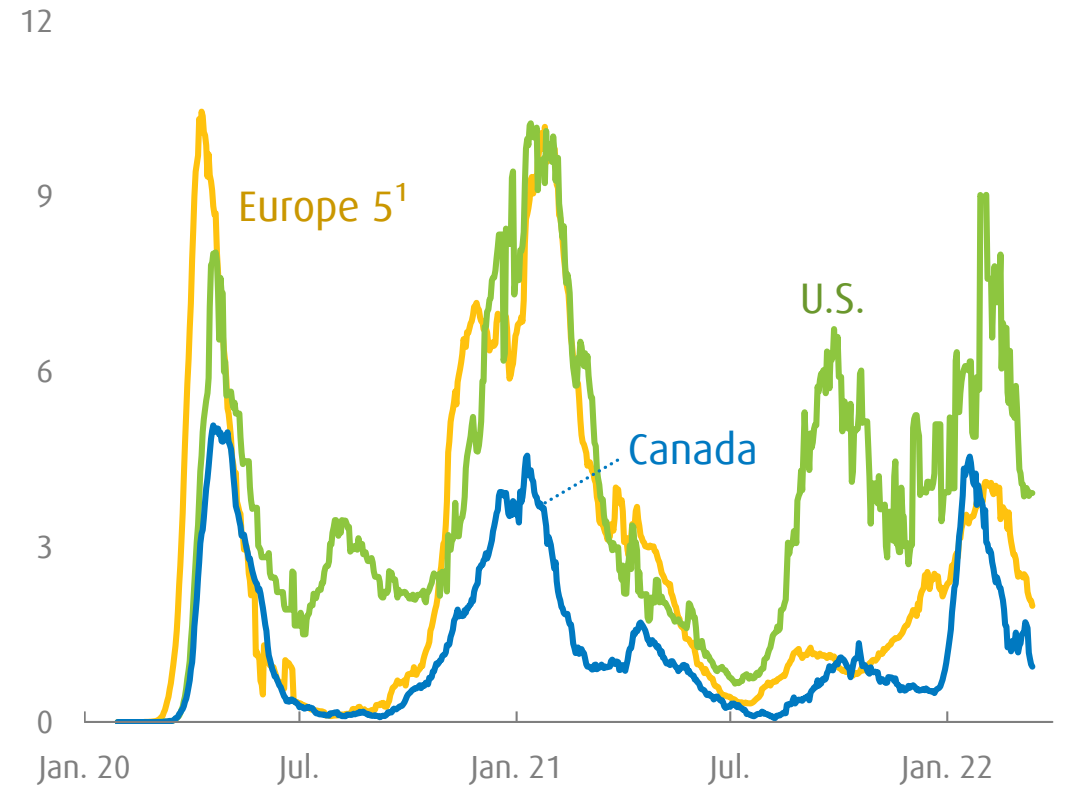
Omicron wave crests... What's next?

COVID-19 (per mln : 7-day m.a. : as of March 22, 2022)

Infection rate (new cases)



Mortality rate (new deaths)



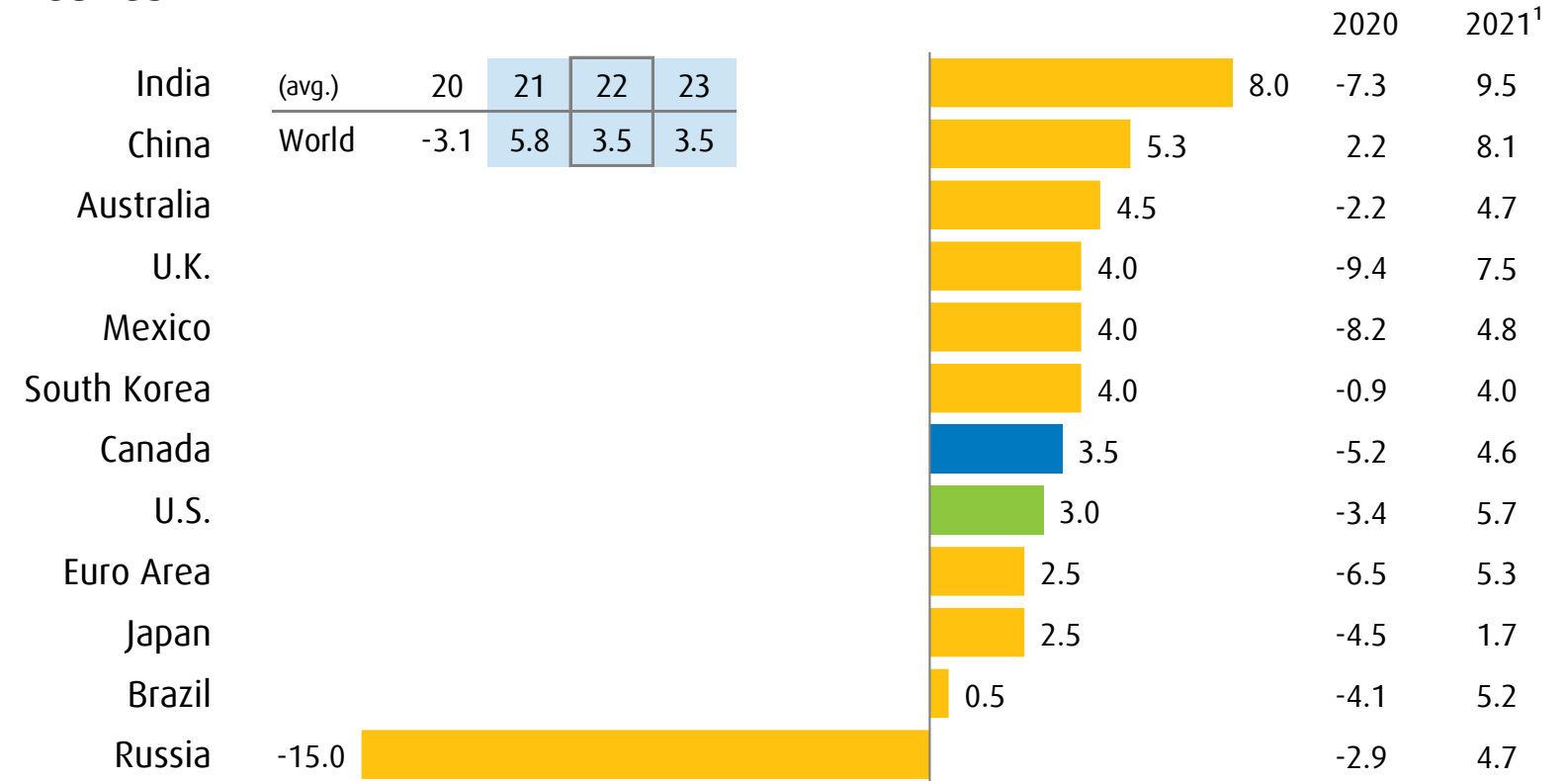
¹ France, Germany, Italy, Spain, U.K.

Growth to slow

2022 forecast (% chng)



Real GDP



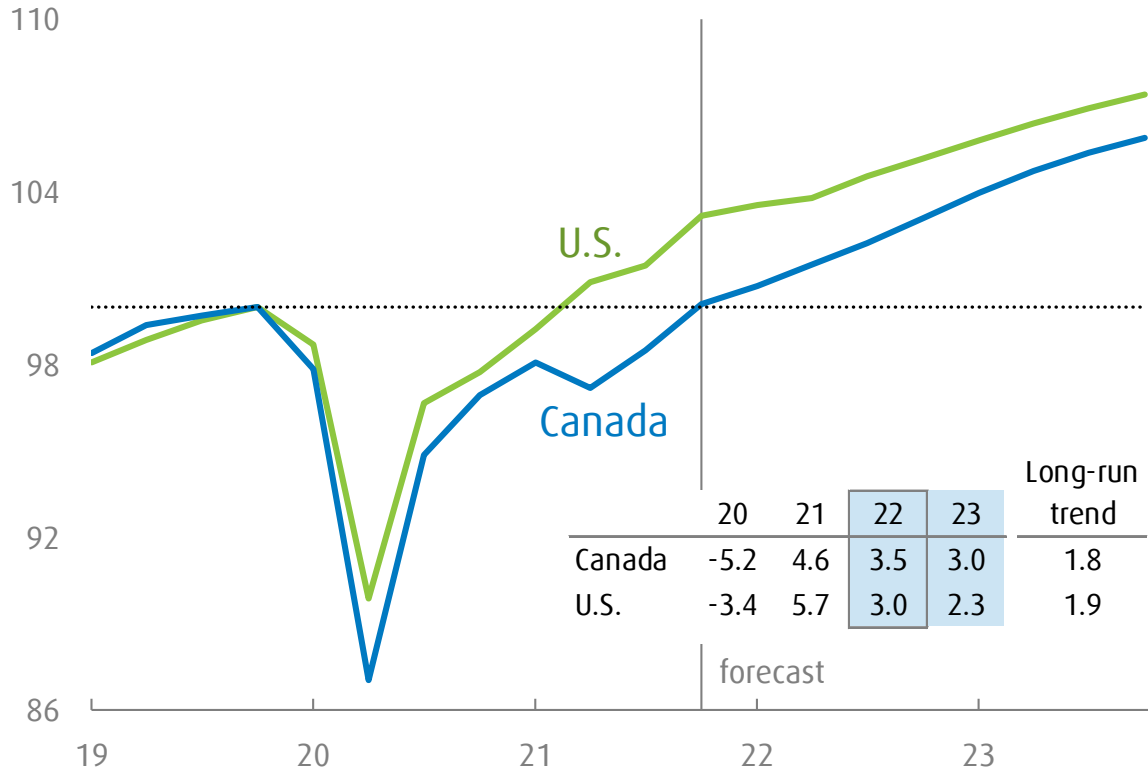
In the way: Supply shortages, higher prices, war

¹ 2021 forecast: Russia

North America on the mend

(2019Q4 = 100)

Real GDP



Recession:

Just two months long, but deepest on record

Recovery:

Solid so far, but conflict clouds outlook

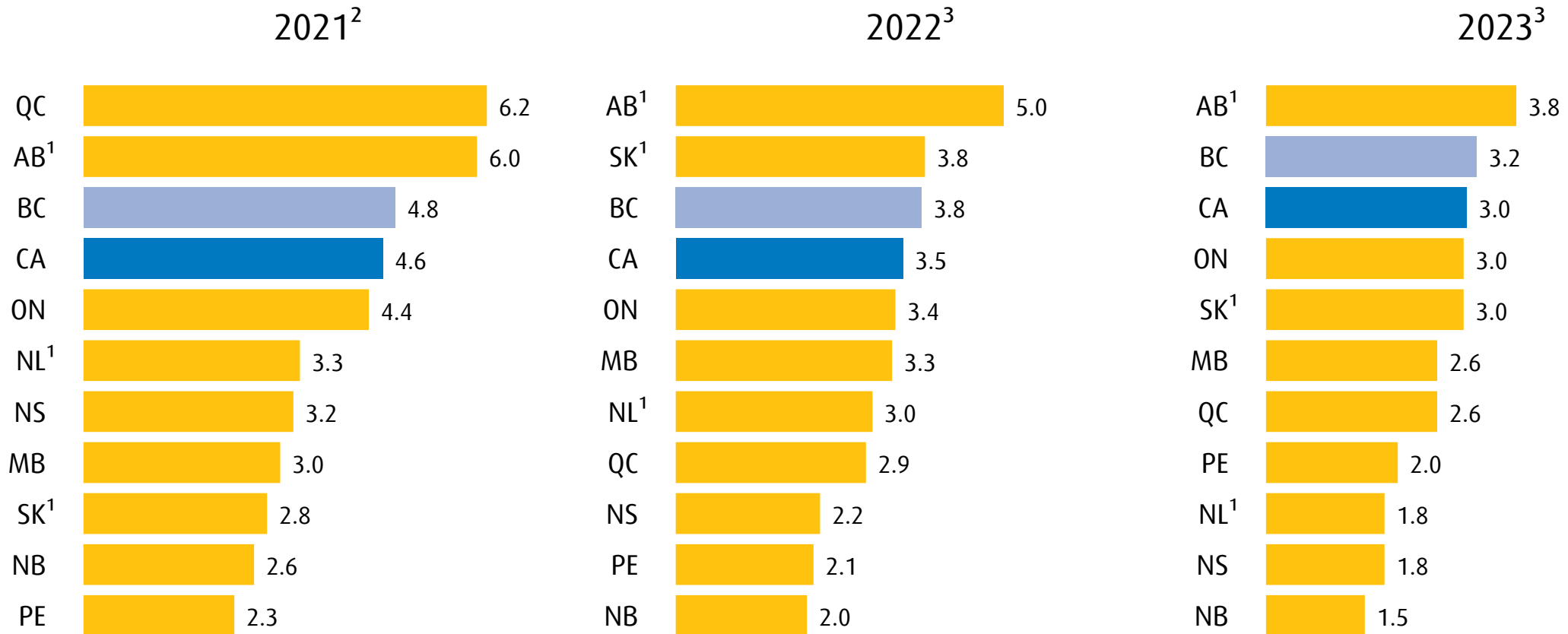
2022:

Canada and U.S. shaved 0.5 pts

Canadian GDP: Up 0.6% from pre-pandemic peak in January

Canada's regional outlook: B.C. solid

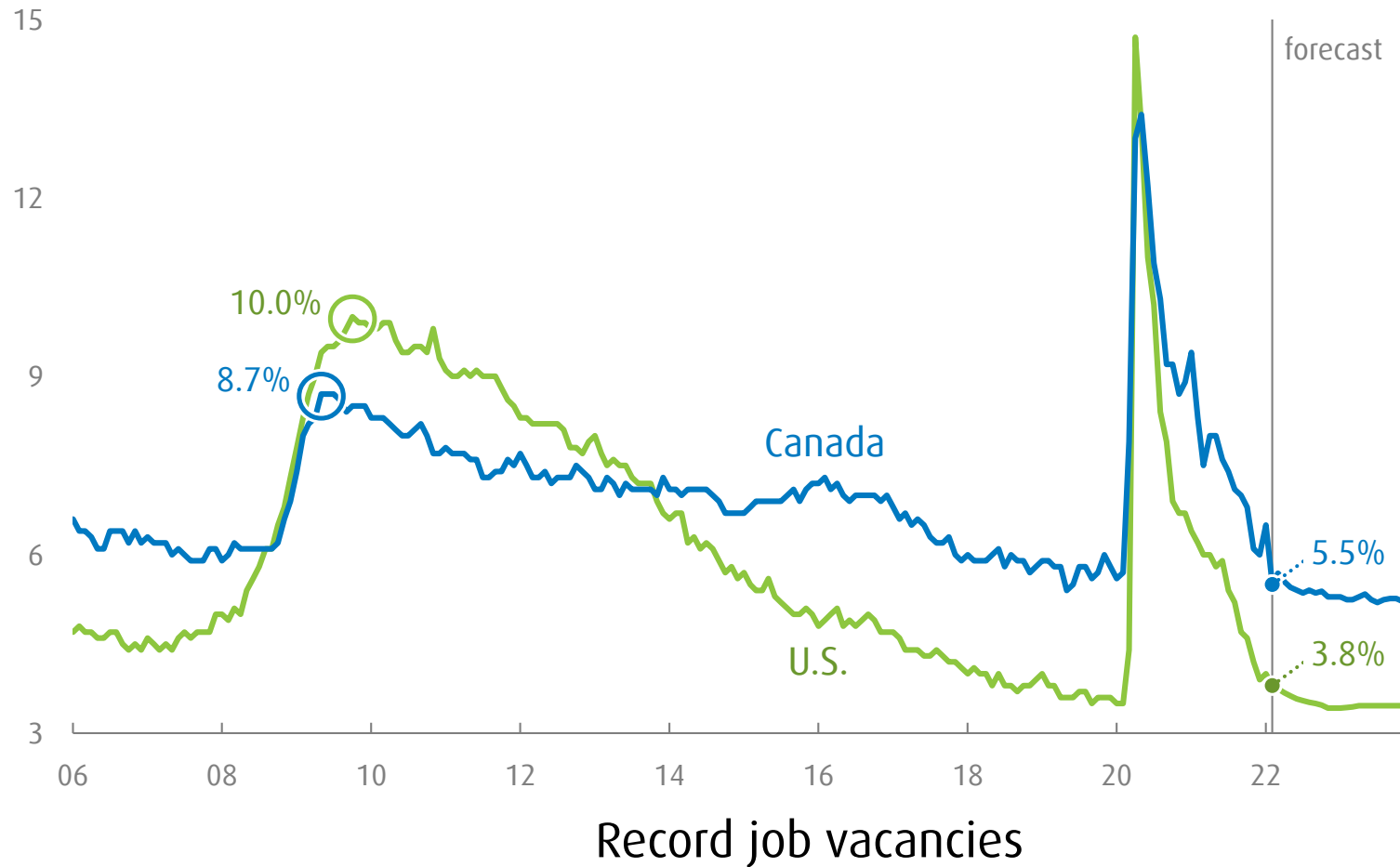
Canada – Real GDP (% chng)



¹ Oil producers • ² Estimate • ³ Forecast

Jobless rates: Back to normal

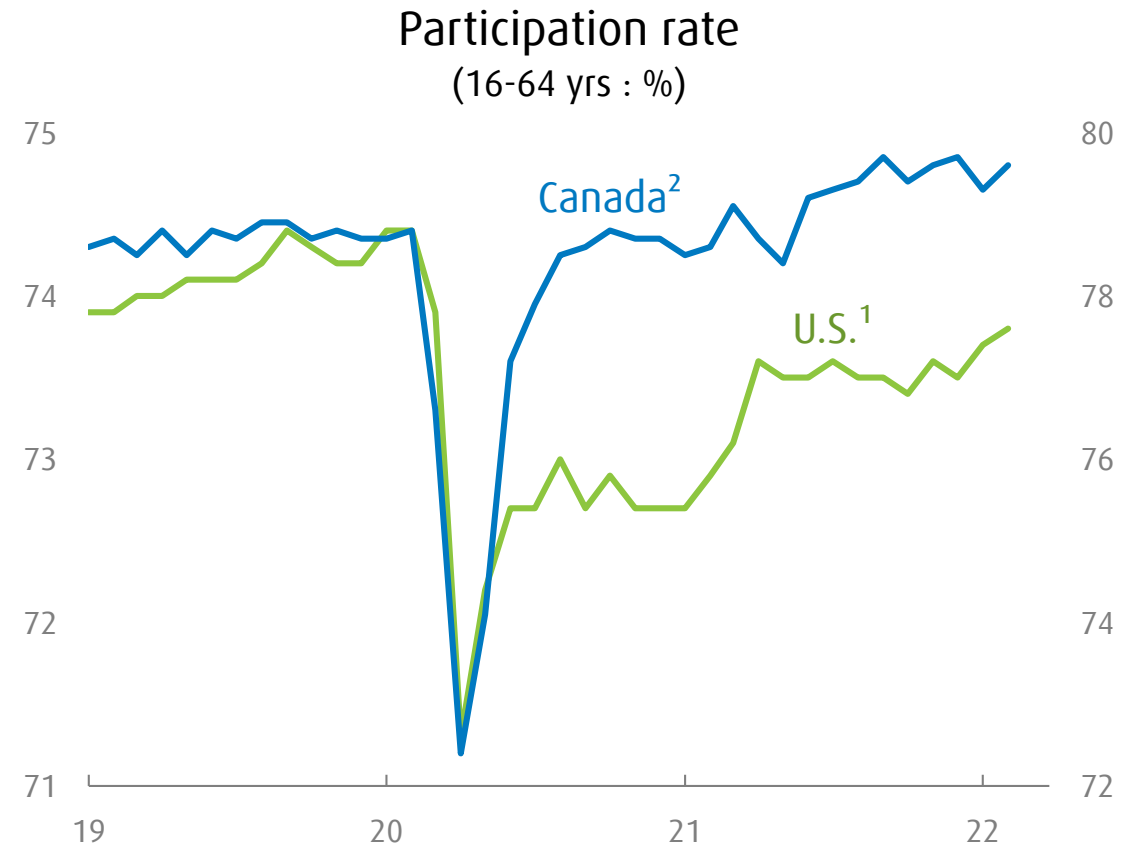
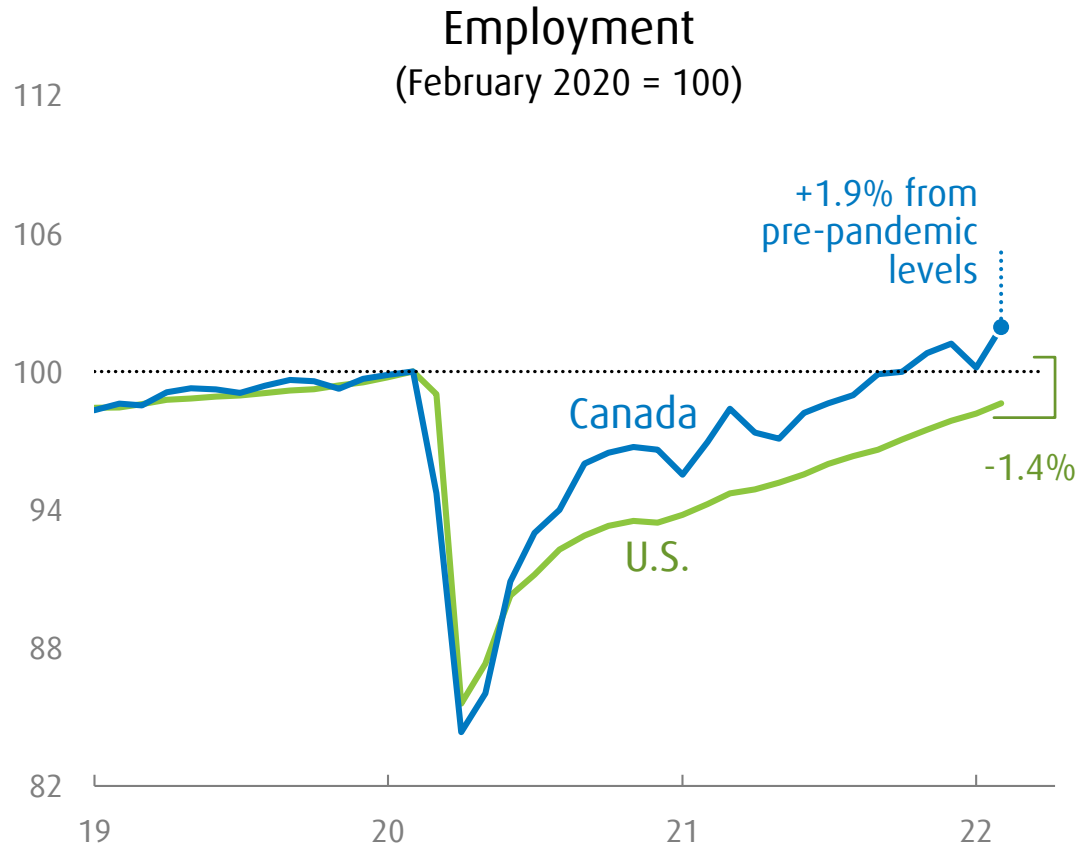
Unemployment rate (percent)



	Current	Pre-COVID ¹
Greece	12.8	15.8
Spain	12.7	13.8
Italy	8.8	9.6
Sweden	7.3	7.9
France	7.0	7.8
Portugal	6.0	6.6
Canada	5.5	5.7
Ireland	5.2	4.8
U.K.	4.4	3.1
Australia	4.0	5.1
U.S.	3.8	3.5
Germany	3.1	3.5
Japan	2.8	2.4
Vancouver	5.4	4.4
Victoria	4.2	3.7
British Columbia	4.9	5.2

¹ February 2020

Canada's job market: Fully caught up

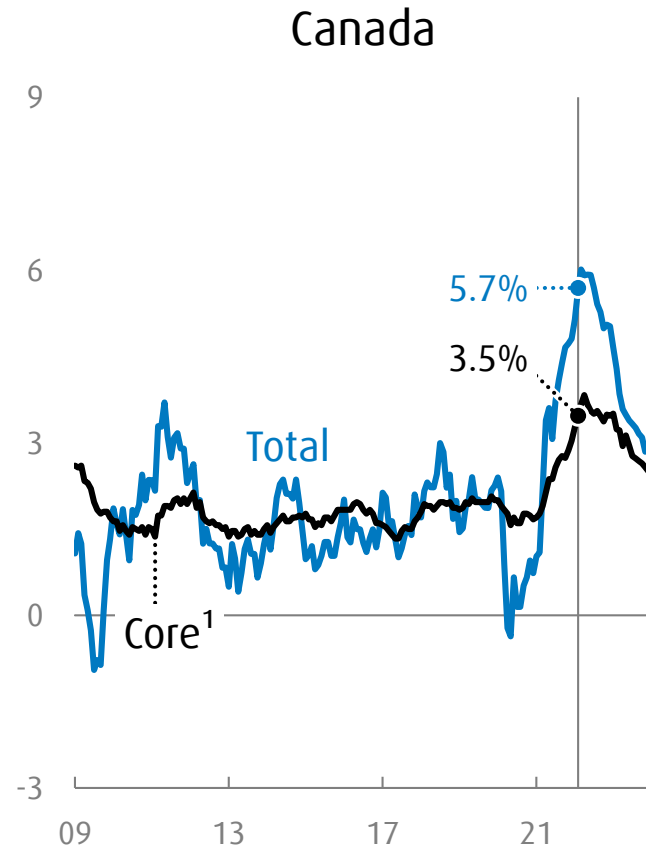
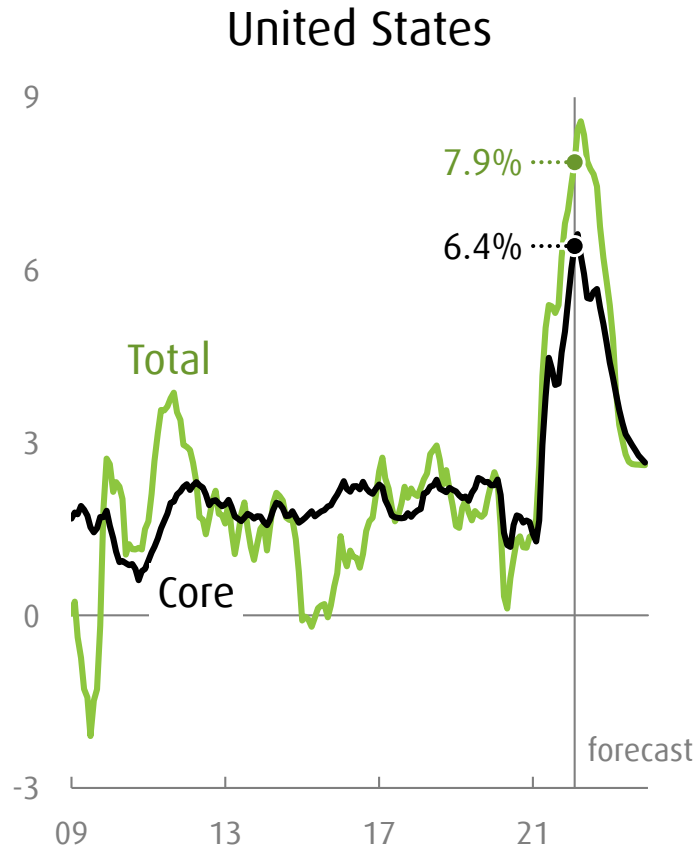


U.S. still has work to do

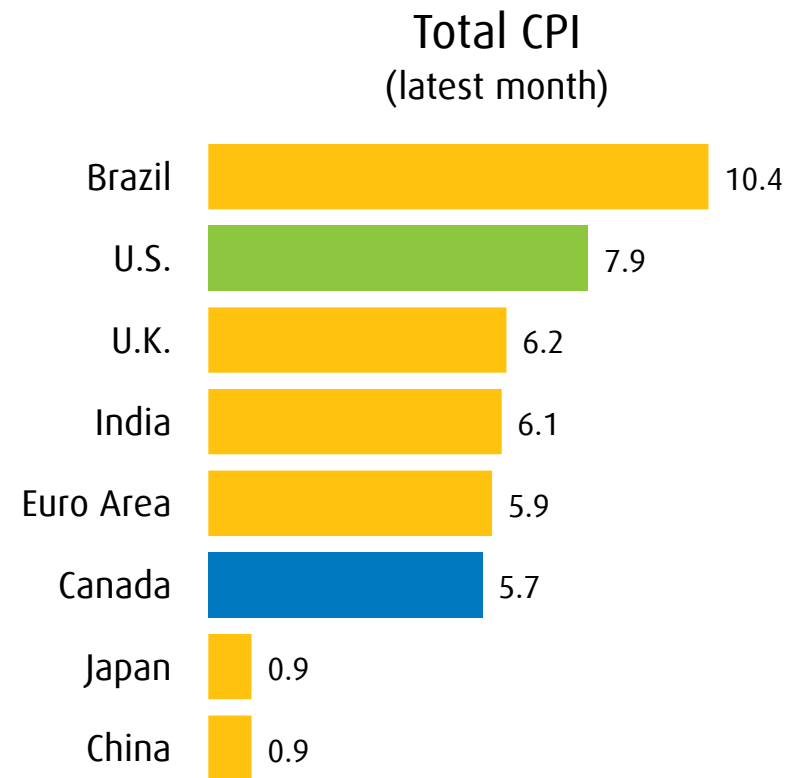
¹ (lhs) • ² (rhs)

Inflation jumps... for how long?

Consumer price index (y/y % chng)



Canada calmer: Currency, cars, COVID



British Columbia: 4.7%

¹ Average of three core inflation measures

Inflation and deflation in Canada

Canada – Consumer price index (y/y % chng : as of February 2022)

Deflationary

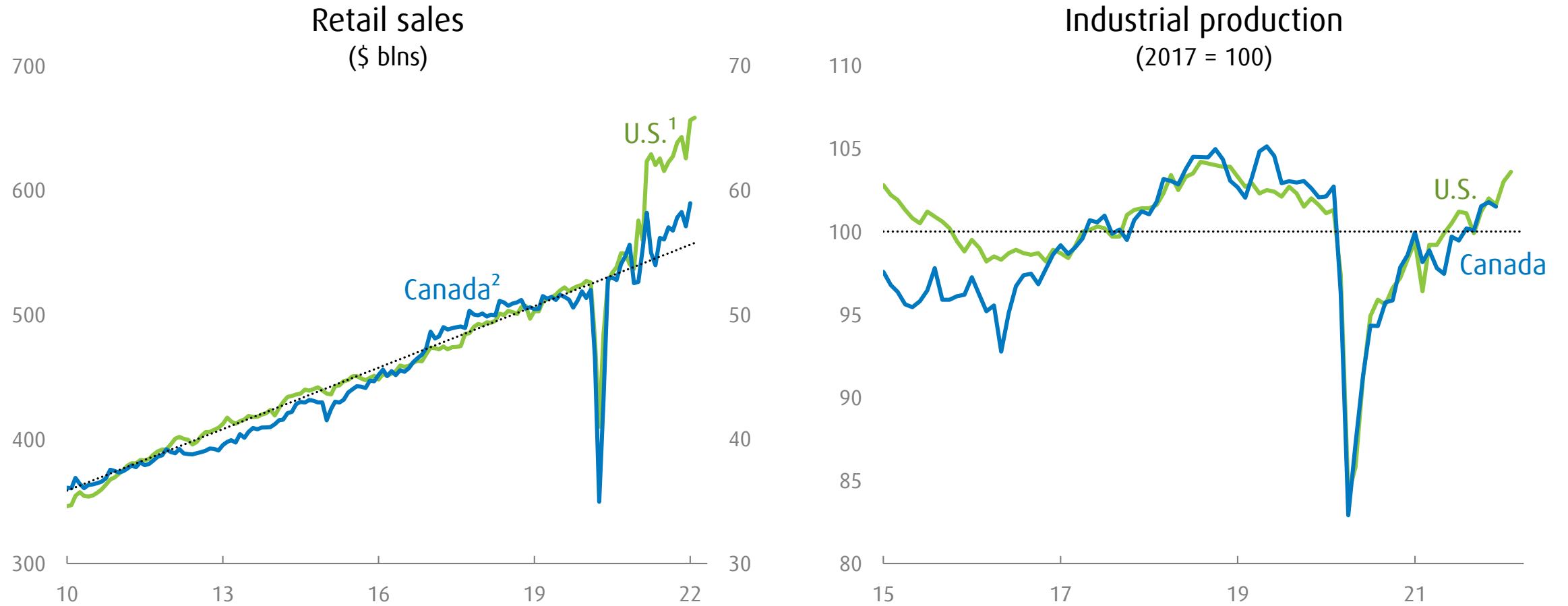
Telephone services	-7.9
Computer equipment	-7.7
Auto insurance	-6.5
Medicinal cannabis	-6.3
Mortgage interest	-6.0
Public transit	-4.2
Video equipment	-2.4
Household tools	-2.2
Travel services	-1.9
Recreational services	-0.6

Inflationary

Gasoline	32.3
Car rentals	24.0
Natural gas	22.1
Hotel/motel rates	21.0
New homes	13.2
Meat	11.7
Cigarettes	8.0
Household appliances	7.8
Household furniture	7.5
Rent	4.2

Overall CPI: 5.7%

Pressure is more than a supply story



¹ (lhs : retail sales & food services) • ² (rhs)

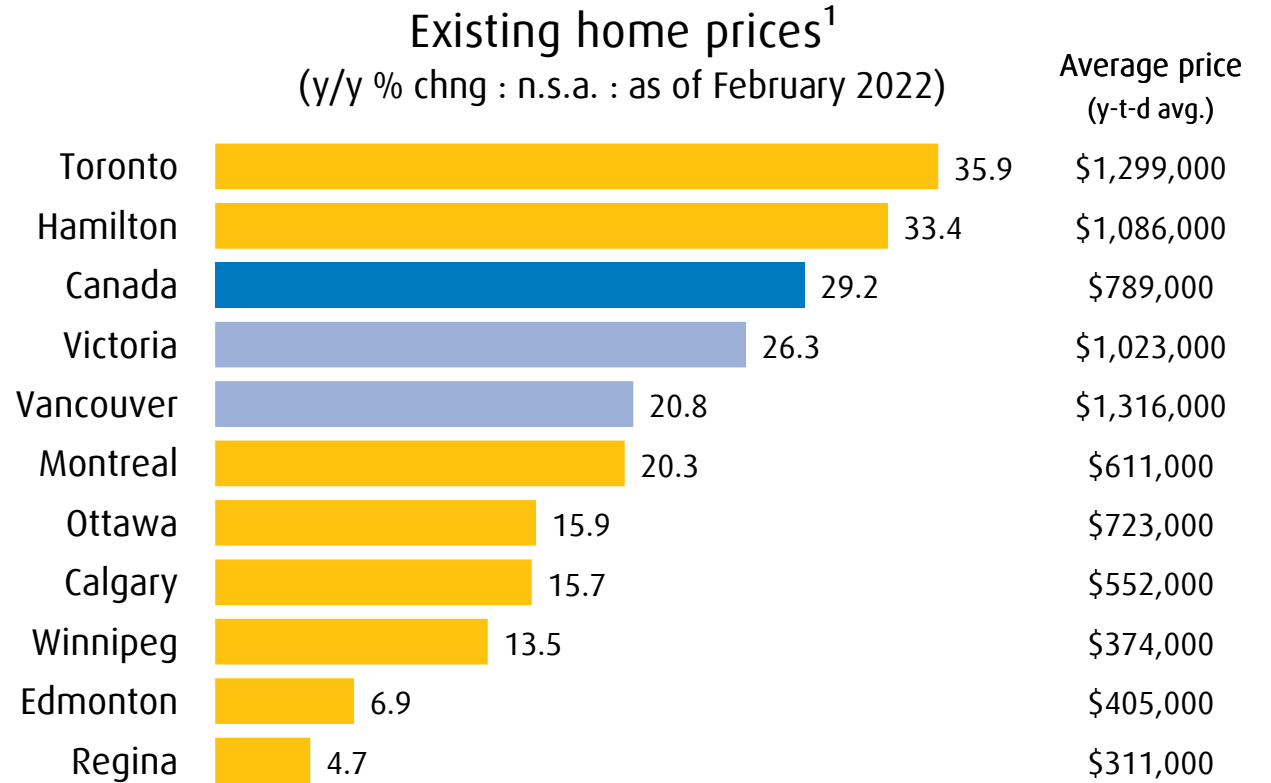
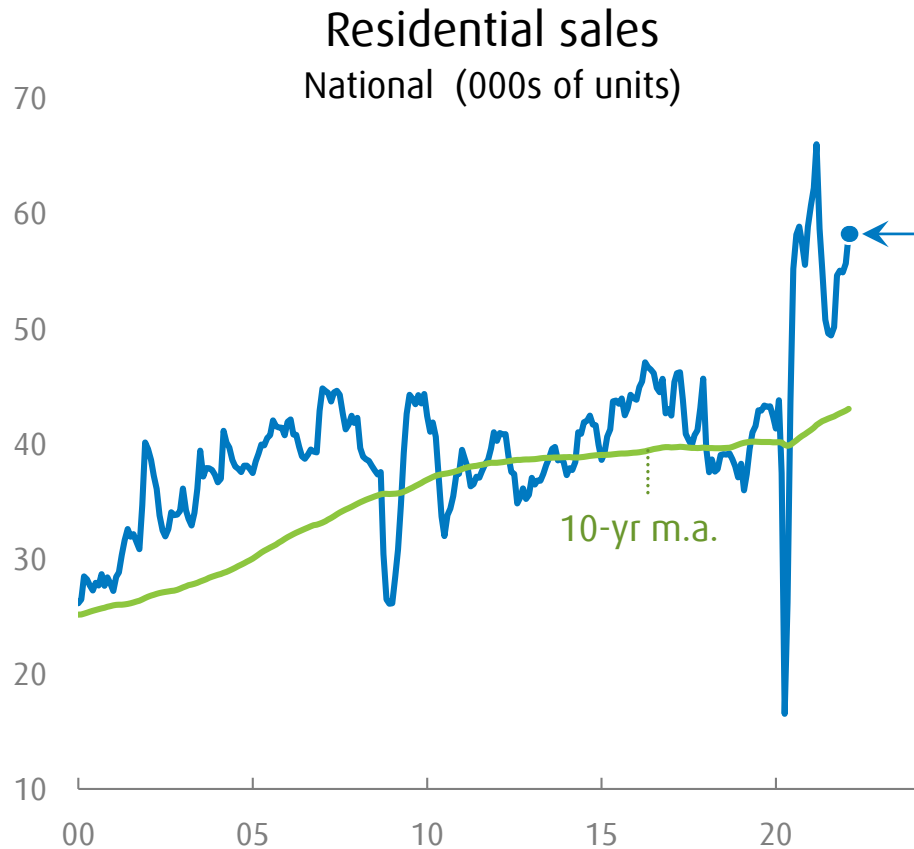
Labour supply a lasting challenge



¹ FRB Atlanta Wage Tracker (weighted : 3-mth m.a. : y/y % chng : lagged 12 mths) • ² Total private (%) • ³ Average Hourly Earnings (12-mth m.a. : y/y % chng) • ⁴ Job Vacancy Rate (%)

Housing: Still heating up

Canada – Homes



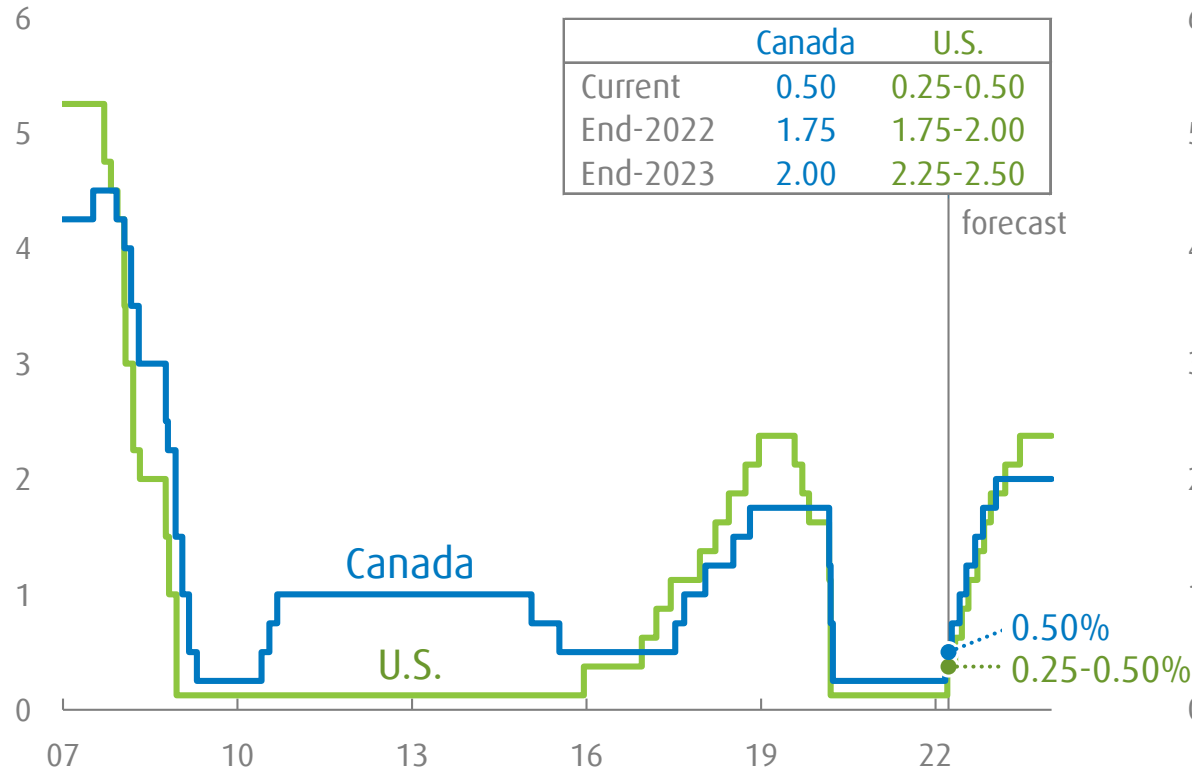
Prices surge in smaller cities, cottage country

¹ HPI composite benchmark

Rising rates: We've only just begun

(% : as of March 23, 2022)

Overnight rate

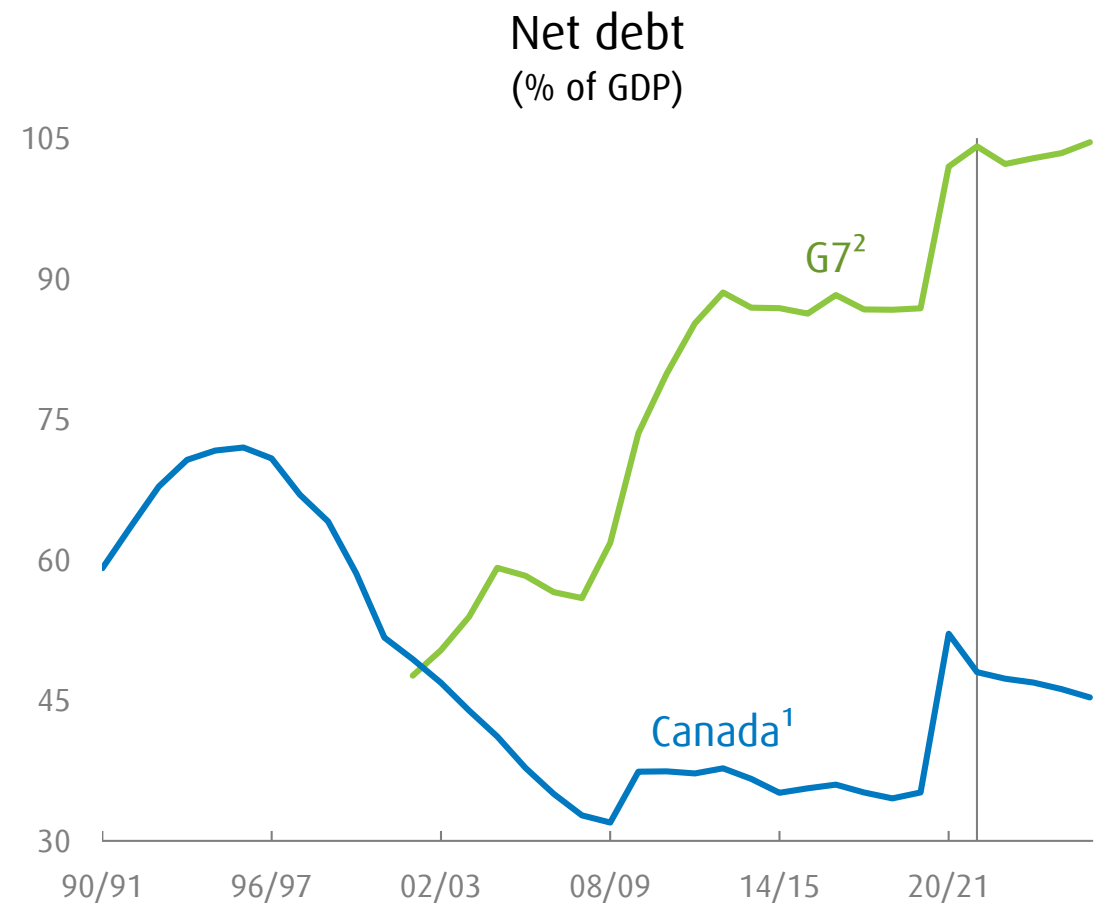
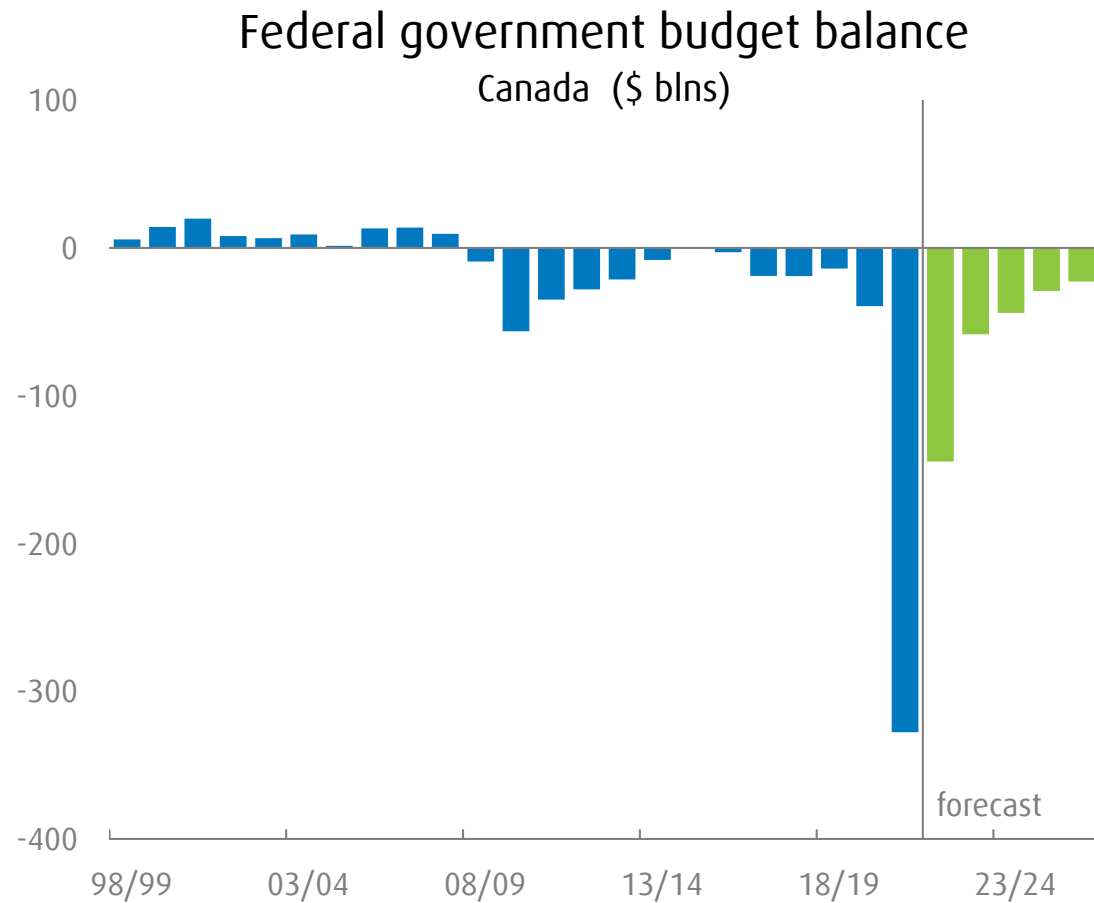


10-year bonds



Quantitative tightening (QT) by the summer

Paying for the pandemic

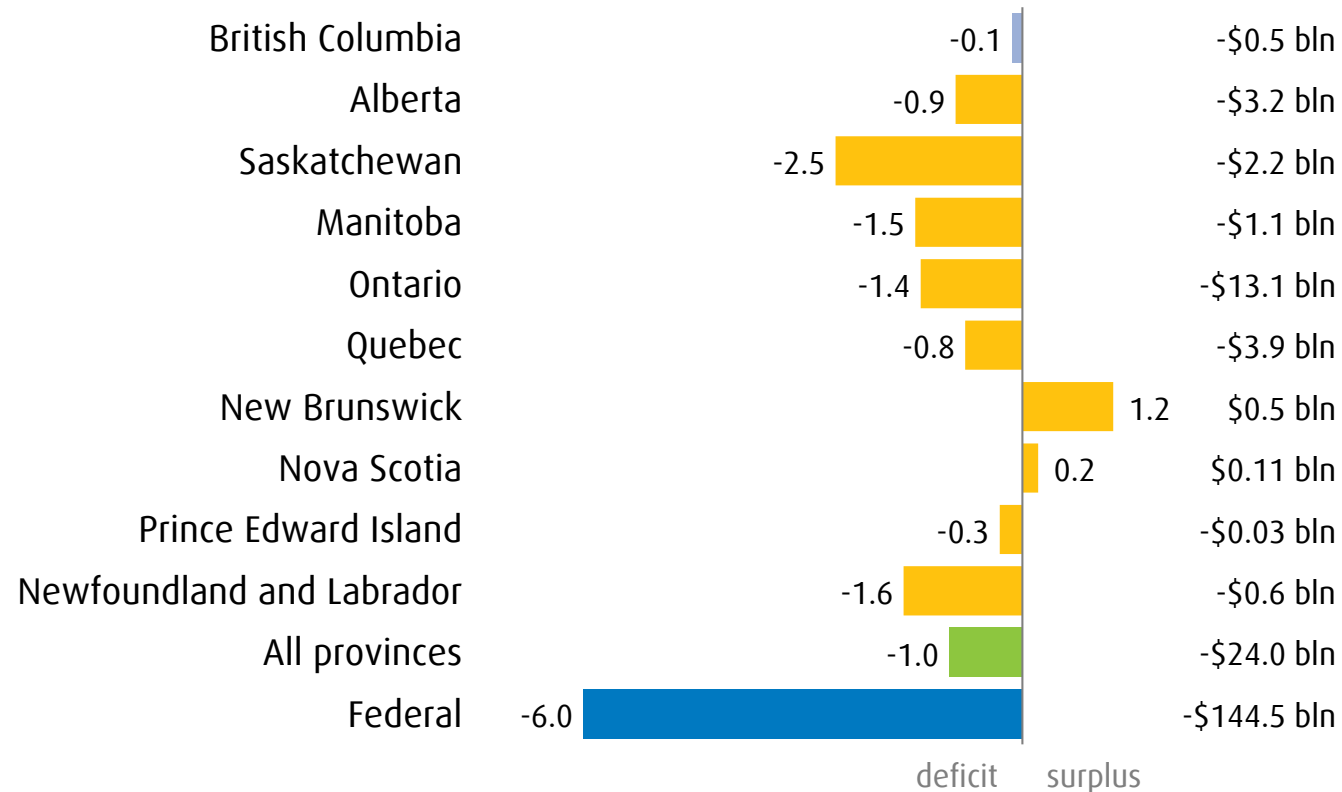


¹ Federal government • ² General government

Provincial landscape: Big improvement

Canada – FY21/22 (% of GDP)

Budget balance



Provincial deficits shrink quickly

Ottawa carried most of COVID burden

Economic rebound and federal transfers boost revenues

Combined provincial deficit ~1% of GDP; surpluses likely for some in FY22/23

Adding it up



Growth:

Recovery slowing; war in Ukraine an added risk
COVID variants to remain a risk
Supply constraints holding us back

Inflation:

Longer and higher than most think
Stagflation risks rising

Markets:

Rate hikes on track; moves could be aggressive
Loonie stable
Equities and bonds face inflation music

Q and A

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