Canada outlook report

Third quarter of 2024

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The quarterly report of Canada aims to provide a comprehensive and executive view of the main sectorial indicators of the country, classified by regulated industry, as well as the macroeconomic situation at the end of each quarter.

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1. International overview

Global growth remains stable, driven by recovery in both advanced and emerging economies, with moderating inflation supporting real income growth. Labour market pressures continue to ease, while unemployment remains mostly stable, majorly at or near historical lows.

Macroeconomic outlook

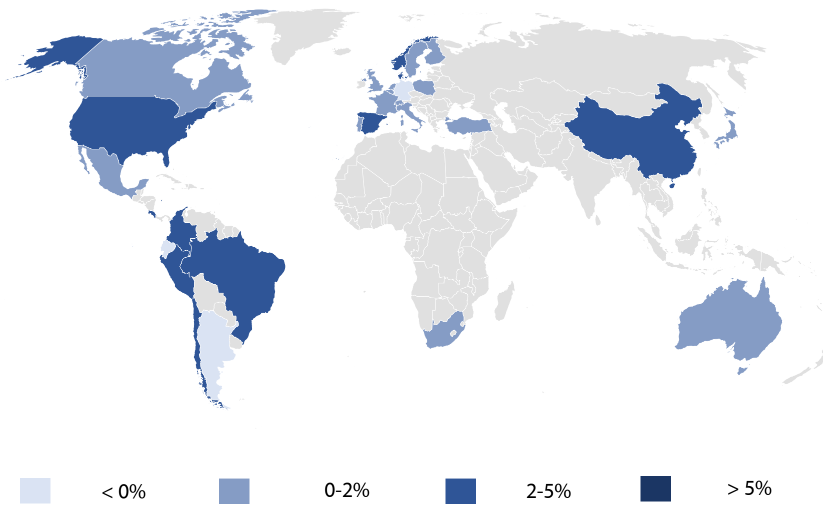
- In the third quarter, GDP in the eurozone grew by 0.93% year-on-year, continuing its upward trend. However, Germany continued its negative trend, recording negative growth of -0.32%. The average CPI in the eurozone continued to fall for another quarter, reflecting the effectiveness of the EU's current monetary policy. Only the Netherlands recorded an increase in its CPI compared to 3Q23. The average unemployment rate in the eurozone was 6.33%, down slightly from 6.40% in the previous quarter.
- In the third quarter of 2024, U.S. GDP grew by 2.66%, while Canada's year-over-year growth was 1.49%, still slightly up from the second quarter. Latin America's growth rate rose to 1.87%. Inflation in the U.S. decreased to 2.62% and in Canada to 2.04%. The average inflation rate in Latin America was 2.57%, excluding Argentina's high rate of 234.24%. Also in Latin America, the average unemployment rate was 5.88%, with a slowdown observed in Brazil (6.40%) and Peru (5.99%), both of which declined on a quarterly and annual basis. On the other hand, the unemployment rate increased in the United States and Canada, reaching 4.20% and 6.50%, respectively.
- In the Asia region, China recorded growth of 4.60% in the quarter, down from 4.90% in 3Q23. Japan recorded a GDP increase of 0.23% after two consecutive quarters of negative growth. Turkey's growth slowed down to 1.93%, continuing a downward trend since 1Q24 (6.70%). China's inflation rose to 0.48%, an increase both year-on-year and quarter-on-quarter. Turkey ended its upward trend, with inflation dropping by 18.18 p.p. quarter-on-quarter and by 2.11 p.p. Y-o-Y. Unemployment rates in China and Japan remained relatively stable compared to the previous quarter. In Turkey, however, the unemployment rate decreased by 0.53 p.p. compared to 3Q23.
- In the third quarter of 2024, South Africa's GDP growth rate increased by 0.87 p.p. compared to 3Q23, reaching a growth rate of 0.37%. Inflation continued to decline, falling by 0.78 p.p. year-on-year. The unemployment rate remained high at 32.10%. In Australia, GDP slowed down with a decline of 1.28 p.p. compared to 3Q23. The CPI continued its downward trend and stood at 2.81%, 2.56 p.p. lower than in 3Q23. Unemployment worsened significantly by 4.62 p.p. compared to 3Q23.
- According to the OECD, indicators point to a gradual moderation in the second half of the year after the strong growth in the first half. The services sector slowed down in July and August, but recovered in September. Similarly, retail trade grew by 5.1% in the first half of 2024, remained flat in July and August, and then picked up again in September. Industrial production followed a similar trend, showing robust growth in early 2024, but losing momentum in July and August.
- The IMF's growth projections show that emerging economies will remain stable, similar to advanced economies, which slowed in 2023. Global inflation is expected to decline, although disinflation will be faster in advanced economies than in developing ones.

Other indicators and key risks

- The IMF highlights the importance of mitigating the disruption caused by exchange rate volatility. Differences in disinflation across countries lead to desynchronization of central bank policies, which may result in increased capital flows. The appreciation of the US dollar on the back of high-interest rate expectations could push up domestic prices in economies with higher import dependence and a larger share of dollar-denominated imports, potentially putting pressure on their financial sectors.
- OECD notes that global risks include geopolitical tensions, trade issues, and slower growth, but a recovery in real incomes could boost consumer confidence. Fiscal measures and structural reforms are crucial to ensuring sustainability and long-term growth.
- The OECD also warns that financial risks remain due to elevated debt levels, overvalued assets, and the deteriorating creditworthiness of some borrowers, particularly in the commercial real estate sector. In addition, the growing scope and interconnectedness of less regulated non-bank financial institutions increase the likelihood of adverse shocks spreading rapidly across different market segments.

GDP (%, year-on-year growth)

Europe	
BEL	1.20
DEU	-0.32
DNK	3.86
ESP	3.35
FIN	0.34
FRA	1.23
GBR	0.95
ITA	0.45
LUX	1.16
NLD	1.86
NOR	3.11
POL	1.71
PRT	1.94
SWE	0.65
SWT	1.67
UEM[(1)]	0.93

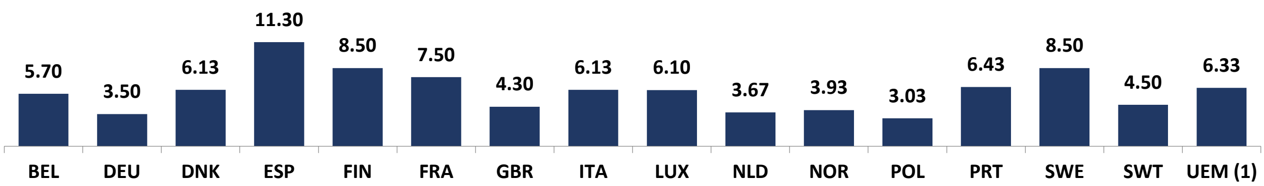


America	
ARG	-2.04
BRA	3.54
CAN	1.49
CHL	2.31
COL	2.02
CRI	3.75
ECU	-1.54
MEX	1.58
PER	3.80
USA	2.66
LATAM[(2)]	1.60
Oceania	
AUS	0.84
Asia	
CHN	4.60
JAP	0.23
TUR	1.93
Africa	
ZAF	0.37

Source: OECD data. Non-member central banks.
(1) Economic and Monetary Union. (2) Latin America: average of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru.

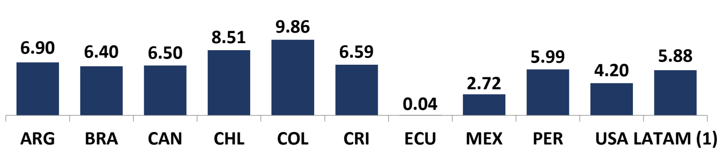
Unemployment rate (%)

EUROPE



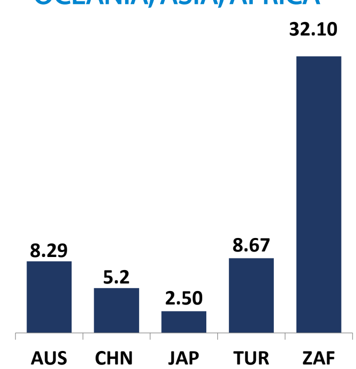
Source: OECD data. Non-member central banks.
(1) UEM: Economic and Monetary Union

AMERICAS



Source: OECD data. Non-member central banks. Data of Ecuador retrieved from INEC.
(1) LATAM: average countries of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

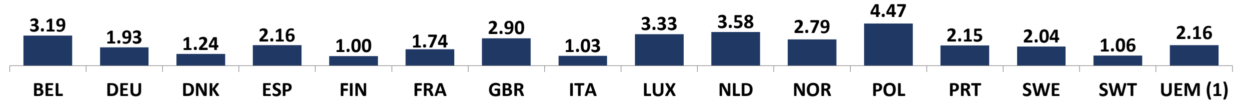
OCEANIA, ASIA, AFRICA



Source: OECD Data. Central Banks of Non-Member Countries.

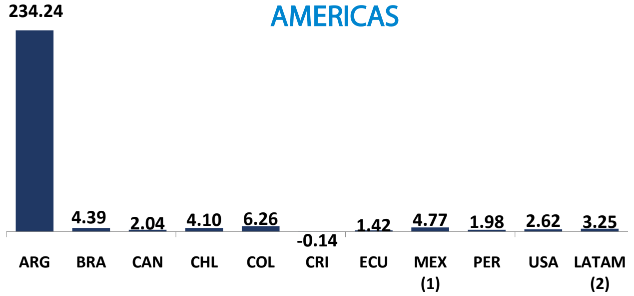
Inflation rate (%)

EUROPE



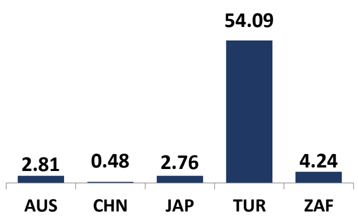
Source: OECD Data. Central Banks of Non-Member Countries.
(1) Monetary and Economic Union

AMERICAS



Source: OECD Data, Trading Economics. Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.
(1) Data from 2Q24. 3Q24 data not available.
(2) LATAM: average of Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru

OCEANIA, ASIA, AFRICA



Source: OECD Data, Trading Economics. Central Banks of Non-Member Countries

Global Ratings and Exchange Rates

LONG-TERM RATES 3Q24

	MOODY'S	S&P	Fitch
		EUROPE	
BEL	Aa3	AA	AA-
DEU	Aaa	AAA	AAA
DNK	Aaa	AAA	AAA
ESP	Baa1	A	A-
FIN	Aa1	AA+	AA+
FRA	Aa2	AA-	AA-
ITA	Baa3	BBB	BBB
LUX	Aaa	AAA	AAA
NLD	Aaa	AAA	AAA
NOR	Aaa	AAA	AAA
POL	A2	A-	A-
PRT	A3	A-	BBB+
GBR	Aa3	AA	AA-
SWE	Aaa	AAA	AAA
SWT	Aaa	AAA	AAA
		AFRICA	
ZAF	Ba2	BB-	BB-
		OCEANIA	
AUS	Aaa	AAA	AAA
		ASIA	
CHN	A1	A+	A+
JAP	A1	A+	A
TUR	B1	BB- ▲	B
		AMERICAS	
ARG	Ca	CCC	C
BRA	Ba1 ▲	BB	BB ▲
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	Ba3 ▲	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB-	BBB
USA	Aaa	AA+	AAA

▲ Increased from 2Q24 ▼ Decreased from 2Q24

Source: Investing

EXCHANGE RATES 3Q24 ($[1])

EUROPE	3Q23	4Q23	1Q24	2Q24	3Q24	2024
EUR	0.92	0.93	0.92	0.93	0.91	0.92
CHF	1.13	1.13	1.14	0.90	0.87	0.88
DKK	6.85	6.93	6.87	6.93	6.79	6.90
NOK	10.48	10.81	10.51	10.75	10.70	10.75
SEK	10.81	10.65	10.39	10.68	10.42	10.58
GBP	0.79	0.81	0.79	0.79	0.77	0.78
PLN	4.14	4.10	3.99	3.99	3.90	3.99
AMERICAS	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**2024**
ARG	334.66	443.71	833.91	885.25	940.59	913.54
BRL	4.89	4.96	4.95	5.21	5.55	5.36
CLP	839.20	895.36	945.96	933.72	903.11	943.76
COP	4,043.78	4,064.32	3,913.15	3,923.29	4,904.54	4,090.76
PER	3.66	3.77	3.74	3.73	3.47	3.76
MXN	17.06	17.54	16.97	17.23	18.93	18.30
AFRICA	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**2024**
ZAR	18.64	18.73	18.87	18.56	17.97	18.36
OCEANIA	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**2024**
AUS	1.53	1.54	1.52	1.52	1.49	1.51
ASIA	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**2024**
RMB	7.24	7.22	7.19	7.24	7.16	7.20
TRY	26.81	28.55	30.90	32.35	33.50	32.77

Source: Investing. OECD projections, December 2024.
(1) The base currency used is the U.S. dollar against each local currency quoted

2. Macroeconomic view

Canada's economic growth in 3Q24 remained subdued, with GDP increasing while the unemployment rate rose, highlighting concerns in the labour market; meanwhile, inflation moderated to 2.04%, nearing the Bank of Canada's target, despite persistent pressures in housing and other services.

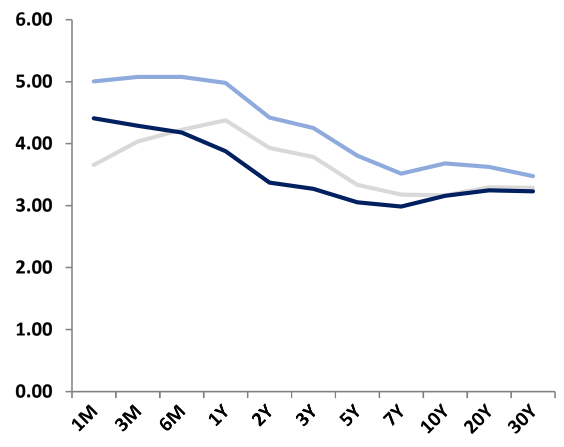
Main Macroeconomic Indicators (%)

ACTIVITY	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p.2Q24	Var. p.p.3Q23	2024	2025
GDP	**0.89**	**1.21**	**0.75**	**1.09**	**1.49**	0.40	0.60	**1.13**	**1.95**
DOMESTIC DEMAND	-0.47	0.26	0.79	1.03	1.03	0.00	1.50	1.08	2.03
HOUSEHOLD CONSUMPTION	2.49	3.40	3.48	3.51	2.20	-1.31	-0.29	1.96	1.75
PUBLIC CONSUMPTION	2.68	1.19	2.05	2.72	2.46	-0.26	-0.22	2.36	2.34
CAPITAL FORMATION	-0.03	-0.21	-0.74	-1.10	-0.94	0.16	-0.91	-0.21	2.10
EXTERNAL DEMAND									
EXPORTS	2.65	4.80	2.05	0.31	0.94	0.63	-1.71	1.16	2.31
IMPORTS	-1.46	1.89	2.10	0.20	-0.23	-0.43	1.23	1.21	2.57
INFLATION									
CPI	**3.69**	**3.21**	**2.85**	**2.74**	**2.04**	-0.70	-1.65	**2.36**	**1.99**
LABOUR MARKET									
UNEMPLOYMENT RATE	**5.53**	**5.77**	**5.87**	**6.23**	**6.50**	0.27	0.97	**6.31**	**6.51**
EMPLOYMENT (1)	**1.60**	**1.33**	**1.23**	**1.89**	**1.62**	-0.27	0.02	**1.64**	**1.15**

(1) The employment variable represents the year-on-year change in employment growth.
Source: quarterly data extracted from the Organization for Economic Cooperation and Development (OECD) as of December 9th, 2024. The series for the other quarters have also been updated to the database as of December 9th, 2024, to gain consistency. Projections OECD December 2024.

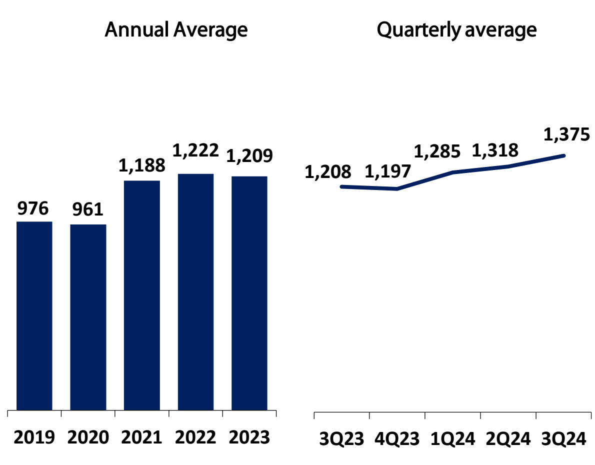
- In 3Q24, GDP increased to 1.49%, despite experiencing a 1.31 p.p. drop in household consumption compared to 2Q24, while public consumption decreased slightly by 0.26 p.p. compared to the prior quarter and capital formation showed a modest improvement of 0.16 p.p. Overall GDP growth was weaker than expected, reflecting a moderation in the pace of economic activity. Despite this slowdown, the economy is projected to recover gradually in 2025, driven by increased consumption and energy exports.
- Inflation continued to moderate, with a y-o-y decline of 1.65 p.p., although it remained marginally above the Bank of Canada's 2% target. While some goods, such as energy and certain non-durable products, have seen price declines, services continue to exert upward pressure, particularly in the housing sector. The labour market has also shown signs of weakness, with the unemployment rate rising to 6.50%, although it is expected to adjust gradually as interest rates decline and labour productivity stabilizes.
- The treasury yield curve has experienced a notable steepening over the past year, reflecting a reduction in short-term bond yields to approximately 4.5%, coupled with a marginal softening in long-term yields. Meanwhile, the S&P/TSX 60 index has shown moderate volatility, reflecting ongoing market adjustments to inflation and interest rate expectations.

Treasury Yield Curves Rates (%)



Source: Investing

S&P/TSX 60



Source: Investing

3. Banking sector

During 3Q24, the Canadian banking sector experienced a y-o-y decrease in total loans growth rate. However, total deposits growth rate increased in the same comparison. In terms of efficiency, the cost-to-income ratio worsened both quarterly and y-o-y. Regarding solvency, all ratios experienced annual decreases. The interest rates dropped from 4.75% in 2Q24 to 4.25% during this quarter.

BANKING SECTOR CONTEXT 3Q24 (%)

BUSINESS	3Q23	4Q23	1Q24	2Q24	3Q24	Var. p.p. 2Q24	Var. p.p. 3Q23
TOTAL LOANS	6.30	5.32	4.39	6.25	5.42	-0.83	-0.88
TOTAL DEPOSITS	3.03	3.39	3.63	5.42	5.67	0.25	2.64
LTD RATIO	116.54	115.05	116.28	117.06	116.26	-0.80	-0.28
EFFICIENCY							
COST TO INCOME RATIO	66.31	66.85	66.43	65.89	67.19	1.30	0.88
TOTAL INCOME / TOTAL LOANS	2.91	2.92	2.93	2.89	2.90	0.01	-0.01
OPERATING EXPENSES / TOTAL LOANS	1.93	1.95	1.95	1.91	1.95	0.04	0.02
SOLVENCY							
TOTAL CAPITAL	17.28	16.72	17.19	16.78	16.72	-0.06	-0.56
TIER 1	15.23	14.85	15.31	14.82	14.85	0.03	-0.38
CET 1	13.56	13.18	13.66	13.19	13.18	-0.01	-0.38
BANK OF CANADA INTEREST RATES							
INTEREST RATE	5.00	5.00	5.00	4.75	4.25	-0.50	-0.75

Source: Bank of Canada and Office of the Superintendent of Financial Institutions

- During 3Q24, total loans growth rate was 5.42%, representing a decrease of 0.83 p.p. and 0.88 p.p., compared to 2Q24 and 3Q23, respectively. Conversely, the total deposits growth rate of the Canadian banking sector increased by 2.64 p.p. in an annual comparison, reaching 5.67% in the third quarter of 2024. The LTD ratio stood at 116.26% in 3Q24.
- In terms of efficiency, the cost-to-income ratio reached 67.19% in 3Q24. This implies a deterioration compared with 2Q24 (1.30 p.p.) and with 3Q23 (0.88 p.p.). The total income/total loans ratio amounted to 2.90% during the third quarter of the year, representing an increase of 0.01 p.p. compared to the previous year. By contrast, the operating expenses/total loans ratio worsened both annually and quarterly, reaching 1.95% in 3Q24.
- During 3Q24, the Canadian banking sector worsened its solvency situation. Total capital ratio stood at 16.72%, representing a decrease of 0.06 p.p. and 0.56 p.p. compared to 2Q24 and 3Q23, respectively. The TIER 1 ratio improved by 0.03 p.p. on a quarterly basis, but declined by 0.38 p.p. compared to 3Q23, recording a 14.85% in the third quarter of the year. Moreover, CET 1 ratio worsened 0.38 p.p. compared to the previous year, reaching a 13.18%.
- The Bank of Canada has decided to lower interest rates by 0.50 p.p., compared to 2Q24, due to ongoing evidence that underlying inflation is easing. Consequently, a highly restrictive monetary policy is deemed no longer necessary. Furthermore, the interest rates dropped by 0.75 p.p. compared to 3Q23.

4. Glossary

- **BUSINESS VOLUME:** The business volume is the set of activities that generate income for a bank, formed by financing (loans) plus customer resources (deposits).
- **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- **COVERAGE RATIO:** It is a ratio that informs us about the protection that financial entities have against the unpaid loans of their clients. It is represented as the total provisions that the entity has over the total doubtful loans.
- **CPI:** The consumer price index is an indicator that measures the variation of prices of a basket of goods and services in a specific location during a certain period of time.
- **COST TO INCOME:** It is a ratio that measures the productivity of an entity. It is the result of the quotient between operating expenses and gross margin. In other words, it relates the income obtained with the expenses necessary for its achievement. As a conclusion, an entity will be more efficient the lower its efficiency ratio is.
- **EQUITY**: Total equity represents the value resulting from substracting total assets from total liabilities.
- **FSAP:** Financial Sector Assestemnt Program.
- **GDP:** Gross Domestic Product (GDP) is an economic indicator that reflects the monetary value of all final goods and services produced by a territory in a certain period of time. It is used to measure the wealth generated by a country.
- **GM:** Gross Margin.
- **GM/ATAs:** Gross Margin / Average Total Assets. Gross margin is composed of the set of revenues generated by a financial entity in its activity.
- **IMF:** International Monetary Fund.
- **LEVERAGE RATIO:** The Tier 1 leverage ratio measures a bank's core capital relative to its total assets. The numerator consists of the most stable and liquid capital, as well as the most effective at absorbing losses during a financial crisis or recession. The denominator is a bank's total exposures, which include its consolidated assets, derivative exposures and certain off-balance sheet exposures.
- **LCR (Liquidity Coverage Ratio):** this ratio measures a bank’s liquidity. It is calculated as the institution total liquid assets divided by its short-term obligations.
- **LTD RATIO:** The loan-to-deposit ratio (LDR) is used to evaluate a bank's liquidity by comparing the total loans of a bank with the total deposits during the same period.
- **NPL RATIO:** The non-performing loans ratio is an indicator used to measure the volume of operations that have been considered non-performing, in relation to the volume of loans and credits granted by said entity.
- **OE:** Operating Expenses.
- **OE/ATAs:** Operating Expenses / Average Total Assets. Operating expenses are those that an entity incurs during the exercise of its activity.
- **OECD:** Organization for Economic Cooperation and Development.
- **p.p.**: percentage points.
- **ROA:** An indicator that measures the profitability of a company in relation to its total assets. It indicates the return that is being obtained for its assets. It is calculated as the quotient between profit and total assets. The profit used is that obtained before taxes and interests.
- **ROE:** Financial profitability is also known as return on equity, which relates the net profits obtained in a given investment operation with the own resources.

5. Appendix

MACROECONOMIC OVERVIEW

- Organisation for Economic Co-operation and Development, (OECD): https://www.oecd.org/
- Bank of Canada: https://www.bankofcanada.ca/

BANKING SECTOR

- Office of the Superinterdent of Financial Institutions: https://www.osfi-bsif.gc.ca/en

ACRONYMS

- DEU - Germany
- BEL - Belgium
- DIN - Denmark
- ESP - Spain
- FIN - Finland
- FRA - France
- ITA – Italy
- LUX - Luxembourg
- NLD - Netherlands
- NOR - Norway
- POL - Poland
- PRT - Portugal
- GBR- United Kingdom
- SUE – Sweden
- TUR - Turkey
- ARG - Argentina
- BRA - Brazil
- CAN – Canada
- CHL - Chile
- COL - Colombia
- CRI - Costa Rica
- ECU - Ecuador
- MEX - Mexico
- PER - Peru
- USA- United States
- AUS - Australia
- CHN - China
- JAP – Japan
- ZAF - South Africa
- UEM- European Monetary Union

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