Management Solutions
Making things happen

Canada outlook report

First quarter of 2024

R & D

www.managementsolutions.com

Design and Layout

Marketing and Communication Department
Management Solutions

Photographs:

Photographic archive of Management Solutions
iStock

Index

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.

1. International overview

The global economy is projected to grow at a similar pace as in 2023 during 2024-2025, with a steady decline in inflation, but medium-term prospects for global growth and trade remain the lowest in decades, particularly for middle- and lower-income countries.

Macroeconomic outlook

- The year-on-year growth of the eurozone was 0.38% in the first quarter of the year, an increase from the 0.07% of 4Q23, indicating moderate growth from previous quarters. GDP was negative in Germany, Finland, Luxembourg, the Netherlands, and Sweden. The average CPI dropped to 2.59%, continuing the decreasing trend. The region recorded an average unemployment rate of 6.50%, the same as the previous quarter.
- The U.S. and Canada slowed down YoY its GDP, with a decrease growth of 2.97% and 0.53% respectively (3.13% and 0.97% in 4Q23), while Latam(1) countries registered an increase in the rate of growth of 2.12%. Inflation in the U.S. continued by 3.24%, while the average of the Latam(1) countries was 3.49%, excluding Argentina, which had an inflation of 273.54%. Canada continued decreasing the inflation rate, experiencing a 2.85% growth during this quarter. In general, on the continent, the unemployment rates remained similar to the previous quarter, with the Latam average being 6.85%, the U.S. 3.80% and Canada 5.87%, but all of them showing an upwards trend.
- China recorded a growth of 5.30% this quarter in the Asian region, higher than the previous quarter (5.20% in 4Q23), while Japan recorded a negative rate compared to the previous periods of 2023, standing at -0.28%. China's inflation was negative for the third consecutive period. Meanwhile, Turkey grew at 7.43% during 1Q24, which meant 4.46 p.p. above the growth rate of 1Q23. However, inflation continued high and growing, with a 66.84% during 1Q24.
- For its part, Australia recorded a year-on-year growth of 1.11% (1.55% in 4Q23), continuing with its economic slowdown, with a stable unemployment rate around 3.89% and a declining inflation, which closed the first quarter of the year at 3.62%, after reducing it by 0.43 p.p. compared to the previous quarter (4.05% in 4Q23).
- South Africa, on the other hand, recorded a growth of 0.57% (compared to 1.26% of the previous quarter), with inflation that easing to 5.42% (5.63% in 4Q23) and a high level of unemployment, which reached 32.90%.
- The IMF forecasts a global growth of 3.2% for 2024 and 2025, matching the pace set in 2023. It is anticipated that global inflation will steadily decline, falling from 6.8% in 2023 to 5.9% in 2024, and then to 4.5% in 2025. Advanced economies are likely to achieve their inflation targets sooner than emerging markets and developing economies.
- According to the World Bank, economic growth in the Latin American region is forecasted to slow to 1.8% in 2024 but is expected to rise to 2.7% in 2025. Despite this increase, the region will still have the lowest growth rates compared to other regions globally. On a positive note, the World Bank projects improvements in reducing inflation, with the average regional inflation estimated to be lower than that of OECD countries.

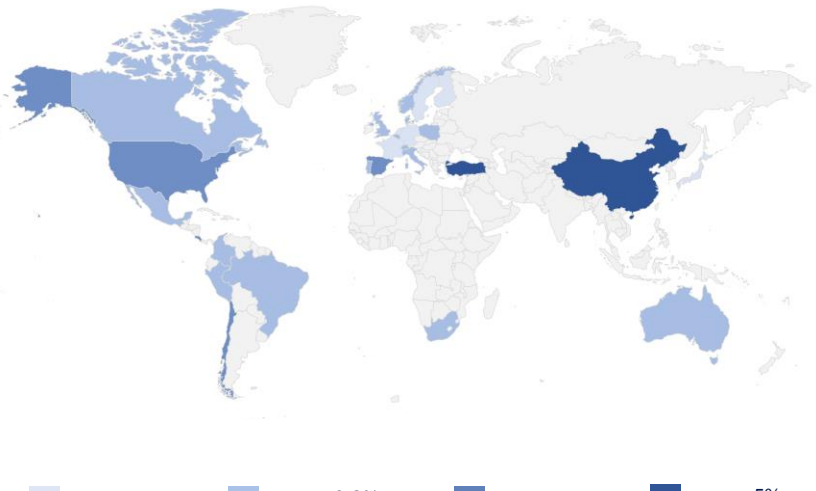
Other indicators and main risks

- After a significant decline at the end of 2023, the OECD showed that long-term government bond yields have increased since early 2024, reflecting market expectations of higher interest rates and risk premiums. Quantitative tightening programs are also contributing to this increase. However, corporate bond spreads have moderated despite the rise in corporate bankruptcies. Demand for tech-related stocks and resilient risk appetite have driven up stock prices, with China being a notable exception.
- The dollar has depreciated across the board during the first quarter of 2024, among other currencies against the euro, the pound, the Brazilian real and the yuan. However, the depreciation of the Argentine peso against the dollar is particularly notable, although by 2024 the Argentine peso is expected to appreciate by 58% compared to the first quarter of 2024.
- Despite the resilient global economic performance since October 2023, according to the IMF several risks remain, including potential commodity price spikes due to geopolitical conflicts, persistent inflation, financial stress, a faltering recovery in China, disruptive fiscal adjustments, debt distress, eroding trust in government, and intensifying geoeconomic fragmentation, all of which could negatively impact global growth. However, according to the World Bank, faster inflation moderation and stronger U.S. growth could offer some upside.

(1) The average for Latam countries is based on macroeconomic data for Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

GDP (%, year-on-year growth)

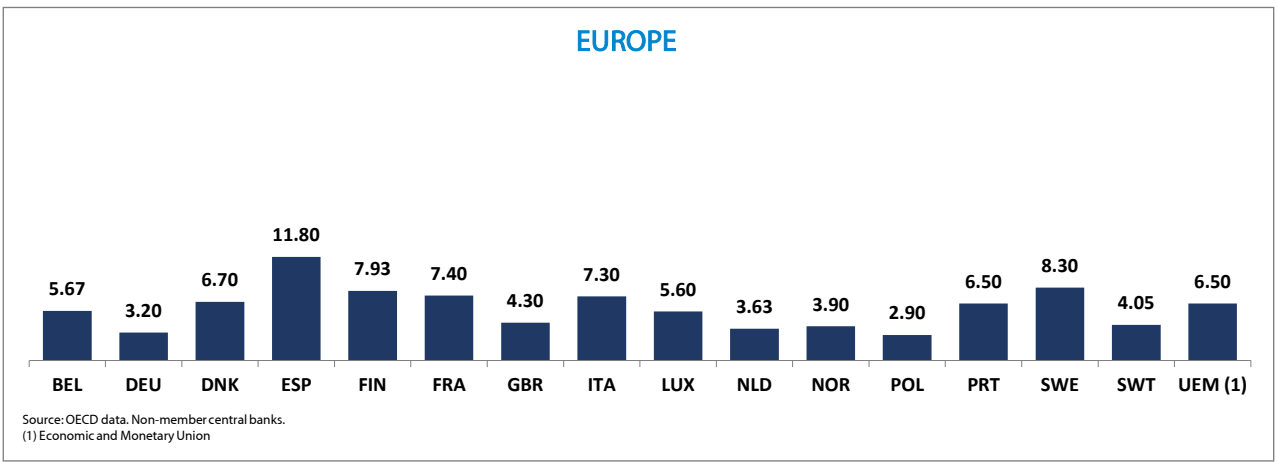
Europe	
BEL	1.33
DEU	-0.22
DNK	0.22
ESP	2.40
FIN	-1.10
FRA	1.07
GBR	0.21
ITA	0.74
LUX	-0.44
NLD	-0.51
NOR	1.07
POL	1.34
PRT	1.46
SWE	-1.25
SWT	0.81
UEM(1)	0.38



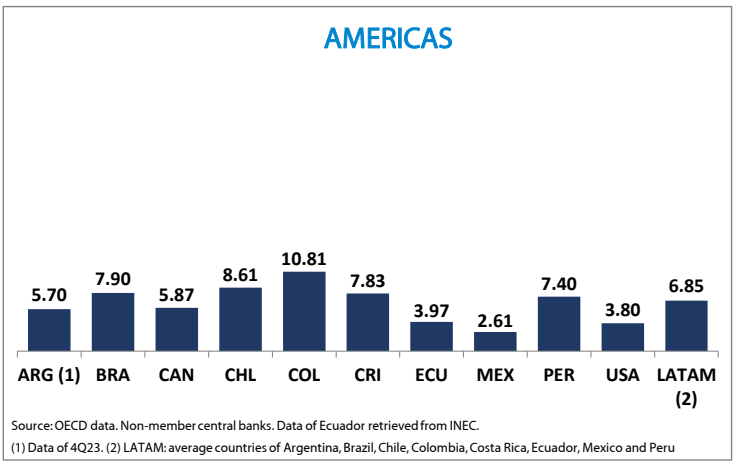
Americas	
ARG(2)	-1.76
BRA	1.69
CAN	0,53
CHL	2.00
COL	0.93
CRI	4.80
ECU(3)	1.80
MEX	1.93
PER	1.38
USA	2.97
LATAM(4)	2.12
Oceania	
AUS	1.11
Asia	
CHN	5.30
JAP	-0.28
TUR	7.43
Africa	
ZAF	0.57

Source: OECD data. Non-member central banks.
(1) Economic and Monetary Union (2) 4Q23 data. 1Q24 data not available. (3) 4Q23 data. 1Q24 data not available. In the process of incorporating Ecuador's geography into the report, pending the publication of Q1 2024 data.
(4) Latin America: average of Brazil, Chile, Colombia, Costa Rica, Mexico and Peru.

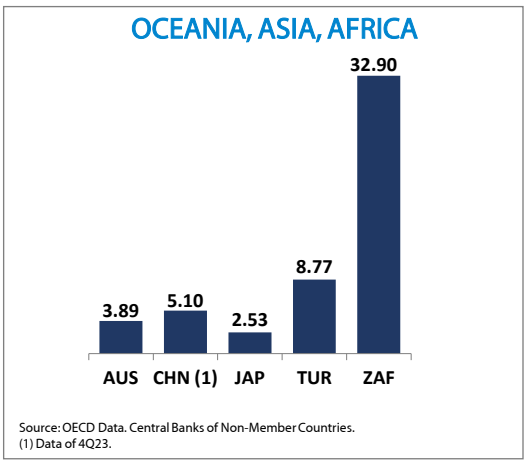
Unemployment rate (%)



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

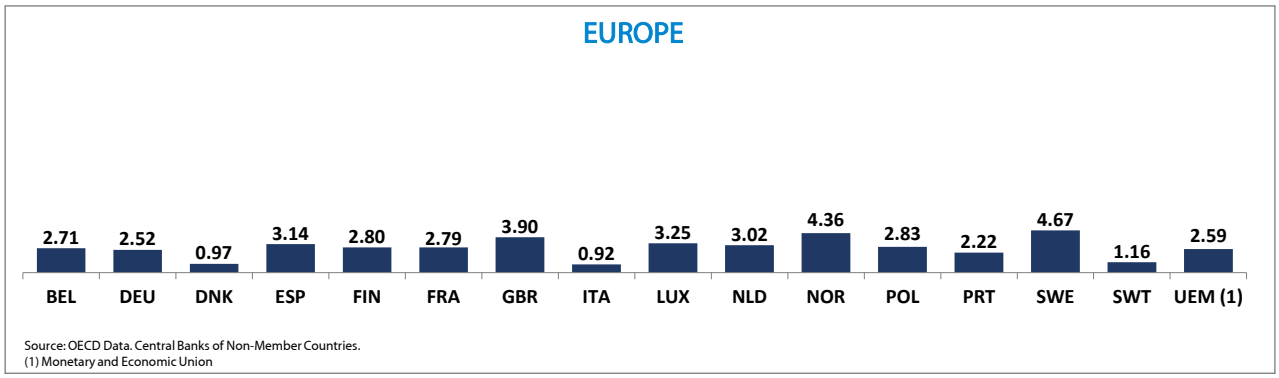


Source: OECD data. Non-member central banks. Data of Ecuador retrieved from INEC.
(1) Data of 4Q23. (2) LATAM: average countries of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru

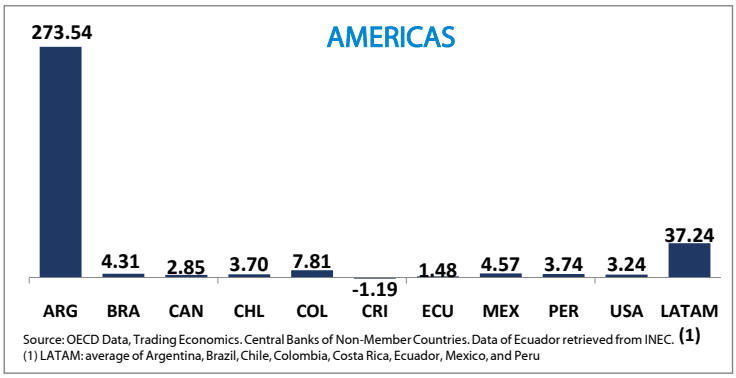


Source: OECD Data. Central Banks of Non-Member Countries.
(1) Data of 4Q23.

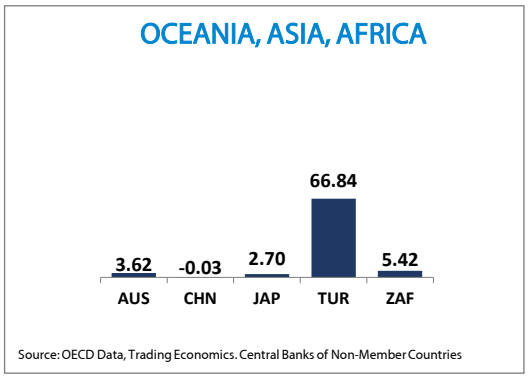
Inflation rate (%)



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



Source: OECD Data, Trading Economics. Central Banks of Non-Member Countries. Data of Ecuador retrieved from INEC.
(1) LATAM: average of Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, and Peru



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

Global Ratings and Exchange Rates

LONG-TERM RATES 1Q24

	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	B3	B	B
		AMERICAS	
ARG	Ca	CCC ▲	C ▲
BRA	Ba2	BB	BB-
CAN	Aaa	AAA	AA+
CHL	A2	A	A-
COL	Baa2	BB+	BB+
CRI	B1	BB-	BB-
ECU	Caa3	B-	B-
MEX	Baa2	BBB	BBB-
PER	Baa1	BBB	BBB
USA	Aaa	AA+	AAA

▲ Increased from 4Q23 ▼ Decreased from 4Q23

Source: Investing

EXCHANGE RATES 1Q24 ($[1])

EUROPE	1Q23	2Q23	3Q23	4Q23	1Q24	2024
EUR	0.93	0.92	0.92	0.93	0.92	0.94
CHF	1.08	1.11	1.13	1.13	1.14	0.90
DKK	6.91	6.85	6.85	6.93	6.87	6.98
NOK	10.27	10.81	10.48	10.81	10.51	11.11
SEK	9.58	10.63	10.81	10.65	10.39	10.91
GBP	0.82	0.80	0.79	0.81	0.79	0.82
PLN	4.36	4.15	4.14	4.10	3.99	4.14

AMERICAS	1Q23	2Q23	3Q23	4Q23	1Q24	2024
ARG	197.70	239.22	334.66	443.71	833.91	349.98
BRL	5.10	4.94	4.89	4.96	4.95	4.92
CLP	805.80	805.20	839.20	895.36	945.96	917.10
COP	4,725.30	4,438.83	4,043.78	4,064.32	3,913.15	4,016.91
PER	3.79	3.66	3.66	3.77	3.74	3.80
MXN	18.38	17.59	17.06	17.54	16.97	17.48

AFRICA	1Q23	2Q23	3Q23	4Q23	1Q24	2024
ZAR	17.76	18.94	18.64	18.73	18.87	18.75

OCEANIA	1Q23	2Q23	3Q23	4Q23	1Q24	2024
AUS	1.47	1.51	1.53	1.54	1.52	1.57

ASIA	1Q23	2Q23	3Q23	4Q23	1Q24	2024
RMB	6.85	7.09	7.24	7.22	7.19	7.29
TRY	18.94	22.09	26.81	28.55	30.90	28.51

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

2. Macroeconomic view

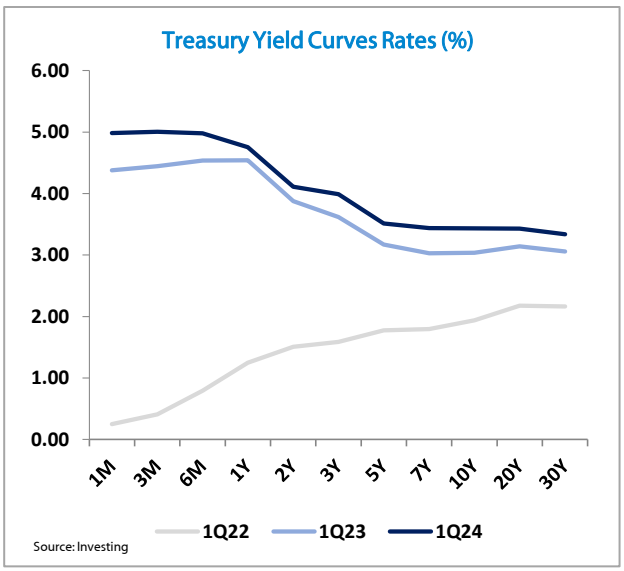
In the first quarter of 2024, GDP growth continued to decline nearing a 0.53%, with exports decreasing by 3.24 p.p. compared to the previous quarter. Inflation is steadily decreasing, showing a 2.3 p.p. reduction from the same quarter last year. However, it still exceeds the targets set for 2024.

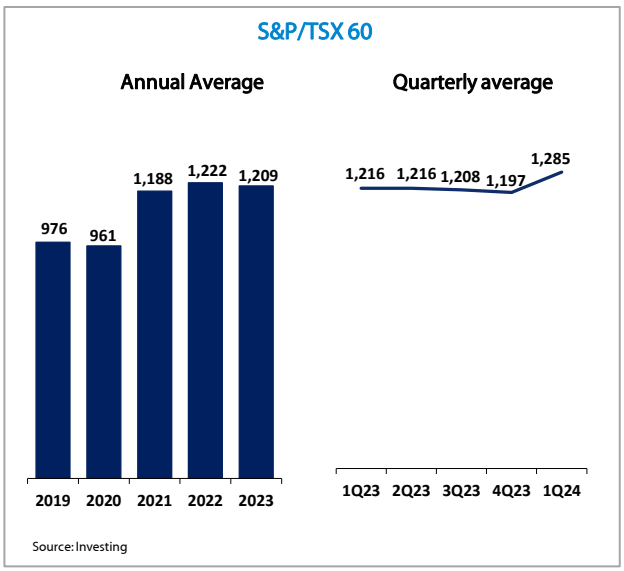
Main Macroeconomic Indicators (%)

ACTIVITY	1Q23	2Q23	3Q23	4Q23	1Q24	Var. p.p.4Q23	Var. p.p.1Q23	2024	2025
GDP	**2.04**	**1.27**	**0.73**	**0.97**	**0.53**	-0.44	-1.51	**1.04**	**1.82**
DOMESTIC DEMAND	0.62	-0.95	-0.85	0.21	0.76	0.55	0.14	0.73	1.84
HOUSEHOLD CONSUMPTION	3.13	1.14	1.04	1.68	1.79	0.11	-1.34	1.06	1.93
PUBLIC CONSUMPTION	1.69	1.71	1.56	1.25	1.27	0.02	-0.42	1.44	1.65
CAPITAL FORMATION	-6.17	-2.98	-1.63	-1.82	-0.90	0.92	5.27	-0.20	1.89
EXTERNAL DEMAND									
EXPORTS	8.22	5.67	3.46	4.46	1.22	-3.24	-7.00	2.11	1.76
IMPORTS	3.91	-1.02	-1.34	2.14	1.94	-0.20	-1.97	1.02	1.82
INFLATION									
CPI	**5.15**	**3.52**	**3.69**	**3.21**	**2.85**	-0.36	-2.30	**2.37**	**2.05**
LABOUR MARKET									
UNEMPLOYMENT RATE	**5.07**	**5.27**	**5.53**	**5.77**	**5.87**	0.10	0.80	**5.90**	**5.73**
EMPLOYMENT [1]	**3.34**	**1.51**	**1.68**	**0.98**	**1.09**	0.11	-2.25	**1.46**	**1.47**

(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 June 5th, 2024. The series for the other quarters have also been updated to the database as of June 5th, 2024, to gain consistency. Projections OECD May 2024.

- By numerous economic indicators, Canada is underperforming, as evidenced by declining GDP growth, reduced household consumption, and rising unemployment rates. Additionally, weakened export levels and fluctuating inflation further underscore the country's economic challenges.
- With inflation nearly halved since the first quarter of 2023, consumer habits have proportionately evolved over the past year. Public consumption has declined, and the unemployment rate has risen by 0.80 p.p. over the same period of last year. As inflation gradually approaches sustainable levels, these domestic trends are likely to stabilize in the coming years.
- The treasury rate curve has remained parallel to last year's, but now offers even higher returns on short-term bonds, approximately 5.0%, which continues to attract interest in the bond market. On the stock market front, the S&P/TSX 60 experienced a slight dip in the fourth quarter of 2023 but is now growing, further cementing the recovery of the Canadian economy.





3. Banking sector

The Canadian banking sector worsened its loans and deposits YOY growth rate, compared to 1Q23. The LTD ratio increased annually. In terms of efficiency, the cost to income ratio improved quarterly and annually. The interest rates stayed at 5.00%.

BANKING SECTOR CONTEXT 1Q24 (%)

BUSINESS	1Q23	2Q23	3Q23	4Q23	1Q24	Var p.p. 4Q23	Var p.p. 1Q23
TOTAL LOANS	13.54	9.57	6.30	5.32	4.39	-0.93	-9.15
TOTAL DEPOSITS	9.82	6.73	3.03	3.39	3.63	0.24	-6.19
LTD RATIO	115.43	116.14	116.54	115.05	116.28	1.23	0.85
EFFICIENCY							
COST TO INCOME RATIO	68.33	66.54	66.31	66.99	66.54	-0.45	-1.79
TOTAL INCOME / TOTAL LOANS	2.94	2.94	2.91	2.94	2.92	-0.02	-0.02
OPERATING EXPENSES / TOTAL LOANS	2.01	1.95	1.93	1.95	1.94	-0.01	-0.07
SOLVENCY							
TOTAL CAPITAL	17.44	16.98	17.28	17.13	16.18	-0.95	-1.26
TIER 1	15.38	14.97	15.23	15.19	15.49	0.30	0.11
CET 1	13.71	13.33	13.56	17.13	13.11	-4.02	-0.60
BANK OF CANADA INTEREST RATES							
INTEREST RATES	4.50	4.75	5.00	5.00	5.00	0.00	0.50

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

- During 1Q24, total loans growth rate was 4.39%, which means a quarterly decrease of 0.93 p.p. and a y-o-y decrease of 9.15 p.p. Total deposits growth rate of the Canadian banking sector also decreased in an interannual comparison, recording a 3.63% in the first quarter of 2024. The LTD ratio was 116.28% in 1Q24.
- In terms of efficiency, the cost to income ratio reached 66.54% in 1Q24. This implies an improvement in comparison with 4Q23 (-0.45 p.p.) and with 1Q23 (-1.79 p.p.). The operating expenses/total loans ratio followed the same trend, improving both annually and quarterly, reaching 1.94% in 1Q24. By contrast, total income/total loans ratio recorded a 2.92% during the first quarter of the year, meaning a decrease of 0.02 p.p. compared to the previous quarter and compared to 1Q23.
- The Canadian banking sector reached a CET1 ratio of 13.11%, which decreased by 0.60 p.p. compared to 1Q23. The total capital ratio also decreased quarterly (-0.95 p.p.) and y-o-y (-1,26 p.p.), recording a 16.18% in the first quarter of the year. TIER1 ratio was the only solvency indicator which improved, reaching a 15.49%.
- The Bank of Canada decided to keep interest rates at 5.00%, same as the previous quarter. This measure implies a 0.50 p.p. increase with respect to the same quarter of 2023.

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.
- **LBBW:** Landesbank Baden-Württemberg.
- **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

Our goal is to exceed our client expectations, becoming their trusted partner.

Management Solutions is an international consulting services firm focused on business, risk, finance, organization and process consulting, both in their functional components and in the implementation of related technologies.

With a multidisciplinary team (functional, mathematical, technical, etc.) of nearly 4,000 professionals, Management Solutions operates through 48 offices (21 in Europe, 22 in America, 3 in Asia, 1 in Africa & 1 in Oceania).

To meet these requirements, Management Solutions structures its activities by industry (Financial Institutions, Energy, Telecommunications, Consumer Products and Industry, Government and Construction), grouping together a wide range of areas of specialization, including Strategy, Sales and Marketing Management, Organization and Processes, Risk Management and Control, Management and Financial Reporting and New Technologies.

Miguel Valdunquillo García
Partner at Management Solutions
miguel.valdunquillo@managementsolutions.com

Javier Calvo Martín
Partner at Management Solutions
javier.calvo.martin@managementsolutions.com

Manuel Ángel Guzmán Caba
Partner at Management Solutions
manuel.guzman@managementsolutions.com

Management Solutions
Tel. + (34) 91 183 08 00
Fax. + (34) 91 183 09 00
www.managementsolutions.com

Management Solutions, Professional Consulting Services

Management Solutions is an international consulting firm whose core mission is to deliver business, risk, financial, organisation, technology and process-related advisory services.

For further information please visit **www.managementsolutions.com**

Follow us at:

www.managementsolutions.com

Madrid Barcelona Bilbao Coruña Málaga London Frankfurt Düsseldorf Wien Paris Amsterdam Copenhagen Oslo Stockholm Warszawa Wrocław Zürich
Milano Roma Bologna Lisboa Beijing Abu Dhabi İstanbul Johannesburg Sydney Toronto New York New Jersey Boston Pittsburgh Atlanta Birmingham Houston
Miami SJ de Puerto Rico San José Ciudad de México Monterrey Querétaro Medellín Bogotá Quito São Paulo Rio de Janeiro Lima Santiago de Chile Buenos Aires