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GLOBAL ECONOMICS

DAILY POINTS

April 22, 2025 @ *8:15 EST*

On Deck for Tuesday, April 22							
Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	04-22	08:30	IPPI (m/m)	Mar	--	0.3	0.4
CA	04-22	08:30	Raw Materials Price Index (m/m)	Mar	--	0.1	0.3
US	04-22	09:00	Fed's Jefferson Speaks at Economic Mobility Summit				
US	04-22	09:30	Fed's Harker Speaks at Economic Mobility Summit				
US	04-22	10:00	Richmond Fed Manufacturing Index	Apr	--	-7.0	-4.0
US	04-22	13:40	Fed's Kashkari Speaks in Moderated Discussion				
US	04-22	14:30	Fed's Barkin Speaks in Fireside Chat				
US	04-22	18:00	Fed's Kugler Speaks on Monetary Policy Transmission				

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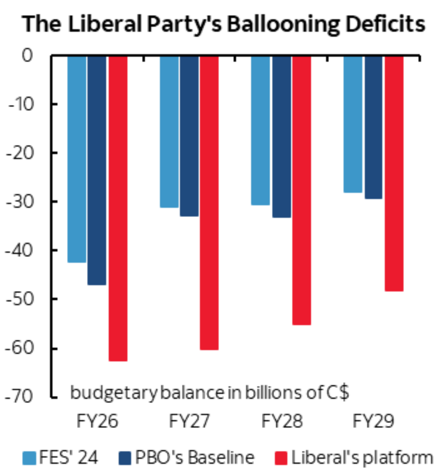
Chart 1



Sources: Scotiabank Economics, PBO, FES.

KEY POINTS:

- **Markets are relatively calmer**
- **Light US, Canadian data and Fed-speak on tap**
- **Why Canada's Liberal platform sounds like it's 2020 all over again**
- **Two reasons why Trump has been attacking the Fed**
- **Global Week Ahead — Promises, Promises! (here)**

This morning's relative calm is somewhat welcome after yesterday's drubbing. Fresh catalysts are unclear. S&P and TSX futures are ¾% to 1% higher which would still leave the S&P down 15% since Trump escalated trade wars and markets finally clued into what he stood for beginning in later February. European cash markets are underperforming with a mixture of flatness to declines of -½% to -1% small losses as they catch up to developments after being closed yesterday. Sovereign yields are slightly lower across most European benchmarks as they catch up, while the US front end is reversing some of yesterday's rally. The dollar is mixed this morning, but still weaker since last Thursday's pre-holiday close.

LIGHT DEVELOPMENTS

There were no material overnight releases or developments. Light data is due out of the US and Canada along with several Fed speakers. Canada updates producer prices for March that might show some tariff and currency effects (8:30amET). The US updates the Richmond Fed's manufacturing index for April (10amET). The Fed's Jefferson (9amET), Kashkari (1:40pmET), Barkin (2:30pmET) and Kugler (6pmET) all weigh in.

CANADA'S CONSERVATIVES TO LAY OUT THEIR PLAN

Canada's Conservatives will finally release their costed platform today, one day after advance polls shut (and when I voted) and with less than a week before election day. The time isn't clear, but the itinerary shows an event at 6pmET for what that's worth.

TWO REASONS FOR TRUMP'S ATTACKS ON THE FED

As for Trump's attacks on the Fed and Chair Powell, there are two reasons that are not getting enough attention. First, it's a classic Trump-style diversionary tactic. Trump's tariff plans blew up in the administration's face, and his fiscal plans are on ice. This is a well-worn playbook; divert attention from areas of sharp criticism by launching attacks on something else. Second, Chair Powell goaded Trump into attacking him with comments Powell gave last Thursday. I think that may have been intentional in order to make clear to the Supreme Court what was at stake in Trump v. Wilcox if the Court doesn't at least carve out the Fed if it grants approval for the President to fire agency heads. Trump fell for it.

WHY THE LIBERALS' PLATFORM SOUNDS LIKE 2020 REDUX

The Liberals' platform has several attractive features that are largely consistent with what has been pre-advertised, but key is its reliance upon the assumption of a permanent crisis in order to justify very high spending and years and years of bigger deficits while its other assumptions contradict this perspective.

Chart 1 shows the rapid explosion of deficits over a very short period of time starting with the Fall Economic Statement's projections that were delivered on December 16th, then the PBO's baseline projections for the deficit before incorporating party platforms as delivered on March 24th, and then the Liberals' platform projections that were shared on Sunday.

Those deficits are understated in the first couple of years because they are costed using stale PBO macro assumptions from March 5th before everyone started to downgrade forecasts particularly for next year's growth. Further, if not for estimated tariff revenues, the federal government's deficit this year would be well over $80 billion which is getting into the ballpark of what I warned about early this year. I wouldn't be the least bit surprised to see that figure turn out to be higher yet.

The deficits may be understated even beyond the nearer term if the assumption of a sustained crisis comes to fruition because the PBO's GDP forecasts assume steady growth throughout the next several years; nominal GDP growth is projected to be in the 3–4% range throughout the projection period which would mean relatively buoyant revenues throughout.

A US-motivated crisis is indeed upon Canada and that naturally tends to play to the Liberals' polling advantage. Division within the Conservatives hasn't helped that party. Taking far too long to establish key policy views beyond axe-the-tax and opposition to Trudeau also hindered the Conservatives' polling.

But if Canada is to embark upon the path laid out in the Liberal Party's platform, then we need to fundamentally ask whether it is prudent to assume that crisis will be a permanent fact of life throughout the four-year term of a new Canadian government. Will trade wars and a shrivelling US economy persist over the next four years? Maybe that's what happens, or maybe Trump backs off into midterms which would be a replay of his 2018 moves. If he doesn't deescalate before, then the damage to the US economy, labour market and inflation could result in GOP senators and representatives getting a thorough thrashing one year from November.

An alternative approach would be to include policy optionality given that it's highly unclear how long a trade war will persist. The BoC uses scenarios and throws its hands up by declaring it doesn't know what will happen. Frankly, we have little confidence in our own projections given the enormous uncertainty. Yet the Liberals' strategists and the same overall composition of the federal party assume that a crisis will persist for many years despite using underlying projections that don't really show a true crisis. To show a crisis, use forecast assumptions that show shrinking real GDP, or at least very minimal nominal GDP growth. Not the PBO's.

The second assumption behind the platform is that only government can fix a crisis. Therefore, the two key assumptions being made in the Liberals' plan are a perma-crisis and that only government can fix it.

Chart 2

Big Projects Always End Up Costing Way More

Project Type	Mean Cost Overrun (%)	Projects (A) with >= 50% overruns (%)	Mean overruns of A projects (%)
Nuclear storage	238	48	427
Olympic Games	157	76	200
Nuclear Power	120	55	204
Hydroelectric Dams	75	37	186
IT	73	18	447
Nonhydroelectric Dams	71	33	202
Buildings	62	39	206
Aerospace	60	42	119
Defence	53	21	253
Bus Rapid Transit	40	43	69
Rail	39	28	116
Aiports	39	43	88
Tunnels	37	28	103
Oil & Gas	34	19	121
Ports	32	17	183
Hospitals, health	29	13	167
Mining	27	17	129
Bridges	26	21	107
Water	20	13	124
Fossil thermal power	16	14	109
Roads	16	11	102
Pipelines	14	9	110
Wind Power	13	7	97
Energy Transmission	8	4	166
Solar Power	1	2	50

Sources: Scotiabank Economics, Flyvbjerg Database.

In that sense, the Liberals' plan sounds awfully like 2020 all over again to me. The error of applying too much stimulus for too long on the assumption that better days would never return was ultimately one factor that cost Canadians in terms of inflation and borrowing costs. When better days returned, everyone but Ottawa and the governments across provincial capitals pivoted. Persistent fiscal easing aggravated other drivers of inflation from the supply side and the rapid recovery of the demand side.

As a consequence, markets began tightening financial conditions through rising bond yields in anticipation of tighter monetary policy. Then the BoC began hiking aggressively once they eventually caught on to what was happening.

If that's the path we're on again, then the curve is too richly priced in Canada. Fiscal easing swaps out for monetary easing and market pricing for two more rate cuts this year and a below-neutral policy rate for years to come could have the market doing the same mistake all over again. Tariff pass through will be modest in Canada, supply chains face upheaval at least in the nearer term of the years of fiscal projections and then permanent fiscal easing negates much of any need for monetary easing and may pivot us back toward tightening all over again. Toss in the bond issuance required to make this plan sing and the combination of inflation risk and risk to Canada's term premia make the whole curve look like it may be rather richly priced.

One possible offset to this narrative may be the greater emphasis within the Liberals' platform upon investment and hence the supply side, versus the Trudeau administration's emphasis upon social program spending and transfers. There are two caveats to this argument. First, the program spending is still being maintained with operating spending planned at a 2% annual growth rate. Second is the assumption that all investment is good for the supply side by way of unleashing more potential GDP growth and greater productivity. That's unclear to me based upon the types of investment contained within the plan. Further, project cost overruns are the norm (chart 2) and with that go potentially much bigger deficits than projected. The history of these projects is that they tend to take much longer to develop than advertised and cost an awful lot more. The outgoing Liberal government tended to take delayed expenditures and turn them into social program spending which could also inflame deficits if that pattern persists.

To be sure, election platforms are full of promises that often don't get realized, or when they do, are realized in a vastly different shape, form and timing. Nevertheless, assumptions across platforms, forecast inputs and financial market positioning should at least line up. I'm not sure they do.

It will take some time to evaluate the composition of risks to US policy, and how Canadian policy actually evolves, but at this juncture the market assumption that BoC easing and possible federal fiscal policy will join hands once again may be more vulnerable than it was the last time.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	3.80	3.77	3.85	3.98	3.98	3.99	4.40	4.41	4.34	4.89	4.90	4.78
CANADA	2.55	2.55	2.53	2.78	2.80	2.72	3.21	3.24	3.11	3.55	3.58	3.43
GERMANY	1.67	1.69	1.77	1.99	2.02	2.09	2.45	2.47	2.53	2.87	2.90	2.92
JAPAN	0.67	0.65	0.66	0.88	0.85	0.90	1.32	1.29	1.37	2.74	2.75	2.81
U.K.	3.88	3.92	3.96	4.02	4.04	4.11	4.57	4.57	4.65	5.37	5.34	5.43
	Spreads vs. U.S. (bps):											
CANADA	-125	-121	-132	-121	-118	-126	-120	-118	-123	-134	-133	-135
GERMANY	-213	-208	-208	-199	-196	-190	-195	-194	-180	-202	-201	-186
JAPAN	-313	-311	-319	-310	-313	-309	-309	-313	-296	-214	-215	-197
U.K.	8	15	11	3	7	12	16	15	31	48	44	65

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	24009	-184.0	-0.8	1.8	-3.8	9.8
Dow 30	38170	-971.8	-2.5	-5.1	-9.1	-0.2
S&P 500	5158	-124.5	-2.4	-3.8	-9.0	2.9
Nasdaq	15871	-415.6	-2.6	-5.1	-10.8	2.7
DAX	21077	-129.1	-0.6	3.4	-7.9	18.0
FTSE	8279	3.7	0.0	4.0	-4.2	3.2
Nikkei	34221	-59.3	-0.2	-0.1	-9.2	-8.9
Hang Seng	21562	167.2	0.8	3.1	-9.0	28.1
CAC	7242	-43.4	-0.6	1.9	-10.0	-9.9
Commodities	Level		% change:			
WTI Crude	63.92	0.84	1.3	3.9	-6.4	-22.8
Natural Gas	3.06	0.04	1.3	-8.1	-23.2	70.6
Gold	3459.85	35.86	1.0	7.1	55.2	48.7
Silver	32.31	-0.65	-2.0	4.5	-4.3	13.5
CRB Index	293.41	-2.97	-1.0	1.0	-4.0	-1.6
Currencies	Level		% change:			
USDCAD	1.3848	0.0005	0.0	-0.8	-3.3	1.1
EURUSD	1.1479	-0.0036	-0.3	1.7	6.3	7.7
USDJPY	140.33	-0.5300	-0.4	-2.0	-6.9	-9.4
AUDUSD	0.6396	-0.0019	-0.3	0.8	1.7	-0.8
GBPUSD	1.3363	-0.0016	-0.1	1.0	3.4	8.2
USDCHF	0.8115	0.0024	0.3	-1.4	-8.1	-11.0

Central Banks	
Current Rate	
Canada - BoC	2.75
US - Fed	4.50
England - BoE	4.50
Euro zone - ECB	2.40
Japan - BoJ	0.50
Mexico - Banxico	9.00
Australia - RBA	4.10
New Zealand - RBNZ	3.50
Next Meeting Date	
Canada - BoC	Jun 04, 2025
US - Fed	May 07, 2025
England - BoE	May 08, 2025
Euro zone - ECB	Jun 05, 2025
Japan - BoJ	May 01, 2025
Mexico - Banxico	May 15, 2025
Australia - RBA	May 20, 2025
New Zealand - RBNZ	May 27, 2025