Scotiabank

GLOBAL ECONOMICS

DAILY POINTS

August 18, 2026 @ *7:45 EST*

Contributors

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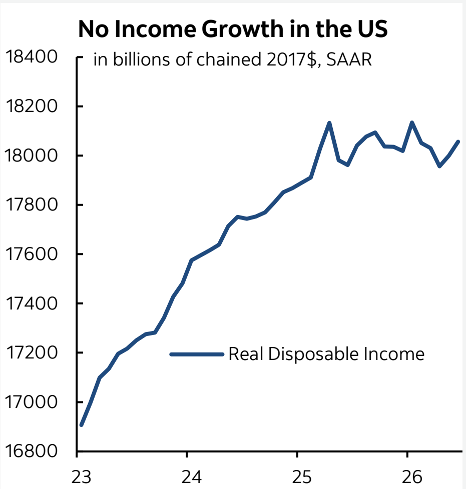
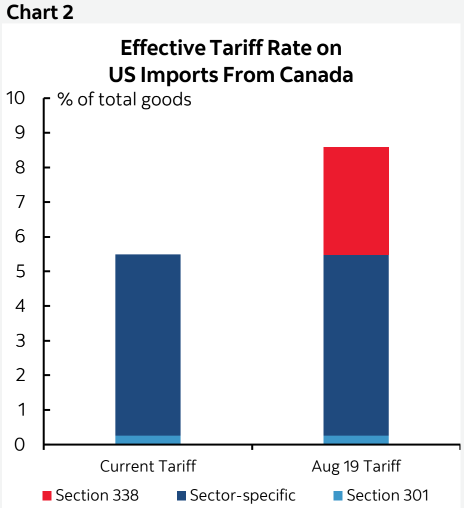
Chart 1



Sources: Scotiabank Economics, US BEA.

Chart 2



Source: Scotiabank Economics.

On Deck for Tuesday, August 18th

Date	Time	Indicator	Period	BNS	Consensus	Latest
08-18	05:00	Existing Home Sales (m/m)	Jul	--	--	0.5
08-18	08:15	Housing Starts (000s a.r.)	Jul	245	250.0	239.0
08-18	08:30	Building Permits (000s a.r.)	Jul P	--	1375.0	1374.0
08-18	08:30	Export Prices (m/m)	Jul	--	0.0	-0.6
08-18	08:30	Housing Starts (000s a.r.)	Jul	1370	1344.0	1427.0
08-18	08:30	Housing Starts (m/m)	Jul	-4.0	-6.1	19.0
08-18	08:30	Import Prices (m/m)	Jul	--	0.1	0.3
08-18	09:15	Capacity Utilization (%)	Jul	--	76.3	76.1
08-18	09:15	Industrial Production (m/m)	Jul	0.2	0.3	0.1
08-18	10:00	Pending Home Sales (m/m)	Jul	--	0.0	-5.4

KEY POINTS:

- **US Ts chasing first-round effects of oil prices, second-round could be different**
- **Tariff deal or cave at midnight tonight?**
- **US autos hypocrisy**
- **Canadian housing is on the mend**
- **Why Canada's travel volumes and price increases are not temporary**
- **How Canada could retaliate if Trump invokes new tariffs**
- **UK jobs and wages were more mixed than you may think**
- **A pair of LatAm GDP reports**
- **US housing, factory reports on tap**

Bond bots are chasing oil again this morning. WTI is up a few dimes, so US Ts are very slightly cheaper. In my opinion, when you've got no growth in inflation-adjusted disposable income in the US (chart 1) and you hit them with higher energy costs, the case for absorption is higher than the case for pass through. US households are saving less and less as the saving rate has plummeted from 6.4% in early 2024 to 2.7% now and less if it were inflation-adjusted, while the housing wealth effect is negative for the middle bulge given falling real house prices. In English, this means that while short-term headline inflation can pick up, there are likely to be disinflationary second-round effects on core measures in the US that markets may not be getting. Then layer on whether changes in oil prices are more likely to be a one-off versus extended (ie: price level adjustment or inflation). What I would be more concerned about, however, is loose election talk around adding more fiscal stimulus including further capital gains tax for housing when the deficit-to-gdp ratio is already stuck at 6% via patently irresponsible pro-cyclical US fiscal policy.

The dollar is little changed on balance with CAD and the A$ among the ones holding their own while JPY, and European crosses soften. Equities are under pressure with US futures down by ½% (S&P) to 1¼% (Nasdaq), suggesting this is more of a tech hit than oil driven softness. TSX futures and European cash markets are leaning negative.

CARNEY-TRUMP CALL FACES TONIGHT'S MIDNIGHT TARIFF DEADLINE

Canadian PM Carney and Trump held a call yesterday and unconfirmed reports indicate that the discussion centered around autos as a key flashpoint. Canada is seeking to reduce Trump's 25% tariffs on Canadian auto imports that exempt US content by either broadening the exemption and/or lowering the rate well below the reported US proposal to cut it to 15%. If the US imposes additional tariffs of 50% on $20B of imports from Canada with no CUSMA exemption then the effective tariff rate would rise as shown in chart 2.

I'll be a cautious optimist right up to the deadline. The longstanding pattern of brinksmanship into the 1988 FTA, NAFTA in 1992 and NAFTA 2.0 in 2018 usually gets settled at the highest levels after the negotiators have done their deeds.

Canada should dig in not only because 15% on autos is still far too high but because of the US hypocrisy.

US governments heavily subsidize their auto industry. Good Jobs First, a subsidy tracking website, estimates that US governments have granted a cumulative US$42B in subsidies to auto companies, most of which has been given since 2011. Midwest and Southern states have given enormous tax advantages to foreign firms to locate their plants there.

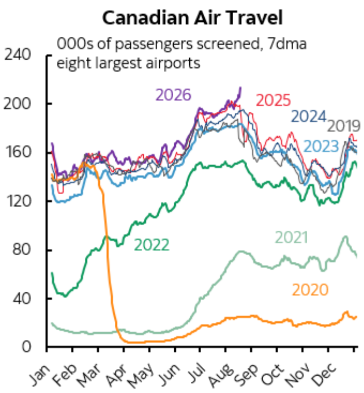
And tariffs won't help US autos. Over time, most economists would argue that protectionism lessens competition and drives less innovation, raises prices paid by consumers, and drives less investment and inferior products. Think Ladas and Yugos.

CANADIAN TRAVEL DEMAND MAY NOT BE TEMPORARY

Doves met Canadian CPI with a massive dose of confirmation bias. They dismissed the report as driven by temporary factors, they say, including the World Cup, they say. Oh Pshaw! Naysayers. Aside from the point that travel was a small-weighted contribution to CPI, here's why dismissing travel inflation as temporary rings hollow.

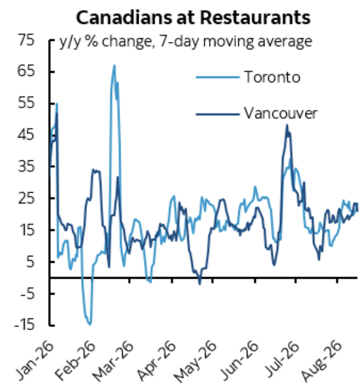
- Air travel remains on fire in Canada straight through August. The number passengers travelling through Canadian airports is at a smoking high compared to similar points in prior years which is the way to look at it since the data isn't seasonally adjusted (chart 3). It this was just about the World Cup, then presumably the effects would be subsiding and instead we're seeing an acceleration. We can say the same about activity at restaurants; despite how unaffordable they have become to many, chart 4 shows that reservations remain strong right up to the present and hence way past the World Cup.

Chart 3



Sources: Scotiabank Economics, CATSA.

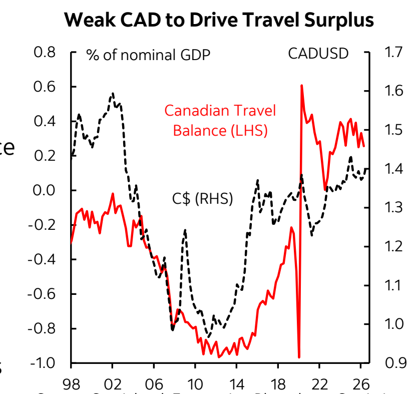
Chart 4



Sources: Scotiabank Economics, OpenTable.

- Canada is a cheap destination. Why? Since USDCAD started to really move after mid-2022, the USD has gained about 10% to CAD, MXN has appreciated by over 26%, European currencies have appreciated by between about 19% (sterling, euro) and 30% (CHF). Oh, and it's beautiful, we're nice people, it's relatively very safe, and so on.
- There may be a home bias to travel in Canada with more folks travelling within the country. This could be one part currency driven since the Canadian dollar is weak which makes foreign travel more expensive all else equal.
- Chart 5 squares the circle on currency effects. When CAD is weak, the travel spending surplus rises because of more foreign travel to Canada and/or less travel abroad by Canadians.

Chart 5



Source: Scotiabank Economics, Bloomberg, Statistics Canada.

- Canada's economic fundamentals are on the rise. Economic growth is powering ahead in Q2/Q3 and the job market has been on fire in recent months with solid trend wage gains.
- Boycotting travel to the US in favour of travel within Canada may be continuing. It might very well get worse going forward. Canadians are ticked off toward the US administration and spending their dollars elsewhere.
- There is probably some pent-up demand for travel to and within Canada.
- China added Canada back to the approved list for Chinese travel groups last November as relations thawed.

HOW COULD CANADA RETALIATE?

In terms of gaming scenarios with potential implications for individual sectors and companies, how might Canada retaliate if the US imposes more tariffs on Wednesday? This is not a base case, but here are some ideas given the Canadian commitment to retaliate and given its use in the past regardless of the counter threats.

1. Walk away from negotiations. Call back your negotiators. This has been used before and is a given now.

2. Repeat a variation of **this** list from March 4th 2025. The $30 billion of US exports to Canada would be similar to the threatened US tariffs on $20B of Canadian exports. Trim some out, but it gives an idea. There were 1,256 items targeted by Canada. Agriculture would be the top of the list in terms of targets where there are substitutes (buy OJ from elsewhere, for example). Recreational items like boats and bikes etc. Tariff US alcohol which would close the loop given Alberta and Sask don't have bans. Clothing and shoes. Sporting goods. Focus on areas where Canada plays a substantial role in terms of demand but there are substitutes and the pain would be small. States like Michigan, Texas, Georgia etc would be most vulnerable. Obviously this risks spiralling escalation but if that's what it takes into midterms, so be it.

3. Tariff US autos and parts. This is a very politically powerful tool given the US auto lobby notwithstanding some pain to Canadians net of substitution effects.

4. Further restrict access to procurement programs.

5. Trade harassment. Tighter regs, border inspections etc.

6. I don't think that threats about cutting off energy, electricity, potash, uranium etc hold water. They wouldn't be proportionate and the long-term reliability of the contracts would be damaged. Alberta and Sask would strongly resist. Ontario is a bit of a wildcard but I highly doubt even they would go this route.

MACRO REPORTS

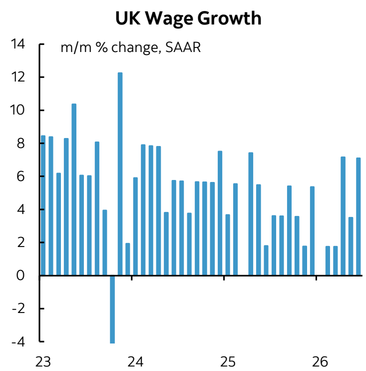
A handful of global macroeconomic indicators are up for consideration.

Canada's housing market remains on an upswing. A fourth consecutive monthly gain in existing home sales was recorded in July. Sales increased by 0.5% m/m SA, new listings fell by 1.6%, the sales-to-new-listings ratio tightened to 51.3% and months' supply was 4.7—the lowest this year and edging below the long run average of 5 months.

So glad that I sounded optimistic on home sales earlier this year. What's driving it? A very strong job market over recent months and solid wage gains. Expectations for future BoC rate hikes and turmoil in the bond market. Ongoing immigration in the permanent category versus shrinking temps that don't buy many homes.

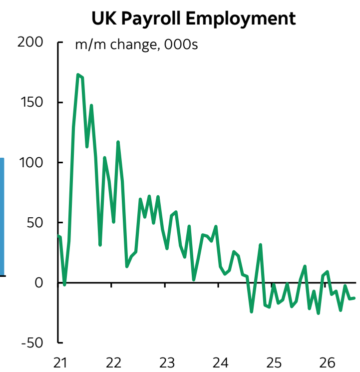
At 8:15amET we will then learn about momentum in new home construction in Canada. They may get a lift from housing incentives like the elimination of sales taxes on new home sales in Ontario that drove sales higher.

Chart 6



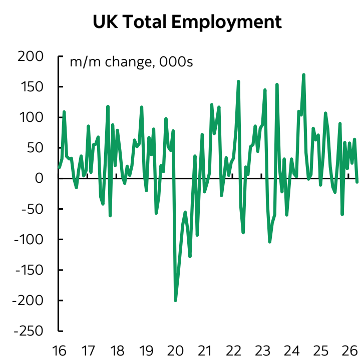
Sources: Scotiabank Economics, UK ONS.

Chart 7



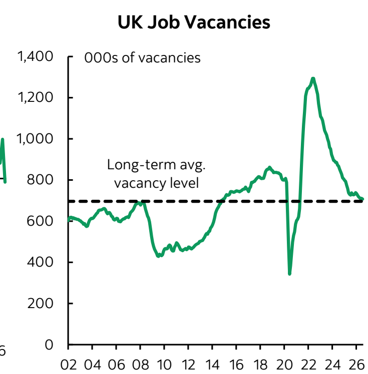
Sources: Scotiabank Economics, UK ONS.

Chart 8



Sources: Scotiabank Economics, UK ONS.

Chart 9

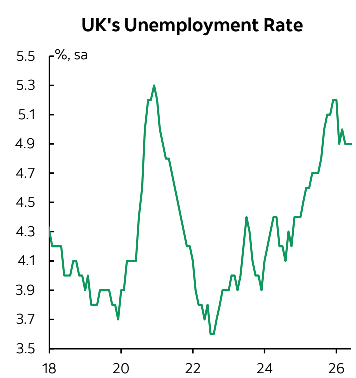


Sources: Scotiabank Economics, UK ONS

UK jobs and wages came in softly and motivated slight outperformance of gilts—underscore slight. Having said that, the results were decidedly mixed.

- Wage growth accelerated to 7.1% m/m SAAR which is tied for the hottest monthly gain since April 2025 (chart 6).
- Payrolls fell by -12,850k in July and were revised down to -13k in June (-4K previously). Chart 7.
- Total employment lags a bit but June saw a small drop of -6k following a string of a half dozen gains. Chart 8.
- Job vacancies were little changed in July (chart 9).
- The unemployment rate was flat (chart 10).

Chart 10



Sources: Scotiabank Economics, UK ONS.

Nothing on the US calendar is likely to be earth shattering. The focus will be upon housing and factory output. Housing starts during July (8:30amET) are expected to give back some of the prior month's massive 19% m/m surge. Pending home sales (10amET) have been going nowhere and July's reading will likely do likewise. Industrial output in July is expected to post a small rise in nominal terms with capacity utilization indicating slack at three percentage points lower than the peak in 2022.

A pair of LatAm economies will offer up Q2 GDP reports today. Chile will be first up amid expectations for a mild gain (8:30amET). Colombia follows with Q2 GDP growth that is expected to accelerate (11amET) as indicated by the firming trend in a monthly economic activity reading that serves as a GDP proxy.

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.	4.19	4.18	4.22	4.39	4.38	4.39	4.74	4.72	4.69	5.33	5.31	5.24
CANADA	2.99	2.98	3.02	3.33	3.31	3.33	3.74	3.72	3.70	4.16	4.14	4.10
GERMANY	2.84	2.80	2.79	2.97	2.93	2.90	3.26	3.22	3.16	3.77	3.75	3.66
JAPAN	1.70	1.70	1.62	2.17	2.16	2.09	2.96	2.92	2.83	4.16	4.09	3.97
U.K.	4.37	4.37	4.31	4.60	4.59	4.51	5.08	5.06	4.96	5.84	5.81	5.70
	Spreads vs. U.S. (bps):											
CANADA	-120	-120	-120	-106	-107	-106	-100	-100	-99	-117	-117	-114
GERMANY	-135	-137	-143	-141	-144	-149	-148	-150	-153	-156	-156	-159
JAPAN	-250	-248	-259	-222	-221	-230	-178	-180	-186	-117	-122	-127
U.K.	18	19	10	21	21	12	34	34	27	51	51	46

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	36668	-62.3	-0.2	0.6	4.0	31.3
Dow 30	53460	-272.6	-0.5	-1.0	2.5	19.0
S&P 500	7745	-40.7	-0.5	-0.1	3.9	20.1
Nasdaq	26645	-84.3	-0.3	0.1	4.4	23.2
DAX	26248	-90.8	-0.3	-0.5	5.7	7.9
FTSE	10726	5.5	0.1	-1.1	1.2	17.1
Nikkei	67461	-1759.5	-2.5	0.7	5.2	54.3
Hang Seng	25471	17.9	0.1	-0.7	3.7	1.2
CAC	8538	-41.4	-0.5	-2.0	2.4	8.3

Commodities	Level		% change:			
WTI Crude	84.89	0.39	0.5	2.0	2.9	33.9
Natural Gas	2.71	0.02	0.9	-2.0	-6.8	-6.1
Gold	4391.09	-24.90	-0.6	0.5	9.6	31.8
Silver	64.98	-0.80	-1.2	0.5	15.2	70.9
CRB Index	397.06	5.65	1.4	1.8	4.0	34.1

Currencies	Level		% change:			
USDCAD	1.3877	0.0003	0.0	-0.3	-1.4	0.5
EURUSD	1.1574	-0.0006	-0.1	0.3	1.4	-0.7
USDJPY	159.73	0.2700	0.2	0.3	-1.7	8.0
AUDUSD	0.7107	0.0002	0.0	0.6	1.6	9.5
GBPUSD	1.3522	-0.0022	-0.2	0.1	0.7	0.1
USDCHF	0.8127	0.0019	0.2	0.2	0.3	0.6

Central Banks	
Current Rate	
Canada - BoC	2.25
US - Fed	3.75
England - BoE	3.75
Euro zone - ECB	2.40
Japan - BoJ	1.00
Mexico - Banxico	6.50
Australia - RBA	4.35
New Zealand - RBNZ	2.50
Next Meeting Date	
Canada - BoC	Sep 02, 2026
US - Fed	Sep 16, 2026
England - BoE	Sep 17, 2026
Euro zone - ECB	Sep 10, 2026
Japan - BoJ	Sep 18, 2026
Mexico - Banxico	Sep 24, 2026
Australia - RBA	Sep 29, 2026
New Zealand - RBNZ	Sep 01, 2026