Scotiabank

GLOBAL ECONOMICS

DAILY POINTS

August 26, 2026 @ *8:45 EST*

Contributors

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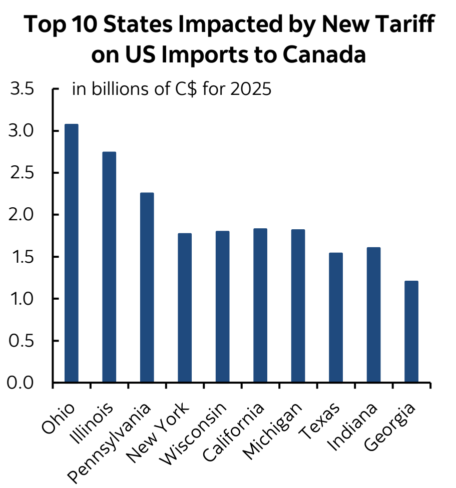
Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Sources: Scotiabank Economics, Statistics Canada.

On Deck for Wednesday, August 26th

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08-26	07:00	MBA Mortgage Applications (w/w)	Aug 21	--	--	-0.4
US	08-26	08:30	Durable Goods Orders (m/m)	Jul P	0.4	0.5	0.5
US	08-26	08:30	Durable Goods Orders ex. Trans. (m/m)	Jul P	0.3	0.6	0.7
US	08-26	08:30	GDP (q/q a.r.)	2Q P	1.5	1.5	1.5
US	08-26	08:30	GDP Deflator (q/q a.r.)	2Q P	--	6.2	6.2
US	08-26	08:30	PCE Deflator (m/m)	Jul	0.2	0.1	-0.1
US	08-26	08:30	PCE Deflator (y/y)	Jul	3.7	3.6	3.7
US	08-26	08:30	PCE ex. Food & Energy (m/m)	Jul	0.3	0.2	0.1
US	08-26	08:30	PCE ex. Food & Energy (y/y)	Jul	3.2	3.3	3.3
US	08-26	08:30	Personal Spending (m/m)	Jul	0.0	0.1	0.3
US	08-26	08:30	Personal Income (m/m)	Jul	0.1	0.2	0.2
US	08-26	11:45	Fed's Barkin Speaks on Panel Event				

KEY POINTS:

- **US Ts underperform on US data, await Nvidia, tariff risks**
- **Estimating tariff passthrough into Canadian CPI…**
- **…and the BoC is unlikely to look through it and other drivers**
- **The states most affected by Canada's tariffs**
- **Canadian bank earnings continue to beat**
- **Aussie inflation reignites RBA hike pricing**
- **US core PCE is down but not out**
- **US real consumer spending stalled in July**
- **…as incomes picked up but against a miserable trend**
- **US Q2 GDP unrevised as consumption revisions offset elsewhere**
- **US core durable goods orders are still soaring**

Lower oil prices are once again knocking back the petrocurrencies like CAD and NOK; WTI and Brent are about a couple of bucks lower. Why is oil falling? Well, did you notice how Trump's pivot to pick on Canada has no one talking about Iran? I'm not sure that we should declare that as a deliberate outcome or merely a byproduct of miscalculation through overplaying their hand on Friday night, but either way, Iran is rather liking it, and the Iran hawks have succumbed to ADHD. US Ts are underperforming other global sovereign benchmarks despite lower oil and partly due to US data (see below). CGBs are also broadly cheaper on US data and tariff concerns with implications for the BoC.

The only notable overnight development other than a Bank of Thailand hold that surprised no one was a hot Australian trimmed mean CPI print that rattled OIS pricing for a series of RBA meetings into year-end. Equities are mostly higher in Europe but hinting at a weak session in N.A. perhaps because of Nvidia's earnings in the after-market, uncertainty around US data risk this morning, and next steps in the Canada-US 'war' sans shooting.

What a lovely backdrop for Chair Warsh's speech on Friday in which he's dealing with a Treasury Secretary who secretly pines for his job while toying with bond and FX markets, plus a new inflation threat from Trump's trade wars.

Tariff watch also continues. There is a newswire piece quoting some anonymous US source saying that the US is working on retaliation against Canada, again. Go on, Make Americans Pay Again (MAPA). We don't know the source and whether it's someone who matters or an unelected and uninvested relative outsider.

And yet I'll continue to emphasize that the US has picked a fight not with Carney, but with the whole country given polling evidence. Carney also continues to have very strong trans-Atlantic ties that he built up through two stints as a top central banker and will address the EU Parliament to deliver a State of the Union speech on September 16th (**here**). Carney seeks a broader deal with the EU and has become a poster boy of global resistance to Trump. Heaven knows Europe lacked one itself with Starmer et al. Perhaps Europe will get some inspiration.

I'll also provide initial estimates of what could happen to Canadian CPI following retaliatory tariffs. Otherwise, Canada's calendar is quiet with only National Bank's earnings beat (adjusted EPS $3.25, consensus $3.16) to ponder as an extension of the beats started by BNS and BMO yesterday.

ESTIMATING THE CPI IMPACT OF CANADA'S RETALIATORY TARIFFS

Exactly how much pain in the form of higher prices would Canada's retaliatory tariffs impose on Canadians? It's no easy task to estimate the effects but my colleague Jay Parmar and I offer the following insights based on no further adjustments to what was announced yesterday.

Before starting, see yesterday's announcement **here**, the list of targeted products **here**, and the accompanying policy supports **here**. Realize that Canada is playing the 2018 book all over again. Ohio—which makes or breaks many US presidents—holds the dubious distinction of being the most targeted state in the breakdown of the affected dollars of exports to Canada by state (chart 1). Canada's tariffs affect about 8–9% of imports from the US and Ohio's exposure is more than twice what it is once you get down to the 10th on the list. The aim is very deliberately oriented toward repeating the 2018 experience by targeting states where the races are close, where tariffs can have maximum effect like Harley Davidson's plants in Wisconsin and Pennsylvania, and that are more often than not GOP friendly (**here**).

Chart 3

Share of the Canadian CPI basket Impacted by New Tariff

CPI Items	CPI Weight	Tariff Rate	Impact on CPI
Fish, seafood and other marine products	0.26	25	0.07
Other dairy products	0.39	50	0.20
Cheese	0.51	25	0.13
Sugar & syrup	0.05	50	0.03
Flour	0.05	50	0.03
Toiletry items & cosmetics	0.93	50	0.47
Plastic & aluminum foil supplies	0.08	50	0.04
Non-electric kitchen utensils & tableware	0.20	50	0.10
Other furniture	0.36	25-50	0.14
Paper supplies	0.35	50	0.18
Bedding & other household textiles	0.27	25	0.07
Women's clothing	1.48	50	0.74
Men's clothing	1.06	50	0.53
Other household appliances	0.31	15	0.05
Refrigerators and freezers	0.15	25	0.04
Laundry & dishwashing appliances	0.16	25	0.04
Sporting & exercise equip	0.40	50	0.20
Video equipment	0.25	50	0.13
Multipurpose digital devices	0.21	50	0.11
Audio equipment	0.10	50	0.05
Comp. equipment, software & supplies	0.37	50	0.19
Cooking appliances	0.22	25	0.06
Total Impacted	**8**		**3.5**

Sources: Scotiabank Economics, Statistics Canada.

Chart 2 shows the share of US imports into Canada being targeted according to the size of the tariff (!5%, 25% or 50%). About two-thirds of the targeted imports face the highest 50% tariff.

Chart 3 breaks down the share of the Canadian CPI basket by targeted item and tariff rate. The furthest right column shows the weighted contribution to higher prices if all tariffs are fully passed through with no second-round effects.

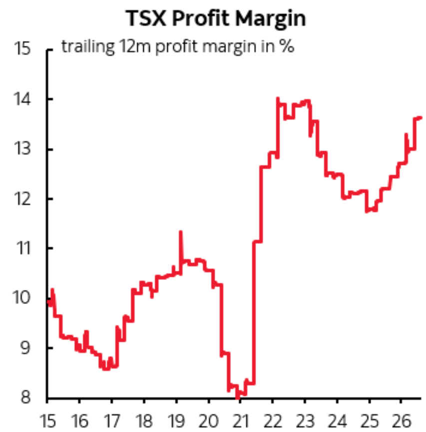
We figure as a very crude first pass that the just over 8% share of the CPI basket that is affected by the retaliatory tariffs will equate to about a 3.5% lift to CPI.

Except it won't. CPI won't rise by 3.5%. Theoretically it could go up by much less or much more. The latter would be triggered by second-round effects on wages and pricing behaviour plus the effects of fiscal policy easing and supports. Recall that Canada is a middle ground on second-round effects between the US labour market that clears and sets wages closer to real time, versus Europe's dominant collective bargaining exercises. About one-third of Canadian workers are unionized (10% in the US).

The more likely outcome is that much less than 3½% gets passed through. One reason is that there is some slack in Canada's economy which may lessen the ability to pass on costs. Another is that profit margins are very high (chart 4) which might lead some companies to absorb the higher costs in margins but with varying effects by industry. A limit to this argument, however, is that eventually shareholders could pressure management to share the burden. Further, inventories are moderate relative to sales but expect orders to surge before the September 8th imposition of the retaliatory tariffs in such fashion as to stockpile inventories ahead of the holiday shopping season. That could mean a delayed fuse on pass through and perhaps little to none of sensibilities return.

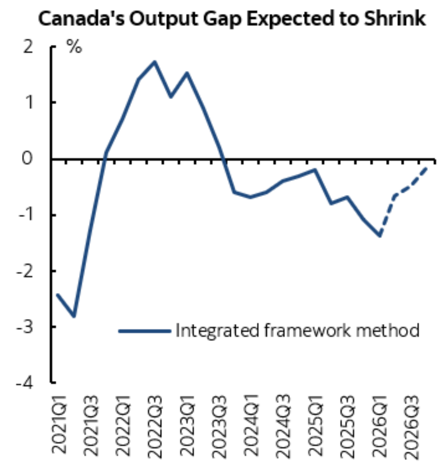
BoC research has been mixed. Early **work** based on the 2018 experience suggested that there is high pass through of tariffs into CPI; they figured that the 2018 experience informed an assumed 75% rate of pass through into CPI within six quarters. Work done **this** summer trimmed this estimate back to about one-quarter pass through of more recent 25% tariffs with little spillover effects and rapid reversal after tariffs are removed.

Chart 4



Sources: Scotiabank Economics, Bloomberg.

Chart 5



Source: Scotiabank Economics.

And so if one-quarter pass through over six quarters does indeed apply today, then it would imply CPI rises by just shy of a full percentage point by 2027H2. Recall that trimmed mean and weighted median CPI exclude the effects of changes in indirect taxes like tariffs, but not the indirect effects of pass through which is ultimately what matters versus the sticker tariff rates.

And yet today is different. The breadth of tariffs is greater. The uncertainty over future actions is high which could mean it all goes away quickly, or serial shocks build or we're in some sort of tariff purgatory, call it penance for past misdeeds we simply don't understand. The economy has been rebounding and slack in the economy is probably diminishing (chart 5). CAD has depreciated by about 18 cents since 2021. Fiscal policy easing is likely to be large at the Federal and provincial levels of government. Canada is embracing a much greater interventionist agenda in terms of big -ticket project and defence spending.

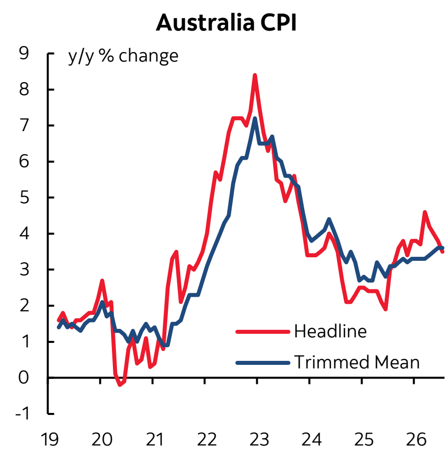
Key, however, is how monetary policy adjusts. We have factored into our inflation forecasts some monetary tightening, say 50–75bps of hikes. Tightening could thwart some of the pass through effects and tamp down the CPI hit. So, would the BoC look through such an inflation shock? The BoC's research might lean against viewing it as a short-term one-off price level shock. Can you look through it for 1–2 years when it would be difficult to disentangle all of the effects? Would it be wrapped up in various other demand- and supply-side shocks when you're already at the lower bound of neutral and basically zero if not negative on the real policy rate? With fiscal zooming ahead? With Canada extracting income for the world economy through the commodity-induced improvement in the terms of trade? Bahhh, details, details, just look through everything, right?

Good luck with that view, but we need to hear Governor Macklem's view. Will he rear up at Jackson Hole? If he does, then I would be very surprised if his tone were to be dovish, less surprised if we see his knees knocking should someone ask the inevitable inflation question.

AUSSIE CPI REIGNITES RBA HIKE PRICING

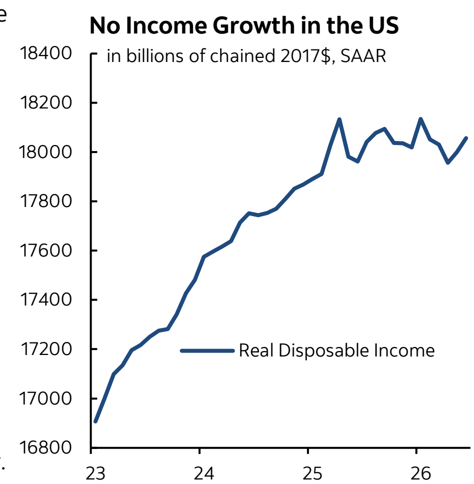
Australian CPI for July came in higher than expected and drove the A$ to be the strongest major cross to the dollar. The result also pushed the Australian two-year yield up 5bps and raised RBA hike pricing by 6bps for September 29th, 8bps to 21s in November and most of a hike by December. CPI increased by 1% m/m NSA (0.9% consensus). Trimmed mean CPI was up 0.5% m/m but that one is seasonally adjusted and hence the magnitude of the rise is more disconcerting. Chart 6.

Chart 6



Sources: Scotiabank Economics, Australian Bureau of Statistics.

Chart 7



Sources: Scotiabank Economics, US BEA.

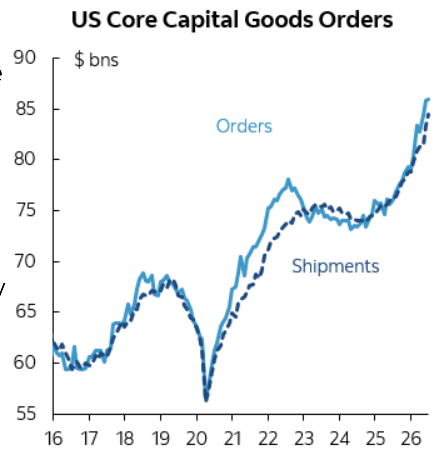
US MACRO READINGS—CORE PCE IS STILL TAME

US core PCE inflation landed at 0.246% m/m SA in July. Newswires rounded that down to 0.2% but it was the teeniest of smidges away from rounding up to 0.3%. Perhaps that's why US 2-year Treasuries were so volatile around the releases.

US personal income picked up to 0.4% m/m SA in July (0.2% consensus) but remains weak in real terms with a long-term pattern of no growth (chart 7).

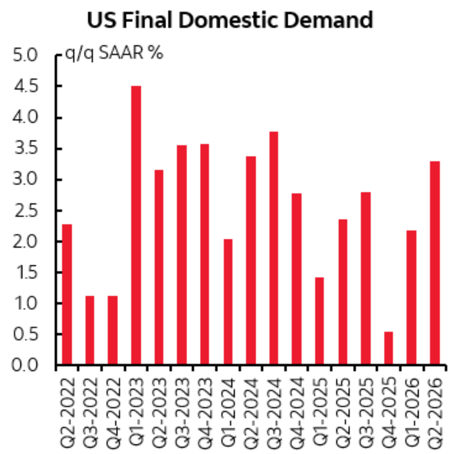
US durable goods orders jumped by 1.1% m/m SA in July (0.5% consensus) but core orders ex-defence and air were only up 0.2% m/m SA albeit with an upward revision to the prior month to 1.7% m/m from 1.2% to make for a net beat including revisions. Core orders remain on a strong upward trajectory (chart 8)

Chart 8



Sources: Scotiabank Economics, US Census Bureau.

Chart 9



Sources: Scotiabank Economics, BLS.

US Q2 GDP was left unchanged at 1.5% but consumption was revised up to 3.4% q/q SAAR from 3.2%. Offsets were minor negative revisions to inventories and investment and net exports. The domestic economy accelerated, however, as indicated by final domestic demand (chart 9).

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.	4.21	4.18	4.16	4.36	4.34	4.34	4.65	4.63	4.65	5.18	5.17	5.19
CANADA	2.93	2.90	2.99	3.26	3.22	3.30	3.66	3.62	3.69	4.09	4.05	4.10
GERMANY	2.81	2.81	2.87	2.94	2.93	2.99	3.21	3.20	3.26	3.72	3.71	3.76
JAPAN	1.70	1.68	1.68	2.15	2.15	2.14	2.90	2.90	2.90	4.08	4.08	4.12
U.K.	4.32	4.31	4.36	4.54	4.53	4.58	5.00	4.99	5.04	5.73	5.72	5.79
	Spreads vs. U.S. (bps):											
CANADA	-128	-128	-118	-111	-112	-104	-99	-101	-96	-109	-111	-109
GERMANY	-140	-136	-130	-143	-141	-135	-144	-143	-139	-146	-146	-143
JAPAN	-251	-249	-248	-221	-219	-221	-175	-173	-175	-110	-109	-107
U.K.	11	14	19	17	19	24	35	36	40	56	55	59

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	36958	243.5	0.7	1.6	4.5	30.4
Dow 30	53577	160.2	0.3	0.4	3.1	18.0
S&P 500	7677	24.4	0.3	-0.2	3.6	18.7
Nasdaq	26151	171.1	0.7	-0.5	4.7	21.4
DAX	26383	116.8	0.4	1.1	5.1	9.2
FTSE	10889	3.0	0.0	1.4	1.4	17.5
Nikkei	66262	405.7	0.6	1.4	2.0	55.8
Hang Seng	25653	141.9	0.6	0.6	2.8	0.5
CAC	8502	62.6	0.7	-0.0	1.5	10.3
Commodities	**Level**		**% change:**			
WTI Crude	80.27	-2.09	-2.5	-6.5	-10.1	26.9
Natural Gas	2.83	0.06	2.1	0.5	-1.5	4.1
Gold	4621.40	-35.77	-0.8	2.3	13.4	36.2
Silver	68.65	-0.01	-0.0	2.5	17.6	77.8
CRB Index	399.87	-3.02	-0.7	0.8	1.1	34.0
Currencies	**Level**		**% change:**			
USDCAD	1.3866	0.0027	0.2	0.4	-1.8	0.2
EURUSD	1.1663	-0.0012	-0.1	-0.1	2.6	0.2
USDJPY	159.20	0.0100	0.0	0.7	-2.8	8.0
AUDUSD	0.7180	0.0017	0.2	0.8	2.7	10.5
GBPUSD	1.3615	-0.0034	-0.2	0.1	2.5	1.0
USDCHF	0.8045	0.0030	0.4	0.9	-1.8	0.1

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