

Economics of change

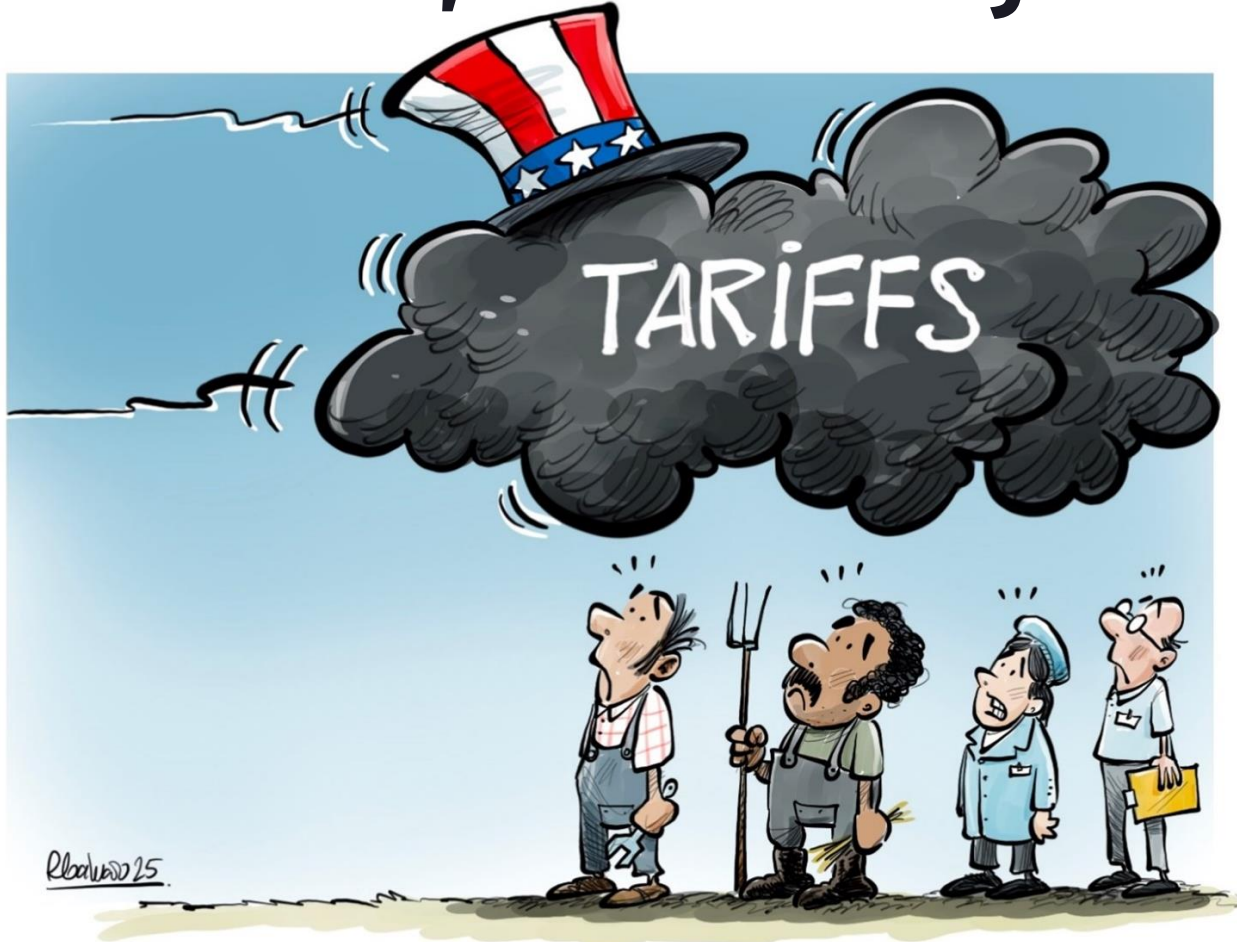


The better the question. The better the answer.
The better the world works.



Shape the future
with confidence

Trade war, what is it good for?



Soft impacts:

- Policy uncertainty
- Consumer confidence
- Business expansion plans

Hard impacts:

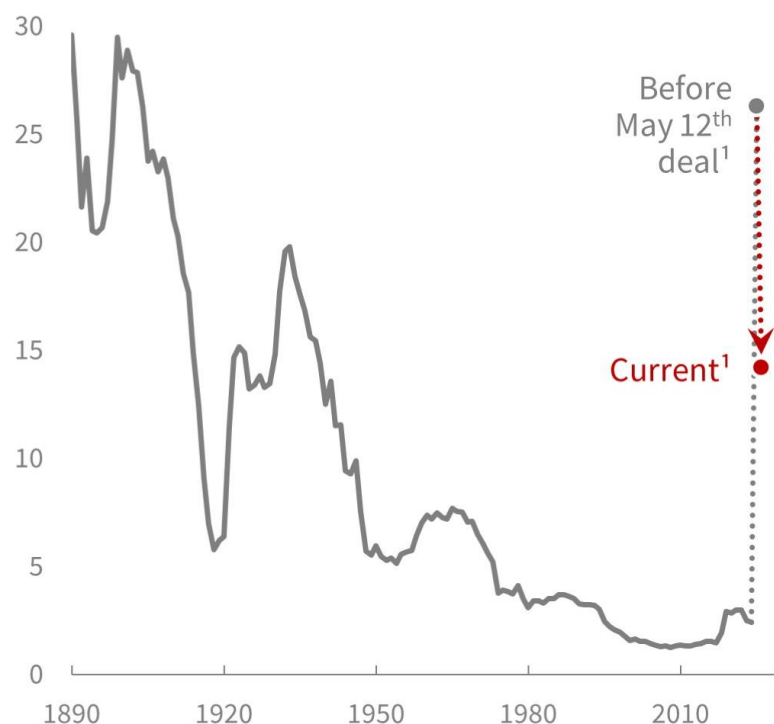
- Prices
- Production
- Economic growth/recession



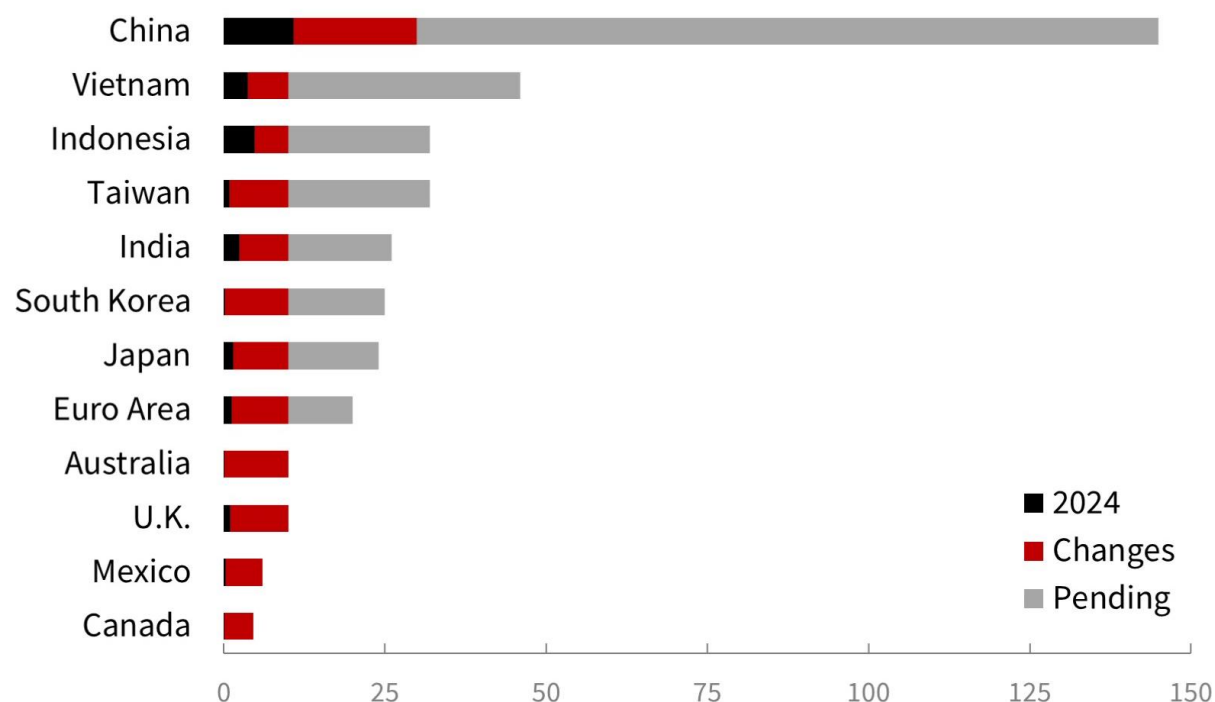
Where are we now?

United States (percent)

Average tariff rate



Tariff on imports: Select countries²



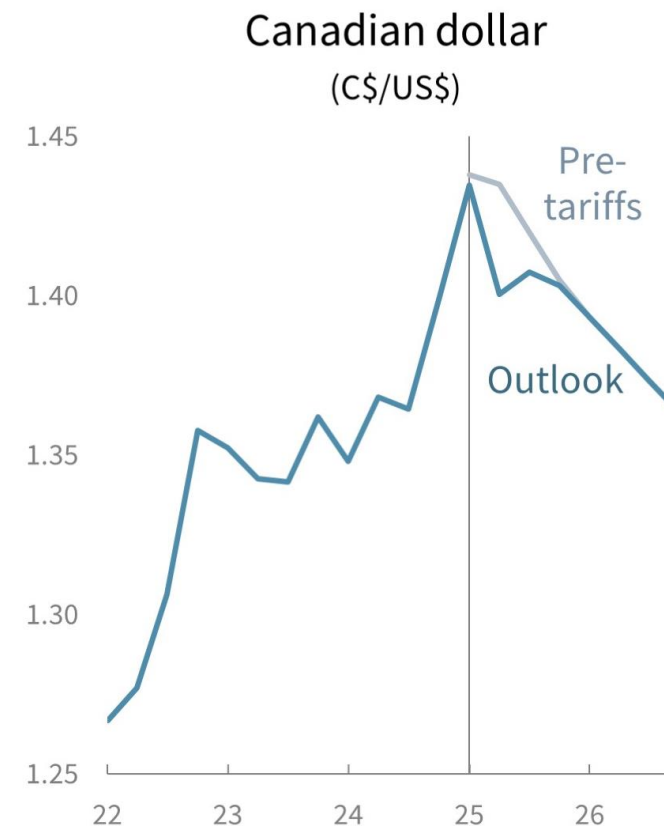
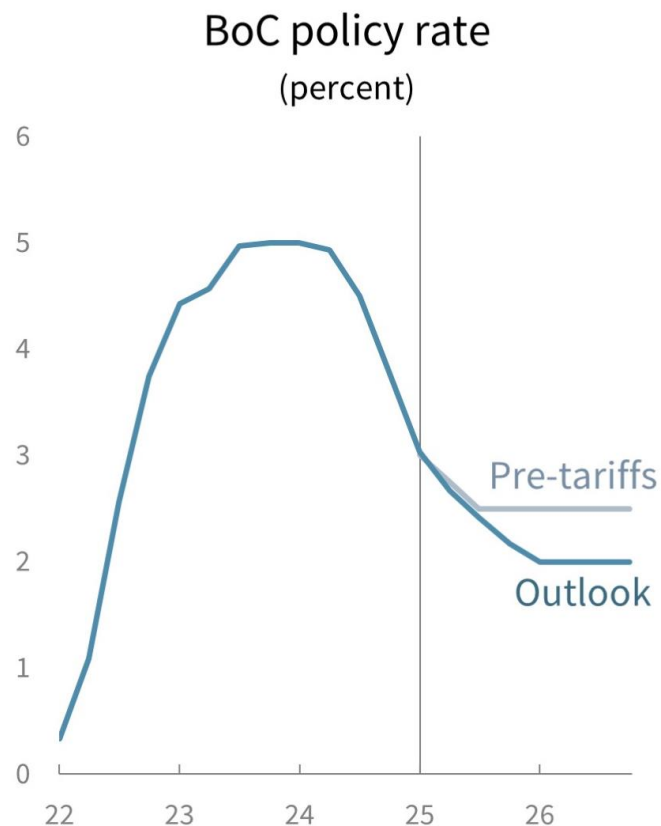
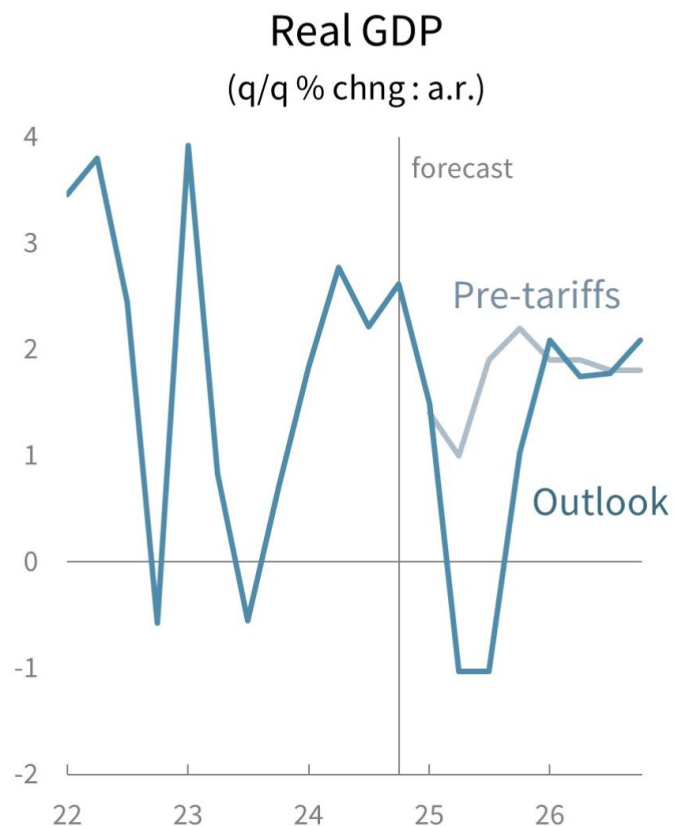
¹ 2025 BMO estimate

² Changes: Includes 10% baseline tariff and country-specific measures; steel & aluminum and autos & parts face separate 25% tariffs |

Pending: Does not include pending tariffs on copper, lumber, semiconductors, pharmaceuticals, energy and select critical minerals |

Canada/Mexico: Estimated weighted average tariff rate

Economic impact in Canada

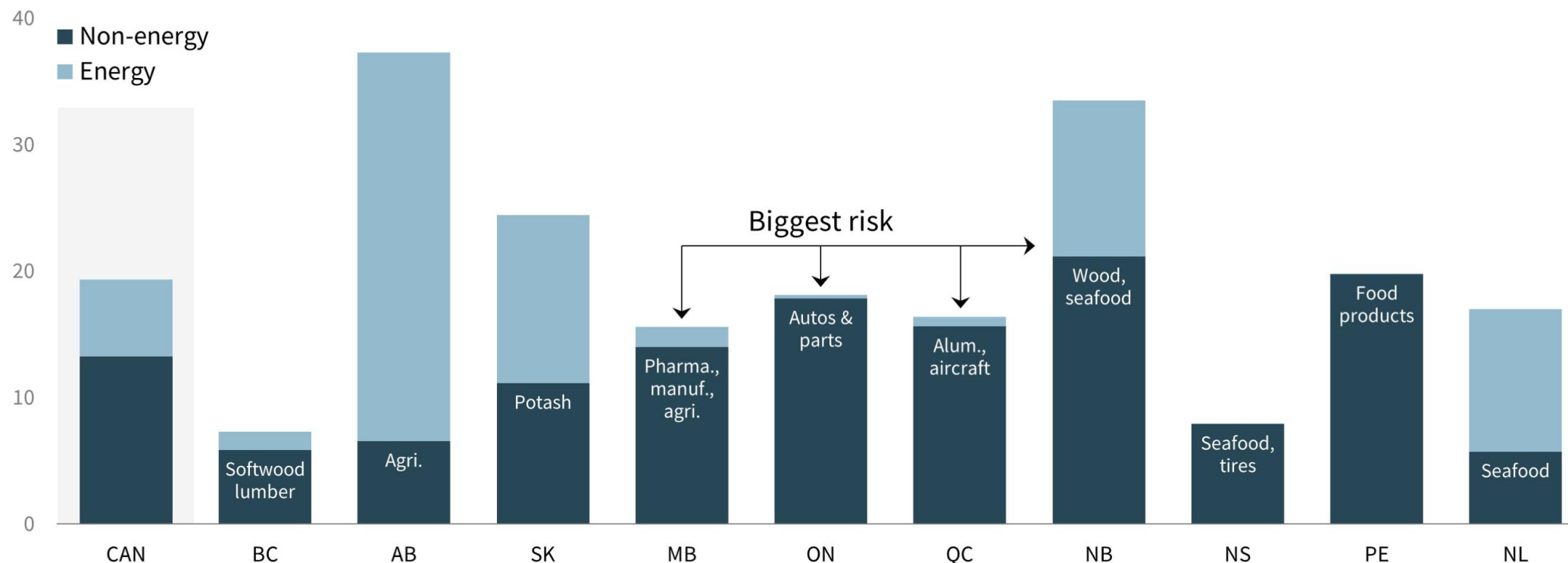


Impact highly uncertain and depends on policy responses

Provincial exposure to U.S. exports

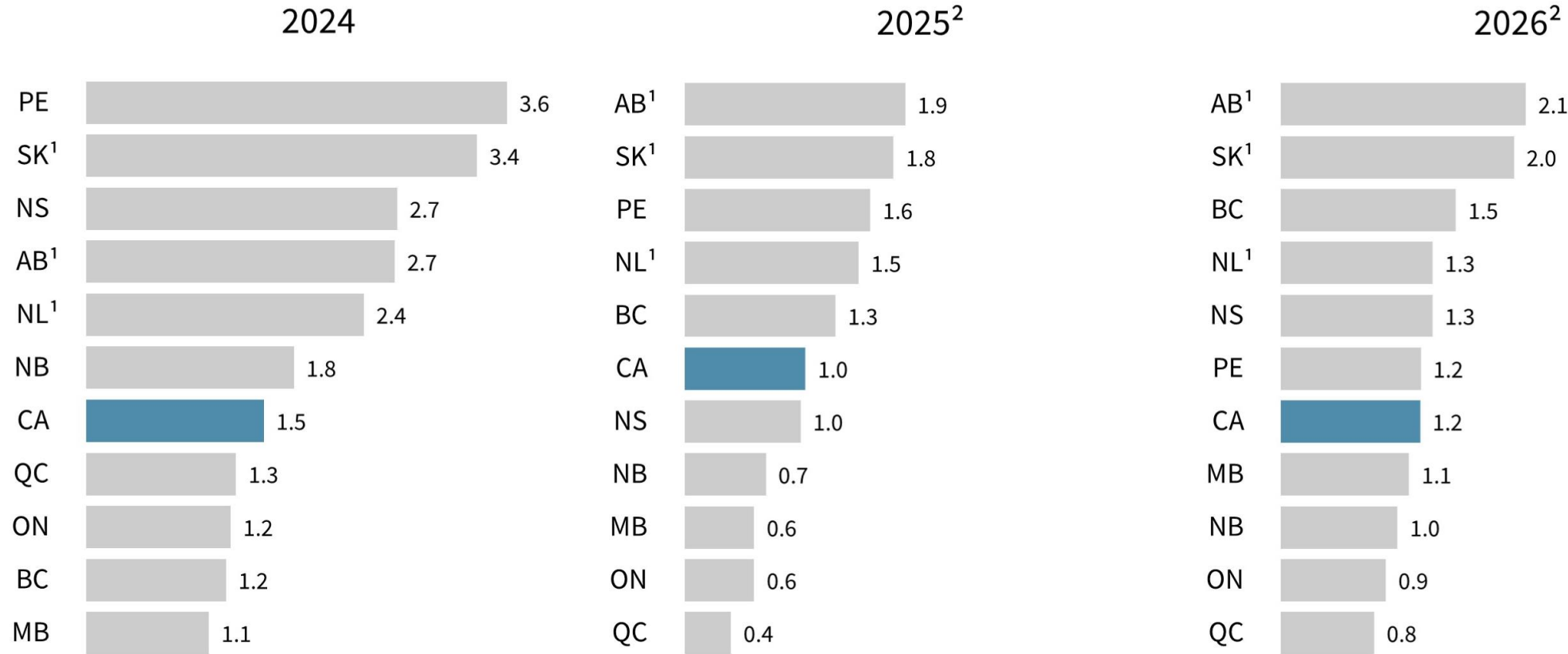
Canada (% of GDP : as of March 2025)

Goods exports to U.S.



Central Canada most at risk

Canada's regional outlook



¹ Oil producers, ² Forecast



Canadian election: The same, but different

Canada – 2025 federal election



Political party	2025 ¹		2021	
	Votes (%)	Seats	Votes (%)	Seats
Liberal	43.8	170	32.6	160
Conservative	41.3	143	33.7	119
Bloc Québécois	6.3	22	7.6	32
New Democrat	6.3	7	17.8	25
Green	1.2	1	2.3	2
Other	1.1	0	5.8	0
		343		338

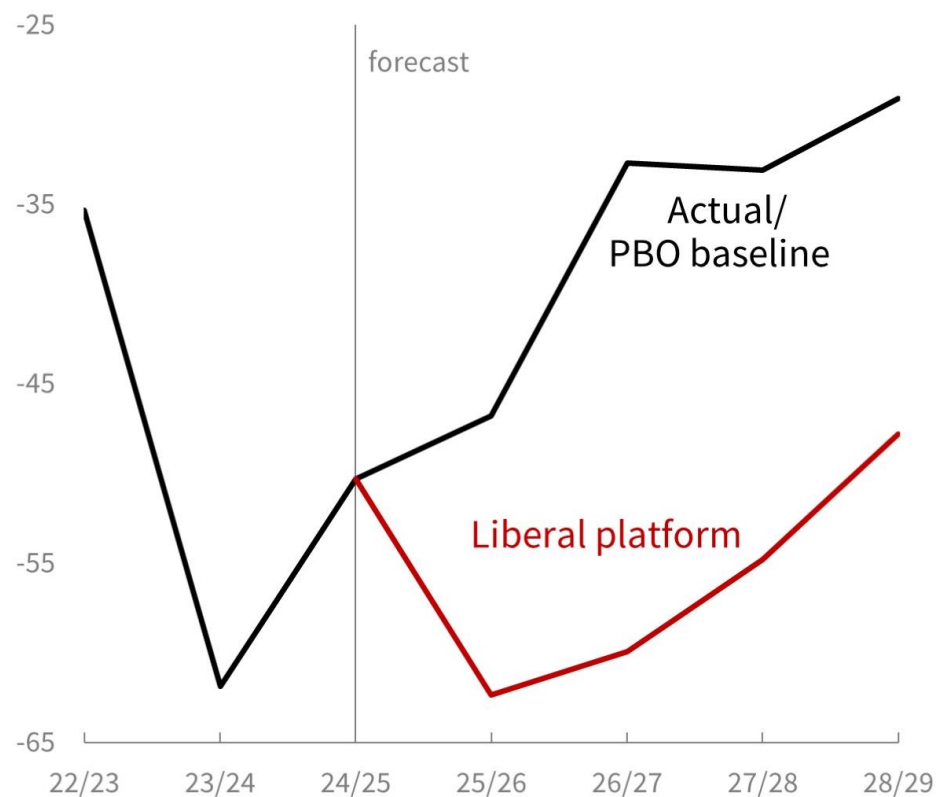
172 needed for majority

¹ Preliminary results, as of 8:00 a.m., May 21, 2025

Government stimulus ahead

Canada – Federal government (C\$ blns)

Budget balance



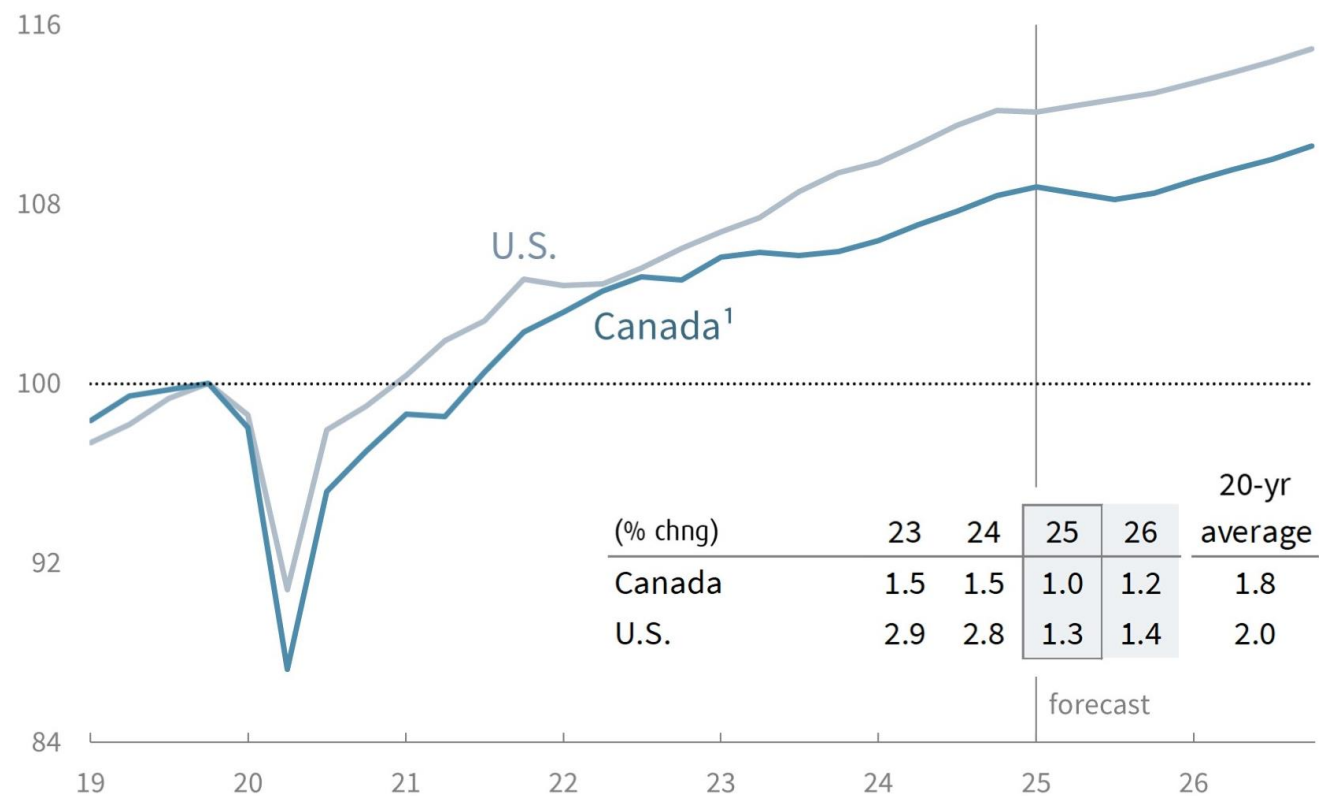
Liberal platform

Major policy area	Notable measures
Taxes	Lower income tax rate by 1 ppt for lowest bracket
	Cancel capital gains inclusion rate increase
Tariffs/trade	Direct support to businesses/workers
Infrastructure	Aggressive funding for transportation and trade infrastructure
Housing	Government-run homebuilding agency
	Remove GST on new homes < \$1 mln for first-time buyers
	Cut municipal development charges
	Rental building tax incentive
Immigration	Reduce NPRs to 5% of population
	Permanent immigration at 1% of population/year
Environment	Remove consumer carbon tax
	Add carbon border adjustment (tariff)
	Cap and cut O&G emissions

Economic outlook uncertain

(2019Q4 = 100)

Real GDP



¹ 2025Q1 = BMO Economics estimate

Tailwinds:

- Lower interest rates
- Rising real wages
- Stimulus

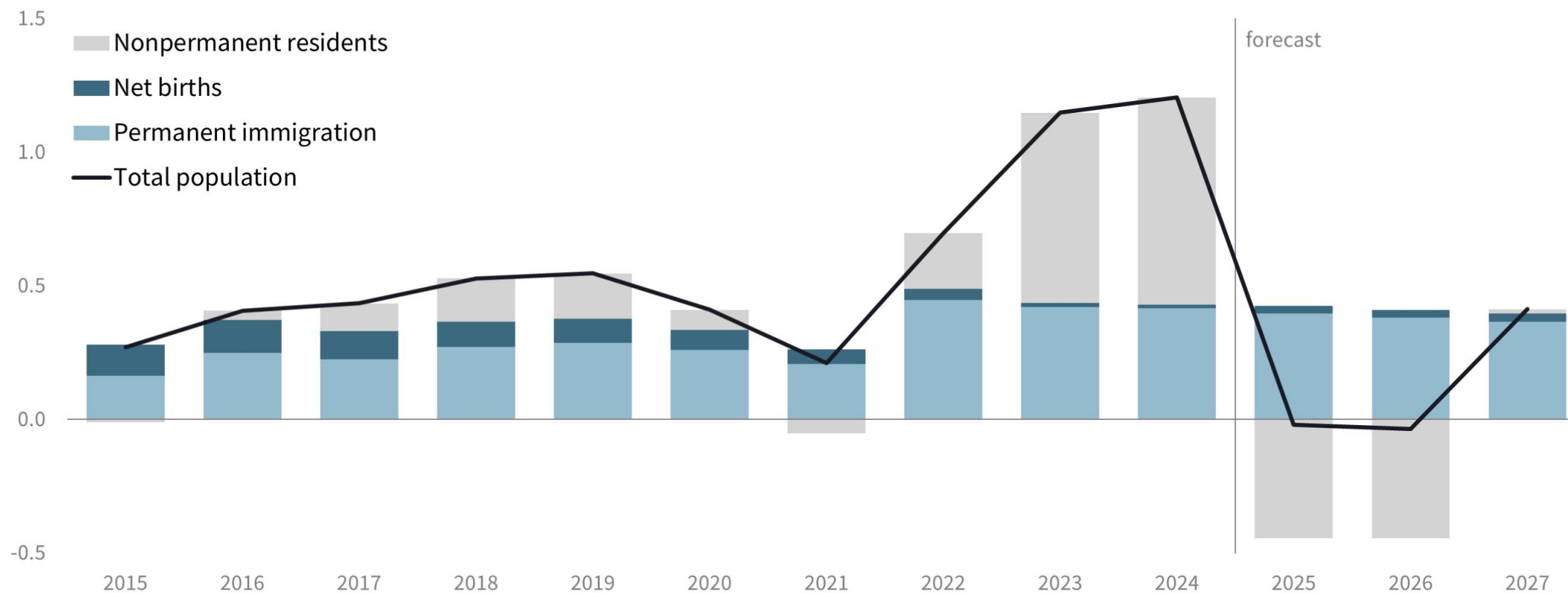
Headwinds:

- Trade dispute
- Business confidence
- Consumer confidence

Immigration rethink

Canada (mlns of persons)

Population growth



Inflation progress meets tariff battle

(y/y% chng)

Consumer price index

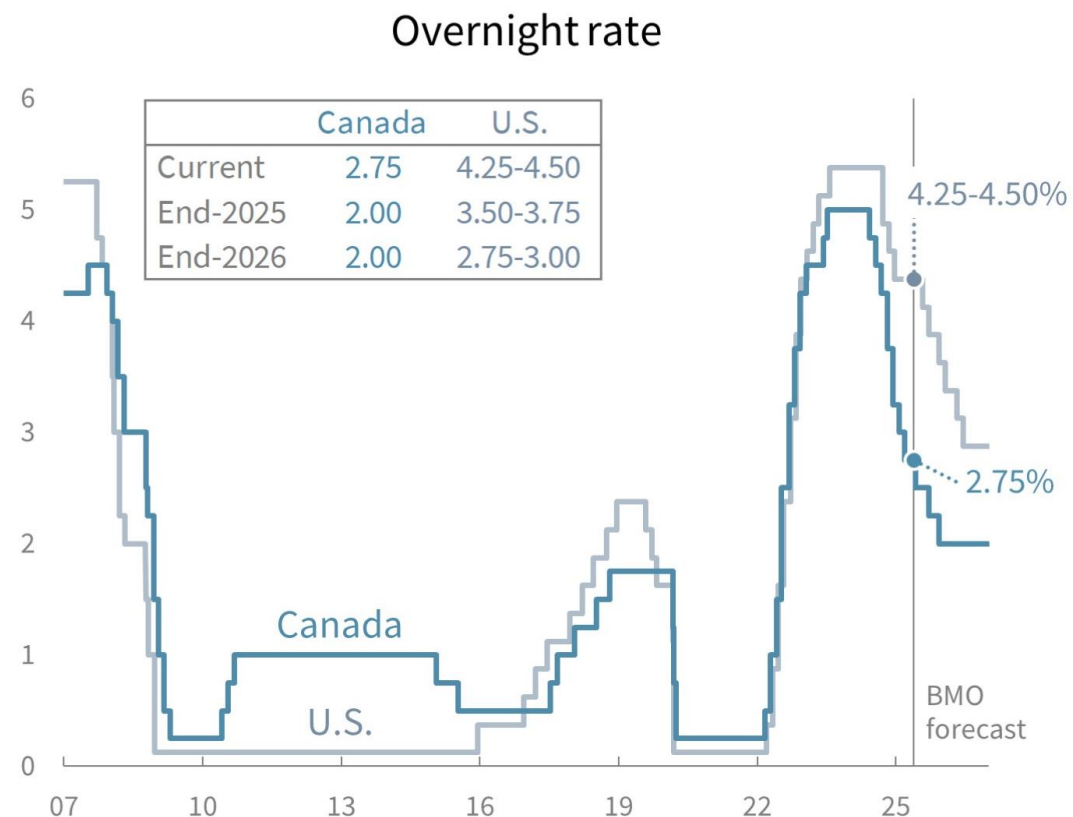


Tracking the progress:

- ✓ Demand for goods
- ✓ Supply-chains
- ✓ Oil and agriculture prices
- ✓ Housing/asset prices
- Services
- ✗ Wage pressure
- ✗ Trade war
- ✗ Psychology

Easing cycle turns hesitant

(% : as of May 20, 2025)



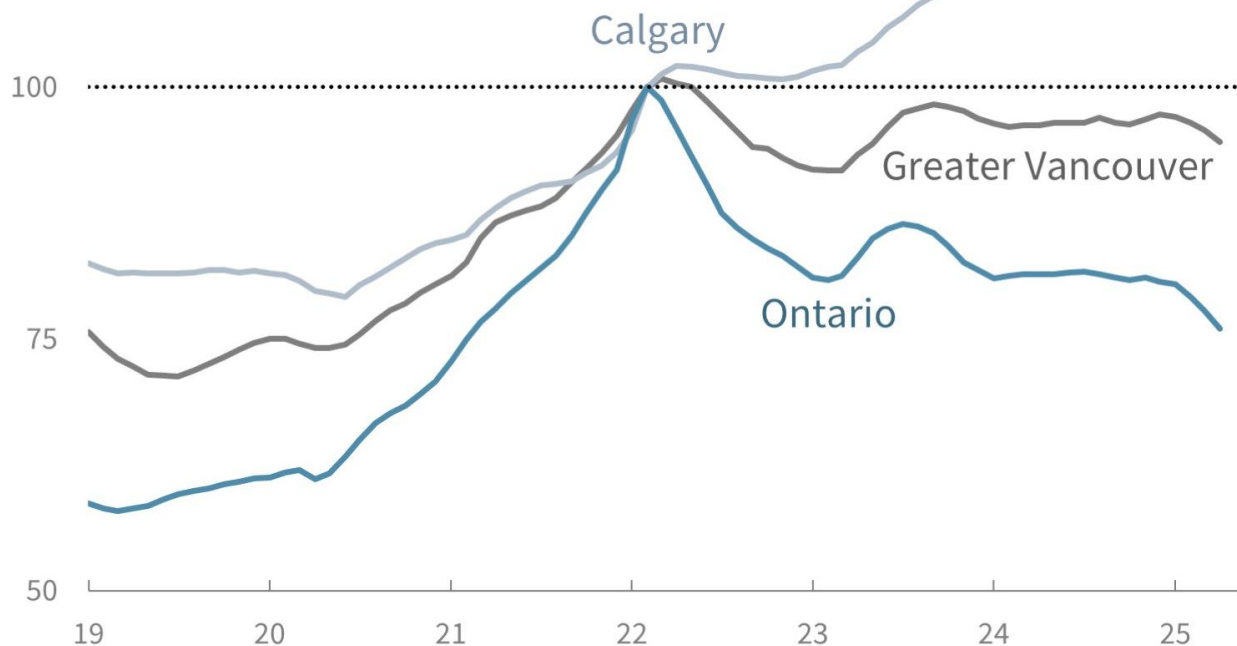
Neutral rates higher than past decade

Housing market adjustment ongoing

Canada (February 2022 = 100)

MLS Home Price Index

125



Location matters

Alberta still outperforming

Segment matters

Condo market saturated (Toronto)

Affordability still difficult

Need lower rates or stagnant prices

Tough investment math:

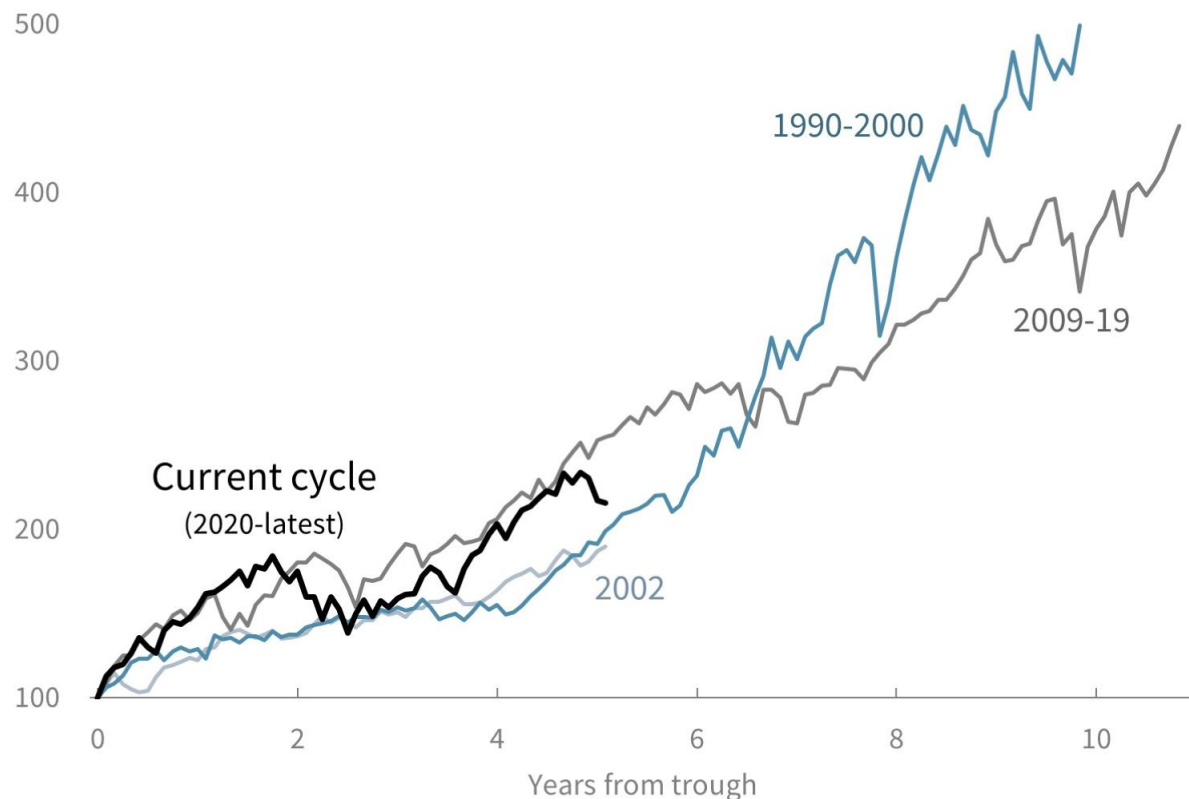
Cap rates still low vs. risk-free yields

Rents weakening

The bull runs... into some trouble

United States (start of bull market = 100)

Major S&P 500 bull markets since 1990



Bullish:

- Sturdy economy and Fed easing
- Earnings growth sustained and solid
- Canada valuations cheap

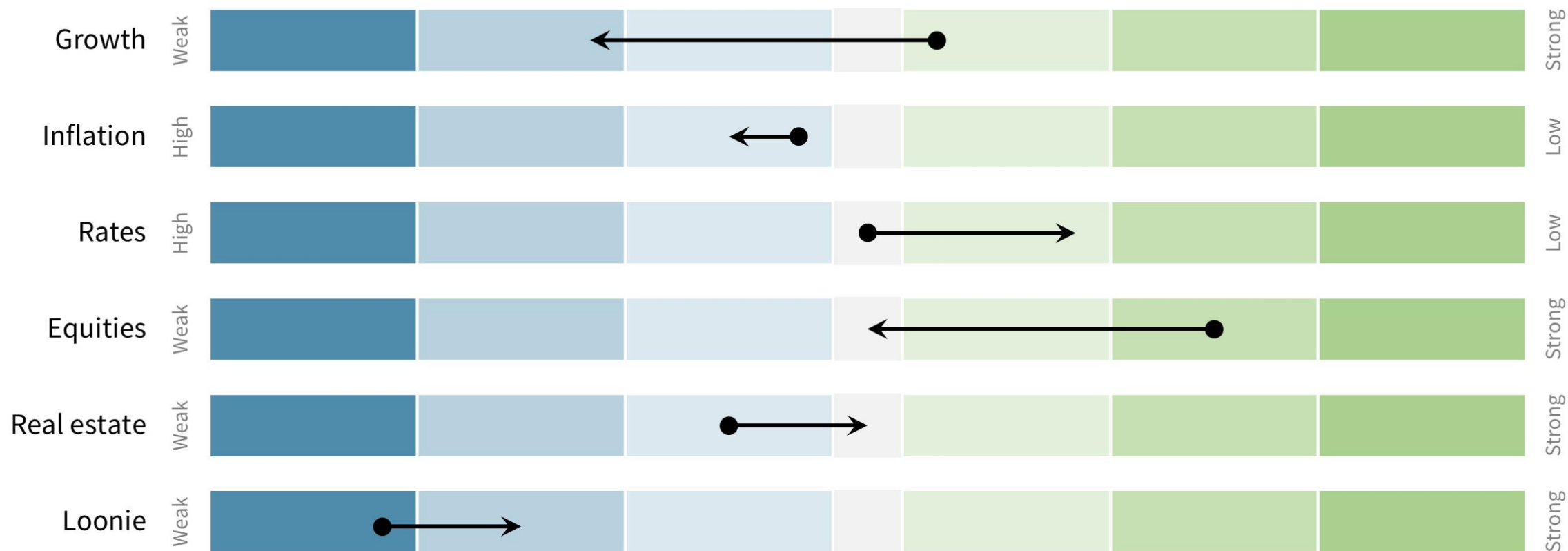
Bearish:

- Trade war impacts confidence
- Disinflation theme threatened
- U.S. valuations somewhat pricey

Sources: BMO Economics, Haver Analytics
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Economic and financial market dashboard

Canada



Arrows represent expected change over the next 6 to 12 months

Source: BMO Economics
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Questions?

Get in touch to learn more.

Robert Kavcic

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Robert has been with the Bank of Montreal since 2006. He plays a key role in analyzing economic, fiscal and real estate trends in Canada. Robert regularly contributes to various department publications and is the main author of the Provincial Monitor and the sought-after Global Equity Weekly. He is a frequent commentator on economic and financial trends in the media, and a regular advisor on economic issues to Canadian policymakers.

Before joining BMO, Robert worked in the Research department at the Bank of Canada. Robert holds an Honours Bachelor of Arts degree in Economics from the University of Western Ontario, and a Master's degree in Economics from Carleton University.



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Tara has over 21 years of transfer pricing experience, including: tax planning, documentation, permanent establishments, withholding taxes, tax audits, Competent Authority resolutions and APAs. Tara has extensive experience in a number of industries including, but not limited to, manufacturing, technology, automotive, food, chemicals, pharmaceuticals, mining, and retail.

She is also experienced with planning and cross-border studies involving intercompany provision of services, purchase/sale and/or licensing of intangible property, purchase and/or sale of tangible goods, leasing of equipment, and intercompany financing including intercompany loans, guarantees, and credit rating sensitivities. She assists clients with the practical development of intercompany transfer pricing policies and the preparation of relevant analyses and documentation. Tara also regularly presents at various conferences including the Tax Executives Institute ("TEI").



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