Industry Update

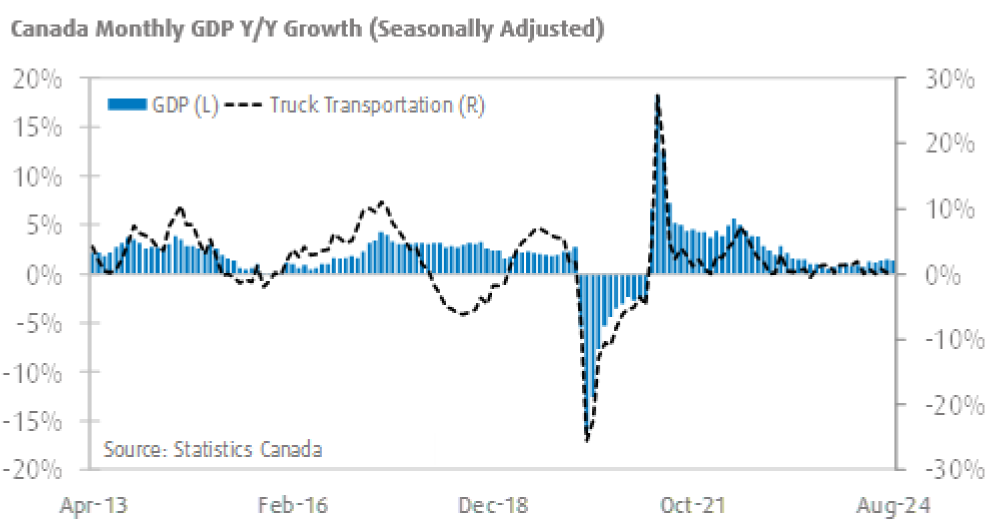
Canada Truck Transportation

Key Developments

- A recent report from **Deloitte** concludes that hydrogen vehicles may offer the best path to decarbonizing long-haul heavy-duty trucking in Western Canada. However, challenges such as high vehicle and fuel costs and limited infrastructure are slowing adoption.
- **Ontario** is launching a 10-year pilot program to test **autonomous commercial vehicles** on province roads before deciding on the broader rollout of autonomous trucks. The program applies to trucks weighing more than 4,500 kgs and will focus on evaluating the capabilities and safety of heavy-duty commercial vehicles with Levels 3, 4, and 5 automation.
- Canadian inspectors placed nearly 13% of inspected commercial motor vehicles out of service during the **Commercial Vehicle Safety Alliance's (CVSA)** Brake Safety Week. During CVSA's Brake Safety Week in 2023, inspectors placed only 10% of inspected commercial vehicles out of service.
- According to the **U.S. Department of Transportation**, truck crossings from Canada (all ports) into the U.S. were up year-over-year by 0.6% through August, which is in line with the increase during 2023 compared to 2022.
- Be sure to check out the latest perspectives from BMO economists on the implications of Donald Trump's re-election for the Canadian macro outlook (page 6).

Industry Fundamentals

Potential changes to trade conditions with Canada's largest export market have leapfrogged all other macro concerns. In the near term, blanket and potentially targeted tariffs could materialize relatively early in the new year. Further out, the USMCA comes up for renegotiation in mid-2026. While direct exposure to U.S. trade varies, autos and general manufacturing in Central Canada look most exposed. Trade policies aside, the single biggest driver for Canadian exports remains the underlying health of the U.S. economy, which the new administration aims to do everything possible to keep intact. On both sides of the border, trucking conditions remain slack, albeit with the promise of improving balance from the exit of excess capacity and an anticipated positive response in freight generation from central bank easing.



Canadian real GDP was flat in August, and the prior month's gain was revised down a tick to a modest +0.1%, resulting in only minimal growth over the summer. The significant drag in August was manufacturing (-1.4%), a sector with the heaviest weight on the economy over the past year (at down 4.0% y/y versus a +1.3% y/y gain for the entire economy). While auto retooling dented output in the month, the sector has contracted by 6% since early 2022 and is now at its lowest ebb in almost eight years.

Since bottoming a year ago, trucking sector growth has been lackluster while trailing overall GDP growth since March. Further, sector activity has been no better than flat since February 2020, just before the pandemic's start.

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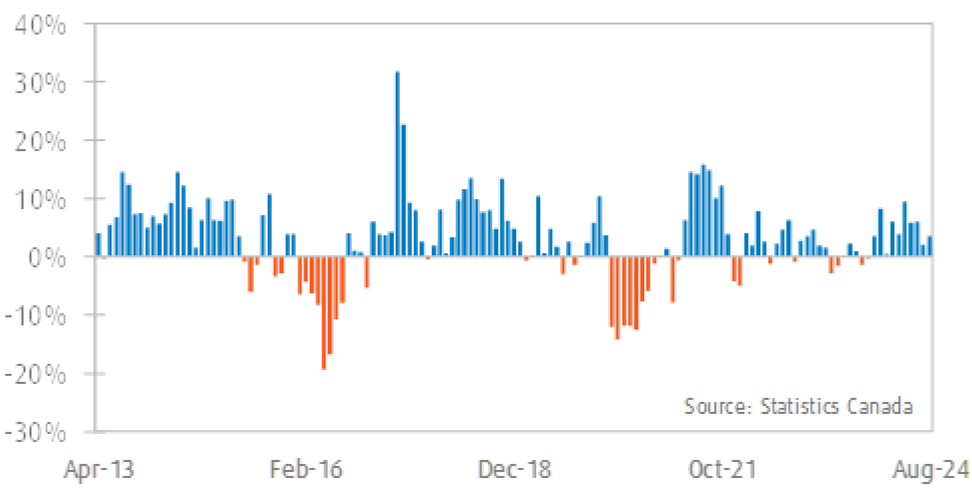
Trucking Business Influencers

Canada Weekly Diesel Fuel Retail Price (Cents/Litre)

Mirroring a relatively tight range in crude prices since the beginning of the year, the **national average Diesel price** of $1.69/litre in early November was flat year-to-date and down 10% from a year earlier.

Given record North American crude production and a tepid replenishment of the U.S. strategic petroleum reserve, and despite elevated geopolitical threats, disrupted Suez access, and a cap on OPEC+ production, crude prices have been confined to a relatively narrow two-year range. As such, the current BMO outlook for WTI suggests that oil prices will remain relatively stable, with an average of $77 per barrel in 2024 and $77.5 in 2025, essentially flat with an average of $77.6 in 2023.

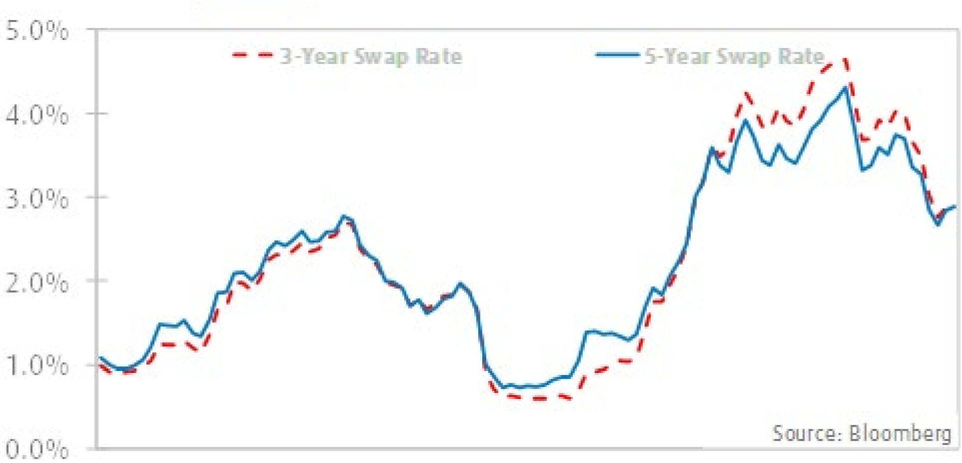
Canada Crude Oil Production Y/Y % Change



Canadian drilling is largely seasonal as rigs are prevented from moving to new drilling sites in the Spring, partly because the ground is thawing, making access by heavy equipment difficult. In an average year, the active rig count will fall 85-90% from its peak in the winter to its minimum in April and May.

Since a recent bottom in May, **crude oil production** increased for four consecutive months through August and has shown positive, albeit slowing, year-over-year growth for ten straight months. Further, total output over the trailing 12 months through August increased by 3.8% to a record for any 12 months.

Interest Rates: 3 & 5 Year Interest Rate Swap Pricing

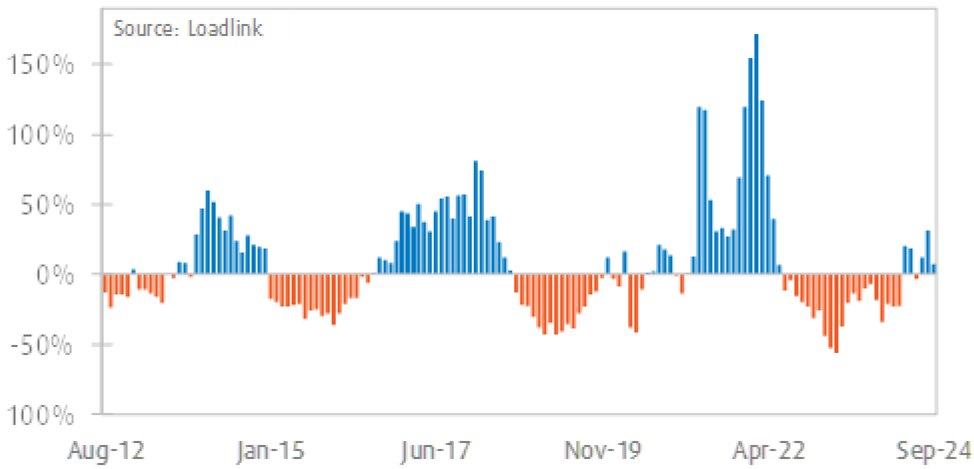


Interest rate swaps are derivative instruments commonly used by financial institutions to mitigate interest rate risk on a loan portfolio. The pricing of interest rate swaps (swap rates) mirrors expectations of interest rates' future direction.

After a brief surge in late spring, rates have reversed in response to the BOC's aggressive policy rate cuts. Given expectations for further inflation cooling on both sides of the border, BMO's economists forecast consecutive rate cuts to continue through the turn of the year, with the policy rate reduced to 3.5% by January before the easing pace slows during the first half of next year.

Freight Indicators

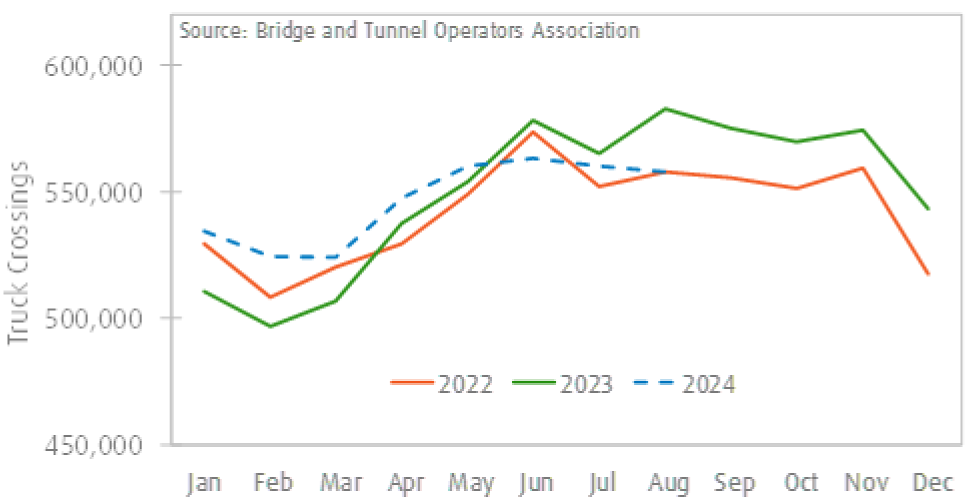
Canadian Truckload Spot Freight Volume Index Y/Y % Change



Since reaching a low point a year ago, **truckload spot freight volume** has shown positive year-over-year growth during five of the past six months through September, while the 3rd quarter was up 17% compared to a year earlier.

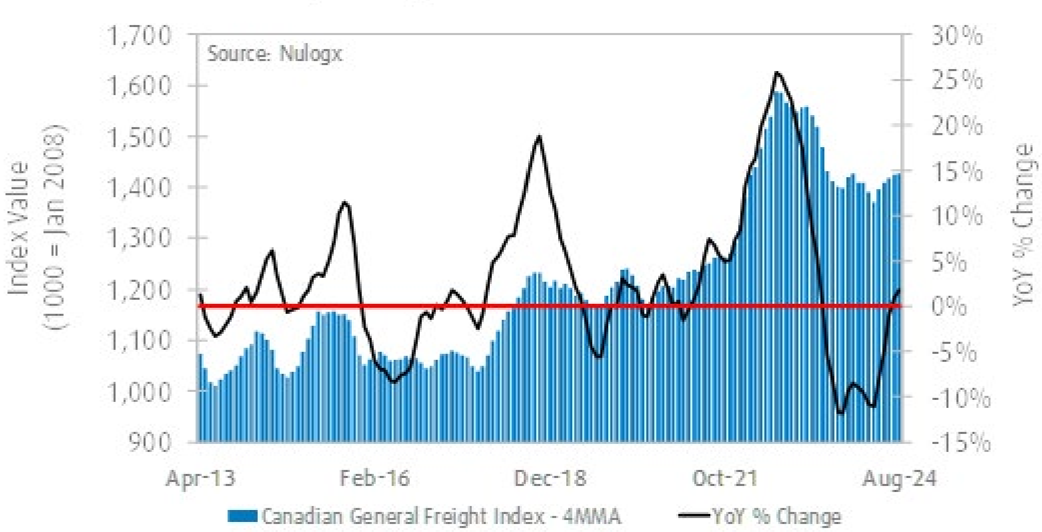
Further, available spot freight volume has outpaced available capacity (trucks on the road) as the truck-to-load ratio in September of 3.31 was 24 percent lower (tighter) than a year earlier.

Ontario Cross Border Truck Traffic



Following positive year-over-year growth from April 2023 through May 2024, the 4-month moving average of **Ontario truck border crossings** has turned increasingly negative through August (-4.3% y/y). Nonetheless, total truck crossings over the trailing 12 months remained slightly positive (+0.6%).

Canadian General Freight Pricing Index

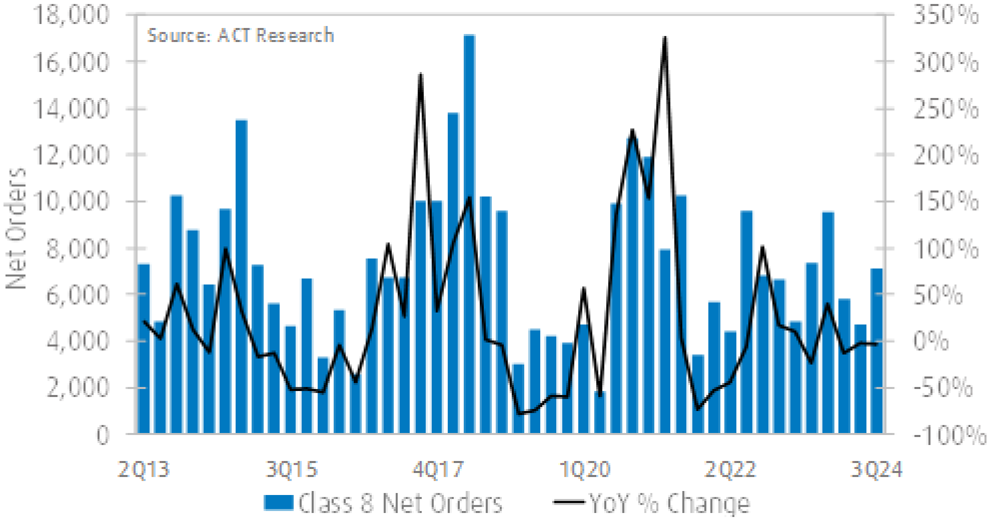


Since reaching an all-time high during the summer of 2022, an index representing the **total cost** (fuel surcharges + base rates) of over-the-road freight transportation for Canadian shippers had declined to a multi-year low earlier this year but was still well above pre-COVID levels. That said, base rates bottomed in March and have since upticked each month through August, while the year-over-year change turned positive in July for the first time since May 2023.

Beneath the surface, total domestic LTL and total domestic TL increased in August from July, while total cross-border LTL and total cross-border TL declined. Year over year, total domestic LTL, total cross-border LTL, and total cross-border TL segments are above last year, while total domestic truckload remains below last year.

Truck Orders

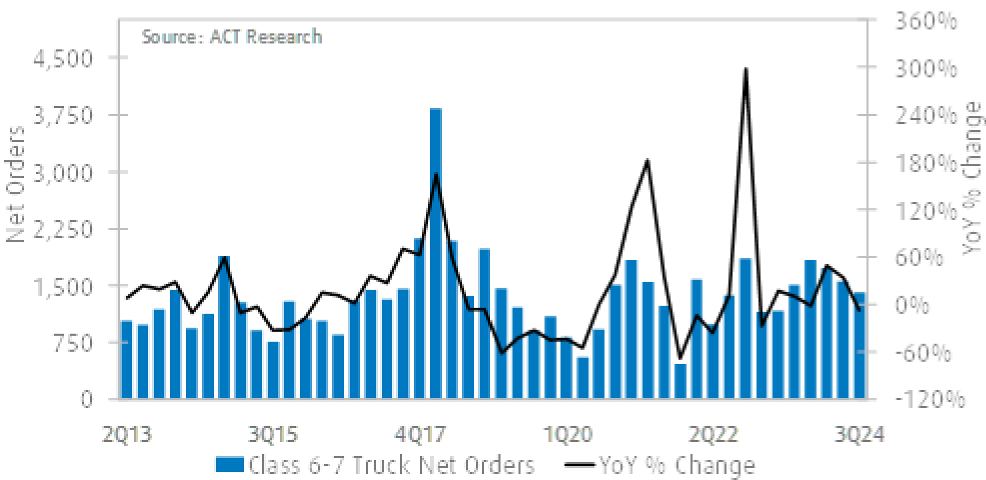
Canada Class 8 Net Orders



Quarter-over-quarter comparisons turned positive during the 3rd quarter of the year as **Class 8 net truck orders** awoke from a seasonal summer slumber when build slots began to open for 2025 deliveries.

Primarily on the strength of straight daycabs, monthly net truck orders bounced strongly from a 2-year low in July and reached a 3-year peak in September. Altogether, orders during the third quarter increased 51% from the weak second quarter but were still 3% lower than the year-earlier quarter. Year-to-date orders are down 7%.

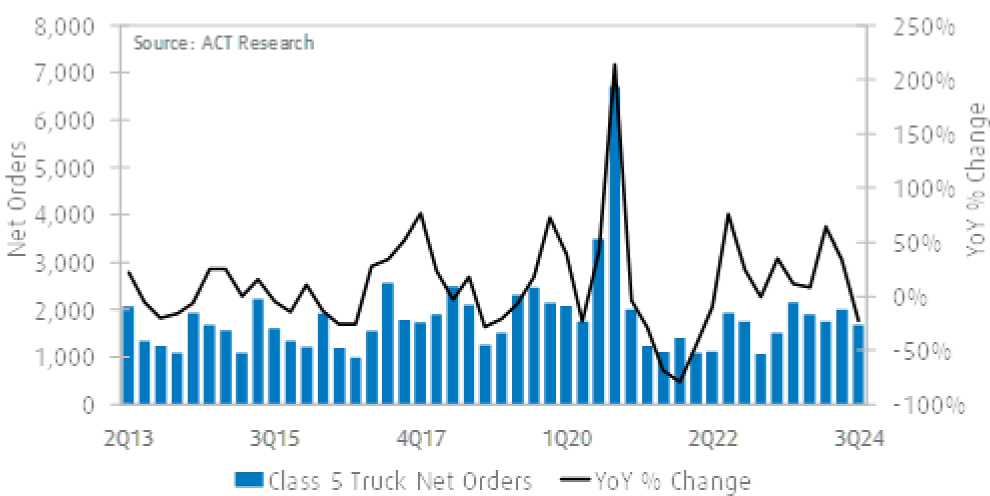
Canada Class 6-7 Truck Net Orders



Class 6-7 net orders continue to decline from a strong finish last year. Net orders during the 3rd quarter were down 10% from the 2nd quarter and 8% from the year-earlier quarter. Nonetheless, due to easy comparisons to a weak 1st half of last year, year-to-date orders are up 22%.

As always, the severe-duty segment of this class will continue to reflect fundamental momentum (or lack thereof) in the energy and construction sectors.

Canada Class 5 Truck Net Orders

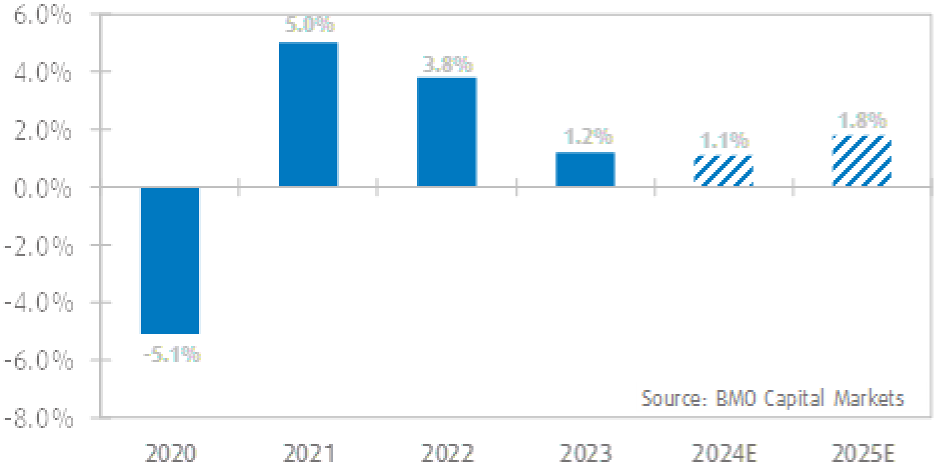


Medium-duty truck orders have been trending modestly lower since the middle of last year, with net orders during the 3rd quarter down 17% from a solid 2nd quarter and 22% from a year earlier. Nonetheless, due to easy comparisons earlier in the year, year-to-date orders are up 15%.

Despite the modest near-term macro growth outlook, the long-term demand outlook for medium-duty remains positive, supported by diverse end markets, consistency in vocational sectors, and the durable tailwinds of e-commerce and last-mile delivery.

Macroeconomic Indicators

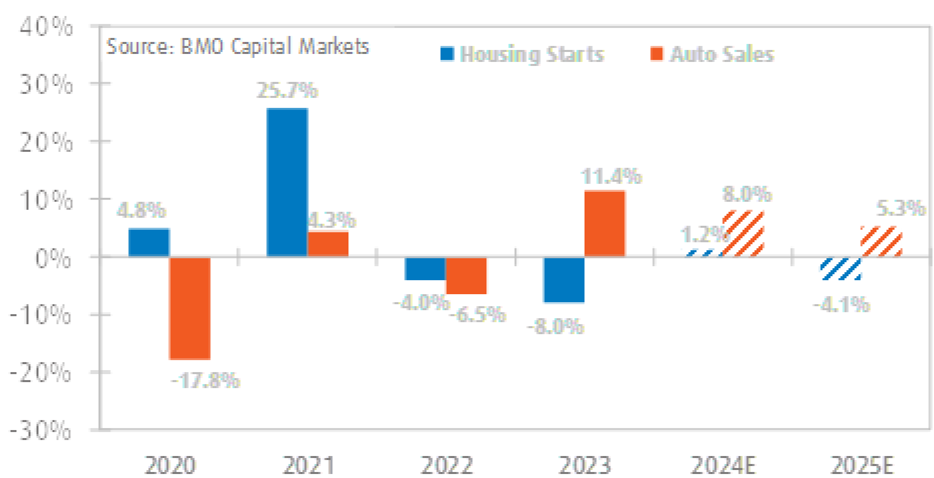
Canada Annual GDP Estimated Y/Y % Change



The biggest economic concern in Canada has suddenly shifted from high interest rates and inflation to the **uncertainty surrounding its U.S. trade relationship**. Canada's dependency is reflected in merchandise exports to the U.S. at 76.2% of the total in the last month, precisely in line with the 30-year average.

Regarding tariffs, unlike Mexico, Canada mainly stayed under the radar during the U.S. election campaign. Still, there's no guarantee that Canada will be spared if broad or targeted tariffs come to pass. That said, while any new tariffs would be a headwind, the single biggest driver for Canadian exports remains the underlying health of the U.S. economy.

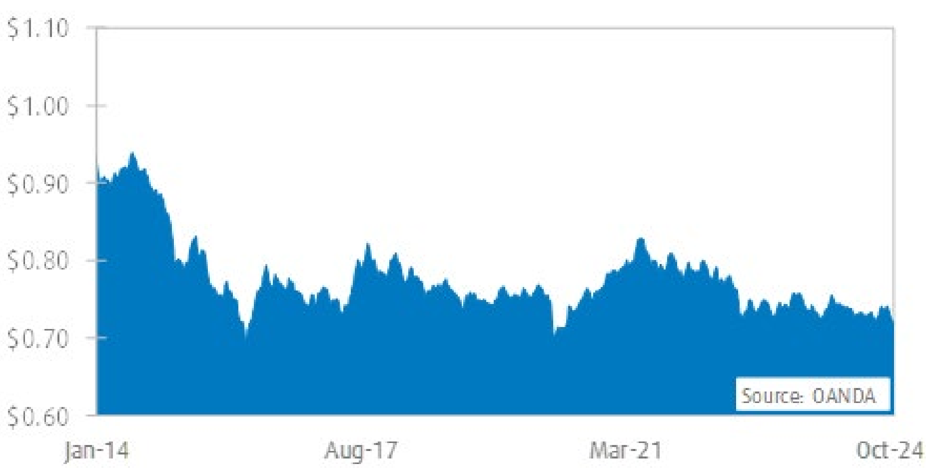
Canadian Annual Housing Starts and Auto Sales Estimated Y/Y % Change



Residential construction activity remains steady. In early November, BMO economists were forecasting full-year new housing starts at 245,000 (+1.2% y/y) units. However, starts in 2025 are expected to decrease modestly (-4.1% y/y) as unsold inventory and slower population growth outweigh declining interest rates.

In contrast to homebuilding, easing monetary policy and pent-up demand should support healthy automobile unit sales growth this year and next.

U.S. Dollar per 1 Canadian Dollar



At around 72 cents U.S., the **Canadian dollar** is flirting with two-decade lows. Its most significant challenge is the wide gap in interest rates between the two countries, reflecting the considerable difference in economic performance, with the U.S. growing more than twice as fast as Canada in the past year. The currency has also been held back by long-standing competitiveness issues, such as sagging productivity and rising unit labor costs. Facing uncertainty ahead of the 2026 review of the USMCA and possible tariffs on exports to the U.S., BMO economists expect the currency to remain depressed for a while before appreciating toward 74 cents U.S. by late 2025 as the U.S. dollar succumbs to Fed policy easing through next year.

"Voice of the BMO Economics Team"

U.S. Election 2024: Red Tide
Douglas Porter, CFA; Michael Gregory, CFA; Scott Anderson, Ph.D.; Sal Guatieri - *November 8th, 2024*

Implications for Canada
In the event of a Republican sweep, **Canada's economy might benefit initially** from stronger U.S. growth, as its largest trading partner buys three-quarters of its merchandise exports. Energy producers would also rejoice if the Keystone XL pipeline was resurrected (admittedly, a long shot). However, the country **could be one of the hardest hit** (along with China and Mexico) from a possible trade tussle. Increased uncertainty about tariffs and the fate of the USMCA ahead of the 2026 review could depress capital flows to Canada and weaken domestic investment, likely extending the nation's productivity slump. Suffice it to say, **none of this is good for the Canadian dollar**, which is already challenged by faster rising unit labour costs relative to the U.S.

While tariffs and a softer currency might add some upward pressure to prices, potential economic weakness could hold inflation below the 2% target, **keeping the Bank of Canada in easing mode**. The Bank expects the economy to strengthen on the back of further planned rate cuts, and any threat to its outlook could spur a more aggressive response. This explains the initial relative outperformance of Canada's bond market to the election results, with yields rising less than south of the border and Canada-U.S. spreads hitting extremes. The BoC slashed policy rates 50 bps in October, but a more cautious path of 25 bp moves over the coming months is more sensible given the post-election uncertainty and heightened risk to the Canadian dollar.

The **federal government might need to lower corporate taxes** to prevent a further loss of competitiveness for Canadian businesses and investment from fleeing south. Canada will also be pushed harder to raise its NATO contribution much faster than currently planned, potentially leading to a higher budget deficit. Moreover, Trump's pledge to deport millions of undocumented migrants could impede the Canadian government's goal of slowing population growth should many decide to head north and cross the U.S.-Canada border. These issues will play a prominent role in the coming Canadian election.

Trump: The Sequel
Sal Guatieri, Senior Economist and Director – November 7th, 2024

The U.S. election results are both good and bad for Canada's economy. Stronger growth for the biggest foreign buyer of your products is always a good thing, but potential tariffs could blunt said exports. Moreover, uncertainty about the USMCA review could undermine business investment. For now, **we have made no changes to the outlook for Canadian growth or interest rates.**

Lacking momentum, the economy could use a boost from stronger U.S. demand. Recent monthly GDP data suggest growth slowed to 1.3% annualized in the third quarter from 2% in the first half of the year. Growth looks to run at 1.1% for all of 2024, a small step down from last year's tepid performance. The impact of past rate hikes, notably via mortgage resets, continues to curb consumer spending. While auto sales remain healthy and even sped up this year, households have cut back on discretionary purchases. With shoppers on a tighter budget, business spending contracted in the past year. Despite lower mortgage rates, the housing market remains constrained by high prices in some regions and a softer job market.

Employment moderated to a still-decent growth rate of 1.5% y/y in September. Despite limited layoffs, market conditions have weakened considerably, with job openings returning to pre-pandemic levels and the jobless rate climbing about one percentage point in the past year to 6.5%. We estimate that more than half of its increase since late 2022 is due to torrid population growth. A further rise to around 7% is likely by early next year before the economy picks up and immigration curbs kick in.

Trump: The Sequel (Cont.)

As interest rates fall and global demand firms, **GDP growth should strengthen moderately to 1.8% in 2025**, close to the past-decade norm. The upturn should be led by consumers given their heightened sensitivity to interest-rate changes. However, the federal government's plan to slash immigration targets (for both temporary and permanent residents) could see the **population stand still or even contract slightly for two years**, implying some downside risk to growth. (It's worth noting that Donald Trump's pledge to deport millions of undocumented migrants could make it harder for the Canadian government to reach its target if many migrants set their sights on crossing the U.S.-Canada border.) The 180-degree shift in immigration policy attempts to correct for the unsustainable inflows of the past two years, which juiced population growth to a more than six-decade high. Still, given the historically low correlation between annual changes in the population and real GDP, we are hesitant to mark down our economic outlook. Lower interest rates should support a pickup in per-capita consumer spending growth, which will also lift business spending.

A few sectors such as housing will take the brunt of immigration curbs. Existing home sales have stabilized but remain depressed as buyers await further rate relief. Resales rose almost 7% y/y in September but are still below normal. Preliminary figures from several major cities suggest an even larger pickup in October, no doubt juiced by the Bank of Canada's stepped-up rate cut. Most markets remain balanced, but sellers still call the shots in much of the Prairie Provinces and Atlantic Canada amid decent affordability and migrant inflows. By contrast, buyers in Toronto and Vancouver carry more sway due to limited affordability and a glut of unsold condos in the former region. Nationwide, benchmark home prices have bottomed after falling 14% from their peak. A few affordable cities, however, including Montreal, Calgary, and Moncton, are still probing new highs. **The housing market is expected to recover only modestly in the year ahead** in response to lower mortgage rates and new insured mortgage rules that will support lower monthly payments and down payments, especially for many first-time buyers. But the recovery will be held back by weaker immigration and still-challenging affordability in B.C. and Ontario. Prices are expected to trend modestly higher, allowing incomes to slowly catch up to the high valuations in some regions. Housing starts look to decline from earlier elevated levels in response to weaker population growth and high condo inventories, especially in Toronto. Rent growth will continue to moderate as vacancy rates edge higher, keeping inflation on low simmer.

With help from cheaper fuel, consumer price **inflation fell to 1.6% in September**, though key core measures are still running a little above 2%. As a result, the **Bank of Canada is now fully committed to promoting stronger growth** to stop the jobless rate from rising further and inflation from staying below target. After cutting policy rates by 125 bps since June—the most aggressive move among major central banks in that timeframe—an additional 125 bps of rate relief is anticipated by June 2025. This would take the policy rate down to more stimulative levels of 2.5%. We expect all the moves to be of the quarter-point variety, though another 50-bps chop can't be ruled out in December. Until the economy shows signs of sustaining faster momentum, the risk will remain tilted toward even deeper rate cuts, though the Bank may need to tread carefully if the currency remains under pressure.

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