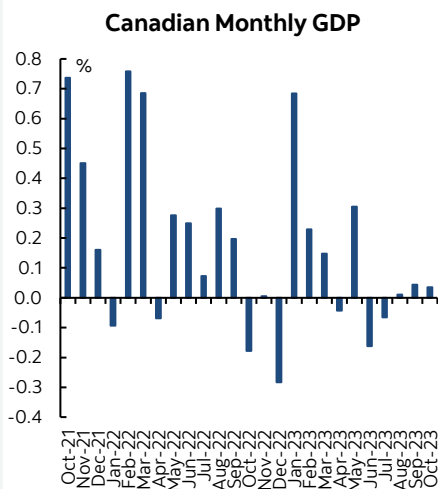


Contributors

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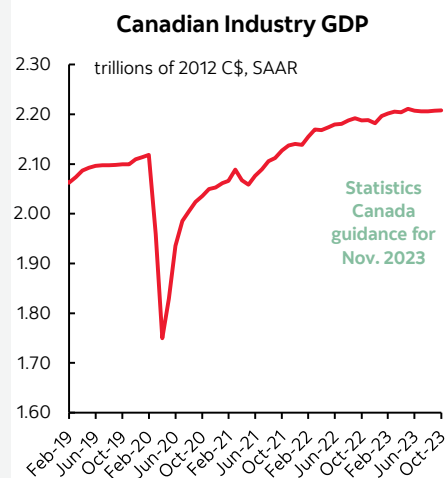
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Canada's Economy is Treading Water as Temporary Shocks Persist

- Growth stalled in October, eked out a tiny preliminary gain in November
- More shocks distorted the picture...
- ...like an auto shutdown, UAW & Seaway strike effects, upgrader problems
- Markets largely shook it off and so will the BoC

Canadian GDP, m/m % change, October, SA:

Actual: 0.0

Scotia: 0.2

Consensus: 0.2

Prior: 0.0 (revised from 0.1)

November 'flash' guidance: +0.1% m/m SA

Canada's economy is treading water after another pair of soft readings for October and November (chart 1). I'm sure some will choke on their maple syrup and start throwing tantrums. As far as I'm concerned, the fact that the economy is not materially shrinking with all that has been thrown at it from rate hikes to serial shocks continues to be a minor miracle (chart 2). The latest batch of data added further evidence of transitory shocks that are exaggerating the still material underlying softness in the economy with more required in order to appease the BoC.

Markets and Bank of Canada Implications

There was little reaction to the data on both sides of the border including Canadian GDP and the softer than expected US core PCE reading of 0.1% m/m SA. Two-year yields in both countries slipped by 1–2bps post data. The Canadian dollar appreciated a bit perhaps more driven by the USD's broad softening.

There are no material implications for the BoC. None. Nadda. Zilch. Zippo. Walk it off.

BoC Governor Macklem already advised that he's expecting weakness to persist through the first half of 2024 which is an indication that he's prepared to look through it as a necessary step toward opening up disinflationary slack in the economy. By extension, that says he'd need much greater weakness than he's anticipating in order to worry him.

Further, there remain multiple idiosyncratic drivers of inflation risk that are beyond the capability of the output gap framework's reliance upon GDP growth to capture. It's 2% inflation over the medium-term that is their mandate and a lot goes into the soup that makes up an inflation forecast. For one, wages are vastly outpacing inflation and productivity. For another, immigration is excessive; the need is now, and governments are telling arrivals just to wait 5–10 years for a modest amount of housing to possibly be built if they can get the workers and financing to pull it off. There is more political smoke blowing than homes being built and that won't change for a long while yet.

Details—The Shocks Continue

Canada's economy was flat in October despite advance guidance from Statcan that it was tracking 0.2% m/m growth. That's the biggest overshoot by their preliminary tracking since April but revisions in either direction have been the norm since they started to provide their advance tracking in the pandemic (chart 3).

With that caution in mind, take preliminary guidance that November's GDP was up 0.1% m/m with a lot of skepticism and in both directions. It's a guesstimate by the agency and they don't provide details other than to say that November was lifted by manufacturing,

wholesale trade, real estate agents and brokers and federal government spending, but offset by declines in mining/oil&gas and utilities.

Chart 4 shows the break down of October GDP by sector and chart 5 does likewise in weighted contribution to growth terms. There was significant breadth to the softness with services up 0.1% m/m but goods sector output flat and with half of the 20 sectors up and half down.

Gains in retail, mining/oil&gas, health care and social services, agriculture, public administration, accommodation and food services, educational services and finance were offset primarily by drops in manufacturing, wholesale trade, retail estate and professional and scientific services.

Shocks Continue

The softness in October GDP was exaggerated by the continuation of serial shocks. Some may say that's making excuses, but I think it's a substantive point. Canada's economy is mired in a frustrating sequence of serial shocks starting with strikes that began in Q2 and are ongoing into Q4, continuing through unplanned maintenance in the oil patch and the effects of nationwide wildfires.

Now we can add to that list with the following guidance from Statcan:

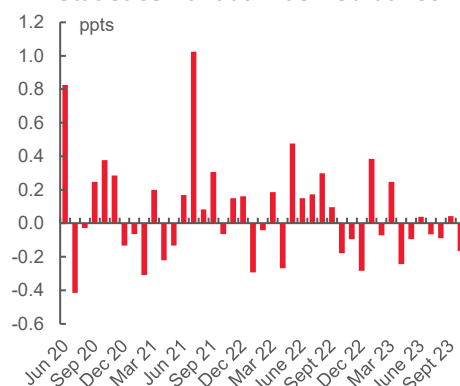
- The manufacturing sector was principally driven lower by activity in the transportation sector because weakness in autos caused by two things. One was a shutdown of a major assembly plant for retooling. The other was the cross border impact of the UAW strike in the US.
- Oilsands extraction fell 2.2% m/m "as turnarounds at some oil sands upgraders continued."
- The St. Lawrence Seaway strike hit multiple sectors of the economy. Statcan pointed the finger at this as a driver of weakness in the transportation and warehousing sector.

I am not saying that the economy would be booming absent these shocks. I am saying that while it's frustrating to see the persistent arrival of such disruptions, I'm still of the belief that our understanding of what's going on in the economy is being distorted by temporary developments that are beyond the influences of factors like tighter monetary policy and it's a disservice to the public discourse on the state of the economy to see so much commentary ignoring these factors.

The funny thing is that Canada has witnessed prior periods of serial shocks that have weighed on the economy such as under former Governor Poloz's term at the BoC and yet the emphasis placed upon them at that time is absent a lot of the commentary being provided about Canada's economy today...

Chart 3

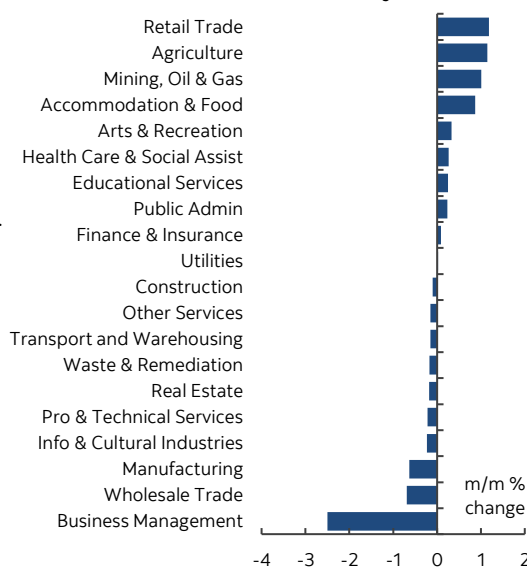
Spread Between Actual Real GDP and Statistics Canada Flash Guidance



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

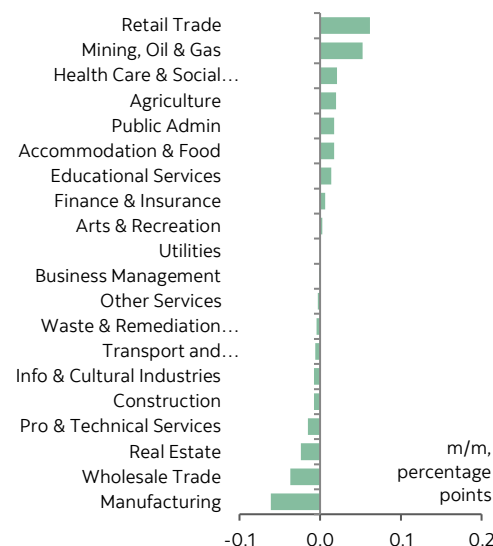
October Real GDP Growth by Sector



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

Contributions to GDP Growth in October



Sources: Scotiabank Economics, Statistics Canada.

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