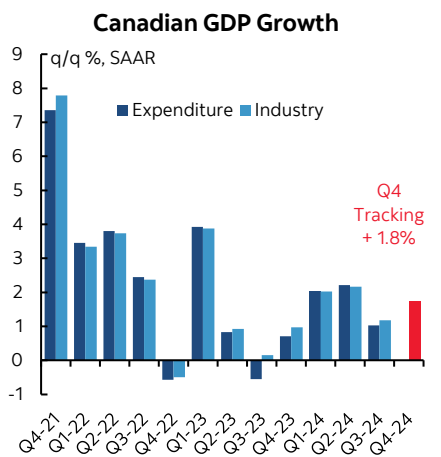


Contributors

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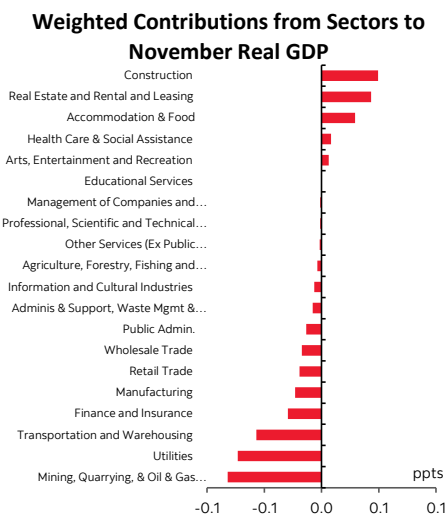
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Canadian Economy Rebounds, But Strikes Aplenty Held Back A Better Performance

- Canada's economy did indeed rebound in Q4...
- ...with understated growth due to strikes aplenty
- The postal strike drove the weakest November on record for cross-border shipments
- Growth matching potential stopped the small output gap from widening further
- The path forward faces huge uncertainties...
- ...making backward-looking data of little use...
- ...and so markets ignored it, focusing upon the tariff threat instead

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

Actual: -0.2

Scotia: 0.0

Consensus: -0.1

Prior: 0.3

December 'flash' estimate: 0.2

The Canadian economy's acceleration in Q4 would have been greater if not for transportation bottlenecks caused by the direct and indirect effects of widespread strikes. And yet with bigger threats lurking ahead it may not matter one iota. To the latter point, what is driving USDCAD and the yield curve this morning is tomorrow's tariff threat.

Before getting to that, the 1.8% q/q SAAR GDP growth in Q4 that is now being tracked with the monthly production-side accounts is nothing to spit at. It's not great, but it's roughly at the potential growth rate of the economy, that is, the noninflationary speed limit to growth. That means that the economy was no longer adding to net slack in Q4. That amount of slack was modest to begin with as the BoC's estimate of the output gap up to Q3 was just -0.9%. In a base case scenario, you wouldn't hang your hat on that to merit an aggressive set of further rate cuts. The path for easing depends critically upon tariffs and is highly uncertain.

What drove this is that GDP was guided to be up 0.2% m/m SA in December after a -0.2% dip in November that was one-tenth weaker than Statcan's initial 'flash' November guidance that was provided a month ago.

Using the monthly GDP estimates reveals 1.8% q/q SAAR growth in Q4 but it also indicates no momentum into Q1. That puts the full emphasis upon monitoring data as it arrives in Q1.

Statcan's guidance on December's 0.2% rise absent sector details is strictly verbal:

"Increases in retail trade, manufacturing and construction were partially offset by decreases in transportation and warehousing, real estate and rental and leasing and wholesale trade."

Nut check at least some of the negativity on Canada to date notwithstanding problems ahead. I'm firm on that. Many were saying a recession would be obvious, and yet where's the recession? It's not in chart 1. I leaned against that narrative in favour of a gradual improvement in growth which we're getting in a base case narrative absent tariffs that would be an accelerating story.

Greater challenges lurk ahead. Exactly how much greater and how to quantify them is deeply uncertain in terms of the net trade offs of trade policy, tighter immigration policy, lagging effects of past easing, lagging effects of the past surge of immigration, and how fiscal policy responds.

Blame strikes for much of Canadian November GDP

Chart 2 shows the weighted contributions to the dip in GDP in November.

The transportation and warehousing sector knocked 0.1% m/m off November GDP in weighted terms. Posties were on strike, and there were also work stoppages in rail that hit that sector's output by 30% and water transportation (-4.6%) with other strikes at the Port of Montreal and a BC port lockout to contend with.

And that's just the direct effect. The indirect effect of disruptive strikes in postal, rail and port services rippled through the rest of the economy. That's hard to estimate how much, but intuitively these disruptions would have contributed to the softness in other sectors that couldn't move product, couldn't order and send gifts in the mail, couldn't secure inventories etc.

One indication of the impact of just the postal strike is that it ground cross-border spending by consumers and businesses through postal and courier services to an absolute halt. Import data captures goods coming into the country through postal and courier services, like if you shop online in the US or elsewhere in the world and have it sent to a Canadian address. This activity plunged. November 2024 posted a massive decline that was the weakest month of November for such activity on record. It is seasonally unadjusted data (NSA) and so that's why the chart compares like months of November in history. This type of spending is not captured by the retail sales numbers that only reflect domestic purchases which is why we need to look at the import data.

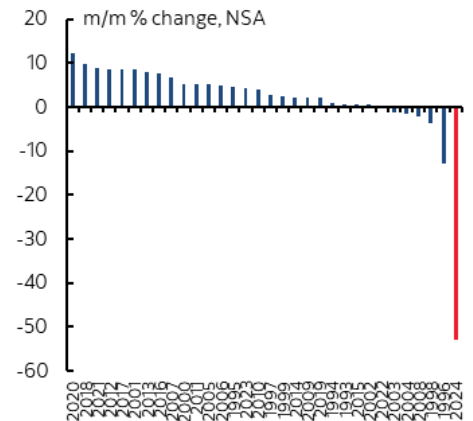
My spitballing guesstimate is that if not for these strikes and their indirect effects, GDP would have been roughly flat in November. That would have posed a higher jumping off point into December, but the strike effects persisted into that month as well. Controlling for the combined effects of the strikes could mean Q4 GDP growth was over 2%.

Welcome to Canada. Strikes aplenty. Surging lost hours due to strikes (chart 4). So be careful with the GDP figures. Lost hours to strikes mean folks not producing, not moving goods while they're on the picket lines or at home netflixing all day. GDP is hours worked times labour productivity and so lost hours are another way of illustrating the strike effect.

There is an interesting aside about arts/entertainment/recreation GDP. Statcan is saying it was up 0.8% m/m in November, but it's low 0.8% weight in GDP had no effect in terms of weighted contributions to growth. The sector's rise in November was a Taylor Swift effect, but held back a bit according to Statcan by lower than usual NHL attendance that month. Hockey fans choosing instead to be Swifties? Who knew?! Anytime I've been to a Leafs game.

Chart 3

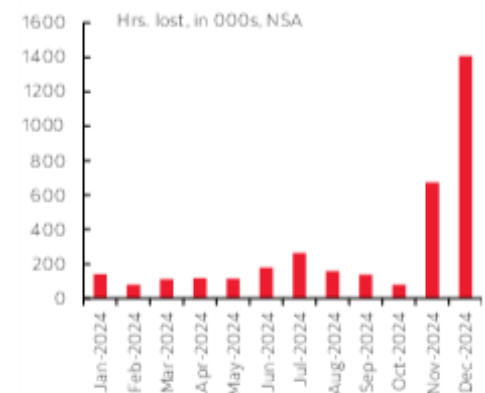
Comparing Canadian Imports By Postal Services in November



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

Canadian Economy Hours Lost Due to Strike or Lockout



Sources: Scotiabank Economics, Statistics Canada.

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