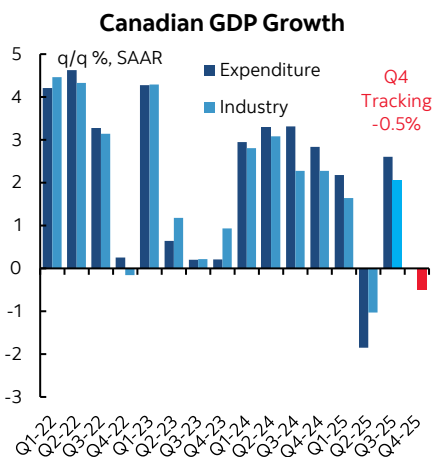


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Chart 1



Canadian GDP Won't Faze the BoC; PPI Rudely Welcomes Warsh

- Canada's economy flatlined in November...
- ...and slightly picked up in December, leaving a weak Q4 behind
- Weather, strikes, macro drivers messed up Q4 in Canada
- It's unclear whether Q4 was weaker than the BoC expected...
- ...but who cares, as they have faded history in favour of being forward looking
- Core US producer prices skyrocketed; core PCE to land between 0.2–0.3% m/m...
- ...that when annualized reveals ongoing residual inflation risk
- Markets faded data behind Warsh headlines

Canadian GDP, m/m % SA, November:

Actual: 0.0

Scotia: 0.1

Consensus: 0.1

Prior: -0.3

December prelim flash: 0.1

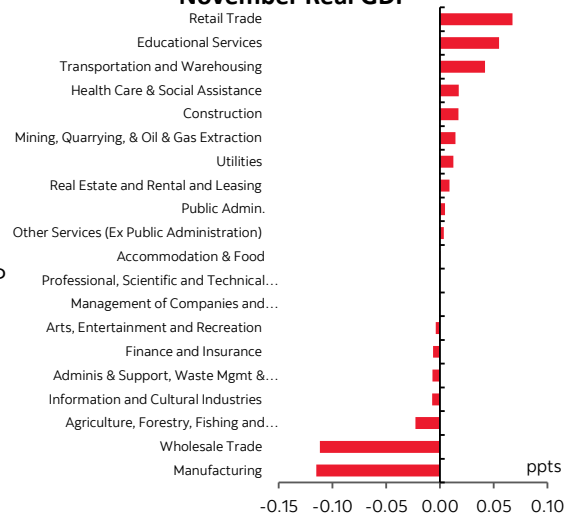
Canada's economy limped into year-end. Reading why it did so is a convoluted mess of macro drivers, weather, and strikes. It's unclear if the numbers would mildly surprise the BoC which has strongly signalled it's looking through what was and toward what may be on the bias that expects something better in 2026. Time and data will test this, but today's batch had little to offer to the narrative.

GDP came in flat in November (actually -0.02% m/m) against Statcan's preliminary guidance that was offered a month ago that indicated mild growth of 0.1% which consensus had gone with. That's a mild miss.

December GDP is guided to have increased by 0.1% m/m SA sans details other than verbal guidance that "Increases in manufacturing and wholesale trade were partially offset by decreases in mining, quarrying, and oil and gas extraction."

Chart 2

Weighted Contributions from Sectors to November Real GDP



What this gives us is Q4 tracking GDP growth of -0.5% q/q SAAR using the production-side GDP accounts (chart 1).

Chart 2 breaks down which sectors drove November's flat GDP reading.

Is that a surprise to the BoC? Maybe, maybe not. They forecast 0% Q4 GDP growth, but their forecast is based upon a different set of expenditure-based GDP accounts. Expenditure-based GDP accounts more fully capture the reasons behind production shifts, such as inventory effects.

January 30, 2026

Historically there has often been a meaningful divergence between the two measures of GDP growth—one using monthly production-based GDP converted to quarterly, the other using quarterly expenditure-based GDP. Chart 3 shows the historical spread. It is not at all uncommon to have significant deviations between the measures of a half percentage point or more.

Therefore one cannot say with confidence that the measure of GDP that most forecasters including the BoC follow shrank by -0.5% in Q4. That remains to be determined. It could have shrunk by more, or less, or not at all within reasonable margins.

Ergo, the BoC wouldn't so much as bat an eye at these figures. They faded history in Wednesday's communications in favour of a forward bias that expected a rebound in GDP this year amid bidirectional rate uncertainty that signaled a long pause as they sift through data and developments.

US PRODUCER PRICES RUDELY WELCOMED WARSH

The US data was more interesting in my opinion. Welcome to Day One (of the nomination), Mr. Warsh.

Core producer prices excluding food and energy soared by the most since July. They were up by 0.7% m/m SA which was a full half point above consensus.

Total producer prices were up by less (0.5%) but still more than doubled consensus (0.2%). Food and energy weighed against core prices.

One key is how higher core producer prices may flow through to consumer prices based on incidence effects that are uncertain. Plus it's just one month.

Another key is how the PPI data flows into the Fed's preferred inflation reading—core PCE. Several PPI categories are included in PCE. Chart 4 shows that their weighted contributions add to a lift of about 0.1% m/m in core PCE inflation with rounding up.

Recall that core CPI was up by 0.2% . Accounting for weighting differences between CPI and PCE is shown in chart 5 to shave only -0.04 pts off of 0.2% core CPI when translated to PCE. The combined effects of how core CPI translates into PCE alongside core PPI's effects lean toward a 0.2 – 0.3% m/m core PCE reading that we won't get until February 20th. When annualized, that would reveal a core PCE m/m SAAR reading above the 2% headline PCE target in a sign that residual inflation risk persists.

Chart 3

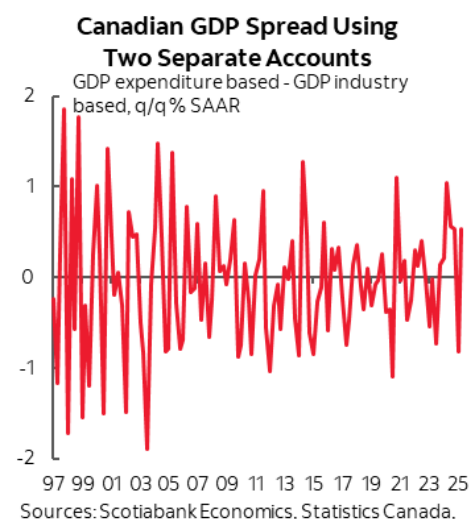


Chart 5

US Core CPI & Core PCE Weights Comparison					
	Core CPI	CPI m/m % change	Core PCE	Diff in weight	Diff in m/m % change
Goods					
<u>Durable Goods</u>					
Motor Vehicles & Parts	9.02	-0.3	4.11	-4.90	0.01
Furnishings	4.24	0.5	2.73	-1.52	-0.01
Recreational Goods	2.29	0.1	3.80	1.51	0.00
<u>Nondurables</u>					
Clothing & Footwear	3.20	0.6	3.05	-0.16	0.00
Services					
<u>Housing & Utilities</u>					
Rent	9.33	0.3	4.15	-5.18	-0.02
Homeowner Equivalent Rent	32.79	0.3	13.38	-19.41	-0.06
Water & Garbage Collection	1.36	0.4	0.79	-0.57	0.00
<u>Health Care</u>					
Transportation Services	7.80	0.5	3.81	-3.99	-0.02
Recreation Service	4.30	1.8	4.39	0.09	0.00
Total:	82.80		59.08	-23.71	-0.04

Sources: Scotiabank Economics, BLS, BEA

Chart 4

Category in PCE	Weight in Core PCE	PPI Components for PCE	m/m % change	Contribution to Core PCE (m/m % change)
Air transportation	1.0	Airline Passenger services	2.9	0.030
Portfolio management & investment advice services	1.9	Portfolio management	2.0	0.037
Outpatient Serv	9.1	Hospital outpatient care	0.0	0.000
- Physician Services	4.5	Physician care	0.1	0.005
- Home Health Care	1.1	Home health, hospice care	0.2	0.002
Hospital & Nursing Home Serv	10.1	Hospital inpatient care	0.1	0.010
- Nursing Homes	1.5	Nursing Home care	0.2	0.003
Total	22.1			0.08

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