Scotiabank.

GLOBAL ECONOMICS

DAILY POINTS

October 25, 2024 @ 7:55 EST

Contributors

Derek Holt
VP & Head of Capital Markets Economics
Scotiabank Economics
416.863.7707
derek.holt@scotiabank.com

On Deck for Friday, October 25

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	10-25	08:30	Retail Sales (m/m)	Aug	0.5	0.5	0.9
CA	10-25	08:30	Retail Sales ex. Autos (m/m)	Aug	--	0.4	0.4
US	10-25	08:30	Durable Goods Orders (m/m)	Sep P	-1.0	-1.0	0.0
US	10-25	08:30	Durable Goods Orders ex. Trans. (m/m)	Sep P	0.0	-0.1	0.5
US	10-25	10:00	U. of Michigan Consumer Sentiment	Oct F	--	69.1	68.9
US	10-25	11:00	Fed's Collins Speaks in Fireside Chat				

KEY POINTS:

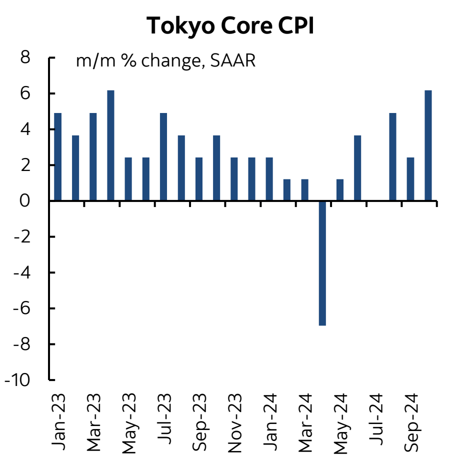
- **Global markets lack unifying theme to end the week**
- **Japanese core inflation surges, but Ueda reaffirms no policy shift next week**
- **Canadian retail sales still going strong?**
- **US core capital goods orders tracking sideways for years**
- **Russia's central bank hikes by twice what was expected**
- **German business confidence improves, ECB's inflation expectations soften**
- **Assessing Canada's immigration policy shift: key debating points**

There is no unifying market theme to end the week. Stocks are mixed with US futures higher, but European cash markets gently lower. US, Canadian, UK and antipodean yields are lower while EGBS underperform. Most currency movements are pretty benign. Overnight markets saw few developments into a pair of N.A. releases that are unlikely to have material effects on key debates.

Japanese Core Inflation Surges

Japanese core inflation accelerated at the margin. The October reading for Tokyo CPI ex-fresh food and energy was up by 0.5% m/m SA, or 6.2% m/m SAAR, for the strongest gain since April 2023 (chart 1). The reading had no material impact on the yen or JGBs. That's likely because BoJ Governor Ueda has basically said that no action is planned at next Thursday's meeting and reiterated this stance overnight by saying "I believe we have enough time" to consider the US economy and market stability. He directly noted "a view on the US economy….which may be related to the US presidential election" will be considered.

Chart 1



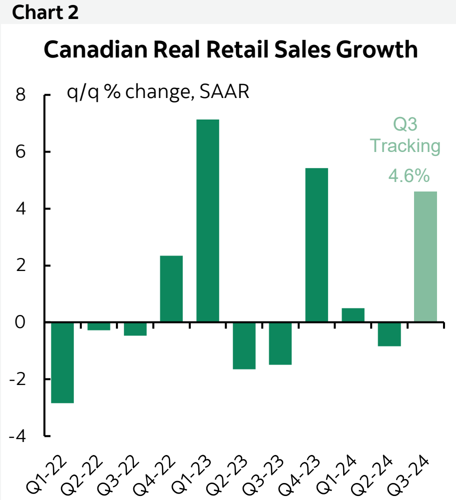
Sources: Scotiabank Economics, Ministry of Internal Affairs and Communications.

There are two main things on tap into the N.A. session.

Are Canadian Retail Sales Still Performing Reasonably Well?

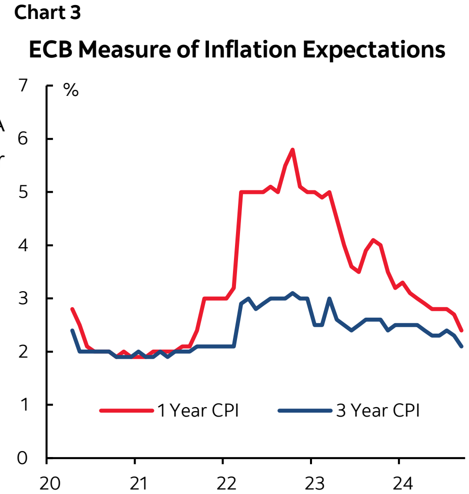
Canada updates retail sales this morning (8:30amET). They will seek to build upon the 0.9% m/m SA gain in July. Statcan's flash guidance had pointed to another 0.5% m/m SA gain in September that may be revised in either direction. Watch for new details like volumes. We'll be able to input the figure as a small contributor to finalizing estimates for next week's August GDP and the tentative estimate for September GDP. Canada's household sector isn't doing badly of late between retail sales and the pick-up in existing home sales during 3 of the past 4 months. The state of the Canadian consumer will be partially informed by retail sales with the usual caveat that in

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Chart 3



Sources: Scotiabank Economics, ECB.

Canada they exclude ALL services spending, unlike the US that at least includes spending at bars and restaurants. Chart 2 will be updated after the figures.

US Core Capital Goods Orders In Multi-Year Sideways Trend

US core durable goods orders (ex-defence and air) are a proxy for equipment investment now (shipments) and going forward (orders). They've been on an oscillating pattern for a while, but the level hasn't grown one bit since about mid-2022. It's elevated, but c-suites are hardly sticking their necks out in driving core capital goods demand.

Russia Hiked Twice as Much as Expected

There are a few tangential considerations out of Europe. German IFO business confidence picked up a little, but the trend is soft. The ECB's 1- and 3-year inflation expectations measure cooled more than expected with the 1-year at 2.4% (2.75% prior) and the 3-year at 2.1% (2.3% prior). Chart 3.

Russia's central bank hiked by more than expected this morning. The key rate was jacked up by 200bps to 21% versus consensus that expected 100bps. Only one general forecasting shop got the call right. The central bank signalled it's not necessarily done as they signalled openness toward hiking again at the next meeting on December 20th. Inflation has been running at 8.6% y/y. The ruble has been a pile of rubble of late, as evidenced by the 12% depreciation to the dollar since early August which spurs inflation risk given high import propensities from countries that will still trade with whatever Russia makes that's useful. I feel for the Russians who didn't ask for war and don't support it but that are paying a steep price for Putin's aggression; the rest get what they deserve.

CANADA'S IMMIGRATION POLICY CHANGES

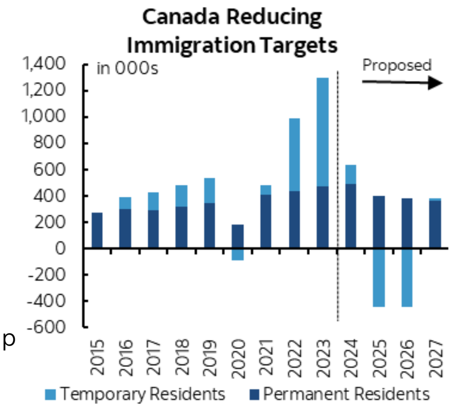
If taken literally and assuming perfect implementation (!), then charts 4–6 show the likely path that lies ahead for population growth in Canada and for permanent and non permanent immigration flows in the wake of yesterday's formal announcements. Charts I used in yesterday's note assumed that the reduced temp flows would be staggered over a three year period in accordance with the government's prior bias, but the government's plans are to achieve this in two years as shown in these revised charts. If achieved, then population growth will turn mildly negative over each of the next two years.

Those announcements lacked any humility or contrition, sought to blame everyone else from provinces to educational institutions to greedy corporations while taking no accountability for the government's own immigration policy, and were accompanied by low, cheap shots against the opposition. They were also accompanied by the announcement—perhaps to Mark Carney's disappointment—that Trudeau is going nowhere and will stick around into the next election. I would have had more respect for a more humble approach that admitted mistakes that need to be addressed through course correction, but that's not the prevailing style I suppose.

What we're debating is two things. First is how much to believe these numbers. Second is what may be the macroeconomic impact and the connection to the Bank of Canada.

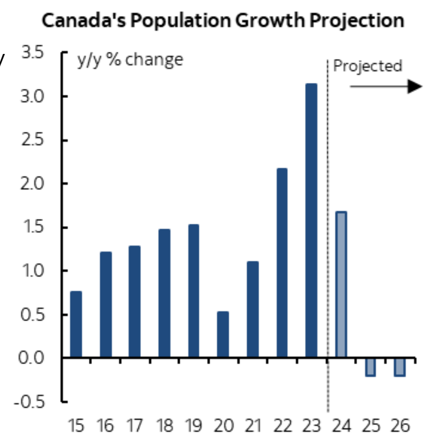
On how much to believe the numbers, one could argue it's just optics, just political smoke into an election year, and that the Federal government will struggle to deliver the goods. Maybe, but I'm not comfortable with that approach; instead, I would expect population growth in Canada to basically dry up.

Chart 4



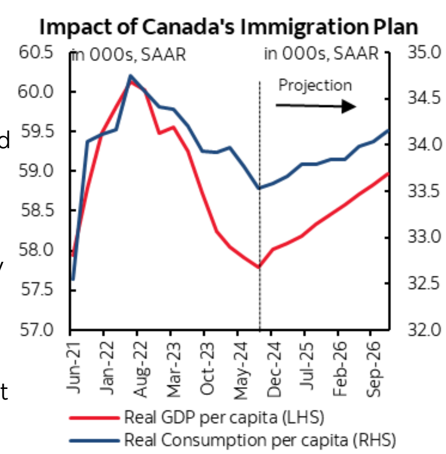
Sources: Scotiabank Economics, Statistics Canada, Ministry of Immigration, Refugees & Citizenship Canada.

Chart 5



Sources: Scotiabank Economics, Statistics Canada.

Chart 6



Sources: Scotiabank Economics, Statistics Canada.

For one thing, you could argue that the pressure is on PM Trudeau, his cabinet, those backbenchers who were shown pathetically clamouring for the best spot in yesterday's televised photo-op, their bureaucracies and minions to deliver the goods. Other than how a lot of Canadians view the PM's personality, immigration is their Achilles heel. Failure to bring down the numbers in short order would make them a sitting duck with the opposition.

I mean, imagine going into next Spring, Summer or Fall in an election campaign and population is up another 1 – 1¼ million people by then over the prior year. The opposition would have a field day, portraying PM Trudeau, Freeland et al as ineffective leaders who can't execute their announced plans to curtail population expansion, whose cabinet and bureaucracies don't listen to them, and who can't control the nation's immigration policies. The Libs could face total electoral ruin. I think that means they'll pull out all stops to bring the numbers materially lower and reverse the problem they created as an own policy goal. They raised the permanent resident targets, not the provinces or others. They invited and encouraged companies to make full use of hiring temporary workers. They asserted no control over non permanent resident immigration. The buck on immigration policy stops at the desks of the immigration minister, the Deputy PM, and the PM himself as it was their brainchild. The Conservative opposition leader Pierre Poilievre would play on the excesses of uncontrolled immigration, blaming it for housing affordability pressures, infrastructure shortfalls, disgustingly unanswered 911 calls and lengthy wait times (**here** and **here**), a surge in crime in major cities like Toronto marked by tens of thousands of auto thefts, price pressures, clogged ERs, packed classrooms, traffic jams, cloudy skies, the latest Leafs loss and sundry random other misdeeds regardless of legitimacy.

Another reason to believe in a major negative population shock is that the plans might get some help in achieving lower immigration targets from the folks who would be applying in the first place. Applications to enter Canada might just drop off a cliff. Canada suffered a blow to its international reputation here. Stories are resonating in places like **India** that sends many of the students to Canada, including the quote "The country's longest—running survey on immigration last week showed Canadians haven't felt this strongly opposed to immigration levels in a quarter-century." International students and temporary foreign workers have choices over where to go. A country no longer perceived to be as welcoming may fall down the list in favour of applying elsewhere. A country that shifts the rules midstream for workers and students part way through their plans might not be viewed as an unstable regime and volatile system and hence a risk not worth taking versus going elsewhere.

So, I would count on a materially negative population shock going forward. How much is anyone's best guess. It could equal the plan. It could be more than the plan if applications dry up. It could be much less if implementation fails. On balance, the highest probability is probably toward getting population growth to come crashing down from 3%+ y/y toward around a third of that to nothing.

Next is the issue of what impact this may have and on that there are three scenarios.

One scenario is that the impact of population shifts offers nothing to see from a net perspective. It impacts aggregate demand and aggregate supply in equal offsetting fashion in real-time such that there is no impact on net capacity pressures, inflation, or the Bank of Canada's monetary policy. Therefore a surge of population growth over recent years doesn't do anything to these measures, nor will a collapse of population growth. It all cancels itself out in tickety-boo fashion, with nothing to see here folks.

Another scenario is that the only thing that has kept GDP growth positive in recent years has been population growth such that removing this will drive a collapse in demand, a recession, wider spare capacity, and greater disinflationary pressure that prompts more easing by the Bank of Canada.

A third scenario is that the impact of a collapse in projected population growth will be met by a sharp downward revision to potential GDP growth more than a downward revision to actual GDP growth such that the output gap narrows faster, inflation risk rises, and the BoC turns less dovish or more hawkish sooner than would otherwise be the case.

I don't accept scenario 1. I'm unsure which other scenario is best, but lean toward the third. I think there is so much by way of a demand impulse effect still ahead from the lagging effects of prior immigration and other arguments on the household sector's outlook that it will be accompanied by slower potential growth and the output gap is more likely to narrow faster than otherwise. Shrinking population growth is likely to drag down labour force expansion and tighten the unemployment rate by reversing the source of much of its ascent over the past couple of years. A tighter economy and tighter labour market ensue.

A related issue is how to model population shocks to begin with. Macroeconometric models cannot just shock aggregate population without controlling for the composition of the population shock.

I'm sure you will see a variety of views and forecast implications from various shops because of all of these uncertainties. At the end of the day, my advice is a) use wide ranges for the population shock estimates, b) use scenario analysis for the effects, and c) the outcome will be data driven such that in the end, the uncertainty will have to be settled by the actual data we observe over time.

What could be particularly impactful are the microeconomic shocks that stem from the policy shift if achieved.

- Per capital GDP and per capita consumption could rip higher going forward if population growth collapses. That could be awkward for the BoC that has allowed itself to play into the per capita arguments.

- This is going to ripple through educational institutions from legit ones to the sus' pop-up strip mall ones that have exploded in recent years. Expect howls of protest as universities and colleges get paid much higher tuition from international students than domestic ones. Their concern will be the impact on their capital plans, building expansion, the legacies left behind by their administrations, efforts to secure top academics etc. It should mean less crowding, less pressure on the educational system for future cohorts. But there may be funding shortfalls and more intense lobbying/protests for provincial governments to step up after years of cuts.

- It should be a tighter summer job market next year. A big part of the rise in the UR to date has been through the temps category and the impact on youths aged 15–24. That pool will shrink outright if they succeed in implementing this. [Note to parents: be armed with this info if you hear there are no jobs next summer….!].

- For some types of workers it could mean relatively greater wage gains. I wouldn't go too far with that as a macro observation since the immigration wage elasticity (ie: wage growth response to changes in immigration) tends to be very low in the literature. But at the margin, it is likely to pressure wages especially in areas that use a lot of the temps, like tourism, hospitality, hotels, bars, restaurants, agriculture etc

- For the Bank of Canada, they face the challenge of conducting monetary policy through clandestine, shifting government actions which heightens uncertainty around their policy framework. One example was an 'anonymous' finance official who told the media before the BoC decision they weren't planning on any more fiscal initiatives, which seems unlikely given the government's polling into an election year. Maybe that was an effort to manipulate the central bank against believing they would have to consider fiscal stimulus. Now just one day after the BoC's fresh decision and forecasts we got a material pivot on immigration policy. Over to you, Governor Macklem, in next week's fireside chat and two rounds of parliamentary testimony to opine on the potential consequences to the outlook. The BoC's forecasts will have to be overhauled for this shift and whatever we wind up having to deal with out of the US election in the next round in January's MPR.

Fixed Income	Government Yield Curves (%):											
	2-YEAR			5-YEAR			10-YEAR			30-YEAR		
	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk	Last	1-day	1-wk
U.S.	4.05	4.08	3.95	4.01	4.03	3.88	4.19	4.21	4.08	4.46	4.47	4.39
CANADA	3.06	3.07	2.96	3.00	3.01	2.90	3.23	3.24	3.12	3.36	3.37	3.29
GERMANY	2.10	2.08	2.11	2.09	2.08	2.02	2.27	2.27	2.18	2.58	2.59	2.50
JAPAN	0.45	0.45	0.44	0.58	0.58	0.59	0.96	0.96	0.98	2.18	2.21	2.15
U.K.	4.14	4.14	4.00	4.08	4.09	3.91	4.22	4.24	4.06	4.74	4.76	4.59
	Spreads vs. U.S. (bps):											
CANADA	-99	-101	-99	-101	-103	-98	-96	-97	-96	-110	-111	-110
GERMANY	-195	-200	-184	-191	-195	-186	-192	-195	-190	-188	-189	-189
JAPAN	-360	-363	-351	-342	-345	-329	-323	-325	-311	-228	-227	-224
U.K.	9	6	5	7	6	3	3	2	-3	28	29	20

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	24552	-22.1	-0.1	-0.6	2.7	29.6
Dow 30	42374	-140.6	-0.3	-2.0	1.1	28.3
S&P 500	5810	12.4	0.2	-0.5	1.5	38.8
Nasdaq	18415	138.8	0.8	0.2	1.8	43.6
DAX	19447	3.6	0.0	-1.1	2.8	30.6
FTSE	8251	-18.2	-0.2	-1.3	-0.2	11.3
Nikkei	37914	-229.4	-0.6	-2.7	-4.8	22.3
Hang Seng	20590	100.5	0.5	-1.0	-0.2	18.3
CAC	7485	-18.1	-0.2	-1.7	-1.1	8.2
Commodities	Level		% change:			
WTI Crude	70.65	0.46	0.7	2.1	1.4	-17.3
Natural Gas	2.52	0.00	0.0	11.7	-4.4	-16.2
Gold	2724.72	-11.44	-0.4	0.1	22.2	37.6
Silver	34.14	-0.38	-1.1	7.3	10.6	50.1
CRB Index	282.38	-1.06	-0.4	0.2	-1.3	-0.3
Currencies	Level		% change:			
USDCAD	1.3848	-0.0007	-0.1	0.4	2.7	0.4
EURUSD	1.0823	-0.0005	-0.0	-0.4	-2.8	2.4
USDJPY	151.79	-0.0400	-0.0	1.5	4.9	1.0
AUDUSD	0.6635	-0.0005	-0.1	-1.1	-2.8	5.2
GBPUSD	1.2988	0.0013	0.1	-0.5	-2.5	7.2
USDCHF	0.8666	0.0009	0.1	0.2	1.9	-3.4

Central Banks	
Current Rate	
Canada - BoC	3.75
US - Fed	5.00
England - BoE	5.00
Euro zone - ECB	3.40
Japan - BoJ	-0.10
Mexico - Banxico	10.50
Australia - RBA	4.35
New Zealand - RBNZ	4.75

Next Meeting Date	
Canada - BoC	Dec 11, 2024
US - Fed	Nov 07, 2024
England - BoE	Nov 07, 2024
Euro zone - ECB	Dec 12, 2024
Japan - BoJ	June 14, 2024
Mexico - Banxico	Nov 14, 2024
Australia - RBA	Nov 04, 2024
New Zealand - RBNZ	Nov 26, 2024