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GLOBAL ECONOMICS

DAILY POINTS

December 11, 2024 @ 6:55 EST

Contributors

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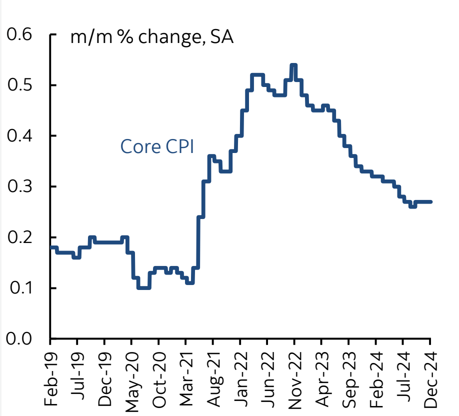
Chart 1

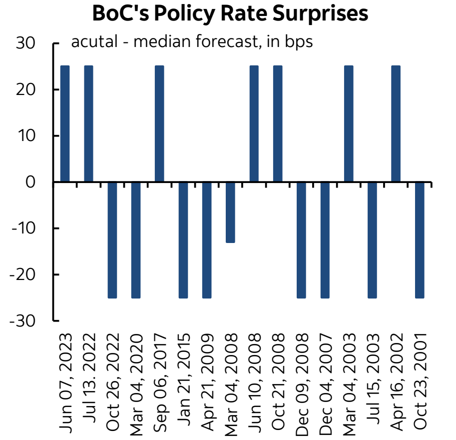
Cleveland Fed Nowcast



Sources: Scotiabank Economics, Cleveland Fed.

Chart 2

BoC's Policy Rate Surprises



Sources: Scotiabank Economics, Bloomberg.

On Deck for Wednesday, December 11

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	12-11	07:00	MBA Mortgage Applications (w/w)		--	--	2.8
US	12-11	08:30	CPI (m/m)	Nov	0.3	0.3	0.2
US	12-11	08:30	CPI (y/y)	Nov	2.7	2.7	2.6
US	12-11	08:30	CPI (index)	Nov	--	315.3	315.7
US	12-11	08:30	CPI ex. Food & Energy (m/m)	Nov	0.3	0.3	0.3
US	12-11	08:30	CPI ex. Food & Energy (y/y)	Nov	3.3	3.3	3.3
CA	**12-11**	**09:45**	**BoC Interest Rate Announcement (%)**	**Dec 11**	**3.25**	**3.25**	**3.75**
CA	**12-11**	**10:30**	**BoC press conference**				
US	12-11	14:00	Treasury Budget (US$ bn)	Nov	--	--	-257.5

KEY POINTS:

- **USD and CAD holding firm as markets await key developments for the BoC, Fed**
- **US CPI preview: a high bar to matter**
- **BoC preview: the hated 50bps cut**

It's US CPI and BoC day with risks aplenty for central banks on both sides of the border. The USD and CAD are outperforming other majors so far this morning. Other asset classes are generally playing it safe with little by way of notable changes across equities and bonds. Additional previews for US CPI and the BoC are offered below and see the Global Week Ahead for more **here**.

US CPI PREVIEW—A HIGH BAR TO MATTER TO THE FOMC'S NEXT MOVE

US CPI for November will be released at 8:30amET. I'm in the same camp as consensus with this one. Headline and core are expected to land at 0.3% m/m SA, driving the y/y rates up a tick for headline to 2.7% and flat at 3.3% for core. Nowcasts are in the same ballpark but on the light side of 0.3 (chart 1). Components will be drawn upon to estimate PCE and core PCE. There is likely a high bar set against knocking the FOMC off a quarter point cut next week, but it's the final material release to consider. A more likely outcome could be to hit pause on January 29th—9 days after inauguration and depending upon whatever craziness kicks off the new year. More in my week ahead. There will also be a US 10s reopening as a further test of market appetite for Treasuries post-CPI (1pmET).

BANK OF CANADA PREVIEW— A HATED 50BPS CUT

This one is trickier. The BoC statement lands at 9:45amET followed by Governor Macklem and SDG Rogers in the 10:30amET presser. This one does not include an MPR as new forecasts will be delivered at the next decision on January 29th. -50bps is our call and it's basically priced.

And I hate it. In fact, maybe we're overdue for a surprise by a central bank that likes to surprise but hasn't done so since July 2023 (chart 2), though I doubt it.

The Simple Case for –50bps

The case for -50bps is that it's basically priced, it's easy to do and then take over a month-and-a-half to decide what to do next, the BoC may want to take out insurance on possibly undershooting 2% inflation when we get the figures next week, and Macklem is a dove. Next week's CPI is set to dip toward 1.6–1.7% y/y and so they may get near-term cover for the move notwithstanding the BoC's forecast that expects inflation to hover around 2% throughout their projection horizon, though always take their forecast with a mountain of salt.

Possible Statement Changes

As for statement changes, key will be any possible changes to guidance that the BoC expects inflation to "remain close to the target over the projection horizon, with the upward and downward pressures on inflation roughly balancing out." If they slant that one way or the other then it may be meaningful given that we've since had hot shelter inflation and less spare capacity through GDP revisions.

Second key in the statement's potential changes will be if the concluding paragraph is tweaked. The last time they said "we expect to reduce the policy rate further" but that the timing and pace would be conditional upon incoming information and "we will take decisions one meeting at a time." If they wished to signal a breather after 175bps of cuts then this would be the area to change, but I doubt they'll do that.

Third is what won't be in the statement. I wouldn't expect reference to tariffs since the BoC acts when developments like that become facts. Plus, it's not clear that tariffs will be imposed, or the amount, or the length of time they would stay in place, or the risk of retaliation.

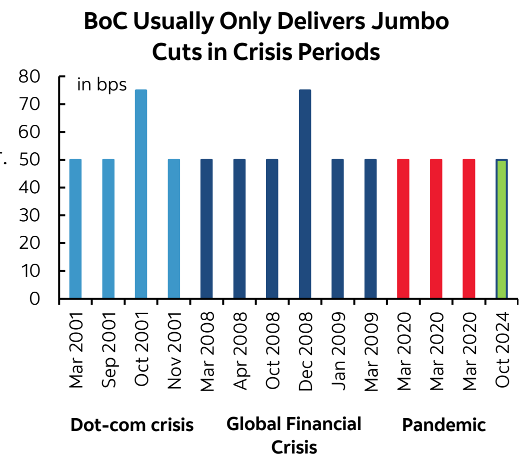
Fourth is that I would also watch for reference to fiscal and regulatory policy actions in the statement. They may not like to comment on fiscal policy (though often have in the past), but they also can't ignore the billions in stimulus that will be going out from Federal and provincial governments over coming months.

What Back-to-Back 50bp Cuts is Misguided

But I truly hope for the sake of sensible monetary policy that the BoC stuffs markets with a quarter. Here's why.

For one thing, in the past, the BoC would only deliver outsized cuts in crises like the dot com and GFC (chart 3). The green bar in that chart sticks out like a sore thumb. Where's the crisis now folks? Maybe one lurks, but someone needs to tell markets. I mean, are markets frozen? Stocks tumbling? To cut 50bps once outside of an emergency was eyebrow raising. But back-to-back with 100bps in two moves? Now that's unprecedented. It could also be a negative signalling effect and one that keeps markets in the driver's seat for the next move. And no, Mr. Poloz, by no yardstick is Canada's economy in recession and it's plain irresponsible for a former Governor of the BoC to be running around saying so. That almost invites a stern rebuke from the current Governor to let him do his job and leave your old one behind.

Chart 3



Sources: Scotiabank Economics, Bank of Canada.

Inflation is not dead. It's not the y/y headline we should focus upon. It's the evidence in core prices at the margin. 4.1% m/m SAAR trimmed mean in October. 3.4% weighted median. Average the two at 3.8%. The trend is super volatile, but the 3-mo MA of the two core measures is 3.3%. #notdead.

What about going forward? For starters, there is a little less spare capacity than previously judged because of GDP revisions which restrain some of the concern about downside risks to inflation. Instead of an output gap of around -1% or so, it's likely several tenths smaller.

And the economy is stronger under the hood. GDP was soft in Q3 due to inventories which was probably in part related to strikes, but consumption and final domestic demand were robust and the BoC usually flags those details. Canada is also plagued by serial labour strife and these strikes have played roles in the six months out of 11 so far this year in which Canada saw no growth in hours worked (they fell in all but one of those).

The job market is strong. The public sector drove November, though not civil servants and resist the temptation to negatively judge the rest that must rise with population. In any event, the public sector trend is flat with all of the 111k jobs created in the past three months on private payrolls and also the self-employed. Take temps out and almost all of the rise in the unemployment rate goes away. Looking beneath the jobs headline should give folks strong reason to be more careful when they comment on the jobs market. It is strong. 322k jobs created so far this year, of which over almost two-thirds have been on private payrolls and the self-employed.

Now, unlike the past, you shouldn't be thinking about cutting rates aggressively because of the rise in the unemployment rate this time. That's because the current type of unemployment shock is nothing the BoC can address with its tools. It's not because of soaring layoffs and tumbling wages. It's almost all because Canada is admitting too many temps (aka international students and temp foreign workers) and failing to remove the many hundreds of thousands who are staying on expired visas. To ease aggressively because of that is courting unintended consequences by using the blunt instrument of monetary policy to fix the immigration minister's mess. That's courting overheated conditions for the majority who are doing pretty darn well in the job market—and you still won't fix the temps problem.

Did you say overheating? Yes. Look dispassionately and objectively at the numbers, folks. The majority who are doing just fine are also spending. Real consumption was up +3.4% q/q SAAR in Q3, 1% in Q2, 3.1% in Q1 for an average of 2½% q/q SAAR this year. Tracking points to the strongest back-to-back quarterly gains in retail sales volumes over Q3 and Q4 in a decade. A decade! Auto sales are trending upward. So are home sales. Sure, light the fuse—I'll hang back thanks. Way back.

Canadian households are also ready to pounce in my view. There is a mountain of excess savings and hoarded net worth in the household sector to go along with pent-up demand for housing alongside the lagging effects of immigration. Aggressive easing could create what I've called a tsunami of consumption and housing demand.

And if you're going to convert these figures to per capita terms, then a) remove the temps rather than treating their loose job market attachment and economic impact as equally weighted to everyone else, and b) do it in a forward-looking sense as immigration policy clamps down. Businesses might also display a little humility in terms of their role in the per capita debate since it's their underinvestment, low technology adoption rates and low spending on R&D that contribute to falling per capita incomes.

Leverage is now Canada's friend. Rising rates and high household leverage hurt growth relative to elsewhere. Falling rates and high household leverage are likely to see leverage work in the opposite direction to stimulate growth. That's just how leverage works.

The bond market doesn't need coaxing. If 5s were much cheaper, maybe, but at 2.8% there is no jolting needed. 5s would survive a 25 and a conditional path to more if needed.

Governments are throwing money at folks with no strings attached and no means testing because, well, voters ask for it in election campaigns! Billions in GST/HST cuts are starting next week in what are sure to be extended past February's expiration and maybe made permanent. This will be followed by billions in Ford bucks in January, billions in Trudeau bucks in April with the sky being the limit to the NDP, and billions in Eby bucks probably by Spring, plus carbon rebates. Plus easier mortgage rules starting in less than a week. Kaboom! Fiscal and regulatory easing is substituting for some of the monetary easing.

And tariffs, you say? Maybe, but it's not a certainty. Nor is how much, for how long, and whether there will be any carve-outs like autos and energy. We also don't know what kind of retaliation may arise and what that may do to imported inflation. We'll know more by January 29th when the BoC and FOMC issue decisions nine days after inauguration day. To pre-judge now? That may not work out well. The inflation effects are uncertain and hence so is the BoC's reaction.

So cut 50bps? Macklem would be playing Santa Clause if he did so. He probably will, but the priced odds are pretty high especially for a central bank that loves to surprise and wears it as a badge of honour. But tread very carefully on the bias if so. On that, the problem is that Macklem's forward guidance isn't terribly reliable anyway.

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.	4.16	4.15	4.13	4.11	4.10	4.07	4.24	4.23	4.18	4.43	4.42	4.35
CANADA	2.89	2.91	3.07	2.83	2.85	2.98	3.02	3.04	3.12	3.16	3.17	3.17
GERMANY	1.96	1.96	1.95	1.95	1.96	1.92	2.12	2.12	2.06	2.36	2.35	2.29
JAPAN	0.59	0.59	0.59	0.74	0.74	0.72	1.08	1.07	1.07	2.27	2.27	2.29
U.K.	4.27	4.28	4.24	4.15	4.16	4.11	4.34	4.32	4.25	4.88	4.88	4.78
	Spreads vs. U.S. (bps):											
CANADA	-127	-123	-106	-128	-125	-109	-122	-119	-106	-127	-125	-118
GERMANY	-220	-218	-218	-216	-214	-215	-212	-211	-212	-207	-207	-206
JAPAN	-357	-356	-353	-337	-336	-335	-316	-316	-311	-216	-215	-206
U.K.	11	13	11	4	6	4	10	10	7	45	46	43

Equities	Level		% change:			
	Last	Change	1 Day	1-wk	1-mo	1-yr
S&P/TSX	25504	-121.1	-0.5	-0.5	2.9	25.5
Dow 30	44248	-154.1	-0.3	-1.0	-0.1	21.5
S&P 500	6035	-17.9	-0.3	-0.2	0.6	30.6
Nasdaq	19687	-49.4	-0.3	1.1	2.0	36.4
DAX	20339	9.7	0.0	0.5	4.6	21.1
FTSE	8291	10.6	0.1	-0.5	2.0	9.9
Nikkei	39372	4.7	0.0	0.2	-0.4	20.1
Hang Seng	20155	-156.2	-0.8	2.1	-1.3	24.4
CAC	7405	10.2	0.1	1.4	-0.3	-1.9
Commodities	Level		% change:			
WTI Crude	69.33	0.74	1.1	1.2	1.9	-2.8
Natural Gas	3.26	0.10	3.1	7.1	11.6	34.1
Gold	2697.16	2.91	0.1	1.8	21.0	36.1
Silver	31.90	0.27	0.9	3.2	1.1	34.1
CRB Index	290.47	1.41	0.5	1.6	4.1	11.0
Currencies	Level		% change:			
USDCAD	1.4181	0.0000	0.0	0.8	1.8	4.5
EURUSD	1.0505	-0.0022	-0.2	-0.1	-1.4	-2.4
USDJPY	152.54	0.5900	0.4	1.3	-0.8	4.4
AUDUSD	0.6352	-0.0025	-0.4	-1.2	-3.4	-3.3
GBPUSD	1.2736	-0.0035	-0.3	0.3	-1.0	1.4
USDCHF	0.8834	0.0006	0.1	-0.1	0.3	0.6

Central Banks	
Current Rate	
Canada - BoC	3.75
US - Fed	4.75
England - BoE	4.75
Euro zone - ECB	3.40
Japan - BoJ	-0.10
Mexico - Banxico	10.25
Australia - RBA	4.35
New Zealand - RBNZ	4.25
Next Meeting Date	
Canada - BoC	Dec 11, 2024
US - Fed	Dec 18, 2024
England - BoE	Dec 19, 2024
Euro zone - ECB	Dec 12, 2024
Japan - BoJ	Dec 19, 2024
Mexico - Banxico	Dec 19, 2024
Australia - RBA	Feb 17, 2025
New Zealand - RBNZ	Feb 18, 2025